Protect your Business

Business Protection

In most business owners' minds, protecting their business is about insuring their property and liability for damage and accidents. Very little time is spent thinking about their intangible yet most valuable business assets, namely themselves and their key staff.

It can be difficult to quantify the financial impact the death or incapacity of a key member of the team, be it an owner or important member of staff, can have. It could result in the loss of a key client or clients, damaging the profitability of the company, or it could result in banks requesting immediate repayment of debt, where the lending was provided based on personal guarantees from, or continuing involvement in the business of, the individual concerned.

In hindsight, it will seem such a simple and inexpensive solution to insure the lives of the directors and/or key employees to provide the business with a cushion after someone dies prematurely. Below is just a couple of the different variations of business protection which should be considered;

Key Person

In the event of the death or serious illness of a key employee or director, a company could suffer a significant loss of income in a very short space of time and the spectre of banks withdrawing certain facilities. Having a policy in place on that individual would ease the financial burden created by the permanent or temporary loss of that person, clear any outstanding debt, or simply allow the company the funds to find, if necessary, a similarly qualified replacement.

Typically, a policy of this type is arranged on a ten-year basis with an option to extend the policy beyond the initial term if desired. The policy is paid by the company which receives the proceeds in the event of a claim. These proceeds will be treated as income unless the policy is specifically related to company borrowings.

Corporate Co-Directors Insurance

The death of a business partner can be devastating for a company and the surviving directors. Most business owners, after careful consideration, select who they go into business with at the outset. When a business partner dies, it may not be ideal for either the surviving directors or the deceased's family to have the family involved in the business on an ongoing basis. It may be difficult for the company to pay an income to the deceased's family where the company is now also facing cash flow difficulties. In the absence of an income, the family may need to urgently realise the value of the shareholding just to keep a roof over their head but the company may be unable to source finance from a bank to buy back the shares.

Putting in place appropriate life assurance can avoid these potential difficulties. First, the directors must resolve to put a value on the business and put in place an agreement between the company and each party where, in the event of one of the directors dying, the company must buy and the deceased's personal representatives must sell the shares at the agreed price.

Life assurance to the agreed levels are put in place on each director to be covered by the arrangement. In the event of an insured director dying, the funds are paid to the company which must use them to purchase the deceased's shareholding from their personal representatives. In the aftermath of the transfer of shares, the company cancels these shares resulting in a proportionate increase in the surviving directors' shareholdings.

It is important to understand that each business owner's needs and circumstances will be different. There are also different requirements and rules applicable for sole traders and partnerships. All of these can be discussed in more detail with one of MoneyCoach's business protection specialists.