



For customers



Business protection liability audit

Carry out this simple audit with your financial adviser to help you identify your business protection needs.

Have you considered how your business would cope financially if a key worker fell ill or died unexpectedly?

Our liability audit is quick, easy and effective. By answering just a few questions, you can understand your business protection needs and how important it is to keep your business running smoothly.

Who should consider the audit?

It's a valuable exercise for any business to carry out – whether you're a sole trader, partner, shareholder or director. Your financial adviser will be able to help you complete it and tailor a plan to meet your business's specific needs.

What can the liability audit achieve?

The liability audit highlights the need for cover – in particular:

- the need for business protection cover to provide the funds to repay any business loans, and
- the money that would be needed should a key person die, become critically or even temporarily ill, or is totally permanently disabled, to:
 - recruit a replacement person;
 - cover the short-term loss of profit, or
 - allow the business to continue paying and employing someone who's unable to work.



Helping you with the liability audit

These notes give you a few pointers and things you should think about when completing the audit form.

Names – List here the names of the people who are key to your business. This could include you, other business owners and people who have a major influence or impact on profit, for example individuals who have specialist skills or unique relationships with third parties. Basically anyone who would put the business at risk if they were to become ill unexpectedly or even die.

Liabilities to third parties – List here any loans and regularly used overdraft facilities. If you're a sole trader, you should consider any personal debts you may have.

Liabilities to owners – If you're a partner, member of a limited liability partnership, shareholder or director, you may have made loans to the business which it will need to repay if you die or become critically ill. This could be a credit balance on a loan account, capital or current account.

Loss of profits x term to recovery – To get the information you need for this section, you should consider:

- What's the gross profit of the business?
- How much of that can be attributed to the business owners?
- How much profit can be attributed to another key person, for example a top sales person or someone with specialist skills or knowledge?
- How long would it take the business to recover on the loss of that particular key person?

One-off expenses – Even if it's only on a short-term basis, you should consider any recruitment costs to replace a key person. These may include advertising, agency fees and training costs.

Total – The need for cover will be apparent when you arrive at a total. This will help you understand how much cover you need for your business.

This audit form will help you get one step closer to identifying your business protection needs and putting measures in place to plan for the future well-being of your business if the worst happens. You can use it if your business is a partnership, limited liability partnership, company or you're a sole trader.

Names				
	Amount	Amount	Amount	Amount
Liabilities to third parties	£	£	£	£
	+	+	+	+
Liabilities to owners	£	£	£	£
	+	+	+	+
Loss of profit x term to recovery	£	£	£	£
	+	+	+	+
One-off expenses	£	£	£	£
= Total	£	£	£	£

Next steps

By carrying out the liability audit, you now understand your business's need for cover. You should speak to a financial adviser who can help you put a protection solution in place that meets the individual needs of your business.

Case study

This case study takes you through an example of the process of carrying out an audit.

Company details

Company name – Johnstone and Pearson Ltd

Last year's gross profit – £1.25 million

Directors – Bill Johnstone and Harry Pearson

Salesman – John Smith

Overview of responsibilities – Both Bill and Harry are equally key. Bill is the brains behind the business and Harry is responsible for sales. Harry recruited John Smith 18 months ago and appointed him as senior salesman. The recruitment process took 12 months. When John joined he brought with him a valuable list of contacts, which has allowed him to make a substantial contribution to overall profit.

What are the liabilities to third parties?

- Business bank loan A: £250,000
- Business bank loan B: £150,000
- Overdraft facility: £100,000 – always fully used

What are the liabilities to owners?

Both have outstanding directors' loan accounts in credit:

- Bill: £120,000
- Harry: £100,000

Loss of profit cover

- What is the gross profit of the business?
£1.25 million.
- How much of that can be attributed to the business owners?
Bill and Harry estimate £240,000 each.
- How much profit can be attributed to another key person, for example a top sales person or someone with specialist skills or knowledge?
John Smith, senior salesman, contributes £120,000.
- How long would it take the business to recover on the loss of these key people?
They estimate if Bill or Harry were to fall ill or die unexpectedly it would take 18 months for the business to fully recover and 12 months if anything should happen to John.

What other expenses are there?

Recruitment costs for each director of £50,000 and £25,000 for John.

Johnstone and Pearson Ltd's liability audit form

Names	Bill Johnstone	Harry Pearson	John Smith	
	Amount	Amount	Amount	Amount
Liabilities to third parties	£ 250,000	£ 250,000	£ 0.00	£
	+	+	+	+
Liabilities to owners	£ 120,000	£ 100,000	£ 0.00	£
	+	+	+	+
Loss of profit x term to recovery ¹	£ 360,000	£ 360,000	£ 120,000	£
	+	+	+	+
One-off expenses	£ 50,000	£ 50,000	£ 25,000	£
= Total	£ 780,000	£ 760,000	£ 145,000	£

¹ For Harry and Bill, we've taken the profit they each contribute of £240,000 and multiplied this by the time it would take for the business to recover of 1.5 years - resulting in £360,000. We've applied the same calculation to show John's contribution to profit of £120,000 (£120,000 x 1 year (estimated time for business to recover) = £120,000).

Summary

At this stage, the audit on Johnstone and Pearson Ltd has simply highlighted that there's a need for business protection – particularly to cover Bill and Harry's business loans and overdrafts. These third-party liabilities may be split equally between them but consideration should be given as to whether the bank's lending is on a joint and several liability basis where the requirement is that the loan be fully repaid on the death or illness of either of them.

They've also identified that John makes a substantial contribution to overall profit, so should consider putting protection in place in case he falls ill or dies unexpectedly.

They'll need to speak to a financial adviser for help with the type of policy that would best meet their needs and how long they would need cover for, but the important thing is that they now understand their business protection needs and can put business continuity plans in place to protect them against the unexpected.

Our protection solutions

We offer a range of life, critical illness and income protection solutions which your financial adviser can tailor to suit your individual business's needs. Making sure your business can continue to function – even if the unexpected happens.



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