7 ESSENTIAL WEALTH PROTECTION STRATEGIES FOR SME BUSINESS OWNERS

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Does the ownership of my company add to my net worth?' This is probably a common question lingering in the minds of most business owners. Yes, the ownership of your company contributes to your net worth. Its value, however, varies depending on the method of valuation. Wealth protection strategies for business owners are more complicated and complex indeed. Protecting business entities and personal wealth is equally important. Failure in business impacts significantly on the financial position of a business owner as most of a business owner's net worth is heavily correlated with the value of their enterprise. SME business owners could consider the seven strategies presented here for effective wealth protection.

1.Consider Setting up a Corporation (Sdn Bhd) to segregate Personal Wealth from Company Assets

The concept of segregation of personal wealth and company assets looks simple, yet many overlook this fundamental aspect. Mixing personal and business finances can lead to various complications, but by separating the two, you are able to clearly identify your personal and the company's financial positions. Not only that, setting up a corporation (Sdn Bhd) provides a layer of legal protection for you and your company as two separate legal entities.

2.Keyman Insurance for Cash Flow and Income/Talent Replacement

Most SMEs are relatively vulnerable and depend heavily on their founders and key persons. In the event of any Key Person such as the Founder himself, CEO, Chief Sales Officer, Chief Marketing Officer, Head of Operation, Production Managers and/or key employees being unable to perform their duties (especially due to major accidents, critical illness or even death), this could actually disrupt business operations, which may impact the profitability, sustainability and even business continuity. The payout of Keyman Insurance could help support the company financially and sustain the business, or even function as funding to nurture or find a replacement. For this arrangement, the policy holder of Keyman Insurance is usually the company, while insurance payout is payable to the company. Many people may get confused between Keyman Insurance and Business Succession Insurance. While both of them have different functions, Keyman Insurance is meant to protect the interests of the company for cash flow and sustainability of business. Business succession insurance is bought by shareholders for succession planning to buy over shares of another party upon demise of their business partner(s).

3.Director & Officer Insurance

D&O insurance works to protect the Company Director(s) or the company when a lawsuit is filed against individual directors who allegedly fail to perform their management role. This occurs when people such as customers, shareholders, third parties, regulators and/or even communities are affected by the decisions made by Company Director(s) and suffer loss or damage. Small organisations are at higher risk as performance is usually backed by personal experience rather than the opinion of a professional team. Likewise, larger organisations usually have well structured procedures, professional teams in place, possibly more mature departments, and better trained staff to support their business decisions, and protect them from multiple aspects.

4.Professional Liability Insurance and Product Liabilities Insurance

Different types of SME businesses require different liability coverage. For SMEs providing professional services, Professional Indemnity (PI) insurance protects professionals such as accountants, solicitors, architects and engineers against their legal liability to pay damages to persons who have sustained financial loss arising from professional negligence or that of the organisation's employees in the conduct of the business. The insurance offers indemnity strictly on legal liability basis. In addition to indemnifying the professional against his professional liability, PI insurance also indemnifies him for defence cost and expenses incurred in respect of a claim.

On the other hand, SMEs which solicit business as manufacturers, vendors, suppliers or exporters, may be exposed to the risk of product liability claims. In fact, any point in the manufacturing and supply chain of commerce is exposed to this risk. Product Liability insurance indemnifies the insured SME for sums it is legally liable to pay as damages for bodily injury or property damage to third parties arising from defective products. In addition, the policy will indemnify the defence costs and expenses incurred in respect of a claim to which the policy applies. Of course, there are many other types of liability insurance that a business owner could leverage to protect his business.

5.Protection against Business Asset

Assets included but not limited to machinery, inventory, company vehicles, equipment, data, factories etc are the core of a business. Therefore, they must be well insured, protected and maintained to ensure the smooth operation of the company. Any incident - including fire, flood, burglary and cyberattacks - could affect the productivity and sustainability of the company.

6.Leveraging on Personal Insurance

Besides protecting their businesses, business owners should never neglect their personal wealth protection. Should anything happen to the business owner, it will be a burden not only to the company but also to the people around it, specifically the family. Medical expenses could be a huge burden to bear; transferring the risk to the insurance company by paying a consistent premium is a small price to pay compared to medical bills. Where there is temporary or permanent loss of ability to work, the business owner could benefit greatly from having personal insurance. One should also measure what type of insurance coverage and a suitable amount that ensures they are neither over- or under-insured. There are various types of personal insurance with sophisticated riders in the market; qualified licensed professional advisers can tailor personalised insurance solutions.

7. Segregating Personal Wealth via an Irrevocable/ Asset Protection Living Trust through a Licensed Trust Company

An irrevocable trust differs from a revocable trust because it forces a person (settlor) to give up control of his assets. When a business owner creates an irrevocable trust, he (settlor) appoints a licensed trust company to act as a trustee, and trustee oversees what happens to the assets. This is an effective way to protect family home, inherited treasures, and other important assets from creditors, and legal action. Since assets in an irrevocable trust are no longer under the settlor's control, it is difficult for creditors or those who file a civil suit against the business owner to gain access. However, if there is already a lawsuit in the works, business owners may not be able to use this type of trust to protect their assets.