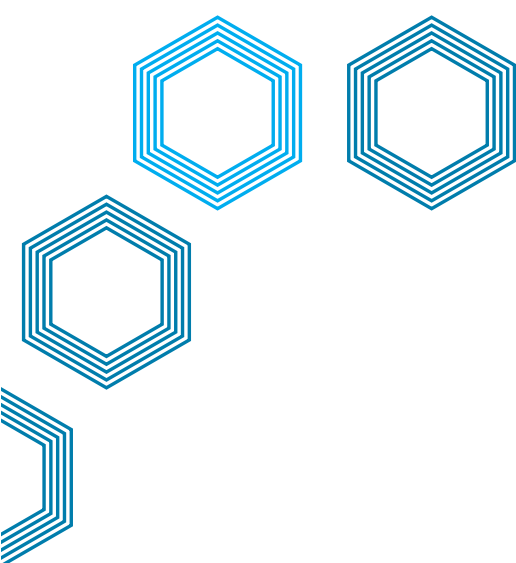
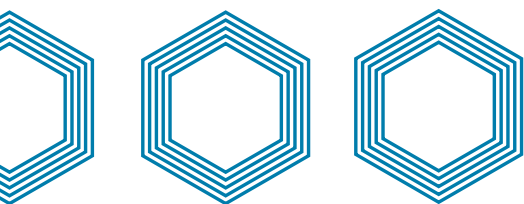


## Business Protection

The right steps to help your client's business run smoothly





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# Introduction



Business Protection tends to be perceived as a lengthy and complicated sales process. But in fact the principles are similar to that of arranging mortgage protection except with business protection, you will be dealing with higher sums assured.

Business Protection can provide you with many potential business opportunities. It is thought that more than 90% of the market is uninsured with 500 potential new clients appearing every day.\* So with a market that appears to be so neglected it could be time to start thinking about selling Business Protection.

\*Source - Cover magazine April 2005

# Seizing the opportunity

New working patterns are emerging, bringing in their wake more self employed people and small businesses. Since larger companies are more likely to have succession planning in place, it is the small companies of 100 employees or less who are in most need of protection as these companies are more likely to feel the loss of an individual.

## The Market

- Figures released by the Department of Trade and Industry (DTI) reveal that 500 new small businesses start up every day in the UK.
- Estimates from the DTI suggest that firms with less than 100 employees account for 99.6% of all UK businesses.

Source: Cover magazine 2005

## Business Opportunities

- New business start ups (when seeking employee benefit advice, such as a simple pension plan).
- Mergers/company buy outs.
- Companies with a dependency on specialist workers – for example: scientific technology companies.

## The Products

- Term Assurance
- Critical Illness Cover (CIC)
- Whole of Life (WOL)
- Income Protection Benefit (IPB)

Business Protection products are no different from individual products, they are written the same, only they are for larger sums assured and may pay out to a company not a spouse.

The opportunity within the business market is not only there, it's quantifiable. Here are some medical statistics which highlight the need for protection against ill health.

## Medical statistics

- 1 in 3 people will be diagnosed with cancer at some point during their lifetime.  
Source: Cancer Research UK 2005.
- On average 70% of women diagnosed with breast cancer will still be alive 5 years later.  
Source: Cancer Research UK 2005.
- Stroke has a greater disability impact than any other medical condition.  
Source: The Stroke Association 2005.
- Every year there are an estimated 268,000 heart attacks in the UK – that is one every two minutes. Source: British Heart Foundation 2004.



# Points to consider

You don't need first hand experience of running a company to understand the pressures and needs small businesses experience as they grow and develop. But you do need information.

## The business life cycle

While there is no such thing as a "typical business" – any more than there is a typical family or a typical couple – there are a number of well charted stages that many businesses go through from conception to maturity. Some may mature over a few years others over several generations:

### Stage 1 – Start up:

- identifying the service/product proposition
- employing key personnel and
- targeting the customer base.

### Stage 2 – the early years:

- marketing the company
- establish a good reputation
- broaden the customer base
- refine the product/services.

### Stage 3 – Development and Expansion:

- increasing staff in keeping with the business growth
- broaden the customer base
- identify new areas for expansion.

### Stage 4 – Consolidation and maturity:

- achievement of core business goals
- secure financial position
- healthy order book.

## The legal framework

The "legal status" of a business is highly significant. Partnerships, Limited Companies and Sole Traders have different protection issues to consider because of the legal framework they have chosen. The implications of status are covered in the next section.

## The company and its marketplace

It is valuable to gain an insight into the marketplace in which it operates. For example:

- Is the market bouyant?
- Are there any political, legal or environmental issues?
- Do they have any competition?

Once you have put together your findings you can then start to assess the company's likely needs.

## If you want to know more you can

- Contact The Chartered Institute of Marketing (01628 427 333) library and information department who, for a fee, will provide a reading list to non-members or will research a range of relevant articles on small businesses and growth.
- Search online.

For further details please refer to the Legal & General Technical Guides, Key Person Protection, Partner's, and Director's Share Protection.

# Identifying business needs

When you're advising corporate clients, the status of the business – and the position of each key player within it – holds significance. For example, whether the business is a Partnership, a Limited Liability Partnership, Limited Company or Sole Trader and the positions held are Partner, Director, Shareholder, Owner, Key Employee.

## Status doesn't stand still

Many companies start life with one sole trader who, as the business takes off, may decide to form a partnership with someone else or set up a limited company.

It is vital that any change in the “legal framework” of a business is immediately reflected in its protection measures – for instance, in the case of mergers, takeovers or the formation of a partnership.

## The uncertainty factor

Premises can be rebuilt, plant or products replaced – but the recovery of a person is not nearly as clear cut.

There are no guarantees that someone who has suffered a major health crisis will be able to perform at the same level as previously.

Returning to the office may be likely, possible, or remote, and is often not clear for several months.

All of which makes it especially important that health as well as life cover, is in place.



## Sole Traders

### What is a sole trader?

A sole trader is an unincorporated business owned by one person, which may or may not have employees. Sole traders can simply trade under their own names (“Fred Bloggs, Tax Consultant”) or they can devise a name for their business (“The Fred Bloggs Gallery”).

Sole traders are self employed – but that does not mean they can’t have employees.

### Key issues for sole traders to consider

A sole trader can be viewed as the ultimate key person. If he or she was out of action for several months following a major operation, diagnosed with a debilitating illness or had a serious accident, could the business survive? If he or she died, the business would almost certainly die out too. How would that affect their family and employees?

In many ways, protection against ill health is considered to be the most pressing need for sole traders. Most will have some form of life assurance in place already (for example, alongside their mortgage) but very few will have any form of health cover in place.

### Check life cover levels

1. Existing life cover (for instance, cover arranged in connection with a mortgage) might not be sufficient to pay off any business debts, and this would hold up the release of the estate to the family.
2. Critical illness cover provides a lump sum upon diagnosis of one of a range of specified critical illnesses – the time when things may be starting to fall apart. A cash injection at a time that is stressful both personally and professionally can help relieve at least one possible source of tension, and this in itself can in some cases aid recovery.

### Sole trader protection

Sole trader protection helps safeguard sole traders against the financial effects of the events discussed in this segment – that is, death, critical illness, terminal illness, injury and accident. Health cover helps protect sole traders against the risk of having to wind up their business if illness prevents them working, and helps guard against a serious drop in income.

Life policies written under trust ensure that the proceeds pass to the person’s dependants without forming part of their estate, thus potentially saving both time and money as this guarantees exemption from inheritance tax on the policy proceeds.



## Key people

### What is a key person?

A key person is someone whose continued absence would adversely affect the profits of a business. Someone whose skills, knowledge, experience or leadership drives the company's continued financial success.

### Typical examples might be:

- The founder of a business, whose long working relationships with major clients are crucial.
- The head of product development in a company that succeeds on the basis of innovation.
- The sales director who brings in the larger part of the business.
- A "figurehead" whose style, personality or reputation is crucial.
- A technical figure who understands key customer requirements.

### How can you recognise a key person?

Official job titles do not always reflect the true position someone might hold and, while the majority of businesses might automatically cite people such as the Managing Director, Sales Director or Finance Director as key people, it is important that you encourage clients to take a really close look at the people within their business, and perhaps reassess the true value of some of them.

There are a number of questions you can ask which will help establish who the real key people are, such as:

- Which sales person would the client least like to lose to the competition?
- How important are research and development staff to the company?
- Have any executives been expensive or hard to recruit? (If so, they'll be equally costly and difficult to replace).
- Is responsibility for computer systems vested in one highly knowledgeable person?
- Who's the person with the most valuable contacts?

### Style and personality count

Often a business relies on one key individual who is seen publicly as the main personality of the business, even if this is not the case. The loss of that individual can have a devastating effect, for example, after Gianni Versace's death, the imminent flotation of his fashion empire was postponed within a matter of hours.

### Where do key people come from?

Beyond a certain point, commercial success will only be achieved through the efforts of other people, and success depends on how good the owner is at finding and getting the best out of them – thus enabling them to become “key people”.

### The key issues

If a key person dies, is diagnosed with a terminal or critical condition, or suffers such serious short term ill health that they are absent for some time or unable to carry on their former role, the implications for the business can be dramatic.

The chief point of concern is loss of profits – now and in the future. Sales may slump; confidence from financial backers or customers (or both) may melt away; and the company may become directionless, with drastic effects on future success.

The loss of a key person who has guaranteed a loan is particularly serious. Many loans are made on the understanding that a specific person, whom the lender considers to be mainly responsible, stays with the company.

### Key person cover

Key person cover is designed to provide a financial buffer in the event of a key person becoming permanently or temporarily unable to make their normal contribution to the business.

As you would expect, key person cover is life assurance and/or critical illness written on the life of the key person but owned by the employer, so that any money due becomes payable to the business.

Normally, a cluster of parallel policies will be written on the lives of all the key players who require cover. The company or business pays the premiums.

Such policies can be discontinued whenever the company so chooses, for example, if a key player leaves the company.

The level of cover reflects the effect that the loss of the key person is estimated to have – for instance, it might be parallel to the amount of sales typically generated by a sales director. Issues such as the cost of finding, hiring and training someone to the same standard should also be taken into account.

### Choosing and using a formula

The amount of cover must be worked out logically. A formula often used is:

$$\begin{array}{r} \text{Key Person's Salary (pa)} \\ \hline \text{Total Payroll} \\ \\ \times \\ \\ \text{Gross Profit of Company} \\ \\ \times \\ \\ \text{Recovery Period} \\ \\ = \\ \\ \text{Sum Assured} \\ \\ \\ \text{For example:} \\ \begin{array}{r} 50,000 \\ \hline \text{£2m} \\ \\ \times \quad \text{£4m} \\ \times \quad \text{4yrs} \\ \hline \text{£400,000} \end{array} \end{array}$$

## Partnerships

### What is a partnership?

A partnership is defined in the Partnership Act, 1980 as:

“the relationship that exists between persons who are carrying on a business with a view to profit, other than by way of membership of a body corporate”.

Limited Liability Partnerships can be established from 6 April 2001, however, Business Protection considerations are the same as those of traditional partnerships.

### Why a formal partnership agreement matters?

A formal partnership agreement sets out what happens to the partnership if one of the partners dies. If no such agreement has been drawn up, the partnership automatically dissolves if a partner dies.

### The key issues for partners to consider

If a partner dies, their interest in the business passes to their estate. The family has two alternatives:

1. A member of the family could take over the deceased's position as partner.
2. The family could realise the value of the interest by selling it.

Neither of these avenues are problem free. If a member of the family takes over the deceased's position as partner, there's no guarantee that he or she will be able to make any contribution to the business.

The chances of, say, the surviving husband or wife being able to step into the required role are slim. If inexperienced or unwilling, their presence could be actively detrimental. They might be legally unable to contribute if they lack the required qualifications, as in the case of doctors or solicitors, or age alone might be a problem, as small children or teenagers could inherit.

A sleeping partner who is not involved, but is entitled to a share of the profits, may be a huge burden to the remaining partners. And the family may be unhappy to be in a position where they have no effective control over the profits of the business, which they rely on for income.

If the interest is sold, the remaining partner(s) may find themselves working with an unwelcome new partner. Or there may be no buyers, in which case financial problems may surface not only for the family, but also for the business.

### The cross option agreement

A written agreement, known as a “cross option agreement”, is a reciprocal arrangement which ensures that surviving partners are able to keep control of the business, by giving them the right to buy the interest of any partner who dies. Such agreement also outline how an interest in the business is to be valued.

Legal & General provides a free draft cross option agreement and trust documentation with appropriate life policies.

### Partnership assurance

Partnership assurance provides money so that, should one partner die, the remaining partner(s) can afford to exercise their right to buy the deceased partner's interest from his or her estate.

This kind of cover can also protect the business against the effects of critical illness. If a partner becomes critically ill and is unable to carry on contributing to the profits of the business, the business can afford to continue paying the sick partner a salary, without affecting the business.

### How does it work?

Each partner takes out a life (and/or critical illness) policy written in trust for the other partners. On the death (and/or critical illness) of a partner, the surviving partners then have the money to buy the share from his or her family.



## Limited companies

A private limited company is a legal entity that is, in law, treated as entirely separate from its shareholders or directors. There must also be at least one director.

### Key issues to consider

These are similar to those that concern business partners – namely, how the surviving directors/shareholders could afford to buy the share of a shareholder who died from his or her estate, and what would happen to the control of the business if this was not possible for financial reasons.

### What is shareholder protection?

Shareholder protection works in the same way as partnership assurance to ensure that, if a director/shareholder dies and his or her estate inherits his or her share in the business, the surviving director/shareholders could afford to purchase that share.

As with partnership assurance, shareholder protection can also protect the business against the effects of critical illness. If a director/shareholder becomes critically ill and is unable to carry on contributing to the profits of the business, the business can afford to continue paying him or her a salary, whilst perhaps finding and funding a temporary or permanent replacement.

### How does it work?

Each shareholder takes out a life (and/or critical illness) policy written in trust for the other shareholders. On the death (and/or critical illness) of a shareholder, the surviving shareholders then have the money to buy the share from his or her family. A cross option agreement, also means that the family won't be liable to pay inheritance tax on the value of the interest in the business.

# Planning your campaign

Once you have identified your target market from cold lists, existing clients or prospects, you can start planning your campaign. We have included some tips below to help you with your campaign.

## Prospecting

If the target is a limited company it is obliged to register its accounts at Companies House in Cardiff. You can get information about the size, turnover and profitability of any limited company from there.

Source a copy of the company's annual report if one is produced; failing that, try to gain information direct from the company, they may have some literature available.

Check local sources of information, such as the Business Link Centre and/or Chamber of Commerce and keep an eye open for any advertising or editorial about the company in trade publications, and the local or national press. All these sources can provide you not only with facts about your target market, but a valuable insight into the way the company wants to be seen.

Depending on the nature of the business, you could contact relevant professional bodies or trade organisations to see if any further information – either about the particular company or its market sector in general – may be forthcoming.

- **Be creative!**

At this early planning stage it is important to set no limits on your research. Useful information can come from the most unlikely and humble sources, so don't discount the local papers, the library, even Yellow Pages ([www.yell.co.uk](http://www.yell.co.uk)).

- **Companies House**

On 08703 333 636 will provide full or abbreviated company accounts by post or fax for a small fee ([www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)).

- **The Internet**

Try online research where most companies will have their own website.

- **Local Telephone Directories**

Like the local paper, these can give you names of businesses.

- **Business Directories**

These can provide a source of businesses to contact.



- **Client Bank**

Your client bank can be a valuable source of corporate leads. For example, if you look through you will undoubtedly have a number of employed clients. These are a ready source of business names for you. Ask your client to give you the name of the decision maker or better still ask for a personal introduction.

Check through your client bank to see if you have any clients that actively sell to businesses. Ask your client for the names of the businesses they deal with and a contact name to speak to.

You may even actually find some clients who may well be ideal candidates for financial advice regarding their business affairs because they are partners, directors or key people.

- **People you know**

Friends may know people in the line of business that you are targeting. For example, you could ask your friends for the name of the solicitor they deal with within a practice.

- **Lists**

If you have a client who is a company director, partner or key person, compile a list of people in the same business as your client. Ask your client if he knows anyone listed. This is an excellent way of picking up referrals within a specific group.

- **Recommendations**

When asking clients for referrals you may wish to ask them if they know of anybody within the local business community who runs their own company. In asking such a very specific question you will focus their mind on a very narrow group of people.

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