

PROTECT YOUR ASSETS WITH "KEYMAN" INSURANCE

Different professions hold different views on the definition of the term "Assets".

Ask any accountant and they'll probably tell you:

"Assets = Liabilities + Owners' Equity".

Many business owners consider:

"Assets = Customers + More Customers + Even More Customers".

Being a lawyer, my definition of the term "Assets" comprises:

"Assets = Anything which is of value"!

From small firms to large companies, almost every business has some form of insurance of their physical assets such as its manufacturing facilities, plant and machinery, stock inventory and office premises to mitigate potential financial losses through natural and man-made disasters.

But, we notice that very few companies cover themselves against loss of their most important asset – the "Key Executives" of the company – the person(s) at the helm who perform critical roles of financial, business and strategic management of the business; and whose presence in the business ensures its continued success.

If you are a sole proprietor, have you ever considered whether or not your business could continue without you? If you are a business owner, have you ever considered what will happen if one of your key employee is unable to work?

"Keyman Insurance" is an insurance policy designed to financially protect a business from the effects of prolonged illness or death of important employees of a business. While the insurance is unable to provide the business with an equally capable replacement employee, it is able to provide a cash injection for the critical interim period while the company recovers from the devastating loss of the critical employee.

Who is a Key Man?

A Key Man is someone who plays a very important role in the business, usually someone whose portfolio relates directly to profit generation. The general rule for deciding whether or not a person is a Key Man is simply to ask the question whether the business would suffer if this person is unable to show up for work.

How Does It Work?

Keyman insurance falls within the umbrella of “Business Protection Insurance”. As such, there are many different types of Keyman insurance; the most common being “Profit Protection Insurance” which pays out a cash sum to the business if a key employee is unable to work due to death or critical illness.

Studies have shown that 50% of small business owners expect their business to fold within 12 months of losing a key employee while a higher percentage expect their business to come to a serious struggle. Keyman insurance provides such small business owners with peace of mind – knowing that in the event that they lose a key employee, they would have a fall-back mechanism that provides funding to tide them over the crisis.

Do I need Profit Protection Keyman Insurance?

A simple way to determine whether or not you need a Keyman insurance policy is to answer the following questions:

- Do you have at least 1 key person in your business?
- Would the loss of this key person have a serious impact on your business?
- How many employees are there in your business? The fewer employees, the more reliant your business is on certain key persons.

Who needs Profit Protection Keyman Insurance?

From small firms to large companies, all types of business can enjoy the benefits of Profit Protection Keyman Insurance. However, business owners of partnerships and corporations should take note that if their main concern is for ownership protection, it is more useful to obtain ownership protection insurance (Read our article “Business Succession Planning”).

What’s the Difference Between Critical Illness/Life Insurance & Keyman Insurance?

A common misconception amongst business owners is that critical illness policies and life insurance policies, being of much lower costs, offers the exact same benefits as Keyman Insurance. In reality, they offer vastly different benefits and it is the benefits that justify the difference in the insurance premiums.

Critical illness and life insurance policies, while premiums are much lower, are personal policies and will pay out on the occurrence of the stipulated event, i.e. critical illness or death.

Keyman insurance policies, on the other hand, being a corporate policy would pay out on the occurrence of events detrimental to the business. Such events include when the key personnel is unable to work for whatever reasons.

When Should I Buy Profit Protection Keyman Insurance?

Procrastination is a vice most of people share, and that includes many small business owners, no matter how shrewd they may be. Unfortunately, in the area of business planning, it can lead to their financial undoing.

Many owners of successful businesses put off identifying their key assets until it's too late.

In short, the time to buy Profit Protection Keyman Insurance is now!

The information contained here is only intended to provide general information on the subject covered. Nothing in this publication should be regarded as constituting legal advice concerning any particular business, operational or other situations with which you might be faced. Further, the law may have changed since first publication and the reader is cautioned accordingly. Please seek professional advice before taking any action.

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Based in Singapore, we advise both local and international clients who wish to expand and preserve their business interests and wealth. Our Firm has assisted corporations in establishing and structuring new investments and business ventures in different sectors. We think beyond obvious legal issues and come up with pragmatic solutions to challenging commercial problems.

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