



# National Small Business Poll

NEIB National

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## Small Business Poll

*Business Insurance*

# NFIB National Small Business Poll

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The *National Small Business Poll* is a series of regularly published survey reports based on data collected from national samples of small-business employers. Eight reports are produced annually with the initial volume published in 2001. The *Poll* is designed to address small-business-oriented topics about which little is known but interest is high. Each survey report treats different subject matter.

The survey reports in this series generally contain three sections. The first section is a brief Executive Summary outlining a small number of themes or salient points from the survey. The second is a longer, generally descriptive, exposition of results. This section is not intended to be a thorough analysis of the data collected nor to explore a group of formal hypotheses. Rather, it is intended to textually describe that which appears subsequently in tabular form. The third section consists of a single series of tables. The tables display each question posed in the survey broken-out by employee size of firm.

Current individual reports are publicly accessible on the NFIB Web site ([www.nfib.com](http://www.nfib.com)) without charge. Published (printed) reports can be obtained at \$15 per copy or by subscription (\$100 annually) by writing the *National Small Business Poll*, NFIB Research Foundation, 1201 "F" Street, NW, Suite 200, Washington, DC 20004. The micro-data and supporting documentation are also available for those wishing to conduct further analysis. Academic researchers using these data for public informational purposes, e.g., published articles or public presentations, and NFIB members can obtain them for \$20 per set. The charge for others is \$1,000 per set. It must be emphasized that these data sets do NOT contain information that reveals the identity of any respondent. Custom cross-tabulations will be conducted at cost only for NFIB members on a time available basis. Individuals wishing to obtain a data set(s) should write the *Poll* at the above address identifying the prospective use of the set and the specific set desired.

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Poll



*Business Insurance*

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## *Business Insurance*

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# Executive Summary

- The most frequent insurance coverages small-business owners possess are property damage, workers' compensation, and premise liability (covering slips and falls, etc.). Owners reported that the median spent on insurance including workers' and unemployment compensation is 7 percent of gross sales.
- Fifteen (15) percent reported that they do not "purchase" business insurance. It is not clear how many in this group rely on personal coverage and how many are uncovered.
- Sixty-four (64) percent of small employers identified the greatest current problem with business insurance as rising premium costs. All other business insurance problems pale in comparison. In fact, the second most frequent response (15%) was that there are no real current problems with business insurance.
- Premium costs are rising most rapidly for employee health insurance. Of the 52 percent who offer employee health insurance, nine of ten (90%) reported premium increases within the last year. Other coverages identified as having particularly high premium growth are workers' compensation, product or professional liability including errors and omissions and negligence, vehicle collision and liability, and property damage.
- Once insured, small employers infrequently drop a coverage.
- Small-business owners have taken or will take a variety of steps in response to the largest premium increase received in the last year (among the nine insurance coverages evaluated). The most frequent response is changing insurers (34%), followed by increasing deductibles (30%), changing agents or brokers (25%), changing business operations to reduce claims risk (18%), and reducing or eliminating coverage (17%). About one-third (32%) who identified employee health as their most rapidly rising premium cost indicated that they did or would raise their employees' cost share. Still, 48 percent who purchase insurance did not take (or plan) any counter-measures.
- Claims resolution does not appear to be a common problem. Only 2 percent said claims resolution is their greatest current problem with business insurance. The overwhelming majority who have experienced claims in the last year reported that they either were "very satisfied" or "generally satisfied" with their resolution.
- Thirty-three (33) percent claimed to carry extra life insurance on themselves for the sole purpose of paying any potential estate and gift tax.
- Just 11 percent of small-business owners consider themselves "very knowledgeable" about business insurance and their firm's insurance needs. Another 60 percent consider themselves "somewhat knowledgeable."
- Seventy-three (73) percent said that they have one person whom they would call, "my insurance agent." Of that number, 49 percent consider "my agent" as their primary source of information on business insurance and the firm's insurance needs while another 31 percent consider that individual an important source.

# Business Insurance

Insurance protects business assets from losses due to possible, but individually unpredictable events. Such losses could result from any number of incidents including fires, liability suits, and accidents. Small-business owners therefore purchase large amounts of insurance so they will not be crippled or destroyed by some unforeseen circumstance. Yet, insurance not only protects the immediate owner of business assets, it also secures them for creditors who would be unlikely to provide financial resources without the guarantee to collateral that insurance provides. But, insurance has become a serious small-business concern over the last several years. Its cost has risen inexorably. Though premium increases have been associated most often with employee health and product and professional liability insurance, complaints have been registered about other lines of insurance as well. The complaints have recently become louder and more frequent. In addition, the complaints have not been confined to premium increases. They have moved to availability, exclusions, fits, and even claims. Insurance is an odd business. Industry profits stem not only from underwriting, but also from investments. When investments are profitable, insurance premiums typically are low as insurance companies attempt to increase market share. The opposite is also true. In addition, underwriting losses are not always predictable in the short-term. The huge losses from Hurricane Andrew in 1992 are an example. Further, when losses leave their long-term trend line and become larger and more unpredictable such as medical malpractice claims in Mississippi, higher costs follow. Each line of insurance is impacted by these factors differently. One overarching result is that insurers suffer cycles, sometimes extreme. Cycles make insurance a more volatile cost than most business inputs. State insurance commissioners supposedly regulate insurance premiums. But current problems demonstrate that insurance premium regulation has not always been successful. Since small business cannot operate without insurance and higher premiums mean that insurance coverage is increasingly less available, this issue of the *National Small Business Poll* is devoted to business insurance.



## Basic Insurance Issues

Sixty-four (64) percent of small employers believe that the biggest problem with business insurance today is cost (Q#1). The larger the firm, the more likely the owner was to cite higher premiums. No other potential insurance problem rivaled it. In fact, the second most frequently offered response (15 percent) was “no real business insurance problems.” That response too was related to firm size, but inversely. The smaller the firm, the more likely the owner was to believe that there are no real problems with business insurance today.

Respondents had an opportunity to cite several other possible problems as the greatest, though comparatively few exercised the option. Six percent did mention the increasing number of excluded coverages as their biggest problem. Excluded coverages are simply those previously included in standard policies that now are excluded and require separate coverage (with an additional premium). Black mold is an example. Another 5 percent reported that the unavailability of some insurance types was the biggest problem. The survey on which this report is based did not elicit the type of coverage these owners found unavailable. Less than 2 percent cited “poor claims response.” Given anecdotal complaints, the number identifying this problem was a pleasant surprise.

Most small-business owners buy insurance rather than self-insuring or “going bare.” Still, the proportion selecting answers other than “purchase” was striking and suggested that the term “self-insurance” may not be familiar to large segments of the population. Just 68 percent reported that they buy their business insurance exclusively (Q#2). Another 17 percent reported that they buy some insurance and self-insure in addition. This response is plausible since many small employers procure at least some of their coverage through trade groups that can self-insure. However, 13 percent claimed to be self-insured (without any insurance purchases). That group consists primarily of owners of the smallest enterprises, those employing fewer than 10 people. These firms are almost assuredly too small to self-insure in any meaningful sense of the term. So, it is likely that self-insurance implies that they are uncovered (bare) or their owners think they are covered by some type of personal policy.

Another 2 percent volunteered that they don’t have business insurance. But when asked if they had personal insurance that covered business activities (not presented in the tabulations due to lack of cases), all 13 cases said that they did. As a result, it is not clear if this substantial segment of the small-business population (15 percent) is uncovered or believes that it is covered by personal insurance. For the latter group, the question becomes does their personal insurance actually cover business activities?

The median (50 percent more and 50 percent less) expenditure for all types of business insurance (including workers’ compensation and unemployment insurance) among those purchasing it is a reported 7 percent of sales (Q#7). That means that a typical firm grossing one million dollars a year would spend about \$70,000 annually on insurance. The range of reported insurance expenditures is considerable. About one in ten spends less than 2 percent of sales while 9 percent estimated that they spent more than 16 percent of sales. But 31 percent could not/would not make an estimate indicating that total insurance premiums as a percent of sales is a difficult spur-of-the moment calculation and one they are not accustomed to making. Comparing these data with deductions for insurance-related costs on Federal income taxes argues that the estimates are high. Still, owner estimates reveal the importance they attach to insurance costs in their overall business cost structure.

## Coverages and Cost Increases

Business insurance is commonly sold to small-business owners in various packages or combinations of coverages, sometimes under a brand name or generalized title. The survey disregarded these packages and separated them into component coverages for purposes of asking small-business owners about coverages and costs. This step made response more difficult for some who purchase packages, but it permits individual examination of nine of the more important coverages purchased by small employers.

### *a. Property Damage*

Eighty-seven (87) percent of those who purchase insurance have coverage for property damage (Q#3A). If there is a fire or a hur-

ricane or a lightening strike or water damage, they are generally covered. The curious population segment is the 13 percent who are not. It is possible that most of these are home-based businesses and believe that they are covered by a personal homeowners' policy. Yet, the data show that two-thirds of them are not; their primary business location lies outside the home. Another possibility is that the firm has few assets to protect. That explanation is unlikely because 7 percent that employ 20 people or more said they had no such coverage. The survey did not collect asset data however, so the possibility cannot be proven one way or the other. Another possibility is that the business is doing poorly and the owner cannot afford the insurance. A modest association does appear between sales trends and coverage, particularly among the group of owners whose sales are declining. Still, the association is not strong and several cases appear in all categories of sales trends. A final possibility is that the terminology in the question does not register with respondents and therefore elicited a negative answer. Yet, the lack of clarity usually yields a high non-response, not a negative one. The result is that there is no obvious, single reason why such a large percentage fail to protect themselves against property damage.

The cost of property damage coverage on a per unit basis rose over the last year for a majority of those with this type of insurance. Fifty-six (56) percent reported that its cost rose (Q#3A1). Over half who said it had risen estimated the premium increase at less than 20 percent with 13 percentage points estimating costs increased by 50 percent or more. Thirty-six (36) percent of the insured reported that premium costs remained about the same and 2 percent reported that they fell. Of the nine types of insurance coverage examined, protection against property damage was an area where the cost of insurance rose a little above average.

In a pattern that will reoccur for virtually every line of insurance coverage examined, very few dropped coverage altogether for property damage during the last three years. Just 2 percent reported having done so. Most small-business owners who do not have this coverage have not had it previously (within three years).

#### *b. Product and Professional Liability*

The second type of coverage examined was product or professional liability, including negligence, and errors and omissions. Two-thirds (67%) indicated having such coverage while 30 percent said that they did not. The propensity to have product or professional liability coverage is not related to firm size, nor to industry with the exception of financial and professional services. Coverage does appear to be related to success as measured by sales trends, however. Those with declining sales are about 25 percentage points less likely to carry it than are others.

Fifty-seven (57) percent of small-business owners purchasing this type of liability insurance said that cost had risen in the last year while 37 percent said that it had stayed about the same (Q#3B1). One percent claimed that premium costs had fallen. A majority of those experiencing premium increases responded that their's was less than 20 percent while 7 percent indicated that their's was over 50 percent. The frequency of increases and their size parallel those of increases for coverage of property damage. This comparability is somewhat surprising given the history of complaints about product/professional liability coverage. One explanation for the apparent anomaly is that increases are a percentage calculation and disregard the base on which the percentage calculation is made.

Again, comparatively few who have had coverage in the last three years have dropped it. Just 2 percent reported having done so (Q#3B3).

#### *c. Business Interruption*

Business interruption insurance protects the owner against losses caused by an inability to conduct operations. In the event of a storm, for example, property and casualty insurance would pay for any physical and water damage while business interruption insurance would compensate the owner for losses incurred because the business could not operate until repairs were made. About one in three (34%) small employers reported having business interruption insurance with 59 percent of those employing 20 or more people saying that they do (Q#3C).

Premium increases for business interruption insurance have risen less than any of

the other eight insurance types examined. Thirty-eight (38) percent of small employers reported increases, but 51 percent said that costs were stable (Q#3C1). Still, declines are rare. Only one percent reported them. The percentage increase among those reporting them are relatively small. Over half said that they were less than 20 percent while just 2 percent reported that their increases were 50 percent or more. The likelihood of increases was substantially more frequent among larger, small firms than smaller ones. It is not obvious why this should be. But despite the fact that premium increases were modest comparatively, premiums for business interruption insurance on balance rose and at a healthy rate.

Virtually no one dropped coverage during the last three years (Q#3C3).

#### *d. Environmental Liability*

Comparatively few small businesses carry environmental liability insurance. Just 18 percent of owners reported doing so, though 10 percent did not know (Q#3D). The latter is an unusually large number that suggests environmental liability is still a relatively unknown form of insurance among small-business owners. Owners in the construction industry carried the coverage more frequently than did those in other major industries.

Forty-four (44) percent of owners with environmental liability coverage indicated that premiums per unit of coverage had risen in the last year or so (Q#3D1). Slightly fewer (42%) said that there was no change. Fifteen (15) percent did not know and another 7 percentage points among those who claimed prices had risen could not estimate the size of the increase. About half who did estimate a price increase indicated that it was less than 20 percent while the remainder indicated it was more.

Less than 1 percent of those without it said that they dropped coverage within the last three years (Q#3D3).

#### *e. Employee Health*

No other type of insurance has attracted more interest from small-business owners and policy-makers alike than has employee health. A number of recent studies and surveys have found premiums again increasing at double digit levels and the number of firms offering it declining. Most of these reviews

isolate employee health and fail to put it in the context of other insurance coverages.

Fifty-two (52) percent of small businesses carry employee health insurance (Q#3E). As has been well-established, larger, small firms are substantially more likely to offer it than smaller, small firms. Forty-five (45) percent of those employing fewer than 10 people have such coverage while 83 percent of those employing 20 or more people do.

The frequency of premium increase reports is striking. Ninety (90) percent of small employers purchasing employee health insurance reported that premiums rose over the last year (Q#3E1). No other insurance type even approaches that frequency of increase. But not only did almost every insured disclose premium cost increases per unit of coverage, the percentage increases reported were extraordinary. Only 6 percent said their increases amounted to 50 percent or more on a per unit basis. Still, 44 percent claimed premium growth of between 20 and 49 percent. Even allowing for exaggeration due to concern over the problem as well as the imprecision of “top of the head” estimates, the numbers portray the great difficulty that many small-business owners face in paying for employee health insurance.

While these numbers are not novel, the data do reveal one important new fact that has direct relevance to discussions surrounding employer provision of employee health insurance. Few employers appear to drop coverage, even in the face of large percentage rises in premium costs. Just 5 percent of those without employee health insurance indicated that they had dropped it within the last three years (Q#3E2). As will be demonstrated shortly, small businessmen and women have made many adjustments to confront the new, higher premiums levels. But one of them has not been to drop coverage altogether. That means most of the decline in small business coverage comes from new (entering) firms not purchasing employee health insurance or waiting to purchase it at a later date while established firms (more likely to have employee health insurance) leave. While we do not know whether entries, exits or both are responsible, the churn seems obviously associated.

#### *f. Slips and Falls (Premise Liability)*

Protection against instances of premise liability is one of the most frequently purchased types of business insurance. Seventy-four (74) percent of small-business owners disclosed that they have slips and falls coverage (Q#3F). Larger, small firms are more likely to possess it than smaller, small firms, but even then 16 percent of those employing 20 or more people reported that they carried none.

The comparatively large proportion of small businesses without this basic coverage appears strange. The propensity to carry premise liability type of insurance is about 15 percentage points lower both among those in home-based operations (compared to non-home-based) and among those whose sales have been declining (compared to those whose sales have been stable or rising). Still, a large number of ventures daily exposed to the public and doing reasonably well do not carry premise liability insurance.

Half (50%) of owners with premise liability insurance said that premiums for the insurance had risen over the last year or so (Q#3F1). Forty-one (41) said that they were stable, though an inexplicably large 9 percent did not know. Over half reported that the percentage increase was less than 20 percent while only 4 percent reported premiums rising 50 percent or more. Over 7 percent of these could not estimate the increase. Perhaps the large number who could not answer is tied to the incorporation of this coverage into policies with various names.

Just 1 percent dropped coverage in the last three years (Q#3F3).

#### *g. Vehicle Collision and Liability*

The use of vehicles for business purposes (not transportation to and from work) in small businesses is significant. One prior report in this series estimated that as many as five of eight employees in small businesses drive at one point or another as part of their job responsibilities. This makes vehicle insurance, collision and liability, among the most pervasive types of insurance purchased among small employers. Seventy-one (71) percent who purchase any business insurance disclosed that vehicle collision and liability are among their coverages (Q#3G).

The cost of vehicle insurance is rising, too. Sixty-two (62) percent experienced premium increases over the last year (Q#3G1). However, the amount of increase appears smaller than for most other insurance types. Thirty-six (36) percent reported increases of less than 20 percent while just 4 percent reported them over 50 percent. One in three (32%) said premiums were stable and 2 percent said that they actually fell.

Three percent reported that they had dropped vehicle insurance over the last three years (Q#3G3). It is likely that these firms eliminated firm vehicles during the period.

#### *h. Employment-Related Liability*

Concern among employers is rising over the ability of employees (more often, former employees) to sue them for alleged wrong. Wrongful termination, defamation, and discrimination (age, race, sex, etc.) are a few examples. Many employers, including 21 percent of small employers, take out insurance to protect themselves and their firms against such suits (Q#3H). However, a large majority still do not do so. Seventy-two (72) percent do not carry it and another 7 percent said that they are not certain. Owners of larger, small firms are more than twice as likely to carry it than owners of smaller, small firms.

Forty-eight (48) percent of small employers who purchase this coverage said that their premiums rose in the last year (Q#3H1). Almost as many (42%) said premiums were stable and another 10 percent were not certain. The average premium appeared to rise somewhat less than for other insurance lines. Virtually no one reported extreme increases while almost three of five (58%) who reported an increase indicated that it was less than 20 percent.

Only about 1 percent dropped this coverage in the last three years (Q#3H3).

#### *i. Workers' Compensation*

As a general rule, employers must carry workers' compensation insurance to protect their employees from the consequences of on-the-job injury or illness. Important exceptions exist. The state of Texas, about 6 to 7 percent of small employers, has no such requirement. Fourteen (14) other states do not require it for certain very small

employers, usually those employing less than 2-4 people. Many allow corporate officers to “opt-out” meaning that owner/operators in very small corporations aren’t necessarily counted as an employee. Thirteen (13) states require coverage of agricultural workers like other workers, but 11 do not require coverage and 26 carry limitations. Thus, 76 percent of small businesses purchase workers’ compensation insurance including 96 percent of those with 20 or more employees and 92 percent of those with between 10 and 19 (Q#3I).

Workers’ compensation normally pays medical, rehabilitation, lost work-time costs or some fraction thereof, and benefits for permanent disability and death. Given that much of the workers’ compensation cost is associated with health care, it is surprising that just 57 percent reported rate increases while 31 percent reported that they were stable (Q#3I1). Four percent even said that they had fallen, the largest number among all insurance types examined. The average premium increases, though high, were no higher than those reported for most other types of insurance and significantly below employee health. The explanation for the difference is not immediately obvious.

Ten (10) percent indicated that they had dropped coverage in the last three years, also the largest number among the insurances examined. The number of respondents is small (n=111) making the margin of sampling error relatively high. One explanation for the large number dropping is that some firms contracted under size limits and were able to drop it in the face of an expensive product and economic difficulty. Another is that some once believed that they had to purchase it, but really did not. A third is that as larger, small firms (and presumably covered) exit, smaller, small firms (that qualify for exemptions) replace them.

### Responses to Cost Increases

The cost of employee health insurance on a per unit basis has risen more in the last year than any other. Thirty-three (33) percent of all who purchase insurance identified employee health as having the fastest rising premiums even though just over half of them (52%) actually buy that coverage (Q#4). Owners of larger, small firms are more likely to name it than are others.

The next two most frequently cited types of insurance where premiums are rising fastest are workers compensation (12%) and product/professional liability (12%). Vehicle collision and liability is the only other mentioned with the same approximate frequency (9%). These three have one thing in common. They are each purchased by a substantially greater proportion of small employers than purchase employee health. Thus, relatively large groups identify them even though other data, such as found for example in Q#3B1, indicate that they are rising much more slowly than employee health. Still, these three are not purchased as often as property damage and slips and falls (premise liability), but are cited far more frequently as rising the most rapidly.

When asked how they intend to react to the premium increase that they identified as largest, small employers reported that they have taken or plan to take various steps to reduce the impact of insurance premium increases. Some steps involve direct retaliation against insurers and agents; others involve the amount of insurance purchased; and still others involve changing business operations to minimize risk. Of the six potential responses appearing on the survey, no one response drew more than a one-third positive reaction. Different owners planned varying steps to address their situations. Individual circumstances clearly were leading small-business owners in different directions.

The most frequent change made or planned is to switch insurers. Thirty-four (34) percent claimed that they already have or are planning to change providers (Q#5A). Those employing 20 or more (and presumably generating the most premium) made this choice over 10 percentage points more frequently than the smallest. Nor were brokers and agents immune. One in four (25%) have either changed or plan to change agents or brokers (Q#5D). Again, owners of larger, small businesses are more likely to pursue this course of action than owners of smaller, small businesses. Many small employers believe that shopping will get them a better deal and they intend to do it (or already have). (The relationship between small-business owners and insurance agents will be revisited later.)

The second most common response is to increase the deductible. Thirty (30) percent determined that a higher deductible was an appropriate reaction to higher premiums (Q#5B). This strategy was twice as common among owners of larger, small ventures as owners of smaller, small ventures.

Eighteen (18) percent indicated that they would change business operations to reduce claims risk (Q#5E). This option offers owners more potential for premium cost control under some circumstances than others. Any benefit to the small employer from such actions depends on the relation of claims experience to premiums; the closer the tie, the more likely the direct benefit and vice versa. The expense required to change business operations is therefore a critical factor in the benefit equation.

An owner can also reduce (beyond a higher deductible) or eliminate coverage. Elimination (or dropping coverage) is unusual, if not rare, as shown earlier. As a result, almost all of the 17 percent who have or plan to reduce or eliminate coverage will simply reduce it (Q#5C). How the reduction will occur is not clear. It is likely the choices will vary substantially with some, for example, narrowing coverage, others lowering limits, etc.

Employers can defray the cost of employee health insurance by raising the employee's share of the premium. That option is not available with other forms of insurance. So, if the respondent did not want to absorb the increase or to lower benefits, increasing the employee cost share is an option. Thirty-three (33) percent of small-business owners who identified employee health as having the most rapidly rising premiums either raised the employee cost-share or are planning to do so (Q#5F). The option was chosen most often by owners of larger, small firms who opted to follow it in a majority (58%) of cases.

Given the frequency and size of premium increases as well as the concern expressed over them, the proportion who have or plan to take action in response is less than would be expected. Just 61 percent will take at least one of five possible steps in reaction (raising the cost-share on employee health is excluded because not all could respond to the question) and 39 percent will not. Another 3 percent raised the

cost-share on employee health and took (will take) no other action. That changes the proportions to 64-36. However, if these actions are spread over all who purchase insurance rather than just those who identify one line as being a particular cost problem, the number taking at least one measure to counter cost increases falls to 52 percent.

The question is why don't more small employers react to these premium increases. One answer is that a small, but notable percentage (around one in ten), do not believe that premiums are rising or rising out of line with other cost increases. But subtracting that number still leaves a large percentage experiencing considerable premium hikes who intend no response. Perhaps these small-business owners believe that they have no bargaining power and simply must swallow the higher premiums. Perhaps they purchase relatively small amounts of insurance and aren't greatly affected by a large percentage increase in one line. Perhaps they simply depend on their agent to do all that can be done to minimize costs. Whatever the reason(s), small employers take counter-measures less often than would be anticipated.

There is an important caveat to the discussion of these reactions. These are reactions to premium increases that have already occurred; they are not necessarily reactions to premium increases that might occur in the future. While past performance is usually a reasonable proxy for future performance, the compounding effect of premium increases may push owners in new directions at magnified speeds. That means the possibility of dropping coverages accelerates. So, does the possibility of lesser coverage among those retained. And, premium shopping will intensify.

## Claims and Claims Satisfaction

Premium costs are obviously tied to claims experience. It is therefore important to have an idea of the amount in claims filed. Because a large claim is a "rare event" and the survey sample is relatively small, respondents were asked for each line of insurance purchased whether they had filed one or more claims of \$1,000 or more in the past year.

The most common qualifying claim filed by small-business owners is vehicle collision or liability. Seventeen (17) percent of those with vehicle coverage report-

ed filing such a claim in the last year (Q#3G2). Given the pervasiveness of coverage, the frequency of claims filed consumes considerable resources. The same is true with workers' compensation. Fifteen (15) percent of those who reported coverage also reported that they have had a WC claim of \$1,000 or more in the last year (Q#3I2). These two types of insurance alone constitute a significant share (a majority in this survey) of all business insurance claims made.

Claims from three other insurance types also occur with some frequency. Last year 9 percent put in at least one claim of \$1,000 or more for property damage (Q#3A2). A non-mutually exclusive 6 percent did the same for premise liability (Q#3F2) and another 6 percent for product and/or professional liability (Q#3B2).

Claims under the remaining three insurance types (employee health is omitted because the employee makes the claim) were much less frequent both because the incidence was lower and because the number purchasing it is relatively low. It is likely the two are associated. Still, 4 percent disclosed claims of \$1,000 or more for employee-related liability (Q#3H2). Three percent said that they filed at least one such claim under their business interruption coverage (Q#3C2). Finally, less than 1 percent of the insured filed an environmental liability of \$1,000 or more in the last year.

Insurer response to small-business owner claims has been satisfactory overall, though the data contain a suggestion that some types of claims may be handled more satisfactorily than others. The handling of vehicle claims received high marks. Though the sample size is small, 51 percent said that the insurance company's response was "very satisfactory" and another 44 percent said that it was "generally satisfactory" (Q#3G2a). Small employers were not as happy with workers' compensation claims. Thirty (30) percent were "very satisfied" while 46 percent were "generally satisfied." The remaining 24 percent either were "not too satisfied" or "not at all" satisfied.

The number of claims for the other type of insurance are too few to break out separately. But if all responses are totaled, there are 75 cases. Those cases breakout, 57 percent "very satisfied," 37 percent "generally

satisfied," 4 percent "not too satisfied," and 1 percent "not at all" satisfied. Given that only 2 percent earlier identified claims resolution as the greatest problem with business insurance today and the overall satisfaction with claims handling registered here, it is fair to say that claims handling is not a small-business problem.

## Life Insurance

The primary interest small-business owners have in life insurance other than the obvious is the excess amount some are forced to purchase in order to offset any potential estate and gift tax liability. One critical question is how many purchase excess life insurance for such purposes. Thirty-three (33) percent believed that they currently do (Q#6). Among those employing 10 or more people, the proportion who believed it is in the mid-40s. While the questionnaire did not specifically ask for the amount of excess, one-third of owners are transferring capital from other uses to protect their heirs from the "tax man." That is not an efficient use of resources.

## Owners and Agents

Small-business owners have traditionally been dependent on insurance agents for a large share of the information they have on business insurance, including the most favorable prices and coverages. This relationship has often been helpful to small employers because it allows a knowledgeable person to marry the needs of the firm with the products and prices available in the market. Unfortunately, there is also an inherent conflict of interest because what may be most advantageous for a small-business owner may not always be most advantageous for an agent (most of whom are small-business owners themselves), and vice versa. The implication is that it is fine for an owner to rely on an agent, but the owner also needs to be an educated insurance consumer.

Eleven (11) percent of small businessmen and women claimed to be "very knowledgeable" about business insurance (Q#8). (If the financial services sector is eliminated, the proportion who believed that they are very knowledgeable falls just over one percentage point.) But most replied that they are "somewhat knowledgeable." Sixty (60) percent placed themselves in the some-

what knowledgeable category. Thus, over 70 percent believed that they have reasonable familiarity with business insurance. In contrast, 24 percent classified themselves as “not too knowledgeable” and 5 percent said that they are “not at all knowledgeable.” Curiously, business experience measured by the number of years the individual has owned and operated the enterprise seems unrelated to the self-assessed level of knowledge about business insurance.

Almost three of four (73%) have one person whom they would call “their insurance agent” (Q#9). The self-assessed business insurance knowledge level is unrelated to possession of one. The existence of the relationship is also unrelated to firm size.

Forty-nine (49) percent of those with an agent disclosed that the agent is their primary source of information on business insurance and the firm’s insurance needs (Q#9a). That means 35 percent of all small-business owners who purchase business insurance rely heavily on their agent for insurance information. Another 31 percent described their agent as an important source of information on business insurance and the firm’s insurance needs. That translates into another 22 percent of the entire purchasing population. About one in five (20%) said that their agent is either only a modestly important or not an important information source. But even if a small employer does not have a personal agent, it is likely that much of the insurance information they obtain flows through one of some type. It is therefore fair to assert that insurance agents continue to play an important role in small-business owner decisions on insurance. If and/or how that role will change due to current problems and to insurance activity on the Internet remains to be seen.

### Final Comments

Small business cannot function without business insurance. Yet, business insurance is becoming a major problem for smaller enterprises. The principal concern is rising premium costs. While other concerns such as availability and exclusions stir interest among many small employers, cost is the fundamental issue. Higher premium costs not only directly require rechanneling business resources to larger insurance payments, but they also drive secondary

insurance issues such as the growing number of exclusions.

Higher premium costs in addition may cause some small-business owners to reject purchasing insurance altogether, refuse to carry coverages whose costs appear particularly out-of-line with risk, or rely on personal insurance (and hope it covers them). The number of small employers who choose one or more of these routes cannot be calculated from the data. But the fact that so many reported that they “self-insure” (13% exclusively and 17% partially) when the size of their firms suggests self-insurance (contrasted to “going bare”) is improbable, implies a small, but non-trivial percentage have opted out of the market.

The business insurance cost problem is not confined to one line of insurance. The most seriously impacted seems to be employee health. Those premium increases have been well-documented here and elsewhere. But employee health is only the worst. Other lines are rising rapidly as well. Vehicle collision and liability as well as workers’ compensation and product/professional liability are others where small-business owners report experiencing rapid premium increases. Even lines that have experienced more temperate performance have risen at relatively sharp rates.

Insurance prices supposedly are regulated within reasonable parameters by state insurance commissioners. That approach obviously is not working. So, small employers have responded as one would expect them to respond. They shop. The most frequent step they take is to look for new sources of insurance supply (insurers). They are not bashful about looking for new intermediaries as well. Significant percentages also raise deductibles, increase employee cost sharing in the case of employee health insurance, and reduce coverage. The one step they rarely appear to take is complete elimination of coverages once they have them. Unfortunately, not enough of them react, even among those who believe premiums are rising rapidly. The reason(s) for their lack of more frequent and more vigorous (more different actions) reaction cannot be found in this data set. However, it is likely some small employers feel that they simply have no options available.

Insurance premiums are rising for a reason(s). Escalating medical costs clearly play



a role since they not only drive employee health premiums, but workers' compensation, vehicle liability, and premise liability premiums as well. Legal costs and our tort law system also are contributors. And, then there is "cash-flow underwriting." With the soaring stock market a few years ago, insurers were more interested in generating premiums to invest than in ensuring premiums covered losses and expenses. Conditions are the opposite today requiring insurers to price differently. Yet, there are forces moving premiums in the opposite direction as well. The workplace is becoming progressively safer; structures are becoming more fire-proof and weather-proof, etc. But the forces pressuring premiums downward are obviously insufficient to overcome those pushing in the opposite direction.

The critical question is what to do. And, the answers to that question can be in direct contradiction to one another depending on the viewpoint of the individual espousing them. Small-business owners have views on the question, and those views are rarely flattering to the actors and institutions involved. Their primary focus is currently on trial lawyers and the tort law system. They also know that insurance fraud is occurring more frequently than anyone would like to admit. They just cannot understand the reasons for the health cost increases. Yet, they are not fond of insurance companies either for reasons associated with volatility of premiums, impediments they sometimes raise to competition, settlement of claims that owners believe should be challenged, etc. The only ones who seem largely to escape blame are insurance agents, a group with whom they still have an affinity. Yet, that may be changing, too.

# Business Insurance

(Please review notes at the table's end.)

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
<b>1. Overall, do you believe that the biggest problem with business insurance today is:</b>				
1. Rising premiums	61.7%	70.2%	74.7%	63.8%
2. Increasing numbers of excluded coverages	6.1	2.4	5.1	5.6
3. Poor claims response	1.6	2.4	1.3	1.6
4. Unavailability of some insurance types	5.0	7.1	3.8	5.1
5. Poor coverage fits, OR	3.9	1.2	2.5	3.5
6. No real business insurance problems	16.1	13.1	6.3	14.8
7. (Other problem)	2.5	2.4	2.5	2.5
8. (DK/Refuse)	3.1	1.2	3.8	3.0
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

## 2. Do you buy business insurance, self-insure, or both buy and self-insure?

1. Buy	64.7%	82.6%	76.6%	67.8%
2. Self-insure	16.0	2.3	2.6	13.2
3. Buy and self-insure	16.8	14.0	19.5	16.7
4. (Neither buy business insurance nor self-insure)	1.9	—	1.3	1.6
5. (DK/Refuse)	0.6	1.2	—	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

## 3. Do you buy business insurance that covers: (If “buy,” “buy and self-insure,” “don’t know” or refuse in Q#2.)

### A. Property damage?

1. Yes	85.1%	91.7%	93.4%	86.8%
2. No	14.7	7.1	6.6	12.9
3. (DK/Refuse)	0.2	1.2	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

**Employee Size of Firm**  
**1-9 emp    10-19 emp    20-249 emp    All Firms**

**A1. On a cost per unit of coverage basis, has the price of insurance covering property damage over the last year or so: (If “Yes” in Q#3A.)**

1. Risen	53.4%	60.5%	69.0%	56.1%
a. <20 percent	(29.2)	(30.3)	(39.4)	(30.6)
b. 20-49 percent	(10.8)	(17.1)	(19.7)	(12.6)
c. 50+ percent	(5.3)	(2.6)	(4.2)	(4.8)
d. (DK/Refuse)	(8.1)	(10.5)	(5.6)	(8.1)
2. Stayed about the same	38.2	35.5	23.9	36.2
3. Fallen	1.5	1.3	1.4	1.5
4. (DK/Refuse)	6.8	2.6	5.6	6.1
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	252	179	183	614

**A2. In the last year, have you filed one or more claims for \$1,000 or more on insurance covering property damage?**

1. Yes	7.8%	5.3%	15.6%	8.7%
2. No	92.2	94.7	84.4	91.3
3. (DK/Refuse)	—	—	—	—
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	109	87	115	311

**A3. Did you drop coverage for property damage in the last three years, OR have you not purchased it in the last three years? (If “No” in Q#3A.)**

1. Dropped				2.2%
2. Not purchased				94.4
3. (DK/Refuse)				3.3
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	42	14	13	69

**B. Product or professional liability, including negligence, and errors and omissions?**

1. Yes	66.5%	66.7%	72.0%	67.1%
2. No	30.4	29.8	25.3	29.7
3. (DK/Refuse)	3.2	3.6	2.7	3.2
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

**B1. On a cost per unit of coverage basis, has the price of insurance covering product or professional liability over the last year or so:**

1. Risen	55.9%	60.7%	63.6%	57.4%
a. <20 percent	(30.9)	(25.0)	(30.9)	(30.2)
b. 20-49 percent	(9.3)	(19.6)	(20.0)	(11.8)
c. 50+ percent	(7.6)	(5.4)	(7.3)	(7.3)
d. (DK/Refuse)	(8.1)	(8.9)	(5.5)	(7.9)
2. Stayed about the same	37.9	37.5	30.9	37.0
3. Fallen	1.1	—	—	0.9
4. (DK/Refuse)	5.1	1.8	5.4	4.7
Total	100.0%	100.0%	100.0%	100.0%
N	195	129	140	464

**B2. In the last year, have you filed one or more claims for \$1,000 or more on insurance covering product or professional liability?**

1. Yes	5.3%	7.1%	6.3%	5.6%
2. No	94.7	92.9	93.8	94.4
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	89	66	83	238

**B3. Did you drop coverage for product or professional liability in the last three years, OR have you not purchased it in the last three years? (If “No” in Q#3B.)**

1. Dropped		2.5%	4.0%	2.4%
2. Not purchased		95.7	96.0	96.1
3. (DK/Refuse)		1.9	—	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	90	58	49	197

**C. Business interruption?**

1. Yes	28.4%	48.8%	59.2%	34.2%
2. No	65.5	50.0	35.5	60.3
3. (DK/Refuse)	6.2	1.2	5.3	5.5
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

Employee Size of Firm  
 1-9 emp    10-19 emp    20-249 emp    All Firms

**C1. On a cost per unit of coverage basis, has the price of insurance covering business interruption over the last year or so:**

1. Risen	31.1%	46.3%	51.1%	37.6%
a. <20 percent	(19.9)	(24.4)	(24.4)	(21.5)
b. 20-49 percent	(3.3)	(9.8)	(13.3)	(6.3)
c. 50+ percent	(1.3)	(2.4)	(4.4)	(2.1)
d. (DK/Refuse)	(6.6)	(7.3)	(6.7)	(6.8)
2. Stayed about the same	58.3	36.6	37.8	50.6
3. Fallen	2.0	2.4	—	1.7
4. (DK/Refuse)	8.6	14.6	11.1	10.2
Total	100.0%	100.0%	100.0%	100.0%
N	80	93	114	287

**C2. In the last year, have you filed one or more claims for \$1,000 or more on insurance covering business interruption?**

1. Yes				2.8%
2. No				97.2
3. (DK/Refuse)				—
Total	100.0%	100.0%	100.0%	100.0%
N	20	36	49	105

**C3. Did you drop coverage for business interruption in the last three years, OR have you not purchased it in the last three years? (If “No” in Q#3C.)**

1. Dropped	0.6%	—	—	0.5%
2. Not purchased	99.4	100.0	96.3	99.3
3. (DK/Refuse)	—	—	3.7	0.2
Total	100.0%	100.0%	100.0%	100.0%
N	196	99	72	367

**D. Environmental liability?**

1. Yes	16.6%	20.2%	25.3%	18.0%
2. No	72.4	73.8	66.7	72.0
3. (DK/Refuse)	11.0	6.0	8.0	10.0
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

**D1. On a cost per unit of coverage basis, has the price of insurance covering environmental liability over the last year or so:**

1. Risen				43.5%
a. <20 percent				(17.7)
b. 20-49 percent				(12.1)
c. 50+ percent				(6.5)
d. (DK/Refuse)				(7.3)
2. Stayed about the same				41.9
3. Fallen				—
4. (DK/Refuse)				14.5
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	48	39	49	136

**D2. In the last year, have you filed one or more claims for \$1,000 or more on insurance covering environmental liability?**

1. Yes				—%
2. No				100.0
3. (DK/Refuse)				—
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	16	17	22	55

**D3. Did you drop coverage for environmental liability in the last three years, OR have you not purchased it in the last three years? (If “No” in Q#3D.)**

1. Dropped	0.5%	—	—	0.5%
2. Not purchased	98.5	98.4	96.0	99.3
3. (DK/Refuse)	1.0	1.6	4.0	1.4
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	215	143	132	490

**E. Employee health?**

1. Yes	44.8%	69.0%	82.7%	51.8%
2. No	54.9	29.8	17.3	47.8
3. (DK/Refuse)	0.4	1.2	—	0.4
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

**Employee Size of Firm**  
**1-9 emp    10-19 emp    20-249 emp    All Firms**

**E1. On a cost per unit of coverage basis, has the price of insurance covering employee health over the last year or so:**

1. Risen	87.9%	93.1%	95.2%	90.0%
a. <20 percent	(32.2)	(39.7)	(32.3)	(33.4)
b. 20-49 percent	(43.5)	(39.7)	(51.6)	(44.3)
c. 50+ percent	(5.4)	(5.2)	(8.1)	(5.8)
d. (DK/Refuse)	(6.7)	(8.6)	(3.2)	(6.4)
2. Stayed about the same	9.2	3.4	3.2	7.2
3. Fallen	—	1.7	1.6	0.6
4. (DK/Refuse)	2.9	1.7	—	2.2
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>N</b>	<b>128</b>	<b>132</b>	<b>162</b>	<b>422</b>

**E2. Did you drop coverage for employee health in the last three years, OR have you not purchased it in the last three years? (If “No” in Q#3E.)**

1. Dropped	5.4%	4.0%		5.1%
2. Not purchased	93.2	96.0		99.3
3. (DK/Refuse)	1.4	—		1.4
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>N</b>	<b>166</b>	<b>62</b>	<b>34</b>	<b>262</b>

**F. Slips and falls, and similar liability claims (premise liability)?**

1. Yes	71.8%	78.6%	81.6%	73.7%
2. No	26.3	19.0	15.8	24.3
3. (DK/Refuse)	1.9	2.4	2.6	2.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>N</b>	<b>295</b>	<b>196</b>	<b>196</b>	<b>687</b>

**F1. On a cost per unit of coverage basis, has the price of insurance covering slips and falls over the last year or so:**

1. Risen	47.3%	51.6%	61.3%	49.5%
a. <20 percent	(26.0)	(21.9)	(33.9)	(26.4)
b. 20-49 percent	(8.8)	(17.2)	(19.4)	(11.2)
c. 50+ percent	(4.9)	(1.6)	(3.1)	(4.3)
d. (DK/Refuse)	(7.5)	(9.4)	(4.7)	(7.4)
2. Stayed about the same	42.9	39.1	30.6	40.9
3. Fallen	0.5	1.6	1.6	0.6
4. (DK/Refuse)	9.3	7.8	8.1	9.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>N</b>	<b>212</b>	<b>152</b>	<b>159</b>	<b>523</b>

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

**F2. In the last year, have you filed one or more claims for \$1,000 or more on insurance covering slips and falls?**

1. Yes	3.9%	7.4%	14.3%	6.0%
2. No	96.1	92.6	82.9	93.5
3. (DK/Refuse)	—	—	2.9	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	83	61	88	232

**F3. Did you drop coverage for slips and falls in the last three years, OR have you not purchased it in the last three years? (If “No” in Q#3F.)**

1. Dropped	1.4%			1.2%
2. Not purchased	96.5			96.4
3. (DK/Refuse)	2.1			2.4
Total	100.0%	100.0%	100.0%	100.0%
N	77	38	32	147

**G. Vehicle collision and liability?**

1. Yes	69.0%	70.2%	81.6%	70.5%
2. No	30.2	29.8	18.4	28.9
3. (DK/Refuse)	0.7	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

**G1. On a cost per unit of coverage basis, has the price of insurance covering vehicle collision and liability over the last year or so:**

1. Risen	60.1%	72.4%	63.9%	62.0%
a. <20 percent	(34.2)	(43.1)	(36.1)	(35.5)
b. 20-49 percent	(12.4)	(17.2)	(16.4)	(13.5)
c. 50+ percent	(3.8)	(1.7)	(4.9)	(3.7)
d. (DK/Refuse)	(9.4)	(8.6)	(4.9)	(8.8)
2. Stayed about the same	33.2	24.1	32.8	32.0
3. Fallen	2.7	—	—	2.0
4. (DK/Refuse)	4.0	3.4	3.3	3.8
Total	100.0%	100.0%	100.0%	100.0%
N	200	137	160	497



Employee Size of Firm  
 1-9 emp    10-19 emp    20-249 emp    All Firms

**G2. In the last year, have you filed one or more claims for \$1,000 or more on insurance covering vehicle collision and liability?**

1. Yes	12.8%	27.0%	30.6%	17.2%
2. No	87.2	73.0	69.4	82.8
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	97	82	91	270

**G2a. How satisfied were you with the insurance company's response? Were you very satisfied, generally satisfied, not too satisfied, or not at all satisfied? (If "Yes" in Q#G2.)**

1. Very satisfied				51.1%
2. Generally satisfied				44.4
3. Not too satisfied				2.2
4. Not at all satisfied				2.2
Total	100.0%	100.0%	100.0%	100.0%
N	12	21	27	60

**G3. Did you drop coverage for vehicle collision and liability in the last three years, OR have you not purchased it in the last three years? (If "No" in Q#3G.)**

1. Dropped		3.1%	4.0%	3.0%
2. Not purchased		96.9	96.0	97.0
3. (DK/Refuse)		—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	93	58	36	187

**H. Employment-related liability such as defamation or wrongful termination?**

1. Yes	16.6%	29.8%	38.2%	20.5%
2. No	75.8	65.5	55.3	72.3
3. (DK/Refuse)	7.6	4.8	6.6	7.2
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

**H1. On a cost per unit of coverage basis, has the price of insurance covering employment-related liability over the last year or so:**

1. Risen		52.0%	51.7%	48.3%
a. <20 percent		(28.0)	(24.1)	(28.0)
b. 20-49 percent		(16.0)	(13.8)	(11.9)
c. 50+ percent		(—)	(3.4)	(0.7)
d. (DK/Refuse)		(4.0)	(10.3)	(7.0)
2. Stayed about the same		40.0	37.9	42.0
3. Fallen		—	—	—
4. (DK/Refuse)		8.0	10.3	9.8
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	48	56	75	179

**H2. In the last year, have you filed one or more claims for \$1,000 or more on insurance covering employment-related liability?**

1. Yes				3.6%
2. No				96.4
3. (DK/Refuse)				—
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	20	25	30	75

**H3. Did you drop coverage for employment-related liability in the last three years, OR have you not purchased it in the last three years? (If “No” in Q#3H.)**

1. Dropped	0.5%	1.9%	—%	0.6%
2. Not purchased	95.8	96.3	97.6	97.0
3. (DK/Refuse)	3.7	1.9	2.4	—
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	224	128	109	461

**I. Workers' Compensation?**

1. Yes	70.5%	91.6%	96.1%	75.8%
2. No	28.9	7.2	3.9	23.6
3. (DK/Refuse)	0.6	1.2	—	0.6
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

**Employee Size of Firm**  
**1-9 emp    10-19 emp    20-249 emp    All Firms**

**11. On a cost per unit of coverage basis, has the price of insurance covering workers' compensation over the last year or so:**

1. Risen	54.8%	61.8%	64.4%	57.1%
a. <20 percent	(27.5)	(27.6)	(35.6)	(28.7)
b. 20-49 percent	(15.1)	(22.4)	(17.8)	(16.5)
c. 50+ percent	(4.0)	(2.6)	(4.1)	(3.8)
d. (DK/Refuse)	(8.2)	(7.9)	(6.8)	(8.0)
2. Stayed about the same	32.8	27.6	26.0	31.1
3. Fallen	3.7	5.3	4.1	4.0
4. (DK/Refuse)	8.8	5.3	5.5	7.8
Total	100.0%	100.0%	100.0%	100.0%
N	204	178	189	571

**12. In the last year, have you filed one or more claims for \$1,000 or more on insurance covering workers' compensation?**

1. Yes	9.1%	15.0%	40.5%	15.1%
2. No	90.9	85.0	59.5	84.9
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	92	92	109	293

**12a. How satisfied were you with the insurance company's response? Were you very satisfied, generally satisfied, not too satisfied, or not at all satisfied? (If "Yes" in Q#12.)**

1. Very satisfied				29.7%
2. Generally satisfied				45.9
3. Not too satisfied				13.5
4. Not at all satisfied				10.8
Total	100.0%	100.0%	100.0%	100.0%
N	8	15	42	65

**13. Did you drop coverage for workers' compensation in the last three years, OR have you not purchased it in the last three years? (If "No" in Q#31.)**

1. Dropped	11.0%			10.4%
2. Not purchased	89.0			89.6
3. (DK/Refuse)	—			—
Total	100.0%	100.0%	100.0%	100.0%
N	89	15	7	111

**4. For which ONE type of insurance has the cost per unit gone up the most in the last year or two?**

1. Property damage	5.4%	3.7%	8.0%	5.5%
2. Product or professional liability	12.5	7.4	9.3	11.6
3. Business interruption	—	—	1.3	0.1
4. Environmental liability	0.4	1.2	1.3	0.6
5. Employee health	30.1	42.0	44.0	33.0
6. Slips and falls (Premise liability)	2.4	1.2	2.7	2.3
7. Vehicle collision and liability	9.7	8.6	6.7	9.3
8. Employment-related liability	1.3	1.2	1.3	1.3
9. Worker's compensation	11.8	16.0	12.0	12.3
10. (Other)	5.4	7.4	4.0	5.5
11. (Nothing has gone up)	6.2	1.2	1.3	5.1
12. (DK/Ref)	14.6	9.9	8.0	13.3
Total	100.0%	100.0%	100.0%	100.0%
N	295	196	196	687

**5. How have you responded to the increase in insurance to cover (response to Q#4). Did you or do you plan to:**

**A. Change insurers?**

1. Yes	32.5%	35.1%	44.1%	34.2%
2. No	64.0	60.8	48.5	61.7
3. (DK/Ref)	3.5	4.1	7.4	4.1
Total	100.0%	100.0%	100.0%	100.0%
N	233	172	176	581

**B. Increase the deductible?**

1. Yes	25.2%	35.1%	51.5%	29.6%
2. No	68.0	59.5	47.1	64.4
3. (DK/Ref)	6.8	5.4	1.5	6.0
Total	100.0%	100.0%	100.0%	100.0%
N	233	172	176	581

**C. Reduce or eliminate this coverage?**

1. Yes	17.6%	13.7%	19.1%	17.3%
2. No	80.7	84.9	79.4	81.1
3. (DK/Ref)	1.6	1.4	1.5	1.6
Total	100.0%	100.0%	100.0%	100.0%
N	233	172	176	581

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
<b>D. Change agent or broker?</b>				
1. Yes	24.0%	27.0%	32.4%	25.4%
2. No	71.5	71.6	66.2	70.9
3. (DK/Ref)	4.4	1.4	1.5	3.7
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	233	172	176	581

**E. Change business operations to reduce claim risk?**

1. Yes	16.5%	18.7%	26.9%	18.0%
2. No	81.4	78.7	68.7	79.5
3. (DK/Ref)	2.1	2.7	4.5	2.5
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	233	172	176	581

**F. Increase employee cost-share? (Only if “Yes” to “Employee health” in Q#4)**

1. Yes	27.3%	35.3%	57.6%	32.9%
2. No	63.4	58.8	36.4	58.8
3. (DK/Ref)	9.3	5.9	6.1	8.3
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	88	77	86	251

**6. Do you carry extra life insurance on yourself for the sole purpose of paying any potential estate and/or gift tax on your business?**

1. Yes	29.5%	43.6%	45.5%	32.5%
2. No	63.5	45.5	43.6	59.7
3. (Not the owner)	5.5	10.9	9.1	6.4
4. (DK/Ref)	1.6	—	1.8	1.5
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	241	131	144	516

**7. How much do you estimate that you spend per year on insurance of ALL types as a percentage of total sales? Include worker's and unemployment compensation. (If "buy," "buy and self-insure," "don't know" or refuse in Q#2.)**

1. <1-2 percent	11.0%	8.4%	13.5%	11.0%
2. 3-5 percent	22.5	18.1	23.0	22.1
3. 6-10 percent	22.3	25.3	13.5	21.8
4. 11-15 percent	5.2	8.4	6.8	5.7
5. 16 percent or more	8.3	9.6	10.8	8.7
6. (DK/Ref)	30.7	30.1	32.4	30.8
Total	100.0%	100.0%	100.0%	100.0%
N	332	194	190	716

**8. Do you consider yourself very knowledgeable, somewhat knowledgeable, not too knowledgeable, or not at all knowledgeable about business insurance?**

1. Very knowledgeable	10.0%	11.8%	18.2%	11.0%
2. Somewhat knowledgeable	58.1	64.7	66.2	59.6
3. Not too knowledgeable	26.4	20.0	11.7	24.3
4. Not at all knowledgeable	5.5	3.5	3.9	5.1
5. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	332	194	190	716

**9. Do you have one person whom you would call, "my insurance agent?"**

1. Yes	73.2%	77.9%	70.1%	73.4%
2. No	26.5	20.9	28.6	26.1
3. (DK/Ref)	0.3	1.2	1.3	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	332	194	190	716

**9a. Is that person your primary source, an important source, a modestly important source, or not an important source of business insurance and your firm's insurance needs? (If "Yes" in Q#9.)**

1. Primary source	49.0%	50.0%	44.4%	48.7%
2. Important source	28.7	33.8	42.6	30.6
3. Modestly important source	16.7	11.8	11.1	15.6
4. Not an important source	5.1	4.4	1.9	4.8
5. (DK/Ref)	0.4	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	257	155	141	553

## Demographics

### D1. Is your primary business activity:

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Construction?	12.4%	11.8%	11.7%	12.3%
2. Manufacturing?	10.7	10.6	11.7	10.8
3. Wholesale?	6.6	5.9	3.9	6.3
4. Retail?	19.9	21.2	19.5	20.0
5. Transportation?	2.2	4.7	6.5	2.9
6. Communication?	3.0	2.4	2.6	2.9
7. Financial Services?	5.2	5.9	5.2	5.3
8. Services?	35.2	34.1	35.1	35.0
A. Non-professional, e.g., lodging, auto repair, garages, recreation	(27.2)	(31.0)	(32.1)	(28.1)
B. Professional, e.g., health, legal, education, engineering	(40.6)	(34.5)	(39.3)	(39.9)
C. Business, e.g., advertising, mail, employment agencies, computer services, security, equipment rental	(17.9)	(23.8)	(10.7)	(16.7)
D. Personal, e.g., laundries, beauty shop, photography, funeral services, child care	(12.5)	(13.8)	(14.3)	(12.8)
E. (Other/D/K)	(1.8)	(6.8)	(3.6)	(2.5)
9. Agriculture, forestry, fishing?	3.3	—	1.3	1.0
10. (Other)	0.9	1.2	1.3	1.0
11. (DK/Refuse)	0.6	2.4	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

### D2. Over the last two years, have your real volume sales:

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Increased by 30 percent or more?	15.2%	17.4%	15.6%	15.5%
2. Increased by 20 to 29 percent?	9.6	10.5	11.7	9.9
3. Increased by 10 to 19 percent?	24.5	23.3	29.9	24.8
4. Changed less than 10 percent one way or the other?	26.0	30.2	24.7	26.3
5. Decreased by 10 percent or more?	20.8	14.0	14.3	19.5
6. (DK/Refuse)	3.9	4.6	3.9	3.9
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

**D3. Is this business operated primarily from the home, including any associated structures such as a garage or a barn?**

1. Yes	28.7%	10.5%	3.9%	24.3%
2. No	69.3	87.2	93.5	73.5
3. (DK/Refuse)	2.0	2.3	2.6	2.1
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

**D4. How long have you owned or operated this business?**

1. < 6 years	28.7%	23.3%	16.7%	26.9%
2. 6-10 years	17.9	23.3	15.4	18.2
3. 11-20 years	29.8	29.1	30.8	29.8
4. 21-30 years	14.7	14.0	21.8	15.3
5. 31 years+	6.9	8.1	12.8	7.6
6. (DK/Refuse)	2.0	2.3	2.6	2.1
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

**D5. What is your highest level of formal education?**

1. Did not complete high school	0.8%	—%	1.3%	0.8%
2. High school diploma/GED	21.7	12.9	14.3	20.0
3. Some college or an associates degree	24.0	27.1	19.5	23.9
4. Vocational or technical school degree	3.3	1.2	1.3	2.9
5. College diploma	30.3	36.5	39.0	31.8
6. Advanced or professional degree	19.5	22.4	24.7	20.3
7. (DK/Refuse)	0.5	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

**D6. Please tell me your age.**

1. <25	4.7%	3.5%	5.1%	4.6%
2. 25-34	9.4	4.7	3.8	8.4
3. 35-44	24.5	23.5	25.6	24.5
4. 45-54	31.5	38.8	30.8	32.2
5. 55-64	22.9	21.2	23.1	22.7
6. 65+	6.7	8.2	11.5	7.4
7. (DK/Refuse)	0.3	—	—	0.2
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753



	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
<b>D7. What is the zip code of your business?</b>				
1. East (zips 010-219)	20.8%	17.6%	14.1%	19.8%
2. South (zips 220-427)	21.0	16.5	23.1	20.7
3. Mid-West (zips 430-567, 600-658)	18.2	24.7	26.9	19.7
4. Central (zips 570-599, 660-898)	19.2	20.0	20.5	19.5
5. West (zips 900-999)	20.8	21.2	15.4	20.3
6. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

**D8. What were your gross receipts in your most recent calendar or fiscal year?**

1. <\$100,000	17.4%	1.2%	1.3%	14.1%
2. \$100,000-\$249,999	22.7	2.3	1.3	18.5
3. \$250,000-\$499,999	14.4	9.3	2.6	12.7
4. \$500,000-\$999,999	14.6	14.0	10.3	14.1
5. \$1 million-\$4.9 million	11.6	43.0	38.5	17.6
6. \$5 million - \$9.9 million	1.4	7.0	14.1	3.2
7. \$10 million or more	0.9	3.5	16.7	2.7
8. (DK/Refuse)	16.9	19.8	15.4	17.0
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

**D9. Sex**

Male	82.0%	83.7%	85.7%	82.5%
Female	18.0	16.3	14.3	17.5
Total	100.0%	100.0%	100.0%	100.0%
N	352	200	201	753

**Table Notes**

1. All percentages appearing are based on **weighted** data.
2. All “Ns” appearing are based on **unweighted** data.
3. Data are not presented where there are fewer than 50 unweighted cases.
4. ( )s around an answer indicate a volunteered response.

**WARNING** — When reviewing the table, care should be taken to distinguish between the percentage of the population and the percentage of those asked a particular question. Not every respondent was asked every question. All percentages appearing on the table use the number asked the question as the denominator.

# Data Collection Methods

The data for this survey report were collected for the NFIB Research Foundation by the executive interviewing group of The Gallup Organization. The interviews for this edition of the *Poll* were conducted between September 3 - September 27, 2002 from a sample of small employers. "Small employer" was defined for purposes of this survey as a business owner employing no fewer than one individual in addition to the owner(s) and no more than 249.

The sampling frame used for the survey was drawn at the Foundation's direction from the files of the Dun & Bradstreet Corporation, an imperfect file but the best currently available for public use. A random stratified sample design was employed to compensate

for the highly skewed distribution of small-business owners by employee size of firm (Table A1). Almost 60 percent of employers in the United States employ just one to four people meaning that a random sample would yield comparatively few larger, small employers to interview. Since size within the small-business population is often an important differentiating variable, it is important that an adequate number of interviews be conducted among those employing more than 10 people. The interview quotas established to achieve these added interviews from larger, small-business owners were arbitrary but adequate to allow independent examination of the 10-19 and 20-249 employee-size classes as well as the 1-9 employee-size group.

**Table A1**  
**Sample Composition Under Varying Scenarios**

Employee Size of Firm	Expected from Random Sample*		Obtained from Stratified Random Sample			
	Interviews Expected	Percent Distri- bution	Interview Quotas	Percent Distri- bution	Completed Interviews	Percent Distri- bution
1-9	593	79	350	47	352	47
10-19	82	11	200	27	200	27
20-249	75	10	200	27	201	27
All Firms	750	100	750	101	753	101

\*Sample universe developed from special runs supplied to the NFIB Research Foundation by the Bureau of the Census (1997 data).

## The Sponsors

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The **NFIB Research Foundation** is a small-business-oriented research and information organization affiliated with the National Federation of Independent Business, the nation's largest small and independent business advocacy organization. Located in Washington, DC, the Foundation's primary purpose is to explore the policy related problems small-business owners encounter. Its periodic reports include *Small Business Economic Trends*, *Small Business Problems and Priorities*, and now the *National Small Business Poll*. The Foundation also publishes ad hoc reports on issues of concern to small-business owners. Included are analyses of selected proposed regulations using its Regulatory Impact Model (RIM). The Foundation's functions were recently transferred from the NFIB Education Foundation.

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