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Availability of insurance for small businesses

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Availability of insurance for small businesses

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Executive summary

This report sets out the findings of research focusing on the availability of insurance for small businesses. Analysis of responses to flood insurance questions included in the nationally representative Longitudinal Survey of Small Businesses (LSBS) carried out by the Department for Business, Energy and Industrial Strategy (BEIS) forms the basis of this report. 2,719 interviews with zero, micro and small businesses with separate commercial premises in England were analysed. Comparisons are made between business at high flood risk and those at low/very low flood risk.

This study represents the second in a series of research projects carried out by Defra in this area. Throughout this report findings from the previous study carried out in 2015 are quoted for indicative comparison purposes. The 2015 study was based on analysis of flood insurance questions included in the Small Business Study.

As part of this project, research has also been undertaken with households and the affordability and availability of insurance. A separate report has been published to cover these findings.

Uptake of insurance

The majority (77%) of respondents stated that they arrange commercial insurance cover for their premises themselves. A further 12% have somebody else arrange it; and so a total of 89% of small business arrange commercial insurance cover for their premises. Only one in ten (10%) do not have commercial insurance cover.

These results represent some significant differences from the levels reported in the 2015 Ipsos Mori study¹. In this study, 70% of the sample stated that they arranged cover themselves with 26% reporting that somebody else arranged it. Only 3% stated they do not have commercial insurance cover.

There does not appear to be any significant differences between businesses in a high/medium risk flood area compared with those in a low/very low risk area with respect to commercial insurance cover take up.

Difficulties in securing insurance

The vast majority (98%; 97% of those at a high/medium risk of flooding and 98% of those at a low/very low risk) of businesses arranging commercial insurance cover did not experience any difficulty obtaining insurance due to risk of flooding. These findings are similar to the Ipsos Mori 2015 study where 97% of businesses with insurance reported that they did not experience any difficulty in accessing insurance.

¹ Defra (2015) FD2689 Affordability and Availability of Insurance: Findings from small businesses
<http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&ProjectID=19227&FromSearch=Y&Publisher=1&SearchText=fd2688&SortString=ProjectCode&SortOrder=Asc&Paging=10#Description>

In this study, 12% of the total sample (313 respondents) had their insurance cover arranged by someone else, of these, 1% stated that they were aware of difficulties whilst 95% were unaware and 4% did not know.

Of the 2% (39 respondents; 1% of the total sample) who reported experiencing difficulty securing insurance themselves due to risk of flooding, the majority (87%) were able to obtain at least one quote whilst 13% said they were refused by all they approached. Given the small sample size, these results should be treated as indicative.

Those who had obtained at least one (34 respondents, 1% of total sample) quote stated there was an increase in cost based on previous quotes received; 32% stated the premium had increased, 9% stated the excess had increased and 26% of business stated that both the premium and the excess were more expensive than previous quotes. Due to the low number of responses, this finding is indicative only. Around a quarter (24%) said there was no increase in the cost of the quote received compared to quotes they had received in the past.

Seeking quotes

Those who did not have commercial insurance cover (223 respondents; 8% of the total sample) were asked whether or not they had tried to this in the last 12 months. Of this group, approaching one in five (18%) businesses stated they had tried to obtain commercial insurance cover in the last 12 months. However, the majority (81%) had not.

All businesses (100%, 41 respondents) who had attempted to arrange commercial insurance in last 12 months stated that they did not experience any difficulty securing this insurance due to risk of flooding.

Conclusion

In summary, although there has been a decline in insurance uptake since 2015, there appears to be little concern with the availability of insurance products for small businesses regardless of whether or not their business is located in a high/medium risk flood area.

Background

Following the launch of Flood Re in April 2016, Defra has carried out periodic research to assess the affordability and availability of flood insurance. Flood Re was not designed to cover small businesses at high risk of flooding, as its purpose is to ensure that affordable domestic flood insurance is available for households. Small businesses use commercial insurance, which operates differently from household insurance, and can require very different types of cover depending on the specific type of business.

The British Insurance Brokers Association (BIBA) has separately developed and in 2016 launched a scheme that provides flood insurance for small business at high flood risk that have previously struggled to access insurance.

In 2015, Ipsos Mori produced a research report discussing the uptake of insurance amongst businesses using questions from the Small Business Survey (SBS) run by the then Department for Business, Innovation and Skills (BIS), now known as the Department for Business, Energy and Industrial Strategy (BEIS).

This research revealed that 95% of all small businesses interviewed arrange commercial insurance cover for their premises. No significant differences were found between those who were located in flood risk areas and those who were not.

This report presents the 2017 findings of the research with small businesses from the 2017 BIES Small Business Survey. The focus of the study is to assess the availability of insurance for small businesses, particularly whether there are differences between availability of insurance for businesses in flood risk areas compared to businesses located elsewhere. The results of the research with households are published separately.

These reports are used by the government to inform their continued work with the insurance industry and the wider commercial sector to promote the uptake of measures help businesses become more resilient to flooding.

Research objectives

The objectives of this research are to report on differences in the availability of insurances for small businesses in flood risk areas, as opposed to non-risk areas. Risk areas were defined using the Environment Agency's (EA) NRD2014² at risk database where *at risk* is defined as high/medium risk and non-risk is defined as low/very low risk.

Methodology

Analysis of data collected in the 2017 Longitudinal Small Business Survey (LSBS). LSBS is a longitudinal, annual and biennial panel survey of owners and managers of UK businesses dating back to 2003,

² The NRD2014 property dataset provides the latest rivers and sea and surface water flood risk likelihood category

commissioned by the Department for Business, Energy and Industrial Strategy (BEIS). The survey is a nationally representative sample of small and medium sized businesses in England.

In total, this report contains findings from 2,719 LSBS interviews; these businesses are a representative sample of those with separate commercial premises in England that have insurance which is the key area of interest for Defra with regard to the research objective. The data in this report is *unweighted*, consistent with that of Ipsos Mori’s 2015 report.

In contrast with the previous Ipsos Mori 2015 study, a boost sample was not commissioned. This was because there were sufficient numbers of businesses interviewed in the main LSBS fieldwork that were located in areas of high flood risk (see Table 1).

The business survey

This report contains the findings from the analysis of the LSBS data of small businesses.

Table 1: Sample profile

		Total	%
Flood risk	High	265	10%
	Medium	366	13%
	High/Medium combined	631	23%
	Low/very low	2088	77%
Number of employees	Zero	532	20%
	Micro (1-9)	1120	41%
	Small (10-49)	1067	39%
Overall Total		2719	

Merlin is used to produce data reports and within this software, Z-tests on percentages and T-tests on means are performed to highlight statistically different results at the 95% confidence interval. These tests are applied within header groups and on individual columns against the total column minus the individual column. Within the data reports, header group significant differences are indicated by a letter. Total column / Individual column significances are identified by a + or – sign. These are the data reports that have been used to denote significant differences. Merlin does not produce p-values on significant differences. Only results that are statistically significant are noted as ‘significant’ throughout the report.

Questionnaire design

The main survey was designed by BEIS and covered a wide range of topics. Defra included a small number of questions on insurance in the SBS which this report is based on (Appendix 1). Defra proposed questions to answer the primary research question which related to the availability of insurance to small businesses. Given the small number of businesses reporting issues with accessing insurance, there were small numbers answering further questions that explored availability in more detail and so analysis between subgroup (risk level and business size) was not possible.

Key findings

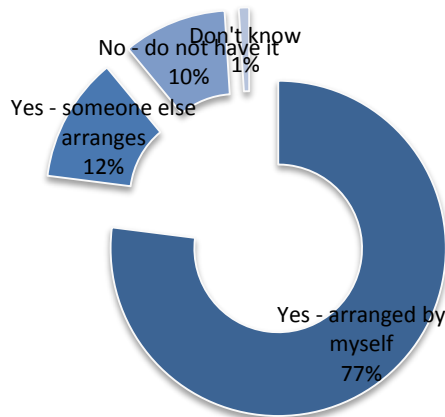
Uptake of insurance

All businesses were asked whether or not they arrange commercial insurance cover for their premises.

As can be seen in the Figure below, the majority (77%) of respondents stated that they arrange commercial insurance cover for their premises themselves. A further 12% have somebody else arrange it; and so a total of 89% of small business arrange commercial insurance cover for their premises. Only one in ten (10%) do not have commercial insurance cover. A minority of businesses (1%) stated they don't know if commercial insurance cover is arranged for their premises.

Looking at the results compared to the 2015 Affordability and Availability of Flood Insurance, the proportion of businesses that do not have commercial insurance cover has significantly increased (3% in 2015, 10% in 2017), this comes from a significant decline in those stating they have had someone else arrange it (26% in 2015, 12% in 2017). Those who stated they arrange it themselves has significantly increased by 7-percentage points on 2015 (70% in 2015, 77% in 2017).

Figure 1: Arrangement of commercial insurance



Sample base: All businesses (2719)

There were no significant differences between flood risk level of the business in terms of whether or not they have insurance. However, those with zero employees were significantly more likely to state that they did not have commercial insurance cover compared to micro and small businesses (31% compared with 9% of micro businesses (1-9) and 3% of businesses small businesses (10-49 employees).

Difficulties in securing insurance

Those who arranged commercial insurance cover for their premises were asked if they had experienced any difficulty at all in securing this insurance due to risk of flooding. The vast majority (98%) of businesses did not experience any difficulty obtaining insurance due to risk of flooding. This represents little movement on the findings from the 2015 Affordability and Availability of Flood Insurance research (97% in 2015) and indicates that availability of insurance is not a concern for businesses.

Figure 2: Difficulty securing insurance due to risk of flooding (where business arranges commercial insurance)



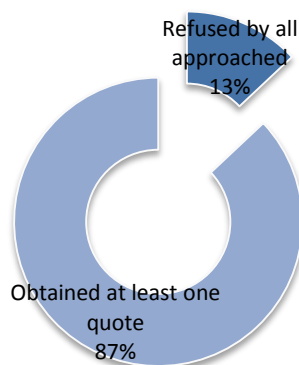
Sample base: (2092)

There were no significant differences between risk levels with regard to experiencing difficulty securing insurance due to risk of flooding. No significant differences existed when considering the size of the business.

Extent of difficulty

Those who did experience difficulty securing insurance due to risk of flooding (1% of the total sample; 39 respondents) were asked whether or not they were refused cover by all providers they approached. The majority (87%) were able to obtain at least one quote whilst 13% said they were refused by all they approached.

Figure 3: Extent of difficulty (where experience difficulty securing insurance due to risk of flooding)



Sample base: (39)

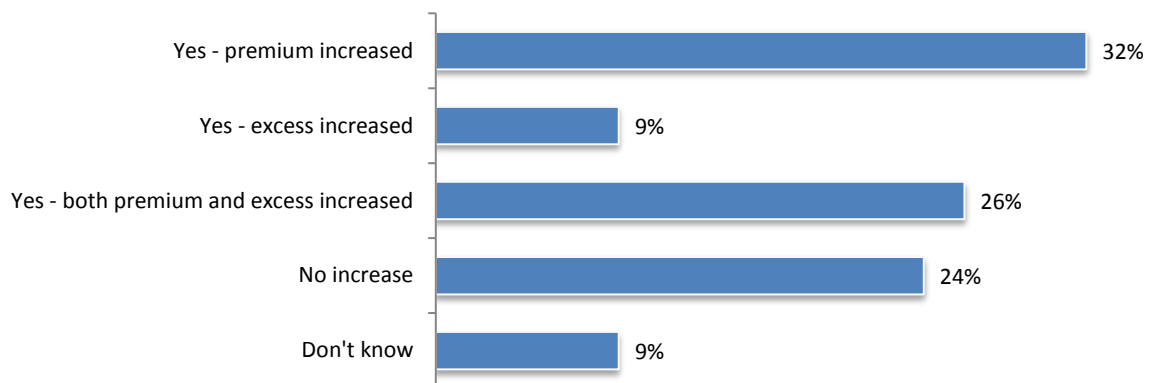
Due to low base sizes, analysis between subgroups of the data is not possible.

Cost of insurance quotes compared to previous years

Those who had obtained at least one quote (34 respondents; 1% of the total sample) were asked whether the quotes they obtained were higher than previous years either in terms of the premium, the excess or both. It should be noted that responses to this question are based on a low sample and are intended to be indicative only.

Two thirds (67%) of those who managed to obtain at least one quote stated there was an increase in some respect; 32% stated the premium had increased, 9% stated the excess had increased and 26% of business stated that both the premium and the excess were more expensive than previous quotes. Around a quarter (24%) said there was no increase in the cost of the quote received compared to quotes they had received in the past.

Figure 4: Difference in quote compared to previous years (where obtained at least one quote)



Sample base: 34

Due to low base sizes, analysis between subgroups of the data is not possible.

Awareness of difficulties in securing insurance due to risk of flooding

Those who had their insurance cover arranged by someone else (313 respondents; 12% of the total sample) were asked if they were aware of any difficulties securing the cover. Only 1% stated that they were aware of difficulties whilst 95% were unaware and 4% did not know.

Figure 5: Difficulty securing insurance due to risk of flooding (where someone else arranges commercial insurance)



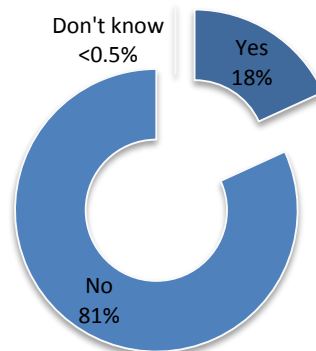
Sample base: 313

Those in a high/medium risk area were more likely than those in low/very low risk areas to state that they were aware of difficulties in securing insurance cover, albeit not significantly so (3% and 1% respectively).

Seeking quotes

Those who did not have commercial insurance cover (223 respondents; 8% of the total sample) were asked whether or not they had tried to obtain this in the last 12 months. Approaching one in five (18%) businesses stated they had tried to obtain commercial insurance cover in the last 12 months. However, the majority (81%) had not.

Figure 6: Attempt to obtain commercial business insurance cover in the last 12 months (where do not have commercial insurance)



Sample base: 223

Difficulty securing insurance due to flood risk

Those who had attempted to arrange commercial insurance in last 12 months (41 respondents) were asked if they experienced any difficulty in securing this due to risk of flooding. All businesses (100%) stated that they did not experience any difficulty securing this insurance due to risk of flooding.

Conclusions

The majority of small businesses take up commercial insurance cover either themselves or through someone else. However, the 2017 results indicate that overall, there has been a significant decline in take up since the 2015 Affordability and Availability of Flood Insurance research; this is driven by those who have previously arranged it through someone else, possibly now not arranging it at all. The proportion of those arranging it themselves has increased since 2015.

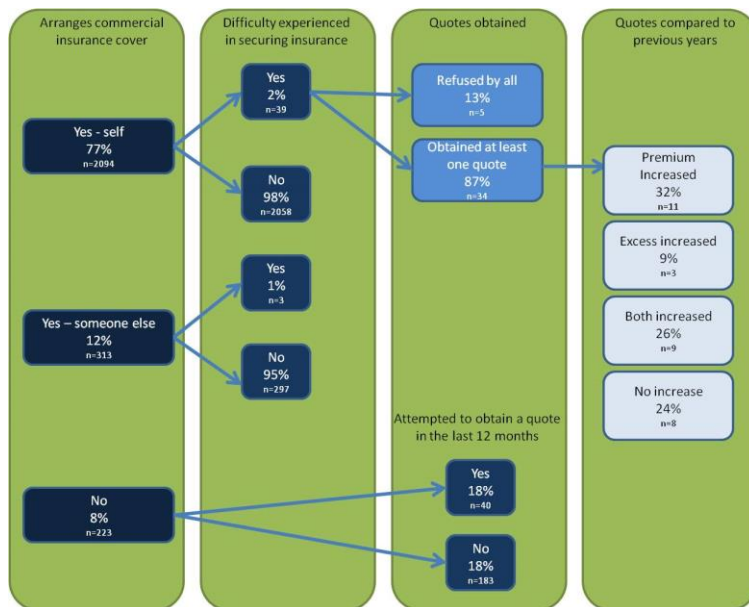
There does not appear to be any significant differences between businesses in a high/medium risk flood area compared with those in a low/very low risk area with respect to commercial insurance cover take up.

For those who do arrange insurance cover, the vast majority do not experience any difficulty in doing so nor do they hear about any difficulties if it is organised through someone else thus suggesting that there is little concern with the availability of commercial insurance for small businesses in flood risk areas. There are no significant differences between business located in high/medium flood risk areas or those located in low/very low flood risk areas. These findings are consistent with the 2015 Ipsos Mori study.

For those who stated that they did experience difficulty (2%, 39 respondents; 1% of the total sample), when asked to what extent, more than one in ten (13%, 5 respondents) indicated that they were refused by all companies they approached. For those who managed to obtain at least one quote, the majority stated that there had been an increase in their quote compared to previous years. Given the small sample size, these results should be treated as indicative.

Overall, although there has been a decline in insurance uptake since 2015, there appears to be little concern with the availability of insurance products for small businesses regardless of whether or not their business is located in a high/medium risk flood area.

Figure 7: Graphical tree diagram summary of findings



Appendix 1: Questionnaire

Questions asked as part of the Longitudinal Small Business Survey Year 3 2017

ASK IF HAVE SEPARATE BUSINESS PREMISES (A8/2 OR A10/2) IN ENGLAND AND WALES ONLY.

H98) **Do you or someone else at your business arrange commercial insurance cover for your premises? IF NO: Is this because somebody else arranges it (e.g. a landlord) or because you don't have premises insurance**

Yes	1
No – someone else arranges	2
No – do not have it	3
No – other reason (SPECIFY)	4
Don't know	5

ASK IF HAS INSURANCE (H98/1)

H99) **Did you experience any difficulty at all in securing this insurance due to risk of flooding?**

Yes	1
No	2
Don't know	3

ASK IF HAD DIFFICULTY SECURING INSURANCE (H99/1)

H100) **Were you refused cover by all you approached, or did you obtain at least one quote? SINGLE CODE ONLY**

Refused by all approached	1
Obtained at least one quote	2
Don't know	3

ASK IF OBTAINED AT LEAST ONE QUOTE (H100/2).

H101) **Were the quotes you obtained higher than in previous years, either in terms of the premium or the excess? IF YES: PROBE FOR WHETHER PREMIUM OR EXCESS HIGHER, OR BOTH**

Yes – premium increased	1
Yes – excess increased	2
Yes – both premium and excess increased	3
No increase	4
Don't know	5

ASK IF HAS SOMEONE ELSE ARRANGES INSURANCE (H98/2')

H102) **Were you aware of any difficulties in securing this insurance due to risk of flooding?**

Yes	1
No	2
Don't know	3

ASK IF DO NOT HAVE INSURANCE COVER (H98/3')

H103) **Have you tried to obtain commercial business insurance cover in the last 12 months?**

Yes	1
No	2
Don't know	3

ASK IF TRIED TO ARRANGE INSURANCE COVER (H103/1)

H104) **Did you experience any difficulty at all in securing this insurance due to risk of flooding?**

Yes	1
No	2
Don't know	3

Appendix 2: Topline data

H98. Do you or someone else at your business arrange commercial insurance cover for your premises? IF NO: Is this because somebody else arranges it (e.g. a landlord) or because you don't have premises insurance.

Base: Business with non-domestic premises in England

	Risk Rating					Employees		
	Total	High	Medium	High/ Medium	Low/Very low (All)	Zero	Micro (1-9)	Small (10-49)
Sample Bases	2719	265	366	631	2088	532	1120	1067
Yes	77%	79%	79%	79%	76%	56%	79%	85%
No - someone else arranges	12%	9%	11%	10%	12%	11%	12%	11%
No - do not have it	8%	7%	8%	7%	8%	24%	7%	2%
No - other reason	2%	3%	2%	2%	2%	7%	2%	1%
Don't know	1%	2%	*%	1%	1%	2%	*%	1%

H99. Did you experience any difficulty at all in securing this insurance due to risk of flooding?

Base: Where business arranges commercial insurance

	Risk Rating					Employees		
	Total	High	Medium	High/ Medium	Low/Very low (All)	Zero	Micro (1-9)	Small (10-49)
Sample Bases	2092	210	288	498	1594	298	887	907
Yes	2%	4%	2%	3%	2%	2%	1%	2%
No	98%	96%	98%	97%	98%	98%	98%	97%
Don't know	1%	0%	*%	*%	1%	*%	*%	1%

H100. Were you refused cover by all you approached, or did you obtain at least one quote?

Base: Where experience difficulty securing insurance due to risk of flooding

	Total	Risk Rating				Employees		
		High	Medium	High/ Medium	Low/Very low (All)	Zero	Micro (1-9)	Small (10-49)
Sample Bases	39	8	6	14	25	5	12	22
Refused by all approached	13%	13%	0%	7%	16%	20%	17%	9%
Obtained at least one quote	87%	88%	100%	93%	84%	80%	83%	91%
Don't know	0%	0%	0%	0%	0%	0%	0%	0%

H101. Were the quotes you obtained higher than in previous years, either in terms of the premium or the excess? IF YES: PROBE FOR WHETHER PREMIUM OR EXCESS HIGHER, OR BOTH

Base: Where obtained at least one quote

	Total	Risk Rating				Employees		
		High	Medium	High/ Medium	Low/Very low (All)	Zero	Micro (1-9)	Small (10-49)
Sample Bases	34	7	6	13	21	4	10	20
Yes - premium increased	32%	57%	33%	46%	24%	25%	30%	35%
Yes - excess increased	9%	0%	0%	0%	14%	25%	10%	5%
Yes - both premium and excess increased	26%	0%	17%	8%	38%	0%	30%	30%
No increase	24%	29%	17%	23%	24%	25%	20%	25%
Don't know	9%	14%	33%	23%	0%	25%	10%	5%

H102. Were you aware of any difficulties in securing this insurance due to risk of flooding?

Base: Where someone else arranges commercial insurance

	Risk Rating					Employees		
	Total	High	Medium	High/ Medium	Low/Very low (All)	Zero	Micro (1-9)	Small (10-49)
Sample Bases	313	25	41	66	247	59	133	121
Yes	1%	8%	0%	3%	1%	3%	2%	0%
No	95%	92%	93%	92%	96%	92%	94%	98%
Don't know	4%	0%	7%	5%	4%	5%	5%	2%

H103. Have you tried to obtain commercial business insurance cover in the last 12 months?

Base: Where do not have commercial insurance

	Risk Rating					Employees		
	Total	High	Medium	High/ Medium	Low/Very low (All)	Zero	Micro (1-9)	Small (10-49)
Sample Bases	223	18	29	47	176	127	78	18
Yes	18%	6%	14%	11%	20%	14%	19%	44%
No	81%	94%	86%	89%	79%	85%	81%	56%
Don't know	*%	0%	0%	0%	1%	1%	0%	0%

H104. Did you experience any difficulty at all in securing this insurance due to risk of flooding?

Base: Where tried to arrange commercial insurance in last 12 months

	Risk Rating					Employees		
	Total	High	Medium	High/ Medium	Low/Very low (All)	Zero	Micro (1-9)	Small (10-49)
Sample Bases	41	1	4	5	36	18	15	8
Yes	0%	0%	0%	0%	0%	0%	0%	0%
No	100%	100%	100%	100%	100%	100%	100%	100%
Don't know	0%	0%	0%	0%	0%	0%	0%	0%

