Business Insurance

Build your business, while we protect your future.

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HEALTHIER, LONGER, BETTER LIVES

As a business owner there are many issues you need to consider such as taxation, legislation, protecting your wealth and assets and managing your risks. Your financial plan should outline how you intend to manage these issues and what you have done to minimise the impact of these to the business and you personally.

This booklet has been developed to help you understand the various risks and how to help your business become 'business ready' to reduce the impact of unplanned events on your business – to help you stay in business!

To find out which options best suit your business and personal needs talk to a financial adviser specialising in business insurance.

Managing Business Risk

As a business owner you probably don't think twice about taking out insurance cover to protect your business assets such as your premises, equipment and vehicles. What about other elements of any business – the owners, key employees and financial commitments?

Whether you are a one-person operation or a major corporation, risk protection can be as important as maintaining cash flow. Insurance can help with managing these risks to minimise the impact of events beyond your control. Insuring your business can provide cash to:

- Protect your business and personal assets
- Reduce the impact of a decrease in business revenue
- Arrange ownership transfer that is fair

1 **Protecting assets**

Whether you are a new business, just starting or looking to grow your business it's important to protect your assets which may include operational equipment and property that may be secured through loan funding with banks or finance companies.

Having the right insurance in place will mean that you will have the funds to reduce or repay any business debt and importantly protect any personal assets you may have used to secure your business funding.

2 **Protecting revenue**

Protect your growing business that may depend on a key person for revenue generation. Insurance can provide funds to offset any reduction in business revenue as well as covering the costs of finding and training a suitable replacement.

3 **Business ownership**

Owning a business in partnership means all partners need to protect their equity investment to ensure that the future control of the business stays with the business. Change in ownership due to death, disability or crisis event could jeopardise the business's financial future.

Insurance enables the business to continue with minimal impact, providing funds for the transfer of ownership and compensation of equity to business owners or beneficiaries.

Other risks to consider

Risks	Who	Benefit
Protect your income	Particularly important for people who are self-employed or run their business through a company or trust	Insurance provides you with regular payments if you are unable to work due to illness or injury. So you won't have to use business resources to help pay for personal expenses during this time.
Meet your business expenses	Should be considered by all small business owners.	Insurance to cover fixed business expenses to keep the business afloat during a period of sickness or injury.
Treat your beneficiaries equally	Important for family businesses	Insurance can provide funds to equalise your estate and help you achieve your estate planning objectives.

So you think "It won't happen to me"

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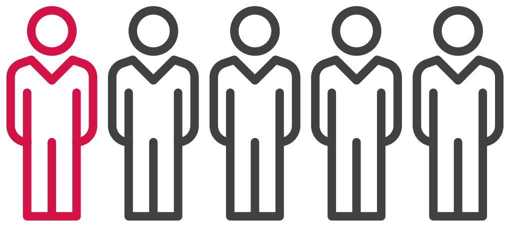
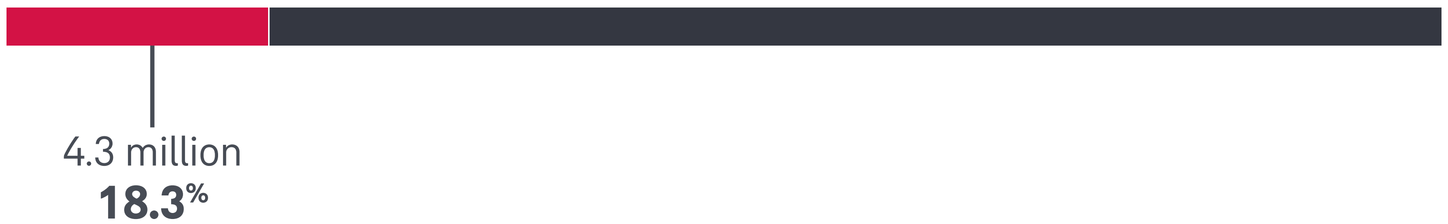
In 2015 there were 2.1 million Australians of working age with a disability[1].



Almost one in five Australians reported living with disability which has lasted, or is likely to last, for at least six months and restricts everyday activities in 2015[1].



1 *Survey of Disability, Ageing and Carers,* 2015 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4430.0main+features202015

Insurance solutions to keep you in business

Here are some insurance solutions that can address some of these risks and provide financial protection for business owners.

Life Cover	Life Cover can provide a lump sum payment if you or a key person in your business pass away.
Total and Permanent Disablement (TPD)	TPD can provide a lump sum payment if you or a key person in your business suffer a total and permanent disablement and are unable to work again.
Crisis Recovery	Crisis Recovery can pay a lump sum if you (or a key person in your business) suffers a crisis event covered in the policy (eg cancer, a heart attack or a stroke).
Income Protection	Income Protection can provide a monthly payment of up to 75% of your income if you are unable to work due to illness or injury.
Business Expenses	Business Expenses may reimburse up to 100% of your share of eligible business overheads if you are unable to work due to illness or injury.

Business Debt Protection

Nothing can cripple, or even sink, a business faster than default action on a commercial loan, or demand under a loan guarantee. In many cases, the consequences are far reaching and can impact not only the business entity but also its principals, their personal assets, family members, shareholders, directors and other creditors.

Business debt protection is designed to provide funds to help pay for business loans in the event of a business owner passing away or suffering a serious disability. It's a risk that every size and type of business should consider protecting against.

Why consider business debt protection?

As a business owner you may be personally liable for loans and expenses incurred by the business. This happens if you secure a business loan with personal assets, usually your family home.

Until you repay the business loan your personal assets are at risk. Should you die or become disabled, these personal assets could be placed at risk by the bank or lender requesting full repayment of the loan. This would place considerable strain not only on the business, but also on your family.

How can debt protection help?

Business debt protection insurance would provide the funds to help repay any existing business debt and helps minimise the impact to your business operations. This reduces the risk of your personal assets like your family home being sold to pay for business debts and expenses especially if you are a guarantor.

Here's how the funds can be used to keep your business going:

- Repaying outstanding business debt
- Reducing the risk of your personal assets being sold to cover business debt
- Continuing the business operations after the death of a partner or guarantor

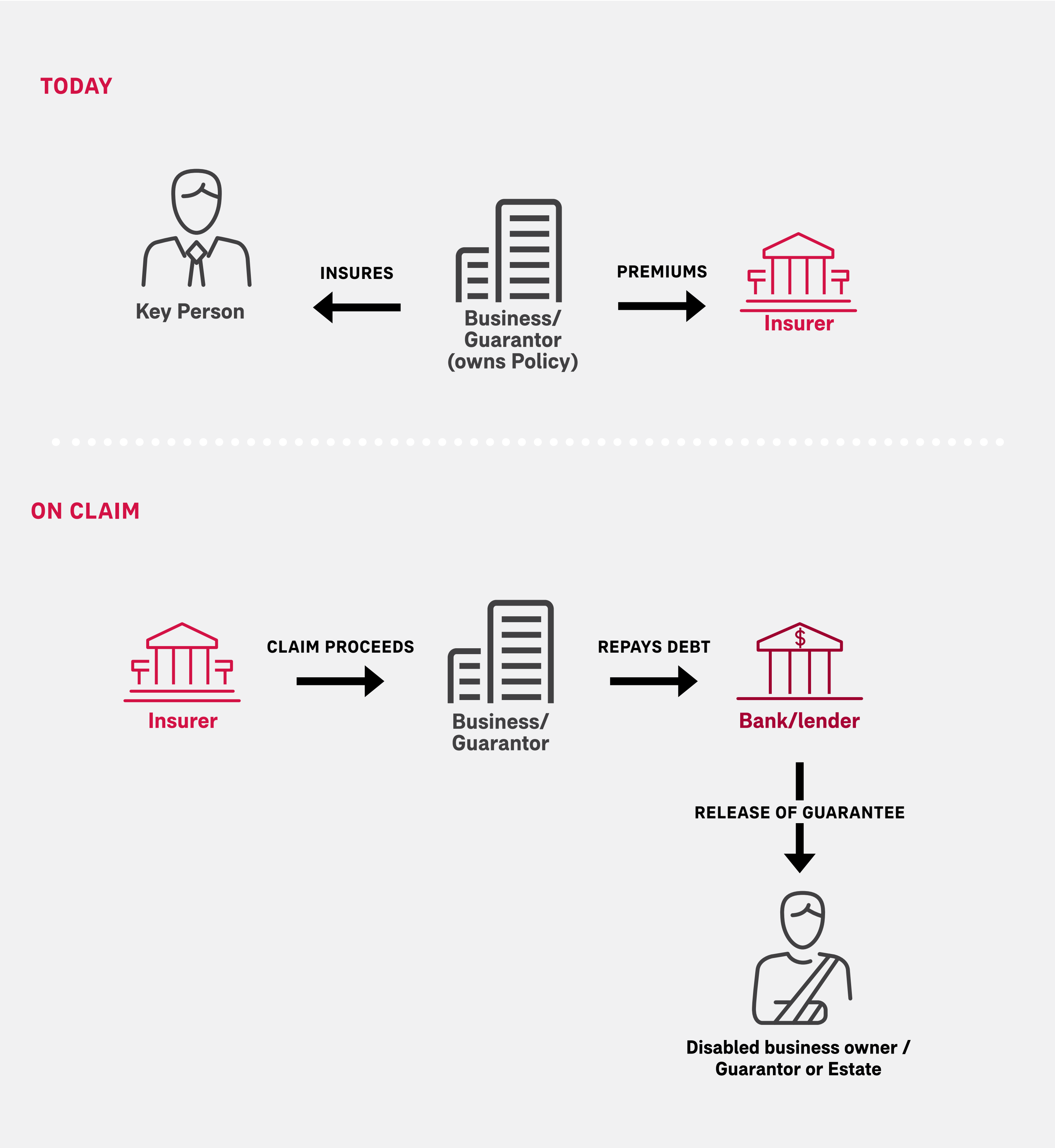
Who owns the policy?

Normally, the policy will be owned by either the business or the guarantor, although a trustee could act as the policy owner if a business owner wants to ensure that policy proceeds are applied to a specific purpose.

How much business debt protection insurance do I need?

This will vary for each business and depend greatly on the structure of any business loans or finance. If the loan is 'joint and several' then each owner is responsible for 100% of the loan meaning each partner is responsible for the debt until the loan is repaid in full. In such cases each owner should consider being insured for up to 100% of the debt.

If the loan is 'several' and each business owner is liable for only a portion of the debt then they only need to be insured for their portion.



Key Person Insurance

'The greatest asset a business has is its people'

Every company has invaluable employees they'd like to keep forever. Unfortunately, sometimes life circumstances such as injury or illness takes them away earlier than expected. Just as it is prudent to insure business assets against loss, it is also prudent to insure specialists or skilled people who contribute significantly to the business's revenue.

Key person insurance protects your business by not leaving it financially vulnerable if key employees were to suffer an injury, illness or pass away by providing a timely injection of funds to minimise the financial impact to your business.

Who is a key person?

A key person may be a business owner, partner, director, sales person, or key employee that generates significant profits. A key person is someone whose sudden absence from management or day to day operations could cause financial loss to the business. If you are in a partnership or run a small to medium-sized company, there may be other key people who may need to be considered.

In addition, there will be employees whose skill set gives the business a competitive advantage. These employees may also be considered key people. Ideally, all key people identified should be covered, according to the scale and current risk status of your business.

Here are some examples of the different key people in a business

- **Specialist skills**: a business in its formative stage may place reliance on the skills and abilities of one or a few individuals, such as a restaurant head chef, medical practitioner or a sole accountant.
- **Operations**: a business considering major changes or mergers may be more vulnerable to the loss of specialist skills, particularly those on which the business is dependent for the changes or merger.
- **Resources**: a smaller business may be dependent, throughout its life, on several people merging or pooling their resources, existing networks and complementary skills and/or expertise to the company or partnership.
- **Brand**: the founder or head of the business, who is closely linked with its image and success in the minds of the general public, suppliers, distributors, customers and other stakeholders.

How does key person insurance work?

Key person insurance can be used to help cover the costs of replacing the key person, associated expenses and/or income.

Here's how the funds can be used to keep your business going:

- Recruiting and training new employees
- Replacing lost profit
- Holding market share and protecting your brand
- Meeting existing contractual commitments
- Maintaining customer confidence with minimal disruptions
- Maintaining supplier confidence by continuing to meet financial obligations

How much cover is enough?

There is no one formula to calculate the value of a key person but you should consider the impact to both the business capital and revenue when calculating the sum insured.

Capital replacement

Capital essentially refers to business balance sheet items. Calculations of the sum insured may include debt repayment and replacing lost value which may occur from the loss of the key person, for example the cost of goodwill required to rebuild and maintain client relationships.

Revenue replacement

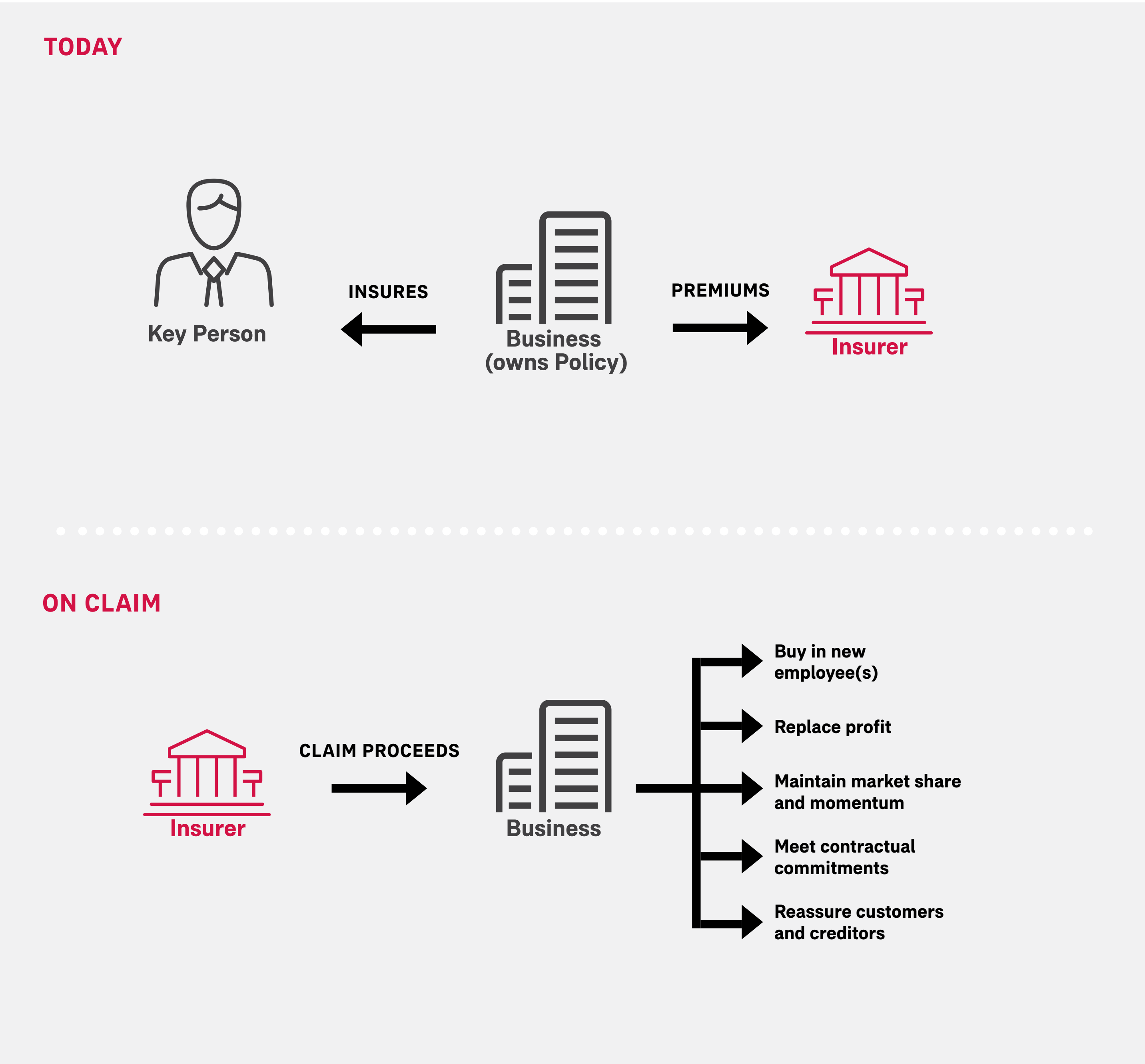
Calculation of the sum insured may include multiples of the key person's remuneration, multiples of gross/net revenue generated by the key person, or costs associated with replacing the key person.

Who owns the policy?

As a general rule, the business would arrange and own any policy purchased for key person purposes.

Life insurance versus key person cover?

The difference between key person insurance and normal life insurance is simply the ownership structure of the policy. The basic definitions and benefits provided are the same with the key difference being the policy is paid for and owned by the business to help in providing funds to cover the business costs of finding a suitable replacement and the loss of any revenue that the person contributed to.



Ownership Protection – Buy/Sell Agreements

Business succession planning

Whether your business is structured through a partnership, company or trust, few have effective mechanisms in place for the transfer of equity and/or control if something should happen to one of the owners. If you have equity in a business you own with other people, you should consider establishing a buy/sell agreement funded by life insurance.

A buy/sell agreement is a legal contract that outlines the details of how the ownership of the business will be managed on the death or disablement of a partner or shareholder. This provides certainty regarding the future ownership and operation of the business for the owners.

Why should you have ownership protection?

Have you considered what might happen to the control and future ownership of the business if one of the partners or shareholders should die, become seriously disabled or have a crisis event? What if you want to exit the business to pursue other interests but want to ensure you will receive a fair price for your share of the company?

There are two key issues that you need to address in this situation:

- The legal transfer of control and ownership of the business
- The way that the transfer of the business will be funded

A buy/sell agreement outlines how these two issues will be dealt with. Think of the agreement as a 'business will'. Without an agreement surviving owners have to negotiate with the spouse or other beneficiaries to buy out their share of the business. Funds may not be available, the value of the business may be under contention, and beneficiaries may be forced to take whatever is on offer.

Alternatively, the beneficiaries may choose to take an active role in the business, whether or not they want to or are qualified to. More importantly do the other surviving owners want them involved?

For example the appropriate life insurance can provide the funds for the business to purchase a shareholders equity interest on the unexpected death, serious disablement/illness of a partner or shareholder, to enable the purchase of their shares or business interest.

Here's how the agreement can be used to keep your business going:

- Helps create or find a future owner(s) for the business.
- Provides the means whereby an existing business owner can receive a fair price for their share of the business.
- Helps to provide financial security for existing partners as they may not need to find additional funds to pay for the departing partner's interest in the company.

The agreement usually specifies:

"Trigger events" – those situations in which the contract is to be "triggered" (usually on the death, crisis event or total and permanent disablement of a business owner).

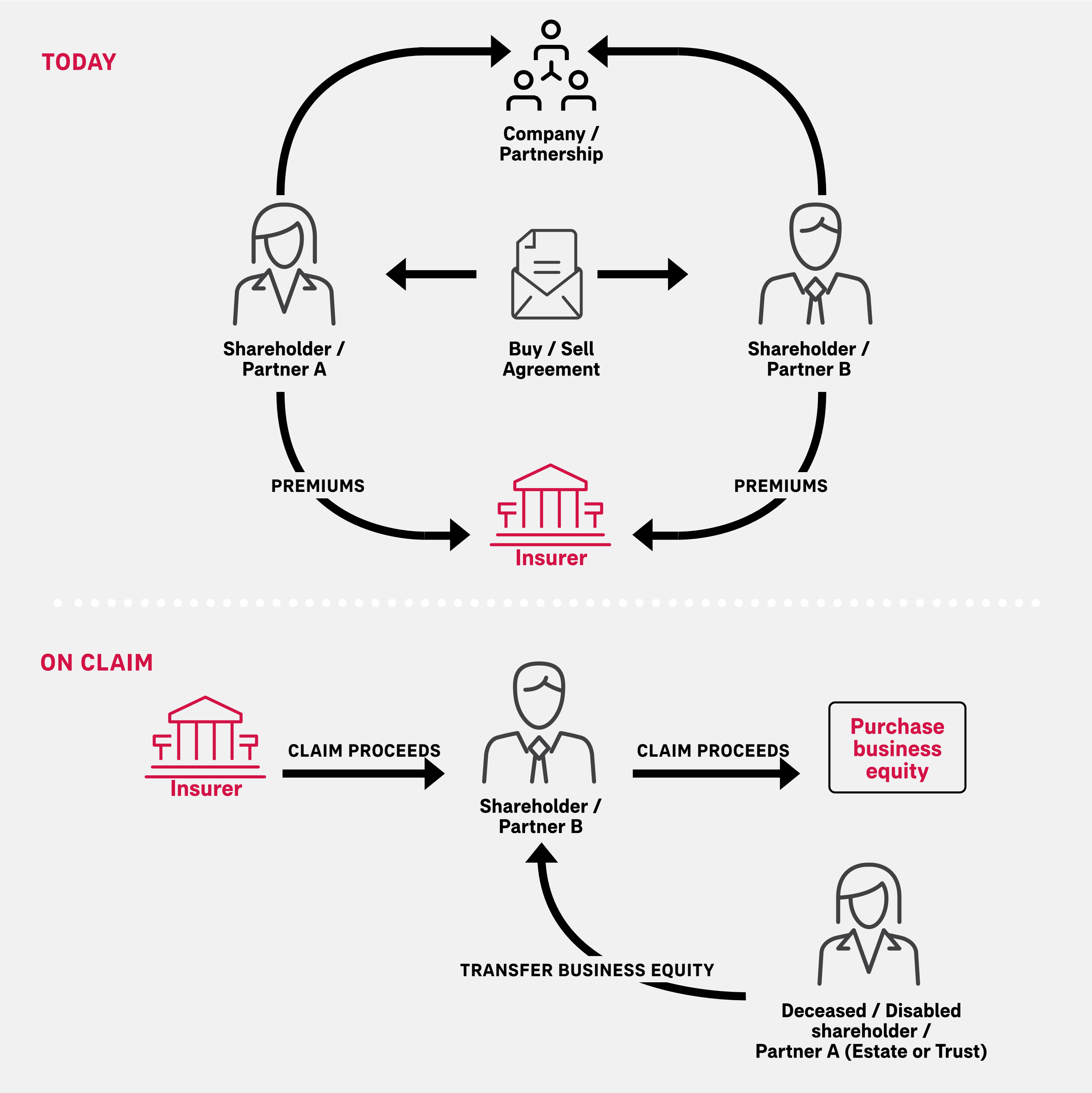
"Call options" – the right of one proprietor to purchase another's equity under specified circumstances.

"Put options" – the right of one proprietor to force the other(s) to purchase their equity in the business under specified circumstances.

"Agreed price and/or valuation method" - the price at which the equity will be sold and how it is determined.

The process

A specialised lawyer can prepare the buy/sell agreement after you have discussed and agreed on your options for each scenario. The agreement should be reviewed annually to make sure that all owners are still in agreement with the terms and



they still accurately reflect the current needs and business value.

Who owns the policy?

Although there are various ownership options available, buy/sell insurance cover is usually self-owned, that is, each business owner/partner would purchase a policy on their own life.

In the event of a claim, any disability proceeds would be paid the departing owner, or any death benefit would be paid to the estate or nominated beneficiary of the deceased owner. The deceased owner's equity would then be transferred to the remaining owner/s in accordance with the buy/sell agreement.

Business Expenses

Running your own business has its own challenges and benefits. It's your passion and livelihood that's fuelled by hard work, expense control and planning – and your reward is the satisfaction of watching your business grow.

Cash flow can often be the deciding factor to the success or failure of a business. Critical to keeping your business afloat financially is having cash flow to pay for expenses to keep your business operating.

So what would happen to your business if you were unable to work as a result of sickness or injury? How would your business keep afloat?

What is business expenses cover?

Business Expenses cover is a financial back up plan for your business. It gives you the reassurance knowing that you've got a plan in place to help keep the business running if you get sick or are injured and can't work.

What does business expenses cover?

Business Expenses insurance covers your fixed business costs as a monthly reimbursement so you can focus on your recovery – and not your bills! Expenses that can be covered typically include rent/lease payments, interest on business loan payments, equipment leasing, car leasing costs and utility bills like water and electricity.

Business expenses versus income protection

Income protection covers your personal income and financial situation but not your share of the business operating expenses. Business Expenses provides cover for your fixed business and other operational expenses. Generally, the cover provides a monthly benefit payment for up to 12 months towards paying business expenses.

Being able to pay for these fixed costs can help ensure that your business stays operational while you are recovering. Think of it as income protection cover for your business that is sitting alongside your own income protection cover, and leaving you in the best possible position to deal with the financial consequences of you being unable to work.

No other insurance cover – be it Life, Total and Permanent Disablement, Crisis Recovery or business interruption cover - is an effective replacement for this. Business interruption insurance is not related to your health or ability to work. Instead, it covers you for external events that may bring your business to a stand still like fire or flood. Business Expenses Insurance is directly related to you meeting your company operating costs.

How much is enough?

The right amount of business expenses insurance depends on a range of factors. For example, to what extent would the business owner's absence affect their ability to meet expenses? And what are the business's specific ongoing expenses? Does the business have other sources of income they can rely on?

Your financial adviser should complete a comprehensive financial assessment on your business expenses and health to ensure you buy the right level of cover.

Income Protection

Most of us wouldn't drive without car insurance, or buy a house without home and contents insurance. Yet most Australians don't protect their ability to earn the income that funds their lifestyle. This becomes especially important if you own your own business.

If you are unable to work for an extended period of time due to illness or injury how will you meet your rent or mortgage repayments and other personal expenses? Without an income you could run down your savings and face financial difficulty.

What is income protection?

Income protection, also known as 'salary continuance' pays a monthly benefit of up to 75% of your annual income if you're unable to work due to illness or injury. This money can help pay for your bills, rent, mortgage, school fees, utility bills, etc. Most importantly it helps you stay on top of your debts during what could be a very stressful time.

What's more, it means you won't have to use business resources to pay for your personal expenses.

Purchasing insurance tax effectively

There are a range of situations in which you could use insurance to protect your business and the interest you have in it. Many of the solutions have varying benefits and tax implications depending on your business needs. Here is a summary of insurance solutions and tax implications.

Ownership	Income Tax	Capital Gains Tax (CGT)	Advantages	Disadvantages
Buy/Sell*				
Self owned (or owned by business owner's family trust) with buy/sell agreement	• Premiums not deductible. • No income tax payable on proceeds.	• No CGT payable on life, TPD or Crisis Recovery proceeds. • CGT may be payable by person/estate leaving the business on disposal of equity in the business.	• Easy to understand. • Flexibility if a new owner comes into the business as they can take out their own policy(s) (no need to alter existing policies). • Portable as owners departing the business can retain their policy for personal protection purposes, with no assignments or transfers of ownership required. • No CGT on Life, TPD or Crisis Recovery proceeds.	• Agreement must be in place to protect all parties. • Some business owners may pay higher premiums than others. • Could be deemed dividend or other issues if premium is paid by business if it is a company. • If policy/s owned by respective owners' family trusts, beneficiaries must include life insured or relative of life insured in order to get exemption from CGT for TPD and Crisis Recovery.
Cross owned	• Premiums not deductible. • No income tax payable on proceeds.	• No CGT on life insurance proceeds for original owner of policy. • CGT may be payable on proceeds of TPD or Crisis Recovery proceeds if business owners not related. • CGT may be payable by person/estate leaving the business on disposal of equity in the business. • CGT may be payable if existing policies are assigned to include a new business owner (who is not the original policy owner) and the new owner acquires their interest in the policy for consideration.	• Easy to understand. • Proceeds go directly to party who needs the money to purchase the equity from the departing partner/estate. • Works well when there are only a small number of business owners and there are unlikely to be any changes to the proprietorship.	• Agreement must be in place to protect all parties. • Some business owners may pay higher premiums than others. • If new owners come into the business or an owner leaves, the ownership percentage interests in all policies need to be altered via assignment. • If an owner leaves the business, they are reliant on the other remaining owners to assign the policy to them. • Could be deemed dividend or other issues if premium is paid by business if it is a company. • Unless business owners are related, CGT payable on TPD and Crisis Recovery proceeds.
Trust (via establishment of a special purpose trust)	• Premiums not deductible. • No income tax payable on proceeds.	• No CGT on life insurance proceeds for original owner of policy. • CGT may be payable on proceeds of a TPD or Crisis Recovery policy if beneficiary is not the life insured or relative of the life insured. • CGT may be payable by person/estate leaving the business on disposal of equity in the business.	• Multiple insurance policies may be owned by the trust and administration of policies and premium payments are centralised. • Flexibility if a new owner comes into the business as the trustee can take out a new policy(s) on that owner's life (no need to alter existing policies). • Trust deed provides rules covering application of policy proceeds and transfer of equity according to pre-agreed intentions of all parties. • No CGT is generally payable on life, TPD or Crisis Recovery proceeds.	• Trust ownership may seem more complicated than other types of ownership if business owners have no expertise. • Additional costs involved in administering the trust. • If an owner leaves the business, the policy must be assigned/transferred by the trustee in order to be retained by the departing business owner for personal protection purposes. • Appropriate trust structuring and distribution of any capital to relevant beneficiaries is required to ensure CGT free payments, particularly for TPD and Crisis Recovery cover.

* For more information about insurance ownership options for buy/sell funding, refer to our "Guide to buy/sell funding and insurance ownership structures" document which is available on the AIA Business Growth Hub.

Ownership	Income Tax	Capital Gains Tax (CGT)	Advantages	Disadvantages
Key Person				
Incorporated business	If capital purpose: • Premiums not deductible. • No income tax payable on proceeds. If revenue purpose: • Premium tax deductible. • Insurance proceeds are assessable for income tax purposes.	If capital purpose: • No CGT on life insurance proceeds for original owner of policy. • CGT may be payable on proceeds of a TPD or Crisis Recovery policy if the recipient of the proceeds is not the life insured or relative of the life insured. If revenue purpose: • No CGT payable on Life, TPD and Crisis Recovery proceeds.	• Easy to understand. • Proceeds are paid to the business where they are needed.	• Regular board minutes documenting original purpose and continuing purpose of the policy. • If company is insolvent the proceeds could be attacked by creditors.
Trust	If capital purpose: • Premiums not deductible. • No income tax payable on proceeds. If revenue purpose: • Premiums tax deductible. • Insurance proceeds are assessable for income tax purposes.	If capital purpose: • No CGT on life insurance proceeds for original owner of policy (ie. trustee). • No CGT on TPD or Crisis Recovery proceeds if proceeds paid to trustee of trust (where beneficiary of trust is life insured or relative of life insured). If revenue purpose: • No CGT payable on Life, TPD and Crisis Recovery proceeds.	• Easy to understand • Proceeds are paid to the business where they are needed.	• Regular trustee meeting minutes documenting original purpose and continuing purpose of the policy.
Loan Debt /Guarantor				
Business debtor	• Premiums not deductible. • No income tax payable on proceeds	• No CGT on life insurance proceeds for original owner of policy. • CGT may be payable on proceeds of a TPD or Crisis Recovery policy if the recipient of the proceeds is not the life insured or relative of the life insured.	• Proceeds payable to entity that owns the debt for repayment to lender.	• Company can use proceeds for purpose other than to clear the debt.
Guarantor	• Premiums not deductible. • No income tax payable on proceeds	• No CGT on life insurance proceeds for original owner of policy. • CGT may be payable on proceeds of a TPD or Crisis Recovery policy if the recipient of the proceeds is not the life insured or relative of the life insured.	• Estate of guarantor is protected.	• Could be deemed dividend or other issues if premium is paid by business for the guarantor. • May not protect the borrower, being the business, as business may simply owe the debt to the guarantor if guarantor has repaid the lender.
Policy assigned to lender (by guarantor of the business) or business as debtor	• Premiums not deductible. • No income tax payable on proceeds	• No CGT on life insurance proceeds for original owner of policy. • CGT may be payable on proceeds of a TPD or Crisis Recovery policy if the recipient of the proceeds is not the life insured or relative of the life insured.	• Proceeds repay the loan directly. • Excess proceeds paid back to original policy owner (equity in redemption).	• Premium notices go to lender and not the entity that is paying the premiums. • May not protect the borrower, being the business, as business may simply owe the debt to the guarantor if guarantor has repaid the lender.

This information is current as at March 2020. While AIA Australia Limited has used all reasonable efforts to ensure the information in this document is complete and accurate, AIA Australia makes no representation or warranties in this regard. For further details as they relate to a person's own financial situation, they should speak with their financial or tax adviser.

Because of the varying tax consequences each taxpayer should take advice from their tax adviser.

Still not sure?
Quick Insurance Check

Complete the 'Quick Insurance Check' below to see what insurance solutions could work for you.

Your business needs	Your personal needs
If a business owner or key person dies or is injured, do you have insurance to provide funds to meet ongoing financial commitments (e.g. loans, overdrafts, creditors or leases)? ☐ Yes ☐ No ☐ Unsure	Would your current insurances, including those within super funds, be enough to pay off your personal debts (eg mortgage, credit card) and provide the funds to maintain your family's lifestyle? ☐ Yes ☐ No ☐ Unsure
If you were unable to work in your business for a year, could you continue to pay your ongoing/fixed business expenses (e.g. loan interest repayments or rent, leasing costs, utility bills) with either savings or insurance? ☐ Yes ☐ No ☐ Unsure	If you were unable to work for three months, or longer, because of an accident or illness, could you meet your lifestyle expenses (e.g. loan repayments, rent, food, education) without regular income or insurance payments? ☐ Yes ☐ No ☐ Unsure
If one of the business owners were to die or become disabled, how would the business manage the transfer of ownership? Would you have the funds to ensure an orderly transition of ownership? ☐ Yes ☐ No ☐ Unsure	If something unexpected happened to your spouse, could you afford a housekeeper or nanny to look after your children so you could continue to work? ☐ Yes ☐ No ☐ Unsure ☐ N/A

Want some help?

If you answered no or unsure to any of these questions, it could be time you considered talking to an adviser about protecting your business and your family.

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