

# Business insurance strategies

Protect your business' revenue

Insuring the people who play a key role in the ongoing success of your business can enable you to offset a reduction in revenue and cover the costs of finding and training a suitable replacement.

## How does the strategy work?

Many growing and established businesses still depend heavily on the skills and intellectual property provided by the owners and other key people<sup>1</sup>.

Where this is the case, the temporary or permanent loss of a key person could have a detrimental impact on revenue and profits.

Also, if another suitable person isn't available within the business, considerable costs can be incurred recruiting and training a replacement.

A cost-effective solution is to insure the key people in your business in the event of death, total and permanent disability and critical illness.

If any of these events should occur, the insurance payment can provide a much needed injection of cash to stabilise and protect the business.

While it may be possible to absorb the reduction in revenue into your business' current year profits, or accumulate a reserve, insuring the key people in your business could be a less expensive and more convenient alternative.

**Note:** This strategy may not be available for new businesses and is usually not appropriate for those businesses that are less reliant on the contribution of key people.

## Other key considerations

- Term Life insurance policies used to protect against a loss of revenue are generally tax-deductible and any benefits received are generally assessable as income. You should get advice from a registered tax agent relevant to your circumstances.
- The Australian Taxation Office does not recognise a policy as having a revenue protection purpose if the death or disablement of the insured person is likely to result in the closure of the business.

## Seek advice

A financial adviser can help you assess all the issues that need to be considered and determine whether taking out insurance to protect business revenue suits your needs and circumstances.

<sup>1</sup> For the purpose of this strategy, a key employee could include, for example, a company director, sales manager, financial controller or IT manager.

## Case study

Charlotte, aged 42, has owned and operated a large and successful garden nursery for many years.

Wanting to maintain ownership while freeing up some time to concentrate on other commitments, she employed Gretel to manage the day-to-day operations.

Gretel's management and sales skills, as well as her extensive horticultural knowledge, greatly increased the nursery's gross revenue and customer base. But when she was diagnosed with cancer, her doctor advised her to retire.

This resulted in an immediate reduction in Charlotte's business revenue and Charlotte incurred significant costs recruiting and training a suitable replacement.

Fortunately, Charlotte had spoken to a financial adviser and, as a result, had taken out a Life, Total and Permanent Disability and Critical Illness policy on Gretel's life before she was diagnosed with cancer.

As a result, Charlotte received a Critical Illness benefit and was able to use the money to find a suitable replacement and offset the drop in revenue and profits experienced during this period of upheaval.

## Other business insurance needs

- If you are in business with other people, you may want to use insurance to fund a buy sell agreement. This is a legal contract between business owners that can facilitate the orderly transfer of ownership in the event that an owner dies or becomes disabled. To find out more, ask your adviser for a copy of our **'Protect your business ownership'** flyer.
- You may also want to use personal insurances to protect your income if you are unable to work due to illness or injury. To find out more, ask your adviser for a copy of our **'Protect your income'** flyer.

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