

Start-up Monthly Disability Cover

Information Guide



The intent of this guide is to assist you with the application process for Start-up Monthly Disability Cover and to help determine if levels of cover are appropriate for the key person or the business concerned.

Purpose of Start-up Monthly Disability Cover

Start-up Monthly Disability Cover is specifically designed to protect new small businesses from the financial impact caused due to an illness or injury, by providing an agreed value monthly benefit to help your business stay afloat while you or a key person recovers.

Customer suitability

There are two situations where Start-up Monthly Disability Cover can be used to cover a need:





Income replacement for a newly self-employed person /sole trader.



For businesses, to fund the cost of replacing a key person in a small to medium-sized business to allow it to keep trading.

Suitable for

-  Occupation class 1-4
-  Working 30+ hours per week
-  Self-employed less than 3 years
-  Small to medium businesses or sole traders

Determining the amount of cover - does it make sense?

The underwriter's role is to ensure that the level of cover reasonably reflects the loss that might occur in the event of a claim and to ensure the level of cover will not lead to financial enrichment. The amount of cover requested needs to make sense and align with the details provided in the Start-up Monthly Disability questionnaire and the application form.

Start-up Monthly Disability underwriting guide



Sole trader

A benefit available for newly self-employed sole traders (or solo workers) where there is no obligation to keep the business running in the event of disability.

The monthly benefit will be based on the lesser of:

62.5% of the estimated net profit of the business

or

\$5,000 per month.



Small to medium-sized enterprises (SME)

For when there is an expectation that the business will continue trading in the event of the life assured's disability and a replacement will be employed.

Things to consider:

In order to be considered a 'key person' the life assured needs to generate a minimum of 25% of the overall revenue of the business through their own personal exertion.

- › What will be the impact to the business?
- › Will it cease to trade or trade at a reduced capacity?
- › What special skills does the key person have?
- › What would be the reasonable cost of replacement of the key person?

Application process

Complete the Chubb Life e-App or application form



Complete the Start-up Monthly Disability Cover questions in the e-App or the Supplementary application form



Mandatory underwriting requirements



No mandatory financial requirements

However the underwriter reserves the right to obtain additional information to appropriately assess the risks.

Questions that may be asked	Why is the question important? What are the underwriting considerations?
1. How long have you been self-employed	Start-up Monthly Disability is not available if self-employed > 3 years. Length of time working in current occupation/business impacts on the financial assessment.
2a. Did you purchase an existing business?	The underwriter needs to have an idea if the business is a going concern, i.e. it has the resources (turnover, established contacts, existing/continuing contracts and goodwill) needed in order to continue to operate indefinitely/going forward.
2b. Length of time in operation	The longer a business has been in operation, the more likely it is to continue to succeed.
2c. Turnover in last 12 months	< 12 months trading. Provide as much detail as possible. If you are unable to provide turnover figures, the underwriter will take this into account. > 12 months trading should be in a position to provide turnover – if not available this could be a red flag for the underwriter – provide as many details as possible as to why turnover cannot be provided.
2d. Drawings in the last 12 months	Provides an indication of how well the business is performing. It doesn't directly reflect income but most small businesses only take out excess profits.
3. What was the purchase price of the existing business, or establishment cost if a new venture?	The purchase price of the business gives an indication of the business' present day value. An ongoing concern is valued, and this gives an indication of the success of the current operation.
4. Details of established contracts/clientele or indication	Provides an indication of stability of the business and likelihood of success.
5. What is your earned income less business expenses?	The underwriter uses this information to assess the level of cover requested.
6. Experience or expertise in this occupation	This helps the underwriter assess the business risk.
7. Experience of running own business	Helps the underwriter assess the likelihood of business success or failure.
8. Do you have a business plan?	A good business plan indicates the business owner is goal orientated and plans to succeed in the business.

Start-up Monthly Disability scenario examples

Below are some examples – each case is assessed on individual circumstances.

Examples of scenarios where Start-up Monthly Disability Cover is suitable

Electrician was an apprentice working for an employer for four years. Now contracting back to the same employer.

Experienced electrician is working in Auckland and becomes a sole trader. Has been in the electrical business in Auckland for many years, is well known and has a number of contracts.

Experienced electrician who has been self-employed for one year and has earned income in that year of \$100,000, applies for \$5,000 monthly benefit.

Hairdresser with four years' experience buys a profitable hairdressing salon in the same geographical location as their current clientele.

Hairdresser (with relevant experience) becomes a sole trader and has been in operation for seven months.

Examples of where providing more details may change the outcome.

Scenarios	Provide more detail and get a good outcome
Qualified electrician with three different occupations in the last four years – bar tender, electrician, labourer in landscape business. Has now bought a pest control business.	Life assured has bought their father's long-standing business. Has many years of experience working for their dad. Has a number of Council contracts.
Electrician who employs seven staff. Owner applying for Start-up Monthly Disability Cover on themselves. No clear loss to the business if owner unable to work.	Electrician is the only specialist in the commercial area. Now there is a clear loss to the business if they were disabled.
Experienced electrician working in Auckland and now moves as a sole trader to Dunedin.	Electrician has a number of contacts in the building business in Dunedin and has teamed up with a builder who has work for at least a year.
Experienced electrician who has been self-employed for one year and their earned income in that year is \$20,000 and applies for \$5,000pm benefit.	Electrician has recently picked up a number of ongoing contracts worth approx. \$6,000 per month.
Hairdresser who is new to city has purchased a hair salon.	The hair salon is profitable, has been in operation for 10 years, existing owner will continue to work in the business for six months providing continuity.
Hairdresser who has been a sole trader for one year and nine months working from home.	Hairdresser has their own completely separate salon at home. Working 35 hours per week and able to provide turnover figures indicating highly successful operation.



Talk to your Financial Adviser

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Chubb Life Insurance New Zealand Limited (Chubb Life)