
When key persons are absent...

February 2012

Many companies have employees whose absence can lead to serious financial loss. A payment by the insurance company can help the company to at least partly compensate the financial loss suffered through the temporary or total absence of such an employee.

In a company, all employees make a contribution to the value chain, from the temp to the sales force members to the manager, all of which are important for the efficient and sustainable development of the company. This is why notice of termination or the long absence of an employee presents the company with considerable challenges, as internal processes have to be reviewed and a suitable successor or temporary replacement must be recruited. However, both these scenarios are substantially better than the sudden temporary or permanent loss of an employee: they can be planned, and the company can prepare itself in advance to cope with the new situation.

If an employee is suddenly and unexpectedly unavailable, the company needs well-developed organisational skills as well as personal empathy, as such an absence often goes hand in hand with tragic circumstances related to sickness or an accident which require additional support from the HR manager. In this situation which is difficult for everybody the financial effects on the employee at least are under control, as the daily benefits insurer or the accident insurer has to pay benefits for employees who are unable to work. The continued payment of the salary is therefore guaranteed and does not burden the employer and its payroll accounting. But what happens if the employee who is unexpectedly unable to work on a temporary or permanent basis is a key person in the company?

A key person is an employee who is extremely important to the company due to his or her subject expertise, experience, excellent contacts or extraordinary personality. The sudden absence of such a person can lead to significant operating problems and financial losses. For example, a company whose founder and big boss is absent is not only in danger of losing important business relationships, but also its credibility and credit lines. The absence of top salespeople who also have a broad network of relationships can act as a drag on short-term growth, as the establishment of new relationships and building of trust require much time. If a key person is unexpectedly unavailable due to incapacity for work or death, unprepared companies often face great difficulties.

Although an insurance policy can unfortunately not prevent the loss of an employee or the related loss of know-how and relationships, key person insurance can offer the company financial security and stability as the insurer cushions the financial impact of the loss. The employer receives triple the salary subject to social security contributions of the absent employee which can help to finance the operating expenses caused by the loss. This money can be used to cover the costs of recruiting a new employee or to make up for shortfalls in sales or lost credit lines. The company's income statement will remain stable in spite of the loss of a key person, which will make a positive impression not only on investors and sales partners but also internally on the company's employees. Or the key person coverage can be

offered to employees as a fringe benefit so that the money is used to support the surviving dependants in the event of a death.

These positive effects are only seen if the benefits are available fairly soon. Coordination and consensus with the disability insurance (IV) and the application of the usual two-year waiting period under the employee benefits insurance (BVG) therefore do not form part of the product's design. If a key person is permanently lost, the insurer takes a transparent decision about the entitlement to benefits and pays the insured amount in tranches after a short waiting period of three months.

Key person coverage can be taken out as an independent third pillar product or in combination with the daily benefits insurance (for example from elipsLife). This would reduce the scope of the risk assessment and allow the company to obtain insurance cover with little effort and at low cost. The company can also request support from the insurer's Care Management team, who will provide the HR manager with advice on crisis management and the affected employees with active support.

Key person insurance cannot prevent the loss of a key person and the accompanying problems, but this solution helps the affected company to get back on its feet after the loss and regain its old strength. As the insurance lightens the HR manager's financial worries, it contributes to the company's economic security and operating stability and allows it to focus on the more important tasks of supporting its employees and planning for the near future.

Brief profile of Elips Life AG

elipsLife with its headquarters in Vaduz in Liechtenstein is an international life insurance company with regional operational centers in its core markets. This innovative insurance specialist focuses on the group life insurance business and reinsurance solutions for pension funds and companies. In the daily sickness benefits and accident insurance segments, elipsLife has established itself as a provider of comprehensive corporate insurance solutions.

elipsLife operates on the market as a flexible insurance company offering tailor-made solutions and services of an excellent quality. elipsLife works only with selected partners and insurance brokers who can guarantee the best possible service to its customers. As a subsidiary of Swiss Re, elipsLife is also synonymous with solidity and international expertise.

Contact details

Elips Life AG
Andreas Rehmann
Head Marketing & Communications

Tödistrasse 23
8027 Zurich

Tel. +41 44 215 45 45
Fax +41 44 215 45 44
Internet www.elipsLife.com
E-mail andreas.rehmann@elips-life.com