



MICRO-BUSINESSES “HORRIFIED” BY LAW ON INSURANCE

Some of Britain’s smallest businesses have been “shocked and horrified” to discover that their insurance policies may be rendered worthless by an innocent mistake, according to consultation findings published today.

When businesses buy insurance the law requires them to tell their insurer everything that their insurer might want to know about what is being insured. The insurer does not have to ask any questions. If the business fails to disclose anything the insurer can refuse to pay claims and can treat the insurance policy as if it had never existed.

The Law Commission and the Scottish Law Commission have consulted on whether the current law is appropriate for “micro-businesses”. Micro-businesses are often defined as those that employ fewer than 10 people, but most are sole traders. Research published for the Financial Services Authority shows about half buy insurance direct without the advice of a broker, often online.

David Hertzell, the Law Commissioner leading the project for England and Wales, said:

“We proposed that the law should be changed so that micro-businesses should answer insurers’ questions honestly and reasonably. They should not need to volunteer information if the insurer did not ask for it.”

Today the Commissions publish a summary of responses to their consultation. This included the findings of research among small businesses which found that many were not aware of the harsh effects of the current law.

One IT consultancy said: “I am HORRIFIED to learn that I might have an insurance claim turned down because I hadn’t supplied information that I had no idea I was supposed to guess I might have needed to provide.”

A small communications company commented: “I am shocked to learn that we are supposed to volunteer information that the insurers consider relevant, and failure to do so could result in a rejected claim.”

The majority of those who responded to the consultation, including some insurers, said that they favoured a change in the law to protect micro-businesses in particular. Others told the Commissions that they opposed law reform and that disputes should be referred to the Financial Services Ombudsman, which can hear complaints when the micro-business has an annual turnover of less than £1 million.

Scottish Law Commissioner, Professor Hector MacQueen, who is leading the project for Scotland, said:

“We believe that it is important that micro-businesses who often buy insurance in the same way as consumers are protected by a fair and proportionate law. We are now working on a policy statement which will set out our plans for reform.”

[NOTES FOR EDITORS OVER]

Notes for Editors

1. The Law Commission and the Scottish Law Commission are non-political independent bodies, set up by Parliament to keep all the law of England, Scotland and Wales under review, and to recommend reform where it is needed.

2. The Law Commissions consulted on their proposals for micro-businesses between April and July 2009 after publishing a paper entitled [Reforming Insurance Contract Law: Issues Paper 5: Micro-businesses](#).

3. Consultation took place over a period of 4 months and the Law Commissions received 49 responses from micro-businesses, insurers, lawyers and representative associations. The [full summary of responses](#) is published today.

4. This forms part of a larger project on the reform of insurance contract law. For further details on this project visit http://www.lawcom.gov.uk/insurance_contract.htm or <http://www.scotlawcom.gov.uk/>. The next publication will be a draft Bill and final Report on consumer insurance law, due to be published in December 2009.

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