



**Life changes. Be prepared. Be protected.**

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## What is business protection?

The correct mix of business protection arrangements can help your client's business survive, following the death of a person who is vital to the business. Critical illness cover can be considered too.

**Business protection can be broken down into three main categories:**

**Key person  
protection**

**Commercial loan  
protection**

**Share purchase  
protection**

Underpinning each of these is one or more life assurance policies.

## Key person protection

Sometimes known as 'keyman insurance', key person protection aims to replace the lost profits a business may suffer as a result of the death or critical illness of a key employee or business owner.

### Case study one

ABC LLC currently rely on their sales person, Gemma, for all of their sales. The company's financial adviser recommends they take out a policy (owned by ABC LLC) on Gemma's life to protect against lost profits on her death.

## Commercial loan protection

Commercial loan protection aims to repay business debt in the event of the death or critical illness of a key employee or business owner.

### Case study two

DEF LLC have a significant bank loan, which they took to buy new laboratory equipment. Only their chief scientist, Leo, knows how to use the equipment. The company's financial adviser recommends they take out a policy (owned by DEF LLC) on Leo's life to repay the loan if Leo should die before it is repaid.

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## Share purchase protection

Share purchase protection aims to allow the ownership of a business to pass into the correct hands on the death or critical illness of a business owner and to create the necessary liquidity for the ill owner, or a deceased owner's family, to be compensated for the loss of the business interest.

### Case study three

GHI LLC has three shareholding directors, Aisha, Ben and Carlos, who each own one-third of the shares. Should any of the shareholding directors die, the survivors would want to buy the deceased's share of the company. After reviewing the company's constitutional documents with the company's lawyers, GHI LLC's financial adviser recommends they take out three policies – one on each of their lives – structured so that the other two shareholders would benefit. The company's lawyer puts an appropriate shareholder agreement in place.

## Why is it important to consider these three areas separately?

- 1 A business may have multiple business protection needs – it is important to identify and quantify each of them.
- 2 Policies are often structured differently for different needs. A single company might have both key person and share protection needs with key person policies owned by the company and share protection policies owned by the shareholders themselves.
- 3 Where relevant, the tax position of each type of policy can differ depending upon its purpose.
- 4 The financial underwriting of a policy application can depend on the purpose of the cover.

Next steps – find out more about business protection by contacting your Account Manager or visiting our website:

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