

VIEWPOINT



Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us



HGC FINANCE

mortgages, protection, wealth

11a Highbury Grange, London, N5 2QB

robert@hgc-finance.com | 07813 942 995 | www.hgc-finance.com

Business Protection

You need it more than ever

Prior to lockdown, over half (51%) of businesses had some form of debt, owing an average of £176,000 each – and yet just 20% used an insurance policy as security.

To add to this already significant issue, bank lending to struggling businesses via government-backed COVID-19 loan schemes reached nearly £52bn as of mid-August – meaning that UK businesses are more heavily indebted than ever.

Business loan protection

Business loan protection provides funds to repay a business loan, commercial mortgage, or a director's loan if one of the company's owners were to die or be diagnosed with a serious or terminal illness. Essentially, this type of insurance comprises a life cover or critical illness policy taken out on the life of the business owner or key person, with the payout ensuring the business can pay its debts should the worst happen.

Most lenders require some form of security when lending to businesses; often, business owners will use their own personal wealth (e.g. their property) as security. So, in addition to their business suffering if they were to unexpectedly die or become seriously ill, their family could face serious financial hardship or even lose their home.

Director's loans

It is common for businesses to have a director's loan account, through which the director can:

- Lend money to the business to fund initial start-up costs or see it through cash flow pinch points, for example;
- Borrow money from the company that is not classed as salary, dividends or expense repayments.

According to research from Legal & General, the average director's loan totals £169,000 – and yet well over a quarter (28%) of businesses are unaware that director's loans must be repaid upon death. This means the business could collapse if there is no insurance policy in place as security.

Loss of a key person

A staggering 52% of businesses say they would cease trading within a year if they lost a key person. Losing a key member of staff can have a huge impact on the business in terms of lost profits, poor cashflow and, potentially, a change in its creditors' attitudes to outstanding debts. That's where business loan protection comes in – it can help alleviate financial pressure by paying off the company's debts and enabling the business to get back on track.

As with all insurance policies, conditions and exclusions will apply

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Protecting your business in difficult times

During the past few months, millions of businesses have been forced to shut temporarily, with employees furloughed or working from home under very difficult circumstances.

With various business sectors reopening in July, many have suffered significant financial damage due to lockdown. For some businesses, productivity has been lost due to illness and self-isolation, while others have lost key personnel or shareholders, leaving a question mark hanging over their future.

Don't leave your business vulnerable

It is likely that your business would at least experience some financial difficulties if key stakeholders were to fall ill or die.

When thinking about whether you should take out business protection insurance, ask yourself:

“Would your business survive if something were to happen to you, your co-owners or senior employees?”

If the answer is no, then you would probably greatly benefit from taking out this specialist insurance. Below, we've outlined two of the most common types of business protection.

Share protection insurance

Even if a business has multiple owners, the death of just one of them could throw the business into turmoil. If no share protection policy is in place, then the deceased owner's share in the business may pass to a family member, meaning that the remaining owners could lose control of part (or even all) of the business.

Share protection is essentially a life insurance policy that covers you for the value of your share in the business, with the payout providing your co-owners with the necessary funds to buy your shares back.

Key person insurance

A 'key person' can be defined as an employee with specialist knowledge, experience and skills who contributes to the financial success of a business.

If you were to lose a highly-trained employee, who carries out unique functions within your business, it could have a detrimental impact on your income and profits. Meanwhile, you are likely to use up time and resources you can't afford in training up or recruiting a replacement. A payout from key person insurance could enable your business to avoid financial hardship and give you breathing space to find a replacement at your own pace.

Seek advice

There are many other types of protection insurance available, such as business loan protection and relevant life plans, so it's advisable to seek guidance from a professional to ensure you choose the policy that works best for you and your business. If you would like to know more, please get in touch.