



# Protecting your business

You can't stop the unexpected from happening, but you can ensure events don't derail your business completely. By putting in place the right business protection, you can create a financial cushion to reduce the impact from the absence of a shareholder, senior manager or key person. This could allow you to fill a role, meet financial obligations or even keep control of your business. Daniel Ryan of Arbuthnot Latham outlines the key risks – and solutions.

## Control or ownership risk

Surprisingly, 60% of business owners say they have no financial protection to cover the cost of buying shares should an owner die.

Depending on the shareholder agreement, shares and associated voting rights are often passed on as part of the deceased's estate. The beneficiary may choose to take a role in the running of the business – or to sell the shares, possibly to a competitor.

**Shareholder protection** provides the surviving shareholders with the funds to buy the shares of the deceased shareholder from the estate. This can be a good solution if the company is unlikely to have sufficient capital or retained profit to purchase the shares directly.

## Operating or business continuity risk

Sometimes, one person's effect on turnover or profit is so great that the business would struggle to survive without them. The resulting loss of confidence could lead to suppliers requesting payment upfront, financial providers limiting credit lines, a fall in the share price, brand damage or customers seeking alternatives.

So it's essential to have a business continuity plan setting out how the business will operate and manage its obligations and continued profitability if circumstances change.

**Key person protection** can help meet the financial needs of the business while a replacement staff member is found or a restructure is undertaken. Identifying the key people in your business can help you quantify the financial risk to the business if one of them becomes critically ill or dies.

You will need suitable life or critical illness cover, with the sum assured payable directly to the business. This cover could help your business to meet its financial obligations and provide stability for customers, employees and shareholders at an uncertain time.

## Default risk

To support their growth plans, many businesses borrow via commercial loans, overdrafts, mortgages or directors' loans. Should a key person become critically ill or die, repaying debt may become an immediate issue.

**Business loan protection** differs from key person protection as the amount insured is typically in line with a specific loan repayment term.

## Retention and staff benefits

Attracting and retaining quality employees is fundamental to a business. So it's important to offer a comprehensive employee benefits package.

**Relevant life cover** allows businesses to offer employees a death-in-service benefit and is available to small businesses where group life insurance schemes are not available or practicable.

This protection is only for employees who take a PAYE salary from the business. Any plan proceeds are paid for the ultimate benefit of the nominated dependants of the deceased. The business can benefit from corporation or income tax relief on the premiums paid by the employer. There are also tax advantages to the employee.

## Executive benefits

Senior management remuneration typically encompasses pension contributions, dividends and commission. Where staff are unable to work due to illness or injury, they may not be able to meet their basic income needs.

**Executive income protection** is designed for owners and high-earning employees of SMEs. Any claim proceeds are paid to the employer, which then pays the insured person via PAYE. Cover can include employer pension contributions and national insurance contributions.

### Contact us

DanielRyan@arbuthnot.co.uk