



# BUSINESS PROTECTION GUIDE

*Protecting your business and the people who  
keep it running smoothly and efficiently.*

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# BUSINESS PROTECTION: WHAT IS IT & HOW DOES IT WORK?

Much like individual protection policies, Business Protection is there should the worst case scenario occur, so it is important that you have the right type and amount of cover for your individual needs.

Small businesses form the backbone of the UK economy, with small and medium-sized enterprises (SMEs) accounting for 50% of the total revenues generated by UK businesses, and 44% of the country's labour force<sup>1</sup>.

More than half of all small businesses in the UK do not have any type of business protection insurance in place. Some may have already looked at the risks they face, priced insurance products available and decided that, for some reason, this is not for them.

However, most small business owners either have not considered the potential risks of an owner or partner falling critically ill or dying, or have assumed there is little that they can do about it, and this could be a major oversight.

For most business owners, business protection should be a key consideration, shown through the unprecedented times we have witnessed in recent years. Planning is the key to success and sustainability.

## How Business Protection Works

The majority of protection policies are based on:

- The length of time you need the insurance for
- Your age
- Your health
- The amount of cover
- The type of cover

You can have life cover, critical illness cover or income protection, and these can be set up for a number of reasons, which is explored in more detail throughout this guide.

Business protection is a complex area often involving trust and taxation issues, so it is important to get impartial independent advice to receive the right cover for you and your business.

The cost of protection rises as the chances of dying or getting seriously ill increases (for example, if you are over a certain age, a smoker or have pre-existing health conditions), so it is wise to consider protection as early as possible in order to get the best solution and deal for you.

*Sources:*

*1. UK Department for Business, Energy & Industrial Strategy, gov.uk, 2020*



# THE KEY CHALLENGES FOR BUSINESSES



Even if you have run a business for a number of years, you should still consider any potential hurdles you may face and create contingency plans if appropriate.

## Loss of Key Individuals

Most businesses insure their premises and equipment, but all too often do not insure their people. It is important to think about how the business would cope in the event of losing a key employee due to death or serious illness.

For example, if your business partner suddenly died, would the business have to find the money to pay back loans? Unfortunately, these situations can be catastrophic for the business, but insurance can help lessen the financial impact of such events.

## Business Disruption

Even robust plans can be undermined by events beyond your control. As well as having adequate business insurance, a business interruption plan should be drawn up, setting out how the business would continue to trade in difficult circumstances.

### Did you know...

59% of businesses would cease trading in under a year if a key person died or became critically ill.

(Legal and General, 2022)



## PROTECTING THE BUSINESS: KEY PERSON COVER

The loss of a key individual that has a direct impact on the success of the business can cause a variety of difficulties. Key Person Cover is there to help ease the process and keep the business on track.

Many business owners do not insure key individuals who are crucial to the future success and profitability of the business. This could leave them vulnerable should vital employees become critically ill or die.

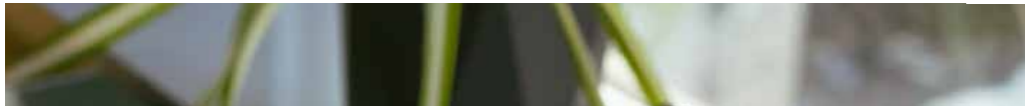
Negative effects can include:

- Loss of profits or sales
- The cost of finding and training a replacement
- Potential loss of customers/suppliers

Key person protection is a life cover policy (with a critical illness option if chosen) or an income protection policy which the business takes out, where the employee is the life assured.

The business pays the premiums, and if the insured person dies or becomes seriously ill during the policy term, the policy will pay the agreed lump sum or income to the business, helping them to protect their profits or to continue trading as normally as possible.

A key person is anyone within the business who has a direct impact on the Company's profits, such as the business owner, director, salesperson or any employee with specialist skills, knowledge or expertise. Their absence for any significant period of time would have a serious impact on the business.



# PROTECTING THE BUSINESS: KEY PERSON COVER CONT...



## Calculating Cover

Business owners should consider how long it might take to replace an individual, any potential loss to the business and any costs associated with finding/training a suitable replacement. The most common methods of calculating cover are:

- 1. Based on earnings:** Typically a multiple of annual earnings plus any additional costs of training and recruitment costs, if appropriate.
- 2. Replacing profits:** This method looks at an individual's contribution to business profits. Typically, firms may choose to insure twice the gross annual

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