

At the heart of every successful business are talented, dedicated and knowledgeable people, but research shows that 59% of businesses believe they would have to stop trading in less than a year after the death or critical illness of a key individual.



## Key considerations

A 'key' person could be any individual who is crucial to the day-to-day running of your company, such as a director, employee, or anyone whose skill, knowledge and experience affects revenue generation, loan commitments or future planning.

Key person insurance, also known as key employee insurance or key man insurance, is a type of life insurance policy that a business purchases to protect itself from the financial impact of losing a key individual whose skills, knowledge, experience, or relationships are critical to the company's success.

Key person insurance is especially relevant for businesses heavily reliant on key individuals, such as founders, executives, salespersons, or technical experts.

The business is both the owner and beneficiary of the policy, meaning that in the event of the covered individual's death, the business receives the insurance proceeds. It provides the company with a financial safety net to handle the potential disruption and costs associated with replacing or compensating for the loss of the key individual.

**Coverage Amount:** The coverage amount for key person insurance is typically determined based on factors such as the key person's role, contribution to the business, and potential financial impact on the company. The policy's face value is designed to cover expenses related to finding and training a replacement, loss of revenue and other costs associated with the key person's absence.

**Premiums and Policy Terms:** The premiums for key person insurance depend on various factors, including the insured individual's age, health, occupation, and coverage amount. The policy terms can be tailored to the business's needs, such as term life insurance or whole life insurance.

**Business Ownership Structure:** In the case of a key person who is a business owner or partner, the other owners or partners may choose to take out the insurance policy on the life of that individual. In the event of their death, the insurance proceeds can be used to buy out the deceased owner's shares or interests, allowing for a smooth transition of ownership.

## Benefits of Key Person Insurance

**Financial Protection:** the primary benefit of key person insurance is providing financial protection to the business in case of the death of a key employee. Losing a crucial employee can be devastating to a small or medium-sized business, as it can disrupt operations, affect profitability, and even jeopardize the company's survival. The insurance payout can help the business stay afloat during this challenging period.

**Paying Off Debts:** key person insurance can be used to repay business debts or loans that were personally guaranteed by the key employee. This prevents the burden of repayment from falling on the business or the deceased employee's family.

**Attracting Credit and Investors:** having key person insurance in place can provide confidence to creditors and investors, as it demonstrates that the business has a plan in case of the loss of a critical employee. It may also make it easier for the company to secure loans or investments, as the insurance acts as a safety net.

**Tax Benefits:** premiums may be tax-deductible as a business expense. Additionally, the insurance payout is often tax-free, providing a tax-efficient way to protect the business.

Overall, key person insurance is a prudent risk management tool for businesses heavily reliant on key employees. It helps provide stability and financial security during challenging times and supports the business's continuity and growth.

## Helping you choose the right policy

It is important to discuss with our financial advisers to assess the specific needs of your business and determine the appropriate coverage amount and policy terms for key person insurance.

Key Person Protection is one way to safeguard your business against the death, terminal or critical illness of a key person in your organisation. It's designed to pay out a lump sum on the death of the insured key person during the length of the policy, helping compensate for the loss of their skill, knowledge, experience or leadership.

This money could significantly help the business to recover; for example, the proceeds can be used to help replace lost revenue, or with finding and hiring a replacement.

A payout from the policy after the loss of a key person could help with the following situations:

- Loss of profits
- Having to recruit or train a replacement
- The loss of important personal or business contacts due to the key person not being there to maintain a contract
- Loss of goodwill which could have a direct impact on raising capital for the business or attracting new investors
- Customers and suppliers losing confidence in the business
- Outstanding loans

