

A GUIDE TO KEY PERSON INSURANCE

This provides a brief summary of the cover provided. The actual policy wordings should be reviewed for specific details of coverage.

The Potential Problem

Businesses today have to be run on a tighter rein than ever before. Often it is the Shareholder / Director or partner who is bearing the brunt of much of this extra work and effort.

Clearly in this scenario, the business needs to recognise the role of the Key Person in the company and evaluate the consequences of his / her premature death or disability.

The potential problems the business will face are as follows:

- (1) Loss of Profits – short to medium term whilst a replacement is being recruited.
- (2) Customers, suppliers and financiers become hesitant and nervous over the consequences, particularly where personal contact had determined the success of the company historically.
- (3) Financiers become very concerned, particularly where the Key Person had been a Shareholder / Director and probably had given personal guarantees to service business borrowings.
- (4) Loss of business momentum and the substantial cash incur funding, training and bringing up to speed a suitable replacement.
- (5) Potential loss of business to competitors.
- (6) Often a loss in staff morale that may never be regained.

Key Person Protection is a lump sum insurance policy which indemnifies the business in the event of the death, disability or illness of a key person.

The Solution

Recognise the need to protect the company against the premature death, disability or illness of Key Employees.

We recommend Term Insurance whereby the company owns the policy and is indemnified in the event of the death of the Key Person. Additionally, it is desirable to include the benefits of both Total and Permanent Disability and Trauma Cover.

Tax Position

Premiums may be deductible from a tax viewpoint and proceeds, in the event of claim would be assessable. However, the tax position must be confirmed with your own professional tax adviser.