WHITE PAPER

The Partnership Gap

Why Most SME Partnerships Are One Event Away from Collapse — and How to Fix It

Authored by

Whee Teck

30 Years in Banking & Financial Services

In collaboration with

Alex Lee

Personal Finance Advisory & Business Protection Specialist

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1. Executive Summary

Small and medium enterprises (SMEs) form the backbone of Singapore's economy, contributing approximately 48% of the nation's GDP and employing 71% of the total workforce.[1] Across Southeast Asia, the picture is similar: partnerships and closely held businesses drive economic growth, create jobs, and support communities. Yet a critical vulnerability lies at the heart of most of these businesses — one that is rarely discussed until it is too late.

What happens when a business partner dies or becomes permanently disabled?

For most SME partnerships, the answer is: uncertainty, conflict, and in many cases, collapse. Research from the Exit Planning Institute indicates that fewer than 48% of businesses with multiple partners have a buy-sell agreement in place.[2] Meanwhile, data from multiple studies confirms that between 65% and 70% of business partnerships eventually fail,[3] with the absence of succession planning being a significant contributing factor.

This white paper examines a specific and solvable risk: the financial and operational disruption caused by the unexpected death or total permanent disability (TPD) of a business partner in an SME. It explores why this risk persists, how buy-sell agreements address it, and why insurance-funded buy-sell arrangements represent the global best practice for protecting businesses, surviving partners, and the families of deceased or disabled owners.

The paper is addressed to SME owners and directors in Singapore and Malaysia — particularly those in businesses valued between SGD 5 million and SGD 10 million, with two to three partners who have built their companies over decades and now face the reality that their most valuable asset remains dangerously unprotected.

2. The SME Partnership Landscape in Singapore and Southeast Asia

2.1 The Scale of the SME Sector

Singapore is home to over 300,000 SMEs, representing 99% of all enterprises in the country.[4] These businesses contribute close to SGD 300 billion in nominal value-added to the economy annually.[5] They span every sector — from professional services, trading, and manufacturing to food and beverage, logistics, and technology.

In Malaysia, the SME landscape is equally significant. SMEs account for over 97% of total business establishments and contribute approximately 38% of the nation's GDP. Across the region, the pattern is consistent: small, closely held businesses — many of them partnerships — are the primary engines of economic activity.

2.2 The Partnership Profile

Many of these businesses were founded by two or three individuals who pooled their capital, expertise, and relationships to build something together. In Singapore's context, these partnerships often take the form of private limited companies (Pte Ltd) where ownership is concentrated among a small group of shareholder-directors.

The typical partnership this paper addresses has the following characteristics:

Characteristic	Typical Profile
Number of partners	2 to 3 shareholder-directors
Business valuation	SGD 5 million to SGD 10 million
Years in operation	10 to 30+ years
Owner age range	Late 40s to mid-60s
Structure	Private limited company (Pte Ltd) or LLP
Geography	Headquartered in Singapore; may have regional operations

These are not startups. They are established, profitable businesses where the partners have invested the best years of their working lives. The business is often their single largest asset —

worth more than their homes, savings, and investment portfolios combined. And yet, in the vast majority of cases, the ownership structure of this asset is protected by nothing more than a handshake and a set of assumptions that have never been tested.

2.3 The Succession Planning Gap

Despite the significant value at stake, succession planning among SMEs remains alarmingly low. According to a Gallup study published in 2025, the majority of small business owners in the United States lack a written succession plan — and the figures are comparable, if not worse, in Asia.[6] A survey by the Exit Planning Institute found that 88% of business owners had no written transition plan, and 53% had given little to no attention to the topic.[7]

In Singapore, the situation is exacerbated by cultural factors. The topic of death is often considered inauspicious in Chinese business culture, leading many owners to avoid discussions about what would happen in the event of a partner's passing. This cultural reluctance creates a dangerous blind spot — one that leaves families, businesses, and surviving partners exposed to catastrophic financial risk.

3. The Unspoken Risk: What Happens When a Partner Dies or Becomes Disabled

To understand why buy-sell agreements matter, it is necessary to trace the chain of events that unfolds when a business partner dies or becomes permanently disabled without any prior arrangement in place.

3.1 Immediate Ownership Transfer

When a shareholder-director of a private limited company dies, their shares become part of their estate. Under Singapore's Intestate Succession Act (where no will exists) or under the terms of their will, these shares are transferred to the deceased's spouse, children, or other beneficiaries. The surviving partner has no legal right to prevent this transfer.

Overnight, the surviving partner may find themselves in business with someone who has no experience in the industry, no relationship with clients or suppliers, and no understanding of the day-to-day operations. In many cases, this is a spouse who is grieving and has never been involved in the business.

3.2 The Operational Crisis

The consequences are immediate and cascading:

Decision-making paralysis. If the deceased partner held 50% of shares, the surviving partner cannot make major decisions alone. Board resolutions, bank authorisations, and contracts may require the consent of the new shareholder — who may be unfamiliar with business operations and reluctant to make decisions.

Banking and credit disruption. Banks may freeze or restrict business accounts pending resolution of the estate. Credit facilities tied to personal guarantees of the deceased partner may be called in. Working capital can dry up within weeks.

Client and supplier confidence erodes. Key relationships built by the deceased partner may not survive the transition. Clients may take their business elsewhere. Suppliers may tighten payment terms or reduce credit.

Employee uncertainty. Staff who were loyal to the deceased partner may leave. Morale drops. Recruitment becomes difficult when the future of the business is in question.

3.3 The Financial Deadlock

Perhaps the most damaging consequence is the financial impasse that typically follows. The surviving partner may want to buy the deceased's shares to preserve the business. The family may want to sell in order to receive the financial value of their inheritance. But several problems arise simultaneously:

No agreed valuation. Without a pre-agreed method for valuing shares, the two sides may have wildly different views on what the business is worth. The family may overvalue it based on emotional attachment; the surviving partner may undervalue it to minimise their outlay. Disputes over valuation can take years to resolve and frequently end in litigation.

No available cash. Even if both sides agree on a price, the surviving partner is unlikely to have several million dollars in personal savings available for the purchase. The business itself may not have the reserves. Banks may be reluctant to lend in a period of uncertainty.

Forced liquidation. In the worst case, the business must be sold or liquidated to satisfy the estate's claim. A forced sale under pressure typically yields far less than fair market value — destroying decades of value creation for everyone involved.

3.4 The Human Cost

Behind the financial mechanics lies a deeply human story. The family of the deceased partner has lost a loved one. They may depend on the business income for their daily expenses, their children's education, and their retirement. The surviving partner has lost a colleague and friend, and now faces the prospect of losing the business they built together. Without a structured plan, grief is compounded by financial stress, legal conflict, and the slow erosion of everything both parties worked to create.

> *"The business you spent 10 to 30 years building may collapse in less than one year — simply because there was no structure in place."*

A Harvard Law School analysis of enterprise risk management underscores this point: the unexpected absence or loss of a key person can adversely impact a company's ongoing operations, stakeholder confidence, employee morale, and overall stability.[8] For SMEs, where the partners are the business, this risk is existential.

4. Why SME Owners Fail to Act

Given the severity of the risk, the natural question is: why do so few SME owners take steps to protect themselves? The answer lies in a combination of psychological, cultural, and practical barriers that behavioural economists and business researchers have extensively documented.

4.1 Optimism Bias

Behavioural economics research consistently demonstrates that individuals systematically underestimate the probability of negative events happening to them. Nobel laureate Daniel Kahneman's work on cognitive biases shows that people are particularly poor at assessing low-probability, high-impact risks — precisely the category into which a partner's sudden death falls.[9] The prevailing attitude among business owners is often a variation of "it won't happen to me" or "we'll sort it out when the time comes."

4.2 Present Bias and Competing Priorities

SME owners are, by nature, operationally focused. They are managing clients, staff, cash flow, and growth on a daily basis. Succession planning feels like a "someday" task — important but not urgent. The behavioural tendency to prioritise immediate, tangible concerns over future, abstract risks is well-established in the academic literature.[10] As the Exit Planning Institute notes, 53% of business owners have given little to no attention to their transition plan.[7]

4.3 Cultural Reluctance

In many Asian cultures, discussing death and disability is considered inauspicious or taboo. This is particularly pronounced in Chinese and Malay business communities across Singapore and Malaysia. Broaching the topic of "what happens if one of us dies" with a business partner can feel awkward, morbid, or even disrespectful. The result is that the conversation simply never happens — until it is forced by a crisis.

4.4 Misplaced Confidence in Informal Agreements

Many partners believe that their personal relationship and trust are sufficient. They assume their partner's family will be reasonable, that the surviving partner will be able to afford the buyout,

and that everything will work out. But as research on conflict in business partnerships demonstrates, reasonable assumptions made in calm times rarely survive the stress, emotion, and financial pressure of a crisis. Noam Wasserman's research at Harvard found that 65% of startup failures are attributable to conflicts between founders.[11] In established partnerships, the stakes — and the potential for conflict — are often even higher.

4.5 Perceived Complexity and Cost

Some owners avoid buy-sell agreements because they assume the process is expensive, complicated, and time-consuming. In practice, the cost of structuring an agreement and the associated insurance premiums are a fraction of the business's value — and a fraction of the financial losses that would result from an unplanned transition. The complexity barrier is largely a perception problem that a qualified advisory team can resolve.

5. The Buy-Sell Agreement Explained

5.1 Definition and Purpose

A buy-sell agreement is a legally binding contract between business owners that establishes the terms under which an owner's interest in the business will be bought and sold upon the occurrence of specific triggering events.[12] In the context of this paper, the primary triggering events are death and total permanent disability (TPD).

The agreement serves three fundamental purposes:

First, it protects the business. By establishing a clear, pre-agreed process for ownership transfer, the agreement ensures continuity and stability. There is no ambiguity about what happens next. The business can continue to operate, serve its clients, and retain its employees.

Second, it protects the surviving partners. The agreement obligates the estate or family to sell the shares — they cannot refuse or hold the business hostage. The surviving partners know they will retain full control of the business and will not be forced into an unwanted partnership with someone they did not choose.

Third, it protects the family of the deceased or disabled partner. The agreement guarantees that the family will receive fair value for the shares. There is no need to negotiate, no risk of being shortchanged, and no prolonged waiting period. The family receives a lump sum payment that reflects the pre-agreed value of the business interest.

5.2 Types of Buy-Sell Agreements

There are three principal structures for buy-sell agreements, each with different implications for tax, ownership, and administration:

Structure	How It Works	Best Suited For
Cross-Purchase	Each partner purchases insurance on the other partner(s). Upon a triggering event, the surviving partner uses the proceeds to buy the deceased's shares directly.	Partnerships with 2 to 3 partners. Simpler structure. Surviving partner gets a stepped-up cost basis.
Entity Redemption	The company itself purchases	Partnerships with multiple partners.

	insurance on each partner. Upon a triggering event, the company buys back the deceased's shares.	Fewer policies required. Company funds the premiums.
Hybrid (Wait-and-See)	Combines elements of both. The company has the first option to redeem shares; if it declines, individual partners can purchase.	Partnerships seeking maximum flexibility. Allows the optimal structure to be determined at the time of the event.

For most SME partnerships with two to three partners, the cross-purchase structure is the most common and straightforward approach. The choice of structure should be guided by professional legal and tax advice tailored to the specific circumstances of the business.

5.3 Key Provisions of a Buy-Sell Agreement

A well-drafted buy-sell agreement should address, at a minimum, the following elements:

Triggering events: Death and total permanent disability (TPD) of any partner.

Valuation method: A clear, documented formula or process for determining the value of each partner's shares. Common methods include agreed fixed value (reviewed annually), independent third-party valuation, formula-based approaches (such as a multiple of net profit or EBITDA), or a combination thereof.

Purchase obligation: A binding obligation on the surviving partners to buy and on the estate to sell. This eliminates negotiation and ensures certainty for all parties.

Funding mechanism: The source of funds for the purchase — typically term life insurance for death and TPD cover for disability.

Payment terms: The timeline and mechanics of payment to the estate or family.

Restrictions on transfer: Provisions preventing partners from transferring or selling shares to third parties without consent.

6. The Funding Problem: An Agreement Without Money Is Just Paper

A buy-sell agreement establishes the obligation to buy and sell. But an obligation without funding is merely a promise — and promises are difficult to keep when they involve millions of dollars at short notice.

Consider a simple example: two equal partners in a business valued at SGD 8 million. Each partner's share is worth SGD 4 million. If one partner dies, the surviving partner must find SGD 4 million in cash to purchase the deceased's shares. Where does this money come from?

6.1 The Inadequacy of Alternative Funding Sources

Funding Source	Challenges	Practical Reality
Personal savings	Very few individuals have several million dollars in liquid personal savings readily available.	Inadequate for most cases. Business owners' wealth is typically concentrated in the business itself.
Business cash reserves	Depleting the business's working capital to fund a buyout threatens its ability to operate.	Dangerous. The business is already under stress from losing a key person; withdrawing cash compounds the problem.
Bank loans	Banks may be unwilling to lend to a business that has just lost a key person. Interest costs are significant.	Unreliable. The bank's assessment of risk increases precisely when the funding is needed most.
Installment payments	The family must wait years for full payment. Future payments are not guaranteed if the business declines.	Unsatisfactory for the family. Creates ongoing financial dependency and risk.

Each of these alternatives is either insufficient, unreliable, or actively harmful to the business. CohnReznick, a leading accounting and advisory firm, notes that because each funding method comes with significant drawbacks, many partners choose to fund buyouts with a mix of strategies — but the most effective and widely recommended primary tool is life insurance.[13]

7. Insurance-Funded Buy-Sell: The Global Best Practice

7.1 How It Works

An insurance-funded buy-sell arrangement is straightforward in concept. Each business partner is covered by a term life insurance policy (and, where available, a TPD rider) with a sum assured equal to the value of their share in the business.

If a triggering event occurs — death or total permanent disability — the insurance policy pays out a lump sum. That lump sum is used by the surviving partner to purchase the deceased or disabled partner's shares at the pre-agreed price set out in the buy-sell agreement.

The mechanics are clean and efficient:

Step 1: Partners agree on the buy-sell terms, including the valuation of each partner's shares.

Step 2: Each partner is covered by a term life insurance policy with a sum assured matching their share value.

Step 3: A triggering event occurs (death or TPD).

Step 4: The insurance company pays out the sum assured — typically within weeks.

Step 5: The surviving partner uses the proceeds to purchase the shares from the estate or family.

Step 6: The family receives full value in cash. The surviving partner retains full ownership of the business. The business continues to operate without interruption.

7.2 Why Term Life Insurance Is the Preferred Vehicle

Term life insurance is the most cost-effective form of life cover. Unlike whole life or investment-linked policies, term life provides pure protection — a high death benefit for a relatively modest premium. For the purpose of funding a buy-sell agreement, where the objective is to create a specific lump sum upon a specific event, term life is the optimal instrument.

Key advantages include:

Affordability. Premiums for term life are significantly lower than whole life or universal life policies for the same sum assured. This makes it accessible even for businesses that are cost-conscious.

Immediate liquidity. Upon a valid claim, the insurance proceeds are paid out quickly — typically within two to four weeks. This provides the cash precisely when it is needed, without delay.

Tax efficiency. In Singapore, life insurance proceeds paid on death are generally not subject to income tax. This means the full sum assured is available for the share purchase.

Simplicity. Term life policies are straightforward products with clear terms. There are no investment components to monitor, no cash value fluctuations, and no complex fee structures.

7.3 Global Adoption

Insurance-funded buy-sell arrangements are the standard approach in the United States, United Kingdom, Australia, and Canada. They are recommended by the American Bar Association, endorsed by the Chartered Insurance Institute, and referenced in virtually every major legal and financial advisory guide on business succession planning.[14]

In Asia, adoption is growing but remains significantly lower than in Western markets. DBS Bank, one of the largest banks in Southeast Asia, actively promotes insurance-funded buy-sell arrangements through its SME banking division, noting that a buy-sell agreement "will come into force if a partner or a shareholder of a company passes away" and that "life insurance policies can be purchased to fund any buyout that occurs under the agreement."[15]

The gap between global best practice and local adoption represents both a risk and an opportunity. SME owners who act now to implement an insurance-funded buy-sell agreement are not merely being prudent — they are adopting a strategy that the most sophisticated business owners and advisors worldwide already consider essential.

8. A Singapore and Malaysia Perspective

8.1 Legal Framework in Singapore

Singapore's legal framework is highly supportive of buy-sell agreements. They are governed by general contract law and are enforceable under the Companies Act. Key considerations include:

Stamp duty: The transfer of shares pursuant to a buy-sell agreement is subject to stamp duty, which is calculated based on the higher of the purchase price or the net asset value of the shares.

Tax treatment of insurance proceeds: Life insurance proceeds paid on the death of the insured are generally exempt from income tax in Singapore. This makes the insurance-funded buy-sell structure highly tax-efficient.

Estate considerations: A properly structured buy-sell agreement can simplify estate administration by establishing a clear value and buyer for the deceased's shares, reducing the potential for disputes among beneficiaries.

8.2 Legal Framework in Malaysia

In Malaysia, buy-sell agreements are similarly enforceable under contract law. The Insurance Act 1996 and the Financial Services Act 2013 govern the insurance components. Life insurance proceeds are generally exempt from income tax under Section 4(e) of the Income Tax Act 1967. However, Malaysian law has specific requirements regarding the assignment and nomination of insurance policies, particularly under the Islamic financial framework for Muslim business owners.

Business owners in Malaysia should work with legal and insurance advisors who are familiar with both conventional and Shariah-compliant structures to ensure the arrangement meets all regulatory requirements.

8.3 Why Adoption Remains Low in the Region

Despite the clear legal and financial advantages, adoption of insurance-funded buy-sell agreements among SMEs in Singapore and Malaysia remains low relative to Western markets. The primary reasons include:

Cultural taboo around discussing death and disability, as discussed in Section 4.

Lack of awareness. Many SME owners have simply never been introduced to the concept. Traditional insurance sales in the region have focused on personal protection and savings products rather than business protection strategies.

Fragmented advisory landscape. Implementing a buy-sell agreement requires coordination among at least three professionals: a legal advisor, an insurance advisor, and a business valuator. Many SME owners do not know where to begin.

These barriers are real but surmountable. The most important step is awareness — understanding that the risk exists, that the solution is proven, and that the process is simpler than most owners assume.

9. Case Scenarios: With and Without a Buy-Sell Agreement

The following scenarios illustrate the contrasting outcomes for a typical SME partnership when a buy-sell agreement is — and is not — in place. The details are hypothetical but reflect common situations observed in practice.

9.1 The Business

ABC Trading Pte Ltd is a Singapore-based import-export company valued at SGD 8 million. It has two equal partners: David (age 55) and Michael (age 52). Both are shareholder-directors who have built the business together over 20 years. David manages sales and client relationships; Michael manages operations and finance. Each partner's 50% share is valued at SGD 4 million.

David suffers a fatal heart attack at age 55.

9.2 Scenario A: Without a Buy-Sell Agreement

Timeline	What Happens
Week 1	David's shares pass to his wife, Sarah, who has no involvement in the business. Michael is left to manage the company alone while grieving the loss of his partner.
Month 1–3	Sarah, as a 50% shareholder, is involved in board decisions she does not understand. Key clients begin to leave as David's relationships are not replaced. The bank reviews the company's credit facility.
Month 3–6	Michael wants to buy Sarah's shares but cannot raise SGD 4 million. Sarah wants to sell but disagrees with Michael's valuation. They engage separate lawyers. Revenue drops 25% as uncertainty continues.
Month 6–12	Negotiations stall. The business deteriorates further. Two senior employees resign. Sarah threatens to bring in her brother as a director. Michael considers walking away.
Year 1+	The business is eventually sold to a third party at a distressed price of SGD 3.5 million — less than half its peak value. After legal costs and estate settlement, Sarah receives approximately SGD 1.4 million. Michael receives SGD 1.4 million. Both parties lose.

9.3 Scenario B: With an Insurance-Funded Buy-Sell Agreement

Timeline	What Happens
Week 1	David's death triggers the buy-sell agreement. Michael notifies the insurance company and files a claim.
Week 2–4	The insurance company pays out SGD 4 million to Michael (or to a trust, depending on the structure). Michael uses the proceeds to purchase David's shares from Sarah at the pre-agreed value of SGD 4 million.
Month 1–2	Sarah receives SGD 4 million in cash. She has financial security for herself and her children. The share transfer is completed. Michael becomes the sole owner of ABC Trading.
Month 2+	Michael continues running the business with full authority and ownership. Clients and staff are reassured. The business continues to grow. The relationship between Michael and Sarah's family is preserved.

9.4 Comparative Summary

Outcome	Without Agreement	With Agreement
Family payout	~SGD 1.4 million after 12+ months	SGD 4 million within 4 weeks
Business continuity	Severe disruption; eventual forced sale	Minimal disruption; seamless transition
Surviving partner outcome	Loses business and years of value	Retains full ownership and control
Relationships	Damaged by conflict and litigation	Preserved through fair, pre-agreed terms
Time to resolution	12+ months	2 to 4 weeks

The difference is not marginal. It is the difference between a planned outcome and a crisis. Between financial security and financial devastation. Between a business that endures and one that disappears.

10. How to Get Started

Implementing an insurance-funded buy-sell agreement is less complex and less time-consuming than most SME owners assume. The process can be broken into five clear steps:

Step 1: Agree with Your Partner

The first and most important step is a conversation. Both partners need to acknowledge the risk and commit to addressing it. This paper can serve as a starting point for that discussion. The conversation does not need to be morbid — it is a business decision, not a personal one.

Step 2: Determine the Business Valuation

Both partners must agree on the value of the business and, by extension, the value of each partner's shares. This can be done through a simple formula (such as a multiple of net profit or EBITDA), an independent third-party valuation, or a combination. The valuation should be reviewed annually or whenever there is a material change in the business.

Step 3: Draft the Buy-Sell Agreement

A qualified legal advisor drafts the agreement, incorporating the terms discussed above: triggering events, valuation method, purchase obligation, funding mechanism, and restrictions on transfer. The agreement should be tailored to the specific circumstances of the business and its partners.

Step 4: Secure the Insurance Funding

Each partner obtains a term life insurance policy (with TPD cover where applicable) with a sum assured equal to the value of their share in the business. The policies should be structured to align with the buy-sell agreement — either owned by the individual partners (in a cross-purchase arrangement) or by the company (in an entity redemption arrangement).

Step 5: Review and Maintain

The agreement and insurance coverage should be reviewed annually to ensure the valuations remain current and the sum assured is adequate. As the business grows, the coverage should

grow with it. This annual review is a simple exercise that takes no more than one to two hours and ensures the arrangement remains fit for purpose.

> *"The entire process — from initial conversation to signed agreement and insurance policy in force — typically takes four to eight weeks."*

11. Conclusion

Building a business over 10, 20, or 30 years is an extraordinary achievement. It represents countless hours of work, personal sacrifice, and accumulated expertise. For many SME owners, the business is the single largest financial asset they will ever create.

And yet, for the vast majority of these owners, this asset remains unprotected against one of the most predictable risks in business: the death or disability of a partner.

The solution is neither new nor complicated. Buy-sell agreements funded by term life insurance are the established best practice in every major market worldwide. They protect the business, the surviving partners, and the families of those who are no longer able to participate. They transform a potential crisis into a planned, orderly transition.

The cost of implementing this arrangement is modest — a fraction of the business's value. The cost of not implementing it can be catastrophic. As this paper has demonstrated, the consequences of inaction include business disruption, financial loss, family conflict, and in many cases, the destruction of the very enterprise the partners spent their working lives building.

If you are a business owner with one or more partners, and you do not have a buy-sell agreement in place, you have an open risk. The question is not whether to address it, but when.

Ready to assess your risk? We offer a complimentary 20-minute buy-sell readiness assessment for SME owners. In this session, we will help you understand your exposure, estimate your funding gap, and outline a clear path to protecting your business and your family.

Visit www.arters.sg/pact or email yitpeng@arters.sg to arrange your assessment.

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