

Understanding the risk

Keyperson Protection

- What does the business do?

Who is responsible for the 4 key business functions:

- Leadership
- Production of service or goods
- Financial control
- Sales and marketing

- Are there any other business functions that are vital to the success of the operation?
- How much turnover does each person contribute?
- What impact would the loss of a keyperson have on:

- Company finances
- Customers and clients
- Trade creditors
- Director loans
- Competitors

Ownership Protection – Limited Companies

- Who owns the shares?
- If a shareholder were to die, what would happen to the shares?
- Have you had the business valued? If not, what value would you put on the business?
- If a shareholder were to die and you needed to raise additional funds, where would this money come from?
- Would the bank be prepared to lend this money, especially where the shareholder was a key worker in the business?

Ownership Protection – Partnerships and LLPs

- Is there a partnership agreement?

IF NOT:

- Are you aware that on death or retirement the partnership would be dissolved by the Partnership Act 1890?
- Are you aware that the value of the asset could have to be paid out of the estate? Where would the money come from?
- Are you aware that the assets would be split equally even if each partner had contributed different amounts?
- If the survivors can't raise the money, the estate could take the profits due to it

- Is there a membership agreement?

IF NOT:

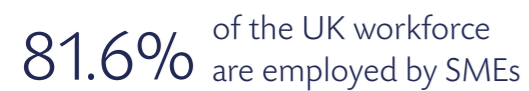
- The Limited Liability Partnership Act 2000 will specify what happens
- The estate will be entitled to receive anything that would have been due to the member

IF THERE IS A PARTNERSHIP OR MEMBERSHIP AGREEMENT:

- What does the agreement provide for on death, or if a partner or member has to leave due to serious illness?
- Does it provide for the partnership share or membership interest to be paid out?
- How is the partnership share or membership interest valued?
- How would the partners or members raise the capital needed?
- What would the consequences be if the money couldn't be raised?

THE
ROUGH GUIDE
TO BUSINESS
PROTECTION

The small business market



Source: Federation of Small Businesses

The rough guide to business protection

Business Protection Insurance: Types of cover

Name of insurance	Definition	Who is covered?	Who benefits?
BUSINESS LOAN PROTECTION	A type of life insurance, bought by businesses. It will help pay off business debts if the owner dies. Serious illness cover option also available.	Anyone who has guaranteed these debts – usually the owner, but can be a partner or director of the business.	The business. Debts are repaid at a difficult time.
KEY PERSON PROTECTION	A type of life insurance, bought by businesses. Payout provides funds to help find replacement staff, and cover lost profit streams. Serious illness cover option also available.	Any key member of staff. It could be a chief executive, finance director, salesman, director or owner.	The business. Funds available to help find suitable replacement or replace lost profits.
SHARE PROTECTION	A type of life insurance, bought by businesses, which ensures there are funds to help purchase shares if an owner/shareholder dies. Serious illness cover option available.	Owners of the business.	The proceeds are paid to the remaining owners so that they can buy the shares for a fair value from the estate and thus retain control of the business.
RELEVANT LIFE PLANS	An individual life insurance policy that company directors and owners can buy through their business if they are classed as an employee.	Employees of a small business.	The family of the director or employee that it was taken out for.

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The business lifecycle



ESTABLISHED BUSINESS

- AGE More than 10 years
- SIZE Likely to be larger, more profitable enterprises
- TYPE Least likely to be sole traders
- ISSUES More likely to have older owners at greater risk of suffering serious illness



MATURING BUSINESS

- AGE 3-10 years
- SIZE Most are worth more than £250,000
- TYPE 62% are limited companies vs 22% sole traders
- ISSUES Most likely to have some form of borrowing and corporate debt



NEWER BUSINESS

- AGE Less than 2 years
- SIZE Most likely to be smaller businesses
- TYPE 50% of new businesses are sole traders
- ISSUES Reliant on one or two key individuals