



ARBUTHNOT LATHAM

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# Guide to business protection

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Safeguard your business  
and those who make it thrive



# Introduction

At Arbuthnot Latham, we understand that your business's success is about more than just numbers. It is about safeguarding your legacy and ensuring continuity in the face of unexpected events. You have worked hard to build and grow your business; we are here to help you protect it.

## Safeguard your business

This guide will help you identify the risks your business may face and explore the common protection options designed to offer support and assurance for your key people.



### Key person protection:

Safeguard your business against financial losses due to a key employee's death or critical illness.



### Shareholder or partnership protection:

Ensure your business remains in the right hands and retains its value if a key shareholder or partner dies.



### Business loan protection:

Protect your business from financial strain by ensuring loans are repaid if a business owner or key person dies or becomes critically ill.



### Relevant life plans:

Provide tax-efficient life insurance for employees, enhance their benefits package, and provide reassurance.



### Executive income protection:

Safeguard the income of your key executives, ensuring continuity and stability during their recovery period.

Finding the right protection product and provider can be overwhelming. At the end of this guide, discover how our wealth planners simplify the journey and expertly guide you, ensuring you access tailored, high-quality solutions offered by our network of insurance partners that meet your specific business needs.



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# Understanding the need for business protection

A business's success often relies heavily on the contribution of its people. Businesses insure everything from buildings and goods to digital threats, workplace injuries, and legal action. However, only some insure their business against losing important people.



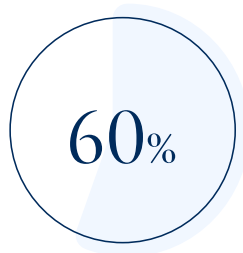
## Research underscores the vulnerability of UK businesses when it comes to protection.

According to Vitality, 63% of business owners said that one person is essential to running their business, yet 37% have no protection in place. Legal & General's findings are even more striking: 94% of businesses recognise they have at least one key person, and 60% would cease trading within 12 months of losing them. Alarmingly, a large proportion of businesses lack necessary cover, with 63% either not seeing the need or not having considered it.

Legal & General's study shows a stark reality:



have at least  
one key person.



would cease trading  
within 12 months.

**These insights highlight the widespread lack of preparedness underlining a critical vulnerability:**

without proper business protection, the sudden loss of a key individual could severely destabilise the business, leading to potential financial hardship.

## What are the risks you should consider?

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Business protection can help cover crucial areas and mitigate the financial risks of losing key individuals.

- 01** **Ensuring business continuity** - Many businesses depend on one or two key individuals who drive the most revenue through leadership, strategy, and business development.
- 02** **Managing financial obligations** - If your business has debts, such as business or director loans, it is essential to ensure they can be repaid.
- 03** **Maintaining control and ownership** - If shareholders die, their share could pass to their family, changing who controls your business.



### Questions to think about:

- How damaging would it be to your business if a key individual suddenly died or were unable to work due to ill health?
- Would the surviving shareholders wish to retain control of the business in the event of a shareholder's death?
- Would existing cash flow support your business while you replace a key individual who has died?
- Would it cover the repayments or full repayment of loans or debt?







# Safeguard the contribution of those who are essential

Key person protection provides financial compensation to offset losses from the death and/or critical illness of key employees whose expertise and leadership drive your business's success.

It can provide support for:



The cost of recruiting and training a replacement.



The loss of profits.

Key person protection can also provide financial compensation for the loss of important personal and business contacts, as well as the loss of confidence in your business by clients and suppliers due to the death and/or critical illness of a key person.



## Replacing a key person can be costly

According to Gallup's 2022 State of the Global Workplace Report, replacing an employee with a satisfactory substitute can cost up to

# 200%

of the original employee's salary.

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# >60%



of business owners acknowledge their business relies on one individual.<sup>1</sup>

# >50%



ceased trading in less than a year after losing a key person because their contribution to the business's success was so significant that it could no longer continue without them.<sup>2</sup>

**Be prepared.** Ensure the resilience of your business with the appropriate business protection.



## Questions to think about:

- Does your business have any key individuals who contribute heavily to profits?
- If so, would their absence affect profitability?

## CASE STUDY:

### Safeguarding continuity with key person protection

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#### Background:

A small London-based digital advertising agency relied heavily on its creative director for revenue, thanks to his crucial industry contacts and business-winning skills.

#### Challenge:

The creative director fell critically ill, requiring indefinite leave for medical treatment, posing a significant threat to the agency's operations and revenue.

#### Solution:

The agency had secured key person protection insurance for its key staff, including the creative director, on the advice of a wealth planner from Arbuthnot Latham.

#### Outcome:

When the creative director became incapacitated, the key person insurance was activated. The payout from the policy covered the revenue shortfall and the costs of recruiting and training a new director. This crucial financial support allowed the agency to continue operations smoothly, protecting its future during a vulnerable time.

#### Source:

1. Vitality Research
2. Legal & General, State of the Nation's SME Report

# Help your shareholders or partners maintain control of the business

When a shareholder dies, their share of the business may pass to their beneficiaries. Shareholder or partnership protection can serve multiple critical roles in safeguarding your business:



## Protection against unforeseen events

Provides funds to buy out the shares of deceased and/or critically ill shareholders, preventing the shares from passing to individuals outside the business whilst ensuring they receive fair value.



## Maintaining business continuity

Ensures remaining shareholders retain control, allowing uninterrupted decision-making and reducing external interference.



## Financial stability

This provides the necessary funds for share buyouts, avoiding financial strain such as cash flow issues or the need to incur debt.



## Valuation and fairness

This includes predefined methods for valuing the business and each shareholding, reducing disputes during what can be emotionally charged times.



## Legal and operational clarity

Establishes a clear legal framework for share handling in case of a shareholder's incapacity or death, facilitating smooth transitions and minimising legal disputes.





### Attracting investors

Enhances investor confidence by demonstrating prudent risk management and commitment to business continuity.



### Conflict prevention

Reduces disputes among shareholders, especially during stressful situations like the death of a key shareholder.



### Employee and client assurance

This function maintains business stability and operations, reassuring employees and clients, preserving their confidence and loyalty in your business.

## Do you have a 'business will'?

A *'business will'* is a legally binding agreement that allows the surviving shareholders or partners to buy the deceased individual's share from their estate. It ensures that your business can continue operating as all controlling shareholders intended, even after a death or critical illness.

## Questions to think about:

- What would happen to your business if you or one of the shareholders or partners were to die?
- Who would inherit their share of the business, and what impact would this have on the future direction of the business?
- What is the succession plan for the business?



# Cover the financial commitments of your business

Most businesses have some form of debt. In fact, according to research by money.co.uk, UK businesses will borrow almost £500bn in 2024. The death of a shareholder can create an urgent need for surviving shareholders to repay outstanding business loans.


Business loan protection ensures that your business can repay its outstanding loans if a key person critical to the business's financial wellbeing dies or becomes critically ill. It typically pays out a lump sum that can be used to settle loans, preventing your business from facing financial distress or risking insolvency due to an inability to meet debt obligations.

**Business loan protection can serve multiple critical roles in safeguarding your business.**

- **Financial security:** Ensures loan repayments can be met even if a key individual dies or suffers a terminal illness, preventing default and subsequent financial strain.
- **Asset protection:** Prevents the need to liquidate assets or divert cash flows for loan repayment, maintaining the operational stability of your business.

- **Business continuity:** Provides funds to meet loan obligations, ensuring uninterrupted operations despite the financial disruptions from losing a key person.
- **Personal financial safety:** Shields the personal assets of your business owners by covering loans in case of defaults on personally guaranteed loans.
- **Enhanced creditworthiness:** Boosts lender confidence with assurance of loan repayment, improving your business's borrowing capacity.
- **Risk management:** Acts as a financial safety net, allowing your business to strategically plan against unexpected setbacks.
- **Trust preservation:** This helps sustain supplier and customer confidence by ensuring financial commitments are met, which is crucial for long-term relationships.
- **Growth support:** Facilitates investment and expansion by securing loan repayment, enabling your business to pursue growth opportunities with reduced risk.

## Questions to think about:

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- Do you have significant business loans or financial obligations?
  - Do your business loans have any personal guarantees or contractual conditions to repay the debt in full if a shareholder dies?
  - How would your business manage its loan repayments if a key person became critically ill or passed away?
  - Have you considered the financial impact on your business if you could not meet your debt obligations?



## CASE STUDY:

### Ensuring stability with business loan protection

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#### Background:

A property construction company in Bristol took on a significant loan to fund a major project, depending heavily on their managing director's financial expertise.

#### Challenge:

The sudden death of the managing director threatened the company's ability to manage its financial commitments effectively. This loss of leadership put the stability of ongoing projects and future financing at risk.

#### Solution:

Aware of these risks, the company had previously secured business loan protection on the advice of a wealth planner at Arbutnot Latham.

#### Outcome:

When the managing director passed away, the business loan protection policy was activated, providing a payout that covered the outstanding loan. This prompt financial relief allowed the company to continue its operations uninterrupted, ensuring the continuity of the Bristol project and maintaining stability during a critical transition period.





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# Protect the people that matter in your business

Ensuring your employees' financial security and wellbeing can enhance morale and loyalty, reduce stress, and boost productivity by demonstrating a commitment to their welfare.

There are two types of protection to consider when thinking about your employees:



## Executive income protection

Safeguards your business from the financial strain of covering sick pay costs for key employees.



## Relevant life cover

Offers your business a tax-efficient way to provide life insurance benefits to employees, enhance your employee benefits packages, and provide financial protection to their families in case of their death while in service.

## Executive income protection

This offers a monthly benefit to your business if a key employee cannot work due to illness or injury. This benefit is paid directly to your business and then can be transferred to them through Pay As You Earn (PAYE), helping cover sick pay expenses and safeguarding your business finances.

It is designed for small to medium businesses and can cover your employee's income from various sources, including earnings, bonuses, pension, and employer NI contributions. Selected policies also offer additional cover for benefits-in-kind and dividends.

**Executive income protection** is classed as a business expense and is usually tax-deductible against corporation tax.

up to

80%

of a key employee's income can be insured by your business.

just

60%

can be insured through a personal policy.







## Question to think about:

- How long can your business sustain paying sick leave to a key person?

### CASE STUDY:

## Sustaining leadership with executive income protection

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### Background:

A technology firm in Cambridge depended on its chief technology officer for leadership in pivotal projects and strategic decisions, key to maintaining its competitive edge in the tech sector.

### Challenge:

When the chief technology officer developed a severe health condition requiring long-term treatment and was unable to work, the business faced the challenge of supporting the chief technology officer's income during this critical period without incurring financial strain.

### Solution:

The company had previously arranged executive income protection for its senior leaders, including the chief technology officer, on the advice of a wealth planner at Arbutnot Latham.

### Outcome:

The activation of the executive income protection policy alleviated the financial burden on the company. It enabled the continued payment of the chief technology officer's salary and facilitated the hiring of a temporary replacement to manage crucial projects. This strategic foresight ensured operational continuity and preserved the financial health of the business during a challenging time.



## Relevant life cover

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When you provide life cover to your employees, it benefits your business and your employees.

Relevant life cover secures a tax-free lump sum for your employees' families in the event of their unexpected death, ensuring their loved ones have financial support. Offering this benefit shows your commitment to employee welfare, potentially enhancing employee loyalty and your business's reputation.

Your business will also benefit because your monthly premiums are an allowable business expense for corporation tax purposes.



## CASE STUDY:

### Supporting employee families with relevant life cover

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#### Background:

After consulting with a wealth planner from Arbuthnot Latham about reviewing their business protection, a reputable insolvency practice in Leeds decided to add relevant life cover to the benefits package for all employees.

#### Challenge:

The practice was faced with the real-life application of their employee benefits when a long-standing employee suddenly passed away, putting the spotlight on the effectiveness of their relevant life cover.

#### Solution:

The practice had proactively implemented relevant life cover, as advised by the wealth planner. This cover is aimed at providing a tax-free lump sum to employees' beneficiaries upon their death during employment.

#### Outcome:

When the employee passed away, the relevant life cover policy was promptly activated, delivering a substantial tax-free payment to the family. This financial aid eased their immediate economic burdens and affirmed the practice's commitment to employee welfare. The significant support not only boosted staff morale but also reinforced their loyalty and pride in their employer.







# Is it time to safeguard your business?

Navigating business protection requires a proactive approach. Arbuthnot Latham offers a network of specialists, tailored financial strategies, and banking services for clients running a business.

Our combined commercial banking, private banking, and wealth planning teams work together to understand the unique challenges your business faces.

By partnering with us, you are taking a crucial step towards securing your business's future and protecting your legacy the right time.



Here is our approach:

01

Explore your needs

We thoroughly analyse your business, operations, and specific risks to capture all unique aspects.

02

Tailor solutions

We create bespoke protection plans aligned with your business goals, ensuring comprehensive coverage and peace of mind.

03

Ongoing support

Our wealth planners are on hand to adapt your protection plans as needed, ensuring resilience as your business evolves.

Take the essential steps to protect your business today and tomorrow. Contact us today.



Already an Arbuthnot Latham client?

Please speak to your commercial banker or private banker to learn more about how our team of wealth planners can help you with your business protection needs.



New to Arbuthnot Latham?

Request a call from a dedicated commercial banker by visiting: <https://www.arbuthnotlatham.co.uk/contact>

## Complete your safety net with personal protection

While safeguarding your business is essential, it is equally important to protect your personal interests. Our Personal Protection Guide helps ensure that you and your family are safeguarded against life's uncertainties. Consider it essential reading to complement your business protection efforts.

Find the guide online or request a copy from your commercial banker or private banker.

[www.arbuthnotlatham.co.uk/protection](http://www.arbuthnotlatham.co.uk/protection)



# Helping you go further

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