PROTECT THE PRODUCTION POWERHOUSE

FIND THE **KEY MAN** AND UNLOCK A **SUITE OF BUSINESS**

BY W. HAROLD PETERSEN

A SIMPLE DIFFERENCE between a corporate key person and an industrial machine is that the person has a soul. The physical body has the disadvantage of having virtually no salvage value for its working parts. And on top of that, it must periodically halt production and rest in order to continue functioning.

Both machines and bodies occasionally break down. It is important, however, to get them repaired quickly and back into production. Mechanics may charge a significant fee to fix a machine, but the human body is far more complex and replacement parts are not readily available. Therefore, we must hire the most expensive mechanics on Earth to get the body productive again.

They are called Doctors.

As a society, we have learned to fear the cost involved in this treatment. And, as a result, more than 85 percent of the American population has sought out insurance to help pay for these services.

This is called Medical Insurance.

Those who own production machines may insure against the costs or repairs, but are also likely to insure against the loss of production due to forces of nature that adversely affect the productivity of the machines.

This is called Business Interruption Insurance.

The loss created by fire, windstorm, flood or any other production interruptions may create a burdensome loss to the owners, but buildings can be rebuilt and machines can be repaired. The firm may experience interruption, but not necessarily destruction.

The key people in the firm can recreate its mechanical facilities. The loss of a key person is of greater concern because within this person is the knowledge, experience and creativity that are the soul of the business. When accident or sickness affects the key person, repair may be impossible. Financial protection in case of such a dilemma is certainly just as logical as business interruption insurance.

This is called Key Person Disability Insurance.

The key person at work, directing the productivity of the physical components of the business, leads to the venture's success. The key person, disabled and ineffective, leads to the venture's failure. Statistically, disability is the most likely peril that will negatively affect the venture *(Acts of Nature — 1/1250 vs. Disability — 1/30).*

Identifying a Key Person

A definition of what constitutes a "key person" has evaded standardization over the 40-year plus evolution of business disability insurance. It is appropriate that this important coverage not be restricted by a tough, inflexible definition, for key persons come in many shapes and sizes. Most needs for key person indemnity are typically found in smaller-sized businesses or professional firms.

Take this case for example: a recently insured law firm with 24 attorneys. If attorney No.6 failed to show up for work, the cases in progress would not stop but would be reassigned. If attorney No.6 happens to be the primary person that develops new clients for the firm, the disablement of attorney No.6 could easily cause the firm's collapse.

Here are but a few examples of people who fit the description of key persons and whose disablement could inflict losses on the firm: a thoracic surgeon whose reputation attracts business to a medical group or hospital; a programmer who is developing an attractive software system; an engineer holding a patent in which the financing company is investing millions of dollars; a farm manager who selects and retains productive workers; a television news anchor with a loyal following.

What's at Stake?

Beyond the recognition and indemnification of key persons comes the task of quantifying the potential damage to the firm in the event of the disablement of a key person. Our job as underwriters is to help brokers and their clients determine how much insurance is desired and justifiable.

The yawning financial chasm created by the disablement of a key person is exacerbated by a number of negative forces that impact a firm's profitability and possibly its mortality. Obvious is the loss of productivity, creativity, customer relations and supplier confidence. But overhead can also increase as temporary staff is hired, all while continuing to compensate the disabled key person for fear of losing a vital employee.

Key person disability coverage should be established as indemnification to the firm by naming the employer as the premium payer and the loss payee. Premiums are not deductible, but benefits are tax-free. Benefit durations should be kept to a reasonable term such as 12, 15, 18 or 24 months. Anything longer could be construed as a salary continuation plan. The firm would be expected to solve its loss of a key person in a reasonable amount of time by hiring and training a replacement if the disability is one of a permanent nature.

"Being disabled could **ultimately ruin the years of hard work** put into building their company."

A Value to Business Owners

Key person disability plans can open doors to prospective business clients. As a component of business disability insurance, it contributes to the ultimate strategy that should be involved in any business' financial planning—that of protection against disability by way of insurance. Owners or principals of a business are not excluded from qualifying as a key person. It is important to remind them that, while their personal income may be insured, the financial strain put on their business as a result of their being disabled could ultimately ruin the years of hard work put into building the company into what it currently is, or cripple its ability to reach its future goals.

Other business disability insurance products include:

- **Business Overhead Expense**
- **Buy/Sell**
- **Buy-In**
- **Loan Indemnification**
- **Contract Guarantee**
- **Severance Disability**

Gaining a foothold in the business disability insurance markets allows for vast earning potential because it can create leads in both the business markets and the individual markets. And, it can allow for agents to be of greater value to their clients. When one gains an understanding of business disability insurance products, it's easy to see the need for them and the world of possibilities they create for building a business.

***W. Harold Petersen** is a 63-year veteran in the insurance business. He founded the firm Petersen International Underwriters (PIU), which insures special risks using their proprietary disability, life, medical and contingency insurance plans for individuals, groups and businesses. For more information you may contact PIU at 800-345-8816 or whp@piu.org.*