



## **Business security.**

Wealth protection for  
Australian Small and Medium  
Business Owners.

**Secure, Build, Succeed.**

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*Wealth Planning*  
PARTNERS



In business life,  
as in daily life,  
unexpected  
issues can and  
do occur.

## Introduction

Australians are familiar with insurance particularly with their cars, home and contents and business property. Yet for business people, irrespective of whether they operate as self-employed, in partnership or in a company structure, their business ownership presents them with a business owner insurance need.

This document outlines the kinds of issues and consequences business people can experience as well the kinds of personal business insurance products that can assist. This document should be considered general information and advice only, as individual business circumstances and relationships will vary as to what specific outcome is required. It is recommended that individuals with personal business insurance needs seek personal financial planning advice.

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### Unexpected issues

In business life, as in daily life, unexpected issues can and do occur.

Business owners can be temporarily or permanently taken out of action as a result of sickness and accident, major health traumas (such as heart attack, heart disease, stroke and cancer) and premature death.

Business interruption from these causes can be short term, prolonged or permanent, and can range from incidental to serious. There are many stakeholders interested in the business as an ongoing concern including suppliers, staff, clients, creditors and family.

### Dealing with the consequences

When an unexpected issue occurs, there are more often than not two immediate consequences:

1. Dealing with the emotional consequences, and
2. Getting a caretaker for the business.

Dealing with the emotional consequences around unexpected issues is challenging for everyone involved. When emotions are running high, regardless of the situation, the kinds of decisions made will sometimes not be the same as if they were being made in a stress free environment. This presents a significant risk for business owners. Knee jerk reactions can be costly in both financial terms and on relationships.

Getting a temporary (or permanent) caretaker for the business is also an important issue for business owners. If you've worked hard to build a business, you will want to protect the value of that asset by ensuring it can continue, regardless of your personal situation.

## Unexpected consequences

Unexpected consequences of an unforeseen event can cripple a small to medium sized business.

The types of unforeseen events can vary considerably. Below are some possible scenarios:

- staff issues, caused by concerns and reduced stability and commitment
- loss of goodwill and damage to business reputation
- loss of clients and key contracts
- loss of business revenue
- loss of personal income
- creditor issues
- estate pressures
- relationship loss and disputes
- selling a business
- closing a business, and
- loan foreclosure.

Most businesses operate with some form of loan, perhaps for plant and equipment or working capital assistance. Loans are sometimes secured using personal

assets, for example, real estate and personal or directors guarantees. An unexpected event could see the bank become concerned about its loan and the result might be foreclosure or a call on personal assets.

Key people in particular are the face of the business - they hold key account relationships, they are the trust builders. Without them, clients, suppliers and staff can be concerned and in the short term, reputation can suffer. In the longer term, there can be even greater issues - estate issues, ownership challenges and the selling or closing of the business.

Relationship loss and disputes should not be underestimated. In the event of a death for example, estate issues can impact on the ability of other business owners to continue to run the business. There might also be unintended consequences for business partners, such as issues with the new people they then find themselves in business with.



Estate issues can impact on another business owners ability to continue to run the business.





Every owner has a unique set of requirements and potential challenges to consider.

## Solutions

In Australia, there are a number of ways to solve these challenges. Amongst the simplest and most efficient solutions are those that involve arrangements incorporating wealth protection products. These products are designed to assist those in business to prepare themselves for the unexpected.

Every owner has a unique set of requirements and potential challenges to consider. Wealth protection product arrangements need to be carefully crafted to ensure optimum value for each business owner. Each product has its own features and options. As a guide, wealth protection products fall into five categories:

- life cover
- trauma cover
- total and permanent disablement cover
- income protection cover
- business expenses insurance.

### Finding the solution when different businesses have different needs

Most business people do not deal with insurance or the impact of insurance benefits every day. There are many products in each category type. Each of the products available has different features, policy terms and costs. Some premiums are tax deductible and some policies can be held within your superannuation fund.

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#### Life cover

Life cover provides a confirmed lump sum payment should you die, which for example, can provide money for your family to:

- replace the value of your share of the business
- repay business related debts you are responsible for
- provide capital to your family to fund their continuing lifestyle.

For your business to:

- provide working capital
- secure key people.

#### Trauma cover

Trauma cover provides a confirmed lump sum payment should you experience one of the specified medical conditions or procedures listed in the policy. The major four being heart attack, stroke, cancer and heart-by-pass surgery.

#### Total and permanent disablement cover

Total and permanent disablement cover provides a lump sum payment if you are totally and permanently disabled by a serious accident, or suffer an illness that leaves you permanently unable to work. This payment can provide certainty and remove the financial strain from the business.

#### Income protection cover

Income protection cover provides you with a defined percentage of your income while you are recovering due to sickness or injury.

# So what are the key issues to consider?

Every business person's needs are different and the best outcome for them, their families and their businesses will depend upon a number of factors including:

- family and personal estate requirements
- business ownership
- business structure
- type of industry
- type of business
- key person requirements, and
- number of employees.

Particular attention should be paid to:

- the potential impact of self-insurance versus business insurance
- the need to be covered and determining the sum insured
- ownership of a policy
- intended beneficiary of policy proceeds, and
- funding of premiums.

These factors and a number of questions (not limited to the following) should be considered when deciding the amounts to be insured.

For example:

## Family considerations

- How can you maintain financial independence for yourself and those that rely on your income in the event of an unexpected event like accident, illness or trauma?
- What happens to your share of the business in the event of your death?
- Does your family have an understanding of what will happen?
- What other financial stress points are there likely to be and how can they be dealt with?

## Business considerations

- What is the likely short term impact on the business from 'shock' of the unexpected event?
- What is the amount of working capital a business would need in the short to medium term to keep things on track?
- What are the costs of finding, hiring and training a suitable replacement?
- What borrowings or financial commitments need to be repaid?
- What is the value of a particular contract or client if it is lost to the business as the result of an unexpected situation?
- What is the value of the business if it gets sold? And if a partnership exists, do they automatically get the option to buy it?



You maintain financial independence for yourself and those that rely on your income in the event of an unexpected event.





## Case study: Wealth protection in action for the self employed

Although Jack was away, the business was able to afford to put in place some contingency measures to keep the business moving.

### Meet Jack Jones

Jack has been running his business for over a decade. It's a family based business that he runs with his wife, Julie. Jack and Julie have two children aged 13 and 19. Although they have a mortgage on their home they still find the time and money to take a holiday up the coast every year, just to get away from it all.

Jack began to feel unwell. His doctor discovered something was wrong, Jack had cancer. The family was sent into a spin. Nothing like this had ever happened before. Jack and Julie had to step away from the business to start Jack's treatment. Although their staff were competent, clients were concerned as the business was heavily dependant upon the couple.

### Jack's life without a wealth protection strategy:

- Being away from the business placed stress on the amount of income they were able to draw. Expenses of living and mortgage soon impacted on Jack's family who relied on his income.
- Although Jack was in a health fund, there were still out of pocket

expenses, health cover gaps and additional costs from travelling backwards and forwards to the hospital. These costs added to his financial stress.

- Staff and some of the clients felt the business had no future certainty given Jack's illness.

### Jack's life with a wealth protection strategy:

- After receiving a phone call from Jack, his financial adviser began the claims process.
- Jack's trauma cover provided him with a lump sum benefit. His income protection insurance paid him 75% of his regular income. Both of these provided him with confidence he needed to focus on his treatment.
- Although Jack was away, the business was able to afford to put in place some contingency measures to keep things moving.
- Although Jack's clients were saddened to hear his news, they saw how the staff rallied to meet the challenges before them. With their support and an interim business manager in place, the business was still able to deliver.



# Case study: Wealth protection in action for partnerships and companies

## Meet Bill and Kevin

Bill and Kevin own a small to medium-sized bathroom renovation company. They bought the business from its previous owner after he retired. Neither of them had enough money individually to purchase the business outright so they formed a partnership and secured a loan. Both have young families and mortgages on their own homes. The business has thrived under their management.

Out of the blue, the unexpected happened. Bill died in a car accident coming home from his brother's place after a long weekend. His wife and kids survived the crash, but his youngest was listed as critical.

Kevin and Bill's business had never faced a challenge like this.

## Without a wealth protection strategy:

- Bill's family was emotionally stressed, not only as a result of his death, but from knowing what would happen to his business.
- Expenses of living and mortgage soon impacted on Bill's family who relied on his income.

- Kevin had not only lost his business partner, but now faced uncertainty with the business, its clients, staff and the bank. He knew Bill's family and a lot of other people now seemed to be relying on him and him alone. Stressed, he took time off work and the business suffered even more. Key clients found alternate suppliers.

## With a wealth protection strategy:

- After receiving a phone call from Bill's wife, their financial adviser began the claims process.
- Although both Bill and Kevin's families shared the grief of their loss, the business could provide support when it was needed most.
- Bill's family had financial certainty from his life cover that paid off their mortgage and provided an income stream to maintain the families standard of living.
- Kevin took control of Bill's share of the business and Bill's estate received payment for it. Although challenging, Kevin and his staff were able to keep the business going and their customers became even more loyal.



Kevin and Bill's business had never faced a challenge like this.





## Financial advice for a brighter future

We tailor solutions and strategies to help you grow your wealth faster, manage it better and safeguard it more effectively.

We aim to deliver you a great experience each and every time we meet to discuss your personal financial situation.

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## We're ready to help

**To help you explore options in redundancy, contact us to arrange a meeting.**

**Get the advice you need so you are confident you have your plans in place.**

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**To find out more about how these solutions may help you achieve and maintain your financial and lifestyle goals through retirement speak to your financial adviser today. Call Wealth Planning Partners at (07) 5593 0855.**

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