

Who is Crue Consulting?

At Crue Consulting, we are passionate about helping people, and their businesses, reach their goals. The business financial planning environment is a complex one, and our aim is to work with you and your business partners in order to fully understand the business planning needs of your organisation, and to put effective financial planning solutions into place to secure the continuity of your business into the future.



Business assurance is vital for anyone who runs their own business. It is, however, a broad term for products designed to cover a multitude of needs, from retaining key staff to ensuring that your dependants will not be forced to hold a fire sale of your business if you were to die. At Crue Consulting, we advise

business owners on their business assurance needs which cover a range of ten key considerations:

1. **Business structuring**
2. **Assurance for your business**
3. **Individual policies**
4. **Policies bought for your business**
5. **Buy and Sell Agreements**

6. **Key person assurance**
7. **Business overheads protection**
8. **Restraint of trade agreements**
9. **Loan account assurance**
10. **Debtors protection**

Here is an overview of each of these key considerations.



1 Business Structuring

When setting up a business, you need to consider carefully the financial risks that you and your family may face, and what measures you can take to negate these risks. One of the most important aspects to consider is how you structure the ownership of the business, because this will determine the type of business assurance you will need. The various options available in terms of structuring your business include a sole proprietorship, partnership, close corporation or a company. Each of these structures have different implications for the financial planning of an owner or shareholder. The consequences of each business structure and the financial risks need to be carefully considered to establish how much risk life assurance you need.

2 Assurance for your business

Business assurance is a broad term for products designed to cover a multitude of needs within your business. In most cases, business assurance is risk or investment assurance taken out to protect a business from potentially dire financial consequences should someone who is essential to its operation die or become disabled. This person could be the owner of the business, a director or an employee. Business assurance works hand-in-hand with a Buy and Sell Agreement (see Point 5). The death or permanent disability of one or more of the partners, members or shareholders in a business can cause major operational disturbance, emotional turmoil and can also lead to the demise of the business through forced liquidation or indifference with new partners.

3 Individual policies

Sole proprietors and partners often have a greater need for life assurance than members of a close corporation or shareholders. This is because sole proprietors and partners are personally liable if anything goes wrong with their business. Many sole proprietors or partners require individual policies such as income protection benefits and business overhead protection cover which would cover the fixed overheads of the business in the event that they are disabled. Sole proprietors and partners often also require life cover to ensure that their debts are covered in the event of their death.

4 Policies bought by your business

The life assurance needs of most companies and close corporations are met through what are called company-owned policies or business policies. Company-owned policies have different tax implications from individual life policies, for both the employer and the employee for whom the risk assurance is required. There are two types of company-owned policies, namely:

1. **Conforming or regulation policies** where the premiums are deductible against the employer's taxable income, but where the benefits are taxable.
2. **Non-conforming policies**, where the premiums are non tax-deductible against the employer's taxable income, but where the benefits are paid out tax-free.

5 Buy and Sell Agreements

A business may be vulnerable if part of it has to be sold to pay out the share of one of the owners in the event of his or her death/disability. As such, Buy and Sell Agreements are put in place to protect businesses against the death/disability of one of its owners. Such an agreement is based on an obligation on each owner to sell his/her share of a business to his/her partners in the event that he/she dies or becomes disabled. The agreement will set out the manner of determining the purchase price, how the policies will be structured and what happens if all the partners die simultaneously or within 30 days of each other.



6 Key person assurance

Key people often hold specialised skills, provide essential sureties or bring in the lions share of business. The sudden loss of such a key person can be financially challenging for any business; effecting bank and creditor credibility, creating unwanted operational disturbances and also causing losses of clients and profits. Key person assurance ensures the security of the business and it's stakeholders by providing the necessary capital to offset bank overdrafts, profit losses and the costs of replacing such a person. In order to determine the correct quantum of key person assurance, business owners needs to assess the costs of replacement, including recruitment, resettlement, training and/or a higher pay package. They also need to assess how much of a contribution the key person makes to the company's profits.

7 Business overheads protection

A significant risk facing small to medium business owners is if they are ill or disabled for a period of time and are unable to work. Not only do they need to protect their income, they also need to make provision for the monthly business overheads such as rental, staff salaries, equipment hire, and general monthly expenses. Business overheads protection is especially relevant where a business's income is directly related to the input of one or two people (e.g. doctors, architects, accountants, lawyers) and where it is necessary to make provision for overheads while such person is temporarily ill or disabled.



9 Loan account assurance

Members of companies and close corporations take loans from and make loans to their companies for various reasons. These loans can be covered by business assurance through either conforming or non-conforming policies. Credit loan account protection usually works hand in hand with a buy and sell agreement to provide the business with the necessary capital to repay a directors load account.



8 Restraint of trade agreements

Restraint of trade agreements are used by employers to retain key staff. These agreements are based on a sum of money being paid to an employee in return for meeting certain contractual obligations. Many of these agreements are backed by life assurance policies taken out by the employer in the name of the employee.

10 Debtors Protection

It is common for businesses to have a few large accounts. While the credibility of a business and its key people may be excellent, the death of one or more of the key people within a business could result in settlement delays, incomplete settlement or total write-off. Debtor's assurance provides timely and guaranteed settlement of an account.

These are some of the key considerations that you need to take into account when planning your business and the continuity of your organisation, and we would love the opportunity to help you plan accordingly.



*Give us a call on (021) 530 8500 or come and visit us at Crue House, 5 Long Place, Pinelands.
Come and have a cup of coffee with us.
We'd love to help you plan your business.*