**Keyman Insurance**

**What is Keyman Insurance:**

Keyman Insurance is taken by a business firm on the life of key employee(s) to protect the firm against financial losses, which may occur due to the premature demise of the Keyman. Key man insurance is also referred to as key person insurance or key employee Insurance.

**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 Person
* Key Project Managers
* People with Specific Skills etc.

**Plans Allowed under Keyman Insurance:**

 Jeevan Amar

**Objective Of Key man Insurance (KMI):**

The objective of keyman Insurance is to protect the company from the adverse financial effect by the Key Employee or Key Director’s death by making funds available to the company in his absence. The company’s progress and profit, usually depends upon the vital decision or technical expertise skill, knowledge, entrepreneurial vision of its Key Director or Key Employee, particularly in this competitive Globalized Marketing Environment.

Today companies’ expansion diversification, and setting up policy depends upon its far sighted vision, decision, technical know-how of the Key Director and Key Employee and that’s required to be secured by purchasing Key man Insurance for making funds available for promoting, recruiting in the absence of Key-man. This policy is specially purchased by the company (both Pvt. and Ltd. Companies.) for the life of its most important Key person.

**Benefits to the Company**: -

* Insulate the risk of financial loss against loss of a Keyman.
* Premiums paid under keyman insurance may be 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 key man in the company.

**Eligibility for keyman insurance:**
The [‘keyman insurance](https://www.mylicindia.com/insurance-plans/keyman-insurance/) (KMI) is allowed to the employee, if he satisfies the following condition;

* The ‘keyman’ should hold less then 51% shares of company.
* The total number of shares of the company held by the keyman and his family should be less then 70%
* The keyman should be literate.

**Factors to be considered for insurance cover on key-man’s life.**

* Key-man’s qualification.
* Experience in different fields.
* Previous record and service period in the organization.
* Is he the only key-man in the specific field or otherwise?

**Key Points:**

* Proposer – the company
* Term- 10-15 years on the basis of retirement age or service contract.
* Accident benefit and nomination are not allowed.
* Assignment is allowed only in case of absolute assignment in favour of the key-man if he leaves the job of the company.
* In the standard policy forms following changes should be done while issuing the key-man insurance.
1. Delete the words “nominee under section 39 of the insurance act”.
2. Write the name of the life assured and proposer.
3. Place the following endorsement on the policy: -
4. either absolute assignment in favour of the life assured (KM) or surrender to LIC for its cash value.
* Max. age at entry – 65 years.
* Maturity age – 75 years.

**Keyman Insurance proposal requirements:**

1. Copy of Memorandum & Articles of Association
2. Copies of Audited Balance. Sheet and P&L A/Cs for previous 3 years
3. Certified true copy of board resolution passed in the Meeting of Board of Directors containing following information:
* Sum assured desired
* Name & sig. of the person who is authorized to complete proposal papers
* The use of seal of the company

4. Key man Questionnaire is to be completed in the persons hand format and the same is to be signed by the authorized person under the seal of the Company
5. Copies of I.T returns of the Co. for proceeding 3 yrs.
6. Consent for the endorsement to be placed on the policy
7. Revised Key Man Questionnaire annexed is to be attached.
**The S.A. under key man insurance can be decided by using the following methods:-**

* **The max S.A. for key man insurance is restricted to :**–

10 times of the key man’s compensation package (total salary + annual bonuses of a regular nature and paid a fixed percentage of salary + various other perquisites such as furnished houses, utility bills, car and commission out of net profit) The notional value of perquisites is taken as 30% of the gross annual salary.

* **Method of gross profit: -** 3 times of the average gross profit (profit before depreciation) of three years.
* **Method of net profit: -** 5 times the average net profit (profit after allowing depreciation & taxation) of last 3 years. On the basis of above mentioned methods we can decide the max. Sum assured (S.A.) for key man insurance.

**Note:-**no key man insurance (KMI) can be issued in case of company’s profits/ turnover is declining, unless there are very special circumstance.
Max. S. A. in case of private Ltd. Companies or closely held public limited companies:
(i) no. of shareholders/employees- 10 or more
(ii) max .S.A – to be treated at par with public Ltd. companies
(iii) no. of shareholders/employees – more than 5 but less than 10
(iv) max .S.A. – 3 time the last 3 yrs. average net profit(before tax)
Max S.A. under KMI for the recently established companies in case of audited P&L accounts are present.

**Key man insurance to employee of partnership firms: -**

* 1. Max allowable KMI cover to partnership firms

3 times of average gross profit of 3 years. Or
5 times of average net profit of 3 year, whichever is lower.

* 2. The max. amount of cover will be distributed among the key partners.
* 3. Key Man Insurance can be given on the lives of more than one partner.

**Income tax rules:-**

* In case of S.B. is payable under the plans, will be considered as the business income of the company & will be taxable under section 28 (vi) of the income tax ACT.
* Under section 31(1) of the income tax Act the premium paid under key man insurance can be claimed by corporate entities as bonafide business expenses.
* If the policy has been assigned to the key man, the policy-proceeds including bonus will be taken as profit under section 17 (clause) of the income tax Act.
* If the director of the company is the assignee under the key man policy, it will be taken as ‘income from other sources’ and will be taxable according to the section 56 (2ic) of the income tax Act.

**Note:**
The above is the product summary giving the key features of the plan. This is for illustrative purpose only. This does not represent a contract and for details please refer to your policy document.