

'The risks that could KILL your business'

Speakers:

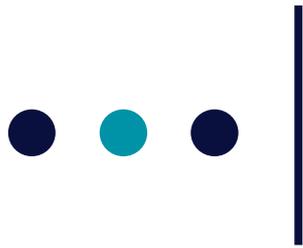
- Paul Rayner, Smith & Pinching
- Jade Tinney, Clapham & Collinge
- Ian Limeburner, KTIB

#BusinessRisksSeminar

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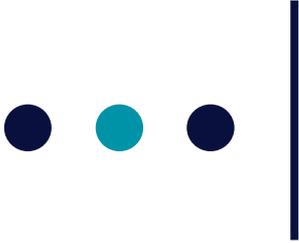
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Financial protection for your business

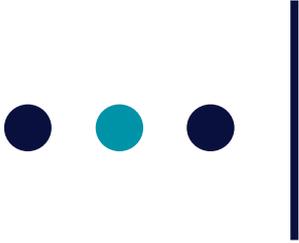
Paul Rayner
Associate Director



Financial protection for your business

As a business owner or director, your focus will be on making sure the business can grow and prosper.

Protecting your business from the unforeseen loss of a key employee through death or critical illness is arguably as important as protecting the buildings and equipment.

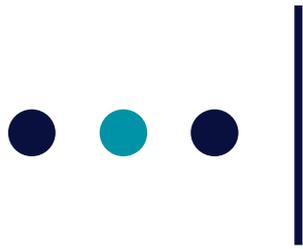


Financial protection for your business

Did you know?

Research has shown that if a key person dies or becomes critically ill, 4 out of 10 businesses would cease trading within a year.

Source: L&G “State of Nation” Report March 2015

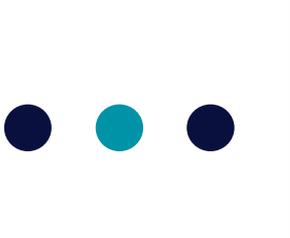


- Most small businesses in the UK do not have any form of business protection in place however this is often due to a lack of awareness of the options available to you.

(Source: L&G Rough Guide to Business Protection 2015)

- Did you also know that over 50% of business owners do not have a Will and/or made a Lasting Power of Attorney

(L&G “State of Nation” report march 2015)



Shareholder and Partnership Protection

What if a Business Partner or Shareholder were to die suddenly?

- What would happen to their share of the business?
- Does the business have the money to buy the share back from the estate? Would the beneficiary be prepared to sell?
- What impact would this uncertainty have on the business?



Shareholder and Partnership Protection

Shareholder and Partnership Protection exist to provide the company with a cash lump sum on the death or diagnosis of a critical illness of a shareholder or partner.

This is used to buy the share of the individual, back either from them if they are still alive or from their estate.

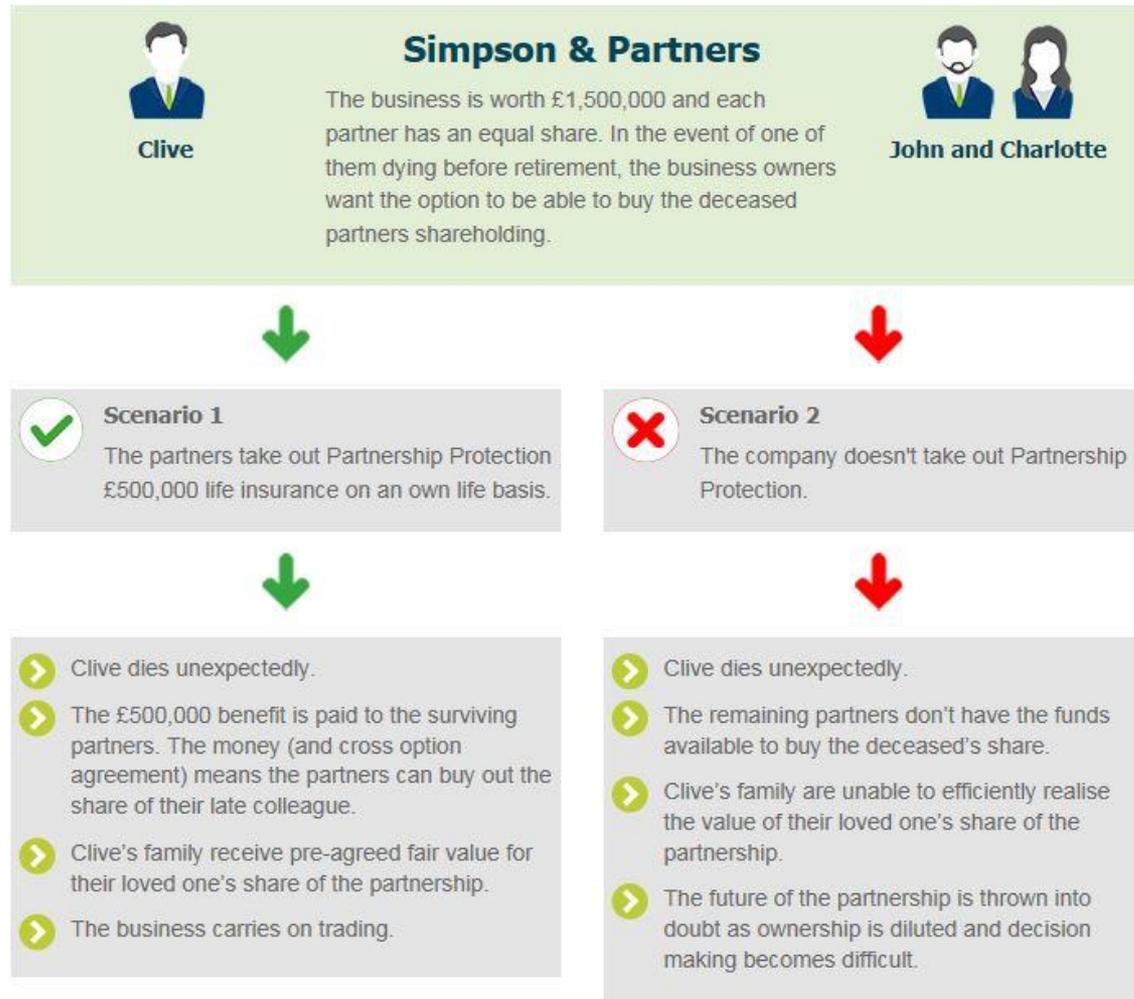


Shareholder and Partnership Protection

- Planning ahead enables a business to continue with as little disruption as possible
- Insurance is used to provide the funds to buy the individual's shares from them or from their estate
- This gives the partner/shareholder or their estate the cash value of their shares
- It also brings control of the company back to the remaining shareholders

Shareholder Protection Case Study

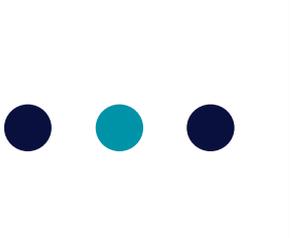
The example below shows how Share Protection cover can be used to help secure their a business if something happened to one of their Partners/Shareholders. Please note that this is an example only and is not based on a real company.



Shareholder Protection Case Study

Shareholder Protection Cover solution

- Each Partner takes out Partnership Protection in the form of three separate life insurance policies, on an own life basis written in trust for the other partners.
- Each policy would pay out £500,000 to the remaining business owners if one of them died before retirement. And a cross option agreement is also signed giving the remaining partners the option to buy the deceased's share of the business while allowing the family to efficiently sell it.



Key Person Insurance

What if one of your key people had a heart attack and had to stop working?

- What would the impact of this be on company profits?



Key Person Insurance

- Key person insurance is an individual policy taken out on an individual, which pays out a lump sum to the business on death or the diagnosis of a critical illness.
- It is used to protect the business from a loss of profits and revenue, the cost of recruitment and even training a new member of staff.



Key Person Insurance

- Very few people want to think about mortality or illness, particularly when it could be concerning someone close to you but the fact of the matter is that it is better to be prepared.
- If the worst does happen, there will be a lot of disruption at home and in the workplace which could cause significant hardship for a family or a business.

Key Person Insurance Case Study

The example below shows how Key Person Cover can be used to help **to secure future profits** if something happened to Steven one of their key employees. Please note that this is an example only and is not based on a real company.



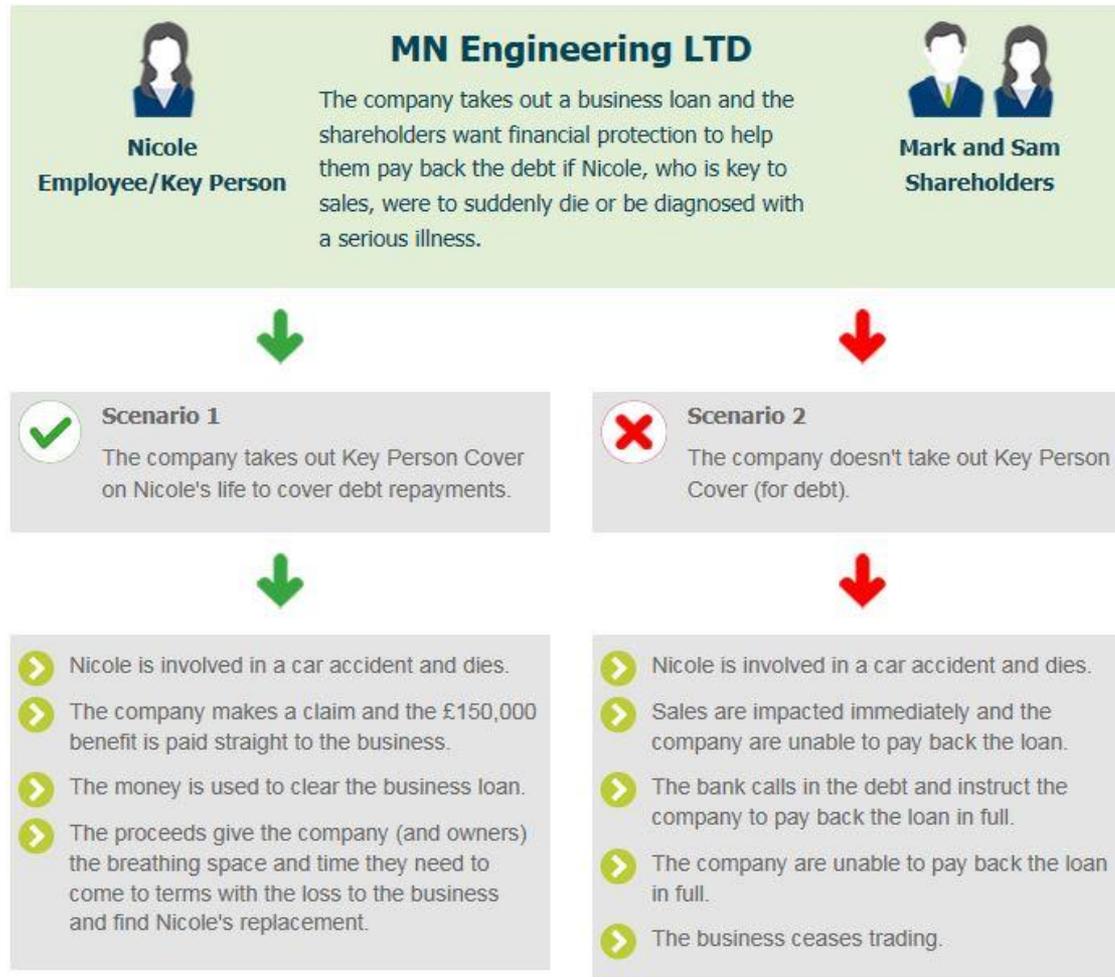
Key Person Insurance Case Study

Key Person Cover solution

- The company take out key person cover on Steven for £500,000, paying out on his **death or diagnosis of a critical illness**.
- The level of cover was based on 2 x net profit (apportioned for the % Steven is considered to be directly responsible for).

Key Person Insurance Case Study

The example below shows how Key Person Cover can be used to secure the **repayment of a business loan** if something happened to **Nicole** one of their key employees. Please note that this is an example only and is not based on a real company.



Key Person Insurance Case Study

Key Person Cover solution

- Company they take out Key Person Cover on Nichole for £150,000 (which equals the original amount of money lent by the bank) on a 'life of another basis' with MN Engineering Limited as the policy owner.
- The insurance provider would pay the cover **if Nicole dies, or is diagnosed with a critical illness** shown in the policy conditions.

Relevant Life Cover Case Study

The case study below is designed to illustrate some practical advantages offered by **Relevant Life Cover and potential tax savings**. It shows how this policy could help your business, but please note that this is an example only and is not based on a real company.



 The company takes out three separate Relevant Life Cover policies on the lives of Amanda, Leo and Sam and placed into discretionary trust.



-  One of the employees, Sam is involved in an accident and dies.
-  Sam's family makes a claim under the Relevant Life Cover policy.
-  The provider pays the proceeds to the trustees.
-  The trustees pay the beneficiaries (Sam's family) the proceeds.
-  Because the policy was written in trust, inheritance tax doesn't apply.

Relevant Life Cover Case Study

Background

- Amanda Wilkins is the sole shareholding director of a small graphic design consultancy, AW Design Ltd.
- She works full-time, and employs two designers; who have both been at the company for a number of years.
- Amanda is proud of the business she's built and values the roles that Sam and Leo have played.

Relevant Life Cover Case Study

Relevant Life Cover solution

- Amanda feels that she should provide life cover for herself and her employees
- The company is too small to have a conventional Group Life Policy but a Relevant Life Policy on each employee is an option
- All policies would be written in trust and Amanda, Sam and Leo would each name their beneficiaries. These are usually a next of kin. If one of them died whilst working at AW Design Ltd, the claim would be made by the assigned trustee and then paid to the named beneficiaries.

Relevant Life Cover Case Study

Cost Breakdown

This is how the costs would work, assuming that the premiums qualify as an allowable business expense.

Cost type	Amanda	Leo	Sam
Monthly premium	£90.00	£65.00	£42.00
Employee National Insurance Contribution	N/A	N/A	N/A
Income Tax	N/A	N/A	N/A
Total company gross cost	£90.00	£65.00	£42.00
Less Corporation Tax (assuming 20%)	£18.00	£13.00	£8.40
Tax-adjusted total premium	£72.00	£52.00	£33.60

These figures are for illustrative purposes only. Tax calculations are based on 2016/2017 tax rules and may change in the future. The information assumes that the same rate of income tax/national insurance applies to the whole of the premium. It may be affected by individual circumstances.

Smith & Pinching is a trading name of
Smith & Pinching Financial Services Limited

The information contained in this presentation is based on
our understanding of current government legislation, which
may change in the future

The information contained in this presentation does not
constitute advice. If you do require advice, you should
speak to a suitably-qualified financial adviser



Jade Tinney
Commercial Solicitor

#BusinessRisksSeminar



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Meet Steve Mobs, Jill Gates and Mark Cookerberg...



- Steve, Jill and Mark are friends from university. Having had enough of being employed in their respective roles for different IT businesses, they decide to quit their jobs and set up together, providing software development advice which also involves them developing hardware for onwards sale to their software clients.
- Following some advice from their accountant about how to trade the business, they set up a limited company, iSoftbook Limited.
- Steve and Mark each own 40 ordinary shares and Jill owns 20 ordinary shares, having only contributed half of what the others put in as start-up capital.
- The business grows from strength to strength and quickly starts to produce a significant profit which is split according to their shareholdings.



- Cracks start to show in the relationship between Jill, Mark and Steve.
- Steve thinks that there isn't enough effort being put into the hardware manufacturing side of the business.
- Jill and Mark are admittedly more focused on software development which has historically proven to provide the biggest share of turnover. Also, Jill and Mark prefer to draw the profits out rather than re-investing them into other parts of the business.
- One day Steve walks out of the office in frustration and texts his co-directors/shareholders that evening to inform them that he won't be coming back.
- Jill and Mark come to see us to ask about what happens next...



- They have a lease over the office premises they occupy which is personally guaranteed by all of them, employment and consultancy contracts in place with their staff, terms and conditions of business for use with customers, but with all of that they have failed to get one of the most important documents drawn up, a shareholders' agreement.
- In focusing their concentration on getting the business up and running in the early days, the parties never got round to entering into one nor have any of them signed directors' service agreements.
- Jill and Mark's concerns are quickly realised and there is nothing to stop Steve from leaving the company and setting up in direct competition with them, taking key contacts, customers and employees with him.





- Eventually it is agreed that Steve's shares are sold back to the Company and cancelled.
- This has an effect on the shareholding, giving Mark 66.6% and Jill 33.3%.
- Jill unfortunately dies of a heart attack six months later.
- Jill had written a will which gifted all of her estate to her nephew, Douglas.
- Douglas knows nothing about running a business and even less about the IT sector.
- Mark comes back to see me to discuss the options.

- Had Mark and Jill entered into a shareholders' agreement, I would have suggested that it contain a provision so that on death or mental or physical incapacity of a shareholder, their shares are transferred to the remaining shareholders in return for a fixed sum (either pre-agreed or to be determined using a pre-agreed valuation mechanism).
- This would have allowed the business to continue operating without having an unknown third party brought in with little experience.
- It would have also provided the family of the deceased/incapacitated with some cash and a proper exit from the business.
- Usually such an arrangement is supported by a life insurance policy which provides the remaining shareholders with the cash to buy back the shares.



A few other useful provisions which can be included to assist shareholders in business together:

- Dividend policy
- Veto rights
- Deadlock resolution
- Requirements and restrictions
- Drag and tag provisions
- Compulsory exit

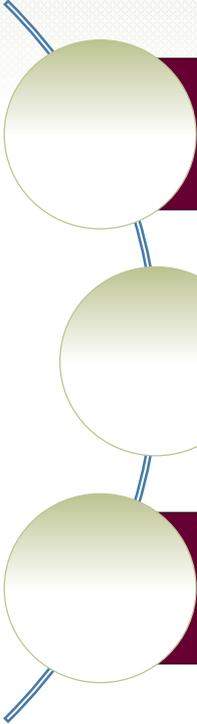


A few other things to think about:

- You must consider the Articles of Association
- You must ensure your Will is reviewed at the same time
- You must think about powers of attorney which could provide specific powers for dealing with the operation and management of a business



To summarise...



Prevention is better than the cure.

Get legal advice.

Always review and update.



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Our new reality : the unprecedented rise of cyber-crime

presented by Ian Limeburner – Account Executive



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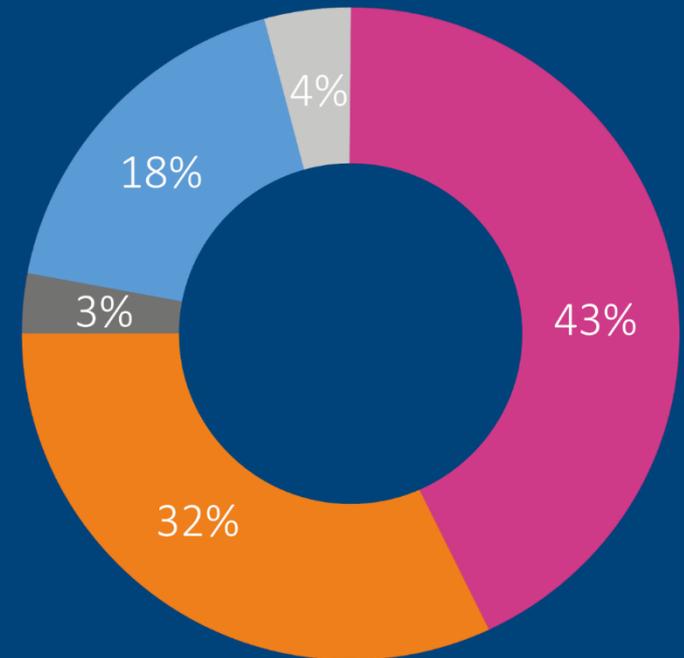
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The aim of today's presentation

- Provide some statistics relating to cyber-crime and look at IT reliance in the business world
- Rogue emails; their potential outcome and how you need to react
- The human factor
- Your exposure to the weakness in other businesses
- Suggested starting points for protecting your business
- An overview of how insurance protection can be invaluable
- Questions?

The causes behind cyber attacks in healthcare, retail and restaurants / hospitality and financial services

- Phishing / Hacking / Malware
- Employee Action / Mistake
- Internal Theft
- Lost / Stolen Devices or Records
- Other Criminal Acts



Source : Baker Hostetler 2017 Incident Response Report

British Chamber survey – April 2017

1,200 businesses took part in a national survey that found the following...

84% believe their company was more reliant on digital and IT skills than 2 years ago

51% believe IT skills are now significantly more important

21% of businesses believe the threat of cyber-attack is preventing their business from growing

19%

of **Norfolk** business' have been victim to cyber-attacks in the last 12 months

49%

with **cyber security accreditations** believe they have a **competitive edge** over their rivals

Source: British Chamber of Commerce Digital Survey April 2017

Q - What is your reliance on IT?

Data in context – how much do we use?

- The world produces the following estimated amount of data...
- 1 Exabyte of data **per day**
- 1 Exabyte = 1 billion Gigabytes
- 1 Gigabyte = data in 1 filing cabinet

Q - How much data does your business produce?

5 Exabytes

enough to encompass **every** written word in **any** language in the history of mankind

Rogue email - Examples

An email from an unknown source “chasing payment” with a zip file or similar attached...

If opened, it is now through your Firewall and infects your Computer, Servers and/or websites and potentially infects those of your customers or suppliers

An email from the MD asking you to send some money to a supplier

It is not from the MD at all and once the money is sent, it is quickly moved between accounts, converted to Bitcoin and vanishes forever...

40%

of all cyber-attacked claims received in 2016 were **Ransomware** related

£50K –

£100K

in 2016, the average cost of a **Ransomware** attack

Rogue emails – Some potential outcomes

- Significant system repair and reinstatement costs
- Extortion payments (Ransomware)
- Lost income/profit (Business Interruption)
- Reputational harm
- Investigations &/or fines from regulators
- Loss of customers

Q - How could you be affected?

- *Do you have an online trading platform?*
- *Is process control machinery on servers?*
- *Do you operate logistics management software?*



Rogue emails – What do you do?

You will need an expert who can...

- Identify the problem
- Fix the problem
- Plug the security gap
- Reinstate data and systems
- Work out the cost to your business
- Manage bad publicity and protect your brand

Q - Do you know who to approach?
Have you got contingency plans in place?



Human error

- The biggest exposure to cyber-attack is **humans**
- We all rush to complete work, we may open an email quickly or just not check something as closely as we should.
- A small innocent error can open the door to a very expensive, time consuming and business damaging chain of events...

23%

of people open phishing emails

11%

open the attachments in these emails

“Your staff should be the ultra-vigilant first line of defence against cyber-attack”

Source: Symantec at Security Matters Forum March 2015

Vulnerability to customer or suppliers

The attack may not be against your business!

- What if you are affected by an attack against a customer or supplier of yours?
- What if their email system is hijacked and the cyber criminals wait for the ideal time to attack?

You only have full control over the security of your own IT system and procedures

Q - How exposed are you to the weakness in security of other businesses?

40%

of people download work to personal devices

30%

move data to file sharing apps without permission

Source: Symantec at Security Matters Forum March 2015

Where to start?

Create and/or regularly review your own security based “Cyber policy”. Focussing on:

- Your **Virus protection, Firewall and Spam filters** including the policy to upgrade them
- **Password policies** for internal and remote access
- Ensure that **ALL software is updated** to the most recent version
- Assess “**Data**”, assign a **risk rating** and relevant security controls
- Ensure your **Cyber policy is communicated** throughout the business and ensure it is adhered to!
- Consider external stress testing of your IT systems



Prevention is
better than cure

Make your protection as robust as possible

Cyberami - Assessment based learning platform

- £25 per month + VAT – monthly contract
- First month free if follow this link
<https://portal.cyber-ami.com/userRegister>
- Leaflets available



Cyber Essentials & Cyber Essentials Plus

- Government back security certification
- Cost starts from £300 + VAT
- Provides clarity on the essential security controls of a business



Insurance protection?

Ultimately, there is no way to guarantee your safety against a Cyber attack!

Virus protection, Firewalls, Strict password controls and limited remote system access can all help,

KTIB work with expert insurers who protect against the significant and growing exposure your business faces...

Paying claims is very important but having the right professional support to guide through the issue is paramount



Cyber Liability cover and options

A summary of key cover provided by a market leading insurer is provided below:

- Forensic investigation, Breach discovery & Notification and System repair costs
- First party fraud cover
- Business interruption cover for lost income / profit
- Crisis containment and PR costs
- Full retroactive cover – cyber attacks are often discovered long after they occur
- A dedicated and experienced team of specialists providing 24/7/365 support
- Premiums start from £250 + IPT

Q - Can you afford not to have this cover?

The effect to UK Business

£34bn

Total cost of Cyber
Crime

£5.8bn

Property claims
from burglary

22%

discuss Cyber
security at board
Level

£6.2bn

Cost of data theft
incidents

44%

only have basic
levels of protection
in place

If you would like to find out more it would be
great to hear from you

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ANY
QUESTIONS?

