It's for you

A Guide to Co-Director Insurance

ROYAL LONDON IRELAND

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Welcome to Royal London Ireland

We've a strong heritage in Ireland and have been protecting customers here for over 190 years. Today we are owned by The Royal London Mutual Insurance Society Limited – the largest mutual life, pensions and investment company in the UK.

Our parent company's mutuality, meaning it is customer and member owned with no shareholders, allows us to adopt a mutual mindset. This means we take a longer-term view and focus on providing best customer outcomes. Whoever you are and whatever your aims, we'll look to provide you with great long-term value, first class service and support at all times.

Co-Director Insurance from Royal London Ireland

At Royal London Ireland, we know that protecting and minimising the risk to you and your business is of the highest importance to you and your fellow Directors. As prudent business people, you will most likely have already put measures in place to protect your company, such as insuring its property, equipment, stock and vehicles.

While these are all very sensible precautions, you should ask yourself one very important question. If one of the shareholders in your firm were to die, what would happen to your company?

Although this is not a question any of us like to think about, the reality is that the chances of one of the shareholders in a company dying during their working life is much higher than you may think. And the business consequences can be devastating.

How would your business cope?

In addition to the emotional distress and upset caused, the untimely death of a shareholder can have severe financial implications for the surviving shareholders. Both the company and the next of kin may be faced with a number of challenges.

Impact on the business

Inability to buy out the deceased shareholder

The ideal solution, from the other shareholders' perspectives, might be to buy back the deceased's shares.

However, the remaining shareholders may be unable to raise the required capital, particularly in challenging times when finance and loans are hard to get. Or indeed, the next of kin may refuse to sell.

A new shareholder

In the normal course of events, the deceased's shares in the company will become part of their estate. They may therefore pass to a new share owner, perhaps the deceased's spouse or one of their surviving children.

This could, depending on the circumstances and the individual, cause problems for the business, particularly if the deceased shareholder owned a large percentage of the company. For example, the new share owner may not have in-depth experience of the business, or they may wish to move the company in a new or unwelcome direction.

Alternatively, the family may simply not want to take a position in the company.

Loss of control

If the deceased shareholder owned more than 50% of the company, their next of kin may automatically become the new majority shareholder.

Depending on the circumstances of the new shareholder, they may wish to take over control of the company immediately, or they may wish to sell their shareholding to an external party. In this instance, the remaining shareholders will have limited control over such decisions.

In all of these scenarios, neither the deceased's estate nor the surviving Directors are placed in a very satisfactory position.

Impact on the next of kin

As well as the untimely death of a loved one and the emotional distress involved, the next of kin may also find themselves facing some difficult decisions.

They may, for example, be in full time employment in another organisation and may have no interest in taking on the shareholder's role, preferring instead to sell their shares for an immediate capital sum.

Potential difficulties in the sale of shares

The company's Constitution may in fact give the other shareholders the right to block the sale of the shares to an outside party.

Without any way to sell the shares on the open market at their true value, the deceased's next of kin could be forced into a 'fire sale' of the shares to the other shareholders, at a lower price than that of the current market value.

Cash flow difficulties

The deceased's salary will cease on death. If the shares are not sold, the next of kin may be left holding a 'paper asset', particularly if they now own a minority holding in the company, producing little or no income.

The cash flow problem could be exacerbated if the shares inherited also give rise to an immediate Inheritance Tax liability.

The solution

There is, however, a solution available that safeguards the future of your business in the event of the death of a colleague.

Co-Director Insurance from Royal London Ireland offers you a cost effective way to:

- Put the measures in place to protect the business.
- Help enable the **continued financial stability of your business.**
- Ensure the deceased's next of kin receive a capital sum for the deceased's shareholding.

So, what exactly is it?

Co-Director Insurance from Royal London Ireland can provide the funds to enable the surviving shareholders to buy out the shares of a shareholder on his or her death. A legally binding agreement is drawn up, and one or more Life Cover policies are put in place. This ensures that funds are available to the surviving shareholders to buy the deceased shareholder's shares, when needed.

Ultimately, **Co-Director Insurance** facilitates the continuation of the company's operations with minimum disruption. It also provides the deceased's next of kin with the opportunity to, within a specified time period, receive a capital sum for the value of the deceased's shareholding.

Why take out Co-Director Insurance?

They may not be pleasant statistics to ponder, but the probability of at least one of the shareholders in a company dying could be much higher than you may think.

Number of shareholders in firm	Probability of at least one shareholder dying before age 65
2	18%
3	25%
4	32%
5	39%
6	44%
7	50%
8	54%

Source: CSO Table 17 on Irish Life 2015/17; all shareholders assumed to be aged exactly 40 and males.

With Co-Director Insurance, the form of Life Cover and legal agreement which is drawn up may differ from one company to another, depending on the specific circumstances. Prior to deciding on the option most suitable for their circumstances, shareholders should consult with their Financial Broker or an appropriately qualified professional.

The benefits of Co-Director Insurance in summary

Co-Director Insurance allows you to put the structures in place now to deal with the business consequences of your death or one of your fellow Directors'.

By putting a Life Cover policy in place, on the death of a Director, the surviving Directors retain control of the company. Funds are available from the proceeds of the Life Cover policy to ensure the deceased's shares are bought back by the surviving Directors.

In turn, the family/estate of the deceased shareholder realises and receives the value of the shares in cash.

This ensures

- Certainty of ownership by and for the remaining Directors.
- Funds are available for the fair and just provision for the dependants of the deceased Director.

Peace of mind provided by

- Pre-empting the problem before it occurs.
- Obtaining agreement by and from all parties.
- Providing the funds when needed to match the solution.

While Co-Director Insurance of course cannot lessen the emotional blow and trauma caused by the death of a colleague, it can help to minimise the financial impact.

In today's uncertain world, that's very valuable peace of mind.

Business case example

ABC Ltd is an electronics company comprising three shareholding Directors, Liam, Ann and Sean, each owning 33% of the shares. The company is currently valued at an estimated €1,800,000, giving each Director a share value of (approximately) €600,000.

The Directors want to ensure that if they die:

1. Through the proceeds of a Life Cover policy, **funds are available** to ensure the deceased's estate is financially compensated for the deceased's share of the company with a cash sum payment.
2. The surviving Directors remain **in full control** of the firm.

The solution

All three Directors in **ABC Ltd** have decided to arrange Co-Director Insurance. There are two options available.

Business case example continued

Option 1 – Life of Another

One option is to arrange the policies on a **'Life of Another'** basis. Each Director in the firm insures each of their fellow Directors for the amount they would need to buy out the deceased Director's share of the business.

In this instance, there are a total of six policies required, with each Director required to take out two policies insuring their fellow Directors.

Consequently, if Liam dies, Ann and Sean will each collect €300,000 under their respective policies, giving them sufficient funds to buy back Liam's share of the business. Liam's estate receives the €600,000 value of his share of the firm.

The Life of Another policies would therefore be arranged as follows:

Proposer	Life Assured	Life Cover in place
Liam	Ann	€300,000
Liam	Sean	€300,000
Ann	Liam	€300,000
Ann	Sean	€300,000
Sean	Liam	€300,000
Sean	Ann	€300,000

Option 2 – Own Life in Trust

Another option available is **'Own Life in Trust'**. As the name implies, each policy is arranged under trust for the benefit of the other Directors so that on death, the proceeds are paid to the trustees of the policy.

The trustees then pay the proceeds to the surviving Directors who use them to buy back the deceased Director's share of the business.

Under Own Life in Trust, each Director insures their own life for the value of their shares, with the policy being written under a Declaration of Trust for the benefit of the surviving Directors.

On the death of a Director, the remaining Directors will receive a proportion of the Life Cover in place. This is then used to buy back the deceased Director's share of the business.

Let's see how this arrangement would work for the electronics company, ABC.

Proposer	Value of shares	Life Cover in place	In Trust for
Liam	€600,000	€600,000	Ann & Sean
Ann	€600,000	€600,000	Liam & Sean
Sean	€600,000	€600,000	Liam & Ann

On the death of Liam, for example, the remaining Directors, Ann and Sean, would each receive a portion of the €600,000 Life Cover in proportion to their shareholding (€300,000 each in this case), as Ann and Sean's shareholding percentage is the same.

They would then use this Life Cover payout to buy back the deceased's share of the business. Liam's estate would then in turn receive the value of his share of the firm, namely €600,000.

As both Own Life in Trust and Life of Another will suit the requirements of some firms and not others, your Financial Broker will be able to offer you assistance and guidance on the best solution for your firm.

You'll find more in-depth details on how to arrange Co-Director Insurance on pages 12 to 14 as well as information on important issues such as taxation of policy proceeds.

Setting it all up

Arranging Co-Director Insurance with Royal London Ireland is a relatively straightforward process and involves the following six steps:

Step 1 – Deciding who should be insured

All shareholders in the firm ideally should be insured under Royal London Ireland's Co-Director Insurance arrangement. Those shareholders who opt out (or who are unable to partake) will not be able to benefit from any other shareholder's policy.

Step 2 – Deciding how much cover is needed

Each shareholder should be insured for the estimated value of his or her shares to be bought back on death. The shareholders should agree a valuation basis for this purpose and record such decision in an agreement.

Step 3 – Prepare an appropriate legal agreement to buy/sell the shares on death

One of the most flexible ways of structuring Co-Director Insurance is through a **'Double Option Agreement'**, otherwise known as a **'Put & Call Option'**.

Under a Double Option Agreement, in the event of a shareholder's death, the surviving shareholders would acquire an option to buy the deceased's shares from his or her legal representatives. This option, called a **'Call Option'**, can be exercised by the surviving shareholders within a limited period (usually within three months) after the death of a shareholder. Exercise of the option by the surviving shareholders requires the deceased's legal representatives to sell their shares to the surviving shareholders, on the previously agreed valuation basis.

Likewise, the deceased's next of kin would also acquire an option to compel the surviving shareholders to purchase the deceased's shares from them. This is called a **'Put Option'** and is usually exercised within the same limited time period (usually within three months).

In this way, either the surviving shareholders or the deceased's next of kin can trigger the purchase or sale of the deceased's shares after death. This ensures that both parties are financially protected.

Royal London Ireland can provide a specimen Double Option Agreement. However, this should not be used without consultation with the company's own Taxation Consultant, Legal Adviser and/or Financial Broker who should draft an agreement suitable to the particular circumstances and needs of the company.

Step 4 – Arrange the necessary Life Cover on each shareholder

The Life Cover policies that complement the Double Option Agreement may be arranged on an **'Own Life in Trust'** basis or on a **'Life of Another'** basis.

Under the Own Life in Trust basis, each shareholder effects a Life Cover policy on their own life for a sum assured equal to the estimated value of their shareholding. Each policy is issued under a Declaration of Trust for the benefit of other surviving shareholders. This means that, on the death of the insured shareholder, the proceeds are paid to the surviving shareholders, enabling them to buy back the deceased's shares from his or her estate.

Alternatively, Life Cover can be arranged on a Life of Another basis. This means that each shareholder insures their fellow shareholders for a sum equal to the amount needed by that shareholder to buy out the deceased's shares on death. While this is a straightforward method, it can be somewhat inflexible where there are more than two shareholders and where, for example, a shareholder leaves or new shareholders join the firm.

Setting it all up continued

Step 5 – Check the Inheritance Tax treatments that will apply to the policy proceeds

Where policies are arranged on a **'Life of Another'** basis, each shareholder pays the premium on their own policy from which they benefit. Therefore, the proceeds of such a policy are **not** liable to Inheritance Tax in the hands of the surviving shareholder, on the basis that each shareholder, has provided full consideration for the policy benefit.

Where policies are arranged on an **'Own Life in Trust'** basis, the surviving shareholders inherit the proceeds of a policy provided and paid for by the deceased shareholder.

While this technically means that each surviving shareholder inherits their share of the policy benefit from the deceased shareholder and hence such inheritance is a taxable inheritance for Inheritance Tax purposes, the Revenue Commissioners have indicated that where such policies are arranged as part of a reciprocal, arms-length Co-Director Insurance arrangement, they would **not** seek to impose an Inheritance Tax charge. See Appendix for more details of this Revenue clarification.

Step 6 – Set up the required Life Cover policies

At this final stage, applications for the relevant policies are submitted to Royal London Ireland in order to initiate the process of putting the required cover in place.

In most cases, the application will contain all the information we need.

However, in some cases, the individual to be insured may also be required to attend a medical examination.

Also, in certain circumstances, the company may be asked to complete a financial questionnaire in order to assist us in our examination of the amount of cover proposed.

Shareholders should consult with their relevant Taxation Consultant, Legal Adviser and/or Financial Broker before structuring their Co-Director Insurance arrangement.

Payment of Co-Director Insurance premiums

There are two options available for the payment of premiums for the Life Cover put in place, for both Own Life in Trust and Life of Another arrangements:

Option 1

Premiums are paid by the shareholders from their net income.

If Directors' salaries are increased to reflect premium outgoings, the full salary increase is subject to Income Tax, PRSI and Universal Social Charge in the hands of the Directors involved and is an allowable deduction for Corporation Tax purposes as a business expense.

Option 2

Premiums are paid by the company on the Directors' behalf.

The payment of the premiums by the company is treated as a Benefit in Kind in the hands of the Directors and subject to Income Tax, PRSI and Universal Social Charge. The premiums are then deemed to be paid by the Directors.

In this instance, payment of the premiums is an allowable deduction for the company for Corporation Tax purposes, as remuneration paid to the Directors involved.

Your Financial Broker will be able to offer you assistance and you should also consult with your relevant Legal and/or Taxation advisers before putting a policy in place.

In summary

Co-Director Insurance from Royal London Ireland enables the shareholders of a private company to put in place a structure to allow the surviving shareholders to buy back the shares of a deceased shareholder after death.

Of course, the upset and anguish caused by the death of a colleague can never be compensated for.

However, by taking out Co-Director Insurance with Royal London Ireland, you can have the funds available to help limit the financial damage and disruption caused by the untimely death of a Director in your firm.

The ultimate aim of Co-Director Insurance is to put the structures, processes and monetary agreements in place now to pre-empt the problems caused by a Director's death.

Most importantly, it allows you to place a financial worth on each Director's share of the company. This can help ensure the funds are available to protect your business and the deceased's estate financially, in the face of the death of one of the firm's Directors.

Your Financial Broker will be happy to take you through the range of benefits associated with Co-Director Insurance from Royal London Ireland. They can help you put a solution in place to meet the individual needs of your company.

Added protection

Specified Serious Illness Cover from Royal London Ireland provides additional security to you and your business.

What is Specified Serious Illness Cover?

Specified Serious Illness Cover from Royal London Ireland provides additional security to you and your business. It pays a guaranteed lump sum if the insured person on a Co-Director Insurance policy is diagnosed as suffering one of the covered specified serious illnesses during the term of the policy.

How would your business cope?

As well as protecting your business from the adverse financial effects of the death of a Director, it may also be wise to consider what would happen in the event that they suffer a serious illness or disability, preventing them from continuing as an active participator in the firm.

As with the death of a Director in your company, their unexpected serious illness can also undermine the financial stability of your business.

The solution

Having a **Specified Serious Illness Cover** policy in place, as well as Life Cover, provides the necessary funds to buy back shares following the serious illness of a Director.

A **Single Option Agreement** could provide for the buy back of a Director's shareholding in such circumstances, in addition to a buy back on death.

Such an agreement would ensure that an ill Director could not be forced to sell their shares against their will. This would have to be drafted by your legal advisers. You should also seek taxation advice on any potential Capital Gains Tax implications.

Added protection continued

Why take out Specified Serious Illness Cover?

You may think that the chances are unlikely, but the probability of suffering a serious illness may be much higher than you think.

Did you know?

- **In Ireland 1 in 4 men will get cancer by age 75.***
- **In Ireland 1 in 4 women will get cancer by age 75.***
- **Five-year average net survival of Irish cancer patients for the diagnosis period 2014–2018 is 65%.****
- **Approximately 7,500 people suffer a stroke in Ireland annually.*****

Sources:
*Cancer in Ireland 1994-2022: Annual statistical report of the National Cancer Registry (2024)
**Cancer in Ireland 1994-2021: Annual Report of the National Cancer Registry (2023)
***Irish Heart Foundation 2025.

But with adequate Specified Serious Illness Cover and Life Cover in place, you will have a lump sum available to help deal with any adverse financial consequences caused by the death or serious illness of a Director in your company.

Your Financial Broker can offer you professional advice to meet the specific needs and offer the best solutions for your firm.

Please note:
Not all incidences of illnesses such as cancer or a stroke will be covered under Royal London Ireland's Specified Serious Illness Cover policy. We will only pay a claim based on our Specified Serious Illness Cover definitions. The Policy Conditions provide a detailed description and explanation of the specified serious illnesses we cover, the exact conditions which must be met for a claim to be paid and the terms and conditions that apply. The Policy Conditions booklet is available on request from your Financial Broker.

Appendix

Taxation treatment of Co-Director Insurance – policies written under Trust

The following is intended as a guideline only in respect of the taxation treatment of Co-Director Insurance policies written under Trust.

Policy proceeds

Surviving Shareholders

Under current legislation, the proceeds of a Co-Director Insurance policy received by the surviving shareholders on death of an insured shareholder are exempt from:

a. Income Tax and Capital Gains Tax.

b. Inheritance Tax, provided the insurance arrangement falls within Revenue guidelines. Any part of the policy proceeds not used by the surviving shareholders to buy out a deceased's shareholding is a taxable inheritance for Inheritance Tax purposes.

The Revenue Commissioners consider that, in the case of policies which are effected purely for commercial purposes and agreed between the individual Partners/ Shareholders on a reciprocal, arms-length basis without any intention to make a gift, the proceeds are exempt from Inheritance Tax in the following circumstances:

1. Proceeds on death will be used to purchase deceased's shareholding. Any surplus arising will be liable to Inheritance Tax.
2. The capital sum under each policy will reflect the policyholder's shareholding.
3. Payment of premiums will be made by the individual members or on their behalf by the company/Partnership out of the individual's own company or Partnership account.
4. New Partner(s)/Shareholder(s) can join the arrangement at any time, subject to the conditions applicable to the existing members of the plan.

Appendix
continued

5. On withdrawal from the company or on retirement, the policy of the Partner who leaves reverts to that person who will no longer benefit in the continuing arrangement, provided his or her shareholding is sold on withdrawal, otherwise the person can remain a party to the arrangement. Such a policy will be an asset in the person's estate on his or her death and will not be exempt from Inheritance Tax.

6. On the death of a sole surviving Partner or Shareholder, the policy on his or her life will be an asset in his or her estate and will not be exempt from Inheritance Tax. Similarly, if a Partnership breaks up or a company is wound up, policies which do not lapse will be liable on death to Inheritance Tax.

7. Where a Shareholder/Partner refuses to join the arrangement or is unable to effect Life Cover on medical grounds, then he or she will be precluded from benefiting from the policies of his or her co-Shareholders.

8. The insurance policies can either be Term Assurance, Endowment or Whole of Life policies, with the Death Benefit only passing to the surviving Shareholders.

9. Co-Director/Partnership Insurance using 'Own Life in Trust' must be supported by relevant documentation:

   a. Buy/Sell (or Double Option) Agreement

   b. Reciprocal Agreement

   c. Trust Document

Royal London Ireland recommends that you seek advice from your Legal Adviser, Taxation Consultant and/or Financial Broker before putting any measures in place and write to your tax office seeking clarification on the relevant tax treatments.

Want to know more?

If you have a question about Co-Director Insurance then you can contact your Financial Broker. They can provide you with any additional information you need. See details below.

Financial Broker Stamp:

For information about Royal London Ireland visit our website:

Website
www.royallondon.ie

For information about our Privacy Policy, please read our Privacy Notice available at **www.royallondon.ie/privacy-policy**

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Feedback on the content and clarity of this booklet is very welcome.
Please email feedback@royallondon.ie

The information contained in this brochure is based on Royal London Ireland's understanding of current law and Revenue practice as at November 2025 which may change in the future.

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