



Taking the strain

There is a strong case for business protection but many businesses are not covered – often because they do not realise it exists. Advisers are in an ideal position to raise awareness and boost take up as Bonnie Burns explains.

Many senior people within businesses bear a huge amount of responsibility and this is particularly the case with smaller firms. If a director or partner was to become seriously ill or die, profits, jobs and even the survival of the business could be at risk.

The solution to this is business protection which is also an important growth area providing huge opportunity for advisers. It is estimated around 90% of businesses do not have this cover according to Swiss Re's *Insurance Report* conducted in December 2005.

The report demonstrates a clear need for business protection. In the same year, Legal & General surveyed 315 senior managers within businesses with a turnover of more than £50,000. All participants said the absence of a key person through serious illness or death would adversely affect the company profits. But advisers remain reluctant to enter the market, perceiving it as complex and the domain of corporate specialists. However this need not be the case.

In its broadest sense, business protection is purchased to protect a business and its shareholders or partners if they, or another key individual, dies or contracts a critical illness.

The policy proceeds provided can be used in a variety of ways.

Business protection generally incorporates higher premiums than in the individual market. The purpose of the cover and the way it is set up determines who the claim is paid to. This will often be the business or the business owners, rather than to a family member.

Business protection falls into three main types; key person; partner or director share protection; and business loan protection and can cover death and incorporate critical illness cover. Medical advances mean if someone becomes seriously ill, they may well plan to

return to work. However, in the time that they are absent, a business can be vulnerable. Having business protection can help a firm continue to operate effectively during this period.

CRACKING THE MARKET

For advisers who largely focus on the individual market, the main challenge is to find the right target audience.

While many advisers may be hesitant initially, they should find, once they have started to make inroads, they will quickly build contacts through recommendations (see pull out box for tips on building a client base).

As smaller businesses in particular can be pressed for time it is mutually advantageous to work with advisers with a problem-solving approach. Advisers will then also benefit with business protection as it makes sense to provide realistic solutions from the first meeting.

Tips for building a client base

- Revisit the existing client bank to discover who are business owners.
- Check out local companies listed at Companies House.
- Develop contacts through informal networking groups and more formal associations such as Chambers of Commerce.
- Purchase reputable leads.
- Send targeted mail shots.
- Work with a provider that can assist with lead generation and sample letters.
- Work with local firms of solicitors and accountants – this can be reciprocally beneficial. Solicitors can work on cross option agreements – the drafting of the relevant documentation to allow a share buyout – and accountants can be provided with business valuation work.



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Prior to the meeting, the adviser should obtain an overview of the target business and ask some outline questions over the phone. If the business does not appear viable, they can then avoid wasting time with a face-to-face meeting.

All the business owners should attend the first meeting. It is likely some people will not be aware of business protection, or if they are, they will have questions to ask. To set the theme when conducting a review of a company, the adviser should pose the question of how the company would cope if one of the directors suffered a heart attack and was forced to take several months off work.

Shareholding is an issue that should be carefully considered. Would the directors want to retain full ownership of the company if one of the shareholders died? Firms need to contemplate this as it could be difficult if a spouse became the owner of shares.

Another scenario to consider is if a director became seriously ill, they may want to sell their shares to realise funds. Having cover in place can provide this cash and ensure ownership remains with the existing directors.

It should not be necessary for an adviser to go into legal and tax issues in great depth during the initial meeting, dispelling the myth about the cover being complex. If advisers need assistance later in the process, providers usually have fully trained staff who should be able to assist with their technical queries.

In February 2006, COVER revealed the average business case had a £260,000 sum assured and that sums above this level were common. Every business is different, and in each case, the adviser will want to assess with the client what the sums assured should be. A number of online tools are available to assist in calculating this.

Another area that can deter advisers is the perceived notion of the underwriting service being long and complicated. However, providers who write volume business protection cases have experience in underwriting and servicing these clients. In terms of medicals, these are not always required, but where they are, the experience should be as simple and as straightforward as possible.

Legal & General uses the services of experienced nurses who would discuss a life assured's health history at a brief meeting and

Business protection policies

Key person

This helps safeguard a business against the financial effects of the death or critical illness of a key person. This could be the business owner, managing director or other individuals who are of vital importance such as those in sales, IT or research and development. If a key employee is critically ill, for example, this protection could fund an interim manager if the key employee plans to return after a period of recuperation.

Partner or director share protection

If a partner or director falls critically ill or dies, the policy proceeds can be used to buy out their share of the business. Assuming an appropriate legal agreement is in place, this will assist the remaining directors or partners in retaining control of their business. Also, an agreed price is received by the critically ill business owner or, in the case of death, the deceased's family.

Business loan protection

Business loan protection can be used to protect corporate debt – something common to many expanding smaller businesses. This cover helps pay an outstanding loan, overdraft or commercial mortgage should the guarantor die or become critically ill. Overall, it is practical and reassuring cover for the majority of small and medium-sized enterprises. It should be viewed as straightforward cover, along with insurance such as employers' and public liability, pensions and healthcare and cover for buildings and contents.

then relay details via Blackberry or mobile technology to its underwriters. If a doctor's assessment is necessary, in the case of large sum assured, the provider enlists the services of the Harley Street Medical Group. It is likely clients will find the service reassuring and it may be possible to provide medicals for all relevant individuals at the same time.

TAX AND TRUSTS

In addition to misconstrued beliefs regarding the underwriting process, advisers have to deal with trusts and tax issues. Trusts and tax can be intricate areas – but help is at hand. Providers are available to answer queries that advisers may have on such issues and while it makes sense to have a sound working knowledge, advisers may wish to draft in other specialists such as accountants and lawyers.

As previously mentioned, the way a policy is written will depend on the reason for the cover and the type of business it is for.

If key person protection is sought and the employer is a company, the company may apply for a policy on the life of the employees so that the company is the policy owner. A trust is not generally required since any policy

proceeds would belong to the company.

In the example of director shareholder protection, where benefits are required to go to other directors rather than the company - it would probably make sense to write a policy under trust.

The tax position of the premiums and the sum assured will also depend on factors such as the type of business and the reason for cover. For key person assurance, a company may be able to claim corporation tax relief on the premiums if certain criteria are met. In addition, Legal & General can supply a specimen letter template for advisers to use to write to the company's local Inspector of Taxes for advance confirmation of the tax position.

Business protection is an ideal way of breaking into the valuable corporate adviser market. The cover also provides a natural cross-selling opportunity for IFAs looking to advise business owners on high net worth topics such as Inheritance Tax planning and wider investment, protection and healthcare issues. □

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