Key Person & Shareholder

Protection Explained

A Derby guide to protecting your business, not just your assets

Produced by Mortgage & Finance Arena, Derby

Why this guide

Most business owners insure their premises and their van without a second thought, but far fewer insure the people who actually keep the business running. If a director, partner or key employee died or was diagnosed with a serious illness tomorrow, would your business survive the gap? This guide explains key person and shareholder protection in plain English, and how the two differ.

What is key person protection?

Key person protection is a policy the business takes out on someone whose skills, contacts or leadership are critical to how it runs, often a founder, a top salesperson, or someone with specialist technical knowledge. If that person dies or is diagnosed with a critical illness, the policy pays out to the business, not to their family.

The payout is typically used to:

- Cover lost profit while the business adjusts
- Fund the cost of recruiting and training a replacement
- Repay loans or overdrafts that required that person as a guarantor
- Reassure lenders, suppliers and clients that the business can continue trading

What is shareholder protection?

Shareholder protection (sometimes called partnership protection) solves a different problem. If a shareholder or partner dies, their share of the business usually passes to their estate, which often means their family. Without planning, the remaining owners can end up in business with someone who has no interest or experience in running it, or facing pressure to buy back the share at short notice without the funds to do it.

A shareholder protection policy provides a lump sum to the surviving owners specifically to buy back that share, alongside a legal agreement (a cross-option agreement) that gives both sides the right to buy or sell at that point. Ownership stays with the people running the business, and the family receives a fair value for the share rather than an ongoing stake they didn't choose.

Key person vs shareholder protection, side by side

Key person protection

Protects the business against the loss of someone critical to it, whether or not they own shares. The business is the policyholder and the beneficiary.

Shareholder protection

Protects the remaining owners' ability to buy back a deceased shareholder's stake, keeping control of the business with the people running it.

Do you need both?

Many owner-managed businesses need both, because the person who's critical to day-to-day operations is often also a shareholder. It's worth reviewing this whenever your ownership structure changes, such as bringing in a new partner or a shareholder retiring, since existing cover may no longer match who actually owns and runs the business.

Talk it through with us

We'll help you work out who in your business would leave the biggest gap if something happened to them, and whether that gap is financial, operational, or about ownership and control. From there we compare cover across the market rather than a single insurer's policy.

Call our Derby team on 01332 300 300, or get in touch through the website, for a free, no-obligation chat.