

# Business continuity planning

Keeping you in business  
when times are tough



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## What is Business Continuity Planning?

Business continuity planning is a key part in protecting the stability and continuity of your business. It ensures your business continues to trade if the unexpected happened.

Like most businesses, you have probably made sure your assets are covered and insured your buildings, your stock, cars and materials against the effects of fire, theft or other unforeseen events. But what about you? Who

Many businesses say people are their most valuable asset but only 1 in 5 have protection in place against the loss of a key person.

would you want to take control of your business if you died or became critically ill? And what about a key member of staff?

With a continuity plan in place, if key people within your business become ill long-term or die, you will be able to:

- keep your business trading
- replace key individuals
- provide employee benefits
- protect corporate debt
- buy out a shareholder, or their estate, if they become critically ill or die

Despite its obvious benefits, planning ahead to ensure your business is protected is an area business owners tend to avoid. In most small and medium sized businesses (SMEs), success depends on one or sometimes two key people. Would your business suffer if a partner, director, or your top salesman, responsible for bringing in most of the profit, or a valued technician, or key strategist died?

If you've worked with these people for many years, it's easy to underestimate their value, their skills, knowledge and experience or perhaps their contacts and relationships. But we

can never be sure what is around the corner. And that's why business protection is so important.

Putting the right protection in place will ensure the continuity of your business.

You can't predict what will happen in the future, but you can have the right protection in place to help keep your business going should a key person become critically ill or even die.

Protection for key employees is just one area of business protection. You might also want to consider **protection for shareholders or partners**. Without this type of cover in place, if the shareholder dies their family might have to sell the shares to someone else, maybe even a competitor. There's also **protection for business loans**, as there could be severe consequences if loans are not protected such as an inability to make repayments.



## What would happen if your business lost a key employee?

A key employee is someone whose death or disability would have a serious effect on the company's ability to continue trading - for example, a sales director who has valuable sales contacts, which might be lost if they died.

To make sure your business can continue, you need to consider if the business:

- could continue to trade, or would suffer financially, if it lost a key employee.

- would have the necessary cash flow to replace any loss of profit or repay any outstanding loans, including directors' loans.

## What is key person protection?

Key person protection covers your business's key people in case they die, become critically ill or find themselves unable to work through a long-term sickness.

The key person could be you, a director or partner in the business, or it could be the sales manager - whose contacts and relationships make sure that sales stay on target and the business remains profitable.

## How can this help to protect your business?

With key person protection, you can cover your key people and receive a lump sum if they die or suffer a critical illness. Or you can choose to protect the profit this key person generates for the business, should they be unable to work through illness or injury. This would pay an income each month to cover the amount of profit that this key person would have been bringing into the company. This could help you continue to pay any bills or ongoing expenses.

## Case study

### Business Continuity Planning

In April 2014, an aviation solutions company took out life with critical illness protection, for a 5-year term. The policy was for their general manager, a 44-year-old male, who was classed as a key person within the company. In September 2018, during a regular blood screening, the general manager requested a prostate

specific antigen (PSA) test due to his age but also, because he had seen recent prostate cancer awareness campaigns. This revealed a raised PSA score and further investigations led to a prostate cancer diagnosis. A claim was submitted towards the end of 2018 and after obtaining medical information, the claim

was paid in February 2019. Having business protection cover in place gave the company time to consider their succession planning options. Its important business owners think about what they'd want to happen to their business if their partners/ shareholders or key employees become ill or die.



## Cover for your partners and shareholders.

Losing a partner, member or shareholding director can have a major impact on the success of your business. But it is not just the loss in profits that would have an impact. How do you retain control and assign fair value?

Having partnership or shareholder protection in place ensures an owner who becomes ill, or the family of an owner who dies, receives a fair value for their share of the business.

You could be forced to work with someone new, like a family member and that person may have no knowledge of the business or perhaps worse - have no interest in it. But because they now own a share, they've just as much say in the running of your business as your partner or shareholder had before they died.

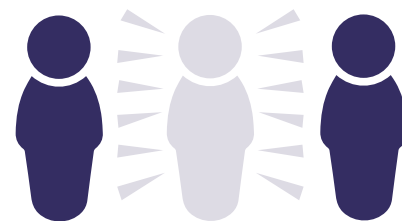
If it's a critical illness, this creates even more uncertainty. Will they be able to return to work and if so, when? If they don't return, then they'll likely want to sell their share of the business. But who will buy it?

## What is partnership or shareholder protection?

Having partnership or shareholder protection in place helps to avoid these problems. It gives you the

# 1 in 3

**SMEs feel that the absence of a partner/shareholder would have a severe impact on their business**



security to be able to keep the ownership of the business in the hands of those who have built it. It also makes sure an owner who becomes ill, or the family of an owner who dies, receives a fair value for their share of the business.



# Questions to ask...

## Limited company/partnership/limited liability partnership

### Possible risks

One of the shareholders/  
partners/ members dies  
unexpectedly

### Ask yourself

1. Is there anyone else who could run the business?
2. What would this cost?
3. Are any business loans in place which are secured against your family home?
4. How would your family cope financially?
5. Can the surviving shareholders/partners/ members buy the deceased's share?
6. Do the surviving shareholders/ partners/ members want to buy the deceased shareholder's/partner's/ member's share?
7. Would a competitor want to buy into the business?
8. Would the beneficiaries get a fair price?
9. Do the beneficiaries want to join the business?
10. Do they have the necessary expertise?
11. Would the other shareholders/partners/ members want them?

### To consider

Without shareholder/partnership protection arrangements in place, the following is likely:

- The deceased's interest in the business passes to their estate.
- The remaining shareholders/ partners/ members don't have the funds or legal agreements in place to buy the deceased's interest.
- The deceased's personal representatives or the remaining shareholders/partners/ members sell to a third party, or the deceased's beneficiaries get involved with the business themselves, often against the wishes of the remaining shareholders/ partners/ members.
- The beneficiaries of the deceased's estate don't see the true value of the business.

## Questions to ask if you're a sole trader

You die unexpectedly

1. Is there anyone else who could run the business?
2. What would this cost?
3. Are any business loans in place which are secured against your family home?
4. How would your family cope financially?

The following is likely:

- The business folding, leaving your estate without any source of income.
- Your dependants being left without support.
- Any employees would face redundancy.
- The family home being put at risk if loans are secured on it.
- The business being sold at a loss if there is no-one to carry it on.
- A possible inheritance tax liability which needs to be addressed.

## Business Debt Protection

One of the biggest challenges to the success of many businesses is finding the money to set up or expand. And if you are not fortunate enough to find someone willing to invest in your business, you may have to borrow to achieve your plans.

But when a business borrows money from a bank or other financial institution, it's common for it to want some form of protection to repay all, or some of that loan on the death of a key person. As a business owner you may also have lent money to your own business. These Director's

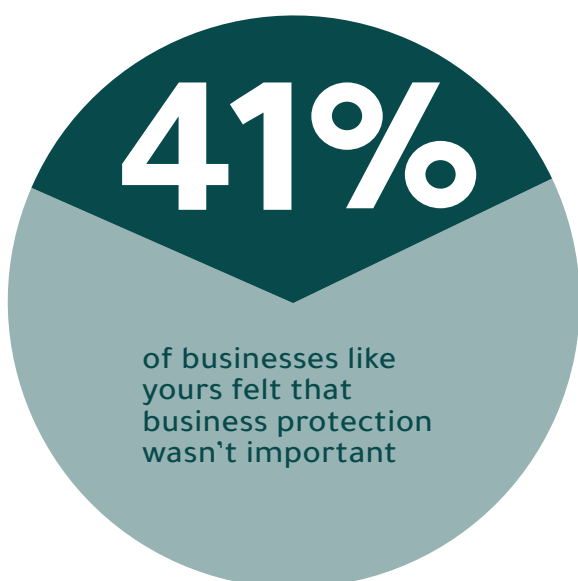
or Partner's loan accounts need to be repaid on death. **Without protection in place how would these be repaid?**

## Making sure your debts are protected

Financial protection is vital to ensure your business can repay corporate loans should the worst happen. If you have protection in place to cover the loan, you're making sure that even if a key person suddenly becomes ill or dies, the loan will be paid off. And although you may think you have enough capital to rely on, it's likely to run out more quickly than you'd expect.



## Is protecting your pet or your phone more important than protecting your business?



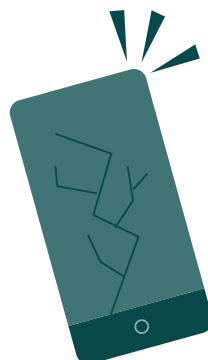
# 9%

think and know their organisation has business loan protection



# 20%

of SMEs personally have pet insurance



# 18%

have mobile insurance



### Showing you care about your employees

It's not only sound business sense that should drive companies to purchase business protection - offering a perk such as tax efficient Relevant Life Cover makes staff feel more appreciated so they're more likely to stay with your company for longer.

### What is Relevant Life Cover?

It's a way of providing death-in-service benefit on an individual basis no matter the size of your business. Although the company makes the payments, it's not

normally treated as a benefit in kind, so not included in income tax assessments.

For a higher rate taxpayer, this could be a significant saving.

The cover is set up and paid for by the employer. Unlike most schemes provided by large employers, Relevant Life Cover doesn't fall under pension legislation because it's 'non-registered'.

### Who is Relevant Life Cover suitable for?

- People with high earnings and big pension funds who don't want their death-in-service benefit to form part of their lifetime allowance.

### Relevant Life Cover

makes staff feel more appreciated so they're more likely to stay with your company for longer.

- Small businesses that don't have enough eligible employees for a group life scheme. People who are currently in a group death-in-service scheme that doesn't allow voluntary increases or has restrictive definitions of remuneration.
- People in a group death-in-service scheme who don't want their cover linked to salary at death but need a fixed sum.



## How can we help you?

We can talk you through all the options to ensure your business continues to trade even if the unexpected happens. We have access to a range of protection products from hundreds of insurers so we can match the right protection product for your business and your people.

If you'd like to speak to us, call the business protection team at our Cheltenham office today on **01242 226353** or email us: [enquiry@thefinanceroome.co.uk](mailto:enquiry@thefinanceroome.co.uk) to request a call back.

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