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Mortgages



A Guide to Business Protection

Running a business comes with numerous challenges, but one often overlooked aspect is protecting the business against unexpected events such as death, serious illness or accident. Whether you are a sole trader or run a larger company, safeguarding the future of your business is crucial to its long-term survival. Here, we outline the key areas of business protection which can help you mitigate the risks associated with unforeseen events.

Is your business at risk?

Would your business survive if something happened to you, your co-owners or your employees? As a business owner, you play a vital role in its success. However, unexpected events such as death or serious illness could jeopardise the future of your business.

What are the potential risks?

— **Sole traders:** As a sole trader, your business may collapse if you are no longer able to run it. This could have life-changing consequences for yourself and your dependents.

— **Co-owners or key employees:** The death or serious illness of a co-owner or key employee could lead to operational disruptions, financial strain and even the potential collapse of the business.

Understanding risks like these highlights the importance of sound planning. With adequate protection and forethought, you can secure the future of your business and ensure it continues to thrive, even in difficult circumstances.



Planning for the unexpected

If you were to die or become seriously ill, your business and family could face major financial challenges. The loss of revenue, difficulty repaying debts and increased costs could lead to reduced profits or increased losses for the business.
The key financial impacts could include:

- Loss of confidence from suppliers, clients and lenders
- Increased recruitment or operational costs
- Difficulty meeting ongoing expenses, including business debts
- Reduced income for you or your family.

However, by planning for such eventualities, you can put measures in place to mitigate these risks, keeping your business on a solid footing.

Protecting your business with insurance

To address these risks, business owners often rely on insurance policies. There are several types of insurance that can be taken out to protect against financial loss in the event of death or serious illness. These policies typically provide payouts that can help cover lost income, settle debts or purchase a deceased owner's share of the business.

Key factors to consider when taking out insurance:

Sum Assured	**Term**	**Age and health of the insured**
The amount that would be paid in the event of a claim	The duration of the policy	Premiums will vary depending on these factors

Lump sums paid out on the death or serious illness of the insured person are typically tax-free, offering a financial safety net for the business.

Getting the right protection in place

If you own your business with others, having life insurance in place is essential to ensure your business remains operational and your family is compensated if something were to happen to you. By setting up life policies in trust, the surviving co-owners can buy the deceased's share of the business without legal complications and the family of the deceased can receive financial compensation.

Here is an example to illustrate:

Creative Minds Ltd is co-owned by three partners, Sarah, Mike and James. Each has taken out a life insurance policy written in trust for the benefit of their co-owners. They have agreed that in the event of the death of one partner, the other partners would use the insurance payout to purchase the deceased partner's share of the business. When Sarah passes away unexpectedly, Mike and James receive the sum assured from her policy and use it to buy her business share. Sarah's family receives the proceeds of the sale, ensuring financial security for her dependents.

Serious illness of a business owner

A serious illness that prevents a business owner from working long-term or permanently can pose significant challenges. Without proper protection, this situation can lead to operational issues or disputes over ownership.

Key considerations:

— **Future ownership:** There may be a need to transfer the affected owner's share of the business, particularly if they cannot return to work.

— **Insurance protection:** Having the right insurance policies in place ensures there are funds to either buy out the ill owner or provide financial support to cover their income and other expenses.

A comprehensive insurance strategy can allow the business to continue operating smoothly during difficult times, preserving its long-term viability.



Death or serious illness of a key employee

Key employees are often the backbone of a business. If such an employee were to pass away or become seriously ill, the business could suffer significant financial losses. Losing a key employee can lead to loss of clients, suppliers or operational efficiency.

— **Key person insurance:** This type of insurance protects the business by covering the financial impact caused by the death or serious illness of a key employee. It provides a lump sum to help with recruitment costs, operational losses or revenue replacement. Key person insurance is particularly valuable for businesses that rely heavily on the expertise, experience or client relationships managed by specific individuals.

Incentivising key employees

In addition to covering the loss of key employees, offering insurance-based incentives such as income protection and family protection insurance can help attract and retain top talent.

— **Income protection:** Provides key employees with income replacement if they become unable to work due to illness or accident.

— **Relevant Life Insurance:** The sum assured is paid out to the family of an employee on their death. It is typically written in trust and usually free from Inheritance Tax, offering financial security to the employee's family.



Sole traders

Sole traders face unique risks when it comes to business protection. If a sole trader passes away or is unable to work due to serious illness, the business may cease to operate, leaving dependents without financial support.

Essential insurance for sole traders:

— **Life insurance:** Pays out a lump sum payment to support your family in the event of your death.

— **Critical illness insurance:** Offers financial assistance if you are unable to work due to a serious illness.

— **Income protection:** Replace a percentage of income if you become unable to work due to illness or accident.

It is vital to take out enough cover to ensure that your family can replace lost income and continue with minimal financial disruption. This is where we can help, by assessing your circumstances and making recommendations that are unique to you and your family.

The importance of planning

Planning for the unexpected is a crucial part of running any successful business. By taking time to assess your business's vulnerabilities and putting appropriate protections in place, you can safeguard the future of your enterprise. Whether you are a sole trader or manage a larger company, investing in insurance and contingency planning ensures continuity for your business and financial security for those who depend on it.

— These are the suggested steps to take:

1. Assess the risks – identify potential risks that your business faces due to the absence of key individuals.

2. Consult professionals – working with a financial adviser and, where appropriate, other professionals such as solicitors and accountants will ensure that your protection strategy is both efficient and tax-effective.

3. Choosing suitable cover – choosing appropriate insurance policies that cover death, illness and accident.

4. Implement contingency plans - to ensure that any insurance policies and legal agreements are clearly defined and kept up to date.

Next Steps

We hope this guide has provided valuable insights into how you can protect your business. Taking time to get advice and implement the right insurance cover is an investment in your business's future stability and growth.

If you're ready to explore your options or need assistance with a protection-gap assessment, please get in touch. We can help you navigate the complexities of business protection and ensure that your plans are tailored to your specific needs.

As with all insurance policies, conditions and exclusions will apply. It is important to take professional advice before making any decision relating to your business' finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. No part of this document may be reproduced in any manner without prior permission.



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