

Business protection

Have you overlooked your most important assets, the people who drive your business?

Every business has key people who are driving it forward. Many businesses recognise the need to insure their company property, equipment and fixed assets. However, they continually overlook their most important assets, the people who drive the business – a key employee, director, or shareholder.

Key person insurance

Key person insurance is designed to compensate a business for the financial loss brought about by the death or critical illness of a key employee, such as a company director. It can provide a valuable cash injection to the business to aid a potential loss of turnover and provide funds to replace the key person.

Share and partnership protection

Share and partnership protection provides an agreement between shareholding directors or partners in a business, supported by life assurance to ensure that there are sufficient funds for the survivor to purchase the shares. It is designed to ensure that the control of the business is retained by the remaining partners or directors but the value of the deceased's interest in the business is passed to their chosen beneficiaries in the most tax-efficient manner possible.

If a shareholding director or partner were to die, the implications for your business could be very serious indeed. Not only would you lose their experience and expertise, but consider, too, what might happen to their shares.

Buying a shareholding

The shares might pass to someone who has no knowledge or interest in your business. Or you may discover that you can't afford to buy the shareholding. It's even possible that the person to whom the shares are passed then becomes a majority shareholder and so is in a position to sell the company.

The shareholding directors or partners in a business enter into an agreement that does not create a legally binding obligation on either party to buy or sell the shares but rather gives both parties an option to buy or sell, i.e. the survivor has the option to buy the shares of the deceased shareholder and the executors of the deceased shareholder have the option to sell those shares.

In either case it is the exercise of the option that creates a binding contract; there is no binding contract beforehand. This type of agreement is generally called a 'cross-option' agreement or a 'double option' agreement. These are essential areas for partnerships or directors of private limited companies to explore.

Different forms of protection

Key person insurance - compensates your business up to a pre-agreed limit for the loss or unavoidable absence of crucial personnel, including the owner-manager. It is especially appropriate if your business depends on a few employees.

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Critical illness cover - pays a sum of money to specific employees or the business owner in the event of a serious illness, such as a heart attack or stroke.

Income protection insurance - protects individuals by paying their salaries while they're unable to work.

Private health insurance - funds private healthcare for specific employees. As well as being an extra benefit of employment, it could help them to return to work more quickly after an illness by paying for rehabilitation treatment.

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