

# Financial Solutions For Business Owners



## Contingent Liability

### THE NEED

External funding in whatever form is a normal part of business and its capital structure. The funding may be in the form of an overdraft facility, a term loan or asset finance. In terms of their credit policies, South African banks and other financiers normally require the owners of a business to sign surety for the external funding acquired from the relevant financial institution.

This could lead to the problematic situation where the estate of the late owner might be called upon to settle the debt as surity. If a business owner had signed surety on behalf of the business, then the potential need exists. The dilemma is triggered by the death of an owner who signed surety on behalf of the business to secure external funding.



Steve Ciolli: Owner of Ciolli Bros.

### THE CONTINGENT LIABILITY SOLUTION

This is the solution where a **business owner's estate is protected against creditors of a business for which the business owner had signed surety in the event of the death of the owner.** The business takes out life cover on the life of the business owners for an amount that will, after income tax, estate duty and capital gains tax, be equal to the amount for which the business owner had stood surety.

The business owner enters into an agreement with his business to force his business to use the money to pay the liability for which the business owner had stood surety. This is usually backed up by a cession of the policy to the funding institution for security.

This solution is designed to protect the owners against the creditors so that the creditors do not exercise the sureties against the estate of the deceased owners. This is done by releasing the sureties in the event of death. The solution can be extended to include disability.

### Contact Sanlam Business Market:

Tel: 0860 100 539 • E-mail: [sme@sanlam.co.za](mailto:sme@sanlam.co.za) • Website: [www.sanlam.co.za/sme](http://www.sanlam.co.za/sme)  
or speak to your financial intermediary.