

The UK liability insurance market: summary of business survey

**A follow-up to the OFT's 2003
market study**

June 2005

OFT802a

CONTENTS

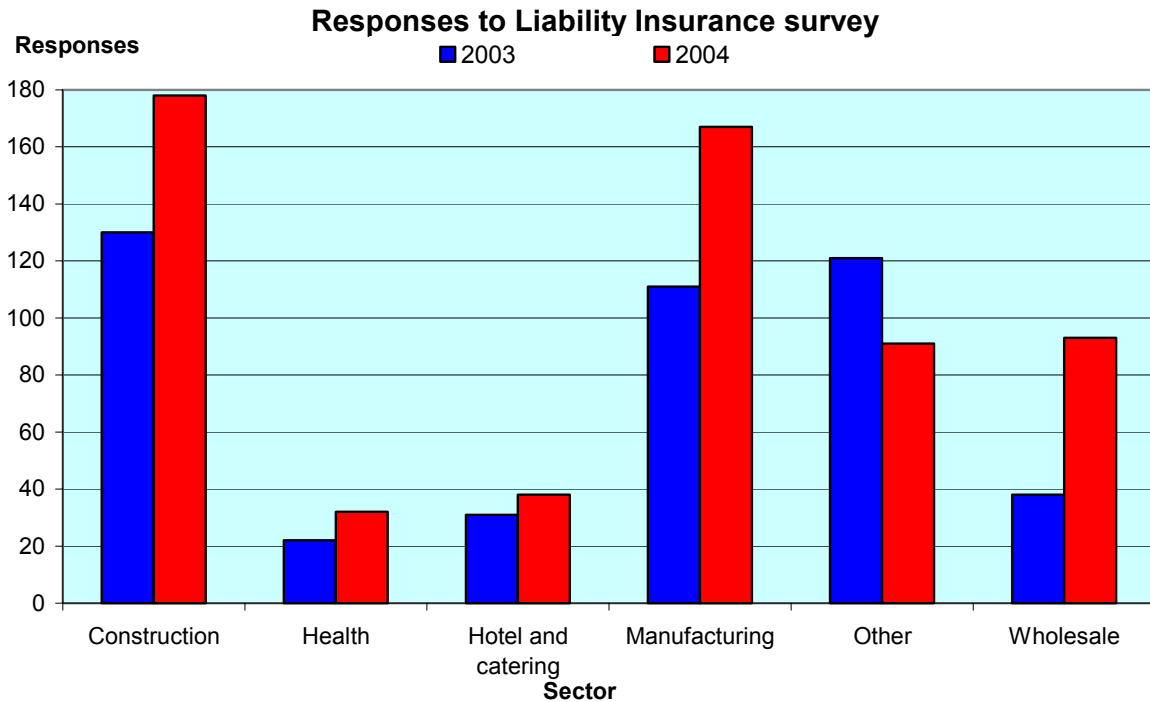
<i>Chapter</i>		<i>Page</i>
1	Results of the business survey	1
2	Tables	7
3	Questions	15

1 RESULTS OF THE BUSINESS SURVEY

Introduction

1.1 A revised version of the questionnaire used in the 2003 liability insurance market study was issued to 6,000 small and medium-sized enterprises¹ (SMEs) from a variety of businesses sectors: manufacturing, construction, health and wholesale. This used identical methodology to that employed in the previous survey. Contributions were received from 602 businesses and we wish to thank all those businesses who co-operated in this exercise.

Chart 1.1: Responses to liability insurance survey



¹ Small and medium-sized enterprises were defined, for our survey, as businesses with between 10 and 249 employees.

Summary

- 1.2 There have been reductions in the proportion of businesses being denied renewal.
- 1.3 Fewer companies are experiencing large premium increases (greater than 20 per cent) and more are seeing smaller increases (less than 20 per cent).
- 1.4 More businesses are being quoted the price of individual components of an insurance package rather than the overall price.
- 1.5 A similar proportion of companies to that found in the previous survey are still finding it difficult to get liability cover.

Responses

- 1.6 602 companies responded to this follow-up survey. Thirty per cent were construction firms and over a quarter of responses (28 per cent) were from the manufacturing sector and. Most proportions were similar to the original survey, apart from wholesale and other sectors. Wholesale accounted for 16 per cent of this survey as opposed to eight per cent previously, and other sectors now account for only 15 per cent as opposed to 27 per cent from the previous survey.
- 1.7 Over half of businesses (368) in this survey are micro firms employing less than 10 people. Only four per cent of firms (ie: only 21 respondents) have 250 or more employees. The split of Micro, SME and large firms is similar to the original survey.

Products

- 1.8 Nearly all respondents said they had employers' and public liability insurance. Eighteen per cent had professional indemnity and 42 per cent product liability insurance. These proportions are similar to the previous survey.

- 1.9 There is considerable variation between sectors: 81 per cent (10 percentage points lower than previously) of health businesses had professional indemnity with still few doing so in any of the other sectors. Around two-thirds of manufacturing firms and just under 60 per cent of wholesalers had product liability insurance, slightly lower proportions than the 2003 survey. The proportions for product liability were around 25 per cent or below in the other sectors surveyed.
- 1.10 Eighty four per cent of respondents purchased both employers' and public liability insurance and nine per cent of businesses purchased all four types of cover.
- 1.11 Around 80 per cent (an increase of 10 percentage points) of respondents buy their liability insurance in a package. Large companies however, are notable for buying only 38 per cent of their liability insurance in package form.
- 1.12 Seventy per cent of companies bought their liability insurance in a package form. Of these, 41 per cent knew the cost of the package's individual components; eleven percentage points higher than in the previous survey. Eighty eight per cent of large companies bought individual components. This is particularly high compared to SMEs and micro firms; however as a relatively small group (21), large companies are subject to unstable results.
- 1.13 Nearly 90 per cent of businesses buy insurance through a broker, a similar figure to that of the previous survey.

Experiences

- 1.14 Six per cent of respondents found it difficult to trade due to employer's liability, public liability or product liability insurance proving difficult to obtain. This is similar to the previous result. Only two per cent found it difficult to obtain public indemnity insurance.

- 1.15 OFT survey indicates that in 2004, 19 per cent of firms received advice from their insurer and 53 per cent from their broker, on ways to reduce their premiums. This is similar to the 15 per cent and 52 per cent observed in 2003. Nearly all large businesses were advised by their broker and half by their insurer. This figure was lower for SMEs and lower still for micro firms.
- 1.16 There were significant increases in the number of companies having had cover renewed for employer's liability, professional indemnity and public liability. Of those who purchased professional indemnity in 2004, 98 per cent had their cover renewed compared to 82 per cent the previous year. Of those purchasing employer's liability, 84 per cent had their cover renewed, an increase on 75, and the proportion experiencing renewal of public liability rose from 72 per cent to 81 per cent.
- 1.17 At most three per cent of respondents within each type of insurance were denied renewal of cover by their current insurer in 2004. At most four per cent were denied a particular type of new cover by other insurers. The number of businesses buying employer's liability denied new cover was a significant two thirds lower than previously.
- 1.18 In 2004, seven to 10 per cent of businesses experienced cover reduction and 19-24 per cent saw increased excesses (depending on the type of policy).
- 1.19 Thirty four per cent of all respondents indicated their reasons for switching insurers. Of these 69 per cent of businesses responding to the OFT survey switched to another insurer to obtain cover because the price was more competitive, 13 per cent said they did so for better service, 10 because their previous insurer no longer wrote the risk and ten per cent because their new insurers specialised in their field of business.
- 1.20 Nineteen per cent of respondents in 2004 declared it was difficult to find alternative cover. Of those, nearly one-third were in manufacturing and half in construction.

- 1.21 Seventy seven per cent of respondents indicated their reasons for not changing insurers in 2004. Of these respondents, 70 per cent were satisfied, 31 per cent looked but could find no better alternatives and eight per cent had limited time to seek alternative cover. As respondents were able to give more than one reason, these percentages sum to more than 100.
- 1.22 Sixty-two per cent of respondents said that their liability insurance premium changed on at least one type of insurance in the last year, a significant 10 percentage point decrease from the previous survey. A small number of companies volunteered that they experienced a decrease in their premiums in 2004. Nearly all large companies saw changes (98 per cent) but only 56 per cent of micro companies.
- 1.23 The 2004 OFT survey identified that 72 per cent of businesses said they had received the renewal terms of their policy at least 21 days prior to their renewal date.
- 1.24 Thirty eight per cent of businesses saw no change in any of their premiums last year compared to 28 per cent of respondents from the previous survey; a significantly difference. A small number volunteered that they had experienced a decrease.
- 1.25 Typically two out of three respondents experienced increases in each type of premium they bought, of less than 20 per cent. Compared to the previous OFT survey the proportion of companies experiencing an increase in a particular type of liability premium of less than 20 per cent doubled for all but one type of liability insurance (public liability). Meanwhile, the proportion experiencing increases of more than 20 per cent fell by half.
- 1.26 In 2003 nearly one in three had experienced increases of more than 50 per cent in a particular type of insurance when their policy last expired, this was less than one in 10 in 2004. Thus high premium increases were generally much less commonplace in 2004 than in the previous year.
- 1.27 There were no significant changes in the period of notice given to those who experienced premium changes or the number of claims made.

1.28 Approximately half of the businesses surveyed in 2004 were members of a trade association and 58 per cent of these participate in their association's best practice or health and safety scheme (nearly one in three of all respondents). Of these, one-quarter said that their insurer recognised this scheme when offering terms. Over 90 per cent of businesses participating in their trade association's scheme did not know whether it was assessed by the ABI.

2 TABLES

Table 2.2: Distribution of respondents by size and sector of company

	<i>Micro</i>		<i>SME</i>		<i>Large</i>		<i>Total</i>		<i>Total count</i>	
	<i>(%)</i>		<i>(%)</i>		<i>(%)</i>		<i>(%)</i>			
	<i>(0-9)</i>		<i>(10-249)</i>		<i>(250+)</i>					
	'02	'04	'02	'04	'02	'04	'02	'04	'02	'04
Manufacturing	9	12	13	14	2	2	25	28	111	167
Hotel and catering	4	5	3	1	0	0	7	6	31	38
Construction	19	20	10	9	0	0	29	30	130	178
Wholesale	5	10	3	5	0	0	9	16	38	93
Health	4	4	1	1	0	0	5	5	22	32
Other	16	10	8	5	2	1	26	15	121	91
Total	57	61	39	35	4	4	100	100	.	.
<i>Total count</i>	<i>254</i>	<i>368</i>	<i>174</i>	<i>212</i>	<i>20</i>	<i>21</i>	<i>.</i>	<i>.</i>	<i>457</i>	<i>602</i>

Table 2.3: Types of insurance purchased (by sector)

	<i>Employers liability</i>		<i>Professional indemnity</i>		<i>Public liability</i>		<i>Product liability</i>	
	<i>(%)</i>		<i>(%)</i>		<i>(%)</i>		<i>(%)</i>	
	2002	2004	2002	2004	2002	2004	2002	2004
Construction	91	84	12	16	99	98	24	22
Health	77	88	91	81	73	84	14	19
Hotel and catering	90	82	3	3	84	76	23	26
Manufacturing	97	94	16	16	98	96	69	67
Other	90	88	38	16	89	90	31	33
Wholesale	95	99	5	13	89	90	65	58
Total	92	90	22	18	93	93	40	42

Table 2.4: Types of insurance purchased (by size)

	<i>Employers liability (%)</i>		<i>Professional indemnity (%)</i>		<i>Public liability (%)</i>		<i>Product liability (%)</i>	
	2002	2004	2002	2004	2002	2004	2002	2004
Micro (0-9)	85	83	22	17	89	93	30	29
SME (10-249)	99	100	18	20	96	92	48	58
Large (250+0)	100	100	55	19	100	100	75	95
Total	92	90	22	18	92	93	40	42

Table 2.5: Format of liability insurance bought²

	<i>%</i>	
	2002	2004
Package	69	79
Stand Alone Policies	11	21
Mixture Of The Two	20	.
Total	100	100

Table 2.6: Proportion of firms buying insurance in package form

<i>Size of firm</i>	<i>Micro (0-9)</i>		<i>SME (10-249)</i>		<i>Large (250+)</i>		<i>Total</i>	
	2002	2004	2002	2004	2002	2004	2002	2004
Construction	80	72	67	88	-	-	75	76
Health	59	46	20	50	-	-	50	47
Hotel & catering	83	72	83	75	0	-	81	71
Manufacturing	85	90	63	86	44	38	70	84
Other	67	73	54	81	0	67	57	76
Wholesale	92	85	58	81	-	50	81	83
Total	77	76	62	83	20	38	69	79

² Not directly comparable as the 2004 survey excluded the 'mixture' option.

Table 2.7: Pricing structure of insurance bought in package form

	Individual components (%)		One overall price given (%)	
	2002	2004	2002	2004
	Micro (0-9)	24	34	76
SME (10-249)	39	51	61	49
Large (250 +)	29	88	71	13
Total	30	41	70	59

Table 2.8: Source of cover

	<i>Direct from the insurer (%)</i>		<i>Through a broker (%)</i>	
	2002	2004	2002	2004
	Micro (0-9)	11	16	89
SME (10-249)	7	6	93	94
Large (250 +)	-	5	100	95
Total	9	12	91	88

Table 2.9: Proportion of companies who have found it difficult to trade due to cover proving difficult to obtain within the last year³

	<i>2002 (previous two years)</i>		<i>2004</i>
Employers Liability	12		6
Professional Indemnity	11		2
Public Liability	11		6
Product Liability	13		6

³ Not directly comparable as the previous survey stated 'in the last two years'.

Table 2.10: Proportion of businesses offered advice on ways to reduce premiums

	<i>By insurer</i>		<i>By broker</i>	
	2002	2004	2002	2004
Micro (0-9)	7	14	41	44
SME (10-249)	22	22	63	64
Large (250+)	33	50	90	95
Total	15	19	52	53

Table 2.11: Experiences (as a proportion of all those respondents purchasing a particular type of insurance)

	<i>Employers liability</i>		<i>Professional indemnity</i>		<i>Public liability</i>		<i>Product liability</i>	
	<i>(%)</i>		<i>(%)</i>		<i>(%)</i>		<i>(%)</i>	
	'02	'04	'02	'04	'02	'04	'02	'04
Had cover renewed	75	84	82	98	72	81	81	84
Been denied renewal	8	2	9	-	8	3	10	2
Obtained new cover	17	19	17	16	17	18	21	19
Been denied new cover	10	3	12	-	9	4	10	4
Experienced reduced cover	10	7	13	10	11	8	14	9
Experienced increased excess	23	21	27	24	20	20	27	19

Table 2.12: reasons for switching to another insurer

	<i>%</i>
More competitive price	69
Better service	13
Reputation	3
Products offered	6
Specialist expertise in your business field	9
Previous experience	3
Previous insurer no longer writing the risk	10
Other	6

Table 2.13: Level of ease when finding alternative cover?⁴

	<i>Very easy</i>		<i>Quite easy</i>		<i>Quite difficult</i>		<i>Very difficult</i>	
	<i>(%)</i>		<i>(%)</i>		<i>(%)</i>		<i>(%)</i>	
	'02	'04	'02	'04	'02	'04	'02	'04
Micro	23	14	28	39	23	30	26	17
SME	13	10	29	33	31	37	27	21
Large	50	-	30	44	10	33	10	22
Total	20	12	28	37	26	33	25	19

Table 2.14: Reasons for not changing insurers

<i>2004</i>	<i>Total</i>
	<i>(%)</i>
Satisfied with current insurer	70
Unaware of alternatives	4
Limited time to seek out alternatives	19
Looked but didn't find better/any alternatives	24
Other	4

Table 2.15: Renewal periods and changes in premiums

	<i>Micro</i>	<i>SME</i>	<i>Large</i>	<i>Total</i>
Proportion of companies who were given 21 days renewal notice when their last policy expired				
2004	75	68	50	72
Proportion of companies who experienced changes in any of their liability insurance premiums in the last year				
2002	65	79	88	72
2004	56	70	95	62

⁴ Not directly comparable as the previous survey asked 'Have you tried to move broker?' and if so 'how easy was this?'

Table 2.16: Change in premium (as a proportion of those respondents whose premiums changed)

	<i>Decreased⁵</i>	< 20	20-49	50-99	100-149	150-199	200+
2002							
Employers liability		36	24	15	6	-	17
Professional indemnity		34	20	12	-	-	22
Public liability		40	24	15	4	-	14
Product liability		38	21	21	8	-	10
Package		32	31	21	3	-	11
2004							
Employers liability	-	65	25	4	-	-	-
Professional indemnity	-	71	17	-	-	-	-
Public liability	2	67	22	4	-	-	3
Product liability	5	70	20	-	-	-	-
Package	5	60	26	7	-	-	-

⁵ Only asked in 2004.

Table 2.17: Change in premium (as a proportion of those respondents whose premiums changed)

	<i>Less than 20%</i>	<i>More than 20%</i>
2002		
Employers Liability	0.35	0.65
Professional Indemnity	0.35	0.65
Public Liability	0.40	0.60
Product Liability	0.39	0.61
Package	0.32	0.68
2004		
Employers Liability	0.69	0.31
Professional Indemnity	0.78	0.22
Public Liability	0.70	0.30
Product Liability	0.75	0.25
Package	0.65	0.35

Table 2.18: Renewal periods (summarised as a proportion of those respondents whose premiums changed)

<i>(Weeks)</i>	<i>< 1</i>		<i>1-2</i>		<i>3-4</i>		<i>5-7</i>		<i>8+</i>	
	<i>02</i>	<i>04</i>	<i>02</i>	<i>04</i>	<i>02</i>	<i>04</i>	<i>02</i>	<i>04</i>	<i>02</i>	<i>04</i>
Employers liability	22	17	24	29	40	42	8	4	6	8
Professional indemnity	-	29	20	21	37	25	-	-	-	-
Public liability	24	18	25	27	35	43	-	5	8	8
Product liability	16	22	26	25	34	33	-	-	13	13
Package	17	16	35	31	35	47	6	5	7	-

Table 2.19: Number of claims in last three years (proportion of all respondents)

	<i>None</i>		<i>One</i>		<i>Two</i>		<i>Three</i>		<i>Four</i>		<i>5+</i>
	<i>02</i>	<i>04</i>	<i>02</i>	<i>04</i>	<i>02</i>	<i>04</i>	<i>02</i>	<i>04</i>	<i>02</i>	<i>04</i>	<i>02</i>
Employers liability	82	90	8	7	4	2	2	1	2	-	3
Professional indemnity	98	99	-	-	-	-	-	-	-	-	-
Public liability	89	92	5	5	2	2		1	-	-	-
Product liability	93	96	2	3	3	2	-	-	-	-	-

Table 2.20: Trade association membership and best practice/health and safety schemes

	<i>Micro</i>	<i>SME</i>	<i>Large</i>	<i>Total</i>
Proportion of all companies who are members of a trade association	44	64	57	51
Proportion of trade association members participating in a best practice or health and safety scheme	57	57	82	58

Table 2.21: Insurers recognition of these schemes when offering terms (only asked of trade association members participating in scheme)

	<i>Recognised (%)</i>	<i>Not recognised (%)</i>	<i>Don't know (%)</i>
Micro	23	26	51
SME	25	14	60
Large	-	-	-
Total	25	21	54

Table 2.22: Proportion of schemes assessed by the Association of British Insurers making the market work initiative (only asked of trade association members participating in scheme)

	<i>Assessed (%)</i>	<i>Not assessed (%)</i>	<i>Don't know (%)</i>
Micro	-	7	91
SME	-	9	89
Large	-	-	100
Total	-	7	90

- Indicates that less than 5 respondents answered

3 QUESTIONS

1 In which sector do you operate? (please tick one)

Manufacturing
Construction
Hotel and catering
Health
Wholesale
Other

2 Please provide details of your primary business activity within that sector, eg: care home, roofing contractor.

3 What is your annual turnover? £

4 How many employees have you?

0-4
5-9
10-49
50-249
250+

5 What types of liability insurance do you purchase?

Employers liability
Professional indemnity
Public liability
Product liability
Other

6 Do you buy your liability insurance in package form or in separate stand alone policies?

Package

Stand alone

7 If in package form, do you know the cost of the individual components or are you given one overall price?

Price broken down into individual components

One overall price given

8 Do you normally purchase cover:

Direct from the insurer?

Through a broker?

9 Have you ever found it difficult to trade due to the cover proving difficult to obtain within the last year?

Yes/No/NA

Employers liability

Professional indemnity

Public liability

Product liability

10 Were you given advice by your broker or insurer as to ways you could reduce your premiums?

Broker

Insurer

11a During the last year have you:

- Had cover renewed (even at higher cost)
- Been denied renewal by current insurer
- Obtained cover from other insurers
- Been denied cover by other insurers?
- Experienced reductions in level of cover
- Experienced increases in excess

11b If you switched to another insurer to obtain cover, why was this?

- More competitive price
- Better service
- Reputation
- Products offered
- Specialist expertise in your business field
- Previous experience
- Previous insurer no longer writing the risk
- Other

11c And how easy was it to find alternative cover?

Very easy/Quite easy/Quite difficult/Very difficult

11d If it was difficult to find alternative cover, is there anything that could have made it easier?

11e If you didn't change insurers, why is this?

Satisfied with current insurer

Unaware of any alternatives

Limited time to seek out alternatives

Looked but couldn't find better alternative

Other

12 When your policy last expired, did your insurer notify you of the renewal terms of your cover at least 21 days prior to your renewal date?

Yes/No

13 Did any of your liability insurance premiums change in the last year?

Yes/No

14 If yes, please indicate percentage change in premiums and the period of notice given (provide details of individual components if known or total package if not)

Premium change over last year (per cent)

Period of notice (weeks)

< 20/20-49/50-99/100-149/150-199/200 +

< 1/1-2/3-4/5-7/8 +

Employers liability

Professional indemnity

Public liability

Product liability

Package

15a Have you claimed against your liability insurance in the last three years?

Yes/No

15b If yes, how many times?

Once/ Twice/ Three/ Four/ Five or more

Employers liability

Professional indemnity

Public liability

Product liability

16a Are you a member of a trade association?

Yes/No

16b If so, do you participate in your trade association's best practice or health

Yes/No

16c Does your insurer recognize this scheme when offering terms?

Yes/No/Don't know

16d Is this scheme assessed by the Association of British Insurers Making

Yes/No/Don't know