



Key Person Protection

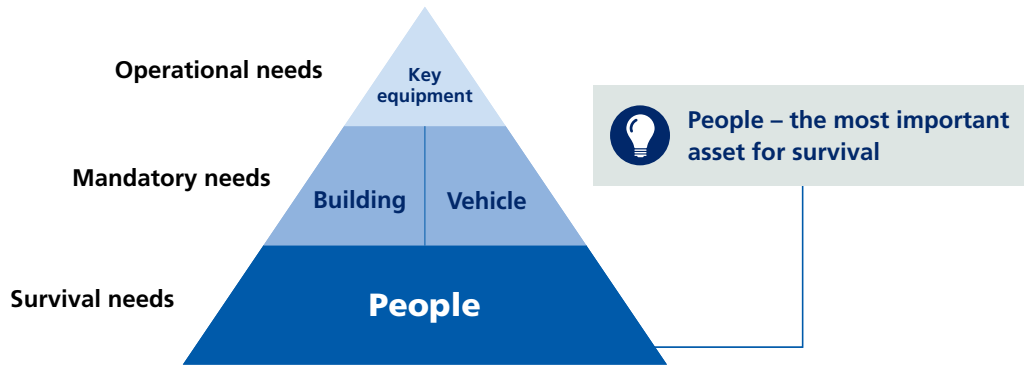


What really produces the profits for your business, the machine.....or the people?



What you need to protect?

While most business owners pay out to protect against risk of their physical assets such as building, key equipment or vehicle, they often overlook the protection for the most important asset – their people.



Who you need to protect?

People are at the heart of any businesses. The loss of a key person would affect the company's ability to maintain turnover, generate profits, and even threaten the viability of a business.

Key person may include:



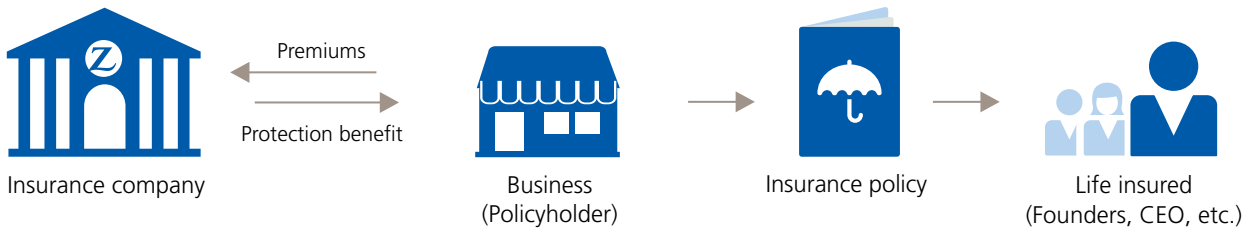
If one of these persons dies, suffers a critical illness or is unable to work for an extended period of time due to illness or injury, there can be far-reaching problems:

- Loss of profits
- Loss of professional expertise that can affect your competitiveness
- Loss of years of personal contacts and goodwill
- Loss of customers to competitor
- Significant recruitment and training cost to replace the key person

Possible solution

Zurich provides you with tailor-made solutions to protect the key person(s) and ensure your business will be compensated for the financial loss incurred due to the death or extended incapacity of the key person(s).

? How it works?



Should the worst happen, key person insurance will give your company a cash injection:

- ✓ To compensate the lost profits
- ✓ To cover recruitment and training costs
- ✓ To pay off any loans or creditors who demand for payments due to the loss of any key person
- ✓ To reassure customers, suppliers and employees

\$ How much cover?

The amount of life cover depends upon the contribution the key person makes to the company. Shown below are a few ways you can calculate this.

1 Multiple of salary:

5 to 10 times
key person's annual salary

2 Multiple of profits:

2 times average gross attributable
profit over the last 3 years

OR

5 times average net attributable
profit over the last 3 years

🔍 Case study

Mr Hui runs a successful business trading components of computers, electronic and digital devices. Mr Hui is the decision maker of the company. Eddie is the main sales representative bringing in almost 60% of the sales. They also employ two junior sales persons.

Eddie's profile



Eddie
Sales Manager

Possesses 10 years of experience in the electronic trading industry
Solid relationship with customers
Good at analysing market trend and bringing in new business

Financial performance in the past three years (HKD)

	Sales	Gross profits
2011	\$11 million	\$2.4 million
2012	\$12.5 million	\$3.1 million
2013	\$14 million	\$3.5 million



Case study (Cont.)



The company's financial advisor suggests the company to take out a key person insurance policy on Eddie.

1

Multiple of salary:

10 times
Eddie's annual salary

= 10 X HKD360,000

= HKD3.6m

2

Multiple of profits:

2 times average gross attributable
profit over the last 3 years

= 2X (HKD2.4m + HKD3.1m + HKD3.5m) X 60%/3

= HKD3.6m

If Eddie dies unfortunately...

Without key person protection	With key person protection
<ul style="list-style-type: none"> • Dramatic drop in revenue • Creditors demanding for re-payments • Suppliers tightening credit terms 	<ul style="list-style-type: none"> • Cover the lost revenue and ensure smooth transition • Funds available to pay off loans • Start recruitment of new sales person immediately

➤ Customers losing confidence because their most trusted person is not there anymore. Together, the company will face serious financial strains.

➤ Overall, the company will get time and space to re-organize.

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Registered office: 43-51 Athol Street, Douglas, Isle of Man, IM99 1EF, British Isles
Telephone: +44 1624 662266 Telefax: +44 1624 662038

Hong Kong office: 25-26/F, One Island East, 18 Westlands Road, Island East, Hong Kong
Telephone: +852 3405 7150 Telefax: +852 3405 7268

www.zurich.com.hk

