

► **SME: 'Now and the Future'** examines how the SME market, across all sectors, is changing and developing. The monthly series, sponsored by Zurich as it adds new products to its SME proposition, will run for the next year. Stay tuned for the most up-to-date SME knowledge.



# Building with brokers

Broking for sole traders in the trades, professions and skilled worker sector is intricate and liabilities are complex, explains **Edward Murray**

Sole traders and SMEs with up to 15 employees are the engine room of the UK economy and they provide the vast majority of the country's employment. Insurers are keen to grab a share of this market and competition is stiff in the trades, professions and skilled workers sector.

The number of insurers offering cover creates welcome choice, but that in itself creates an issue that business owners have to deal with, as Jim Wilkes, senior technical underwriter at Zurich explains: "It is a very competitive market. There is a lot of choice and that can cause an element of confusion. I think sometimes buyers need some assistance."

## Broker understanding

Wilkes says that assistance can come in many different forms and he highlights a couple of steps that Zurich has taken to make sure potential policyholders get the help they need. The first is the fact that it only works through brokers in this market. He believes the understanding brokers have of their clients' businesses makes it easier for them to pinpoint exactly where their exposures lie and to make sure they have the insurance they require.

The second is information that business owners can access directly to keep them up to speed with many of the most common issues they are likely to face. He says: "One of the things that we have offered to SMEs, is Virtual Consulting, which provides online information on a lot of hazards. It outlines the things that can go wrong and the best ways of dealing with them and all of that is pure risk management. It is aimed at prevention rather than trying to pick up the pieces afterwards."

## Bad habits

There is no doubt that brokers have an important role to play, but it is one that is not always easy to fulfil. Buying habits at the smaller end of the market have been conditioned by the convenience of online direct insurers and the ever-present message to shop around for the best price.

Alastair Christopherson, managing director of County Insurance North West, says a lot of the smallest business owners still see arranging their insurance as a 10-minute job that they need to complete once a year.

But he adds: "The benefit of a broker is ultimately that you build up a rapport and an understanding of the business, and as the

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## Evaluating exposures

● Heat-related claims might be common and potentially expensive, but they should not prove problematic when it comes to placing cover, according to Robin Saltman at Counce O'Hara:

"Heat-related claims are often an issue and can be very costly. While this is true, finding cover for those who carry out hot works, such as roofers or welders, isn't particularly difficult, as long as the need for this cover is identified in the first place.

"Brokers that question and get to know their clients will be well placed to identify such a risk and ensure that it is recognised and taken into account with any potential policy. Insurers are generally happy enough to provide cover as long as the client themselves has taken the relevant steps to minimise the risk – wearing appropriate personal protective equipment, having an up-to-date health and safety policy and educating employees on it, carrying out thorough risk assessments and taking them seriously when carrying out the works themselves.

"Once we discuss these things with clients and advise that it is more a case of managing the risk than ignoring it, the message generally sinks in and contractors can meet us in the middle on this sort of issue."

Brokers have to delve deep to uncover the exact exposures their clients carry as Alastair Christopherson of County Insurance North West explains:

"A friend of mine introduced a gardener to me. I asked him about what he did and he said he did all sorts. I asked about lopping, tree felling, design work and the sort of machinery he used. He said occasionally he might lop a tree, but it was generally lawns and tidying up work.

"I pushed harder to see if he worked up a ladder, used power tools and so on and really delved into things. I asked about who he had in the business and he said it was himself and his business partner. But it turned out there were nine part-time employees. I don't think the man was being negligent, I just think he was making the wrong assumptions through ignorance. His past policies were wrong, but there had been no claims or problems and so he thought things were okay. He just hadn't understood the extent of his exposures."

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business understanding grows and you can point them in the right direction. But if clients continually move around or do it themselves, then they never get that expert input."

Christopherson believes the expertise brokers have is essential for smaller firms because of the intricate nature of the potential liabilities they face. He comments: "A good example would be a firm that appears to be a straight-forward retailer. They might have a £1m turnover and you might think it'll go straight through the pipe. But if they do a little bit of wholesale to the US, they might think of it as nothing, but it is totally excluded from the policy."

Understanding that exporting might not be covered is crucial to getting the right insurance, but buyers simply do not have the level of knowledge required to realise that activities

like exporting, wet work, working at height, hot work or working offshore, are common exclusions. When they do find out, it is often too late. The changing nature of the labour market also throws up issues that need to be addressed. The rise in the use of sub-contractors creates a number of additional considerations when placing insurance.

Wilkes says firms cannot simply outsource their responsibilities along with the work. He comments: "I think some organisations have this belief that they can sub-contract and switch off a concern, and that is not the case in law or in business practice."

Wilkes highlights not only the need to vet sub-contractors thoroughly, but also the importance of checking they have the correct insurance in place, are working to any required conditions of cover and that they actually have a live policy. He cites examples where lead contractors have checked insurance policies at the start of a trading relationship, only to find they have not been renewed in subsequent years.

## Understanding liabilities

It is also important that smaller firms realise the liabilities they may be exposing themselves to, if, as is becoming more common, they are sub-contracted to work on larger projects.

"If a firm does a small job, it is not necessarily a small liability that it has at the end of it," says Neil Fraser, claims proposition manager at Zurich. He continues: "We had a case recently where a small firm of plumbers had worked on a residential block of flats and they were accused of not sealing a pipe correctly when they were doing their work and the claim ran to over £2m.

"The burst pipe had caused damage to most of the flats in the block before they were finished and so there was not only the damage, but the delay to the contract completion. Small bits of work like this can expand dramatically."

Firms are also finding their work through different channels and this is having an impact on the insurance they need, according to Robin Saltman, account handler at Counce O'Hara. He says: "One of the biggest trends we have seen recently is tradesmen and skilled workers turning to recruitment agencies and larger contracting firms in order to find regular work.

"Many of these agencies require that contractors take out reasonable levels of public liability, employers liability and more recently, professional indemnity insurance. Professional indemnity is a tricky one as the levels requested by these agencies seem to be far above those provided by the market at present."

Saltman says these higher limits are not always offered by insurers as standard, but that firms need them if they go down the agency route when it comes to finding work.

None of the issues thrown up by the changing dynamics of the labour market are unassailable when it comes to placing cover for SMEs in the trades, professions and skilled workers sector.

But generally poor levels of client knowledge at this end of the market make education a priority if these businesses are to get the insurance policies they need. ■