Let’s talk business protection

Business Protection is often overlooked by business owners, so value it offers can be easily missed.

Many business owners have a lack of knowledge and awareness of the potential risks that their business could face. Either they’ve not thought about Business Protection, or believe it’s not appropriate for their business.

Here are nine common objections and how Business Protection could in fact be ideal for those businesses. With the right knowledge, companies can become better placed to make the right decisions in protecting themselves against certain unexpected events.

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"I expect it's too expensive for our business"

- In our research business owners said that they expect business protection to be too expensive. The word 'expect' implies they have not looked into it, and are making assumptions about cost. Life cover could be more affordable than most people think
- When we asked the business owners in our research to estimate the cost of life insurance they tripled the actual cost – their perception is far higher than the reality.

Could it prove too expensive not to have it?

- Business Protection generally incorporates higher sums assured compared to personal cover and therefore higher premiums. But not having this cover could cost the business its future.

"We don't see the need for having cover, it's not something we've even considered"

Many business owners are unaware of unforeseen risks and the steps needed to help protect their business.

Ask the business owner to consider:

- What provisions do you have to protect your profits?
- Does the business have the ability to repay outstanding debts or director loan accounts?
- What would the financial impact on your business be as a result of the loss of a key person? Would there be a drop-off in income or increase in costs?
- Who would own the business if an owner died?
- What plans do you have in place to manage financially if the worst should happen?

By identifying risks, the need can be identified. Having potential solutions in place can help the business to survive.

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“Claims are rarely paid”

- In 2018 we paid **£638 million** in claim payments to over **14,000** of our customers.
- We paid **97%** of life claims and **93%** of critical illness claims.

Our claims handlers are trained for sensitivity. All handlers complete courses run by The Samaritans, on how to approach ‘Conversations with Vulnerable People’.

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“It’s complicated”

Our policies are straightforward and the principles are similar to any other type of protection – Business Protection uses Life insurance or Life insurance with Critical Illness Cover.

Business Protection can be broken down simply. It protects:

Profit – if a business loses a key person, the policy gives the business a cash injection, helping to replace lost profits and/or recruit a replacement.

Debt – if a business loses a key person, the policy can help clear any outstanding loans or other debts.

Ownership – if a business loses a partner, member or shareholder, the policy proceeds help the remaining business owners to buy the affected individual’s share of the business.

- Business Protection can replace lost earnings and profit, providing a financial cushion in a crisis.
- In our research, 73% of businesses with Business Protection took it out following advice.

“If we lost a key employee, it wouldn’t impact our business”

Every business is different but each business has staff members who have a direct impact on company profits, creditors, brand and cash flow.

A key person could be the business owner, director, salesperson or any employee with specialist skills or expertise. Can your client identify these individuals in their business?

Ask the business owner to consider:

- If the business were to lose such a key person, could they really be easily and quickly replaced?
- **63%** of businesses in our research said the death of a key employee or owner would have the biggest impact on their business.
- **52%** of businesses think they would cease trading in under a year after the death/illness of a key person.
- Key person protection could help protect the profits of a business if they were to lose a key profit driver. This gives the business breathing space to continue without financial hardship while another member of staff is trained or a replacement is found.

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"If we lost a key employee we'd be just able to go out and recruit a replacement"

In most cases key people are an integral part of a business's success; replacing them can be harder and more costly than business owners realise.

Businesses that have experienced the loss of an owner or key employee, identify multiple impacts on their business. These range from a loss of profits, to an increase in expenses to fund the cost of replacing staff.

Ask the business owner to consider the following:

- Where would the money come from to recruit and train a new employee, and does the business have access to funds to cover these costs?
- How quickly would a replacement be effective in the new role?
- What would be the impact of any delay in trading?
- Would the credit rating of the business be affected by losing a key employee who plays a key role in its profits? If a cash injection is needed, borrowing may be more difficult.

"I don't see the need to take out protection cover for our business borrowing"

The death of a business owner who has guaranteed a loan is particularly serious for a business. Without a guarantor, could the bank demand repayment?

In our research the average business borrowings were **£176,000**, taking many different forms ranging from bank loans, overdrafts, personal loans and credit cards.

Ask the business owner to consider:

- If they have used their own home to raise borrowings, have they ensured that this is protected or that cover is written in the correct way? Or are they risking their family home?
- The risk is greater for sole traders – if the key person was to die or become critically ill and was unable to work, then business debts could become personal debts. The business creditors may pursue them personally for payment, putting their family savings or home at risk.

Our research highlighted that **28%** of directors were not aware that their director's loan had to be repaid on death. With the average amount being **£169,000**, how many businesses could raise this amount following the death of a director? What if that director was also a shareholder? What if they were also actively involved in the business? Many owners of SMEs will fall into all categories.

Business loan protection could save a business. It can help the business pay any outstanding borrowings and protect the business owner's personal wealth.

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“If we lost a business owner, the business would still survive

Following the loss of one business owner, many business co-owners believe they would just buy their partner or colleague’s share of the business. But what if they couldn’t afford to buy these shares?

Have they thought about the following:

- Would they want the beneficiaries of the deceased to become active in the business, even potentially taking control of the business?
- Would the beneficiaries sell their share of the business to a competitor to get a **‘fair price’**?

A new majority business owner could simply wind up the business to get their money out. Having the correct protection in place can remove this uncertainty.

Share protection can provide the funds to purchase the affected individual’s share of the business. This means that remaining business owners can retain full control of a business, while being comfortable the deceased’s beneficiaries have been treated fairly and equitably.

“If a fellow business owner died, the other business owners will just buy their share of the business

Many business owners believe they would buy their co-owner’s share, but have they thought about how they would do this?

Ask the business owner to consider:

- How much will the share of the business be worth?
- How could they raise this from their personal wealth and would they want to?
- How could the company raise the funds to buy a share of the business – will their bank be able to lend money to a business which has just lost a key owner?
- Would they want beneficiaries to get a fair value for their share in the business?

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As an adviser, how do I get into this market?

- Our research found only **46%** of businesses had a financial adviser; although most confirmed they would be happy to be contacted by one.
- Relevant Life Plan is an ideal way to open discussions with a business and introduce the subject of life protection.
- Although not a true Business Protection policy, Relevant Life Plan is a tax-efficient way for a business to provide life cover benefits for its employees on an individual basis rather than through a group scheme.
- Relevant Life Plans are highly tax-efficient and can work out up to **50%** cheaper than standard life cover paid for out of net income.
- When explained the benefits of Relevant Life Plans, our research found **70%** of those who hadn’t heard of it were receptive and interested in further details.
- Build some professional connections. **75%** of businesses have an accountant, and **46%** have a solicitor, which presents an ideal opportunity to for cross-referrals and collaboration.

Source: State of the Nation’s SMEs report, Legal & General, 2019

For more information, speak to your usual Legal & General contact.

And why not attend one of our business protection webinars?

Our CII CPD accredited tailored workshops are run by our award-winning specialist protection team.

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