

What is Keyman Insurance?

Keyman Insurance is a *Term Life Insurance* cover affected by the company to compensate for the financial loss suffered following the death of a Key Member or Staff of the Organization. Keyman Assurance does not provide for indemnification of loss incurred but only for the benefits as per the plan of assurance selected.

Purpose of Keyman Cover

It provides a financial cushion to the company for:

- The loss of customers or sales affected by the keyman's ability and personality.
- The loss of day-to-day specialized skills.
- The cost of recruiting and training a suitable replacement.
- Delay or cancellation of any business project that the keyman is working in.
- The loss of opportunity to expand in the future.
- The loss of stable management and good labor relations.
- Reduction of credit worthiness - recall of loans guaranteed by the keyman.

Who can be a Keyman?

Anybody with specialized skills, whose loss can cause a financial strain to the company are eligible for Keyman Insurance. For example, they could be:

- Directors of a Company
- Key Sales People
- Key Project Managers
- People with Specific Skills

Benefits to the Company

- Insulate the risk of financial loss against loss of a Keyman.
- Premiums paid under keyman insurance are fully allowed as Business Expenses under Section 37(1) of the Income Tax Act, 1961, subject to satisfaction of the assessing authority.
- Interest on loans taken against a keyman insurance policy may also be allowed as business expenses.
- Premiums paid by the company on the life of a keyman would not be treated as perquisites in the hands of such a keyman when the company's request is accepted by the assessing authority.
- Keyman Insurance policy is a positive measure to improve the retention of the keyman in the company.

Sum Assured of a Keyman Policy

The insurance worth of a keyman is the lower of:

- 5 times the average net profit of the company for the past 3 years
- Upto 3 times the average gross profit of the company for the past 3 years
- Upto 10 times of the keyman's annual compensation package.

If there are more than 1 Keyman, the total cover shall be governed by the same principles and shall not exceed the overall limit arrived from the method mentioned below:

- 5 times the average net profit of the Company for the past 3 years
- Upto 3 times the average gross profit of the Company for the past 3 years.

Note: For new companies where 3 years Profit and Loss Account is not available, the maximum cover will be equal to net profit if accounts are available for one year, and two times average net profit if accounts are available for two years.

In the event Keyman leaving the organization can either:

- Surrender the policy.
- Assign the policy absolutely to the Keyman.

Documents to be submitted by the Company or Partnership firm as the case may be:

- Submission of the proposal forms & Keyman Questionnaire Form duly filled in.
- Board Resolution from the authorized official of the Company/ Employer identifying a person as Keyman and the Employer would pay the premiums.
- Fulfillment of medical requirements.
- Audited Directors report/Profit & Loss/Balance Sheet with schedules for the last 3 years.
- Proof of Shareholding Pattern of the company on company letterhead.
- Consent by the authorized signatory of Company for endorsement on Keyman Insurance policy.
- Copies of Memorandum and Articles of Association.
- Copies of Partnership Deed.
- Certificate of Incorporation.
- Certificate for Commencement of Business.

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