

## If big was better, we wouldn't be an award-winning health cash plan provider



Where am I? > Home > Protection > Individual Protection > Business

Me

### Case study: business protection

Author: COVER Risk clinic  
Cover| 08 Feb 2011 | 12:26

Categories: Business

Topics: Peter Chadborn | Scottish Provident | PruProtect



**A client who owns a four-man window fitting company has asked me to organise business protection for him. This is not an area I'm familiar with, so as a complete beginner how do I go about evaluating the amount I should be protecting him for?**

**I would like to farm out as little of this as possible in the hope of doing future business. With such a small company should I look at protecting all the employees in this way?**

**Peter Chadborn, Plan Money**

#### Further reading

Case study: How to use discounted gift trusts...

Disease of the month: Ovarian cancer

Avoiding the tax mousetrap

Why my IFA will be a friend for life

How to protect your firm when you lose key...

The premise for evaluating business protection requirements is the same as personal protection and that is to assess the financial consequences of various events occurring. It is likely that your client has not thought of every scenario so that is your starting point. Once each risk has been detailed, you can prioritise based upon financial impact to the business.

For example, if he or any of the four people were unable to work for a prolonged period what impact would this have on day-to-day

**ifaonline**

Print

Share

Comment

Retweet

#### More from cover

Longevity - If the genes...

Cirencester friendly...

Half of Openwork advisers...

Bosses miss the point...

#### Email alerts

Get similar articles direct to your inbox

#### Related Media

#### Recommended reading

operations? Could they pick up the slack, if so; for how long? What would the financial consequences be if he or one of the team died?

Some roles are relatively easy to replace but others are key to profitability to the extent that death or illness could have a devastating financial impact and only discussion will reveal if such a scenario is limited to the business owner.

Like any protection planning there are multiple 'what if?' questions to be explored before beginning to research possible solutions. If you go steaming in with solutions to problems that the business owner isn't aware of or hasn't acknowledged, it will be a very short meeting.

The levels of cover or benefit for a key person will be determined by understanding how cash-flow and profitability would be affected and for how long. Also, whether there would be capital requirements such as [recruitment](#), training or debt repayment.

Make sure you speak to your chosen life [office](#) while formulating recommendations to ensure full understanding of any specific underwriting requirements or limitations.

#### Ian Smart, Scottish Provident

It is important to establish first the role of each individual and how difficult it would be to replace them.

For example, do any of the employees perform a specialist function such as estimating the cost of a job or is this all done by the owner? If there is someone with a specialist role they should be insured as the loss of that person could have a detrimental effect on the running of the business while a replacement is sought and trained.

The amount of cover will depend on how easy this person is to replace and the profit that is attributable to them. Typically levels of cover would be calculated as a multiple of up to twice the gross, or five times the net profit attributable to them.

It is important in such a [small business](#) with only one owner to make sure that any borrowing the business has is covered by a policy on the owner's life. The business is unlikely to survive the loss of the owner so any liabilities should be covered especially if they have given personal guarantees secured on the family home.

The owner should also make sure they have sufficient personal protection as it is unlikely the business will have much value on the open market if he or she were to die and their family were not interested in continuing to run the business. This could be put in place in a tax [efficient](#) way by using a relevant life policy effected by the company for the benefit of the owner's family.

Phil Jeynes, PruProtect  
ifaonline

FSA staff mortgages as Coffee Loun  
split looms

Fitch warns life cos: Don't rely on IFAs

Lighthouse sets aside £2.5m for customer redress

Five things your clients will call you about this week

Film spoofing "obnoxious" estate agents becomes internet hit

#### Categories

Business

#### Topics

Peter Chadborn

Scottish Provident

PruProtect

In

Business protection is often seen as a complex area and many advisers shy away from it despite being proficient in personal protection.

2214

0

Tweets

Jobs

Mortgages

Coffee Lounge

In reality the principles are the same, and the starting point should be to fact find and discover what aspects of the business the client is concerned about protecting.

It is crucial to ascertain the type of business this client owns. From the description it sounds like a sole trader arrangement which makes protection straight forward since the client will be both the policy holder and the life assured, in effect making it personal protection.

Needs should be assessed based on liabilities and income, with recommendations to ensure income can be replaced in the event of serious illness or injury and that any dependants are financially secure in the event of death.

The brief also mentions that the client has four employees and the adviser should assess whether the client wishes to protect the income these employees contribute to the company.

Key man cover aims to replace the contribution such a staff member makes to the business and would be written on a life of another basis, with the employee being the life assured and the client the policy owner.

Any claim would be paid to the client as the policy holder.

Calculating the impact an employee's death or serious illness would have on a business can be difficult, there are no set rules and a multiple of the employee's salary or the company's profits is usually the simplest approach.

An underwriter will decide whether the sum assured is reasonable.

[Leave a comment](#)

[Email to a friend](#)

[Print](#)

[RSS](#)

[Share](#)

Comments

There are no comments submitted yet. Do you have an interesting opinion? Then be the first to **post a comment**

Related articles

Most Read

