

SCOTTISH  WIDOWS

# Paraplanners Assembly: Business Protection



**Jon Hall,**  
Protection Specialist

Webinar

This information is for UK Financial Advisers only and should not be distributed to or relied on by another person.



# Learning objectives

By the end of this webinar, participants will be able to:

01

The protection gap & protection solutions

- ▶ Understand the Protection gap that exists in the UK and the protection solutions you could be offering clients

02

Engagement & conversation starters

- ▶ Engage with clients, using examples of conversation starters and open questions.

03

Understand business protection products

- ▶ The various different Business Protection solutions you could be offering your clients

04

Identify additional support

- ▶ The additional support available to employers and employees who hold Scottish Widows protection products.
- ▶ Additional resources & best practice on aligning yourself with business specialists

## The business protection conundrum

Type	No of Businesses	No of employees
Sole Trader (0 employees)	4,110,145	
Small (1-9 employees)	KEYPERSON	RLP
Small (10-49 employees)		
SME (50-250 employees)	36,905	3,596,000
Large (> 250 employees)	7,960	10,809,000
	5,555,130	

Source: Business population estimates for the UK and regions 2023: statistical release - GOV.UK ([www.gov.uk](https://www.gov.uk))

## The business protection conundrum

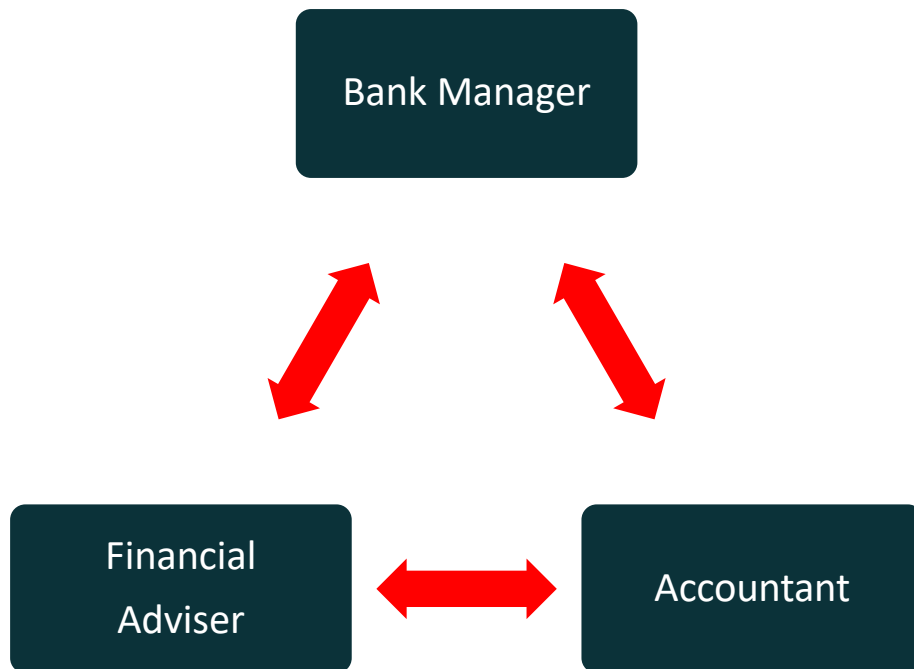
5.6m private sector businesses

In 2023 – out of 1.4m protection sales in intermediary channel:

▶ 14,003 Business Protection

▶ 25,672 Relevant Life

No process – no focus – no business



Falls through Gap

commit – own – network -  
process

**Write it**

## The protection gap

**52%**

said the death of the owner or key employee would be the **Number 1** risk to their business future<sup>1</sup>

**72%**

Of businesses feel that SMEs struggle to provide the same standard of health and wellbeing support for employees as larger firms<sup>3</sup>

**63%**

have either never considered business protection or do not understand the need for it<sup>1</sup>

**59%**

of businesses would stop trading after one year<sup>1</sup>

**73%**

of British workers are concerned about the cost-of-living outstripping pay<sup>2</sup>



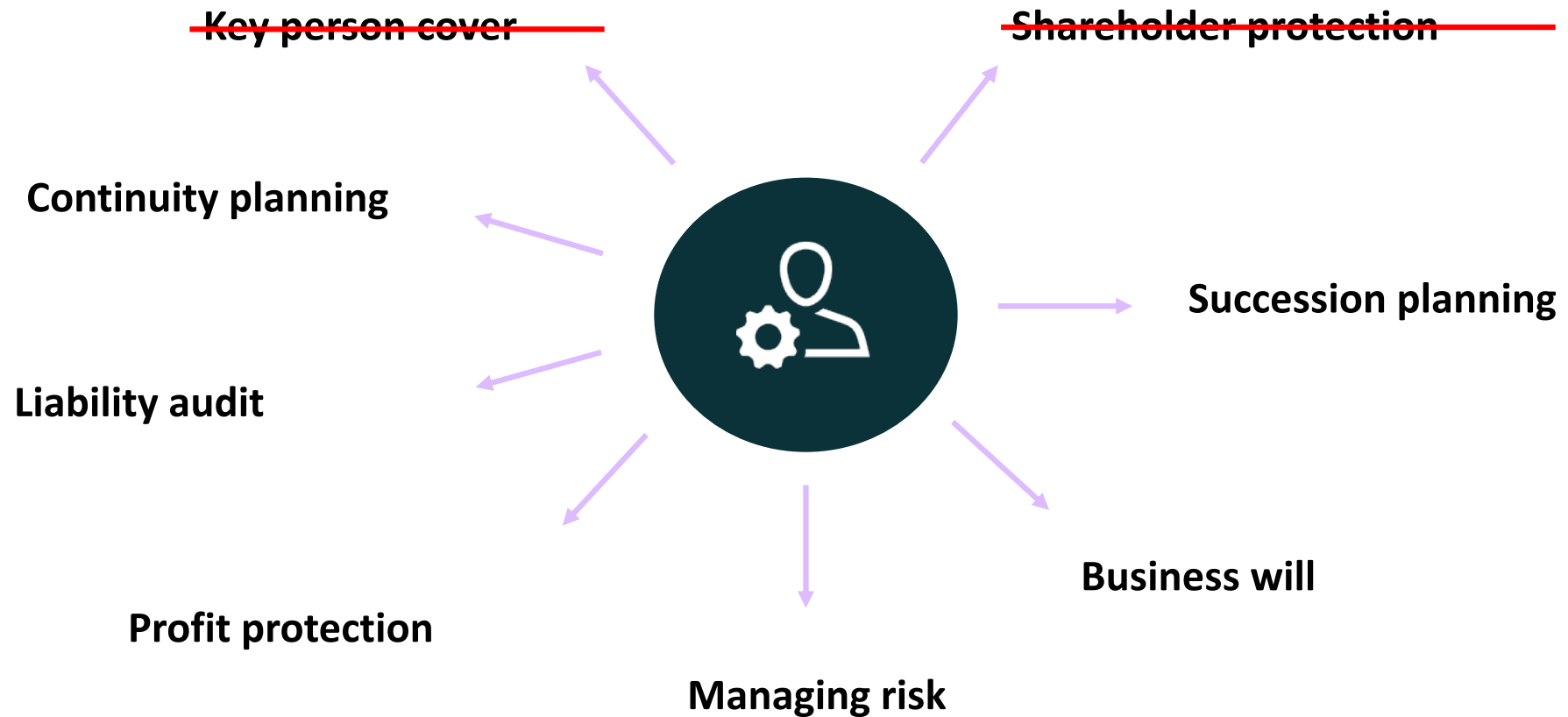
## Engagement conversation starters & key questions

## Conversation starters

Why did they start their business?	Find out about their business	The importance of protection
The desire for <b>flexibility &amp; more income?</b>	What's the <b>total value of business borrowing?</b>	What if the majority shareholder was diagnosed with a <b>terminal illness?</b>
Who's been involved in the business, what are their <b>roles and responsibilities?</b>	Are any loans <b>dependant on any individuals</b> to ensure they are repaid?	Would the business be able to repay any debts if the owner <b>or key employee died?</b>
How does the business intend to <b>fund any expansion plans?</b>	Would it be <b>more cost effective</b> to use an insurance solution?	Do they have an existing <b>death in service arrangement</b> if an employee was to die?
	What would happen to the business if the owner suddenly <b>died?</b>	



Speaking the same language



## Focus on the wants

What do you **want** to happen to your shares if you die?

If you were critically ill, would you **want** the option to sell up and retire?

Would your spouse **want** the option to take a break from working if you passed away?

What would your spouse **want** to do with the shares?

If you pass away, would your business partners **want** to buy your shares?

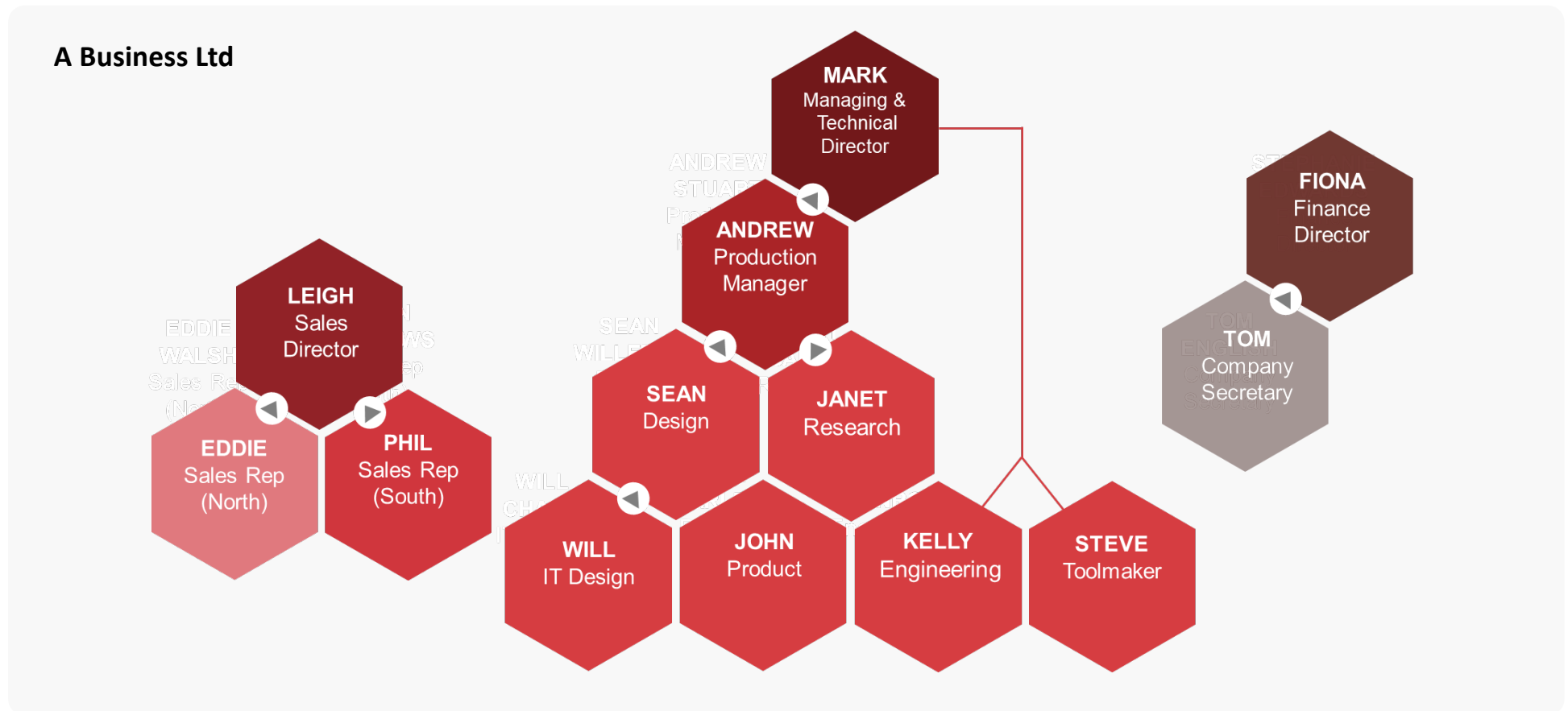


Would you **want** to pay off business debts if any of the directors passed away?

If one of your business partners died, would you **want** to buy their shares?

Do you **want** to ensure that your directors loan account is paid out on your death?

## The structure chart



**Tom Hanks**

Director and 50% shareholder

Liability: £200k director loans

Roles: adviser (200 clients / £300k p.a.) and operational management

Family: married with 2 grown up children

**Gary Oldman**

Director and 25% shareholder

Liability: £200k director loans

Roles: adviser (200 clients / £300k p.a.) and marketing/business relationships

Family: married with 3 children, 2 grown up

**Ian McKellan**

Director and 25% shareholder

Liability: £200k director loans

Roles: adviser (200 clients / £300k p.a.) and compliance oversight

Family: married with 2 young children

**A-List Wealth LTD**

Independent Financial Advisers

**Emma Stone**

Financial Adviser

Liability: nil

Roles: adviser (80 clients / £100k p.a.)

Family: engaged, no children. Recently moved house to a larger property

**Ryan Reynolds**

Paraplanner

Liability: nil

Roles: paraplanning for directors 1 & 2  
Family: married, homeowner with mortgage

**Meryl Streep**

Paraplanner

Liability: nil

Roles: paraplanning for director 3 and IFA  
Family: single, no dependents

**Business Valuation**

**£3,000,000**

Assessed by accountants

**Gross Income**

**c.£1,000,000**

**Liabilities**

**£600,000 director loans**

**Cate Blanchett**

Support/Admin

Liability: nil

Roles: office admin, dealing with product and provider servicing

Family: married, homeowner with mortgage

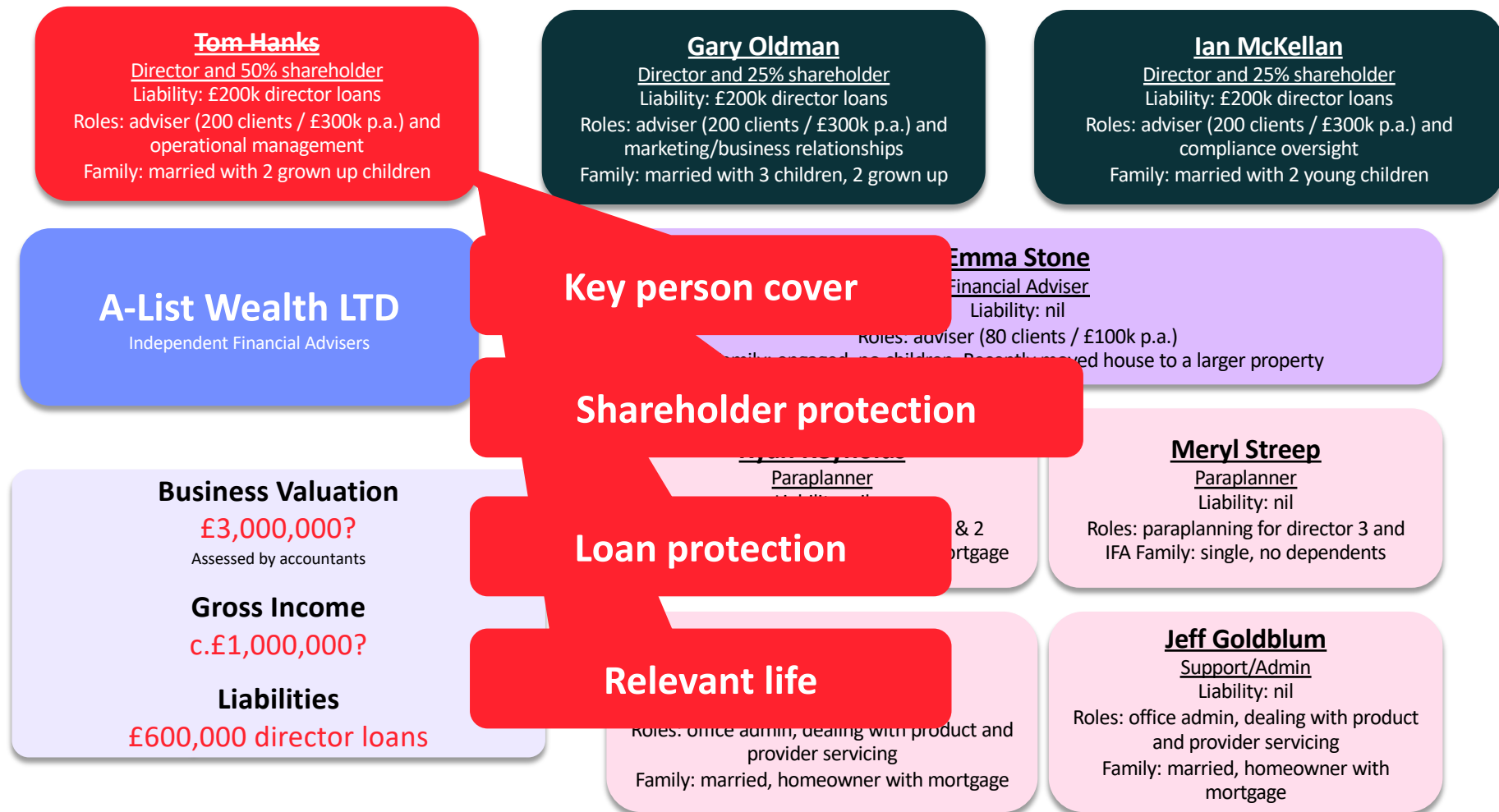
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**Key person cover**

**Relevant life**

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**Key person cover**

**Relevant life**

## Highlight the problem & signpost the solution



1. No clear plan or agreement as to what will happen to the shares on a shareholder's death
2. Potential business failure if death of a key person
3. Dependents not adequately protected
4. Difficulties repaying business loans

- 
1. **“Would an agreement between all shareholders as to what happens with the shares give some clarity and peace of mind?”**
  2. **“Should a tax efficient solution to ensure your dependants are financially secure be a priority?”**





# Solutions

## Scottish Widows Protect business protection products

### **Loan protection**



Policy proceeds used to pay off any loans/personal guarantees or director loans the business may have

### **Key person cover**



To help the business replace a key person and cover potential loss of profits

### **Shareholder protection**



To ensure the remaining business owners can purchase the shares from the estate of the deceased or the critically ill shareholder

### **Relevant life protection**



Proceeds paid directly into a relevant life trust for the benefit of their dependants and family

## Matthew and Toni

- Equal partners in a small plumbing firm
- The firm employs 7 people
- Matthew deals with the customer service, sales and invoicing and Toni schedules the work
- They've tried to de-risk the business by employing experienced plumbers with the right skills but, as business owners, they have a vested interest in the business, unlike their staff
- The business relies on Toni and Matthew for it to be successful
- Both owners have mortgages and rely totally on the business for their income

**What is the risk to the business, and to Matthew and Toni individually, should one of them become critically ill or die?**



## How can Scottish Widows protect provide the solution?

### Relevant life cover

Protection for Matthew and Toni as individuals, so if one of them were to pass away, their mortgage is cleared and family provided for

### Key person cover

Cover loss of profits as a result of losing either Toni or Matthew from the business and any additional costs to replace their skillset within the business

### Loan protection cover

Repay any commercial lending (including government backed loans) or directors or partners loan to the business

### Shareholder protection

Provide funds for the other shareholder to buy the deceased's share of the company from their family

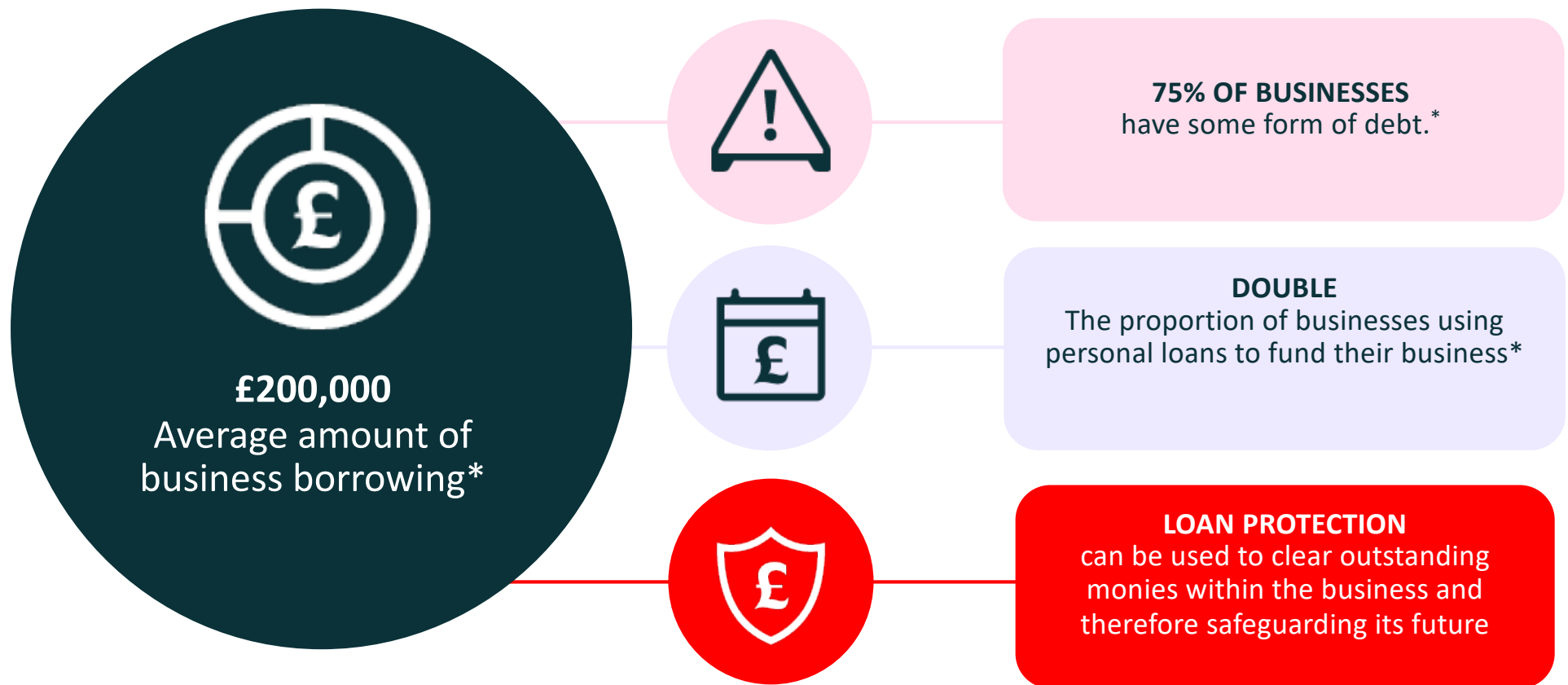
### Scottish Widows Care

Access to Clinic in a Pocket® virtual GP services and RedArc, that could help them and their families, even if they're not making a claim on the policy.



# Loan protection

## Loan protection



Source: \* Legal & General State of the Nation Report, Dec 2021

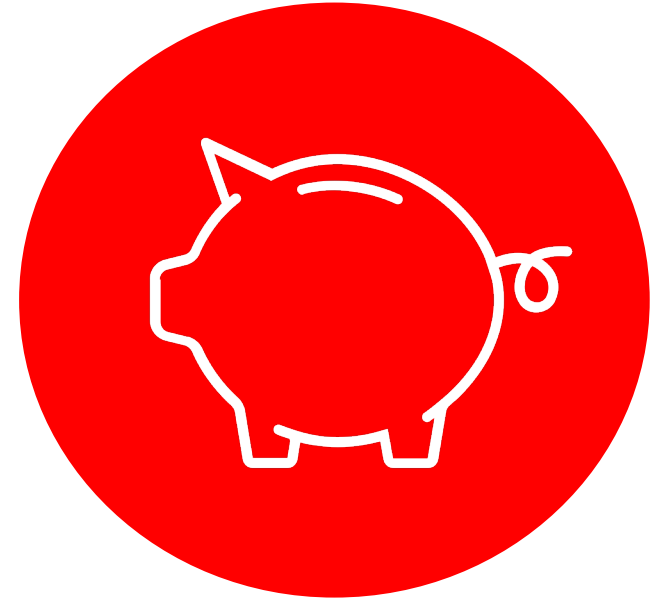
## Time to pay back

**54%**

For over half of businesses,  
Covid-19 has had a negative  
impact<sup>1</sup>

**1 in  
4**

businesses who have  
corporate debt used  
Covid-19 finance<sup>1</sup>



With companies given additional time  
to pay back – the loan will be in place  
for even longer



## Key person cover



## SMEs are at risk of closure if they lose a key person



**70%**

Of businesses said they would cease trading in less than 2 years with the loss of a key person <sup>1</sup>



**60%**

of businesses said they had 3 or more key people <sup>1</sup>

## What is the impact of losing a key person?



### Customers



Will they remain loyal?  
Could service levels fall?



### Competitors



Contacting key clients  
Approaching key staff  
with  
job opportunities



### Bank Manager



Loss of confidence could  
mean removal of  
lending terms such  
as overdrafts  
  
Could this cause a cash  
flow problem?



### Staff



Loss of staff morale?  
  
Look for jobs  
elsewhere?



### Executors of the estate



They will require that the Directors  
Loan be repaid on death  
Is there outstanding bonuses / salary?



### Creditors & debtors



Will they withdraw their business terms  
– either to pay on time or to provide  
supplies as agreed?

## Calculating the level of cover

### Salary formula

Cover based on 7 to 10 x gross salary including benefits in kind

Commonly used for key employees where a business aims to buy in a replacement  
Less suitable for shareholding directors who often take dividends instead of salary for tax reasons – and partners/members who take a share of the profits as drawings

### Turnover formula

Cover calculated as:  
(key person's annual salary x annual gross profit x number of years to recover)  
/ total annual wage bill

Allows for a key person's contribution to turnover and the length of time it would take to replace them  
Less suitable for directors taking dividends and partners/members taking a profit share as drawings

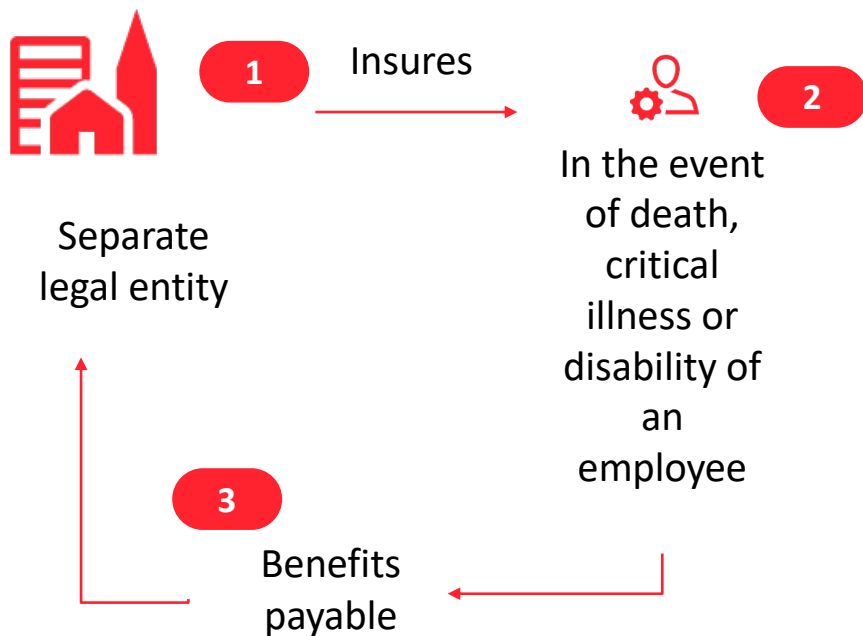
### Profits formula

Cover usually based on a  
2 x gross profit or 5 x net profit.

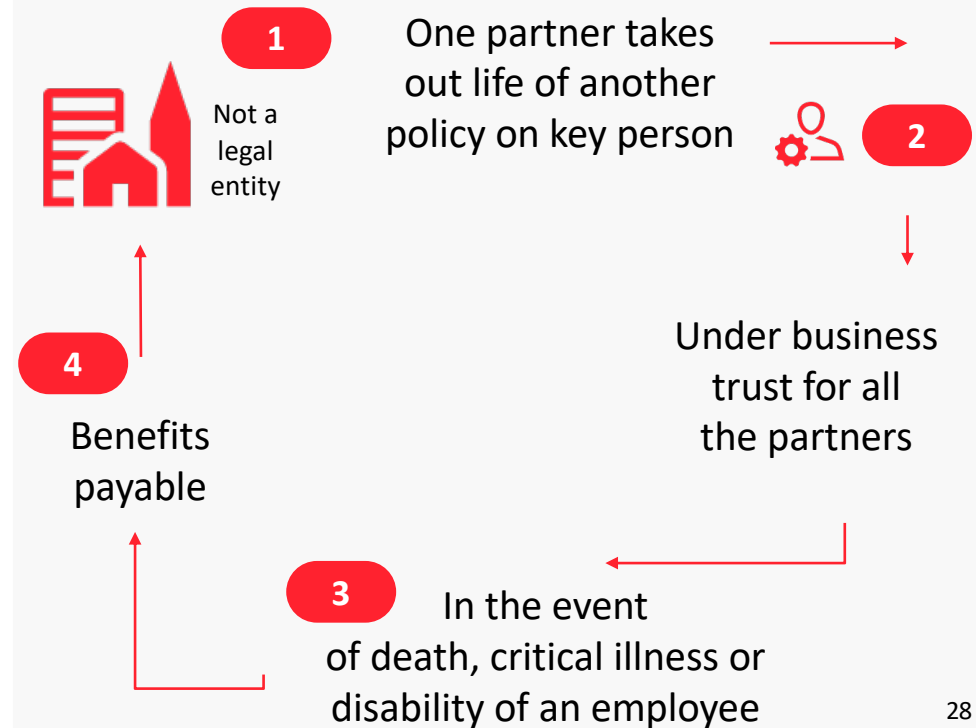
If there's more than one key person, cover is apportioned to reflect their respective contributions  
More appropriate than the other options where a key person is a shareholding director or partner/member

## Key person cover can ensure that the right benefit is in the right hands at the right time

For employees of Sole traders, LTD companies and LLPs

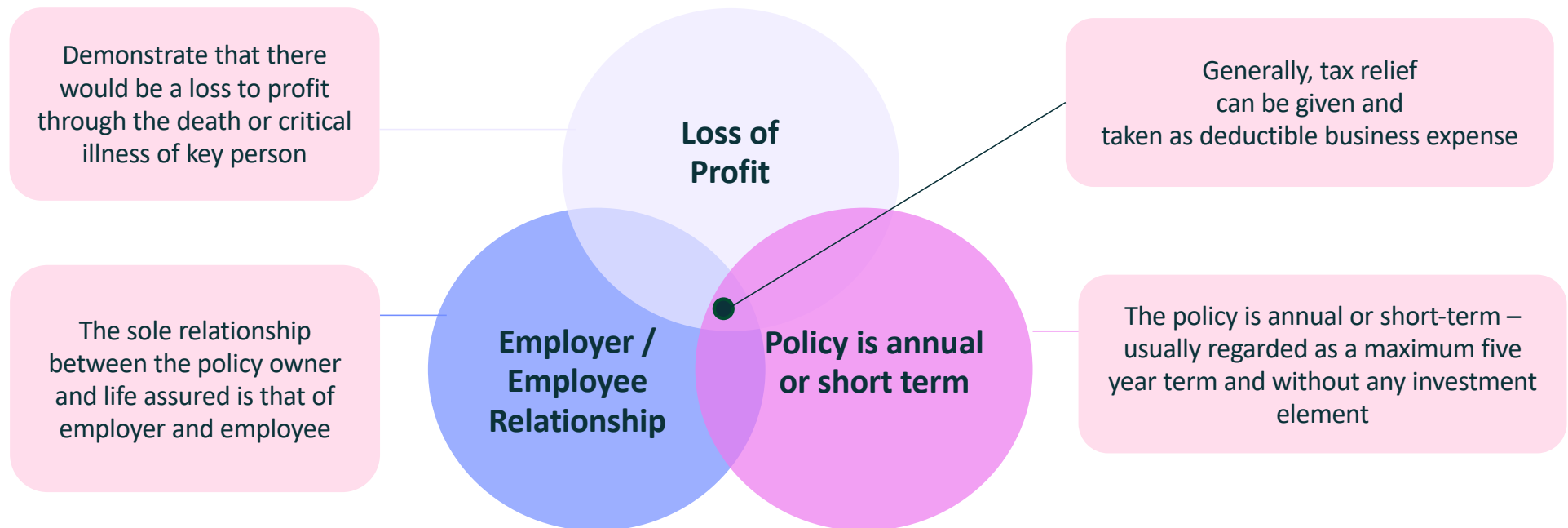


For key employee/partner of traditional partnerships



## Life of another tax treatment

### THE ANDERSON PRINCIPLES



A key person protection policy should be taken out “wholly and exclusively for the purposes of trade” and not for any other reason



# Shareholder protection

# Shareholder protection



## Beneficiaries

The spouse or partner receives shares in the business

Does the spouse of partner want the shares?

Would they prefer income or cash payment?

Do they still want control of the business as a shareholder?



## Business Partners

What impact would it have on the remaining partners?

Do they have the capacity to buy back shares from the spouse or partner?

How do you value the shares?

What impact could this have on the future business?



## Director Loans

Would need to be repaid in full on death and given to the deceased estate

Does the business have the capacity to repay the loan?

Are there any other liabilities that exist - loan secured against the partner that would need repaying?



## Control

How do the remaining partners remain in control?

What happens if the stake needs to be sold quickly?

Could the shares be sold to a competitor?

Do they want the spouse to be an active shareholder and decision maker?

## Shareholder protection

Cross option agreements

Single option agreements



## Setting up cover

Life of another

Own life in business trust

# Shareholder protection

## Jane is 50 and the majority shareholder

- She owns 51% of the company – her shares are worth £510,000
- Jane takes out a 15-year policy for £792 per year
- This policy is written into trust for the benefit of Kate and Lucy

## Kate is 40 and a minority shareholder

- She owns 30% of the company – her shares are worth £300,000
- Kate takes out a 25-year policy for £275 per year
- This policy is written into trust for the benefit of Jane and Lucy

## Lucy is 35 and also a minority shareholder

- She owns 19% of the company – her shares are worth £190,000
- Lucy takes out a 30-year policy for £147 per year
- This policy is written into trust for the benefit of Jane and Kate

This case study is for illustrative purposes only.

ENTER DETAILS

Individual details

Calculate the equalisation based on: % company owned

Name	% share	£ Premium
Jane	51	792
Kate	30	275
Lucy	19	147

Calculate

Clear

RESULTS

Premium Equalisation results

Equalisation Premium	Difference
£292.91	- £499.09
£539.34	+ £264.34
£381.74	+ £234.74

Download the valuation results



Relevant life

## How relevant life cover works



The policy is set up on a 'life of another' basis

The employer is the policy applicant/owner and the employee is the life assured



The employer completes the trust as its settlor at the same time as applying for the policy

Benefits paid to beneficiaries tax free via relevant life trust



The trust will normally be for the benefit of the employee and their family

This allows the trustees to pay any terminal illness benefit to the employee, if wanted



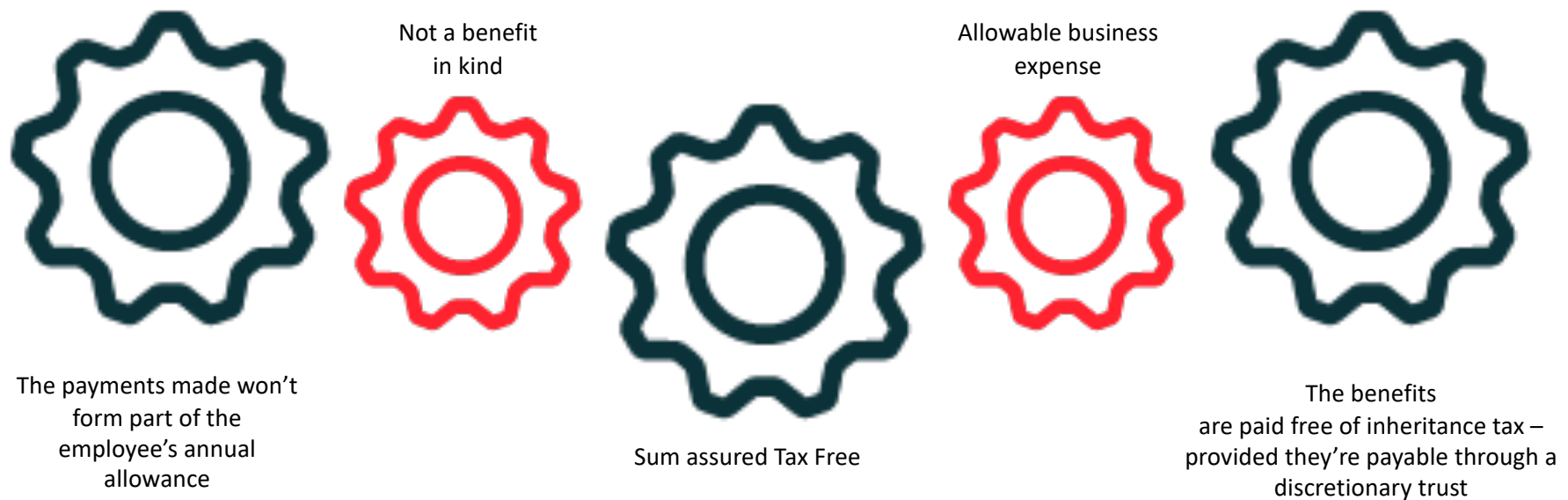
The employer is normally a trustee but other trustees can also be appointed

The employer pays the premiums and treated as a business expense

If there's a claim, the benefits are payable to the trustees

## Tax efficiencies with relevant life

These payments can be treated as an allowable expense for the employer in calculating their tax liability, as long as the local inspector of taxes is satisfied they qualify under the 'wholly and exclusively' rules



## George website design business

George's £300,000 life cover costs £1,000 a year

George pays the £1,000 premium through the business

£1,000 net for George's cover really costs the company £1,589 (with NI contributions and income tax)

George's £300,000 life cover costs £1,000 a year

George's Web Supplies Ltd pays the £1,000 premium but instead this time it is now considered an allowable business expense

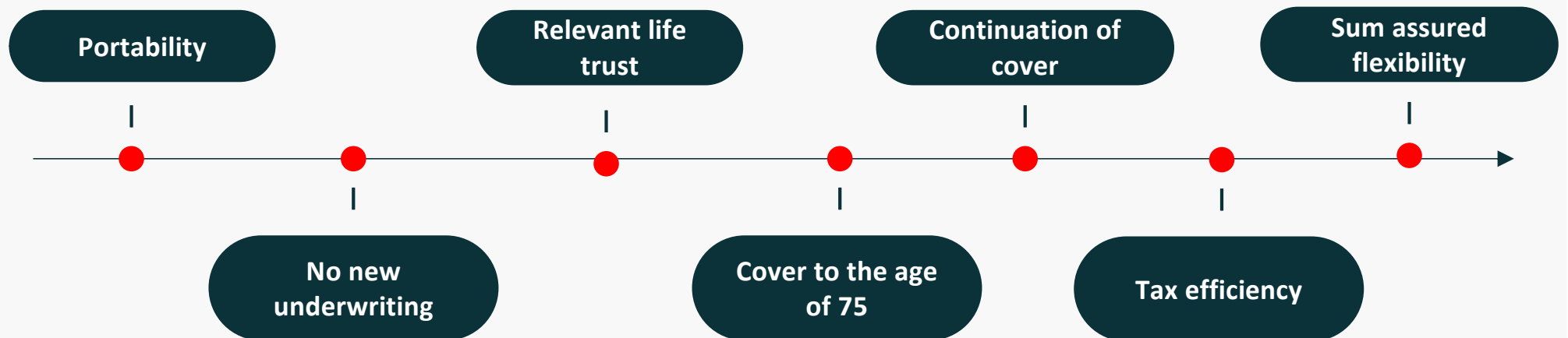
George saves 51% on his life cover equating to £832

	Ordinary life policy	Relevant life policy
George's annual premium	£1,000	£1,000
Gross cost to company		
Employee's national insurance	£57	£0
Income tax 40%	£705	£0
Employer's national insurance 15%	£265	£0
<b>Total</b>	<b>£2,027</b>	<b>£1,000</b>
Net cost to company		
Corporation tax relief at 19%	£385	£190
<b>Total</b>	<b>£1,642</b>	<b>£810</b>

THE SAVING IS APPROXIMATELY

51%

## Portability and flexible options for George





Additional support,  
employee benefits  
through protection  
referrals & resources



## How do small businesses support their employees?

**60%**

Three in five SMEs acknowledge that providing health and wellbeing benefits has a high impact on supporting productivity of their company<sup>1</sup>

**£25 billion**

the annual cost of employee sickness due to presenteeism<sup>3</sup>

**42%**

of the general workforce said employee benefits were a priority, with this rising to

**55%** of 18-34 year olds

who believe that a good benefits package is the most important thing they look for when searching for a job.<sup>2</sup>

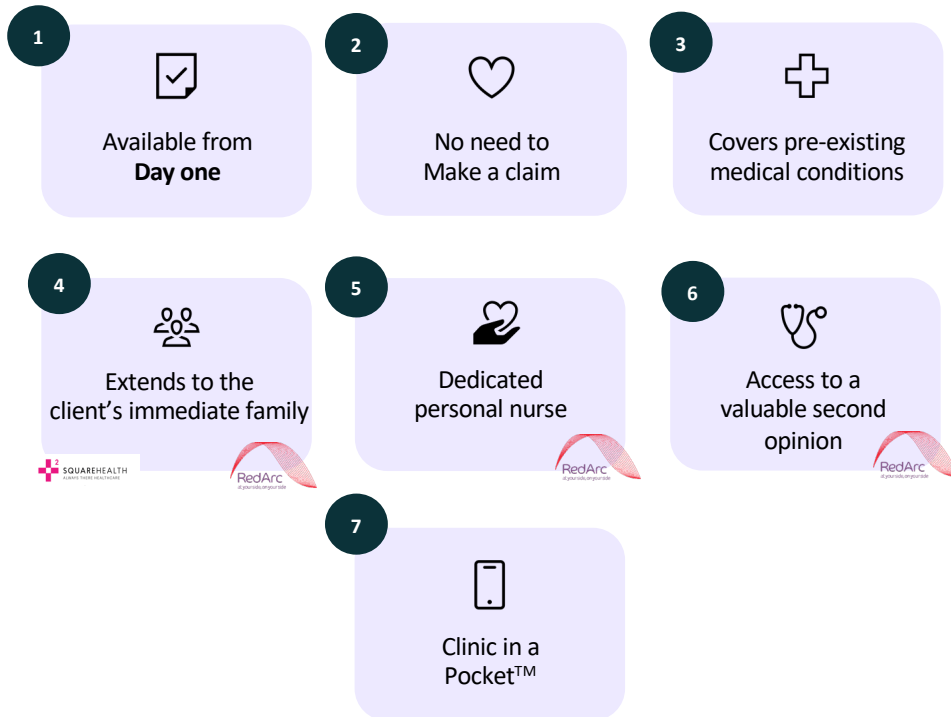
**71%**

Of SME employees reported that they had received no mental health resources at all from their company during the last two years.<sup>4</sup>

**85%**

of SME business leaders identified mental health as their biggest health and safety challenge<sup>5</sup>

## Protecting lifestyle & wellbeing

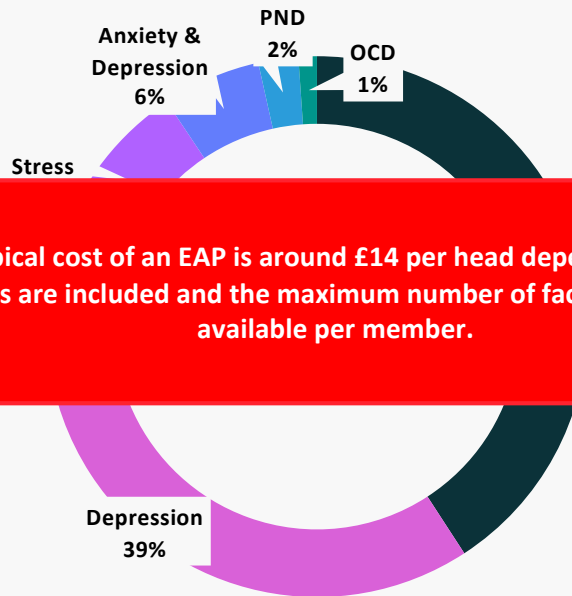


92% RedArc patients rated the overall service **good/excellent**

Source: RedArc patient survey results, 2024



## Why your clients need support now more than ever



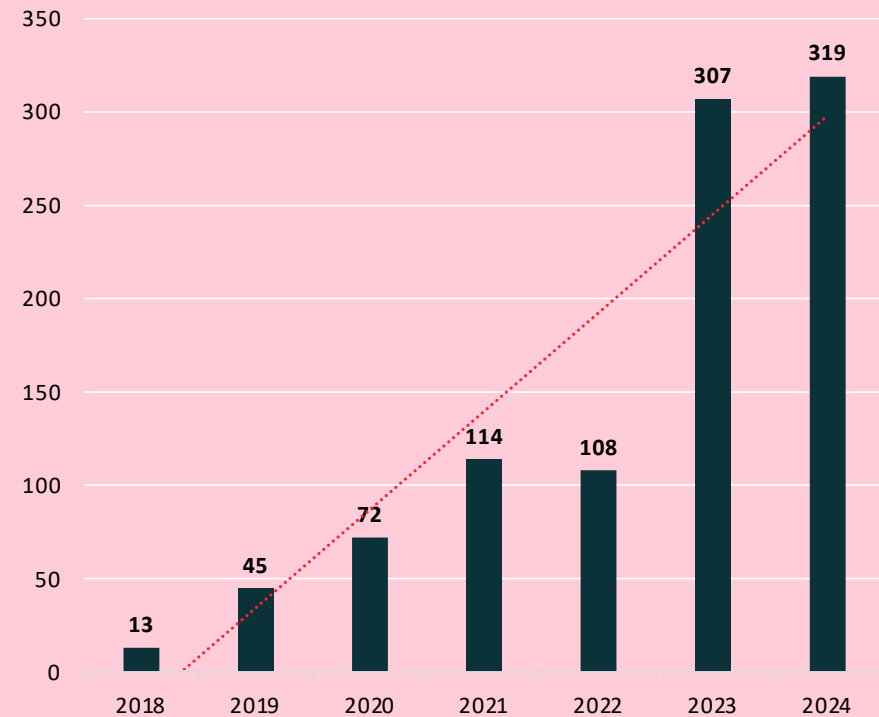
The typical cost of an EAP is around £14 per head depending on what services are included and the maximum number of face-to-face visits available per member.

### For mental illness:

- ✓ 86%\* offered standard terms
- ✓ 96%\* instant decision
- ✓ For all disclosures, care support service available from the day the policy starts

Source: RedArc yearly activity data for Scottish Widows, 2024, Scottish Widows underwriting data, 2024, Employee Assistance Programme Association (EAPA), 2024

## New Cases opened with RedArc



# Referral opportunities



Only **4 in 10** businesses have a relationship with a financial adviser<sup>1</sup>, highlighting the importance of professional connections

## BUSINESS CONNECTIONS

- Start with your own business and existing clients
- Any associates that are writing pension business – could you be introduced to talk to the owner and key people?
- Reciprocity is a powerful concept – could you make an agreement to refer customers? How would this work?
- Who do you know that could act as a professional introducer? Do you know any accountants, solicitors?
- Have you explored any commercial loan teams?
- Commercial estate agencies and connections?

## WHAT'S IN IT FOR THEM?

- ✓ An extra generated income stream
- ✓ Strengthens their reputation and services offered to their clients
- ✓ Could protection protect the services that they provide, for example, the pension contribution or commercial loan agreement
- ✓ Holistic service offering
- ✓ Referrals back for will writing services, loans, mortgages and tax advice

# Making it easier for advisers

## Key person calculator

KEY PERSON CALCULATOR

There are many ways of arriving at the value of a key person and each situation will have to be viewed individually depending on the business involved, the key person's area of speciality and their involvement in the business. When calculating the appropriate amount of cover needed you should consider the effect of the loss of the key person on the business i.e. would this directly impact on profits or the cost of hiring a replacement?

Here are two examples of how to help determine the value – the cost of replacing a key individual to the business and the loss of profits to the business.

**COST OF REPLACING AN INDIVIDUAL TO THE BUSINESS**

**LOSS OF PROFITS TO BUSINESS**

A typical way to consider this would be the costs of finding and hiring a replacement for someone with the same skills and knowledge. A simple formula which is commonly used would be to consider up to ten times the key individual's earnings for life cover with a lower figure used for critical illness cover (typically up to five times earnings).

**ENTER DETAILS**

**RESULTS**

**Individual details**

Name

Current Salary £

**Calculate**

Clear

**RESULTS**

Life cover

Sum assured (10x earnings)

Critical illness cover

Sum assured (5x earnings)

**Download the valuation results**

This tool gives a guide to the value of a key person. Where there is a greater in-depth knowledge of the business's trading and future plans it is possible to use alternative methods. This is only a indicative guide and appropriate advice should be obtained.

## Business valuation calculator

BUSINESS VALUATION CALCULATOR

This calculator is provided as a tool to help you assess the valuation of your client's business so that you can make a recommendation of the protection they need. You'll need to work with the company or partnership accountant to verify the net profit and net asset figures.

**ENTER DETAILS**

**Individual details**

Name

% of company

**Company details**

Average of last 3 years Net profit: £  ⓘ

P/E ratio as appropriate for business:  Select ⓘ

Net assets of the business: £

**Calculate**

Clear

## Dedicated business protection hub


SCOTTISH WIDOWS

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Products Funds Literature Expertise Tools

Home > **Our Products** > Protection options > Protecting Your Business Clients

**PROTECTING YOUR BUSINESS CLIENTS**



**ARE YOU MAKING THE MOST OF BUSINESS PROTECTION OPPORTUNITIES?**

Business protection and relevant life cover policies account for only 2.8% of protection sales, with pure business protection less than 1%\*. With over 5.4 million small to medium sized businesses in the UK with employees\*\*\*, there's a clear need for protection should something

Protecting Your Business Clients | For Advisers | Scottish Widows

## Making it easier for advisers

### Sharing our experience & expertise



#### Protection expertise

Key support material covering a range of topics to help support your client conversations.

[Protection Centre | For Advisers | Scottish Widows](#)



#### The Debrief

Opinion, insights and information from our experts, quickly and easily see what's new, what's next and what's exciting in our industry.

[The Debrief | For Advisers | Scottish Widows](#)



#### Insight & analysis

Industry news, research and expert opinion.

[Protection insights | For Advisers | Scottish Widows](#)



#### Adviser & Client facing literature

A range of adviser and client facing videos, guides, sales aids and factsheets to support your conversations.

[Literature | For Advisers | Scottish Widows](#)

You can use any CPD webinars and vodcasts to help meet your regulatory requirements

SCOTTISH  WIDOWS

# Paraplanners Assembly

Q&A

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