

Partnership protection, also known as business partnership insurance or cross-purchase agreement, is a type of insurance designed to protect business partnerships in the event of the death or critical illness of one of the partners. It provides financial security and continuity for the business by facilitating a smooth transition of ownership in such circumstances.



Key considerations

In a partnership, each partner typically plays a crucial role in the business's operations and contributes to its success. If one partner were to die or become critically ill, it could have significant financial implications for the business. Partnership protection insurance helps address these risks by providing the remaining partner(s) with the funds to facilitate the buyout of the affected partner's share of the business and retaining control and ensuring continuity through a very difficult time.

There are two types of partnership protection insurance, for traditional partnerships and limited liability partnerships (LLP).

Setting up Partnership Protection Insurance Policies: The partners enter into a legally binding agreement and take out life insurance or critical illness insurance policies on each other's lives. Each partner is both the owner and beneficiary of the policy covering their fellow partners.

Sum Insured: The partners determine the sum insured for each policy based on the value of each partner's share in the business. This amount reflects the value that would be paid out to the surviving partners to facilitate the purchase of the affected partner's share.

Event Trigger: In the event of the death or critical illness of a partner, the insurance policy pays out a lump sum to the surviving partners.

Purchase of Shares: The surviving partners use the insurance payout to buy the affected partner's share of the business. This allows the remaining partners to maintain control and ownership of the business while providing financial security to the affected partner or their beneficiaries.

Benefits of Partnership Protection Insurance

Business continuity: Partnership protection helps ensure the continuity of the business in the face of unforeseen events such as the death or critical illness of a partner. It provides a clear framework for managing the transition and allows the business to continue operating without significant disruptions. This is particularly important in partnerships where each partner brings unique skills, expertise, and client relationships to the business.

Fair and orderly transfer of ownership: A partnership protection agreement, including a buy-sell agreement, helps facilitate a fair and orderly transfer of ownership when a partner exits the business. It establishes the terms and conditions for the buyout, including the valuation of the partner's share, payment terms, and the rights and obligations of the remaining partners. This ensures that the departing partner (or their beneficiaries) receives a fair value for their share while protecting the interests of the remaining partners.

Avoidance of disputes and uncertainty: Clearly defined partnership protection provisions help minimize potential disputes and uncertainties that may arise during critical events. By establishing the procedures and guidelines in advance, partners can reduce the likelihood of disagreements regarding the valuation, payment terms, or other aspects of the buyout process.

Preservation of client and supplier relationships: Business partnerships often rely on established relationships with clients, suppliers, and other stakeholders. Partnership protection helps maintain these relationships by providing a smooth transition of ownership and leadership within the business.

Succession planning: Partnership protection also facilitates effective succession planning. It allows partners to identify potential successors, plan for retirement or planned exits, and ensure the smooth transfer of ownership to the next generation of partners or new individuals entering the partnership.

It is crucial for partners to consult with legal and financial professionals to draft a comprehensive partnership agreement and select the appropriate insurance coverage to meet their specific needs.