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Small and micro business Insurance: explaining the types of insurance you may need, why we need to close the gaps in insurance from non-insurance and underinsurance ,*and* how the wider economy will benefit by encouraging small businesses to be fully insured.

The information that follows is based on information from the Association of British Insurers (ABI) and insurance guides.

Insurance as a Driver of SME Resilience, Confidence and Growth

Why small and micro businesses need a stronger insurance foundation

Insurance is not just a compliance requirement. It is a **critical enabler of resilience, continuity, investment and growth** for small and micro businesses. Yet insurance remains **under-prioritised** by small businesses themselves and in UK small-business policy, despite being essential to economic stability.

- **44% of UK SMEs operate with no insurance at all**, exposing them to risks that could destroy their business overnight.
- Government's **2025 Small Business Plan** did not include insurance, even though the Department for Business and Trade had just launched **Small Exporter Builder insurance** to support international trade.
- The **National Cyber Security Centre** barely references cyber insurance in its SME guidance, despite cyber-attacks rising sharply.
- Business groups and regulators recognise resilience as a priority but **insurance gaps remain unaddressed**.

Closing these gaps requires **government leadership**, **trade-body engagement**, and **industry collaboration**. But first, small businesses need clarity on what insurance they need and why it matters.

Why Insurance Matters for Small and Micro Businesses

Insurance is the **foundation of resilience in small and micro businesses.** It protects against shocks that they can't absorb alone and enables them to take opportunities they would otherwise avoid.

Insurance enables SMEs to:

Stay operational after a crisis

Fire, flood, cyber-attack, theft, or liability claims can shut down a small business instantly. Insurance provides the financial buffer to recover.

Trade with confidence

Many customers, suppliers, and partners require proof of insurance before working with a business.

Invest and grow

Insured businesses are more likely to:

- hire staff
- take on larger contracts
- export
- adopt new technology
- secure finance

Meet legal and regulatory obligations

Some policies are compulsory, but many others are essential for risk management even if not legally required.

Protect owners personally

Without insurance, founders often carry unlimited personal liability for claims, legal costs, or business interruption.

The Core Types of Insurance SMEs May Need

(Based on ABI and SME insurance guidance)

Small and micro businesses should consider:

A. Legally Required Insurance

Employers' Liability Insurance (EL) (compulsory)

Required for any business with employees.

- Covers injury or illness caused by work.
- Fines: **£2,500 per day** for non-compliance.

Commercial Motor Insurance (compulsory)

Required for any business using vehicles.

B. Liability Insurance (highly recommended)

Public Liability Insurance (PL)

Protects against claims from customers or the public for injury or property damage. Essential for:

- shops
- trades
- events
- home-based businesses with visitors

Product Liability Insurance

Covers injury or damage caused by products you design, manufacture or supply.

Professional Indemnity Insurance (PI)

Covers claims for negligent advice or services. Required for some professions; recommended for:

- consultants
- designers
- IT professionals
- trainers
- coaches

C. Property and Continuity Insurance

Buildings Insurance

For businesses that own their premises.

Contents and Stock Insurance

Covers equipment, tools, stock and materials.

Business Interruption Insurance

Covers loss of income if you cannot trade due to an insured event (fire, flood, etc.). This is one of the **most important but most overlooked** policies. A large proportion of businesses that are flooded or damaged by fire never trade again. Customers go elsewhere during the business interruption and often don't return even if the business does recover.

D. Digital and Data Protection Insurance

Cyber Insurance

Covers:

- ransomware
- data breaches
- business interruption
- recovery costs
- legal and regulatory penalties

Cyber-attacks on SMEs rose to **53% in 2023**. Average cost: **£15,300**. yet cyber insurance is barely mentioned in national cyber guidance.

E. People and Leadership Protection

Directors' & Officers' Insurance (D&O)

Protects directors from personal liability for alleged wrongful acts.

Key Person Insurance

Protects the business if a founder or critical employee becomes unable to work.

Policies to cover short and long term employee sickness with Early Intervention (to help get people ready to return to work sooner)

F. Sector-Specific Insurance

Trade-specific policies

Examples:

- Construction: contractors' all-risks, plant cover
- Retail: shop insurance packages
- Hospitality: loss of licence
- Creative industries: equipment and media liability
- Exporters: trade credit insurance, cargo insurance, Small Exporter Builder insurance

4. The Business Benefits of Insurance - Even When Not Compulsory

Insurance is often seen as a cost but it's a **strategic investment** that delivers real benefits.

1. Protects cashflow

Insurance absorbs shocks that would otherwise drain working capital.

2. Enables access to contracts

Many clients require you to have PL, PI, cyber or D&O before awarding work.

3. Supports access to finance

Banks and investors view insured businesses as lower risk.

4. Improves operational resilience

Business interruption, cyber and property insurance reduce downtime.

5. Builds customer trust

Insured businesses appear more professional and credible.

6. Reduces personal risk for founders

Without insurance, owners may face personal liability for claims.

5. Why Insurance Gaps Persist

Despite its importance, insurance is **not embedded** in UK small-business policy.

Businesses

- Many see insurance as a cost, not an enabler or an investment in the future of the business.
- 44% operate with **no insurance even when it's compulsory**, and many more are underinsured (claims payouts won't cover the full losses).

Business Groups

- Chambers, FSB, and sector bodies prioritise resilience and offer members insurance packages, yet insurance is rarely talked about as a resilience tool.

Government

- The **2025 Small Business Plan** didn't mention insurance at all.
- Yet DBT launched **Small Exporter Builder insurance** to support SME exporters, showing the value of targeted insurance interventions.

Regulators

- The **National Cyber Security Centre** barely references cyber insurance in small business guidance, despite rising attacks.

Conclusion:

With the right approach, insurance can help small and micro businesses **survive shocks, seize opportunities, and grow with confidence**.

If the UK wants a more resilient, productive and internationally competitive small business sector, closing insurance gaps must be a **priority**.

This requires:

- leadership from government
- engagement from business organisations
- innovation from insurers
- and clear, accessible guidance for small businesses.