Business Insurance

Let's protect the most important asset

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There are two simple questions that I like to ask owners of SME's – what do you consider to be the most important asset in your business and what insurance do you have in place to protect it? More often than not I'm told of some process that makes their business unique and how they'd struggle if anything happened to it. Of course I agree but then ask a third question – where do they put themselves in order of importance within their business? This invariably takes the conversation in a very different direction.

The graveyards are full of indispensable men

It's important to protect business assets from the daily challenges that exist but let's consider an asset that is often overlooked and is perhaps the most important asset of a business – its people.

The death or serious illness of key employees and business owners is in itself is a traumatic experience and the consequences for the continuation of the business can permanent. The potential threats to a business can include financial loss as a result of:

- Loss of key knowledge leading to business interruption, loss of profits and increased costs in recruiting and retraining.
- Demand for repayment of Company loans.
- Family disputes with regarding to shareholding.

Statistics show that 72% of business cease trading with 5 years of the death of the founder*

The good news is that there is a very simple solution to this problem – Business insurance. Business insurance provides a firm with a timely cash injection (regardless of whether the business is a partnership or limited company) that enables it to deal with these difficult issues and, ultimately, to move on.

Assessing the risk – calculating the loss

It's important to first identify the level of potential loss a business could incur through the death of a key person. While there is no set formula for this – every business is different, there are some 'rules of thumb' that can be followed and used as a basis for the cover:

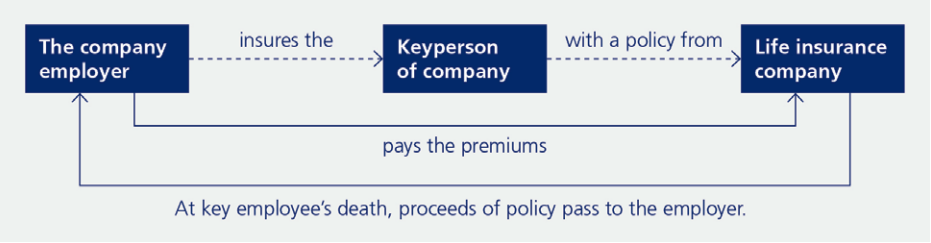
- The most common approach is to use a simple multiple of the Key person's salary (say 5–10 times).
- Other calculations are based on profits – say up to two times gross business profit or five times net attributable profit to a keyperson.
- In addition, any loans for which the key person may be responsible for within the company could also be added.
- These limits will be lower should serious illness be included in the calculation

There are other formulas that maybe used but the above are just a rough guideline for which may be used.

Once a potential loss is calculated, the business can affect a life insurance policy on the life of the key person(s) in order to protect the business against the potentially damaging financial losses as mentioned above.

*Source: BDO Simpson Xavier

Let's look an example



Dealing with loss of a company director

Other issues can arise for limited companies with the untimely death of a company director. Consider the dilemma that could occur where the company does not have the financial resources to immediately deal with shareholding issues that could occur – in particular where the deceased family in relying on a sale of the shareholding.

In the absence of financial protection and partnership agreement, the family of the deceased may not want to continue on in the business and the control of the surviving partners may also be compromised. Good financial planning and the correct structure of partnership insurance can protect the business and ensure a satisfactory agreed outcome in this unfortunate circumstance. If there are more than two partners, the arrangement can be structured to facilitate this and allow for new or departing partners as the situation arises.

Finally, as with any such structure it is very important that the plan is set up correctly and as tax efficiently as possible. There are legally binding agreements in place and in business scenarios, personnel are likely to change so it is important to regularly review plans.

We are here to help

Zurich has put together a comprehensive pack for Financial Brokers on all aspects of Business Insurance. For more information or to order a Business Insurance pack, contact your Zurich Broker Consultant, call the Zurich Technical Services team on **01 209 2020** or email me at **niall.concannon@zurich.com**.

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