

KEY MAN / KEY PERSON SCHEME – FOR PARTNERS

1. Definition:

The purpose of Key man / Key person Insurance is to protect a business firm against the reduction in profits resulting from the death of a valuable and important partner.

Loss may be grouped in 2 broad categories (a) reduction in profits and (b) cost of replacement.

An active partner could be treated as a Key man / Key person by the Partnership firm

A Partnership Firm to qualify should:

- Have a partnership deed
- Be in existence for a minimum of 3 years
- Have minimum 2 partners
- Have audited accounts for the last 3 years, and
- Have completed filing income tax returns for atleast the last 3 years.

If the proposal falls under the Key man / Key person scheme, then normal policies & procedures shall be followed subject to the following:

2. Proposal:

The following documents are required to be filled or provided:

For a Partnership Firm:

- A standard letter signed by all the partners stating the following, format shall be provided by KOTAK LIFE INSURANCE, See Appendix 1* (the format may vary from time to time, call for the latest version) covering :
- The fact that they have decided to take a Key man / Key person policy to cover a partner and a confirmation that all premiums will be paid by them.
- The authorized signatories (which KOTAK LIFE INSURANCE will

- Recognize) who can sign documents on behalf of the partnership firm.
- The names of the partners to be covered.
- The sum to be assured, the term and the plan.
- The specimen signatures of the authorized signatories verified by the managing partner.
- Normal Proposal Form is to be used. The proposal form has to be signed an authorized signatory of the partnership firm along with the seal or stamp of the partnership firm.
- A Key man / Key person Questionnaire See Appendix 2* (the format may vary from time to time, call for the latest version) , will have to be filled in and signed by the authorized signatory along with the seal or stamp of the partnership firm.

Financial documents to be submitted by the Partnership firm:

- The entity will have to submit a copy of Partnership deed and supplementary deed as the case maybe.
- The entity will have to submit the audited balance sheet and profit & loss account for the last 3 financial years.
- The entity will have to submit income tax returns for the last 3 financial years.

3. Maximum Sum at Risk:

- The overall maximum sum at risk allowable for a firm shall be Higher to
 - 10% of its' Net Worth
 - 2 Times the Average Annual Gross Profit for the last 3 years
 - 5 Times the Average Annual Net Profits after depreciation and tax for the last 3 years.
 - The Net Share Capital plus Goodwill of the firm.
Total goodwill of the firm will be total of last 3 years net profits
- The maximum sum at risk per Key man / Key person shall be limited to the net share capital of the Key man / Key person plus proportionate amount of goodwill. Total goodwill of the firm will be total of last 3 years net profits.
- If the amount of maximum sum at risk calculated for the Key man / key person is less than Rs 10 lacs, and the minimum annual premium on the policy is less than Rs 50,000, the partner will not be eligible for Key man / Key Person Insurance.
- If the amount of maximum sum at risk calculated for the Key man / Key Person is less than Rs 10 lacs, but the minimum annual premium on the policy is Rs 50,000, the partner will be eligible for Key man / Key person Insurance.

- Net worth is defined as Share Capital + Reserves (excluding Revaluation Reserve) - Accumulated losses – Miscellaneous Expenditure.

4. Plans and Riders offered under Key man / Key person for Partners:

- Only the Kotak Preferred Term Plan (KPTP) and Kotak Term Plan (KTP) can be offered.
- Term Cover, Accident Death Benefit, Permanent Disability Benefit and Critical Illness riders will be allowed on a Key man / Key Person policy.

5. Medical:

- Normal rules will apply based on the sum at risk for the partner.

6. Policy:

- Normal Policy document will be used.

7. Premiums:

- Premiums will be paid by the firm.

8. Policy Servicing:

- Assignment by the firm will be allowed only in favour of the partner or favour of the new partnership firm if the partner leaves the firm and joins another firm as a partner. This can be done only if an application in writing is received from both the firm and the new firm and all the requirements and conditions stipulated by KOTAK LIFE INSURANCE have been met, as a security by the entity to obtain a loan

9. Claims:

- All claims will be processed in the normal manner and the amount due can be paid to the firm.

10. IF THE KEY MAN / KEY PERSON LEAVES PARTNERSHIP OR IF THE PARTNERSHIP DISSOLVES?

In such a situation the Partnership could

- Recover the surrender value (* if any) from KOTAK LIFE INSURANCE
- Assign the policy absolutely to the new firm where the Key man / Key Person joins as a partner
- Assign the policy absolutely to the KEYMAN / Key person himself
- Allow the policy to lapse (this should be discouraged and the financial loss to the firm be highlighted)

Insurance is the subject matter of solicitation.

You may feel free to call your preferred Kotak Life Advisor:

Mr. Arvind V Mani on h/p: +91-9789450467 or mail to: kotaklife.arvind@gmail.com.

Web source: <http://www.growmoneyfincorp.com/kli/kli.html>

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