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Article

Why compliance matters for small business

November 22, 2023

Please note this content was curated for SME businesses in the UK

There’s a perception that compliance is something only big business does. That it’s for sprawling legal departments full of specialists in corporate governance and regulation. Compliance at this level can be complex and demanding. But compliance is also critical for small businesses.

If you’re a small business owner, it’s helpful to understand some of the basics of compliance – not only to ensure you’re not breaking the law but also because it could save you money, improve efficiency and even attract new customers.

Put simply, compliance means making sure your business adheres to rules, regulations and obligations set out in

law. For small businesses, this includes carrying out regular risk assessments, understanding rules around tax, and adhering to data protection law, amongst other things.

This article explains some of the business benefits of compliance, the potential risks of being non-compliant, and provides five examples of what compliance could look like in your business.

Additional benefits of compliance

For small businesses that ignore compliance issues, the consequences could be devastating. Failure to follow regulations could lead to customer detriment, hefty fines, reputational damage, or, in extreme cases, even criminal charges. However, small businesses that take compliance seriously could reap rewards.

Risk assessments: there are several benefits to identifying risks and taking steps to mitigate them. Employees could become more educated and aware, you could reduce the risk of harmful incidents, and understanding the likelihood of hazards could help you plan budgets more efficiently **(1)**.

Financial management: the requirement to provide full, transparent and accurate financial reports will almost certainly make your business more compliant. But effective and efficient financial management could also give you the reassurance and confidence you need to succeed and grow **(2)**.

Reputation management: issues such as poor employment contracts, avoidable accidents, or improper financial reporting could severely damage your business's reputation. However, a strong compliance reputation could give you a better chance of attracting and keeping talented staff – and provide reassurance for customers, investors and regulators **(3)**.

Legal protection: non-compliant businesses can risk harming their customers, employees and other businesses. Ensuring your business is fully compliant could protect against customer detriment, damaging complaints, compensation claims, fines and lawsuits **(4)**.

Access to markets: a robust approach to compliance is an essential building block for exploring new opportunities. If your business is looking to enter new markets, it is important to know about any specific certifications or standards you need to adopt **(5)**.

Compliance is often about making sure you have the tools and processes in place to protect your business and customers. But compliance could also provide opportunities for greater efficiency and business growth.

Six key areas of compliance

Below are aruguably some of the most common areas of business that demand a robust approach to compliance (this is not an exhaustive list):

GDPR: general data protection regulation is a set of rules introduced in the UK in 2018 to protect people's data. This data includes personal information, medical information, forms of identification, and even reports and reviews. If your business handles this and other information about staff, customers or clients without following UK GDPR rules, you could incur a large fine. Find out more **here.**

Financial regulations: every business must adhere to some financial regulations, although the number and scope might vary according to the size and nature of your business. For example, there are rules around payroll, recording-keeping, accounting and keeping up to date with Companies House and HMRC. Another typically critical aspect of financial management is how you deal with Value Added Tax (VAT) – you can discover some common pitfalls **here.**

Payment Card Industry Data Security Standard (PCI DSS): compliance with PCI DSS touches on both data protection and financial transactions. If your business processes credit or debit card payments, you need to ensure you are covered. As well as protecting your customers, adhering to PCI DSS regulations could shield your business from costly fines, investigations around data breaches, or even the withdrawal of your ability to take card payments. You can read about the 12 requirements of PCI DSS compliance **here.**

Industry regulations: your business may operate in an industry with sector-specific regulations. For example, the sale of food or alcohol is subject to particular compliance rules. Likewise, the provision of law or accountancy services, building and construction, or waste management. Whatever your industry, it is good practice to keep abreast of the latest regulations affecting it, and you also might want to check out **UK government guidance.**

Health and safety: health and safety could cover a range of issues affecting your business, from fire safety to dealing with hazardous substances, first aid at work and food preparation. As a small business owner, you are legally responsible for keeping your staff and customers safe. You can find more information from the **Federation of Small Businesses.**

Workers' rights: if your business has employees, you need to comply with UK employment law. There are rules and guidance around paying salaries, contracts, equality and discrimination, grievances, safety at work and more. For more information, you could consult a solicitor, or

check out the resources **here.**

There are many aspects of compliance, and it might seem easy to feel overwhelmed. But by taking a little time to understand which areas are most important for you, compliance could help you get on with your day-to-day business with greater confidence.

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1 Evotix: https://www.evotix.com/resources/blog/7-benefits-of-conducting-a-risk-assessment
2 Grow the idea: https://growthidea.co.uk/blog/financial-management-for-small-businesses
3 EQS: https://www.eqs.com/en-gb/compliance-knowledge/blog/smes-why-compliance-is-becoming-increasingly-important/
4 British Business Bank: https://www.british-business-bank.co.uk/finance-hub/why-compliance-is-important-for-smaller-businesses/
5 Fibonatix: https://www.fibonatix.com/resources/4-challenges-to-be-faced-and-overcome-when-entering-a-new-market/
6 Complete guide to UK GDPR compliance for small businesses: /www.fsb.org.uk/resources-page/gdpr-for-small-businesses-how-to-stay-compliant.html
7 5 Common VAT Mistakes: A Quick Guide for Small Businesses: https://www.friendandgrant.co.uk/blog/5-common-vat-mistakes-a-quick-guide-for-small-businesses/
8 What does PCI compliance mean for your small business?: https://smallbusiness.co.uk/what-does-pci-compliance-mean-for-your-small-business-2548532/
9 UK Government: Business Regulations: https://www.gov.uk/business-and-industry/business-regulation
10 Health and safety regulations: What you need to know: ttps://www.fsb.org.uk/resources-page/health-and-safety-regulations-what-you-need-to-know.html
11 Employment Law and HR: https://www.fsb.org.uk/knowledge/knowledge/employment-law-and-hr.html

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