The future profit of your business may be at risk....

The death or serious illness of a shareholder can have major repercussions for the future of your company. It can cause immediate financial hardship for the remaining shareholders and maybe even loss of control of the company.

Why do you need shareholder insurance?

On death, a shareholder’s shares normally pass to their next of kin and the next of kin become new shareholders in the company. The change in share ownership can lead to potential problems for both the next of kin and the remaining shareholders. The next of kin may not want to become involved in the company and may want to sell their shares as soon as possible. The remaining shareholders may want to retain full control and ownership of the company and may not want to work with a new shareholder. Putting life cover or shareholder insurance in place can help avoid these problems.

How can life insurance be structured to protect a business on the death of a shareholder?

Life insurance policies are put in place on the lives of each shareholder. The level of cover is set at the value of the shareholding of each shareholder. In the event of a shareholder’s death, the proceeds of the policy are used to purchase his/her shareholding from his or her next of kin. The shares are then distributed among the remaining shareholders.
What are the consequences of not having life insurance in place?

The remaining shareholders may not have the capital required to buy back the shares of the deceased from the next of kin.

As a result of this, the following situations may arise:

- The remaining shareholders may be forced to take out substantial personal loans (or the company may have to find substantial funds) in order to retain ownership of the company.
- If the remaining shareholders are unable to acquire the required capital sum to buy out the next of kin of the deceased, they will be forced to accept the next of kin as new shareholders in the company.
- The next of kin may wish to sell their shares, if the remaining shareholders are not able to afford to buy them then the next of kin may seek to sell their share to a third party.
- The next of kin may be unable to get a fair price for the shares on the open market.
- A competitor of the company may acquire the shares of the next of kin.

What are the advantages of shareholder insurance?

Shareholder insurance can benefit both the remaining shareholders of the company and the deceased shareholder’s next of kin.

The advantages are as follows:

- A lump sum is provided from the proceeds of the life insurance policy to enable the purchase of the deceased’s shareholding from the deceased’s next of kin.
- No new owners come into the business.
- The deceased’s next of kin can realise the value of the deceased’s share of the business – they have a ready buyer at market value.
- The deceased’s next of kin do not have to become involved with a business in which they may have no expertise in or knowledge about.

Is your business covered?

We provide products that can help businesses and their owners plan for their future. If you haven’t a business protection plan in place, talk to a Financial Broker or Advisor today who will look at your current situation and talk you through the available options. With this information to hand you can then decide what action you need to take.

Take the next step to financially protect you and your business today!

Talk to your Financial Broker or Advisor

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