

***Taking the Risk:
Liability Insurance and
Small Businesses
in Wales***

**A Report by the Federation of Small
Businesses in Wales**

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Introduction

The Federation of Small Businesses (FSB) is the UK's largest business organisation representing the interests of over 185,000 members across the United Kingdom with over 8,000 of that number located in Wales. The FSB exists to promote and protect the interests of all who own and/or manage their own business.

Currently Small and Medium Enterprises (SMEs) represent the vast majority of businesses operating in Wales. Over 98% of all businesses in the Principality are classed as SMEs.

In recent years, the disproportionate and rising cost of Employers Compulsory Liability Insurance (ECLI) has become a significant obstacle to business growth and development and for a number of businesses this has even led to business failure.

With an economy that is so dependent upon the health of the small businesses sector, there is a real need to address such issues that stifle their success. It is for this reason and a number of concerns raised by Welsh politicians that the FSB in Wales decided to undertake this short survey.

The FSB's influential biennial survey *Lifting the Barriers to Growth in Welsh Small Businesses 2004* identified a clear and immediate concern among small business operators about the increasing burden of insurance premiums. 68% of those surveyed stated that it had a negative effect on the development of their business.

Although not an issue under the devolved jurisdiction of the National Assembly for Wales, the Assembly has responsibility for Economic Development in Wales and therefore the relative health of the environment in which Welsh small businesses operate. The issue of insurance is consistently stated as an issue of significant concern to small businesses and a barrier to their growth and sustainability.

This report builds upon a significant amount of work undertaken at a UK level by the *Federation of Small Businesses*. The FSB has already secured key changes such as the *Association of British Insurers* (ABI) proposal which ensures that liability insurance policy holders now get a minimum of 21 days notice before renewal and the launch of a scheme which will make it easier for firms with a good health and safety record to access affordable Employers Compulsory Liability Insurance (ECLI). However, it is evident from this report that there is still much to be done.

As such, this document does not provide the solutions but seeks only to provide a window on the problem from the aspect of small businesses and to stimulate discussion and debate among not only Assembly Members, but their Westminster colleagues, other decision makers and businesses.

Methodology

The survey took the form of a questionnaire. Members were selected at random from the FSB Wales Membership database.

The telephone survey was conducted with members during normal working hours. Nine hundred members were contacted and to gain the broadest possible data, 33 different employment sectors were included. At the conclusion of the data gathering section of the survey 303 completed questionnaires were obtained, representing a 34% response rate. This high rate compares favourably with other surveys using different data collection methods and is a possible indication of the profile of the issue among small businesses in Wales.

Table 1. Employment sector responses

<i>Employment Sector</i>	<i>Percentage</i>
<i>Retail/Wholesale</i>	22%
<i>Construction</i>	18%
<i>Accountancy</i>	15%
<i>Hotels, Restaurants & Pubs</i>	8%
<i>Manufacturing</i>	8%
<i>Services</i>	5%
<i>Agriculture</i>	6%
<i>Business Services</i>	3%
<i>Financial Services</i>	3%
<i>Transport</i>	2%
<i>Energy & Water</i>	2%
<i>Architects</i>	2%
<i>Animal welfare</i>	2%
<i>Technology</i>	1%
<i>Other sectors</i>	3%

The largest single sector represented in the survey was the Retail & Wholesale sector as was also borne out in the *Lifting the Barriers to Growth in Welsh Small Businesses 2004* survey. Perhaps surprisingly, the next largest sector was the Construction sector, followed by accountancy and the hospitality sector.

Within the responses, manufacturing did not feature as strongly as anticipated with only 8% of respondents being from the sector. Approximately 13% of FSB Membership is from the manufacturing sector.

Table 2. Responses by Unitary Authority as a % of completed questionnaires.

Unitary Authority	Percentage
<i>Anglesey</i>	4%
<i>Blaenau Gwent</i>	2.3%
<i>Bridgend</i>	2.3%
<i>Caerphilly</i>	6.4%
<i>Cardiff</i>	4.9%
<i>Carmarthenshire</i>	5.2%
<i>Ceredigion</i>	5.9%
<i>Conwy</i>	3.9%
<i>Denbighshire</i>	5.2%
<i>Flintshire</i>	5.2%
<i>Gwynedd</i>	9.5%
<i>Merthyr Tydfil</i>	2.6%
<i>Monmouthshire</i>	2.9%
<i>Neath Port Talbot</i>	4.6%
<i>Newport</i>	4.2%
<i>Pembrokeshire</i>	8.9%
<i>Powys</i>	6.2%
<i>Rhondda Cynon Taff</i>	3.3%
<i>Swansea</i>	5.6%
<i>Torfaen</i>	1%
<i>Vale of Glamorgan</i>	3.3%
<i>Wrexham</i>	2.6%

Initial telephone contacts and subsequent completed questionnaires were collected from members in each of the 22 Unitary Authorities in Wales in order to give a complete geographical spread to the results. A complete geographical breakdown of responses is shown in Table 2.

“We are always worried about the effect that a possible claim might have on the business”. Nursing home, Newport

Table 3. Responses by number of employees shown as a % of total responses.

Number of employees	Percentage
<i>0 – 10</i>	<i>81%</i>
<i>11 – 20</i>	<i>12%</i>
<i>21 – 40</i>	<i>6%</i>
<i>41 – 100</i>	<i>1%</i>
<i>100 +</i>	<i>Nil</i>

Although larger employers were included in the sample, none employing over a 100 staff actually completed the survey. Given the make-up of SMEs in Wales, this is unsurprising.

The majority of responses came from organisations in the 0-10 employee grouping. A complete breakdown by staff members is shown in Table 3.

Results

Question 1; “Has there been a substantial increase in your insurance liability premium in the last year”.

“Our insurance has gone up by over 40% since Sept 11th” Construction Company, Bridgend.

Table 4: Insurance Variance

Increase in Insurance Premium	Percentage
<i>Yes</i>	<i>47%</i>
<i>No</i>	<i>7%</i>
<i>Stayed about the same</i>	<i>43%</i>
<i>Do not have insurance</i>	<i>3%</i>

Almost half of surveyed members confirmed that there had been an increase in their liability premium during the last year. This substantial number of responses clearly underlines the ongoing and increasing financial burden imposed upon small businesses by mandatory insurance premiums. Another 43% of respondents stated that their insurance had stayed about the same.

Only 7% indicated that their insurance liability had actually fallen, although this was seen as due mainly to a reduction in business operation, rather than a reduction in insurance liability *per se*.

Of some concern were the 3% of members that responded who did not carry any liability insurance. If this percentage were to be extrapolated to the entire membership in Wales it could indicate that there were over 200 organisations operating with no insurance cover, and thus potentially illegally. In the survey results there were a small number of organisations operating from home bases that did not require cover.

Employers in the construction sector generally felt that the insurance premiums had *“increased tremendously in the building trade”*. These increases were felt to have a knock-on effect as prices were increased in an attempt to cover some of the increase in an area where operating margins were small.

Of the respondents who indicated that there had been an increase in their insurance costs, 60% stated that the increase was due to a rise in premiums generally, with only 6.5% stating that their increase was due to a rise in levels of cover. A breakdown of the reasons for increased insurance costs is shown in *Table 5* below.

Table 5. Reasons for increases in insurance shown as a % of positive responses.

Reasons for Increase	Percentage
<i>Increased Premiums</i>	60%
<i>Business Enlargement/Growth</i>	17%
<i>Outstanding Insurance Claims</i>	9%
<i>Raised Level of Cover</i>	6.5%
<i>Health & Safety Regulations</i>	4%
<i>Other reasons</i>	3.5%

“We don’t feel we have a choice. It’s pay up or go out of business” *Activity Centre, Powys*

Question 2; “Have you changed the company you use for your insurance”.

In spite of rising premiums, members remained loyal to their insurance companies with 83% remaining with their service provider. There was some concern among a number of members that they felt there was little choice or that they felt ‘tied’ into contracts of insurance with a certain company. In addition, a significant number stated that they had remained with their insurer because they had not been given enough time to ‘shop around’ after renewal notifications.

Of the members who did change insurer, 28% changed as a result of a cheaper quote. A breakdown of the reasons for change in insurance providers is shown in *Table 6*.

Table 6. Reasons for a change of insurer as a % of positive responses.

Reasons for Change	Percentage
<i>Increased Premiums</i>	32%
<i>Cheaper Quote</i>	28%
<i>Recommendation</i>	18%
<i>Specialist insurer</i>	10%
<i>Other reasons</i>	12%

Table 7. Adequate levels of cover shown as a percentage of total responses.

Question 3; “Do you consider yourself to be adequately covered by insurance for the risks involved?”

Response	Percentage
<i>Yes</i>	93%
<i>No</i>	5%
<i>Don't Know</i>	2%

Despite the overriding financial burden of insurance premiums, 93% of members responded by stating they felt they were adequately covered for the risks involved in their businesses. This clearly indicates an awareness of the responsibilities of employers. Of concern was that 5% of respondents stated that they felt they were under-insured but were insured to the limit of their ability to pay.

The 2% of members who stated that they did not know if their cover was adequate could conceivably be paying for too much cover and thus incurring unnecessary costs for themselves. If this is the case then arguably, the onus should be on the insurance companies to complete regular business reviews with their clients.

Table 8. Adequate Government Awareness as a % of respondents

Response	Percentage
<i>Yes</i>	3%
<i>No</i>	52%
<i>Don't Know</i>	45%

Question 4; “Do you think there is adequate Government awareness of this issue?”

“Why does the Government tax us on insurance?” Hotelier, Powys.

The majority of respondents felt that there was little or no understanding on the part of Government concerning this issue. Over half of the respondents felt that Government awareness was inadequate whereas only 3% felt that Government was aware or responsive. Many respondents stated they felt that neither the Assembly nor the UK Government seemed committed to remedying the problems caused by excessively high employer liability premiums and when prompted, were unable to name any initiatives.

Table 9. Expansion plans affected by premium increases as a % of responses

Question 5; “Have increased premiums affected any expansion plans to date?”

Responses	Percentages
Yes	13%
No	87%

“Insurance costs have crippled us and stopped us being a profitable company”. Fuel Installation Company, Mid Glam.

“The plans we might have had three years ago certainly cannot be applied now” Manufacturer, Bangor

Although the responses did not show that a majority of companies had had to rethink any expansions plans as a direct result of higher employer liability premiums as a single issue, of those respondents who stated that insurance increases had not affected expansion plans, a significant number expressed the opinion that if premium increases were to continue then they could have an effect upon expansion in the future.

Worryingly, more than one in ten respondents stated that their business expansion had already been affected by rising insurance costs. This raises significant concerns about the continuing crisis of rising insurance liability premiums and the ability of a number of small businesses to absorb such cost burdens.

Conclusion

The study briefly demonstrates that the continuing increase in insurance costs is an area of significant concern to businesses across the occupational spectrum throughout the whole of Wales. In addition, this conclusion has been borne out by the results of *the Lifting the Barriers to Growth in Welsh Small Businesses 2004* report and the continuing work of the FSB.

The vast majority of businesses considered themselves adequately covered by insurance in spite of rising costs, but in taking this responsible course of action and maintaining appropriate levels of cover, profitability was being sacrificed.

Many businesses indicated that they felt that they had no option but to pay greatly increased premiums and warned that although this cost might be absorbed in the short term, it was not viable in the long term.

Although a surprising number of businesses stated that their insurance premium had remained about the same over the past year, 47% stated that it had increased and worryingly, a mere 7% stated that their premium had gone down.

The vast majority of respondents stated that they felt they were adequately covered for the associated risks of their businesses but although a small percentage, a number indicated that they did not know if they were adequately covered. This may mean that they are paying too much for liability insurance and there is concern that a number of businesses will only find out if a claim is made.

Businesses clearly felt that there was little awareness on the part of politicians of the problems presented by increased insurance premiums. Some felt that Government assistance was warranted while others simply favoured greater political intervention in the problem.

A number of respondents stated that increases had been more pronounced following the terrorist atrocities in New York on September 11th 2001 and in well over half of all cases, increased premiums were cited as a reason for an increase in overall cost this was followed by business expansion. Only 6.5% cited a change to the level of cover outlined in their policy as a reason for increased insurance costs.

Businesses have indicated that the problem on it's own has not generally affected plans for expansion to date but a number warned that the current situation was untenable and may well cause them to reconsider plans for future expansion. In addition, a number of businesses have already had to reconsider plans for expansion either as a result of current increased costs or because of fear of future costs.

The FSB in Wales hopes that this brief snapshot of the problems facing small businesses regarding ECLI provides fuel for debate among decision makers, the

business community and Insurance providers. We feel that if the respective Administrations in Cardiff Bay and Westminster are to enact their commitment to promoting a healthy small business economy in Wales, there needs to be greater co-operation with small businesses.

There is a clear warning that if costs continue to escalate unchecked business expansion will suffer to the obvious detriment of competitiveness, profitability and the overall health of the small businesses economy.

Federation of Small Businesses
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