

Strategy 2

Protect your business' revenue

As your business grows, you should consider insuring the people who play a key role in the ongoing success and profitability of your business.

What are the benefits?

If something was to happen to you or another key person (such as a key employee¹), the insurance payment could be used to:

- offset a reduction in revenue, and
- cover the costs associated with 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.

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 can be a less expensive and more convenient alternative.

Note: This strategy is usually less important for businesses with limited or erratic revenue sources, as well as those that are less reliant on the contribution of key people.

To find out the types and amounts of cover you may need to protect your business' revenue and who should be insured, you should speak to a financial adviser who specialises in business insurance. A financial adviser can also review your insurance needs over time to make sure you remain suitably covered.

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

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 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.

Note: This case study highlights the importance of speaking to a financial adviser about protecting your business' revenue in the event that you (or another key person) die, become totally and permanently disabled or suffer a critical illness. A financial adviser can also address a range of potential issues and identify other suitable protection strategies – see Tips and traps.

Tips and traps

- Term Life insurance policies used to protect against a loss of revenue are tax-deductible and any benefits received are assessable as income.
- 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.
- It may be more cost-effective over the longer term if you pay level premiums, rather than stepped premiums that increase each year with age (see Strategy 8).
- If you're in business with other people, you should consider establishing a Buy Sell agreement funded by insurance (see Strategy 3).
- It's also important to protect your living expenses (see Strategy 4) and your business expenses (see Strategy 5) if you are temporarily unable to work due to illness or injury.
- You should also make sure you have enough personal insurance to protect yourself and your family if something happens to you. To find out more about using insurance for personal protection purposes, see our 'Smart strategies for protecting you and your family' guide.