

The need for Business Protection

There are over 4.5 million businesses registered in the UK, yet 90 per cent of these do not have any form of Business Protection. You could therefore say that many business owners are taking a considerable risk with the future of their enterprise. Paul Gibson, director of operations and also a business protection specialist at independent wealth management firm Active Financial Services, tells North East Times more.

"MANY PEOPLE have a personal life insurance policy, but many directors or partners often don't realise the value of business protection until it's too late," Paul explains.

Having worked at one of the region's largest commercial finance centres for eight years prior to joining Active, Paul has seen at first-hand the peace of mind that business protection brings, but also sadly the void left behind when it has not been established.

"There are many compelling reasons why a business would require protection, and it is important to stress that it is not just the owners who need protecting. Key individuals such as sales people and management staff are also vital to the success of a business.

"The most common form of protection is however, Debt Protection, with many lenders now very keen to ensure that their loans are protected should the worst happen to one of the business owners.

"You are therefore most likely to be introduced to this by your Bank or Loan Provider, yet this does not always prove to be the best value for money," he continues.

If you do not already have any cover, you should ask yourself these questions:

What would happen to the business if a director/partner dies or becomes critically ill?

Not only do you lose their experience and expertise but what happens to their shares?

Can you afford to buy their shares without having to take out a loan or asset selling?

If not, those shares might pass to someone who has no knowledge or interest in your business. Or that person might become a majority shareholder and be in a position to sell the company above your head.

What would happen if a key person were to die or suffer a critical illness?

Reduced sales? Loss of turnover? Difficulty in recruiting and/or training a replacement?

How would the company repay its debts following the death of a director or partner?

In the current climate of tighter lending controls, could the company cope if the lender put pressure on the debts following the death of a key individual?

If you do already have cover in place, you may wish to give some thought to:

When was your cover last reviewed?

It is very important to review your cover every three to five years or if a significant change occurs. This ensures your benefits remain adequate as the modern business can often change in a very short period of time.

Was your cover taken independently of your loan provider?

Often lenders will recommend cover be taken at the time of application, and sometimes it may seem easier to take the cover offered, rather than seeking independent advice elsewhere. This can often prove to be a cheaper option.



Left to right: Active Financial Services' managing director Glyn Pemberton, director of operations, Paul Gibson, and Karl Pemberton, director of business development.

Did you ensure that a suitable Legal Agreement was established at the time of taking cover, and is it still applicable today?

Often referred to as a 'Company Will', a formal legal agreement is vital when establishing Partnership/Shareholder Protection. This is sometimes overlooked at the outset but it does ensure the owners' intentions are fulfilled in a tax-efficient manner.

The cost could be cheaper than you think and is

calculated in the same way as your personal protection when used to cover your residential mortgage. The chances are you will have insured the tangible assets of your business, such as the buildings, machinery and even vehicles at great expense, yet the most valuable assets of all are often left unprotected.

During this period of economic instability, can your business really afford to take the risk of not providing security for its long-term future?

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