



# Business Protection

State of the Nation's  
SMEs Report 2021

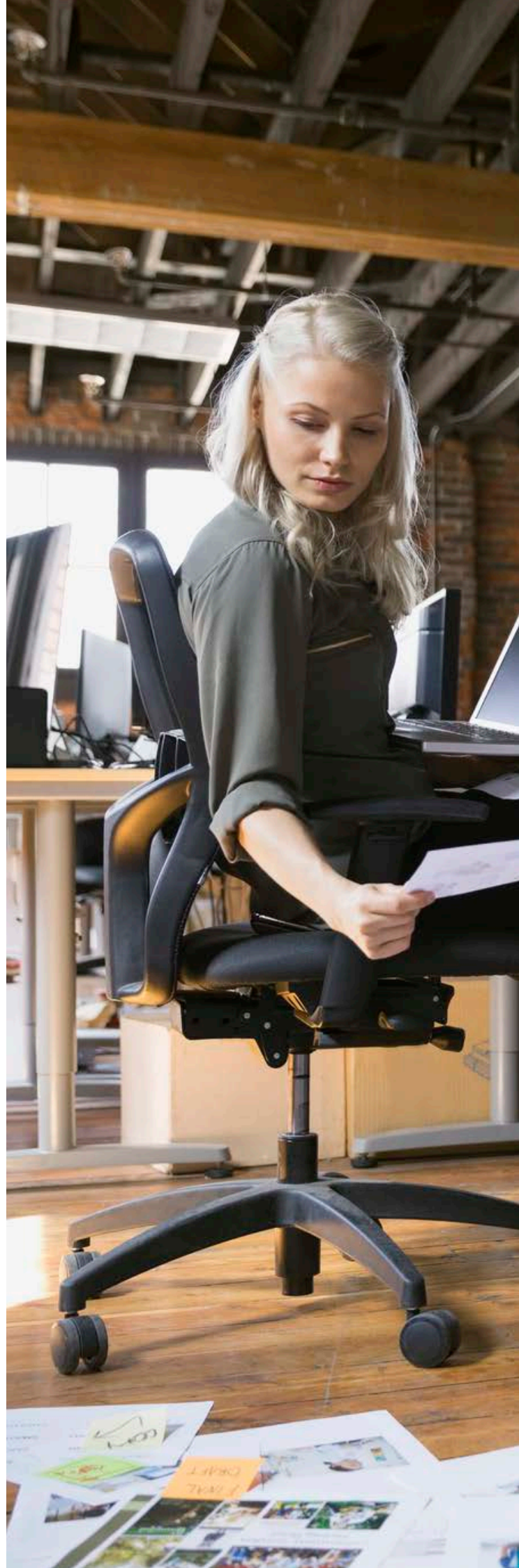


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It is intended for professional financial advisers and should not be relied upon by private customers or any other persons.

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# Welcome

Welcome to our 7th edition of State of the Nation Report. Since 2009, we've been gathering insights from the small and medium size business sector about the potential risks they may face, their awareness of risks, and how they as a business could mitigate them.

In our latest edition, we look at the unprecedented events of the Covid-19 pandemic and the impact it has had for many businesses, their employees, and families. Unsurprisingly, recovering from the pandemic is the biggest concern for 1 in 5 businesses, with slightly fewer being concerned with simply staying in business.

But not all businesses are treading water. There are signs of encouragement, with 57% saying they're feeling positive about their future. And even more encouraging is a third of SME's are now looking at how they can expand their business in the next 2 to 3 years.

Our report has shown there are still many businesses who are exposed to risks which they could mitigate with business protection, highlighting the need for expert protection advice. Advisers are ideally placed to help businesses understand the uncertainty of risks, and to make the right decisions in protecting themselves against certain unexpected and in many cases unforeseen events. The report helps advisers protect the nation's SME's, build long-term relationships, and ensure they are protected for their futures.



**Stuart Halliwell**  
Market Development Manager, Legal & General

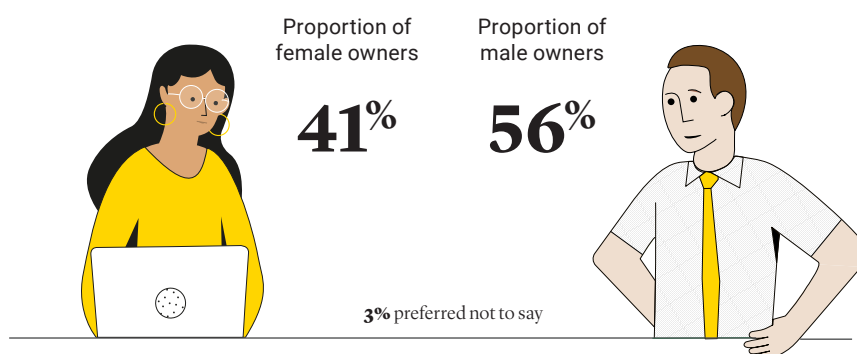
# Research methodology

The latest government's figures show of almost 6 million private sector businesses, **96%** have less than 10 employees.

## Who did we speak to?

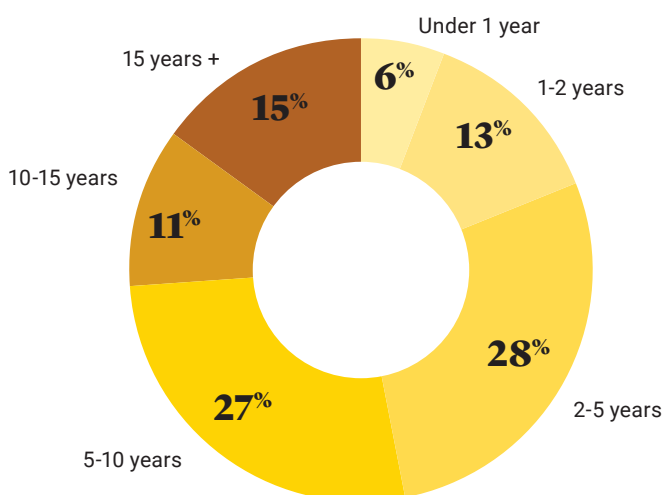
We spoke to a range of businesses throughout the UK – from limited companies and sole traders, to partnerships and limited liability partnerships. The sectors include health, retail, financial services, the public sector, IT and construction.

The businesses we spoke to also varied in the stages of their development, and were a mix of solely male or female owned or with a combination.

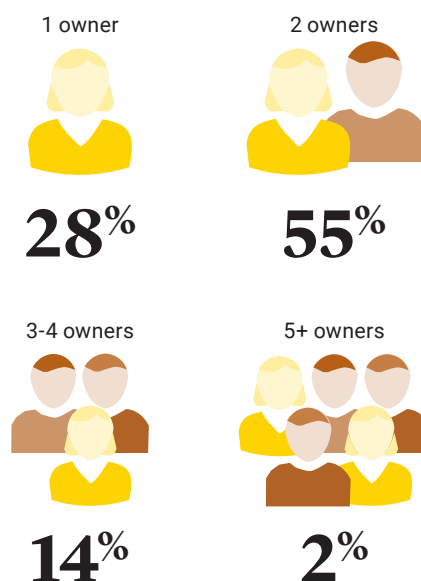


**40** the average age of a business owner

## Years business established



## Number of business owners







## About our research


This report is based on a survey of over 500 small businesses throughout the UK. It was carried out in June 2021 by Savanta, an independent market research consultancy.

# Executive summary

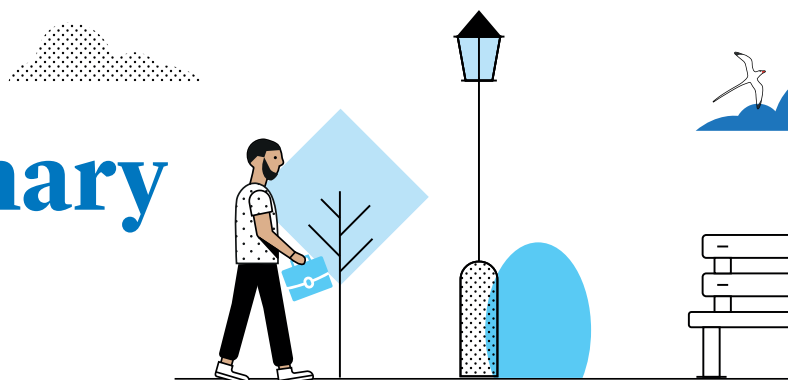
The report throws light on the risks facing some UK businesses and highlights the need for expert protection advice

 **94%**  
of businesses recognise they have at least one key person


 **75%**  
of businesses have some form of business debt

 **6**  
—in—**10**  
businesses would cease trading within 12 months of losing a key person

 **75%**  
have not heard of a Relevant Life Plan or Executive Income Protection, **84%** were open to hearing more about them

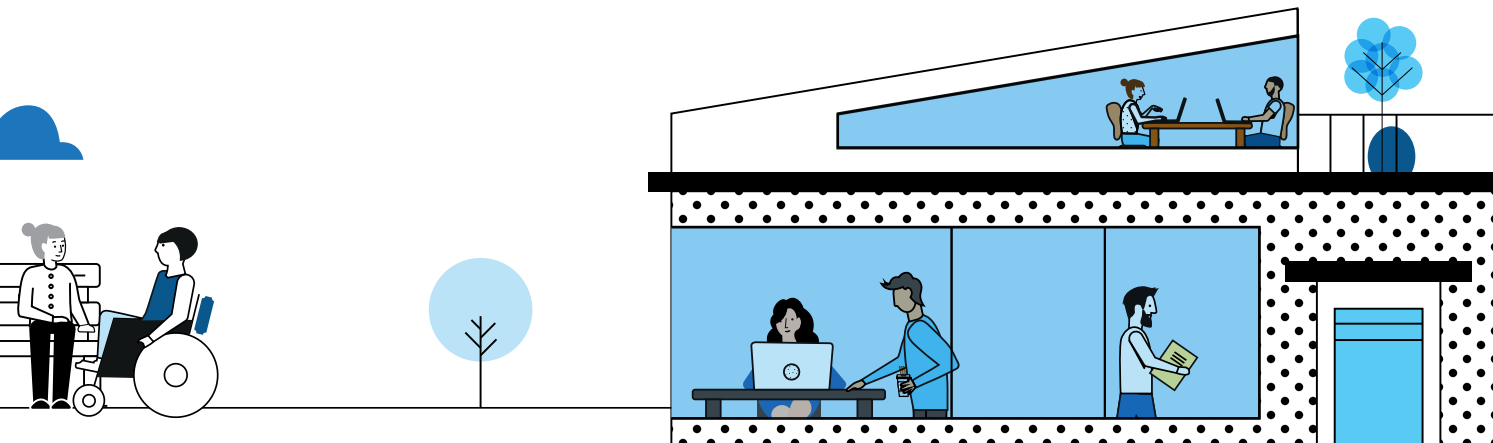


## Impact of Covid-19

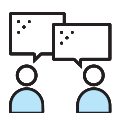
 **53%** of businesses say Covid-19 has had a negative impact, however the financial outlook for 12 months looks more positive

 **More than half** of businesses say Covid-19 has made them more likely to consider protection

 **75%** of businesses have some form of borrowing, an increase since our last research. **24%** of this is Covid-19 finance



## The value of advice



Of those with any Business Protection, **73%** had taken out the cover following advice



**97%** would look to professional advisers for advice



**Only 20%** would prefer to learn from their own research

## Helping a business mitigate the risks

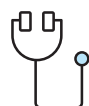
### The top 3 risks for a business



**52%** Death of an owner



**38%** Major contract loss



**35%** Owner suffering critical illness

### Largest Concerns

**22%** Business recovering from Covid-19

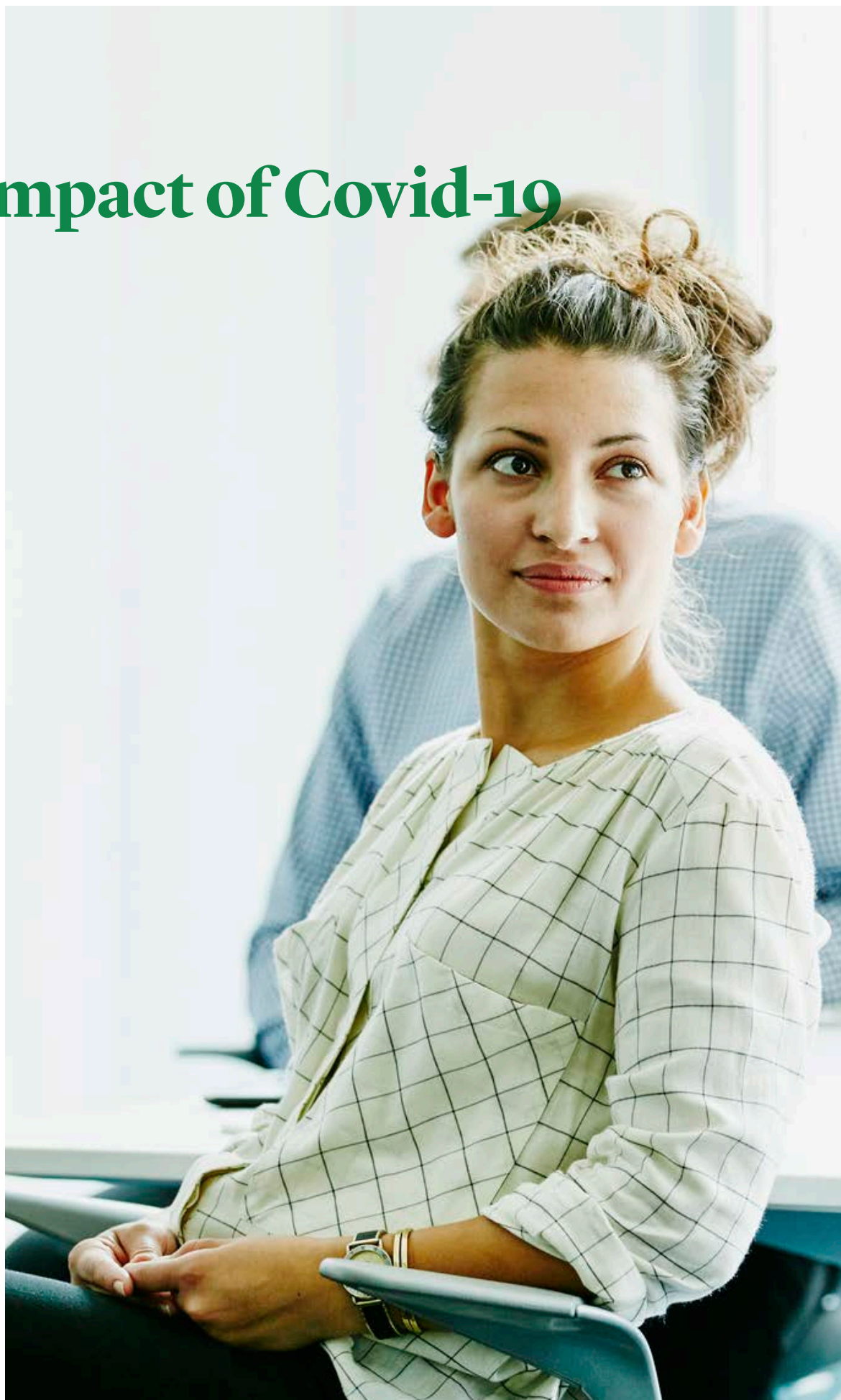
**18%** Staying in business

**13%** Risk of another pandemic

**13%** Maintaining profits



# The impact of Covid-19





# An unprecedented year for business

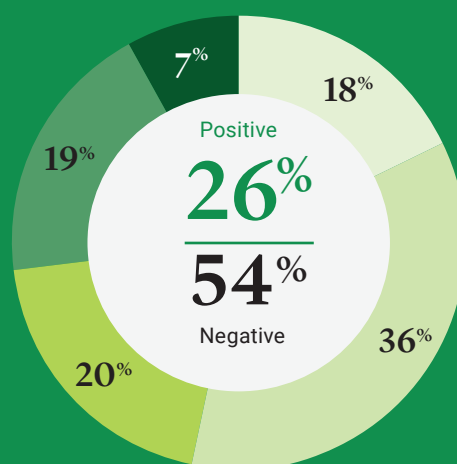
Businesses have survived the pandemic and come out the other side with an eye on the future.

For over half of businesses (54%), Covid-19 has had a negative impact. The research shows many are now carrying increased debt, but are also demonstrating a willingness to consider protection for different needs.

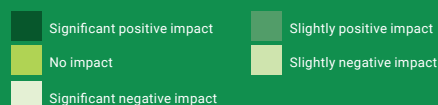
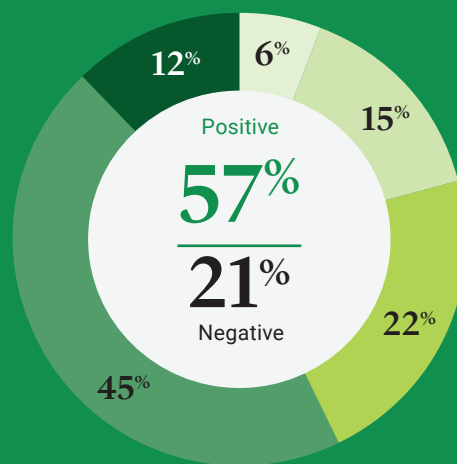
Almost half of businesses say maintaining profits is a major business concern for the future, with over one fifth saying recovering from Covid-19 was their immediate focus.



## Financial impact from Covid-19




## Financial outlook in 12 months



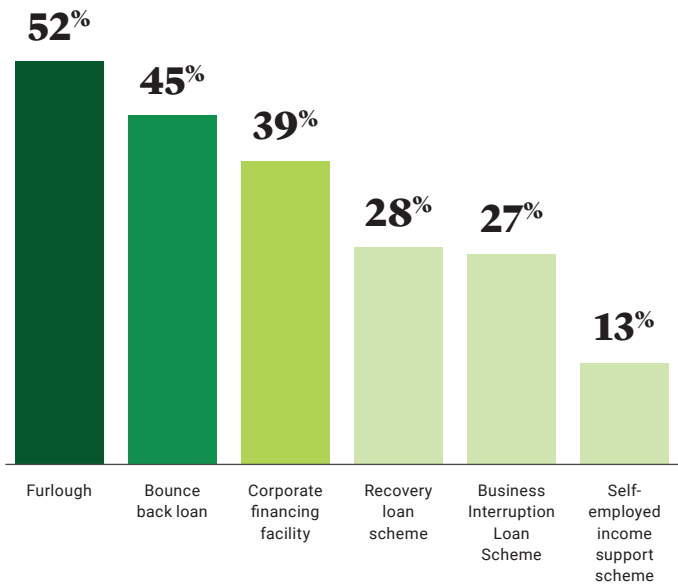
Businesses are now running high levels of debt, especially as a result of the government's Bounce Back Loan and Corporate Business Interruption Loan schemes, launched to help support businesses through the pandemic.

1 in 4 business who have corporate debt used Covid-19 finance. Of those schemes, Furlough and the Bounce Back Loan were the most commonly used with average Covid-19 related borrowings of £122,000.

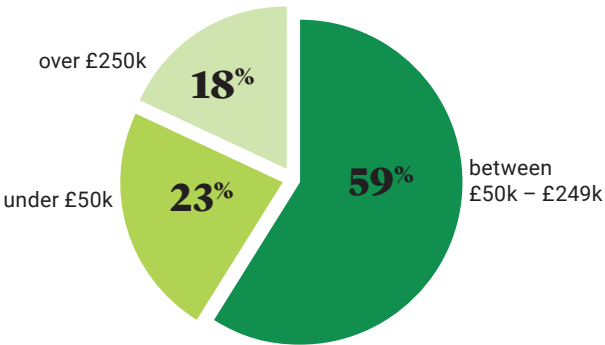


The average Covid-19 borrowing is **£122,000**

Covid-19 borrowing



Covid-19 borrowing total



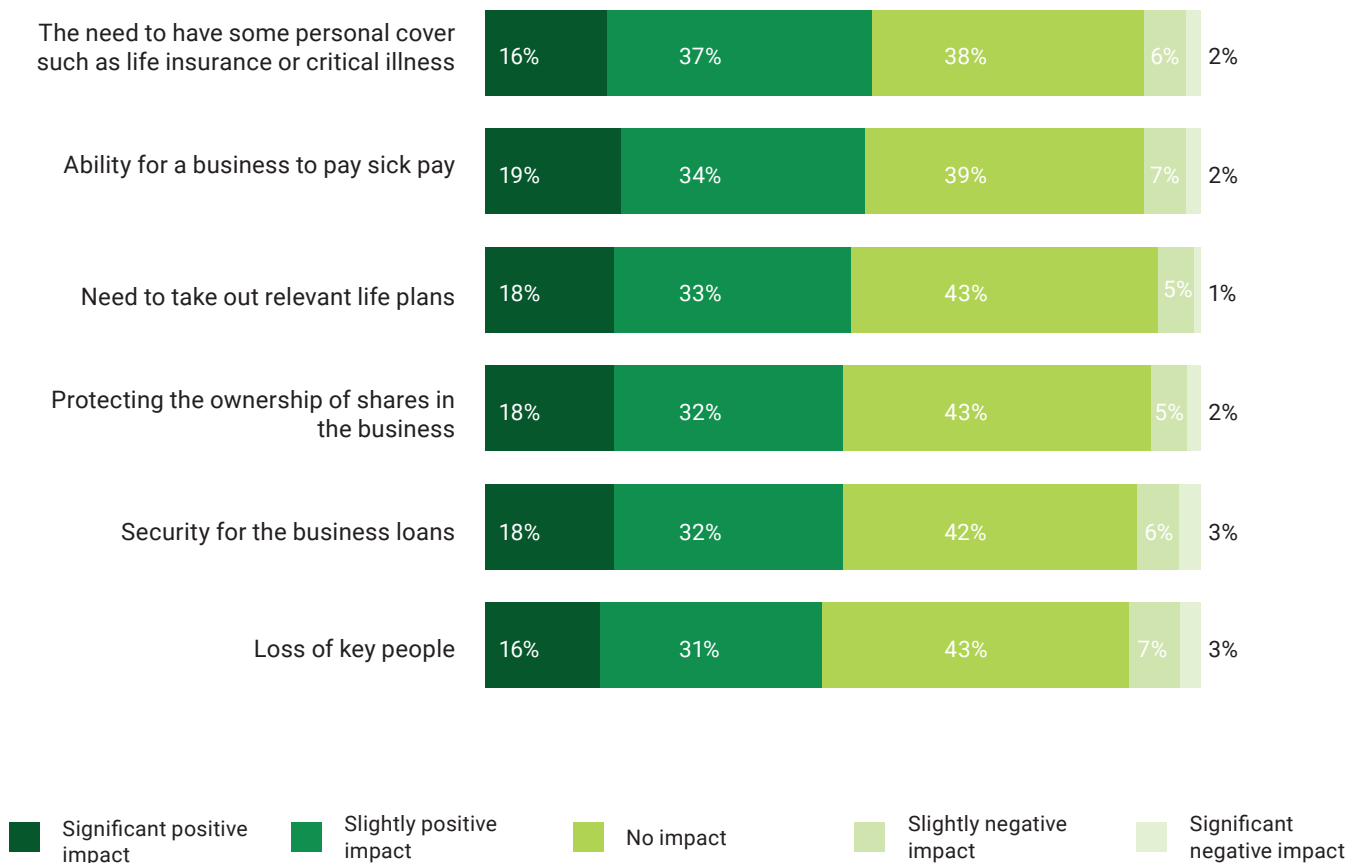
The research also shows Covid-19 has shifted perceptions of protection among business owners. Over half of all businesses are now likely to consider protection for many different needs, including taking out cover for business loans.

With hindsight, considering the effect of the pandemic, 4 in 10 said they wished they had done more in advance, with most saying they wish they had more insurance.

I wish I had taken out a Business Protection policy when we first went into business as opposed to during Covid-19.

Partnership, West Midlands

### Extent Covid-19 has impacted likelihood to consider protection





# The value of advice



# Protection advice and support for businesses

Financial advisers and accountants play an important role in prompting businesses to consider the benefits of Business Protection, and to highlight the risks of not having cover.

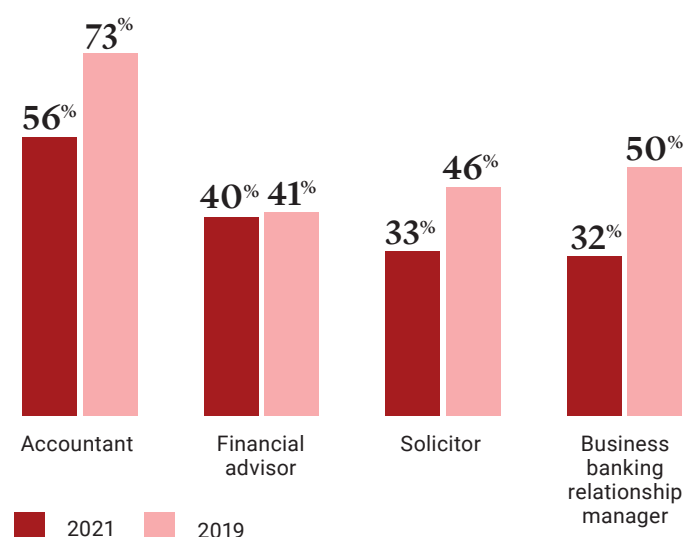
Overall, **97%** would look to professional advice, while **20%** would prefer to learn from their own research.

We found businesses are more likely to have an accountant than a financial adviser, but since 2019, we've seen an increase in businesses using a financial adviser. And although **40%** of our sample had an adviser, most confirmed they would be happy to be contacted by one.

The use of a financial adviser varies by business type, value, age of the business and gender mix of the owners. Our research shows sole traders, businesses with profits below £50,000 or businesses less than two years old are the least likely to use a financial adviser.

4 in 10 businesses already have a relationship with a financial adviser, but more want to learn about seeking protection advice through a financial adviser.

## Types of support for businesses

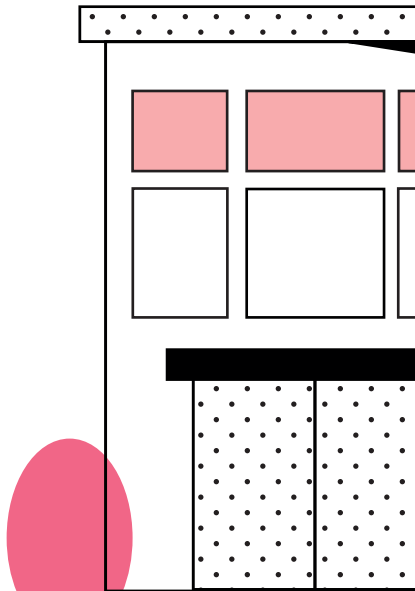
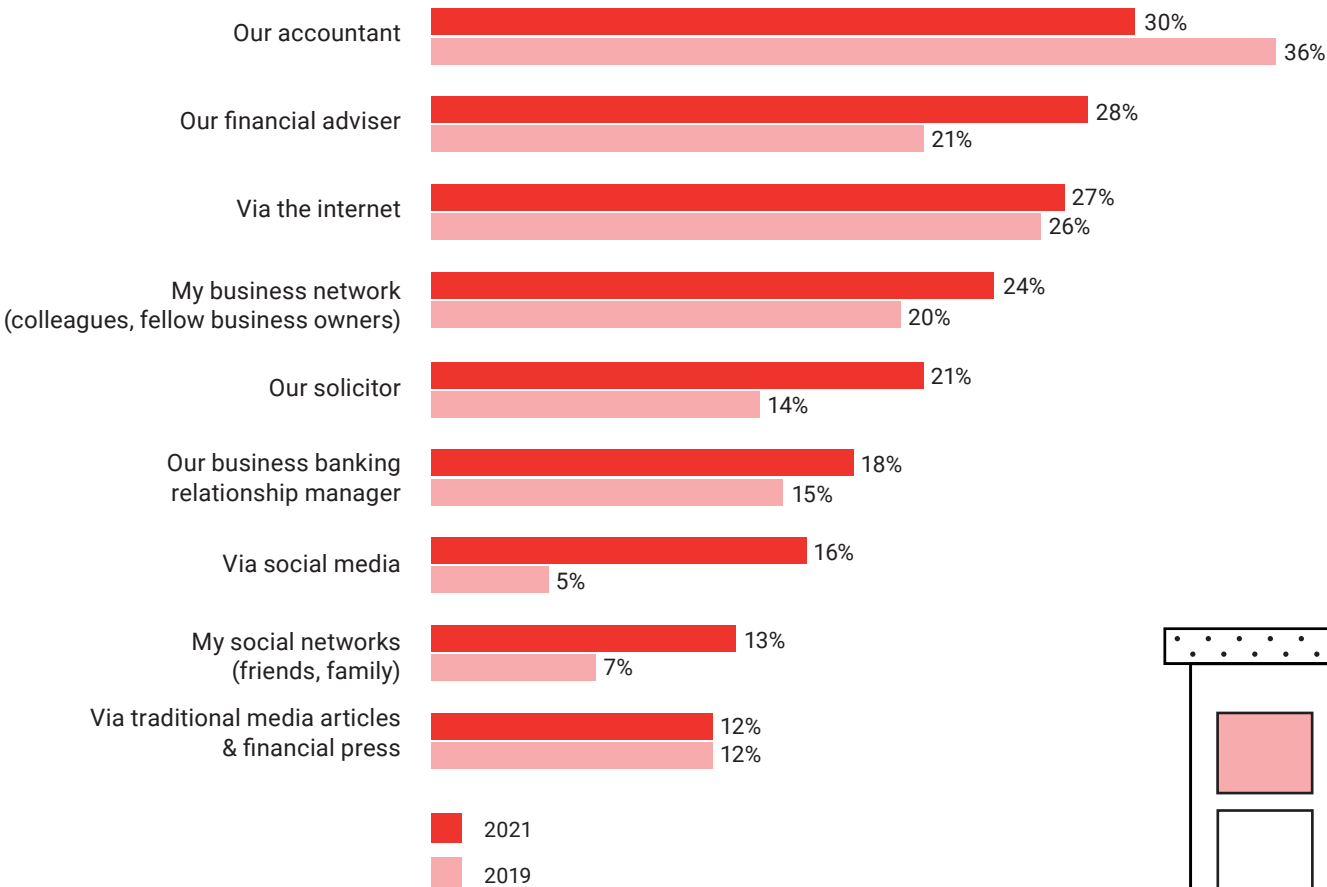


## Preferred way to learn about protection



The following shows how businesses prefer to be contacted and learn about protection. Learning more through an accountant is still the most preferred option, but since 2019 we've seen an increase in those using a financial adviser (28%), social media (16%), and finding out through their own research.

*Preference for learning about protection*







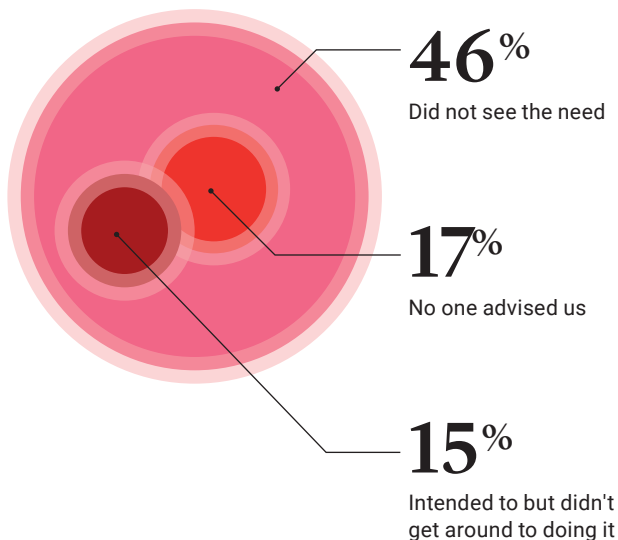
I would consult more third parties for advice rather than taking all the decisions myself without full knowledge of the possible consequences”

Limited company, London

## Increasing awareness

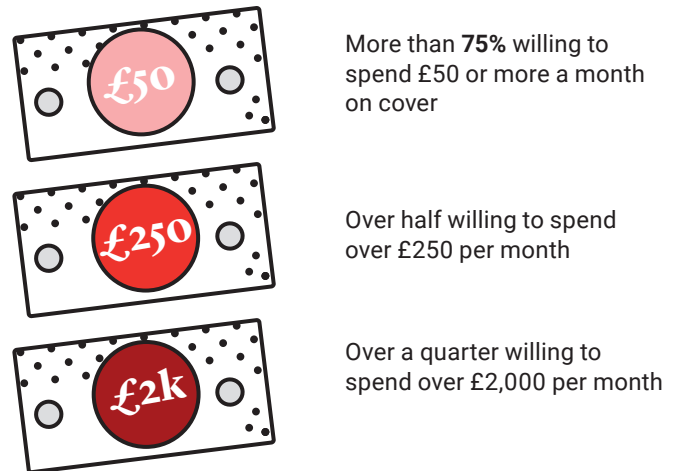
Although awareness is increasing and more are considering protection, there's still a large proportion of businesses that don't have cover in place. Of those who didn't have cover, **63%** didn't see the need or hadn't considered it.

### Businesses without protection



## Potential protection

Businesses who have realised the potential risks they could face are willing to spend to provide protection for themselves and the future of their business.

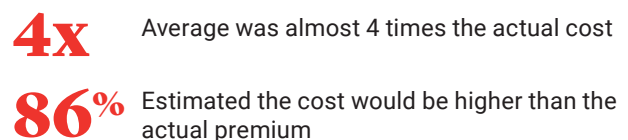


While it's encouraging that businesses are willing to protect themselves, it's clear that many haven't explored the costs.

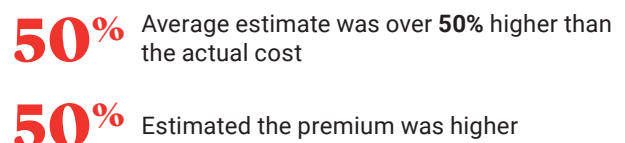
When asked to estimate the cost of life insurance, business owners gave an average that was 4 times the actual cost. For income protection, the average estimate was over **50%** higher than the actual cost.

## Estimated costs of insurance

We asked business owners to estimate the cost of life insurance:



When asked about their views on income protection:

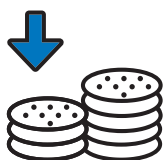


# Mitigating risks and uncertainty



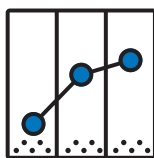
# About business protection

**Many businesses take the time to consider employment benefits, pension schemes and staff protection. Yet the business itself can be overlooked.**



## Debt

Many businesses will borrow money at some point. This might be for initial start-up costs, to fund future growth and expansion, or for an emergency. Borrowing takes many different forms including commercial loans, private or family loans, or director loan accounts. But what they all have in common is the need for the business to be able to repay the loan.



## Profits

It's common for small businesses to rely on one or two key people for their profits, especially when you consider over **96%** of businesses have less than 10 employees. Key people drive the business forward and could be directly responsible for bringing in profits. They may also provide invaluable support in leadership or direction to the business.



## Ownership

A share protection arrangement enables the surviving business owner to purchase the deceased business owner's share of the business from the deceased business owner's estate and ensures the deceased business owner's dependants have a willing buyer and cash instead of a share of the business. It's also worth noting whether the beneficiaries want to work in the business or would prefer not to be involved.




The other areas to consider when discussing the potential risk is the need for the business owners to arrange life cover on the life of an employee (this includes directors), with the benefit payable to the employee's family or financial dependents. The added benefit is the tax efficiency for employers and employees, so long as it meets certain legislative requirements.

In short, a Relevant Life Plan is a tax efficient way for a business to provide family protection life cover for its employees. Executive Income Protection is a tax efficient way for a business to ensure it's in a position to meet the sick pay obligation for its employee if they are off sick. Both are very valuable benefits to the employees of a business.

The value of advice and your adviser expertise is invaluable in helping make sure a business has considered all eventualities and has taken appropriate protection.

## Conversation starters

**A great place to start is to find out about the business history and its future plans. Many businesses will have detailed plans, projected profits, and what they would like to achieve.**

-  **Who's** been involved in the business, what are their roles and responsibilities, and how do they expect these to develop in the coming years?
-  **How** does the business intend to fund an expansion, and how will it manage the associated risks?
-  **If** the business has already achieved the planned expansion, are they content on running a stable business?



# Business Loan protection

The loss of the person who has guaranteed a loan is particularly serious for a business. Business Loan protection helps a business pay an outstanding overdraft, loan or commercial mortgage, should the person covered die or is diagnosed with a terminal illness (if life expectancy is less than 12 months), or critical illness (if chosen) during the policy term.

When a valid business loan protection claim is made, a sum equal to the outstanding debt could be paid to either the business or directly to the lender. It could be used to cover the monthly repayments of a loan, which relates to the contribution of a key employee whilst they are off sick and unable to work.

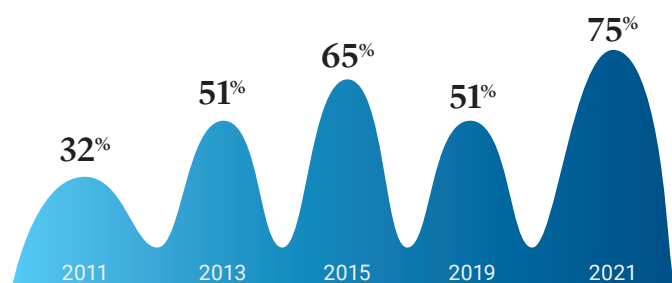
## Loan protection awareness

Although awareness is getting better and more people are considering cover, a large proportion of businesses don't have cover in place to repay debt. Of those who didn't have cover, **55%** didn't see the need or hadn't considered it.



That's almost a **50%** increase from 2019.

### Businesses with some form of debt



## Different types of borrowing

Businesses borrow various amounts of money, for many reasons and through different types of arrangements. The research shows there has been an increase in all areas of borrowing, except where we saw a **2%** drop in director loan accounts.

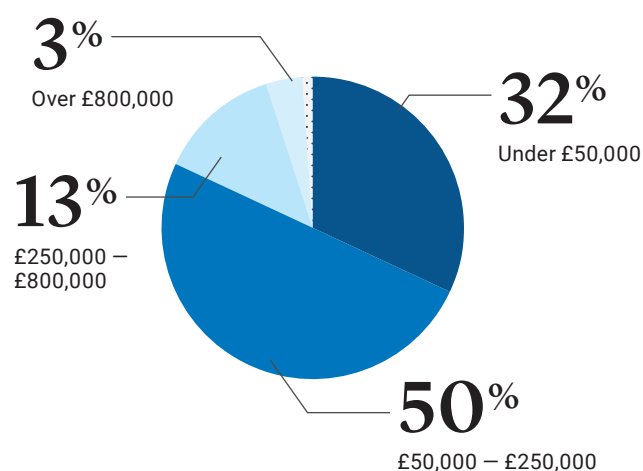
Many businesses don't consider how they'd service these debts if they lost a key person. Any outstanding amounts would need to be repaid, and many business owners are risking their personal wealth as security for borrowing.



**£200,000**  
average borrowing

**82%** Borrowed under £250,000

### Total amount of business borrowing



The proportion of businesses using personal loans to fund their business has almost doubled.

## What security have they given?

There has been an increase in all areas of borrowing, except for a slight drop in director loan accounts of **2%**, but the proportion using personal loans to fund their business has almost doubled to **18%**.



**54% have given personal security for their business borrowing**

The increase in security provided via personal guarantees or assets, indicates many owners are having to expose themselves and their families to these loan risks.

Alternatively they could utilise protection to give the business the ability to repay any borrowings whether that is providing the monthly repayments in the event of illness, or providing lump sums to meet the capital amounts in the events of critical illness or death of a guarantor.

## Security given on borrowing



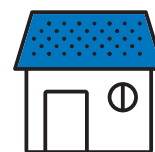
**36%**

Personal guarantee



**31%**

Charges against business assets





**24%**


Charges against personal assets


## Conversation starters

Many businesses will at some stage need to borrow money to help with their plans. This could be at any stage of the businesses development and could take many forms varying from commercial loans, credit facilities, personal loans, family loans or directors lending their own money to a business. At some stage they will need to be repaid and many will have the need for security or guarantees attached to them.

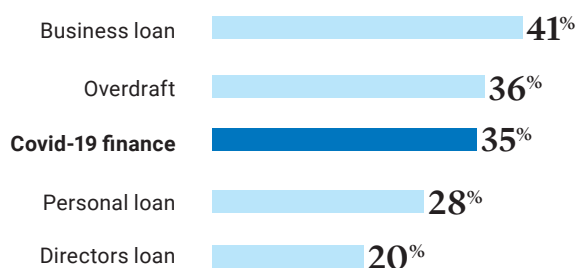
 **What's** the total value of business borrowing? What type of borrowings or finance does the business have?

 **Are** the loans dependant on any individuals to ensure they are repaid?

 **Have** any individuals provided security or guarantees for the borrowing, such as homes as security?

 **Would** it be more cost effective to use an insurance solution to guarantee the business has the funds to repay any lender?

## Types of borrowing over £50,000



# Key person protection

Key person protection helps small businesses move confidently through any financial uncertainty if a key employee needs time off work because of illness or injury. It protects lost profits, meets the cost of replacing skills, or supports any ongoing loan repayments.

Yet, because the number one priority for most businesses is meeting its customers' needs, many owners don't have time to consider the problems they'd face if they or a key person died, became critically ill or injured.

It's common for SMEs to be reliant on one or two key people whose skills, knowledge, experience or leadership make a big contribution to its success. It's likely a business could have several key people, each with different skills and responsibilities that need protecting.

## Considering key people

When business owners considered the impact of a loss of a key person they were most concerned about the key person having a critical illness or dying. This was closely followed by the key person being absent due to illness. Only 9% said they had heard of Key Person Income Protection cover and had taken a policy. For more detail about our products, including Key Person Income Protection, visit our Adviser Site.



would cease trading in less than 2 years with the loss of a key person



businesses said they had 3 or more key people



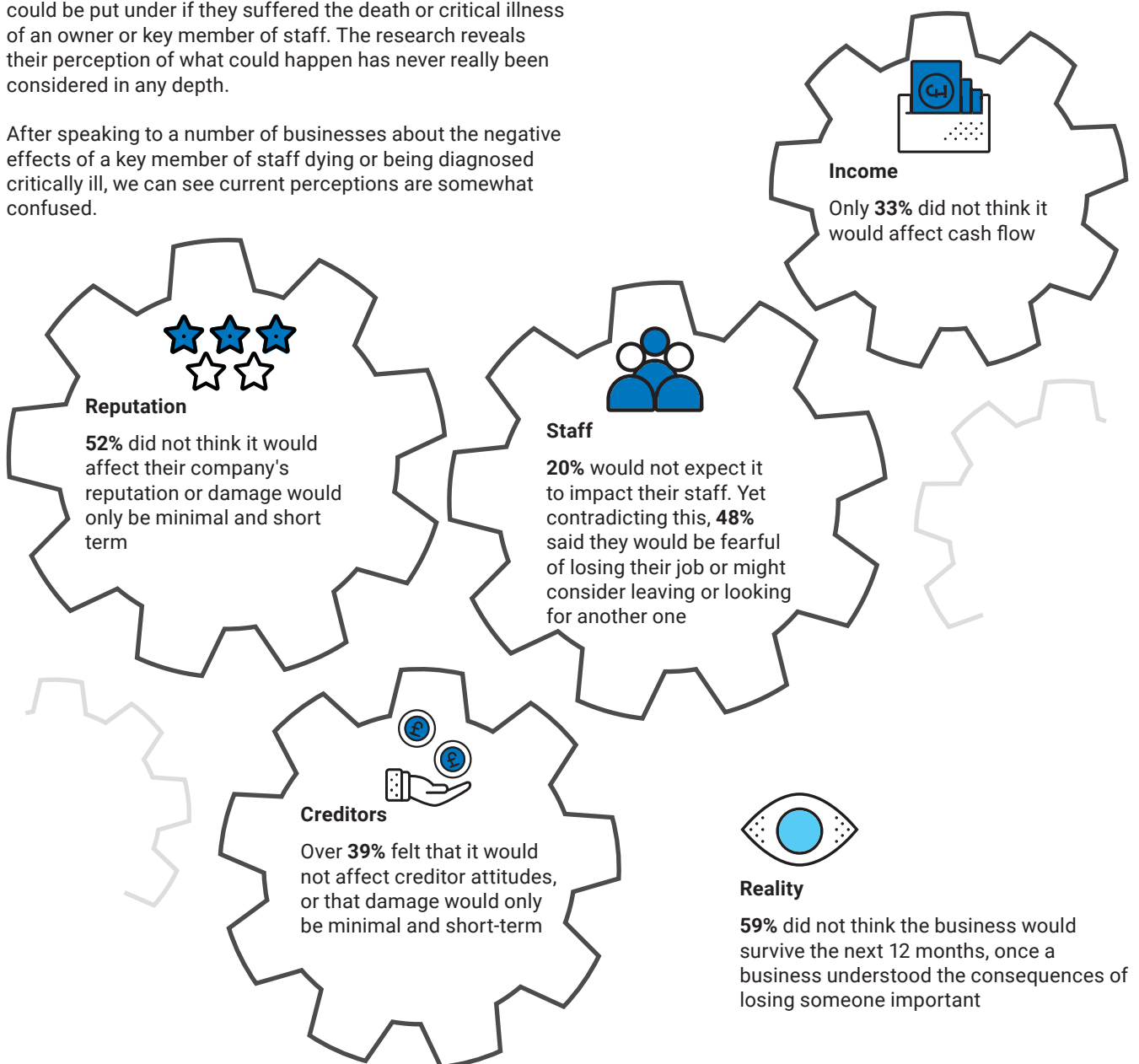
of business continuity plans cover the health and lives of their key people



## Beyond perceptions

Many businesses have not considered the financial strain they could be put under if they suffered the death or critical illness of an owner or key member of staff. The research reveals their perception of what could happen has never really been considered in any depth.

After speaking to a number of businesses about the negative effects of a key member of staff dying or being diagnosed critically ill, we can see current perceptions are somewhat confused.



## Attitude to risk and impact on a business

Many businesses consider the risks they could face and will often have insurance or plans in place for various events.

- Over a third (**35%**) thought one of the top 3 risks to their business would be an owner becoming critically ill and being unable to work.
- Over half (**52%**) said the death of an owner would be the top risk to their businesses' future.

Their business recovery plans will often include areas that can impact on the immediate day to day workings of their business, but they do not always consider those which could have major longer-term impacts.

- Back up servers **35%**
- Alternative premises **28%**
- Alternative suppliers **29%**

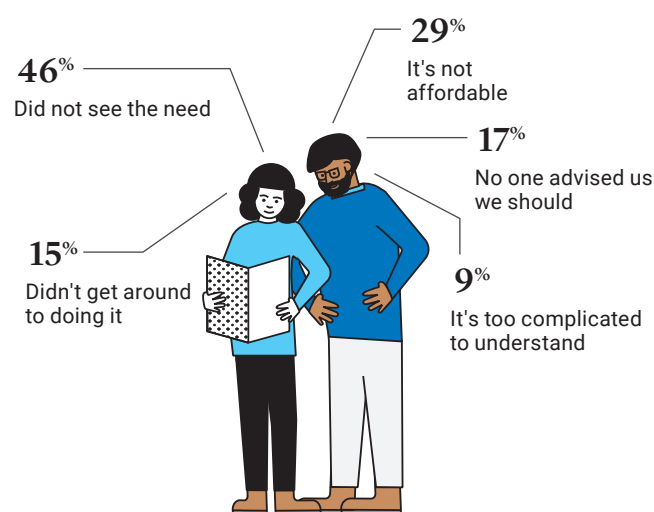
**Which of the following scenarios do you think would have the most serious impact on your business?**



## Better knowledge, greater awareness


More than half of the businesses did not have protection, in many cases it was not something they had ever thought about.


### Reasons for not having protection




## Conversation starters

**It is common for SMEs to be reliant on one or two key people whose skills, knowledge, experience or leadership make a big contribution to its success.**

 **How** would the business be impacted if it lost its key person or people? Would it survive their loss?

 **Has** the business considered the effect on its trading figures if a key person was to die, be diagnosed with a critical illness, or was unable to work due to illness or injury?

 **How** could these risks be insured against, to provide a lifeline for a business and potentially stop it from ceasing trade?







# Protection for the loss of an owner

The research highlights a high level of uncertainty when it comes to share protection, especially around what would happen to the business if a shareholder died. We found many businesses have no specific arrangements for their shares, and the business owners have rarely considered the impact on themselves, their families, other shareholders or their business.

Over 4 in 10 (**43%**) expect the beneficiaries to become the owners of the shares within the business, with over **60%** of these assuming the beneficiaries will not be active in the business and simply take an income.

## *What business owners would like to happen to their shares if they died*

Beneficiaries retain ownership without taking active role in business



Beneficiaries would become active in business



Partners/Shareholders would buy shares from beneficiaries



Beneficiaries receive nothing, shares passed to the other business owners



Business would cease to trade



Shares sold to a third party



■ 2021 ■ 2019

This raises several questions, including:

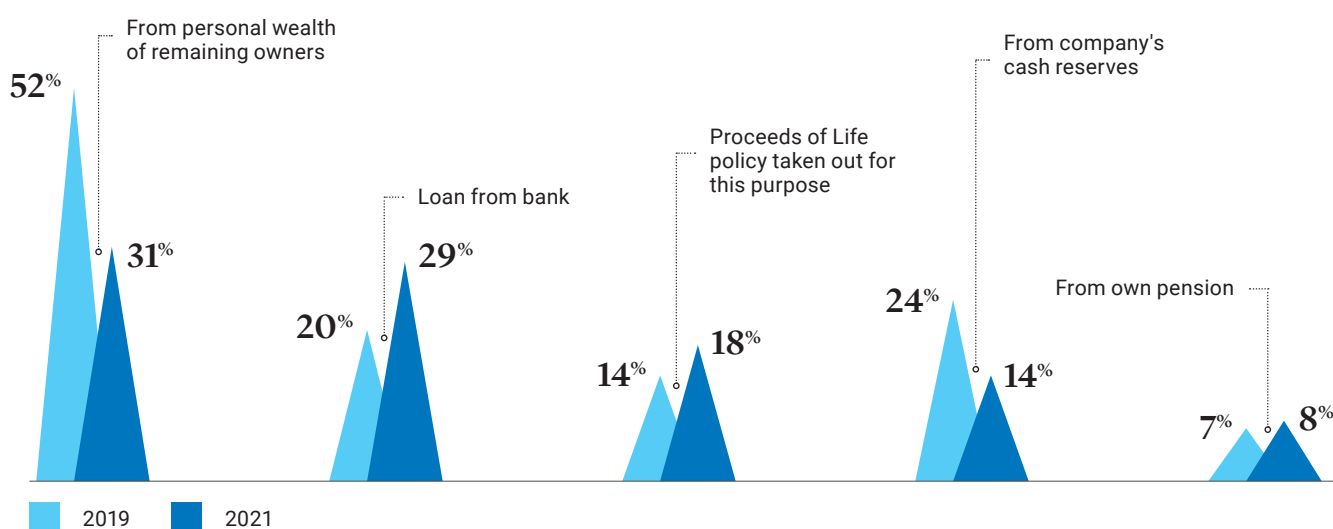
- Would the beneficiary be able to step back from the business if they were the majority shareholder?
- Would the articles of association, shareholder's agreement or partnership agreement agree to this outcome?
- What about the other shareholders in the business, would they be happy to run the business for the benefit of the beneficiary who takes an income but contributes nothing to the business?

Business owners need to fully consider their obligations and the options available to them in their existing legal agreements. These are also essential when putting a protection solution in place.





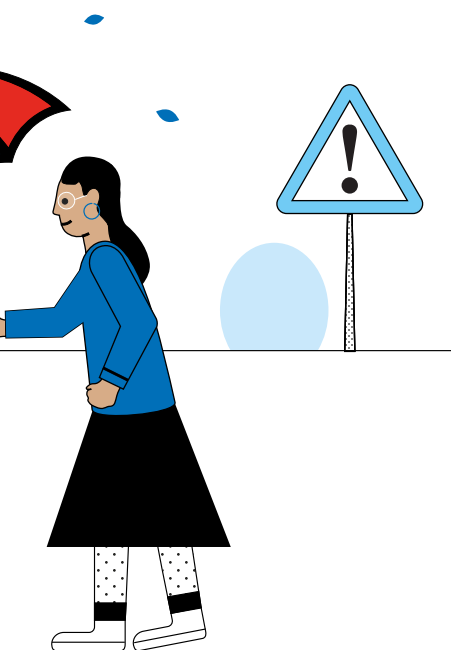
### How would the purchase of the shares be funded?



## Conversation starters

Explore the current situation regarding their ownership of the business and what they would like to happen if a shareholder died.

-  **Would** your business clients want the beneficiaries of their estate to have to be involved in the business, or would they want them to be compensated for the value of the shares in the business?
-  **How** much is the business valued at currently, and how do they envisage that changing over time in view of their business plans?
-  **If** their beneficiaries were able to sell the shares, what difference would it make to their lives in the future?
-  **If** the other shareholders wanted to buy the shares, where would the money come from? Would they have to borrow, and would there be a willing lender at this time.



# Big business benefits, for small businesses

A Relevant Life Plan and Executive Income Protection are cost-efficient ways for businesses to offer life cover or income protection to its employees. With corporation tax relief available, there is no additional income tax or National Insurance to pay on the premiums, and the premiums can be typically treated as an allowable business expense by HMRC.

## Who are they for?

- Companies with less than 50 employees wishing to provide their directors with their own individual death in service benefits in a tax-efficient way
- Employers looking to provide lump sum, or income protection benefits to their employees
- Those with too few employees to set up a group scheme
- High earning individuals, such as directors, who are looking for lump sum benefits without affecting their pension lifetime allowance

## Awareness of these plans

With **75%** of businesses saying they never heard of a Relevant Life Plan or Executive Income Protection there is an opportunity to increase awareness and open discussions about the benefits with your business clients. It could be a trigger for discussions with a business about its other protection needs and to safeguard a business's ability to fund these products. Once the benefits of these plans are clearly explained, around **85%** of business owners were open to a discussion and finding out more details.

## What is a Relevant Life Plan?

Allows employers to provide an individual death in service style benefit for their employees. It's designed to provide a life insurance plan to employers to provide an individual death in service style benefit for their employees.

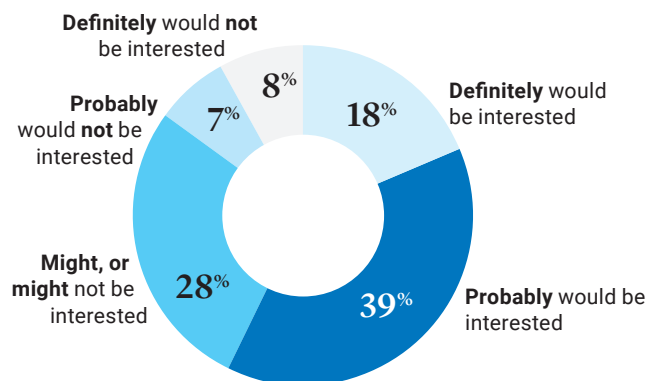


**64%** have not heard of a Relevant Life Plan



**85%** were receptive to hearing more about it once the basic details were explained

## Interest in relevant life plans



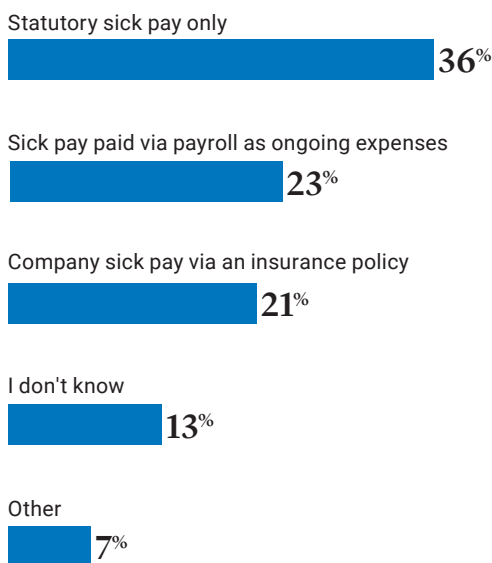
I'm definitely looking at protecting the owners and sick pay better"

Limited company, Scotland

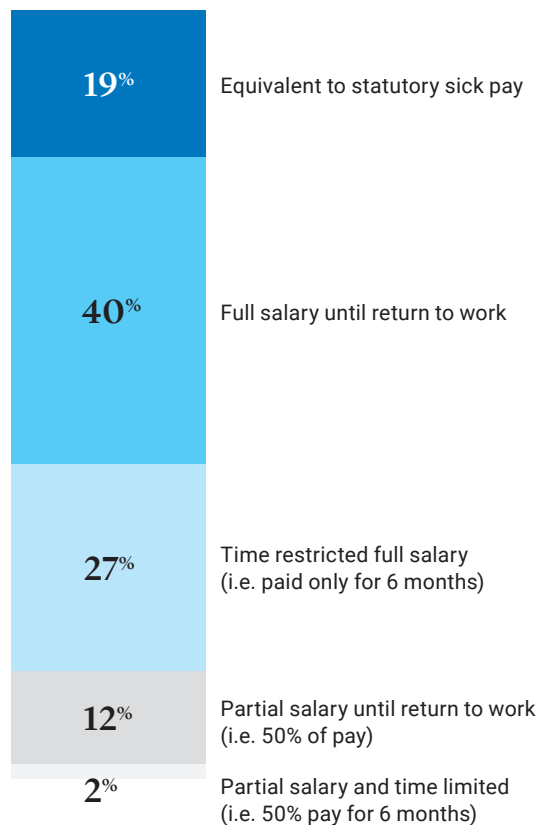
## What is Executive Income Protection?

Helps small businesses protect against the financial impact of their employee's incapacity on the business. Similar to personal income protection, it's designed to pay out a monthly benefit in the event that the person covered is unable to work due to incapacity caused by illness or injury.

### Current sick pay scheme




### Level of sick pay cover




**84%** were open to finding out more about Executive Income Protection

## Conversation starters

Whilst discussing the risks a business may face with the owners or directors it is an ideal situation to raise their needs to look after their own financial security and that of their families. A Relevant Life Plan and Executive Income Protection can help them achieve this in a tax efficient way and funded through their business.

 **Does** the business have any existing plans that will help it to meet sick pay obligations?

 **Do** they have an existing death in service arrangement if an employee was to die?

# The opportunity to develop your business





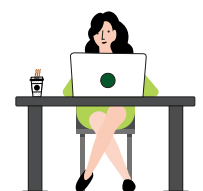
# Changing business needs

Every business has a life cycle, and the more you can understand their risks and needs, the better chance you have of giving them the right advice at the right time. Our research identified 3 major segments businesses could be grouped into based on their age.

In the early days, a new business that's trying to self-establish may be reliant on just a few key people. As it's new, it may not have a value yet.

As a business grows there is often a need for loans to fund expansion, but how are these protected? Once a business is established and moving into maturity then, the ownership and value of the business will be a more major concern.

Our research highlights the changing needs of businesses throughout their tenure, and identifies likely risks.



19%

Newer businesses  
(established within 2 years)

Would they survive the loss of a key person?

- **33%** would cease trading immediately
- **33%** would cease trading within 12 months
- **36%** have no debt - and have the least amount of corporate debt



56%

Young and maturing businesses  
(aged between 2-9 years)

Could they repay their debts if an owner died?

- **84%** have some form of borrowings
- **28%** have the highest amount of Covid-19 related finance
- **16%** have more director's loan accounts than new and established businesses.
- **41%** have debts of over £150,000
- **93%** have some form of security for their borrowings (**56%** is personal security)



26%

Established businesses  
(set up more than 10 years ago)

What would happen to their shares if a shareholder died?

- 1 in 5 would want the other shareholders to buy the shares from their estate, but how will it be funded?
- Almost **30%** would expect their beneficiaries to receive nothing as either the business would cease to trade or the shares would automatically go to the other owners

**“I would save more of the profit and spend more time before making large purchases”**

Limited company, Scotland

# Growing your business



# Helping you do business

**Our research has covered the issues faced by businesses due to the pandemic, which has been significant for many businesses.**

Many are now looking to the future and beyond the current issues. They see the benefits of considering the potential risks to their future plans and how disruptive events beyond their control could be

Businesses are still running many risks and they could actually use insurances as alternatives. It's encouraging to see that **97%** of business owners want professional support when protecting their business, and of those who had cover, **73%** took it out following advice.

This is an opportunity for advisers to demonstrate their duty of care for their clients, their expertise, and the value of

their advice. We're here to support you with expert training and educational resources to guide you through growing your business, developing your network and aiding client conversations.

Our experienced UK wide Market Development Managers offer accredited training and webinars that are designed for you to get the most from the products and services we offer. Accredited by the Chartered Institute of Insurance for structured CPD, our virtual and UK-wide interactive programmes cover sales skills, protection needs, mortgage reviews, business protection opportunities and questioning techniques.

We work with thousands of advisers like you every year, not only to help you meet your annual CPD requirements, but to help grow the market and explore new opportunities.

## How Legal & General can support you

### Experienced UK-wide team

We work with thousands of advisers like you every year to help grow the market and explore new opportunities.

### CII Accredited webinars, training and workshops

Our resources are designed for you to get the most from the products and services we offer.



### Here to support you

With expert training and educational resources, and with technical sales queries on our products or services.

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