

SCOTT VALLERINE

INSURANCE SERVICES

What is business protection insurance and why is it important ?

The most valuable asset to any business is its people, as without them, a company's survival can be at serious risk.



Business protection is the process of implementing strategies to preserve, protect, and promote the value of a business. Business owners need to protect the integrity of their business in order to: Maintain business operations in the event of the loss of a key employee, death of a shareholder or insuring the loans the company have built up

How does Business Protection work ?

Protecting people should be an integral part of any business plan. Business owners already protect many of the important things that keep the business running smoothly, like property, employees, products, fleets and stock.

So they should also insure their most valuable assets: their staff and shareholders.

As of 1 January 2022, there were 5.5 million private sector businesses in the UK, 1.5% fewer than in 2021. This was smaller than the 6.5% drop between 2020 and 2021, which was the largest fall in the business population since the series began in 2000. The fall was largely driven by very small businesses with no employees, the largest category of UK businesses.

<https://commonslibrary.parliament.uk/research-briefings/sn06152/>
Source UK Parliament Business Statistics 2021

I don't need insurance,
it won't happen to my
company !



DID YOU KNOW?

In the UK, **99% of businesses** are small to medium enterprises.

And many rely on a few key employees. That's where key person cover comes in. It protects your business if they are diagnosed with a terminal illness or if they pass away. Having key person insurance means the plan pays out a lump sum to cover any loss in revenue. It's also doubles up as an employee benefit. Your business is protected and your employees benefit from our partners. If they stay healthy, they'll be rewarded.



94%



of businesses recognise
they have at least one
key person in their
employment.

75%



of businesses have
some form of business
debt.

82%



of businesses borrowed
under £250,000 with the
average being £200,000

Source
https://www.legalandgeneral.com/landg-assets/adviser/files/protection/state-of-the-nation/state_of_the_nation_2021_report.pdf

6/10



businesses would
cease trading within
12 months of losing a
key person.

75%



Have not heard of a Relevant Life
Plan or Executive Income
Protection.

97%



of businesses would look
to professional advisors
for advice.

84%



Of businesses were open
to hearing more about
them.

Source
https://www.legalandgeneral.com/landg-assets/adviser/files/protection/state-of-the-nation/state_of_the_nation_2021_report.pdf

What are the top three risk for a business ?

52%

Death of an owner or key
employee

35%

Owner or key
employee suffering a
critical illness

38%

Major contract loss

Source
https://www.legalandgeneral.com/landg-assets/adviser/files/protection/state-of-the-nation/state_of_the_nation_2021_report.pdf

What types of business protection are available ?



Key-person

Pays out an amount to the company in the event of the death of a key-person. This is any member of staff who has a direct impact on the business's income. It could be the business owner, director, sales person or any employee with specialist skills or expertise.



Example

ABC Fabrications Ltd

ABC Fabrications Limited takes out key-person cover on the company's highest grossing sales operative, Peter's life to protect profit attributed to him of £250,000

Peter has a heart attack and passes away.

£250,000 benefit covers the sudden loss of profits affected by Peter's death, and pays for an experienced replacement for Peter.

Shareholder Protection and Partnership Protection

Shareholder Protection and Partnership Protection are sometimes referred to as 'Owner's Insurance' and can help business owners keep control of the company if one of them dies or is diagnosed with a critical illness (subject to critical illness being taken out). Losing an owner can have a **huge impact** on the day-to-day running of a business, and quickly result in financial difficulties. Boardroom confusion can lead to conflict in decision making, as the surviving owners and the deceased's family may have very different ideas about the future of the business.

Many companies will have incorporated a 'pre-emption' clause which gives the other shareholders the first opportunity to buy the shares of the critically ill or deceased.

If the deceased owner's family are willing to sell the shares, the surviving owners could have trouble raising the finances and disagreements over the terms of the sale could lead to further difficulties.

Borrowing is an option, but this would be done against the backdrop of a potentially traumatic period in time where the company has lost someone who is perhaps key to the business. Any lender would take this into account when deciding whether to lend.

A shareholder protection arrangement resolves these problems. Funds would be available when they were needed, on the death and/or critical illness of a shareholder (subject to the cover being taken out). The sudden loss of a key shareholder can disrupt a company, but shareholder protection will minimise this interruption to the business. The shareholder or their family will quickly receive the true worth of their shares to alleviate these anxious times.



Example

ABC Limited owned by Brian and John

The business is worth **£1m**

Both partners take out shareholder protection insurance to cover their lives for **£500,000** each on an own life basis/

Brian dies unexpectedly. **£500,000** benefit is paid to the surviving partner John. The money (and cross option agreement) means that John can buy the shares of his late partner Brian.

Brian's family receive pre-agreed fair value for their loved ones share of the business.

The business carries on trading.

Business loan protection

Business Loan Protection can help your business pay an outstanding overdraft, business loan or commercial mortgage, should a key employee die or be diagnosed with a terminal illness (with a life expectancy of less than 12 months) during the length of the policy. It could also pay out if they're diagnosed with a specified critical illness (if Critical Illness Cover is chosen at outset for an extra cost) during the length of the policy.

When you take out Business Loan Protection, your cover should reflect the amount your business owes in borrowed money. This can ensure that if you claim for a pay-out, you have sufficient cover in place to repay your business loans.

There can be serious implications for businesses that are unable to pay back loans, so Business Loan Protection can help to give your staff and stakeholders some **peace of mind**.



Example

ABC Architects Limited

Company has taken out a loan for further stock of **£750,000** over 5 years.

Douglas, owner and principal director at ABC Architects Limited takes out a business protection insurance life policy for the loan amount with a 5 year term.

In the event of Douglas's death, the policy will pay out and ABC Architects Limited can clear the outstanding debt. This is no longer a huge worry for the other partners following the death or the principal owner

Relevant life

Relevant Life Cover is another type of death in service policy. Relevant Life Cover is arranged on an individual basis with the employer as the policy owner, and the employee as the person insured. The employer pays for the policy and unlike group schemes; HM Revenue & Customs usually consider the premiums a business expense. What's more, the proceeds won't count towards the employee's annual or lifetime pension allowance.

The employer needs to be UK based and the employee needs to be a permanent resident of the UK.

HMRC usually treat the premiums as an allowable business expense (not included in the P11D benefit), this means the premiums and benefits usually qualify for relief on :
Income tax / Capital Gains Tax / Corporation Tax / National Insurance



Example

ABC Exports Limited insures a key employee and is the owner of the policy and pays the premiums. The Relevant Life is written into trust.

The employee dies or is diagnosed terminally ill. The Provider pays out the claim to the trustee's. Trustee's pay out to the beneficiaries (employee's family)

Executive Income Protection

Executive Income Protection is a tax-efficient form of income protection insurance which allows businesses to cover employee sick pay costs if a key employee is unable to work due to illness or injury.

**It's only available to Limited Companies and Limited Liability Partnerships (LLP).
It's not available for sole traders or the self-employed.**

Policy set up: Executive Income Protection is arranged on an individual life of another basis, with the employer as the policy owner, and the employee as the person insured. Cover: Executive Income Protection covers up to 80% of the employee's combined earnings, which can include salary, bonuses, P11D benefits, dividends and spousal dividends, if applicable. In addition to this the employer's National Insurance and pension scheme contributions can also be covered.



Example

Employer insures an employee. Provision of employee's earned income is protected. Employee suffers an illness or injury and is unable to carry out their own occupation. Provider pays the claim to the employer. Employer pays provision to the employee.

Remember **PROTECTING** is better than **REGRETTING**.

Cover is cheaper than you think. Can you really afford to not have it?

Speaking to a protection insurance advisor can help you get a back-up plan in place.

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