

Federation of Small Businesses

Insurance Survey

Northern Ireland

Light at the end of the tunnel

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Report written by Geraldine Quinn December 2004





Foreword & Introduction

This report summarises the results obtained in the third survey of the FSB membership in Northern Ireland into the impact of Insurance premiums on small businesses.

FOREWORD

The crisis in the Insurance market over the past three years has been the top priority issue for the FSB policy team in Northern Ireland.

Efficiently run companies have been impacted through loss of jobs, lack of expansion and loss of contracts as a result of the dramatic increase in the cost of Employers' Liability Compulsory Insurance (ELCI).

This survey, our third on the issue indicates that the market has stabilised, however some businesses are still experiencing difficulties getting insurance cover at any price. As an organisation we believe it is unacceptable for any business to be put at risk simply because they cannot afford the additional insurance cover or cannot secure liability insurance.

Whilst we recognise that the market is softening, our focus will be to ensure continuing competition into the insurance market, therefore giving us a level playing field with our counterparts in the rest of the UK.

Wilfred Mitchell
Policy Chairman

INTRODUCTION

In our snapshot survey of 188 small businesses in Northern Ireland there is a very clear indication that insurance costs are at last beginning to stabilise. There is also evidence that the substantial hikes in premiums are beginning to level off.

While it is clear that Insurance Premiums are still too high, we believe our snapshot survey shows there is light at the end of the tunnel in tackling this problem.

Over the past three years the FSB in Northern Ireland have secured local All-Party Support on this issue, over 18 of our local councils have supported the FSB and an Early Day Motion was put down in the House of Commons.

We have also held high level meetings with Ministers from the Department of Trade & Investment, Treasury and Department of Work & Pensions.

The FSB successfully lobbied for the establishment of a Department of Enterprise, Trade & Investment Insurance Working Group which is bringing together Insurance Brokers, Underwriters, Invest Northern Ireland, Health & Safety Executive and ourselves, all working to jointly tackle this problem.

While there are grounds for hope in our snapshot survey, our ultimate goal remains – we want to see an expanded and stable Insurance market which delivers affordable insurance premiums for small business owners in Northern Ireland.

We will continue to work with Government to get long term stability in the Insurance market and to ensure that the excessive hikes in premiums are a thing of the past.

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Executive Summary

Developments from last report

A new guidance pack offering practical advice to businesses on purchasing insurance cover has been produced by the Department of Enterprise, Trade and Investment, in conjunction with the Association of British Insurers, the British Insurance Brokers Association and the Federation of Small Businesses. "The Guidance" is designed to help businesses minimise costs when purchasing insurance cover. It also explains what businesses can do to minimise potential claims, frequency or exposure.

The removal of the requirement for Employers' Liability Compulsory Insurance (ELCI) for businesses who are the sole owner and who are classed as the employee. This came into effect on 28th February 2005 in NI and GB.

Insurance Survey Results

Nearly half, 48.6%, of respondents said they had a 'substantial' increase in their insurance premiums in the year 2003-2004. Again, this is much less than the previous year's figure of over 78%.

Table 1: Employee numbers

Employee numbers		
	2004	2003
1	7.3	12.1
2-5	33.9	32.2
6-10	23.7	22.4
11-20	15.8	16.9
21-50	14.7	13.8
51-200	4.5	2.6

Table 2 demonstrates that there were no more than 5 percentage points between the industry category responses for both years, except in the case of Services. This appears to represent a slight aberration in 2003 due to a very high response from this sector, as the comparable percentage in 2002 was 14.4%

Table 2: Industry Classification

Industry classification		
Industry Type	2004	2003
Agriculture	2.1	0.2
Manufacturing	13.2	15.2
Construction	11.7	15.2
Retail	18.6	14.5
Hotels/restaurants	6.4	5.6
Transport, storage	7.4	2.2
Financial	4.3	2.7
Health, care	4.3	1.6
Services	21.8	32.1
Other	9.6	10.7

In the report the figures used to compare between insurance premium prices between 2003 and 2004 are those actually provided by respondents. Using these figures the average cost of insurance premiums for this group of businesses was £5433 compared to £7419 in 2004. This represents an average percentage price increase of 36.5% compared to the 72% found between 2002 and 2003.

Breaking down these overall figures further (Table 3) reveals that nearly a third of businesses had premium increases in the 20-50% range. Over a quarter had even higher increases in the 50-100% range. Overall, the figures are similar to those recorded last year although there has been a drop in the number showing a decrease in their insurance premium.

Table 3: Overall insurance increases

Overall Insurance Increases		
Increase	2004	2003
Minus	7.6	2.4
0-20	36.4	9.6
20-50	31.8	31.5
50-100	24.2	27.3

The huge increase for businesses with just one employee (Table 4) is an artefact of our sample size of 188. Although there are 13 respondents in this category the data on insurance costs over the two years is only available for five of these businesses. Of these businesses, two report substantial increases in the order of several thousand pounds. Whether this is a mistake, or real examples based on individual circumstances, is impossible to say. However the net result is to skew the average figures

for this category such that they should be discounted in any further analysis. Businesses with 2-5 employees have recorded an increase in insurance costs of nearly 100% in just one year. The average number of employees for respondents was 14.

Table 4: Average insurance premium by business size

Average insurance premium by business size			
Size	2003	2004	% increase
1	£431	£1700	294.4
2-5	£1372	£2701	96.9
6-10	£4255	£4940	16.1
11-20	£4953	£7174	44.8
21-50	£17482	£22723	30.0
51-200	£17275	£22162	28.3

Analysing the data by Industry type shows that the Retail sector had the largest percentage insurance premium increase by far, followed by businesses in Agriculture. For a change, compared to previous years, the Services sector has recorded an overall decrease in their premium levels. Interestingly, the largest insurance premiums are paid out by those in the Construction sector.

Table 5: Percentage increase by industrial sector

Percentage increase by industrial sector			
Industry	2003	2004	% increase
Agriculture	£5481	£10162	85.4
Manufacturing	£4802	£5191	8.1
Construction	£14099	£17579	24.7
Retail	£1212	£3062	156.6
Hotels/restaurants	£1455	£2065	41.9
Transport, Storage	£6376	£9080	42.4
Financial	£4635	£7013	51.3
Health, care	£2475	£3294	33.1
Services	£2342	£665	-71.6
Other	£3870	£3732	73.9

Members were also asked to choose from a list of common reasons for insurance premium increases (Table 6). The most common reason given for increases was as a result of growth in the business. However, a large number of members (25%) stated specifically that they could see no objective reason for the increases they had suffered.

Table 6: Reasons for insurance increases

Reasons for insurance increases	
Reason	%
Outstanding insurance claims	3.7%
Business enlargement/growth	10.6%
Health /Safety regulations	2.1%
No reason	25%
Other reason	5.9%

In 2003 just over 23% of members had changed their insurance company during the previous 12 months. (This year the figure was smaller again at 19.7%). There was a similar drop in the number of businesses stating that they felt they had inadequate insurance, from 18% to just over 15%. Nearly all respondents agreed with the view that Government was not doing enough to help with rising insurance premiums for businesses (97.6%).



Comments

Comments:

More than 90 members or 49% of the sample provided comments on the impact of insurance increases on their business. This is a much higher proportion than in previous surveys. To reflect this, a selection of responses, in the words of the individuals concerned, has been included below to reflect the concerns they have expressed. These are grouped according to the theme of the response.

1. Increased overheads/costs 31.5%

Not surprisingly, the largest response indicated that insurance increases have had a direct impact on the overheads and costs incurred by a business. In some cases, these overhead increases have been passed on to consumers. However, many businesses felt that in doing this that they lost business and/or have become uncompetitive.

"Higher cost to pay, less cover, more risk and choices becoming more limited." (Retail, 1 employee)

"It's another cost passed on to the consumer – it makes this country less competitive and attractive to overseas tourists." (Hotel, 5 employees)

"This has dramatically affected overheads and we have been told that next year will double again causing more hardship." (Services, 3 employees)

"Over the last five years our premiums have tripled which represents over 15% of our expenditure." (Services, 3 employees)

"Year on year we need to do more monthly business merely to cover the cost of insurance premiums." (Telecoms, 10 employees)

"Huge overhead for a tiny business – if I could put my prices up like they do I wouldn't be complaining." (Services, 4 employees)

Several members reported that they have not claimed for damages or losses to their businesses so as not to risk an increase in their insurance premiums.

"We have borne the cost of theft ourselves rather than risk an increase in insurance if we make a claim." (Services, 6 employees)

"Twice this year we have not claimed for stock accidentally damaged...as we are concerned about increasing our insurance premium and want to keep our record clear." (Retail, 12 employees)

2. Reduction in profit/margins 22.8%

Of course one of the knock-on effects of increased overheads, if increases are not passed on to consumers, is a decrease in business profits.

"Inside three years my insurance has increased from £900 to over £2000 for no reason. As I work on small margins the increase has had a major effect on my small business." (Services, 2 employees)

"Insurance increases in recent years have impacted very much on our competitiveness and profits have suffered." (Construction, 29 employees)

"It continues to increase every year even though no claim for over 5 years. We must be paying for everyone else's claims!" (Transport, 22 employees)

3. Reduced investment/expansion/further development 11.9%

Another unfortunate consequence of increasing insurance premiums is the impact it has on plans for future business expansion and growth.

"We will not be expanding our company due to the substantial insurance increases." (Services, 30 employees)

"This substantial increase in overheads has significantly reduced the budgets normally available for training, marketing and recruitment." (Communications, 4 employees)

"Another expense again, that we don't need, as the cost has to be taken from somewhere else. In our case it costs staff part-time jobs." (Retail, 4 employees)

4. Job losses/reduced recruitment Price increases 10.9%

As was indicated in the last section, members claim that insurance increases, among other factors, have led directly to price increases. They have also, unfortunately, led to real job losses or the inability to recruit new staff.

"Between the costs of rates and insurance we are now closing down, creating more unemployment." (Retail, 5 employees)

"It has cost at least one job, raised overheads and prices." (Retail, 4 employees)

"After this year's trading we are down-sizing to 5 employees." (Construction, 10 employees)

"Overheads are now very high and have removed my option of an additional part-time employee." (Services, 2 employees)

"[We] had to cut back on development. In effect, we were unable to take on extra personnel that was planned." (Manufacturing, 5 employees)

"Increasing overheads are forcing us to think about either relocating to another country, having someone manufacture for us under licence or closure." (Manufacturing, 4 employees)

5. Less competitive 9.8%

Increased overheads and prices are also having a direct impact on the competitiveness of businesses which raises concerns about their long-term sustainability.

"Since increases on premiums we have had to increase our charge-out rates thus making us not as competitive as before." (Services, 7 employees)

"Insurance premiums are so high that I have to include these costs when tendering, which puts us as a small business at a distinct disadvantage" (Construction, 15 employees)

"[Price increases], despite the fact that no claims have been made in 30 years of trading." (Distribution, 10 employees)

6. Cancelled some cover/other impacts 2.2%

Several members reported that they could not afford their insurance premiums and are currently uninsured. Others have indicated that they are unable to apply for Government contract work because of the steep demand in relation to Public Liability insurance when tendering. Some others had reduced the level of insurance cover they had leaving themselves open to litigation if they encountered any problems. Several members queried the value they were getting for their insurance premiums, the attitude of insurance companies and the absence of local political representation to make a case for small businesses.

"We cannot afford to accept this insurance and are therefore currently uninsured." (Communications, 1 employee)

"We could not find a company that will give cover. To pay insurance rate of £10,000 we would be out of business. We cannot apply for government work as they require the insurance details." (Services, 1 employee)

"The insurance is very expensive and I never see anything out of it." (B+B, 3 employees)

"The 'take it or leave it' attitude of insurance companies is totally out of line." (Manufacturing, 22 employees)

"Applying for government tenders is now not possible as they require 10 million public liability insurance." (Retailing, 51 employees)

"Government has no interest in the small family business. If we had our own Minister at least we could put a case to him." (Restaurant, 35 employees)

Finally, businesses were asked if they had changed their insurance company during the past year and the reason for this. Many members reported that they would have liked to change but were unable to as there were so few companies operating in Northern Ireland. Just over 13% of members were able to change their insurance company during the previous year. The principal reason for this change was the availability of better terms and/or a cheaper quote from another company. Interestingly, 16% of members were able to get a cheaper quote, sometimes from the same company, just by changing the insurance broker they used. The remaining 26% changed because their previous company was no longer operating in Northern Ireland, or their particular sector, or wouldn't offer them insurance at all.

Other quotes:

"False insurance claims have forced legal taxis to stop operating. The void is filled with illegal taxis. Insurance companies increase premiums (even for spurious claims) to unaffordable levels." (Taxis, 3 employees)

"Between insurance and pending rates, manufacturing in this country will be forced to close or relocate." (Manufacturing, 15 employees)

