

Protecting your business – a brief guide



One solution for all your financial needs



Life is full of risks. We insure our homes, cars and possessions and try to safeguard ourselves from the effects of health issues and personal injury. We do the same at work, insuring ourselves, our employees and our assets against accidents and claims that may arise. But, although some risks are obvious, others are not, and some – if the worst were to happen – could mean you either lose control of your business or even lose it completely.

This guide can only provide a very brief overview. Although there's more information on our website at www.onefinancialsolutions.co.uk, if you'd like to know how you, and your business, may benefit from business owner insurance, please call us on 020 3714 9565 for a confidential discussion.

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Introduction

Life is full of risks and, although some are obvious, others are not. We try to make adequate provision to cover risks in our personal lives and try to do the same at work, taking out insurance to cover property, equipment and stock along with injuries and accidents. But these are the obvious risks – what about those that are not so obvious, those we may not have thought about?

If you are a business owner these risks could be catastrophic. In fact, if the worst were to ever happen, any one of them could mean you risk either losing control of your business or even losing it altogether. The risks involve co-owners and shareholders, key people and loans.

Ultimately, it's all about risk management – and you can only manage something you know about. Knowing what the risks are means being able to make a considered decision about whether you should insure against them and, if so, what level of cover you need.

The risks

The risks arise from the way the majority of SMEs, and some large, family-owned, businesses are formed, their reliance on few people and their capacity to service their debt.

• Formation

Many businesses will have been formed by a small number of people, being set up as either a partnership, a limited liability partnership (LLP) or a company that has a few shareholders. If your partner died, the partnership would be automatically dissolved; if they are

a shareholder, their shares may be inherited by someone who doesn't share the same interest in the business. What then?

• Key staff

Some businesses rely on just one or two key members of staff for their well-being. This could be, perhaps, the founder and driving force behind the business; possibly someone with very specific skills, perhaps creative, perhaps technical, or someone essential for its sales success. If one of them died, or could no longer work as the result of serious illness or injury, would the business survive?

• Loans

Finance is often said to be the lifeblood of a business. Most will have loans, either to finance property, equipment or stock; to invest in growth or just to help cash flow. If something dreadful happened to someone critical to the business, would you be able to continue servicing the business's debt? And could you repay any directors' loans?

“53% of businesses would cease trading in under a year if a key person died or became critically ill.”

Source: Legal & General

In fact, it's quite probable that at least one, if not more, of these three circumstances will apply to every business and, although they can be considered assets, they also bring a level of risk. Fortunately, as they are such common risks, specific insurance policies are available to cover each of them.

Meeting the risks

Risks arising from these three specific circumstances can be mitigated by using the appropriate type of 'tried and tested' insurance.

Shareholder protection insurance

If you're the co-owner of a business, either a partner or shareholder, you should certainly consider shareholder protection insurance. If your business partner died, the partnership would be automatically dissolved and, if they're a shareholder, their share of the business may be inherited. Although the person who inherits the share may 'step up to the mark', it's not uncommon for them to have either little or no interest in the business, and take a back seat or sell their shares, or not have the skills you need and become a disruptive force.

Shareholder protection insurance combines a legal agreement setting out how the shareholding will be managed in the event of the death or, if required, critical illness of a shareholder, with suitable insurance policies taken out against each shareholder. In the event of a co-owner dying, or suffering critical illness, the remaining owner or owners receive a lump-sum payout allowing them to buy the shares and retain control of the business.

Policies can be written in three basic forms:

1. A 'life of another' policy is used when there are just two shareholders. Both apply for a policy on the life of their business partner then, should one die or become critically ill, the surviving shareholder becomes sole owner of the business.
2. An 'own life' policy is taken out by individual shareholders and is held under trust. If a shareholder dies or becomes critically ill, the remaining shareholders



“Although none of these three types of business-related insurance will compensate for the loss of a friend and valued member of the business, they may help you keep your business and secure its future.”

- can use the payout from the policy to purchase the shares which are then equally distributed amongst them.
3. A 'company share purchase' involves the business taking out policies against all the shareholders. If one dies or becomes critically ill, the business receives a payout which allows it to buy the shares.

Key person protection insurance

Many small businesses have employees who are indispensable and, without them, the business may struggle financially or even fail. Although a large business can usually survive the effects of losing a vital member of staff, such a loss within a small business can be disastrous. If you do have a 'key person', someone whose loss would create a business-threatening problem, it would be wise to think about key person protection insurance.

Key person protection is an insurance policy designed to insure against any financial loss the business may suffer as a result of the death or critical illness of a key person. The policy, which specifically names the key person(s), is taken out by the business as either a stand-alone life assurance policy or a combined life assurance and critical illness policy and is often supplemented with loan protection insurance.

Loan protection insurance

It's often said that money acts like oil in business: with it, your business purrs contentedly, without it, it grinds to a halt. Providing the business is 'servicing its debt', there's no problem – but what happens if it can't? If you, another co-owner or a key person, dies or suffers a critical illness, it's possible that the business may default on repaying its loans and that could lead to them being recalled. And it's not just commercial loans that you should consider – you may also be liable to repay any directors' loans the business has, something you may not even be aware of. If the business was asked to repay its loans, could it afford to do so, and, if it could, what would be the effect on the business? Paying large sums of money at short notice could be a significant problem so loan protection insurance could save the day, not to mention the business.

Loan protection insurance helps your business repay any outstanding borrowings should one of the business owners, or a key person, die or suffer a critical illness and

can be used to protect commercial loans and mortgages, venture capital loans, directors' loans and personal guarantees. In fact, such is the risk of loan default, many lenders make protecting a loan with loan protection insurance a condition of their offering it.

Although none of these three types of business-related insurance will compensate for the loss of a friend and valued member of the business, they may help you keep your business and secure its future.

How can One Financial Solutions help?

Life is full of risks. To guard against them we insure our homes, cars and possessions, and try to safeguard ourselves from the effects of health issues and personal injury. We do the same at work but, although some risks are obvious, others are not, and some, if the worst were to happen, could mean you lose control of your business or even lose it altogether.

One Financial Solutions is here to help you. As a firm of independent financial advisers, we can provide you with impartial advice to help you identify the potential risks that you and your business may face.

We'll work with you to plan an appropriate protection strategy, recommend the best products from across the whole of the financial services market, help implement the protective safeguards you need and provide a periodic review. It's all about 'risk management'; knowing the risks you face means you can protect your interest in your business.

So, if you're looking for help with any aspect of protecting your business, please call us on 020 3714 9565 or email us at admin@onefinancialsolutions.co.uk and let us know when would be a good time for us to call you.

One Financial Solutions is here to help you.

We advise on a wide range of financial services including protection for both you and your business, general and business insurance, savings and investments, commercial finance, pensions and auto enrolment, employee benefits, profit extraction and mortgages: our aim being to provide you with 'one solution' for all your financial needs.

We provide truly independent financial advice, sourced from the whole of the financial marketplace, for individuals and commercial businesses throughout the United Kingdom.

Please call us on 020 3714 9565 for a confidential conversation about how we can help you, or visit our website at www.onefinancialsolutions.co.uk for more information.

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