

Protection that **keeps you in business**

Your simple guide to business protection



What is business protection?

Like most businesses, you've probably made sure your assets are covered against the effects of fire, theft or other unforeseen events. But what about your key employees?

Sometimes success can depend on one or two key people. If you've worked with these people for many years, it's easy to underestimate their value. For example, their skills, knowledge and experience or perhaps their contacts and relationships. But we can never be sure what's around the corner, for much like machines, people can break down too. And that's why business protection is so important. You can't predict what will happen in the future, but you can have the right protection in place to help keep your business going should a key person become critically ill or even die.

And protection for key employees is just one area of business protection. You might also want to consider protection for shareholders or partners. Without this type of cover in place, if the shareholder dies their family might have to sell the shares to someone else, maybe even a competitor.

There's also protection for business loans, as there could be severe consequences if loans aren't protected such as an inability to make repayments.

'At the start of 2021 there were over 5.5 million small to medium sized businesses (SMEs) in the UK. Total employment in SMEs was 16.3 million, whilst turnover was estimated at £2.3 trillion¹'

¹Source: National Statistics – Business population estimates for the UK and the regions 2021(October 2021)

Cover for your key people



Losing a key person could have a significant impact on the profits of a business. Much like machinery, people break down too, so it makes sense to have protection in place to maintain 'business as usual'.

What is key person protection?

Put simply, it covers the business's key people in case they die, become critically ill or find themselves unable to work through a long-term sickness.

The key person could be the business owner, or it could be the sales manager – whose contacts and relationships make sure that sales stay on target and the business remains profitable.

How can this help to protect your business?

With key person protection, you can cover your key people and receive a lump sum if they die or suffer a critical illness. Or you can choose to protect the profit this key person generates for the business, should they be unable to work through illness or injury. This would pay an income each month to cover the amount of profit that this key person would have been bringing into the company. This could help you continue to pay any bills or ongoing expenses.



Cover for your partners and shareholders

Losing a partner, member or shareholding director can have a major impact on the success of a business. But it's not just the loss in profits that would have an impact. How do you retain control and assign fair value?

For example, you could be forced to work with someone new, like a family member and that person may have no knowledge of the business or perhaps worse – have no interest in it. But because they now own a share, they've just as much say in the running of it as the person had before they died.

And if it's a critical illness this creates even more uncertainty. Will they be able to return to work and if so, when? If they don't return, then they'll likely want to sell their share of the business. But who'll buy it?

What is partnership or shareholder protection?

Having partnership or shareholder protection in place helps to avoid these problems. It gives you the security to be able to keep the ownership of the business in the hands of those who've built it. It also makes sure an owner who becomes ill, or the family of an owner who dies, receives a fair value for their share of the business.



Cover for your financial commitments

One of the biggest challenges to the success of many businesses is finding the money to set up or expand. And if you're not fortunate enough to find someone willing to invest in your business, you may have to borrow to achieve your plans.

But when a business borrows money from a bank or other financial institution, it's common for it to want some form of protection to repay all, or some of that loan on the death of a key person.

The business owners may also have lent money to their own business. These are called Director's or Partner's loan accounts and need to be repaid on death. Without protection in place how would these be repaid?

What is loan protection?

Financial protection is vital to ensure that a business can repay corporate loans should the worst happen. If you have protection in place to cover the loan, you're making sure that even if a key person suddenly becomes ill or dies, the loan will be paid off. And although you may think you have enough capital to rely on, it's likely to run out more quickly than you'd expect.



Some other things to consider

Relevant Life Plans (RLP)

These are a way of providing death-in-service benefits on an individual basis no matter the size of your business. Although the company makes the payments, they're not normally treated as a benefit in kind, so they're not included in your income tax assessments. For a higher rate taxpayer, this could be a significant saving.

What are Relevant Life Plans?

These plans are set up and paid for by an employer. They're covered by the same legislation that deals with group schemes. But unlike most schemes provided by large employers, they don't fall under pension legislation because they're 'non-registered'.

Who are they suitable for?

Relevant Life Plans are ideal for:



People with high earnings and big pension funds who don't want their death-in-service benefits to form part of their lifetime allowance.



Small businesses that don't have enough eligible employees for a group life scheme.



People who are currently in a group death-in-service scheme that doesn't allow voluntary increases or has restrictive definitions of remuneration.



People in a group death-in-service scheme who don't want their cover linked to salary at death but need a fixed sum.



Future proof your business with a trust

Trust and tax considerations need to be assessed when considering business protection.

Putting cover into a Business Trust

Putting the protection in a Business Trust ensures that the benefits are paid to the surviving or continuing shareholders, partners or members on death or critical illness of a co-owner without giving rise to any inheritance tax complications.

Cross option agreement

With partnership or shareholder protection, getting funds to the surviving or remaining shareholders, partners or members is the first step. A cross option agreement ensures that the estate or the critically ill shareholder, partner or member has the option to sell to the remaining co-owners and conversely, they have the option to buy. This agreement also outlines how any interest or share of the business is to be valued.



How we can help

At Royal London, we provide cover for all these types of protection (key person protection, shareholder protection, partnership protection and loan protection). We also offer Relevant Life Plans and various trust solutions.

With our flexible Business Menu Plan, you can mix and match a range of covers, including Life Cover, Critical Illness Cover, Income Protection and Key Person Income Protection to suit your business's needs and budget.

The benefits of our Business Menu Plan

The key benefit of our Business Menu Plan is that it allows you to mix and match a range of covers within the same plan – for different amounts and terms. And regardless of the number of covers you choose, there'll only be one application form, one plan fee and one direct debit.

Flexibility

Another benefit of a Business Menu Plan is its flexibility, as you can change your plan should something happen in the future. For example, a growth in profits or you take out a larger business loan.

Underwrite Later

There's times, especially with business protection cases, when we'll need to request further medical information that'll enable us to fully assess an application. And this can sometimes cause delays. But with our Underwrite Later option, cover can be applied straightaway whilst we go through the main underwriting process – providing you with valuable peace of mind that your business is protected while we do this.

**For more information about protecting
your business speak to your financial adviser.**



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