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Business Protection Using Life Insurance

Protecting a business from the risk of exposure to PI, D&O, Cyber are often accepted as part of the cost of doing business. However companies sometimes fail to adequately protect the business from the loss of key people and Shareholders on their death or illness.

Does your business need Keyman Insurance or Shareholder Protection?

The best way to analyse if these types of insurance are appropriate to your business is to ask 'what would happen next?' if the answer creates a black hole then insurance is designed to fill that hole. Howden has access to competitive terms as well as having the expertise to guide you through the process of considering and incepting policies.

This short guide explains how Keyman Insurance and Shareholder Protection can help businesses protect themselves and recover should the unexpected occur.

To discuss how these types of insurance may help your business please contact Robbie Weston.

Keyman Insurance

Keyman Insurance is taken out by the company to protect itself from the loss of key people within the business. Usually the people covered are those that have particular expertise and their loss would create severe business disruption or closure.

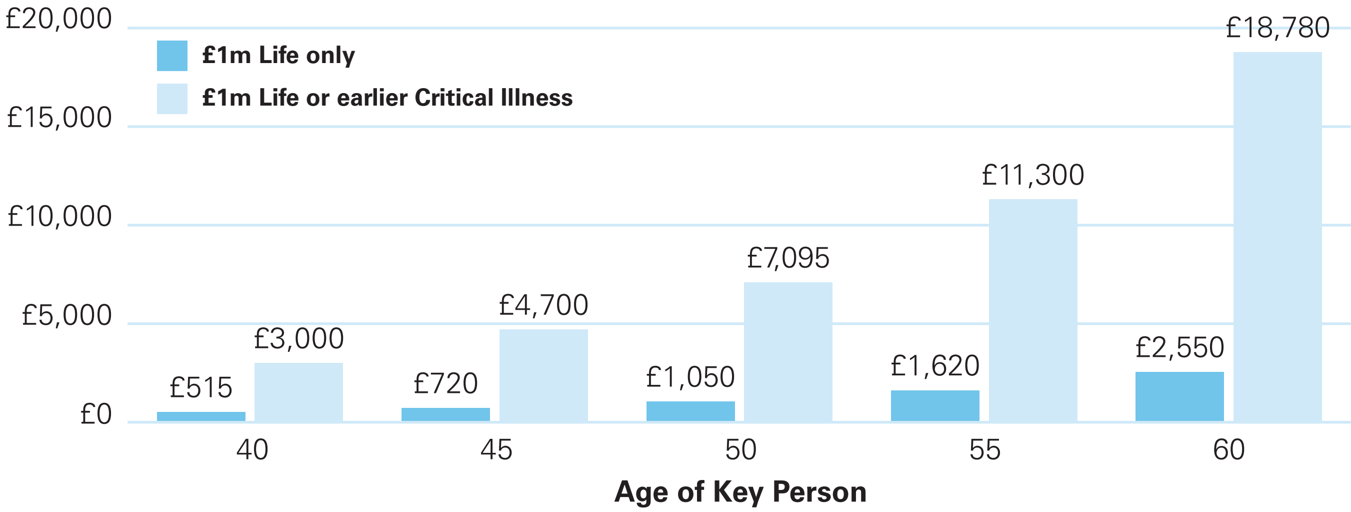
The amount of cover required is a factor of the expected outcome of the loss of the key person. The outcome usually falls into two categories, either the business will continue and requires funding for a successor or the business would ultimately shut down and requires funding for an orderly wind down.

Usually the amount of cover is expressed as a multiple of the key person's earnings or contribution to the profitability of the business. We tend to see sums assured of between £1m and £20m depending on the business.

In the majority of cases we advise the addition of Critical Illness cover which is designed to pay the benefit on diagnosis of a serious illness. While the cover is more expensive than Life Only cover, the impact to the business of the key person becoming critically ill is often the same, i.e. exit.

Insurance companies will underwrite from a Financial and Medical basis. As your consultants we would complete the financial underwriting to ensure the insurance company accept the requirement for cover before the key person has to complete any medical application forms. This means that once we have formally recommended the policy the key person only has to pass a medical to be accepted for cover.

Estimated Annual Premium



The premiums in this document are for indicative purposes only, assuming acceptance at ordinary rates subject to insurance company approval following medical evidence.

Shareholder Protection

Shareholder Protection is a series of policies taken out on the lives of business Shareholders to ensure the remaining Shareholders have funds to acquire the equity of the deceased.

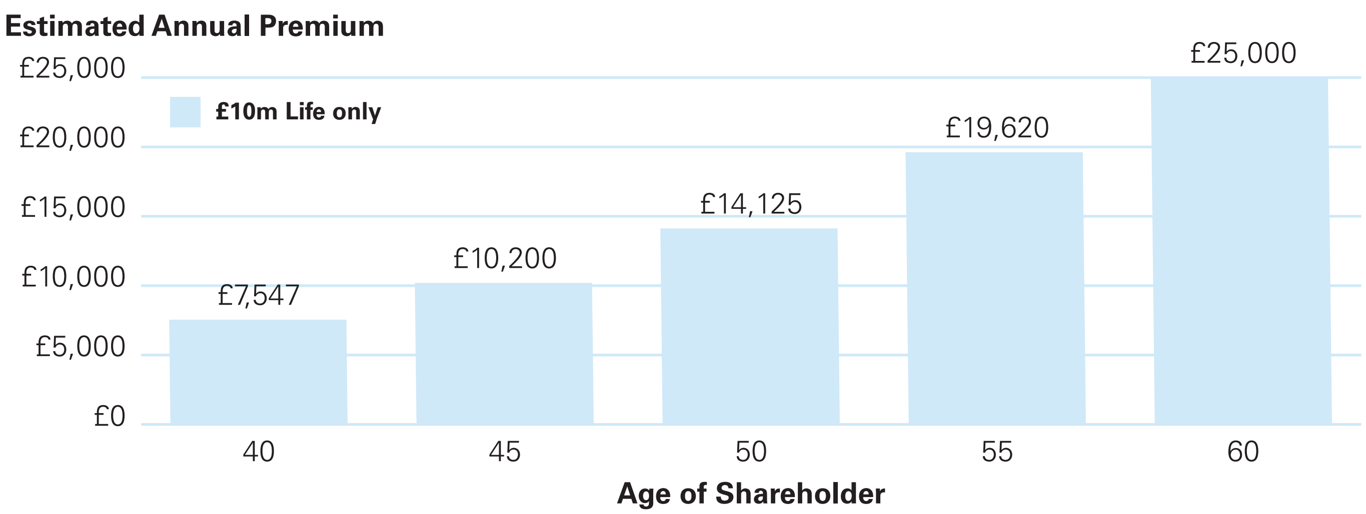
Shareholder Protection offers protection in two ways; firstly it ensures that on the death of a Shareholder his or her estate can be assured it will receive fair value for their equity and secondly the Shareholders retain full control of the business.

Shareholder Protection is a simple Life Only Term Assurance policy on the lives of the Shareholders.

In our experience most Shareholders have a clause within their Shareholder agreement that on death the other Shareholders have the right to acquire the equity from the deceased however without an insurance policy in place the deceased relies on the liquidity of the remaining Shareholders to honour that obligation.

Where the deceased does not receive fair value for their shares they would typically appoint a legal representative to act on behalf of the estate to manage their interests until such time as the equity transfer was settled. This introduces multiple issues for the business as the legal representative is highly likely to have an entirely different mandate to the other Shareholders leading to severe disruption to the business.

The life insurance policies are usually paid for by the Shareholders with costs attributed to the Shareholders. Typically the policy would be to age 65 although shorter term policies may be appropriate.



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