

broadbench

Your Guide To Key Person Insurance

Who Is Essential To The Smooth
Running Of Your Business?



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What Is Key Person Insurance?

Many businesses find that certain key individuals are responsible for a significant proportion of their profits. Losing one of them can have a serious impact on the health of the business.

Did you know that 50% of small businesses fail within the first five years of operation? Of those that fail, 42% cite the unexpected loss of a key person as the primary reason*.

But there's a solution - with Key Person cover, you can mitigate the impact of their absence. If the key person were to die or suffer from a severe illness, the policy pays a cash lump sum to make up for any loss in revenue or profits, thereby keeping the business on track.

Don't leave the future of your business to chance. Key Person Insurance is designed for small businesses that rely heavily on the expertise of a few key individuals. Invest in the security of your business today.

* Data sourced from the National Small Business Association survey,



Why Consider Key Person Insurance?

Could you be putting the future of your business in jeopardy by not having Key Person Insurance in place?

The shock of losing someone crucial to your business is enough on its own, let alone considering the effect it will have on your company. If someone you relied on to carry out a vital role was suddenly unable to do so, what would you do? And how would it impact your business if you were unable to replace them?

While people will always come first, the cold, hard truth is that a business must be able to continue should you lose a key person, however integral they are to the organisation.

Let's say you suddenly lose an experienced employee who accounted for 40% of your overall profits. Having been with the business for so long, they were everyone's 'go-to' person.

With no protection plan in place, you'll need a way to sort out your immediate cash-flow issues. After all, you still have to pay the wages and your suppliers, but now from only 60% of your usual income.

You'll need to hire a replacement and train them - both costly and time-consuming. Plus, you're worried about the impact on your remaining team, morale is understandably low.

This example illustrates why it's so important to protect key people in your business as you do your loved ones through Key Person Insurance.

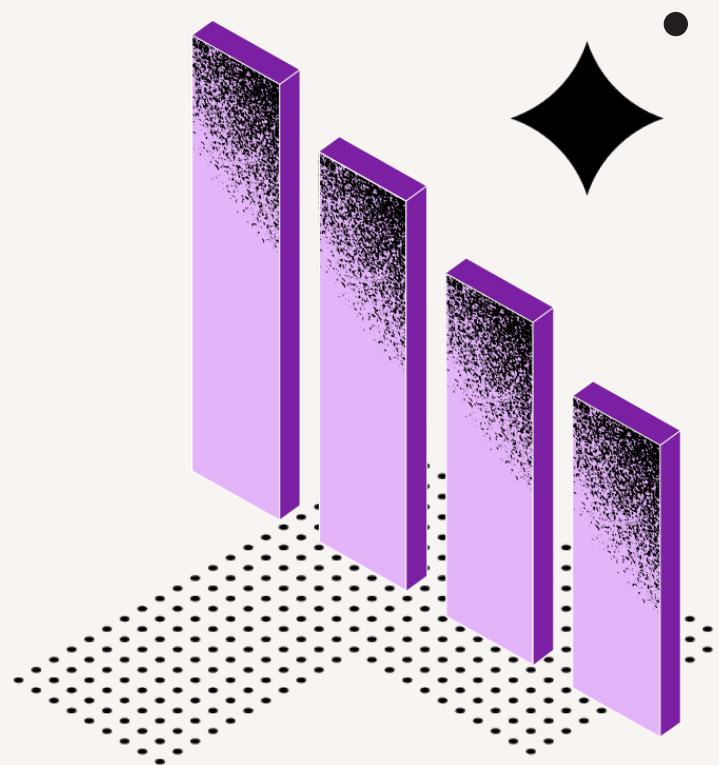
Did you know? 1 in 4 UK companies would close immediately after losing a key person

According to L&G research

Don't Be A Statistic

These statistics demonstrate the importance of having Key Person Insurance in place. The unexpected loss of a key person can have a significant impact on a business's ability to continue operating and generating revenue.

- According to a survey by the National Small Business Association, 50% of small businesses fail within the first five years of operation. Of those that fail, **42% cite the unexpected loss of a key person as the primary reason.**
- A survey by Legal & General found that **only 12% of small business owners have Key Person Insurance in place** to protect their business in the event of the death or incapacitation of a key employee.
- A study by the National Small Business Association found that the average cost of **replacing a key person is equal to six times the key person's salary.** This can be a significant financial burden for a small business.
- According to a survey by Swiss Re, **one in five small and medium-sized enterprises would have to close** within six months of losing a key person.





What Are The Chances?

What's the likelihood of getting a serious illness?

Many of our customers ask this and the truth is that approximately **1 in 5 men, and 1 in 6 women, will suffer a long-term illness in their lifetime.**

The average age for critical illness claims is only 47 years old.

Having a valued colleague become seriously ill or worse is not the nicest thing to consider, but having the right insurance in place is vital for every business. This is especially true of smaller businesses without significant cash reserves to fall back on.

Who Is A Key Person?

A key person is an individual whose skill, knowledge, experience or leadership contributes to the continued financial success of the business.

In fact, it could be ANYONE whose death could lead to a financial loss for the business through:

- Loss of profits.
- Having to recruit or train a replacement.
- Important personal or business contracts are lost due to the key person not being there to maintain a contract.
- Loss of goodwill which could have a direct effect when it comes to raising capital for the business or attracting new investors.
- Customers and suppliers losing confidence in the business.
- Outstanding loans.

Do I Need To Prove Someone Is A Key Person?

It's pretty straightforward, as long as you can reasonably show that the business stands to suffer a financial loss of profits as a result of the death, terminal or critical illness (if chosen) of that employee. They are classed as a key employee.

Who's Essential To Your Business?

- You?
- Chairperson?
- Managing Director?
- Marketing Manager?
- Computer Specialist?
- Top Salesman?



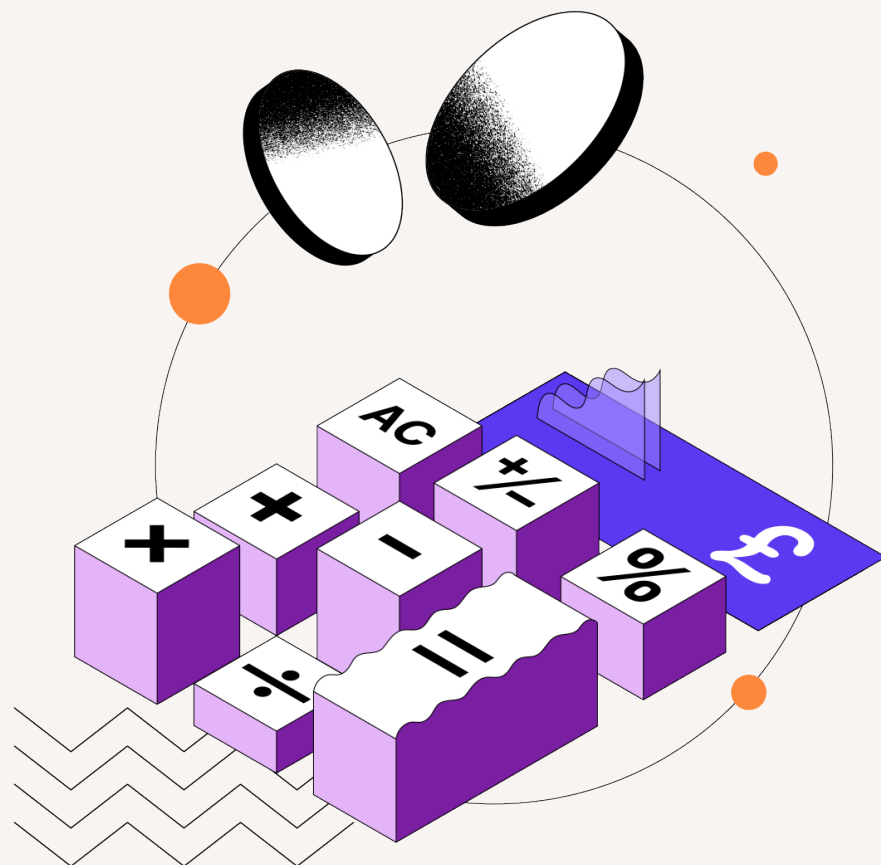
Calculate The Value Of Your Key Person

Ask Yourself The Following:

- How much revenue does your key person generate?
- Would your business loans be impacted if your key person were to be suddenly absent due to serious illness or death?
- Would the business suffer a loss of vision?
- Does your business have sufficient cash reserves to cover any loss of income?
- Can you afford to recruit a replacement straight away?
- Without insurance, how confident would your lenders or investors be?
- What would be the impact on the rest of your team? Would morale dip and who could provide the same level of knowledge as your key person?
- Would any of your customer/supplier relationships be affected?

Are You A Team Of One?

The lump sum payment your company will receive from the key person cover will allow you time off work to recuperate without the need to worry about money. You'll continue to trade, cover your mortgage, pay household bills or make alterations to your home or lifestyle to allow you to adjust. This plan also safeguards any savings you have accumulated over the years (and paid tax on!).



What Can I Use The Payout For?

1. Protecting Your Finances

If losing a key person or you, mean lost profits, Key Person cover will help cover those costs until you've recovered. It can be used to pay for wages, replacement staff and even loan repayments owed by the business. This will help keep your business afloat during a difficult period.

3. Future-Proofing Your Business

Going through something so difficult as a business as the loss of a key employee could have a huge effect on your staff - particularly the future of the business. With Key Person Insurance taking care of the money side of things, employees can at least be more reassured that the business's financial future is secure and their jobs aren't immediately at risk.

5. Employee Benefit

You can use some of the lump sum received to support your employee during their illness - this makes for an excellent employee benefit.

2. Paying Off Any Outstanding Debts

With this insurance, any overdrafts and loan repayments are covered. It guarantees the repayment of loans (depending on the cover you choose) in the event of the death of a key person. Having this in place will limit the wider impact on the business to prevent closure.

4. Covering Recruitment Costs

You might not want to think about replacing someone under such circumstances, especially not immediately after, but the reality is you have to continue doing business. This involves finding someone new to be a part of that. Key Person Insurance will cover the cost of a new employee, as well as the process of advertising and interviewing candidates.

6. Taking Care Of The Key Person's Family

It can also provide financial protection for the key person's family in the event of their death or incapacitation.

The Important Stuff

Taxation of Key Person Plans

If an employer insures their business against loss of profits due to the death, critical illness, accident or injury of an employee, director or another key person, the premiums may be tax-deductible if:

- The sole purpose of the insurance policy is to meet a loss of trading income from the loss of that key person, and not a capital loss to the business
- If the insurance is a term insurance policy providing cover against the risk of one or more key lives within the term of the policy, and no other benefits. It's also important that the insurance term should not exceed the key employee's usefulness to a company

Calculating The Amount Of Cover

When calculating the appropriate amount of cover needed you should consider the effect of the loss of the key person on the business including whether this would directly impact the profits, and what the cost of hiring a replacement might be.

There are many calculations such as salary multipliers online, however, the level of coverage required will depend on your unique needs. We recommend that you speak to your Broadbench expert who will help you to calculate an appropriate amount.

Your Broadbench adviser will be able to walk you through the specifics of the policy you choose.

The Important Stuff

What If The Key Person Leaves/Retires?

If a key person were to leave or retire before the end of the key person protection policy term, the business could do one of the following:

- Stop paying the premiums and the policy would then lapse.
- Continue paying the premiums until the end of the policy term and, in the event of a claim, the business would receive a capital sum.
- Assign the policy to the key person who would then become the legal owner of the policy and could continue paying the premiums.

Where a partner is a key person and the policy is written in trust, the policy would automatically revert to the key person.

Why Use A Trust For A Partnership?

A partnership in England, Wales and Northern Ireland cannot be the owner of a policy because it does not have a separate legal identity. If the key person is one of the partners, that partner could take out their own life plan, and write it in trust, at the outset, for the other partners. We have in-house trust experts to guide you through the process.

The taxation of this can be complicated, for both the company and the life insured. National Insurance and Capital Gains tax may also need to be considered. Our advisers can help by providing specialist advice on this.

FAQ's

What is Key Person Protection?

It's simply a business insuring itself against the financial loss it may suffer as a result of the death (or critical illness if chosen) of a key person.

Who is a key person?

A key person is an individual whose skill, knowledge, experience or leadership contributes to the continued financial success of the business. A key person may be anyone whose death could lead to a financial loss for the business.

This might be a loss of profits if you lost your best salesperson, the cost of having to recruit or train a replacement or important personal or business contracts lost due to the key person not being there to maintain a contract.

How do we prove someone is a key person?

For a business to insure one of its key people it must show that it stands to suffer a financial loss of profits as a result of the death, terminal or critical illness (if chosen) of that employee.

This is usually straightforward, and that individual is then regarded as a key person. The loss of a key person could lead to the business being unable to repay a loan, which could mean the lender calls in the loan early. This may have a serious effect on any existing loans or any future lending.

Who pays the premiums for Key Person Insurance?

As the company is the owner of the policy it would usually pay the premiums.

What types of companies can apply for Key Person Insurance?

Usually, a limited company or a corporation with shareholders whose liability is limited by their shareholdings. Any personal assets are held separately from the finances and assets of the company.

Who receives the pay-out benefits?

In the event of a valid claim, the policy proceeds would be payable to the company.

What is a partnership?

A partnership is a relationship which exists between persons carrying on a business in common with a view to profit. The partnership does not have a separate legal identity and each partner would be liable for any trade debts. It is the partners and not the partnership itself which will own any policy.

FAQ's

Can partners take out Key Person cover on each other?

Yes, a partner could take out their own life policy and place it under trust for the other partners. In the event of a valid claim the policy proceeds would be payable to the trustees who would in turn pay the partners as beneficiaries of the trust. The partnership would usually pay the premiums.

Can partners in Scotland take out Key Person cover on each other?

Yes. In Scotland, a partnership is a separate legal entity and can apply for the policy in its own right. The partnership applies for the policy and completes the policy owner questionnaire. In the event of a valid claim, the policy proceeds would be payable to the partnership. As the partnership is the owner of the policy it would usually pay the premiums.

What happens if the key person leaves or retires?

If a key person were to leave or retire before the end of the Key Person Protection policy term, the business could stop paying the premiums allowing the policy to lapse. Alternatively, the company may choose to continue paying the premiums until the end of the policy term and in the event of a claim, the business would receive a capital sum.

Can Key Person's cover be written in trust?

Yes, the taxation of this can be complicated, for both the company and the life insured. National Insurance, and Capital Gains tax may all need consideration. We strongly recommend that you speak to one of our specialist advisers to guide you through this.

Does your business need Key Person Insurance?

If your business has anyone whose loss, either permanent or temporary would affect the company's ability to maintain turnover and generate profit then you should explore this protection. The number of key individuals will vary from one business to another, there is almost always at least one key person in any given business. A shareholder can take control.

What's the tax position for Key Person Insurance?

Typically, tax relief is not allowed as in nearly all cases the key person being insured is a major shareholder of the business. Just because the policy may not qualify for tax relief does not mean that the company should not take key person insurance. It just means they will not get tax relief on the premiums.

FAQ's

What is the difference between Key Person Insurance and Shareholder Protection?

In many ways these are similar products, they both pay out a lump sum in the event of a claim. The major difference is where the sum assured goes in the event of a claim and the reason each was taken out.

Key Person Insurance is designed to offer a lump sum or regular monthly income cash injection into a business to mitigate any loss that would occur from either the death or long-term illness of anyone that contributes to the profit of a business.

Shareholder Insurance is slightly different in that it allows other shareholders in a business to maintain control following the death (or severe illness) of another shareholder. It helps to avoid instances where a family member of the dead shareholder can take control.

Who should be covered by Key Person Insurance?

The obvious choice of key person will normally be some or all of the partners or members in the business. However, it is worthwhile to consider the impact on the business of losing someone who may not have any financial stake in the business but nevertheless plays a fundamental role in its success.

Consider the individuals within your business and ask yourself:

- Would the loss of that person negatively impact or slow down any ongoing projects?
- How easy would it be to replace that person's expertise?
- Is that individual essential to your business growth?
- Would the loss of that person detriment any customer or supplier relationships?

- Would the business miss their contribution?
- Are there any financial matters, such as bank loans that are dependent upon that key person?

How much should I insure my key people for?

There are no hard and fast rules when assessing the financial value of a key person. Each key person must be dealt with on their own merits. A primary method of calculating the key person's worth is as a multiple of the company profits, the standard multiples are 2 x gross profit or 5 x net profit.

Alternatively, some firms calculate the value as a multiple of that person's salary. Up to ten times gross salary may be considered for a rapidly expanding business. Your Broadbench adviser will guide you through this calculation.

FAQ's

How likely is it that a Key Person will need to Claim?

Age	Number of partners/directors				
	2	3	4	5	10
35	13%	19%	25%	30%	51%
40	13%	18%	24%	29%	49%
45	12%	17%	23%	27%	47%
50	11%	16%	21%	25%	44%

Likelihood of a Critical Illness – Likelihood of at least one partner or director getting a critical illness before age 65 Source CIBT02 Based on 1971-2003 population data and experience, published in SIAS paper Exploring the critical path, 2006. Males' standalone, extended cover, including own occupation total and permanent disability.

Age	Number of partners/directors				
	2	3	4	5	10
35	50%	65%	75%	82%	97%
40	49%	64%	74%	81%	97%
45	47%	62%	72%	80%	96%
50	44%	58%	68%	76%	94%

Likelihood of Death – Likelihood of at least one partner or director dying before age 65 Source www.actuaries.org.uk. Based on mortality data from TMNOO (temporary assured lives, male non-smokers, 1992-2002) at five plus years duration.

FAQ's

If I don't take out Key Person Insurance what are the consequences?

The consequences of losing a key person vary on the role of that individual and your business model. There are common factors to consider though, such as without the leadership of you or your key person your employees may decide it's time for them to move on. Perhaps your customers may choose to go elsewhere and/or your sales revenue could fall. Potentially it could create a lack of confidence from your lender, suppliers, customers, and your other employees. Bank loans and overdrafts could be called in and your suppliers may demand payment upfront.

Who do I notify in the event that a policyholder passes away?

You should notify the claims department of your insurer, you will find this contact info on the policy documents or their website.

What do I do if the key person changes their name?

You should notify your insurer's customer services team or your broker so that the policy details remain up to date. For Broadbench clients, you can update this information on our client portal.

The key person has moved house, how do I update their address details for my Key Person insurance policy?

You should notify your insurer's customer services team or your broker so that your policy doesn't lapse. For Broadbench clients, you can update this information on our client portal.

What should I do if my bank details change for my Key Person Insurance policy?

You should notify your insurer's customer services team or your broker so that your policy doesn't lapse. For Broadbench clients, you can update this information on our client portal.



Why Broadbench?

Many of us decide on what insurance to go for (whether it's for your car, your house or your life) that fits the monthly premium we want to pay. Of course, you could go to a price comparison site and very quickly find the cheapest quote on the market, but would it be the best solution for you and your family?

Our advisers have the skills and knowledge to offer you bespoke and impartial advice, taking in a holistic understanding of your circumstances and combining it with a deep knowledge of what different providers offer. Not only that, but they know how to quickly navigate the insurance minefield and set up exactly what you require, taking the hassle out of your hands.

The Benefits Of Using Broadbench:

- Bespoke and impartial advice
- You deal with a human, not a computer
- The hassle is taken out of your hands
- Access to expert market knowledge



4 Simple Steps

We make your life more manageable in 4 simple steps:

1. We Listen To You

Getting to know you, your requirements and how you work enables us to find the perfect products for your needs.

2. We Study The Market

Leveraging our network of lenders and insurers, we scour the market to find the best options and dig into the detail to make sure they're the right fit for you.

3. We Do The Boring Bits

You just want to sign up with the right provider, not be buried in forms and red tape. That's why we run you through the details and fill out all the paperwork ahead of your final approval.

4. We Stay In Touch

We don't just recommend and walk away. We'll regularly check whether your product is right for your current circumstances and, if not, find a new one that is.

Our Services

Business Protection

- Relevant Life Insurance
- Key Person Insurance
- Executive Income Protection
- Business Healthcare
- Shareholder Protection
- Business Loan Protection
- Professional Indemnity

Personal Protection

- Life Insurance
- Whole Of Life
- Critical Illness Insurance
- Private Healthcare
- Personal Income Protection
- Buildings & Contents

Mortgages

- First Time Buyer
- Home Mover
- Remortgages
- Buy to Let

What Our Customers Say

We are passionate about our customers and providing the very best service. Take a look at our latest reviews on Trustpilot.

“Great service! – I've been using these guys for years for my mortgage options as a contractor. Great service and knowledge. I've also got a few other products with them. Looking forward to many more years of great service. ”

★★★★★ by Alexander Delaney

Rated 4.9 / 5 | 384 reviews

★ Trustpilot

“Brilliant, as always – I'm a returning client of Broadbench, and I'm always impressed by their professionalism. Mike was incredibly helpful, and knowledgeable, and made the entire process smooth and stress-free. He took the time to ...

★★★★★ by Ali

Rated 4.9 / 5 | 384 reviews

★ Trustpilot

“Highly reccommend! Extremely helpful and took the time to explain and give all options for life insurance and income protection. Made the whole process very quick and smooth.”

★★★★★ by George Gordon

Rated 4.9 / 5 | 384 reviews

★ Trustpilot

“Extremely helpful organised and knowledgeable. All the information required was conveyed concisely in a personable manner. ”

★★★★★ by Liam

Rated 4.9 / 5 | 384 reviews

★ Trustpilot

“Contractor guidance. We have used the services of Broadbench for many years now and have always found the team to be highly professional. As a contractor, Tom and Emily have been excellent at securing the best deals for my ...

★★★★★ by MJ

Rated 4.9 / 5 | 384 reviews

★ Trustpilot

“Exceptional service and advice from Broadbench. I really appreciate the fantastic independent advise given and effort to get the positive outcomes in setting up the right Insurance policies for me and my business. Would recommend Broadbench ...

★★★★★ by Steve

Rated 4.9 / 5 | 384 reviews

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advice@broadbench.co.uk

01202 700053



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