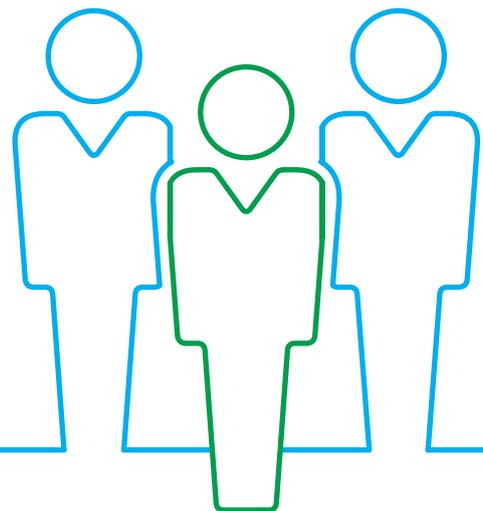


# Let's talk business protection

Business Protection is often overlooked by business owners and the 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. They have either not thought about it or believe it's not suitable for their business.

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



This is not a consumer advertisement. It is intended for financial advisers and should not be relied upon by private investors or any other persons.

[legalandgeneral.com/business](https://legalandgeneral.com/business)



1

**“I EXPECT IT’S TOO EXPENSIVE FOR OUR BUSINESS”**

- In our research business owners said that they expect it to be too expensive. The word **‘expect’** implies they have not looked into it. Life cover may be more affordable than most people think.
- Business Protection generally incorporates higher sums assured compared to personal cover and thus higher premiums. But not having this cover could cost the business its future.
- Could it prove too expensive not to have it?
- When we asked the business owners in our research what their estimate of the cost of life insurance would be they thought it was **three times the actual cost** – their perception is far higher than the reality.

2

## **“WE DON’T SEE THE NEED FOR HAVING COVER, IT’S NOT SOMETHING WE HAVE EVEN CONSIDERED”**

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

### **Get the business owner to consider the following:**

- 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 these risks it can help identify the need. By having potential solutions in place it can allow the business to survive.

3

## **“CLAIMS ARE RARELY PAID”**

- In 2016 we paid £606 million in claim payments to over 12,000 of our customers.
- We paid 98.6% of life claims and 92.5% of critical illness claims.
- We’re in the business of paying claims and pay 100% of valid claims.

Our claims handlers are trained for sensitivity, with all completing Samaritans Conversations with vulnerable people courses.

# 4

## "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.

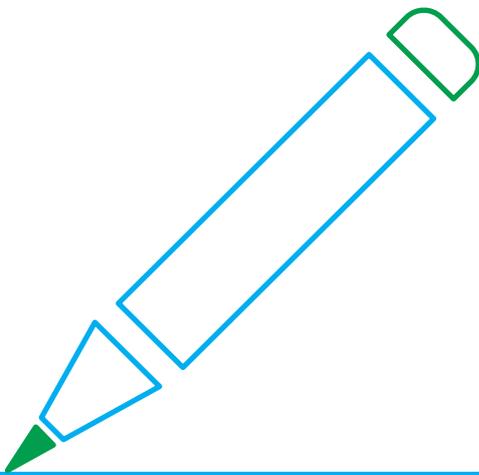
- **Business Protection can be broken down simply as protecting:**

**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, protect the business and provide a financial cushion in a crisis.
- **In our research 84% of businesses took out some form of business protection after they were advised to do so by a professional adviser.**





## 5

### KEY PERSON – “IF WE LOST A KEY EMPLOYEE, IT WOULDN’T IMPACT OUR BUSINESS”

Every business is different but each business has a member(s) of staff that has a direct impact on the business’s profits, their creditors, brand and cash flow.

A key person could be the business owner, director, salesperson or any employee with specialist skills or expertise. Could your client identify these individuals in the 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?
- 39% of businesses in our research said the death or critical illness of a key employee or owner would have the biggest impact on their business.
- 53% of businesses think they would cease trading in under a year after the death/illness of a key person.
- A key person policy 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 whilst a new member of staff is trained or a replacement is found.

## 6

### KEY PERSON – “IF WE LOST A KEY EMPLOYEE WE’LL BE ABLE TO JUST 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.

In our research 45% of SMEs estimated that following the death of a key person it would **ONLY** cost the equivalent of up to 12 months’ salary to recruit a replacement and ensure their business could continue. However, is this a realistic estimate to cover the potential cost associated with a senior-level appointment?

#### Ask the business owner to consider the following:

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

7



## **BUSINESS LOAN – “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.

### **Get 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 26% of directors were not aware that their director’s loan had to be repaid on death. With the average amount being £81,000 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.

8

## SHARE PROTECTION – “IF WE LOST A BUSINESS OWNER, THE BUSINESS WOULD STILL SURVIVE”

Following the loss of a business owner, many business owners believe they would just buy the fellow business owner’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 and potentially lose 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 all this uncertainty. A Share Protection policy can provide the funds to purchase the affected individual’s share of the business. Meaning the remaining business owners can retain full control of the business whilst being comfortable that the deceased’s beneficiaries have been treated fairly and equitably.

9

## SHARE PROTECTION – “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 the fellow business owner’s share of the business, but have they thought about how they would do this?

### Ask the business owner to consider the following:

- 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 the share of the business – will their bank want to lend money to a business which has just lost a key business owner?
- Would they want their beneficiaries to get a fair value for their share in their business?

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

- In our research 75% of businesses want to learn about Business Protection from either their accountant or a financial adviser.
- An ideal way to open discussions with a business and introduce the subject of life protection is with Relevant Life Plan.
- 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 73% of those who hadn't heard of it were receptive and looking for more details.
- Build some professional connections – in our research 86% of businesses have an accountant, 45% have a solicitor, presenting an ideal opportunity to work with these professionals.
- Almost a quarter of businesses met their financial adviser through social or business networks – have you considered network events?

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

**Why not attend one of our business protection webinars, or our CII CPD accredited tailored workshops run by our award-winning specialist protection team?**



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