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The ABI

Small Business, Big Risk:

Tackling SME Underinsurance

January 2026

About the SME insurance review

This review was commissioned by the ABI SME Working Group and conducted by Public First Ltd, part of the SHGH group. The review gathered evidence through a major survey of over 1,000 SME decision-makers, as well as qualitative findings from two focus groups (one of sole-traders, one of micro-employers) and two expert workshops (one with insurers, one with SME representatives). We also looked at case-studies of SME underinsurance provided by insurers and brokers.

The report presents the findings of this research – and presents conclusions and recommendations for policy makers and industry participants. In parallel the review has developed good practice on communicating with SMEs on insurance, which will inform future information content published by the ABI and others.

This report was authored by Andrew Harrop, Michela Arena, and Gil Richards. The authors give thanks to the ABI Commercial Committee and SME Working Group for their helpful input throughout the project and to colleagues at the ABI – especially Harry Burnham, Jonathan Fong and Agata Gorecka.

Contents

00 Summary

A wide range of insurance products are available to sole-traders and SMEs in the UK. Two of these are mandatory in certain circumstances, and some others are strongly recommended or required by customers or regulators. The rest help firms manage serious business risks or enhance employee benefits.

But large numbers of SMEs go uninsured (where they lack insurance for a risk they face) or are underinsured (where the value covered by a policy is insufficient for the liability). This problem is made more acute by the growing complexity of the business environment – for example cyber insurance is increasingly important. SMEs comprise 99% of all UK businesses and contribute over half of total business employment.[1] Adequate insurance supports business resilience and survival, and allows businesses to take commercial risks. As such, addressing the problems of uninsurance and underinsurance can contribute to economic growth.

Public First Ltd, part of the SHGH group, was commissioned by the ABI, the definitive voice of the UK's world leading insurance and long-term savings industry, to carry out a review of SME uninsurance and underinsurance in the UK market to understand and find solutions to existing gaps in cover. To develop the evidence base we carried out a representative survey of 1,002 SME decision-makers. We also conducted two focus groups and two expert workshops (with insurers and small business representatives). One focus group was with sole-traders and the other with micro-employers (businesses with 1-9 employees). These firms comprise the largest number of SME customers and are most likely to have problems accessing the right insurance. This report presents our findings and includes recommendations for action.

0.1 Key facts about SME insurance

Around half of SMEs surveyed say they have core liability products – public liability (57%) and employer liability (50%). A wide range of other products are held by around 3 in 10 businesses responding.

Three quarters of SME respondents say they buy insurance in combined packages. SMEs buy insurance through comparison websites, brokers and direct from insurers in roughly equal numbers.

1 Business population estimates for the UK and regions 2025: statistical release - GOV.UK

Median spending on insurance is estimated to range from £250-£499 per year for sole-traders to £10,000-£19,999 for firms with 50–249 employees.

Around 4 in 10 SMEs responding had made previous insurance claims. Almost all said these had been accepted, but sometimes claims were only paid in part, either because claims exceeded policy limits or because of exclusions under the terms of the policy.

0.2 SME perceptions and understanding of insurance

SME perceptions of business insurance are broadly positive. Survey respondents say their insurance policies are necessary (81%), reliable (75%) and easy to understand (67%). Most trusted their insurer to pay out if they made a claim, and trusted insurance brokers to understand their needs and suggest appropriate products. Generally, SMEs are confident about the insurance they have but uninformed about other products that could be relevant to them. For many types of insurance roughly half of respondents said 'I've heard of this and could explain what it is'. A large minority of sole-traders report never having heard of common business insurance products. By contrast 79% of SME decision-makers believe they clearly understand what their current insurance covers.

0.3 Evidence of uninsurance and underinsurance

28% of sole-traders report not having any insurance policies at all.

A significant share of businesses say they do not have products which are compulsory – 39% of firms with 1 to 9 employees say they don't have employers' liability insurance; and 39% of firms with company-owned vehicles say they don't have commercial vehicle insurance. While respondents may be under-reporting actual cover, or misunderstanding terminology, this finding underlines the importance of action to close the SME protection gap – especially as previous studies have found similar results.

SMEs frequently fail to insure risks they face. For example, the share of SMEs with equipment, stock or tools is far higher than the share with contents insurance; and the share with specialist software or cloud services is far higher than the share with cyber insurance. We asked SMEs if a range of different risks would be a 'major problem' for their business if they occurred. Among those agreeing in each case, under half have a relevant insurance product. Low take-up is mainly driven by lack of awareness and perceived relevance.

Underinsurance, where SMEs do not have enough cover, is driven by (1) business owners not understanding products; (2) deliberate decisions to insure less than the full risk; (3) failure to update cover regularly. Only half of respondents said they have reviewed the types of insurance they hold or their level of cover in the last 12 months.

0.4 Considerations when buying

In a behavioural experiment (using conjoint analysis) we found that the most important factors influencing insurance buying decisions are price, certainty of payout and options for add-on cover. Sole-traders' decisions are heavily influenced by price; larger firms take a wider range of issues into consideration.

0.5 Recommendations

1. Insurers, intermediaries, business bodies and government should work together to raise awareness and understanding of risks facing SMEs and the benefits of insurance, by running a time-limited engagement campaign targeting trusted sources who communicate with SMEs.
2. The insurance industry, regulators and government should consider collectively measuring protection gaps by pooling product data.
3. The government or regulators should investigate potentially low take-up of compulsory insurance and the benefits of achieving comprehensive coverage.
4. If low take-up of compulsory products is demonstrated, the government should then take action to improve compliance.
5. Insurers should continue to review the design and presentation of products for SMEs with the aim of securing stronger customer understanding, better tailoring of offerings and higher take-up.
6. Insurers, brokers and price comparison sites should continue to refine customer journeys to support clearer understanding of needs and appropriate cover choices.
7. Insurers, brokers and price comparison sites should improve processes for reviewing and renewing insurance so that renewal on current terms is not the default.
8. Brokers should further promote their offer to SMEs, focusing on high satisfaction and the benefits of personalisation.
9. Insurers, business bodies and government should work together to make the strategic economic case for SME insurance.

Glossary: business insurance products

Public liability: Covers the cost of claims made by members of the public for incidents that occur in connection with a business' activities. Public liability insurance covers the cost of compensation for personal injuries, loss of or damage to property, and death.

Employers' liability: Covers the cost of compensating employees who are injured at or become ill through work.

Product liability: Covers the cost of compensating someone who is injured by a faulty product that a business designs, manufactures or supplies.

Professional indemnity: Covers the cost of compensating clients for loss or damage resulting from negligent services or advice provided by a business or an individual.

Commercial building: Covers the cost of repairing or rebuilding a business' premises, or replacing stock or equipment.

Legal expenses: Covers the cost of legal advice or the legal costs involved in pursuing or defending a civil claim.

Commercial vehicle: Covers business vehicles for damage, theft, and third-party liability.

Cyber protection: Covers losses relating to damage to, or loss of information from, IT systems and networks.

Business interruption: Covers businesses for loss of income during periods when businesses cannot trade as usual due to an unexpected event.

Directors' and Officers': Covers the cost of compensation claims made against directors or key managers (officers) for their alleged wrongful acts.

Trade credit: Covers the risk of businesses not being paid for goods or services that they sell, whilst also giving access to detailed information and guidance on all aspects of trade from industry experts.

Terrorism: Covers individuals and businesses from acts of terrorism.

Marine: Covers loss, damage, and injury to cargo, ships, and crews.

Products can also be purchased by business owners to offer benefits to themselves and/or their employees - income protection, critical illness, private medical, life, and personal accident.

01 Introduction

A wide range of insurance products are available to sole-traders and SMEs in the UK. Some are mandatory in certain circumstances; some are strongly recommended or required by contracts; and some help to manage serious business risks or enhance employee benefits. But across these products very large numbers of SMEs go uninsured. Others have policies that do not offer sufficient cover – they are underinsured.

When risks materialise the consequences of inadequate insurance are serious and sometimes catastrophic for SMEs. Firms can easily find themselves severely exposed to financial demands that they might not be able to meet. This matters for the whole UK economy, as SMEs represent 99.9% of businesses, 60% of business employment and 51% of business turnover.[2]

Definitions

Small and medium sized enterprise (SME): Businesses with fewer than 250 staff. This study includes non-profit organisations as well as for-profit businesses. We break down SMEs into four categories: people who are self-employed and work alone (sole-traders); firms with 1-9 employees (micro-employers); firms with 10-49 employees; and firms with 50-249 employees.[3]

Uninsured: Where a business, organisation or individual does not have insurance relating to a type of risk they face that is potentially insurable.

Underinsured: Where a business, organisation or individual holds a relevant insurance product, but the cover does not meet the full potential liability.

2 Gov.Uk, Business population estimates for the UK and regions: detailed tables, Table 2, 2 October 2025, https://www.gov.uk/government/statistics/business-population-estimates-2025

3 The official government definition of an SME is an independent enterprise that has: fewer than 250 full time equivalent staff; and less than or equal to £44m in annual turnover or a balance sheet total of less than or equal to £38m. For the purposes of the review, the ABI SME working group chose to apply a simpler definition of 250 employees of less, so as to be straightforward for research participants. This definition is broader than the definition used by the Financial Ombudsman Service, which is available only to small businesses (ie less than 50 full time equivalent employees).

The problem of SME uninsurance and underinsurance has been identified for many years. But it is made more acute by the growing complexity of the business environment. For example, cyber insurance is increasingly seen as an important form of protection and risk mitigation. In 2025 cyber risks hit the headlines when a series of household-name firms were hit by malicious attacks. The impact of the halt to JLR's production lines was so great that it suppressed national GDP figures. But in fact, SMEs are typically more vulnerable and less well placed to respond to cyber threats.

However, there are significant gaps in the evidence-base. The scale and impact of SME uninsurance and underinsurance is neither fully quantified nor understood; more evidence is needed on the reasons why sole-traders and small businesses make the insurance-related decisions that they do; and insurers and insurance brokers require insight into how changes to distribution channels, communications and product design might increase take-up of insurance or secure accurate, appropriate cover.

This report has been commissioned by the ABI to help fill these gaps. It presents evidence from a major survey of over 1,000 SME decision-makers, as well as qualitative findings from two focus groups (one of sole-traders, one of micro-employers) and two expert workshops (one with insurers, one with SME representatives). We focused the qualitative research on sole-traders and micro-businesses as they comprise the vast majority of SMEs, and are less supported in accessing business insurance. The survey was weighted to reflect the number of employees across the businesses, not the count of firms – this was to avoid the vast majority of respondents being sole traders (the full methodology is outlined in appendix 2).

The research reveals that SMEs go without insurance against key risks. Many sole-traders have no insurance at all and some SMEs are going without compulsory products.[4] More widely, SMEs frequently lack relevant insurance products covering risks to which they are exposed.

Underinsurance is driven by misunderstandings of products, deliberate decisions to buy partial cover and changes in circumstances. For example, many businesses report significant operational changes since they last reviewed their insurance needs.

More positively, SMEs have confidence in their existing insurance products and in insurance brokers. The barriers to take-up are lack of awareness and perceived relevance, rather than trust. Affordability is also an issue for sole-traders, who are highly price sensitive. Larger SMEs take a wider range of factors into account when making purchase decisions and are more likely to select add-ons to cover a wider range of risks.

4 There is also likely to be under-reporting of take-up of compulsory products. Further research is needed to understand the scale of non-compliance with respect to compulsory insurance requirements. See recommendations.

02 Current use of insurance

This chapter maps SMEs' current use of insurance, as reported by respondents to our survey. It examines take-up of business insurance, the channels used to purchase, spending levels, and the incidence of claims.

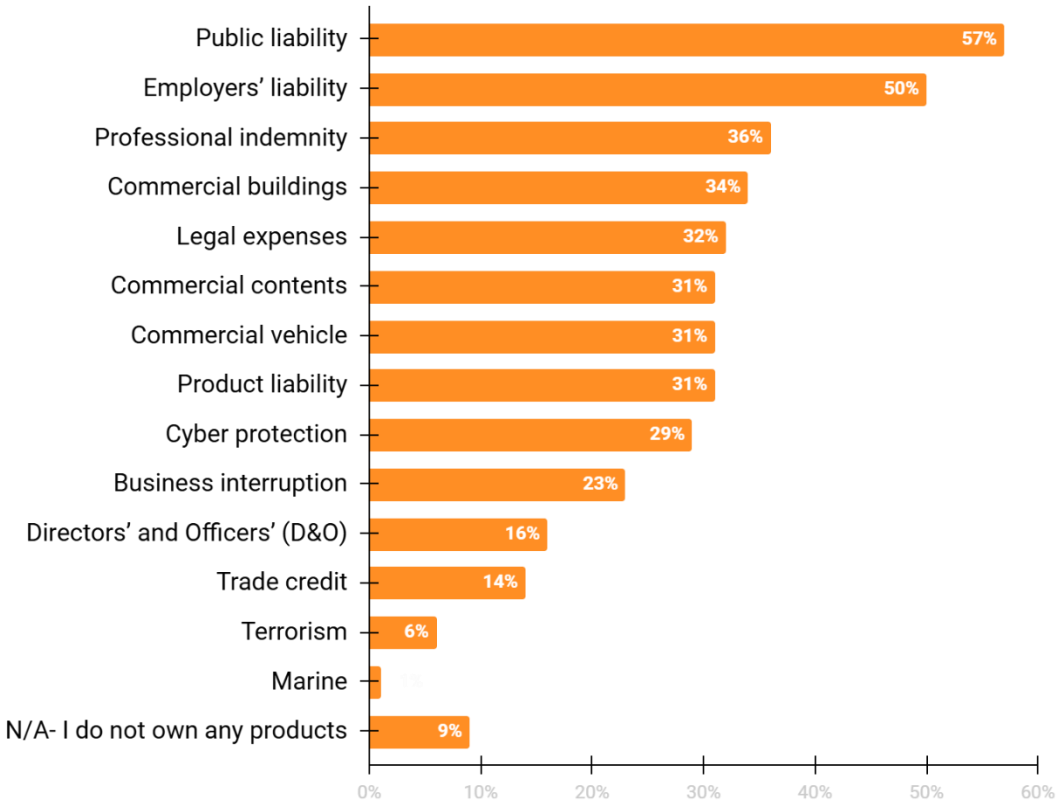
2.1 Around half of SMEs surveyed report core liability cover but take-up of other policies is much lower

SME respondents said they most commonly hold public liability (57%) and employers' liability (50%) insurance, with professional indemnity also relatively widespread (36%). Figure 1 shows that around one in three hold a range of products including building, legal expenses, contents, vehicles, product liability and cyber insurance. Coverage for operational disruptions (such as Business Interruption and Cyber protection) is limited.

Larger firms are more likely to have coverage against operational and financial risks, and the largest SMEs tend to have comprehensive cover across all categories, including specialised products. For example, 54% of businesses with 50-249 employees have cyber insurance compared to only 18% of businesses with 1-9 employees. These findings mirror results from previous ABI research, which found that while 43% of businesses report having some form of cyber insurance, this proportion falls to 25% among medium-sized businesses.[5] See Appendix Figure A1 for further results by size of business.

5 Association of British Insurers (ABI). Cyber Resilience for SMEs: The Insurance Gap Explored. London: ABI, January 2025. https://www.abi.org.uk/globalassets/files/publications/public/cyber/abicyberresilienceforsmestheinsurancegapexploredjan2025.pdf

Figure 1. Half or more of respondents report having public liability and employers' liability insurance



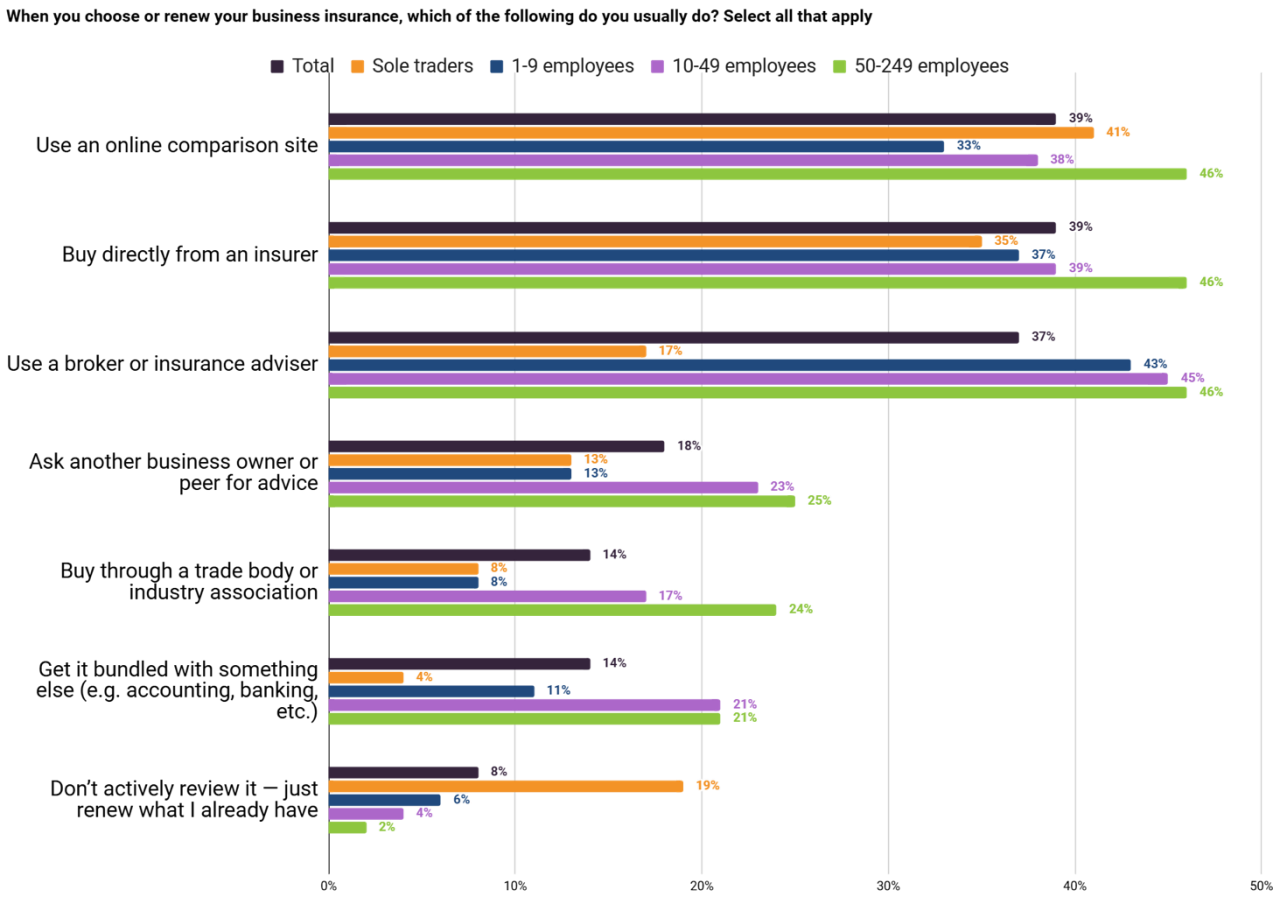
Survey question: Which of the following insurance policies does your business or organisation have now? Select all that apply.

Note, we also asked SME respondents about their use of employee benefit insurance products, although this was outside the scope of the wider review. See Appendix 2 for findings.

2.3 SMEs use a mix of channels to buy insurance, with sole-traders relying on brokers less than employers

Overall, online comparison sites and buying direct are the most common channels used by SMEs to buy insurance. Figure 3 shows that brokers play an important role for employers but not sole-traders – fewer than one in five sole-traders use them compared to nearly half of businesses with 10 or more employees. Larger businesses are also more likely to turn to peers or trade bodies, while sole-traders are more inclined simply to renew existing cover without review.

Figure 3. SMEs rely heavily on direct channels and comparison sites to buy insurance



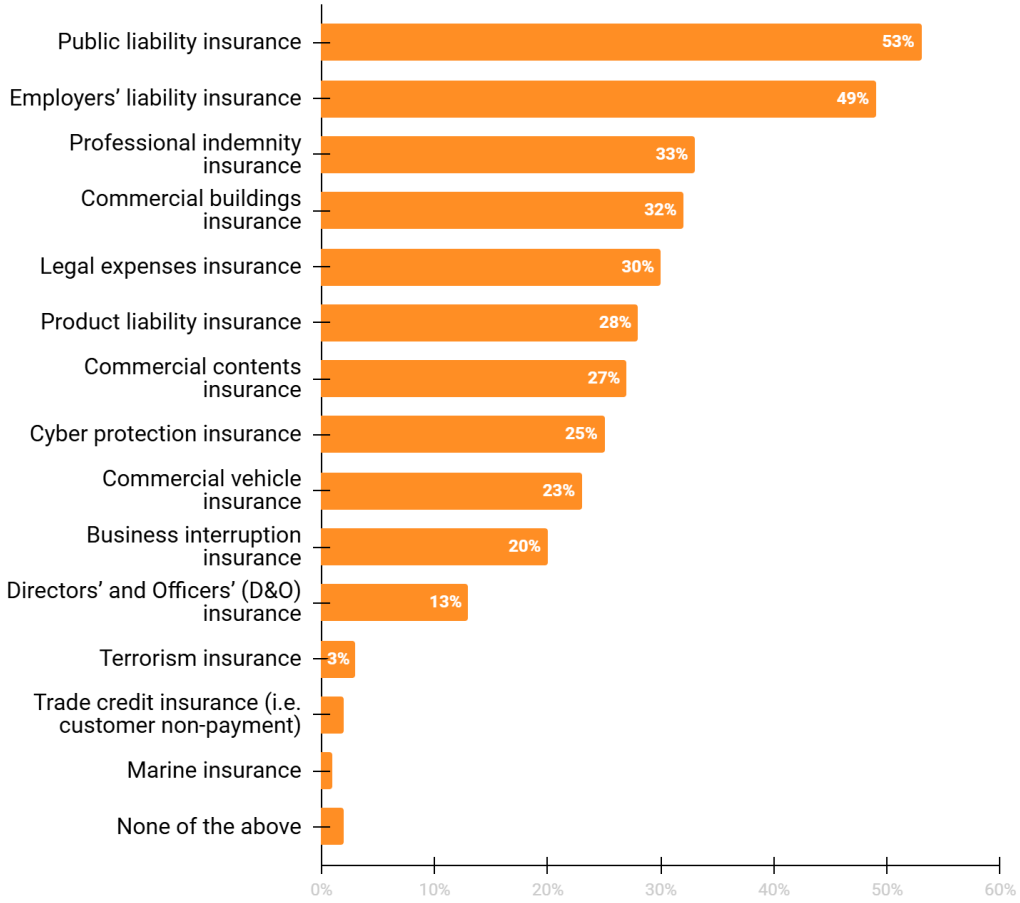
Survey question: When you choose or renew your business insurance, which of the following do you usually do? Select all that apply

2.4 Most SMEs buy insurance products together in packages

Nearly half (48%) of SME respondents say they have a combined policy bundling all their insured risks. This rises to 61% among businesses with 50–249 employees and 60% among firms with turnover above £2m. A further 27% of respondents said they had a combined policy that covered some of the risks they insure. On the other hand, nearly half of sole-traders (48%) and over a third of businesses with turnover under £250,000 (35%) report not using combined cover.

Where combined cover is used it most often includes public liability (53%) and employers' liability (49%), with professional indemnity, buildings and legal expenses also common (Figure 4). As we demonstrate in Appendix Figure A1, larger firms are far more likely to include more complex or specialised products—such as cyber protection (41% of firms buying bundles with 50-249 employees vs. 10% of sole-traders), commercial buildings (47% vs. 7%), and Directors' and Officers' insurance (20% vs. 2%).

Figure 4. Public and Employers' liability are the most common elements in combined cover

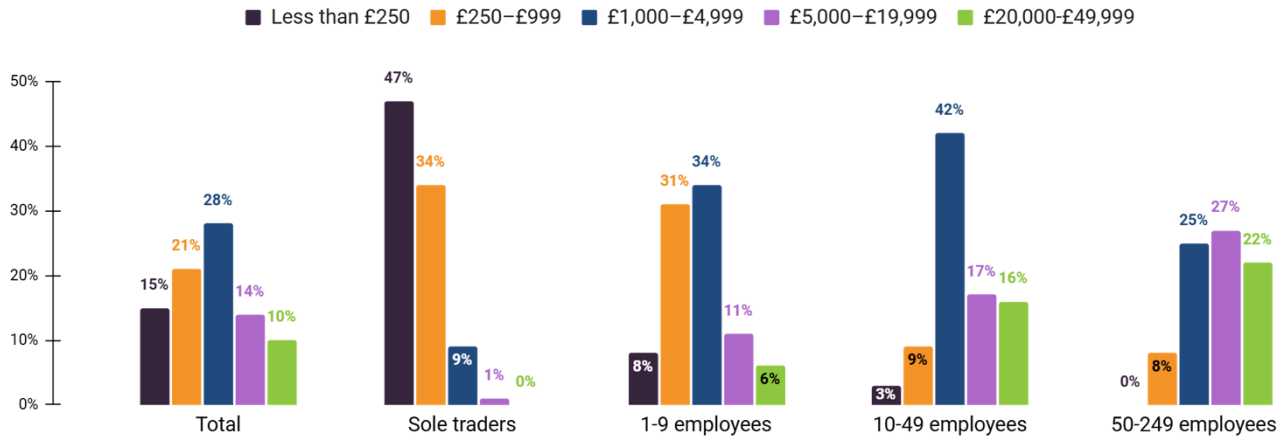


Survey question: You mentioned having a combined policy. Which of the following cover types do you believe are included in that combined policy?

2.5 Spending on insurance is driven by size of business

Figure 5 demonstrates that annual spending on insurance varies with business size. Nearly half (47%) of sole-traders say they spend under £250 a year on all their policies combined. Their median spend is from £250-£499. By contrast, median spending is reported to be £1,000-£1,999 for SMEs with 1-9 employees; £3,000-£4,999 for those with 10-49 employees; and £10,000-£19,999 for firms with 50–249 employees. 8% of these larger employers report spending more than £100,000 a year.

Figure 5. Estimates for annual spending on business insurance rise sharply with firm size



Survey question: Thinking about all your current business insurance policies combined, roughly how much do you spend on them in total each year? (Please estimate the nearest band- your best guess is fine.)

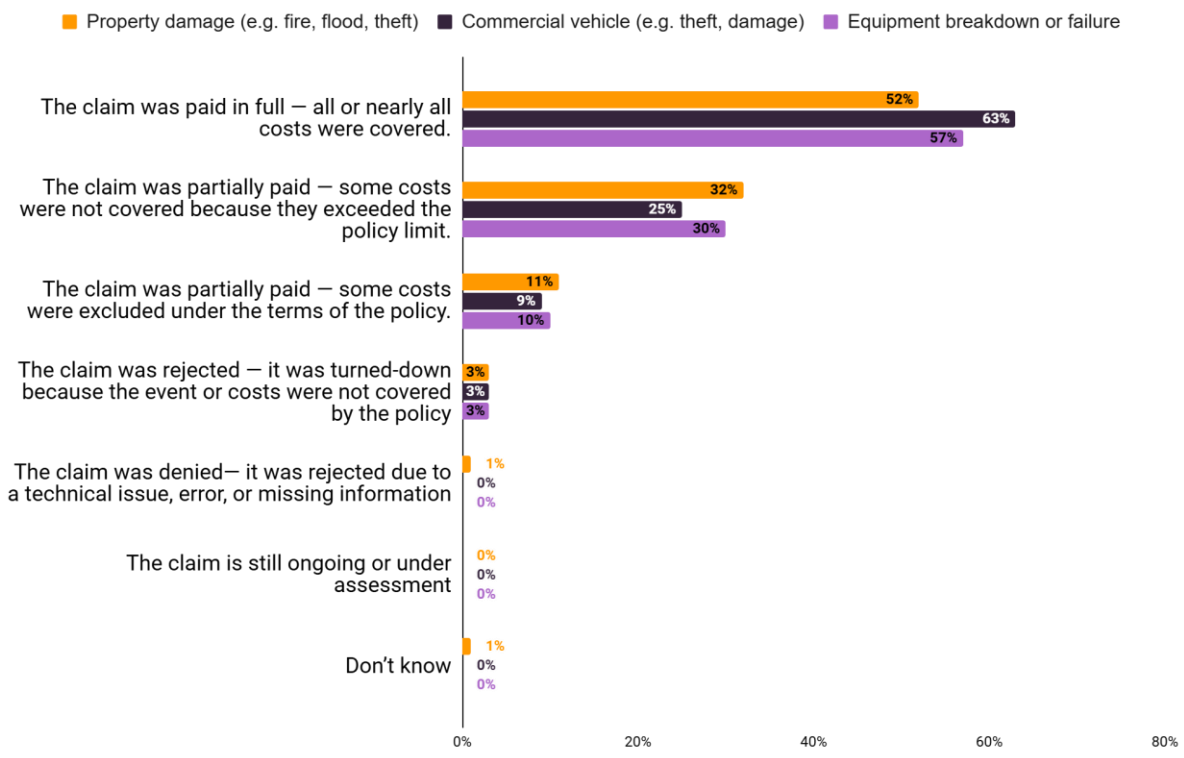
We also asked SMEs to say how much they spent on four different products, if purchased. The average expenditure reported by firms with 10 to 49 employees is £500-£999 for both public liability insurance and trade credit insurance, and £1,000-£2,499 for business interruption insurance and product liability insurance. However, as so many firms also told us they bought insurance as a bundled policy, it is likely that respondents were not well informed about individual product prices.

2.6 Around 4 in 10 respondents say they have made an insurance claim in the past, with most claims accepted

The likelihood of having made a claim in the past rises steeply with size of business. Only 8% of sole-traders say they have made a previous claim, compared to 36% of firms employing 1-9 employees, 49% employing 10-49 employees, and 62% of those employing 50-249 employees. For medium-sized businesses insurance claims are therefore a routine part of doing business, while for sole-traders they are an unusual event. Businesses are more likely to report having made a past claim if they are: growing financially; under 10 years old; or led by someone aged under 45. Recent claims were most likely to relate to property damage (31%), commercial vehicle incidents (27%), and equipment failure (27%).

Survey respondents said that a very high proportion of claims made had been accepted: across different product categories, respondents who had made a claim said between 3% and 10% were turned down. However, they also said that many claims led to only a partial payment. Figure 6 shows that across claim types, respondents said that between 25% and 32% of claims were only partially paid because costs exceeded policy limits, and up to 11% were partially paid due to exclusions in policy terms. In our focus group of micro-businesses one participant reported having made a past claim that an insurer had challenged but eventually paid.

Figure 6. Many SMEs say their insurance claim was only partially paid despite being accepted



Survey Question: And what was the outcome of your most recent claim related to [type of claim]?

03 Perceptions and understanding of insurance

This chapter explores SMEs' perceptions, views and understanding of insurance products, providers and brokers. We reveal largely positive attitudes to insurance, but evidence of limited understanding. We draw on the survey findings and evidence from our focus groups and expert roundtables.

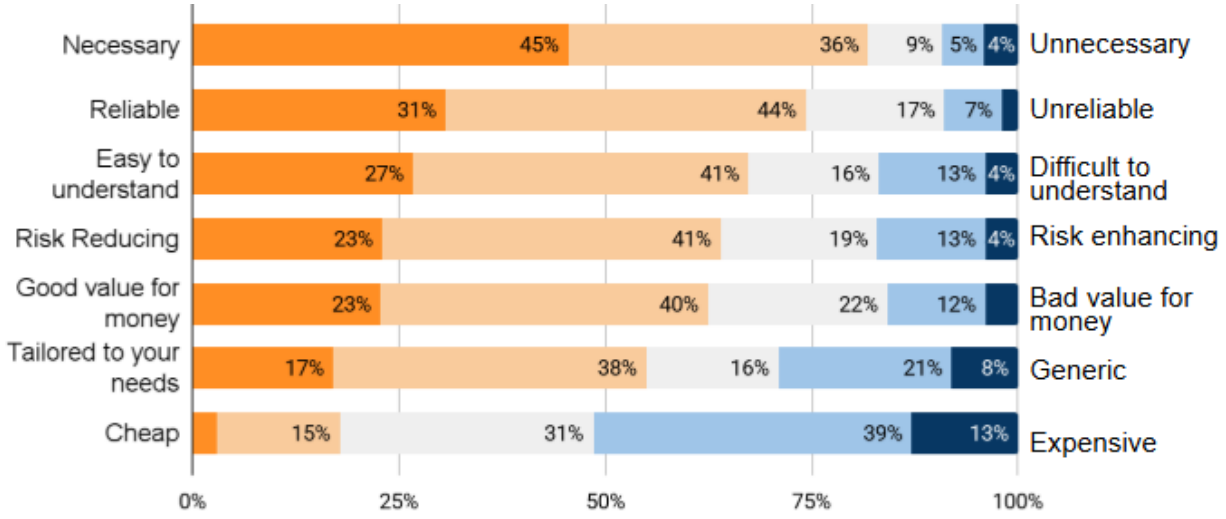
3.1 SME perceptions of business insurance are broadly positive

Figure 7 shows that UK SMEs generally see insurance as necessary, reliable and tailored to their needs. When asked how they feel about the insurance policies required for their business, most respondents describe insurance as necessary (81%), reliable (75%), easy to understand (68%), with few supporting alternative propositions (i.e. unnecessary, unreliable, difficult to understand). 55% said insurance was tailored to their needs compared to 21% who said it was generic. On questions relating to price, SMEs are more conflicted: 62% say insurance is good value for money but 52% also say it is expensive.

On most counts, sole-traders and micro-employers are slightly less positive than larger firms, though they are still more positive than negative. Compared to larger SMEs, they are less likely to say insurance for their business is easy to understand, reliable, tailored to their needs and good value for money. On the other hand, fewer sole-traders say insurance is expensive compared to employers of firms with 1 to 49 staff. See Appendix Figure A2.

Some of these positive feelings were also reflected in the qualitative research. In our group of micro-employers one participant said they were "grateful" for their insurance. Another argued it gave them "peace of mind in the business" and "the other side of the coin [not having insurance] is far more detrimental." Among the sole-traders one participant saw it as a "safety net". When asked whether their insurance was good value for money, responses were mixed but generally positive. Those who had explored their options in detail generally felt their cover was worthwhile and cost-effective.

Figure 7. Most UK SMEs see insurance as necessary, reliable and tailored to their needs



Survey Question: Which of the following best describes how you feel about the insurance policies required for your business? Note: Respondents selected one of five positions between two opposite adjectives. The chart shows the percentage selecting each position, with the third bar representing no preference between the two terms.

Having said that, overall views on insurance were more mixed in the focus groups. In both groups people saw certain insurance products as something they bought only because it was necessary:

"[We've] taken it out when we've had to… and we try to look for ways to avoid taking it out…"

Participants saw insurance as "high cost" and an "obligation", seeing it as a cost of doing business rather than something they would freely choose. Similarly, some of the sole-traders suggested their coverage felt like "overkill," with premiums not justified by the likelihood or cost of a potential claim.

Insurance experts we spoke to for the research recognised some of these findings. They agreed it was difficult to help businesses consider their coverage needs because many viewed insurance as a 'grudge purchase'. They noted that some SMEs had always been suspicious of insurance, but that this had been exacerbated by controversy with respect to business interruption insurance during the pandemic:

"Certainly [trust has] always been an issue throughout my career, but I would have to say that the pandemic and the response to business interruption claims has certainly not helped."

3.2 Insurers and brokers are trusted by most SMEs

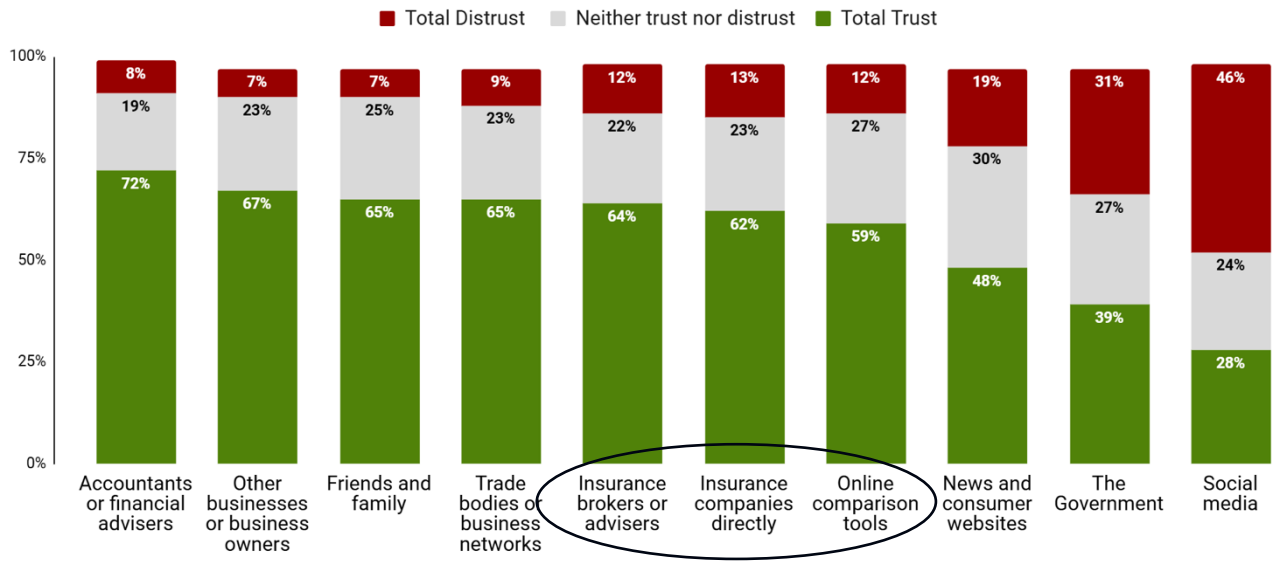
Most SMEs trust insurers to fulfil their core function. 77% of survey respondents agree with the statement "**If I need to make a business insurance claim, I trust my insurer to pay out**", while only 9% disagree. Breaking this down, 59% of sole-traders agree, while only 13% disagree; this rises to 90% of firms employing 50-249 employees agreeing and only xx% disagreeing. Similarly, when we asked businesses that did not have certain

products why this was the case, very low numbers opted for "**I don't trust that it would pay out when needed**" as an explanation (business interruption insurance - 10%; public liability insurance - 7%; product liability insurance - 7%; trade credit insurance - 6%). This high level of trust is in line with the evidence on claims presented earlier, where we saw that very few respondents had experienced a rejected claim.

It is a similar story with insurance brokers. 70% of SME respondents agree with the statement **"I trust insurance brokers to understand my business needs and suggest appropriate products**" with 11% disagreeing. Again, there is some divergence between businesses of different sizes. 51% of sole-traders agree with this statement, compared to 86% of firms employing 50 to 249 employees.

We also asked SME respondents who they **trust for good advice on business insurance**. As figure 8 demonstrates, a clear majority of SMEs trust insurance brokers (64%), insurance companies (62%) and online comparison tools (59%). All these industry sources are more trusted for advice than the government or news and consumer websites.

Figure 8. Trust in advice from industry sources is relatively strong



Survey question: How much do you trust each of the following to give you good advice about business insurance? Missing percentages are "Don't know" responses.

The survey found that the most trusted source of advice on business insurance are accountants or financial advisers. This finding chimed with the experience of industry experts, although some feared that changes to advisory business models might lead to decline:

"I would say [for] most individual SMEs, their accountant is probably their most trusted advisor… And as we see the proliferation of these online accountancy services, I think they're getting less tailored and bespoke advice. Potentially that could be a challenge where … at that point of decision making, there's an opportunity to address underinsurance or uninsurance that is left unaddressed."

In our focus group of micro-employers several business owners emphasised the importance of buying from a 'trusted brand'.

"I think there's an element of a trusted company… the branding does make a difference."

"I'm looking for trustworthiness in the brand…"

However, another participant worried that the information insurers gave would not be impartial:

"*What the problem is, they're only selling their own products and that's not what I want. What I want to know is someone independent."*

Among focus group participants who used brokers, there were very positive experiences, with people describing how they provided peace of mind and tailored insurance cover to their needs. On the other hand, one of those who did not use a broker raised trust as a barrier to doing so:

"*How do you assess how good the person is until you've tried them...? I don't want to go through five insurance brokers and find out they're all rubbish."*

Insurance experts raised **robust regulatory protections** as a reason for SMEs to have confidence in insurance. By contrast, regulation was not mentioned by participants as a source of peace of mind. This did not come as a surprise to the experts. One said:

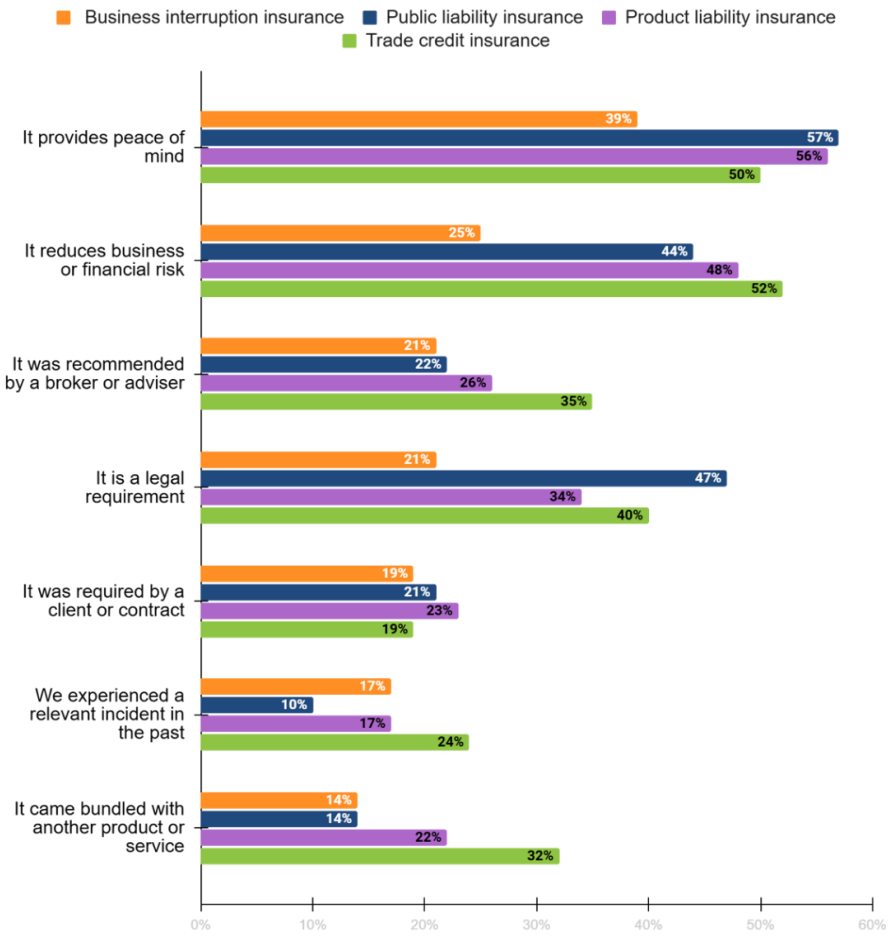
"The work [the regulatory regime does] to make sure that there are good customer outcomes and products offer fair value… I'm not sure that the wider insurance buying public would necessarily be aware of that… It's a regulated industry."

3.3 The main reason SMEs buy products is for reassurance

For most SMEs, the appeal of insurance lies in reassurance. We asked respondents who had bought four types of insurance why they had made the purchase. As we can see from figure 9, peace of mind and reducing risk were the reasons most cited across the products. This chimes with another survey question, where 77% of respondents agreed that "**insurance is a good way to make my business more resilient**", and only 7% disagreed.

Legal and contractual requirements were also mentioned in the case of liability products. Other factors – such as broker advice, past incidents or bundled offers – are less influential across all products.

Figure 9. Businesses value insurance primarily as a way to feel secure and protect against uncertainty



Survey Question: Which, if any, of the following were important reasons for taking out this policy? Select all that apply.

Similar reasons for buying products were raised in the focus groups. Micro-employers said that insurance gave them "*peace of mind in the business*". A freelance photographer explained how he insured his camera and the equipment he could not afford to replace that were essential for his business to continue.

However, focus group participants also spoke about insurance as a requirement. One sole-trader explained:

"I'm compelled by my industry to have certain [products], so it's an obligation. I must have professional indemnity"

While another said:

"I can't get a professional membership if I don't have certain insurance, and then I can't perform certain tasks."

A sole-trader also described taking out public liability insurance as a contractual requirement to trade from a specific venue. Another said:

"I took out public liability [after] I'd gone many years without it… I was doing research on advertising, and I tried to advertise with one of these online marketeers… [T]hey expected you [to have] public liability to go on the forefront of their [platform]."

This sense of insurance being an unwelcome cost of doing business was summed up by one participant as follows:

"[We've] taken it out when we've had to… and we try to look for ways to avoid taking it out… [W]e kind of don't really see the benefits to us personally, but sometimes we have to have certain amounts of cover."

Whatever the combination of reasons for purchase, the survey also shows that business insurance products are 'sticky' purchases with very high renewal rates among those who currently have policies. This is true even if there is a prospect of prices increasing, as we see in table 1.

Table 1: A very high share of SMEs with four insurance products expect to renew

	Very or somewhat likely that the business or organisation will continue to have the product for the next year	Still very or somewhat likely to renew, if the annual cost increased by 10%
Business interruption insurance	92%	90%
Public liability insurance	94%	87%
Product liability insurance	93%	86%
Trade credit	89%	85%

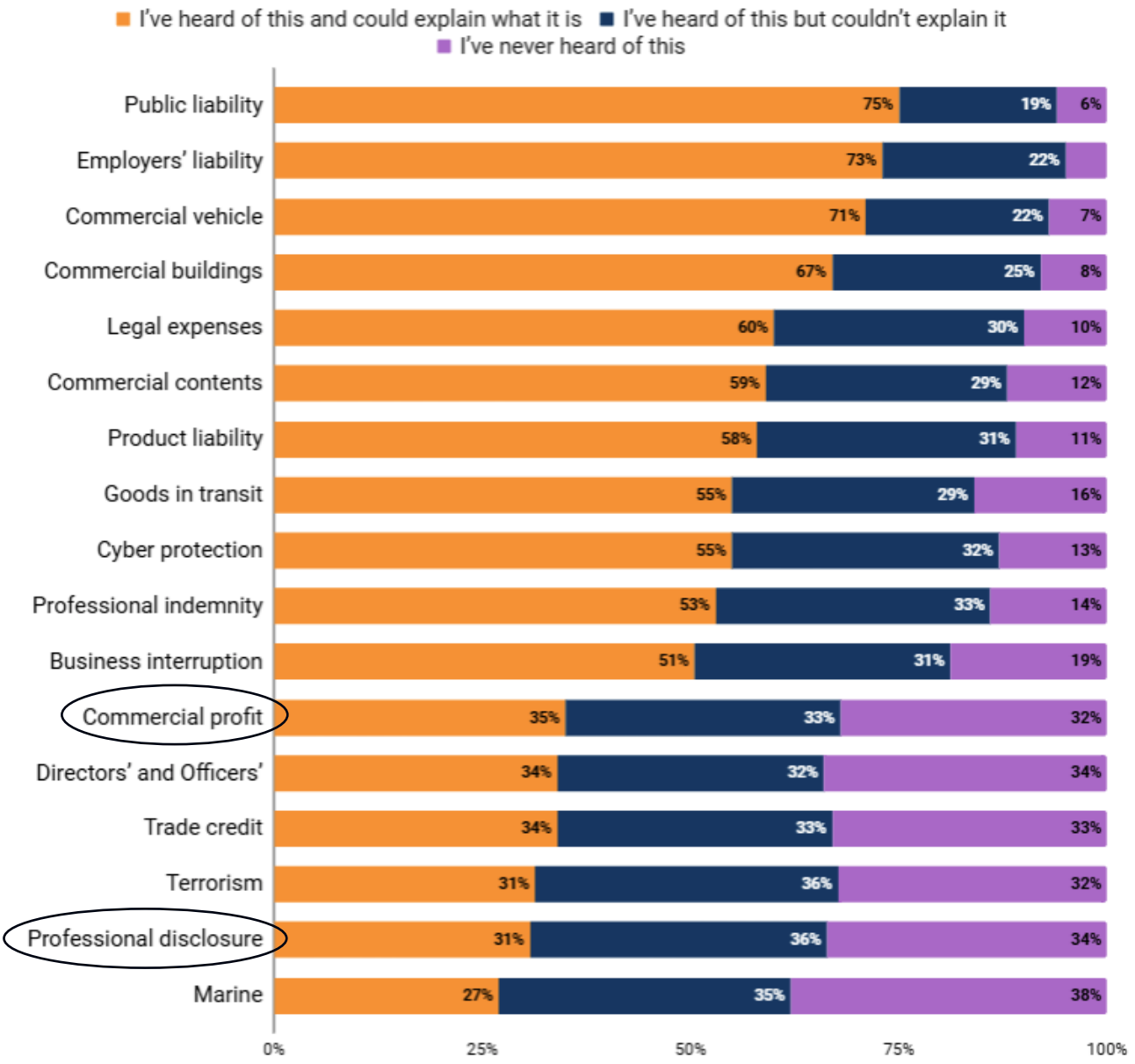
Survey questions: (1) And how likely do you think it is that your business or organisation will continue to have [type of] insurance for the next year? (2) Suppose that the annual cost of this insurance increased by another 10%. How likely now do you think you would be to renew it?

3.4 SME decision-makers believe they understand insurance but are often wrong

SMEs report high understanding of insurance. We saw earlier that when asked about the insurance policies required for their business, 67% of respondents said they were "easy to understand" and only 17% said they were difficult to understand. Similarly, 79% agreed with the statement "**I clearly understand what my current insurance does and doesn't cover"** while only 7% disagree.

However, more detailed questions indicate limited knowledge and understanding. For a range of business insurance products, we asked respondents to choose between "I've never heard of this", "I've heard of this but couldn't explain it" or "I've heard of this and could explain what it is". Most respondents said they could explain a selection of core products, with specialist cover less well understood. Figure 10 shows that 75% say they can explain public liability insurance, 55% cyber protection, and 31% terrorism insurance.

Figure 10. Self-reported understanding is largely limited to core insurance products



Survey question: Which of the following types of business insurance are you familiar with, if any? Note: Commercial profit and professional disclosure are fake products, whose inclusion is designed to compare respondents' knowledge with real products.

We also included two **fictional types of cover** to create a baseline. 35% claimed they could explain the fake product 'commercial profit insurance' — more than for real specialist policies such as terrorism or marine insurance. Only 32% gave the 'correct' answer "I've never heard of this". For 'professional disclosure insurance' the figures were 31% and 34% respectively.

Sole-traders and businesses with 1-9 employees are far more likely to say they have never heard of certain insurance products. For example, 63% have never heard of Directors' and Officers' insurance and 58% have never heard of trade credit cover. By contrast, larger enterprises — those with 50 to 249 employees — say

they are more familiar with these products, even if overall understanding still isn't universal. Further details are set out in figure A3 in the appendix.

This evidence indicates a gap between perceived top-level understanding and actual knowledge of the full range of products available. Many businesses may feel confident that they understand their cover and know what it includes — but they are unaware of protection that could be relevant to their business needs. Limited understanding of products may also explain why some businesses had received only partial payment when they had made a claim.

Our survey also suggests over-confidence about the extent to which insurance can prevent and mitigate risks. We presented survey respondents with a series of damaging events that might affect their business.[6] For those who said each incident would be a significant problem for their business, we then asked "**how well do you believe your current insurance would financially protect your business from these risks?**". Across all the risks (including those that are not insurable, such as a recession) a large share of respondents said their existing insurance would provide full or partial cover (see appendix figure A4). Only a small minority answered that "it would not cover any of the costs", which is likely to be the correct response for most respondents, given the nature of the risks described and the cover they currently have in place.

In the focus groups, a number of participants were comfortable admitting to low levels of knowledge and understanding. A micro-employer argued that business insurance was very hard to navigate, with lots of confusing and inconsistent wording:

> *"It's not always easy, when you're comparing insurance companies and insurance products… Some don't cover us, you have different types of wording, and that's why the dread comes in… [With standard car insurance, it's] a big job, and it's even harder with business insurance."*

A sole-trader working in IT said it was very hard to know exactly what cyber protection insurance covered from available information. Participants also recognised that lots of the risks they faced were not insurable. One respondent argued that the nature of their business meant it would be impossible to insure against the key risk they faced that related to reputation.

6 These were: A major cyberattack; Data breach or serious IT system failure; Equipment failure or breakdown disrupting operations; Supply chain disruption or key input shortages; Long-term absence of a key staff member or leader; A large number of staff leaving in a short period; Unable to carry out business from your usual location (eg building closed); A major nationwide economic crisis; A legal dispute with a client or customer; A serious injury to a customer or member of the public; A serious injury to an employee; Non-payment or default by a major client; Theft, burglary, or internal fraud; Regulatory investigation or compliance breach; Significant and widespread criticism by customers, journalists or social media; Fire, flood, or other physical damage to your premises; Natural disasters or extreme weather events (e.g. storms, heatwaves); Terrorist incident; Pandemic

Discussing these findings, insurance experts and SME representatives recognised two problems – first, ignorance of entire product categories; second, product complexity and misunderstanding. They accepted that products have technical jargon and communication by insurers and intermediaries should be improved. But some experts also felt that complexity and product diversity is inevitable, because business risk is multi-faceted and wide-ranging.

04 Uninsurance and underinsurance

This chapter explores uninsurance, where SMEs do not have any insurance in place for a category of risk; and underinsurance, where they have some cover, but it is not sufficient. It draws on evidence from the survey and focus groups.

4.1 More than one in four sole-traders are totally uninsured

Almost all SME employers report having at least one insurance product. By contrast, 28% of sole-traders say they do not have any insurance for their business. Respondents were asked "Which of the following insurance policies does your business or organisation have now?" We provided a list of 14 options alongside "n/a I do not own any insurance products". The percentage selecting this can be considered a base level of uninsurance. If anything, we would expect businesses to over-report having insurance, given that 'n/a' was just one among fifteen choices and respondents to surveys often select answers that they believe to be expected of them and socially desirable (which would be the case for buying common insurance products).

4.2 A significant minority of businesses report not having compulsory insurance

The survey findings suggest low take up of mandatory products among SMEs. Employers' liability (EL) insurance is legally required for nearly all businesses with staff, yet a large proportion of SME employers do not report having this policy – 39% of those with 1–9 employees, 35% of those with 10-49 employees, and 32% of those with 50-249 employees.

Taken at face value, this would indicate that roughly one-third of SME employers are non-compliant. However, we think it is likely that respondents have under-reported EL insurance – perhaps because they were unfamiliar with the cover included in a combined insurance policy. Bundled packages with non-specific names such as 'business insurance' may cover EL even if customers do not know the product. The survey question also asked respondents to consider many products side-by-side, which may have suppressed responses (on the other

hand, surveys usually over-report behaviours that society views as 'correct'). Even if there is a significant degree of under-reporting, this is still an alarming finding that warrants further investigation, especially in the case of micro-employers and SMEs that have recently made their first hire.[7]

It is a similar story in the case of commercial vehicle insurance, which is also compulsory. Among businesses that say they have company vehicles, just 61% say they have vehicle insurance. This suggests that nearly 4 in 10 businesses with vehicles may be using them without valid insurance. Again, we think coverage is being under-reported, potentially due to lack of understanding. It is also possible that business owners are confusing business-owned vehicles and a personal vehicle used for business purposes.

Despite the uncertainty inherent in these findings, it is notable that numerous studies have reached similar conclusions across a range of insurance types. In the UK, a 2016 report by Verdict Financial identified a particularly acute issue among micro-enterprises, finding that nearly one-third lacked any form of commercial insurance.[8] Meanwhile in 2022 Allianz polled a group of sole-traders and SME employers of whom 44% said they did not have any commercial insurance.[9] These studies use different methodologies and are not directly comparable. However, they all point in the same direction.

The regulatory environment for these two insurance products is very different. There is high public awareness that personal vehicles must have third-party insurance and significant compliance activity. An insurance industry body proactively identifies uninsured vehicles and there are tens of thousands of fines, prosecutions and vehicle seizures each year. By contrast awareness-raising and regulatory activity with respect to employers' liability insurance is very low. The Health and Safety Executive takes very occasional prosecutions, almost always in the context of another breach in health and safety law.

7 Since other internet-based surveys having yielded similar results, the only way to probe further would be to: (1) conduct in-depth face-to-face or telephone interviews where participants look up their insurance details while speaking to the interviewer; (2) match live data on insurance policies in force to information about eligible businesses.

8 Insurance Business UK. "Report Reveals One in Three UK Micro-Enterprises Uninsured." Insurance Business UK, March 3, 2017. https://www.insurancebusinessmag.com/uk/news/sme/report-reveals-one-in-three-uk-micro-enterprises-uninsured-40582.aspx

9 More SMEs insufficiently insured or not covered at all, Allianz, 4 April 2022. https://www.allianz.co.uk/news-and-insight/news/more-smes-insufficiently-insured-or-not-covered-at-all.html#

Public awareness of compulsory business insurance

To further investigate these surprising results, we asked a sample of UK adults whether different insurance products are compulsory or optional for businesses. A large majority of the public thought employers' liability insurance was compulsory – but an almost identical number thought public liability insurance is required (which is not the case). Under half the sample said that third-party vehicle insurance was compulsory for businesses, with a high number saying they were not sure. People are still a lot more likely to say third-party vehicle insurance is compulsory, compared to two voluntary products - contents insurance and health insurance.

	Third-party vehicle insurance	Employers' liability insurance	Public liability insurance	Contents insurance	Health insurance
I am certain this is compulsory for businesses	27	49	46	20	16
I think this is compulsory for businesses, but I'm not sure	20	21	22	19	14
I think this is optional for businesses, but I'm not sure	18	11	10	23	24
I am certain this is optional for businesses	9	5	5	15	24
I'm not sure at all	26	15	16	23	21
Net score (compulsory minus optional)	+20	+54	+53	+1	16

Stonehaven omnibus poll, October 2025, 2,249 adults weighted to be representative of the UK population by age, gender, region and vote
Survey question: Some types of insurance businesses must have by law. Others are optional. Please say if you think the following insurance types are compulsory or optional for businesses to have

4.3 Uninsured risks

Beyond compulsory insurance the survey results indicate that many SMEs face risks that they do not protect with insurance. We can see this first by comparing the number of SMEs with various types of assets, compared to various sorts of insurance. These results are suggestive of significant uninsured risks, although every business' circumstances are different. As we show in table 2, 48% of respondents said their business has physical premises but only 34% report having building insurance and 23% business interruption insurance. 57% have portable electronic equipment but only 31% have commercial contents insurance; and 57% have software or cloud services but only 29% have cyber protection insurance. Drilling in further, of SMEs with a physical premises, 48% say they have commercial building insurance. Of those who have software or cloud services, 32% have cyber protection insurance.

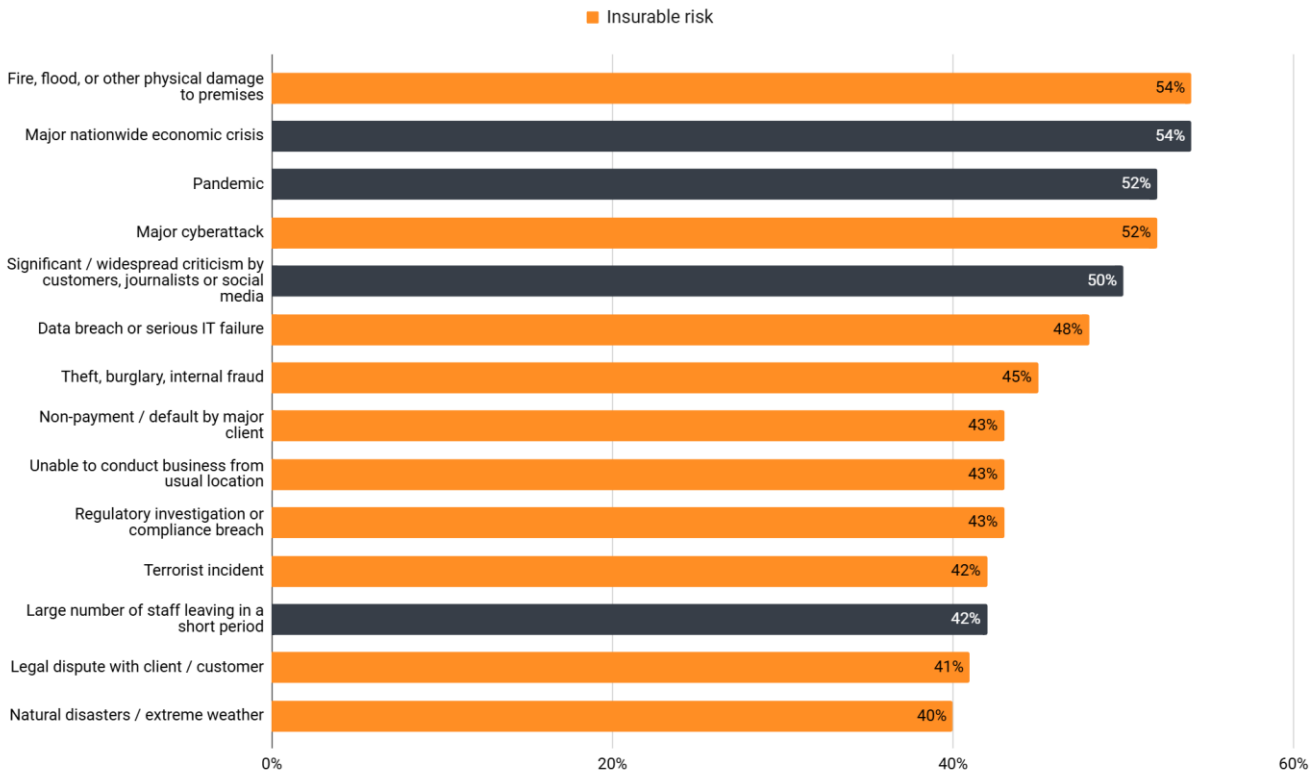
Table 2: Fewer SMEs report having insurance products than assets they are associated with

	Share of SMEs owning, leasing or using an asset	Take-up of potentially relevant insurance policies
Vehicles	Company-owned vehicles (37%)	Commercial vehicle (31%)
Premises	Physical premises (48%)	Public liability (57%) Commercial buildings (34%) Business interruption (23%) Terrorism insurance (6%)
Contents	Portable electronic equipment (57%) Stock or inventory for sale (28%) Hand/trade tools (27%) Specialised machinery or plant equipment (21%)	Commercial contents (31%) Product liability (31%)
IT and intangibles	Software or cloud services, e.g. (e.g. design tools, accounting systems) (57%) On-site IT infrastructure (41%) Intellectual property or other digital assets (30%)	Professional indemnity (36%), Commercial contents (31%) Cyber protection (29%)

Survey questions: (1) Which of the following does your business or organisation currently own, lease, or use as part of its day-to-day operations? (2) Which of the following insurance policies does your business or organisation have now? Select all that apply.

Taking a more subjective view, large numbers of businesses recognise significant risks that are potentially insurable but do not have relevant cover. We asked businesses to tell us whether a series of risks (both insurable and uninsurable) would be significant problems for their business if they occurred. For each of the insurable risks, between 54% and 40% of respondents selected 'this would seriously threaten the business' survival' or 'this would be a major problem but would not threaten business survival'. We have summarised these results in figure 12.

Figure 12. Over half of SME decision-makers say fire, flood or other damage to their premises would be a major problem for their business



Survey question: Imagine your business experienced one of the following in the next 12 months. How big of an issue do you think it would be for your business? Note: these data are the sum of the two worst options: "This would seriously threaten the business' survival" and "This would be a major problem, but would not threaten business survival"

The survey shows a gap between the risks SMEs identify as most threatening and the extent of their insurance coverage. Among those who said each type of event would be (at least) a "major problem", fewer than half reported having a relevant insurance product (see table 3). This indicates that businesses recognise threats, but relatively few take up the insurance products specifically designed to manage them. Some firms may be taking a conscious decision to 'self-insure', but this disconnect leaves many financially vulnerable to risks they perceive to be material.

Table 3. A minority of SMEs who say that a risk would be (at least) a 'major problem' if it occurred have an insurance product relevant to that event

Risk	Relevant product	Share with product among those who see the issue as a threat
Fire, flood, or other physical damage to your premises	Commercial buildings insurance	41%
Natural disasters or extreme weather events	Commercial buildings insurance	41%
Theft, burglary, or internal fraud	Commercial contents insurance	36%
Legal dispute with a client or customer	Legal expenses insurance	34%
Regulatory investigation or compliance breach	Legal expenses insurance	39%
Unable to use usual location	Business interruption insurance	29%
A major cyberattack	Cyber protection insurance	26%
Data breach or serious IT system failure	Cyber protection insurance	26%
Non-payment or default by a major client	Trade credit insurance	15%
Terrorist incident	Terrorism insurance	8%

Survey questions: (1) Which of the following insurance policies does your business or organisation have now? Select all that apply. (2) Imagine your business experienced one of the following in the next 12 months. How big of an issue do you think it would be for your business? Table includes those who said 'this would seriously threaten the business' survival' or 'this would be a major problem, but would not threaten business survival'.

In the focus groups, participants readily admitted that they did not insure against all the risks facing their business, even when products were available. One sole-trader said that because of the price of insurance he would prefer to replace items second-hand or borrow spares if needed. Another, working in IT, said that it was an implicit in the 'deal' with his clients, given that his rates were much lower than those of large companies:

"Indemnity and cyber… I don't think they're necessarily worth insuring for. They'd be a luxury. If I was earning a lot more than I am, I would have them. At the level I'm at, there's kind of an implicit understanding that I'm not charging the higher end because I'm not insured to the hilt and everything else. I'm not dealing with massive multinational corporations, so, you know."

Some knew exactly what their uninsured risks were while others had a vaguer sense that their business was exposed to things they had not even considered: *"What you don't know, you don't know, I guess."* Another reason for not getting cover was doubt about where liability would lie. For example, one SME in the IT sector questioned whether they needed cyber protection because cloud providers and tech companies were responsible for data security.

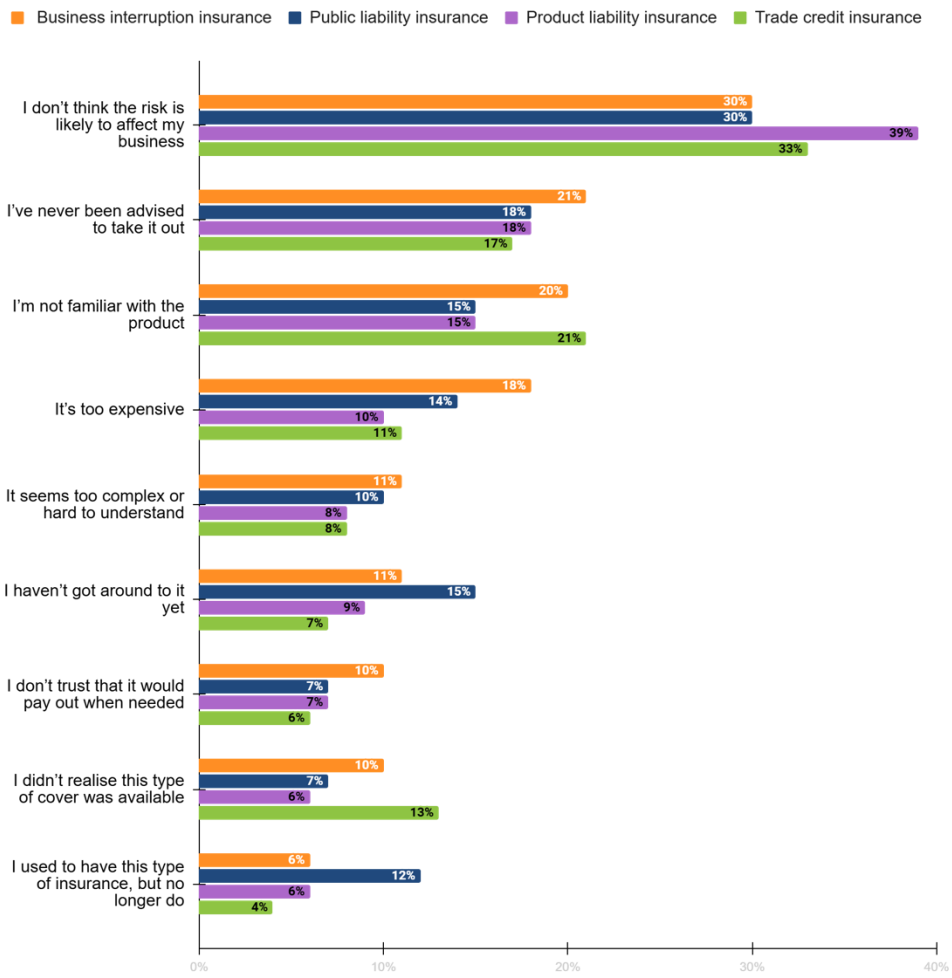
4.4 Low take-up is driven by lack of awareness and perceived relevance

When we asked SMEs why they had not taken out a series of four products, in each case around one third of businesses selected "I don't think the risk is likely to affect my business". Figure 13 shows that sole-traders

are particularly likely to give this response. The statement will be true in many cases, but it may also point to limited understanding about risks and products. Around one in five or one in six said '**I've never been advised to take it out**" and "**I'm not familiar with this product**". Cost is also a factor, particularly for more specialist products like trade credit insurance — but even here, only about one in five cite expense as a deterrent. Fewer businesses mention complexity, bad past experiences, or distrust in insurers.

As we saw earlier, the core challenge is not a lack of trust in insurance itself. It is a lack of awareness, understanding and support. Many SMEs are simply not aware of what is available or why it might be relevant to their specific risks.

Figure 13. Uptake is inhibited by lack of awareness or advice



Survey Question: You said your business does not currently hold the following type of insurance. Why not? Select all that apply.

4.5 There is significant evidence of underinsurance where SMEs have partial cover

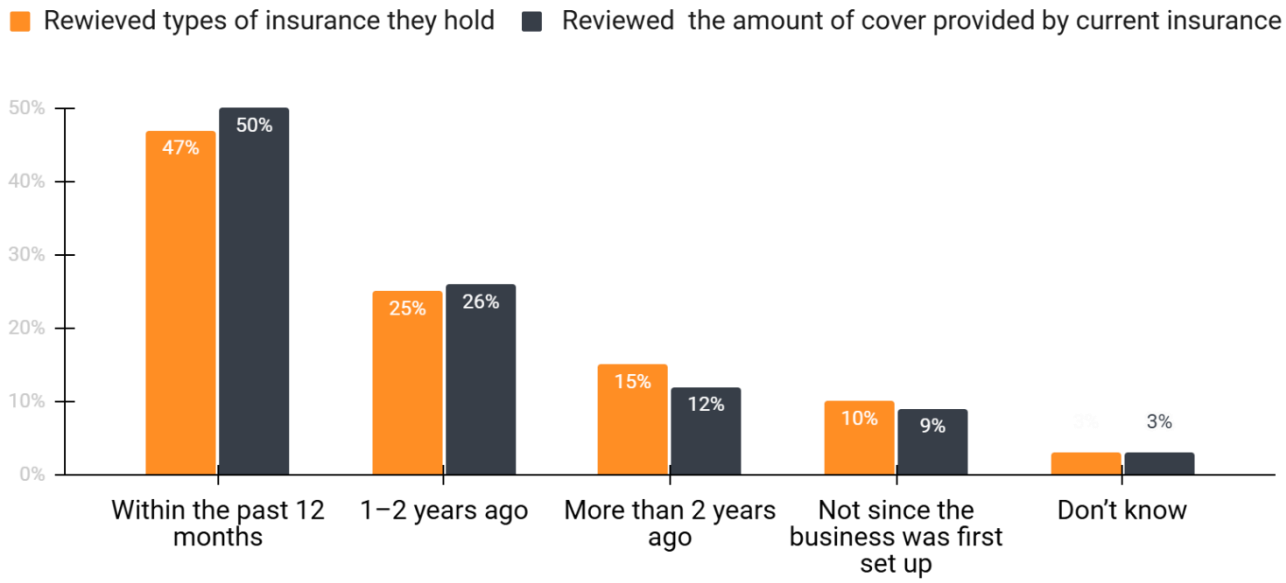
Earlier we saw that SMEs that have made a claim in the past often report that it was only partially paid. This was either because 'some costs were not covered because they exceeded the policy limit' or because 'some

costs were excluded under the terms of the policy'. These both point to insurance cover being misaligned with the risks the SME faced, even in areas where they had bought cover.

The focus groups suggested that underinsurance is being driven by three factors. First, business owners not understanding the products. Second, a deliberate decision to insure less than the full value of their property (as one micro-employer said, *"It's a trade-off for us. It's cost, really, versus the level of cover"*). Third, a failure to regularly review changing needs.

As we show in figure 14, many businesses owners do not keep their insurance under regular review. 50% of SMEs said they hadn't reviewed which types of insurance they held in over 12 months; and 47% said they hadn't checked if the amount of cover was still appropriate.

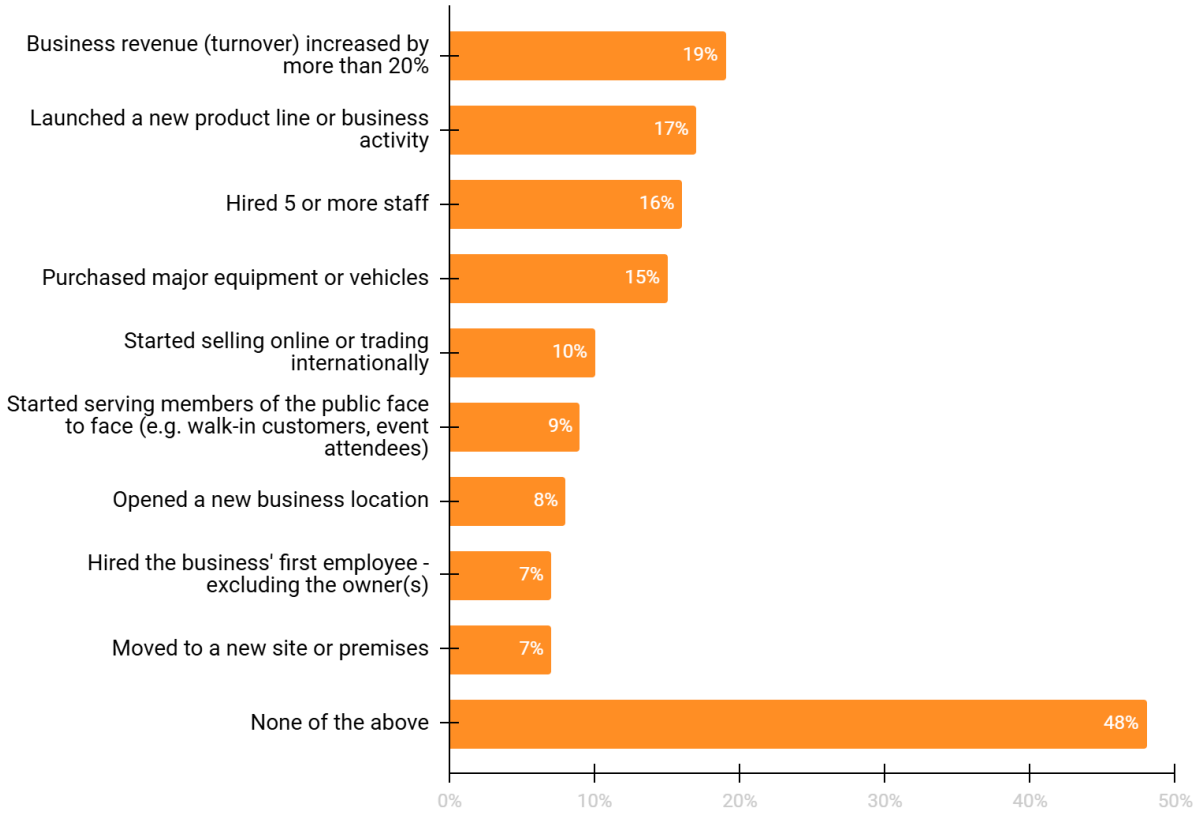
Figure 14. Around half of SME decision-makers admitted not reviewing types of insurance and levels of cover in the last 12 months



Survey Questions: When did your business or organisation last review which types of insurance it holds — either with an insurer, broker, or via a specialist website? (This could include deciding whether to add, cancel or switch policies.) / When did your business or organisation last review whether the amount of cover provided by your current insurance policies is still right for your needs? (For example, checking if the limits match your turnover, equipment, stock, staff numbers or value of your premises)

This is a significant exposure to risk when viewed against the backdrop of business operational change. In another question we asked SMEs about changes since they had last reviewed their insurance (figure 15). **19% said their revenue had increased by more than twenty per cent**, while others have **launched new product lines (17%), hired five or more staff (16%)**, or **purchased major equipment or vehicles (15%)**. Even fundamental shifts — such as **moving premises, opening new locations**, or **starting to sell online** — were reported by sizable minorities. In all, around half (52%) reported a significant business change since reviewing their insurance. Larger SMEs are more likely to experience significant business change since reviewing their insurance. So, while they are more likely than sole-traders and micro-employers to own different insurance products, they are also at more risk of having cover that no longer reflects their needs.

Figure 15. Many SMEs experience significant change since last reviewing their insurance



Survey Question: Have any of the following occurred since your business or organisation last reviewed its insurance cover? Select all that apply

Without regular reviews, many SMEs risk holding policies that are no longer fit for purpose, leaving them exposed to gaps in cover, denied claims, or insufficient payouts in the event of a loss. For example, only 43% of business who have started selling online or trading internationally since they last reviewed their insurance cover hold a product liability insurance and only 27% trade credit insurance.

Underinsurance case studies

Shop fire

The business had contents insurance but unfortunately the business had insured itself for £200,000 when the value of the insured items was £400,000. In this situation, because the cover was worth half the value of the goods insured, the policy stated that only half the value of the refurbishment claim could be paid. Smoke damage from a fire cost the retailer £20,000 in lost stock and £150,000 in refurbishment expenses – a total claim of £170,000. In the end the insurer made a settlement of £95,000 leaving the shop £75,000 short. Even when businesses have cover, inaccurate valuation of contents can lead to substantial uninsured losses.

Hospitality fire

A fire caused extensive damage to a hospitality setting, putting the building, contents, and stock beyond repair. Following the fire, the property was found to be underinsured by 60% - i.e. the premium was roughly 40% of what should have been paid had the correct value been set. As a result, there was a payout shortfall of over half a million pounds. The business' interruption policy was also insufficient given the anticipated reinstatement timeline. Losses extended beyond the indemnity period, and the business had to close. The case demonstrates the most severe consequences of underinsurance, and the importance of declaring realistic values and indemnity periods.

Cyber attack

A UK technology firm providing services to around 90 legal clients was hit by a targeted cyber-attack, which disabled both their own systems and those of all clients. Their £3 million cyber insurance limit was exhausted within two weeks due to recovery and business interruption costs. With insufficient cover to support continued operations, the business was unable to recover and ceased trading. This demonstrates how cyber insurance cover should be aligned with potential systemic and cascading losses.

05 Considerations when buying

The two focus groups revealed a range of considerations informing insurance purchase decisions. Earlier we saw that some prioritise a "trusted brand". Another participant spoke about the importance of ease of access and digital:

"I want online management of the account, which [is] pretty standard nowadays".

People also spoke about the trade-off between cost and the level of cover. For most sole-traders, price was the key consideration. As one put it:

"There is a wide range of choices… it is something that I do give consideration and have always given consideration to, but the bottom line is I still tend to go down… the cheaper end because it's more than enough to meet my needs."

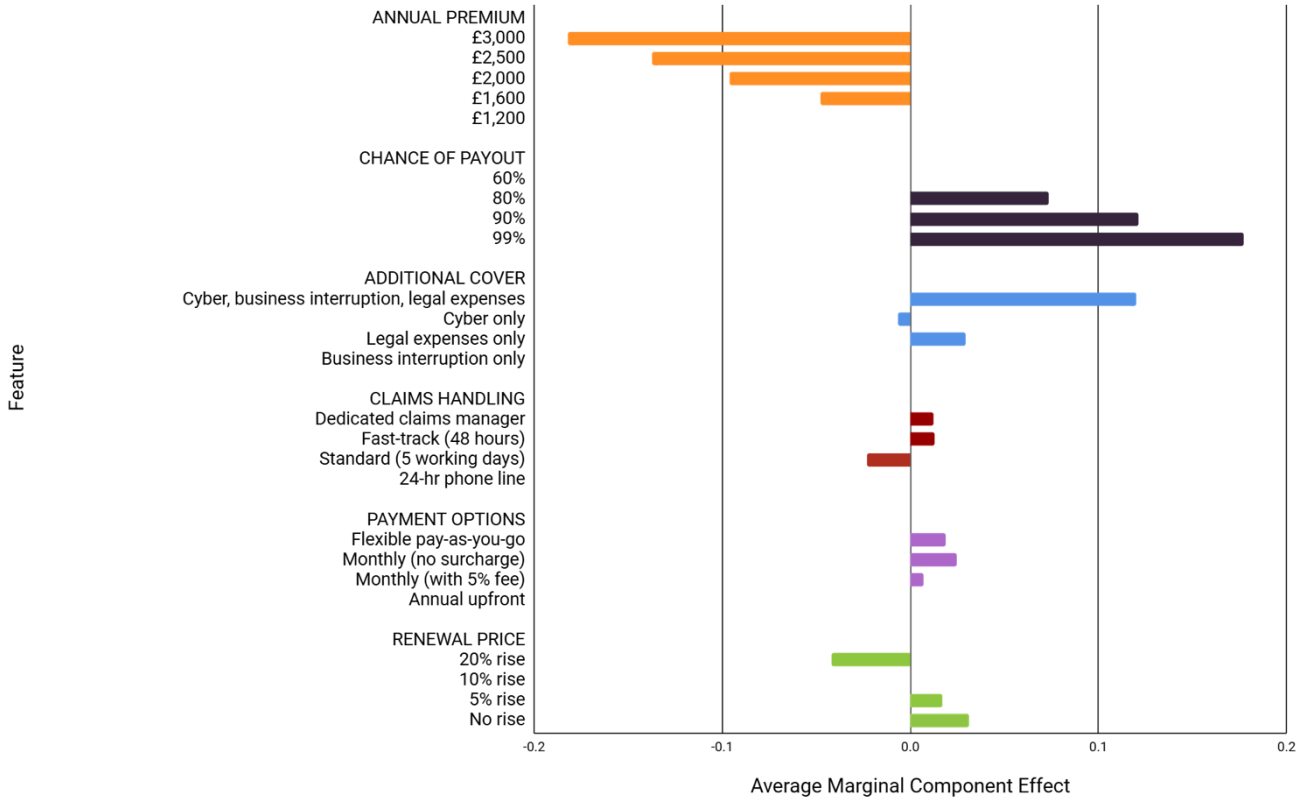
To understand in more detail the factors that influence SME insurance decisions, we conducted two experiments using conjoint analyses. Conjoint experiments are a well-established method for understanding how people evaluate products, services, or policies by simulating real-world decision-making scenarios.

5.1 Price and the likelihood of a claim being accepted are the product features that most influence purchase decisions

In the first experiment, respondents chose between hypothetical insurance packages that varied by premium, payout certainty, optional additional cover, claims handling, payment terms, and renewal pricing — to reveal which features were most likely to influence their choice.

Participants were presented with eight pairs of hypothetical policy descriptions, each with randomly selected combinations of these attributes, and asked to choose which they preferred (see Appendix 2 for methodology details).

Figure 16. Price and chance of payout are the top factors driving SME product selection



Survey Question: Imagine you run a small or medium-sized business with 5 employees, and your current insurance is up for renewal. Below are two insurance options with different features and prices. You will be shown [X] pairs in total. For each pair, review the details carefully and choose the option you would most prefer. Both policies include compulsory insurance that your business is required to have. Which of these two insurance packages would you most prefer for your business?

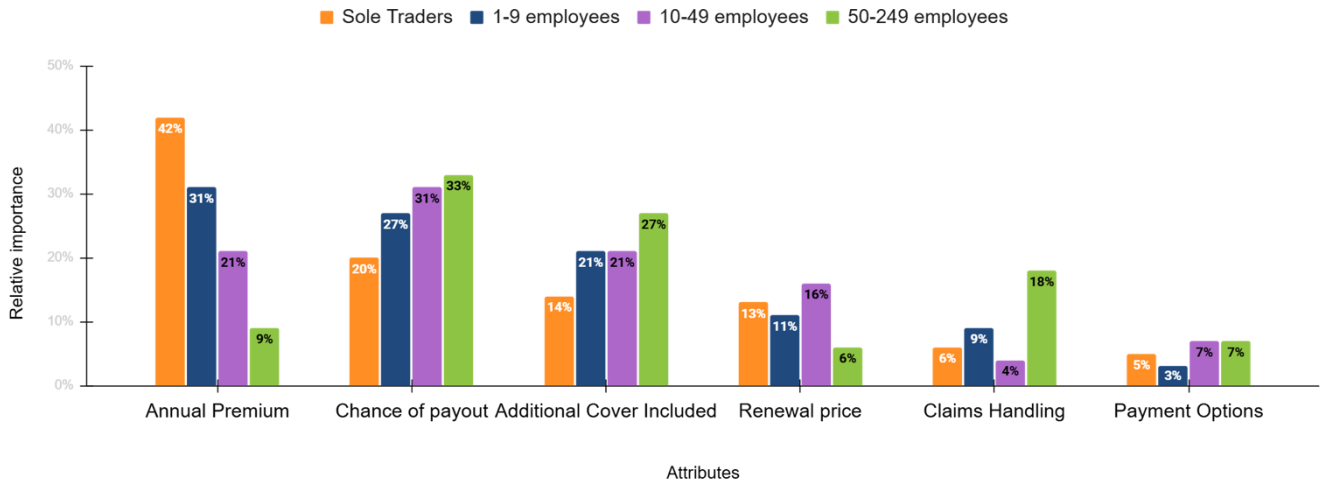
Here, positive values indicate an increase in the likelihood of selection, with longer bars representing stronger effects. The results show that **annual premium, payout certainty, and additional cover** are the three most influential factors overall. Across all businesses, price behaves predictably: premiums above £1,200 reduce appeal, with a £3,000 price point least popular. Payout certainty exerts a stronger positive influence than any other feature. In terms of additional cover, bundles that include all of cyber, business interruption, and legal expenses were attractive. When offered one add-on only respondents preferred legal expenses insurance and were pretty much indifferent between cyber protection and business interruption insurance.

The relative importance of these features shifts significantly with business size. Unsurprisingly, sole-traders are the most price-driven segment with 42% of their decision weight explained by annual premium alone. But as businesses grow, their priorities broaden. As figure 17 shows, among larger SMEs (50–249 employees) only 9% of the decision is driven by price, while far more weight is placed on payout certainty (33%), additional cover (27%), and claims handling (18%). The findings underline the importance of tailoring insurance

propositions to fit the specific needs and risk appetites of different SME segments, rather than relying on one-size-fits-all solutions.

Note, for this analysis 'relative importance' refers to the share of the decision explained by each attribute. For example, if a feature has a relative importance of 30%, it means that roughly a third of the respondent's decision weight was shaped by that single factor, holding all else equal.

Figure 17. As businesses grow, price matters less. Certainty, range of cover and service matter more



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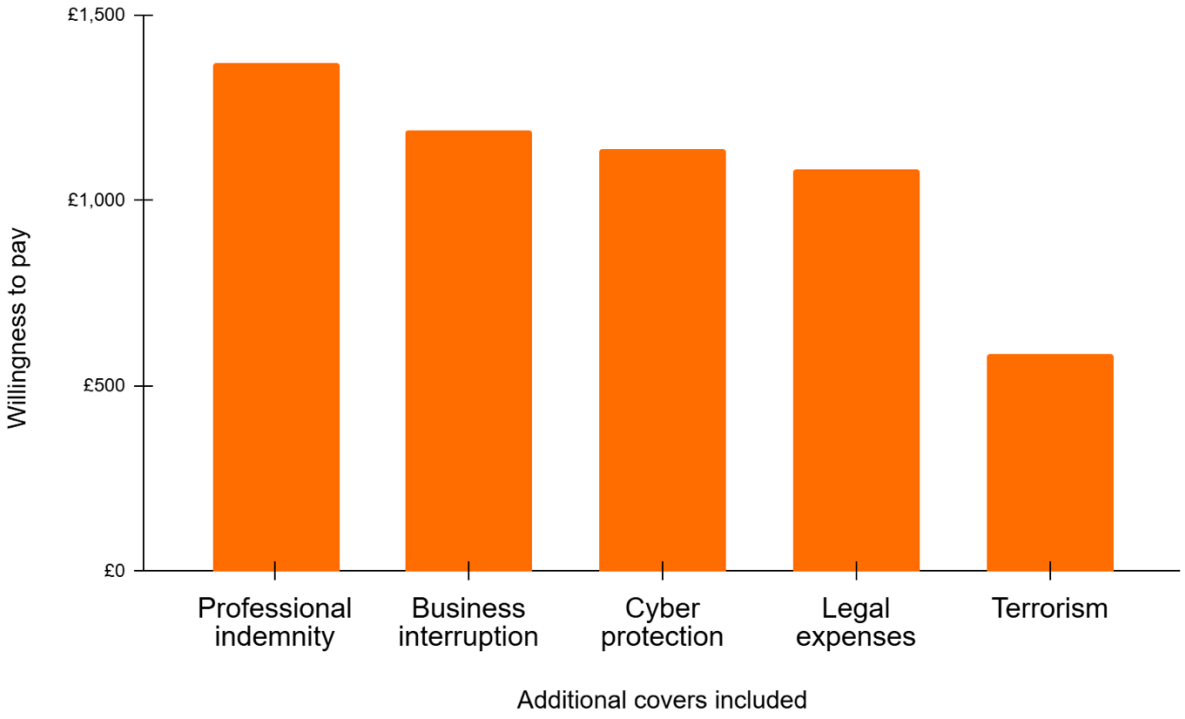
5.2 Preferences for optional insurance vary significantly according to size of firm

The second conjoint experiment tested **how much more SMEs are willing to pay for insurance packages that include specific types of cover** — such as **professional indemnity, cyber protection, business interruption, legal expenses,** and **terrorism insurance**. As we show in figure 18, participants were presented with eight pairs of hypothetical policy descriptions, each randomly varying **only the add-on cover and the price**, allowing us to isolate the value SMEs place on each individual type of extra cover.

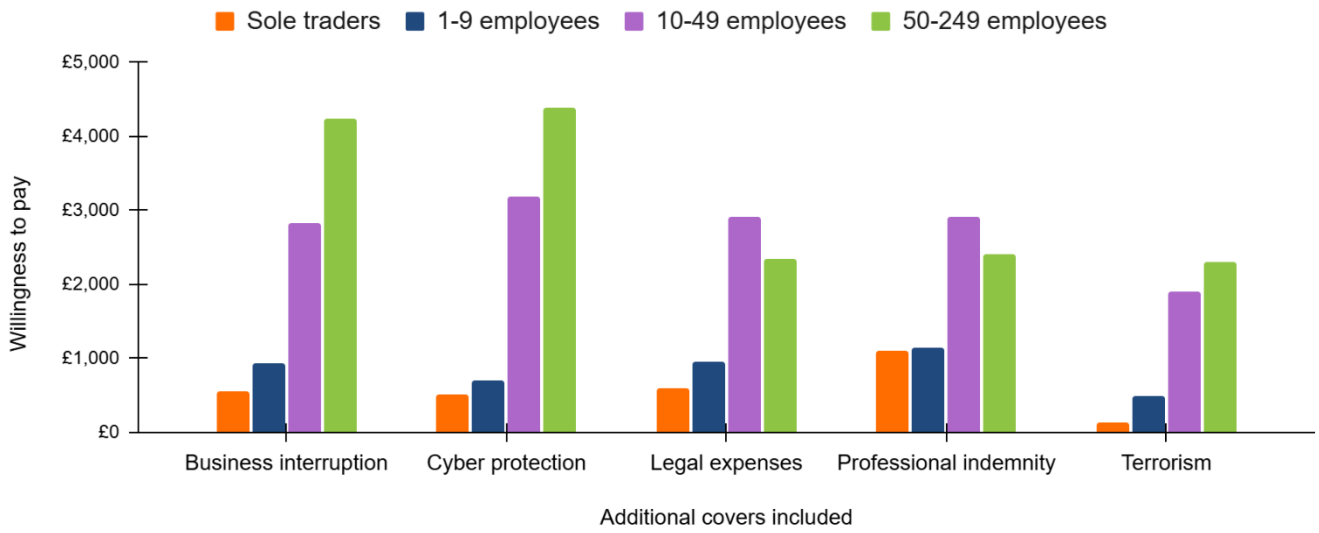
Figure 18. SMEs are most willing to pay for professional indemnity cover and least for terrorism insurance



Survey Question: Imagine you run a small or medium-sized business with 5 employees, and your current insurance is up for renewal. Every policy already includes core cover for Employer and public liability, vehicles and premises. However, each quote differs in the optional extras provided and in its annual premium. You will be shown 8 pairs of policy options. For each pair, please select the policy you would be most likely to purchase for your business. Based on the features presented, which insurance package would you choose for your company?

Across SMEs of all sizes **professional indemnity insurance emerges as the most valued type of cover** of those tested, driving the highest willingness to pay. **Business interruption, cyber protection, and legal expenses** are all perceived as relevant and worthwhile additions, reflecting their importance in protecting day-to-day operations. By contrast, **terrorism insurance** ranks lower, suggesting that SMEs place less value on coverage for extreme or rare events.

Figure 19. Willingness to pay rises with business size, but cover preferences diverge



Survey Question: Imagine you run a small or medium-sized business with 5 employees, and your current insurance is up for renewal. Every policy already includes core cover for employer and public liability, vehicles and premises. However, each quote differs in the optional extras provided and in its annual premium. You will be shown 8 pairs of policy options. For each pair, please select the policy you would be most likely to purchase for your business. Based on the features presented, which insurance package would you choose for your company?

However, preferences for products are not consistent across different sizes of business. Figure 19 shows that smaller firms are most willing to pay for professional indemnity cover, which directly protects their individual work and liability. Larger businesses focus on operational continuity and digital resilience, with firms with 50 to 249 employees more willing to pay for cyber protection and business interruption insurance than the other three products. Legal expenses insurance has particularly strong traction among firms with 1-9 and 10-49 employees.

Willingness to pay also rises with business size, with larger SMEs willing to pay significantly more for additional protections compared to sole-traders and micro-businesses (this is despite the question being about a hypothetical business with 5 employees). This aligns with the finding from the first experiment, that medium-sized businesses value a broader range of products. These variations in preferences underscore that SME insurance decisions are shaped not just by price, but by the perceived relevance of specific risks: effective product design must reflect how those perceptions evolve with business complexity and exposure.

06 Conclusions and Recommendations

6.1 Conclusions

This study has deepened understanding of SMEs' attitudes and behaviours towards insurance. We reveal a significant gap in protection among UK SMEs: closing this will benefit business resilience and future growth. There are clear opportunities for insurers, government, intermediaries and SMEs to work together to close protection gaps and build resilience – to better serve a critical market and support a bedrock of the UK's economy. The government and organisations that exist to support small businesses should work with insurers, as a shared endeavour.

The key insights from the research are:

SME take-up of insurance products is low. This is true in absolute terms, and also when accounting for firms' potentially insurable liabilities and their subjective perceptions of risk: firms are frequently aware of business risks that they do not insure. Take-up is particularly low among sole-traders, who often have little or no insurance cover.

This is despite fairly high trust in insurance. Most businesses trust insurers to pay out when needed and have confidence in insurers and brokers to understand and meet their needs. Trust is not the main barrier to take-up.

Why firms do buy insurance. Small businesses typically buy insurance to comply with legal or contractual requirements and for peace of mind, especially in the context of business-critical risks. Apart from medium sized businesses, few see insurance in terms of their wider resilience with insurance claims a routine part of business life.

Narrow take-up is driven by limited awareness, understanding and willingness to pay. Many business owners use and are satisfied with one or two insurance products. But they are unaware or have low understanding of other protection that might be aligned to their needs. Additionally, many sole-traders and micro employers are

price sensitive and see insurance as something to buy only as a necessity. These firms are less likely to consider add-on cover or related products when buying insurance.

Findings suggest low take up of mandatory products. Our survey may under-report use of compulsory insurance (e.g. due to low levels of knowledge and respondents not knowing what is contained within bundled products). But our finding of low take-up of the two mandatory products are in line with previous research. Tens or hundreds of thousands of businesses are likely to be failing to buy commercial vehicle and employers' liability insurance. Further investigation and potential action on this front should be a priority.

Brokers are trusted where used but online channels dominate. SMEs are most likely to buy insurance direct from providers or via price comparison sites – and digital channels will only be likely to grow more common in the future. However, brokers are also used, especially by larger SMEs, and they are trusted by their customers.

Protection often fails to keep up with firms' changing needs. Many firms rollover existing policies at the point of renewal, without reviewing the policies they hold or the level of cover they need. A high number of SMEs experience significant changes to their business in the period between reviewing their insurance. This drives both uninsurance against relevant risks and underinsurance, where firms have insufficient cover against a particular liability. Underinsurance is also driven by low understanding of products and deliberate trade-offs with respect to price.

Key messages for SMEs

- **Think about what could go wrong.** Do you know what risks threaten your business? What would happen if they took place? Consider how to reduce those risks - including by taking out insurance.
- **Know the law.** If you employ staff or your business uses a vehicle, you *must* have insurance. Some professionals also need specific cover. If you don't buy, you may be liable for high costs and legal action.
- **Choose the right mix of cover.** Make sure your insurance protects you against all the main risks your business could face. Adding extra cover is often not as expensive as you might think.
- **Get enough protection.** Buy cover that matches the maximum you might need to claim. Ask for help to do this. If you're underinsured, you will only get a portion of the money you need, or even none at all.
- **Review your insurance regularly.** Do this at least once a year, or whenever your business changes. Don't just renew automatically - check whether you require more cover or protection against new risks.

6.2 Recommendations

The problems highlighted in this report cannot be addressed by one actor in isolation. Responsibility is shared across the insurance industry, intermediaries, business bodies and government, each of which can play a distinct yet complementary role in shaping consumer understanding and access to appropriate protection.

The insurance industry operates within a highly regulated framework designed to protect consumers and ensure market stability. Firms are subject to robust conduct standards set by the Financial Conduct Authority, alongside stringent prudential and solvency requirements overseen by the Prudential Regulation Authority – these already place significant obligations on insurers in relation to product design, distribution, disclosure, and financial resilience. Against this backdrop, the recommendations that follow are intended to support coordinated and proportionate action.

1. **Insurers, intermediaries, business bodies and government should work together to raise awareness and understanding of risks facing SMEs and the benefits of insurance, by running a time-limited engagement campaign targeting trusted sources who communicate with SMEs**. We've seen that SMEs have confidence in the insurance products they already use. But they have low understanding of the range of risks they face and the breadth of products available. The government should address this as a commitment in the Financial Services growth and competitiveness strategy and work with insurers to persuade and assist third parties to improve the prominence, scope and salience of their insurance-related content, building on good practice that already exists. This should cover:
   - **Public sector sources** including *gov.uk*, the Business Growth Service (*business.gov.uk*), regional growth hubs and devolved nation business support (for example, Business Gateway in Scotland)
   - **Independent sources** such as trade-bodies, business media, non-profit support, business education providers and B2B businesses (e.g. business banking, accountancy platforms etc)

   Content should seek to educate SMEs about the risks they face, the benefits of resilience and the potential insurance solutions available. Clear consistent messages should be adopted but, as far as possible, information should be tailored to the specific circumstances that businesses experience – i.e. different sectors, sizes and points in the business life-cycle.

   To provide further reassurance, messages should refer to the industry's strong regulatory oversight and statutory obligations to SME consumers. As part of this initiative the FCA should communicate to SMEs about the value of insurance and the generally high standards regulation secures (as well as clearly explaining the protection and redress available if things go wrong).

2. **The insurance industry, regulators and government should consider collectively measuring protection gaps by pooling product data.** This review has shown there are limits to the evidence that can be generated

through consumer research (due to low knowledge and understanding among SMEs). The industry and/or public bodies could explore the costs and benefits of creating an anonymised industry-wide dataset to determine market penetration for different small business products, in a way that does not create significant burdens and is compatible with competition law. Aggregated industry-wide data on product sales could be compared to official statistics on the number of self-employed taxpayers, limited companies and PAYE employers.

3. **The government or regulators should investigate potentially low take-up of compulsory insurance and the benefits of achieving comprehensive coverage.** According to the responses to our survey, and previous studies, take-up of the two compulsory insurance products is well below 100%. There is measurement uncertainty, and SMEs are likely to be under-reporting use of these products. But the government should explore this question further as part of wider work to measure levels of regulatory compliance and explore the benefits and costs of more universal coverage.
    - The Department for Transport and the Motor Insurers' Bureau should explore the incidence of uninsured vehicles and drivers specifically in the sole-trader/SME market segment (this will reveal levels of uninsurance; it will not map incorrect cover, where a vehicle is not insured for business use).
    - The Department for Work and Pensions and the Health and Safety Executive should work with the Employers' Liability Tracing Office (which gather data from EL insurers so that individuals can trace former employers in connection with historic claims). Following recent success in linking ELTO and HMRC employer data, a one-off exercise should compare ELTO data on EL policies with data on employer numbers (from the HMRC PAYE system) to establish levels of compliance across different employer characteristics.

4. **If low take-up of compulsory products is demonstrated, the government should then take action to improve compliance.**

    For both products: all relevant government digital channels should simply and prominently explain compulsory business insurance requirements, as part of information about all the main regulatory obligations for businesses or employers. Good examples of this already exist on some government webpages. Communications should emphasise the benefits of these products with respect to business risk and resilience as well as the legal consequences of non-compliance.

    For vehicle insurance: Motor insurance enforcement powers could be strengthened, including by raising the value of fines to reflect inflation. Consumer education on compulsory motor insurance could also be improved, including by raising understanding of the need to specify if a vehicle is used for business.

    For employers' liability insurance: Relevant departments and agencies should consider how all employer obligations should be promoted and enforced together, across different regulators and communication

channels, to coincide with the launch of the Fair Work Agency in April 2026. The government could also explore the business case for promoting EL compliance as part of other government transactions. For example, data from the ELTO and HMRC could be linked together, to generate warnings for employers who do not have a current EL policy in place, when they report PAYE. The HSE could then be notified of persistent gap in coverage to trigger enforcement action.

5. **Insurers should continue to review the design and presentation of products for SMEs with the aim of securing stronger customer understanding, better tailoring of offerings and higher take-up.** Insurers already undertake significant activity to understand SME needs, test customer comprehension and improve product design. Building on this strong foundation, industry participants should continue to explore opportunities to help SMEs better navigate the product landscape, using accessible terminology and explanations. The aim should be to support SMEs by continuing to explore ways to enhance product clarity and provide more consistent terminology in a proportionate and commercially viable way. This could include, where appropriate and subject to competition considerations:
   - Reviewing opportunities to further simplify explanations of core covers and helping SMEs better understand what is and isn't included, without implying uniformity of wording across the market.
   - Continuing efforts to provide transparent information on claims success rates, timelines of payment and customer service standards, including data currently published by the FCA.
   - Considering how product design could support appropriate tailoring, while recognising practical trade-offs between packaged products and bespoke covers, and the costs involved, particularly in markets where many SMEs buy through price comparison websites, which limit opportunities for personalised configuration.

6. **Insurers, brokers and price comparison sites should continue to refine customer journeys to support clearer understanding of needs and appropriate cover choices.** While insurers already dedicate substantial effort to optimising customer journeys, there is further value in exploring how more intuitive prompts and clearer descriptions of business circumstances can support SMEs in identifying the cover that genuinely reflects their risks. Continued refinement of these journeys should focus on helping businesses recognise their needs more easily and make informed choices about the protection that suits them. Future exploration could include:
   - Gathering more data on business circumstances, needs and preferences, and then directing SMEs to suitable insurance options with little or no reference to the names of different insurance products. The aim would be to establish whether selling business insurance, without initially referring to specific product names (or in some cases maximum levels of liability) will lead to SMEs purchasing packages that are both better tailored and broader in scope than at present, for example by testing additional question pathways that help surface SME needs in simple language.

- Strengthening existing prompts that ensure SMEs understand mandatory insurance obligations, especially around employers' liability and commercial vehicle insurance.
- Where proportionate, using technology (e.g., analytics-based prompts or AI-supported guidance) to further enhance clarity, while recognising this may not be equally applicable across all intermediaries, particularly price comparison websites.

7. **Insurers, brokers and price comparison sites should improve processes for reviewing and renewing insurance so that renewal on current terms is not the default**. We found that many businesses (particularly sole-traders) are inclined to simply renew their cover without review. This can create risks for SMEs, whose operating contexts can change significantly between renewals. To combat this, insurers, brokers and price comparison websites should continue to consider ways to encourage SMEs to actively review changes in their risks before renewing, while maintaining appropriate protections against accidental lapses. Most insurers already apply adjustments to ensure the cover provided remains adequate. For example, through the application of indexation on sums insured and periodically increasing standard policy limits. Nonetheless, there are some areas of improvement that could be considered:

    - Ensuring more prominent, well-timed reminders that encourage SMEs to consider whether their business circumstances have changed. Automatic renewal exists because rolling over cover without review is usually a better outcome than protection lapsing accidentally. But insurers should seek to minimise its use in the SME market, going beyond their existing compliance with FCA rules on auto-renewal.
    - Making it more straightforward for SMEs to adjust cover at renewal, without creating unnecessary friction for those who prefer to maintain existing coverage. Renewal journeys should make it as simple and straightforward to alter cover as to continue with the same. This could involve (1) increasing the steps required to renew with no change; (2) probing robustly about changes in circumstances, costs and prices to ensure that cover is accurate (e.g. asking about changes regarding employment, equipment and premises); (3) proposing renewals with a wider scope of cover, based on an SME's reported circumstances and requirements.
    - Industry participants should also consider whether independent educational information should be promoted to SMEs during the early stages of the renewal journey (for example, promotion of independent websites explaining insurable risks and solutions).

8. **Brokers should further promote their offer to SMEs.** Across our survey and qualitative work we have seen that brokers have high customer satisfaction among SMEs who use them. But sole-traders and micro-employers usually use other channels for accessing insurance. Working individually and as an industry, brokers should boost their marketing and consumer education activities to draw attention to their high levels of customer satisfaction and their ability to calibrate the scope of insurance cover to reflect business

circumstances and affordability – whether that is by presenting options and guidance (non-advised) or recommending products suitable for the customer (advised).

9. **Insurers, business bodies and government should work together to make the strategic economic case for SME insurance.** Insurance is as a key enabler of resilience and growth, which is a priority for business groups, regulators and government. But they all have their own priorities and capacity constraints and may not see closing insurance gaps as a critical issue. For example, insurance did not feature in the government's summer 2025 plan for small and medium size businesses, even though the Department for Business and Trade had just launched Small Export Builder insurance to support SMEs enter overseas markets. Similarly, cyber insurance is not referred to prominently in the National Cyber Security Centre's advice to small businesses on reducing cyber risks. Addressing this gap will require leadership from government and engagement from trusted intermediaries such as trade bodies, alongside contributions from the insurance industry. The insurance sector could support this effort by facilitating or commissioning robust, independent research on the wider growth and resilience benefits of SME insurance, upon which government and industry bodies can then draw.

The economic benefits of SME insurance include:

- Business resilience and continuity – preventing adverse events leading to insolvencies
- Growth and scale-up – a safety-net providing the reassurance to invest and take risks
- Sustaining employment – protecting jobs and helping employees balance work and health
- Access to finance and trade – de-risking cashflow and exports
- Risk awareness and mitigation – support to reduce risks, from cyber threats to sickness absence

Recommendations for key audiences

Insurers

- Work with partners to raise awareness and understanding of risks facing SMEs and the benefits of insurance, by running a time-limited engagement campaign
- Consider collectively measuring take-up of products by pooling product data, in partnership with government and regulators
- Continue to review the design and presentation of SME products to boost customer understanding, more effectively tailor offers, and increase take-up
- Continue to refine customer journeys to support a clearer understanding of needs and appropriate cover choices
- Improve processes for reviewing and renewing insurance
- Work with government and business bodies to make the strategic economic case for SME insurance

Brokers

- Work with partners to raise awareness and understanding of risks facing SMEs and the benefits of insurance, by running a time-limited engagement campaign
- Consider collectively measuring take-up of products by pooling product data, in partnership with government and regulators
- Continue to refine customer journeys to support a clearer understanding of needs and appropriate cover choices
- Improve processes for reviewing and renewing insurance
- Further promote the broker offer to SMEs, focusing on high satisfaction and the benefits of personalisation

Price comparison websites

- Work with partners to raise awareness and understanding of risks facing SMEs and the benefits of insurance, by running a time-limited engagement campaign
- Consider collectively measuring take-up of products by pooling product data, in partnership with government and regulators
- Continue to refine customer journeys to support a clearer understanding of needs and appropriate cover choices
- Improve processes for reviewing and renewing insurance

Government

- Work with partners to raise awareness and understanding of risks facing SMEs and the benefits of insurance, by running a time-limited engagement campaign as part of the Financial Services growth and competitiveness strategy

- Consider collectively measuring take-up of products by pooling product data, in partnership with insurers
- Investigate potentially low take-up of compulsory insurance and the benefits of achieving comprehensive coverage
- If low take-up of compulsory products is demonstrated, act to increase compliance
- Work with insurers and business bodies to make the strategic economic case for SME insurance

Regulator and ombudsman

- Consider collectively measuring take-up of products by pooling product data, in partnership with insurers
- Investigate potentially low take-up of compulsory insurance and the benefits of achieving comprehensive coverage
- Communicate the high standards that regulation and dispute resolution secures

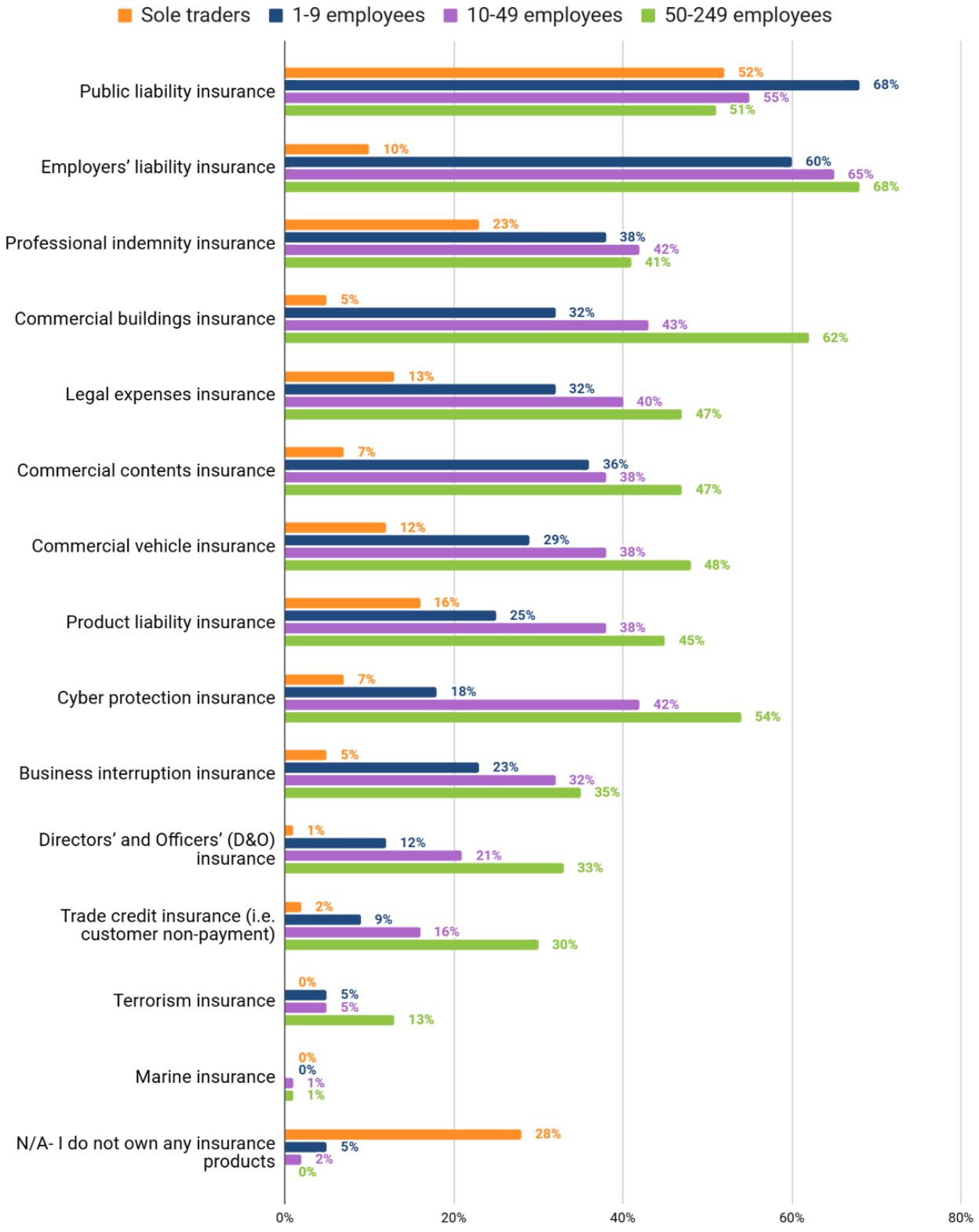
Business networks and service providers

- Adapt information content to promote insurance that meets SME needs

07 Appendices

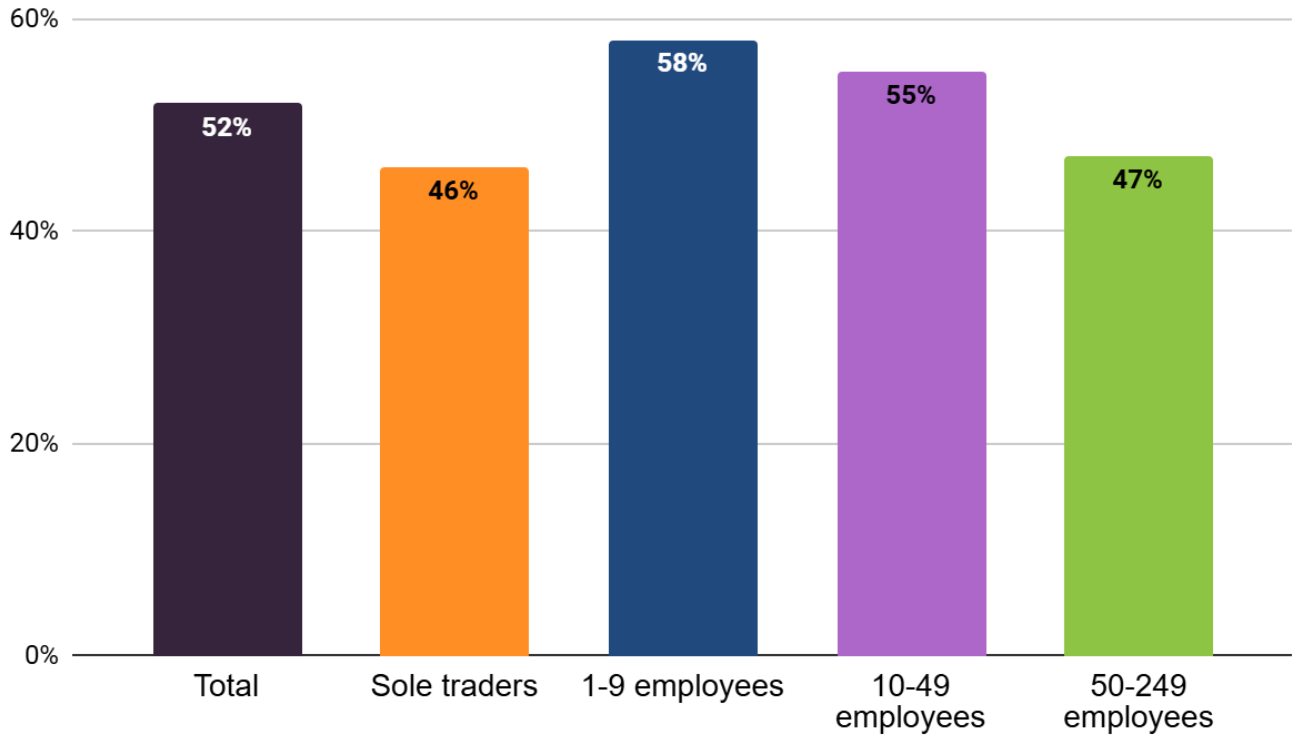
1. Additional charts

Figure A1. Types of insurance policies currently held by business size



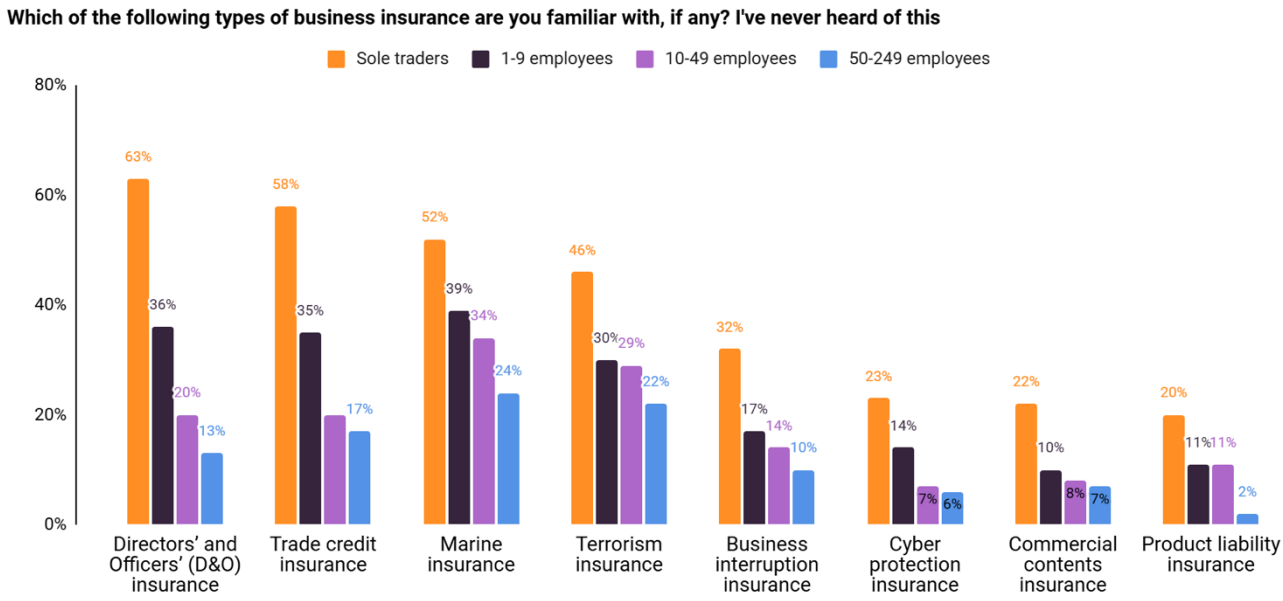
Survey question: Which of the following insurance policies does your business or organisation have now? Select all that apply.

Figure A2. Proportion of businesses viewing insurance as expensive, by business size



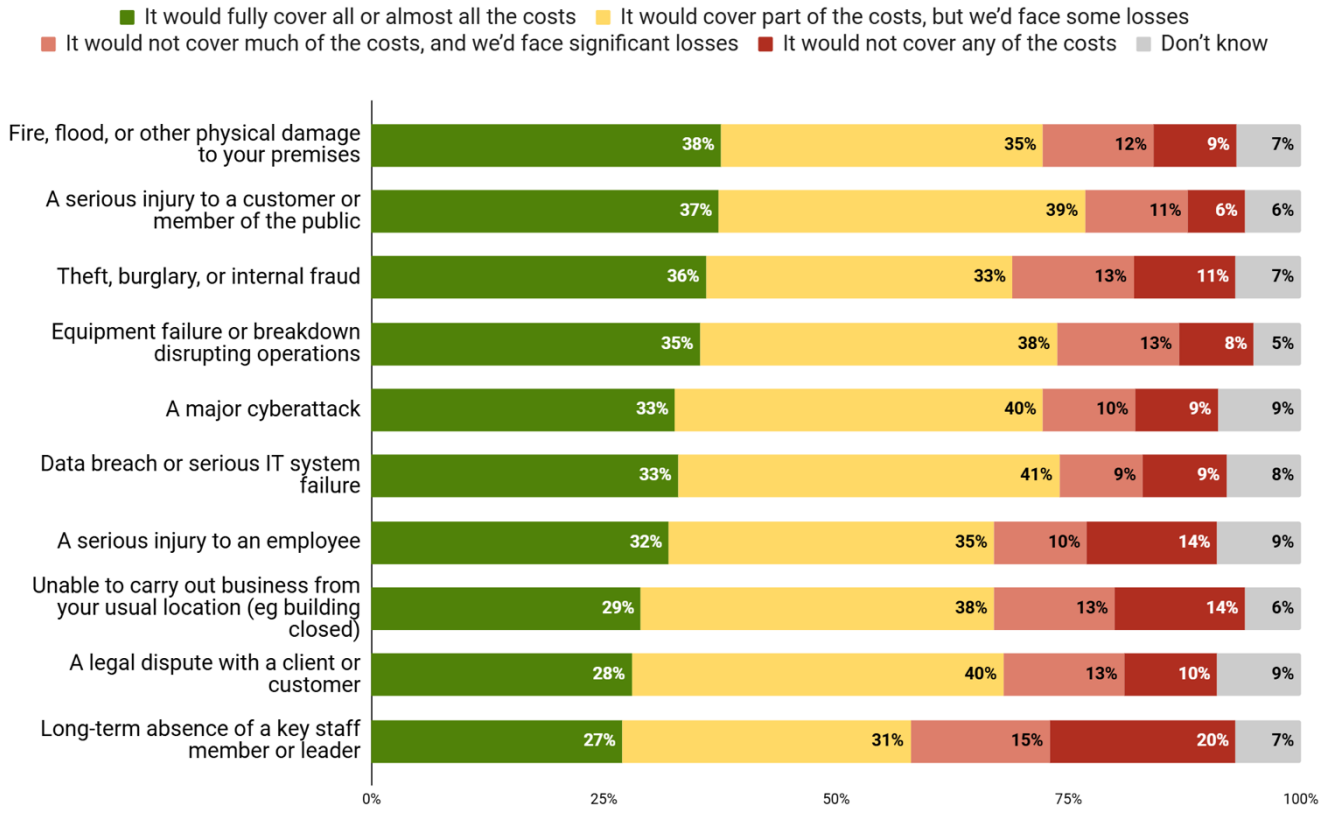
Survey question: Survey Question: Which of the following best describes how you feel about the insurance policies required for your business? Expensive – Cheap. Note: Respondents selected one of five positions between two opposite adjectives i.e expensive vs cheap). This chart shows the proportion of respondents who selected the two positions closest to "Expensive" on this five-point semantic scale.

Figure A3. More than half of sole-traders have not heard of three of the insurance products we tested



Survey Question: Which of the following types of business insurance are you familiar with, if any? Percentage of respondents who say they have never heard of a selection of the products tested

Figure A4. Despite low product take-up SMEs expect their insurance will fully or partially cover the costs of major risks

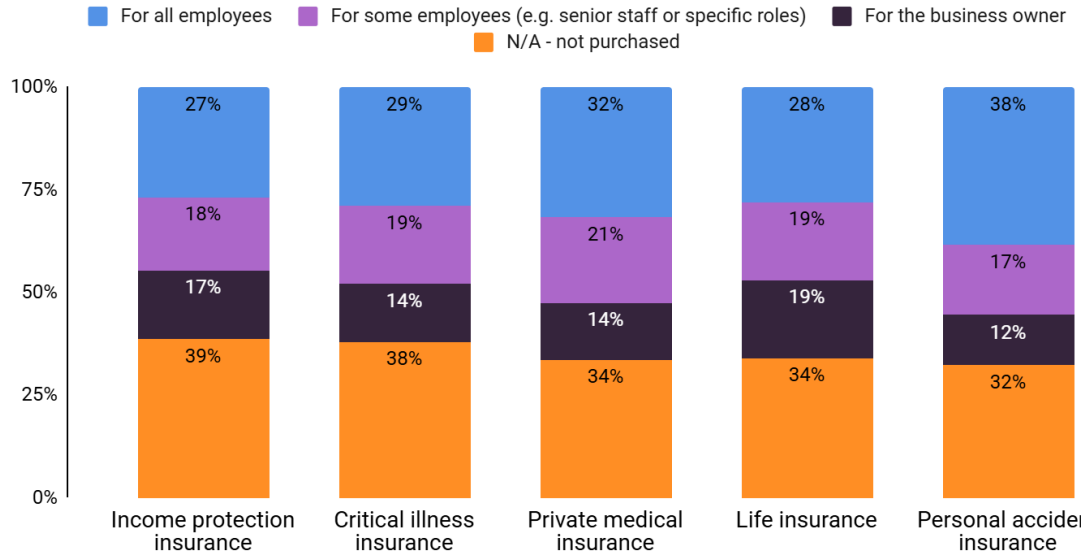


Survey Question: And how well do you believe your current insurance would financially protect your business from these risks?

2. Employee benefit insurance

Employee benefit insurance products were not the a main focus of the research but we asked one question on SMEs use of these products. Among SMEs with employees, around half of respondents say they offer employee benefit insurance to some or all their employees — income protection, critical illness, private medical, life, or personal accident cover. The likelihood of offering products to employees (apart from the business owner) rises with business size: in firms with 1–9 employees, 44% say they provide at least one benefit to some or all employees; this rises to 95% for businesses with 50-249 employees. Benefits are rarely extended to the whole workforce — fewer than a third of SME employers offer most of these benefits to all employees. Instead, cover is often limited to senior staff or the business owner. For example, figure 2 shows 27% offer income protection to all employees and 29% offer critical illness cover. Personal accident insurance is most widely reported, but still only 38% say they offer it to the full workforce.

Figure 2. A minority of SME employers say they purchase key employee insurance benefits to all staff



Survey question: Does your business or organisation currently purchase any of the following benefits for employees? For each benefit, please indicate who it is provided for, if anyone. Note: the figures for income protection and critical illness cover are much higher than estimated penetration among the working population.

These findings indicate that, while employee insurance benefits are present in some SMEs, broad-based access remains limited and many businesses provide cover for only a subset of their team. It is worth noting that the reported use of these products is somewhat higher than in other studies of employee benefit insurance. This is partly because we weighed the sample to achieve equal numbers of respondents from micro, small and medium sized employers (even though the latter are far more common). This increases the representation of firms most likely to buy these products. However, across every firm size, reported take-up is high when compared to industry data, which suggests over-reporting by respondents (perhaps due to social-desirability bias as these products are associated with 'good' employers).

3. Survey methodology

Sample and Sampling Approach

The results detailed in this report are based on a nationally representative sample of 1,002 SMEs in the UK, surveyed online by Public First between 12 and 21 August 2025. All respondents were business owners or senior executives recruited from panels where participants volunteer to take part in research in exchange for incentives. The sample was designed to be nationally representative by business size and region, and results were weighted on these measures.

With respect to business size, the sample was representative of the number of people working in SMEs not the number of firms. This had the effect of achieving a fairly even split between sole-traders and firms with 1-9, 10-49 and 50-249 employees (if we had sampled on the basis on the volume of firms only, the vast majority of participants would have been sole-traders).

The margin of error on the total sample is ±3%. As with any online survey, potential sources of error include question misunderstanding, misreporting, the self-selection bias inherent in research panels, and limited reach to individuals without internet access. The survey design sought to minimise dropout by using varied question formats and clear visual display, and it was optimised for mobile, tablet, and desktop devices.

Data Quality Checks

Public First implemented quality assurance measures before, during, and after fieldwork. Ahead of launch, ABI members were consulted on the draft questionnaire to refine wording of the questions. The survey was also tested internally to ensure that the experimental design displayed correctly and that the survey could be completed within 15 minutes.

The survey is designed to minimise the impact of survey bias on responses. It is impossible to completely remove these biases, but wherever possible Public First sought to leverage experimental design and randomisation to produce revealed rather than stated preference.

This included two conjoint experiments for understanding how SMEs make insurance decisions. Randomised hypothetical insurance packages meant that participants would need to evaluate different features of two packages alongside one another, so that through multiple trials the features which shift views can be revealed more precisely than if participants were asked directly to say what would hold sway.

Within the survey Public First implements a number of quality checks within the survey itself. This includes a ReCAPTCHA to prevent script or bot responses, as well as direct attention checks to reduce the risk of inattentive responding. Any participants failing attention checks are immediately excluded from the research. As a final stage data quality check, Public First evaluates open response data from the survey. These are

checked for nonsense responses, unlikely duplicates (indicating scripts) and use of LLM or auto-generated text. The survey is re-fielded for new responses to replace those removed during this process.

Data Processing

Public First processed the data collected in this survey both for this report and for the purposes of feeding into ABI's wider work. During this processing, Public First takes the approach of minimising any response removal; we do not remove outlier responses, for example. Further to this, there were some more specific processing requirements for elements of the survey.

- **Conjoint Exercise (WTP Approach):** Public First used binary logistic regression to analyse choices between paired insurance packages. Text responses were recoded into binary variables, premiums parsed into £ values, and each task reduced to a pairwise comparison. Logistic regression with clustered standard errors estimated feature effects, which were converted into willingness to pay (WTP) in pounds with 95% confidence intervals.
- **Conjoint Exercise (AMCE Approach):** Public First estimated Average Marginal Component Effects (AMCEs) using OLS regression with clustered standard errors. Attributes were dummy coded with one level as the baseline. Coefficients are interpretable as the average percentage-point change in the probability of a package being chosen, and relative attribute importance was calculated by comparing the ranges of part-worth utilities.

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