

# Key Person Insurance



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If an employee crucial to the function of your business becomes disabled or dies, would day-to-day activity continue as usual or would disorder and uncertainty ensue? Would you be able to maintain the same level of business expectations and revenue stream? How will you cover for the financial loss of the employee or pay for a temporary replacement during his or her recovery? Key person insurance could help you answer these questions with confidence. It is designed to provide financial stability in a time of stress and anxiety due to the sudden loss of an important employee.

## Who Needs Key Person Cover?

Many businesses benefit from key person insurance, like those with:

- Employees who would be extremely difficult, time-consuming or expensive to replace (ex: central decision makers, chief executives and directors, vital sales managers or employees whose ideas have critical commercial impact)
- Highly skilled employees with unique training

- Employees with exclusive ties to key clients
- Narrow profit margins where a staff loss would mean financial trouble
- A need to protect their revenue stream from loss (for example, hospitals protecting against the loss of a high-earning, respected surgeon)
- Concerns that a high revenue-producing client (ex: actor, writer or other entertainer) became disabled or died and was unable to perform

In the event a vital employee becomes disabled or dies, this type of insurance provides the company with income to make up for financial loss or use for temporary replacement costs.

## Considerations Before Purchasing Key Person Insurance

- Estimate the value of your key employees. Think about the projects that would be lost without them, the amount of sales

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generated by them and the costs associated with replacing them.

- Think about the amount of protection needed. There are several methods to calculate this, including using a multiple of salary or profits, payroll proportion, and the actual impact method.
- Determine whether this cover is necessary and whether it is already covered under a comprehensive policy.
- Create a business continuity plan that outlines how your business will function if you lose key employees. In addition to proper cover, having such a plan is vital.

## Requirements and Cover Options

To obtain key person cover, the individual must usually be a consenting employee and you must illustrate that your business would incur substantial financial loss without him or her. To qualify as a key person, most insurers require that the employee's salary be in a top percentage of the company. Qualifications vary based on the insurer. All key person policies are written specifically for the employee in question. To learn about cover options, limits and other plan details, contact us at **0121 45 45 100** to talk to an expert at **Crendon Insurance Brokers Ltd.**



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