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CHUBB®

Why business risk?

Business insurance is there to protect the core needs of a business by enabling the business to continue operating if the unexpected happens.

Here are three key ways to ensure a business can continue to meet financial obligations if a key person is unable to work as a result of sickness, injury or death.

› Key person protection › Debt protection › Shareholder protection

Personal risk vs business risk

Personal risk insurance policies can provide funds to replace the loss of someone's personal income and help pay their personal expenses, such as a mortgage repayments or groceries. The difference with business risk insurance is that it enables the business to continue if the owner or another key person were unable to work in the business due to sickness, injury or death.

A business risk policy injects funds back into the business to support the ongoing operation. Depending on the ownership structure, a combination of personal and business risk insurance may be most appropriate.

Sole traders

Many sole traders will not have business debt and may choose to wind up the business in the event of sickness or injury. However, they may face the loss of personal income they need to continue to pay their personal expenses.

Some businesses have ongoing commitments they would still need to pay even if they were not able to operate, such as a lease agreement for a vehicle. They may also have contractual agreements that, due to an individual's expertise, they would need to fulfill - even if they were unable to do so due to sickness or injury

If a business has been trading for less than three years, personal income cover may not be available. A business start-up product may be a better option.

Related parties

Some businesses have related owners, and therefore their insurance goal is to replace a personal income as well as inject funds into the business. This would enable the business to continue generating revenue in the event of the sickness, injury or death of one of the parties.

This is where a combination of personal and business insurance could help. It could inject funds back into the business to replace labour and loss of revenue, or cover the business overheads necessary to stay in business.

Note: Personal & Business Income Protection on the same wait period (to be paid concurrently) unless life assured does not have any ownership interest.

Unrelated parties

Some businesses have directors, partners or shareholders who are involved in the everyday running of the business. As a result, there could be serious financial consequences if they were unable to work due to sickness, injury or death.

Others solely inject funds into a business. If they were unable to work, or if they needed to withdraw their funds for any reason, they would need to be repaid. Shareholder agreements usually require funds to be available if a shareholder dies in order to fund the purchase of shares from the exiting shareholder.

Business risk solutions such as Shareholder Protection and Debt Protection may be useful here.



Is business risk insurance right for your customer? Key considerations:

Key person protection

A protection plan can protect a business against the loss of a key staff member and ensures the continuity of that business.

Factors to consider:

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| › Who is the key staff member? | › What effect would it have on the finances and reputation of the business if this person was not able to work in the business? | › How difficult would it be to replace them? |
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Identifying key people in a business

In every business there are individuals whose contribution is critical. Here's how to identify the key people whose loss would have a serious impact on its finances or reputation if they were unable to work due to death, sickness or injury.

Who is important in day-to-day operations and income generation?

- › Who are they?
- › What role do they play?
- › Are they replaceable – (Internal/NZ/International)?
- › How quickly can those people be replaced?
- › How much would it cost to replace them? Remember, this may include additional costs that haven't previously been considered.

How do you calculate the financial loss to a business?

- › What is the role of the individual and the direct or indirect financial impact of them not working in a business? Eg the financial impact of a sales manager who distributes products or services or a marketing manager who generates new business opportunities.
- › How quickly would the business start incurring costs as a result of that person not working in the business?
- › What is the business debt Business debt and who is responsible for that debt?
- › Are shareholders actively working in the business or a just a provider of funds for the business? If a shareholder was to pass away or become unable to work for a significant period of time what would be the financial impact be? Ie, to repay shareholder capital or purchase shares.

Shareholder protection

A protection plan can back up any financial risks if there are shareholders and a buy/sell agreement in place. Factors to consider:

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| › Number of shareholders | › Whether related parties hold a shareholding | › Who inherits the shareholding? |
| › Repayment of current account of existing shareholder | › Purchase of shares for the exiting shareholder (what percentage of shareholding do they hold?) | › Reduction of working capital overdrafts to remove financial pressure |

Debt protection

A protection plan can ensure that a business continues to service debt and can meet its financial obligations. Factors to consider:

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| What debt obligations does the business have? | Would the debt need to be repaid in full or reduced if a shareholder or key person were no longer able to work in the business? | Does the business need to release personal guarantees if a key person is ill, injured or passes away? |
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Understanding risks of business

It's important to get to know business customers and the way their business operates. This helps ensure the right insurance is put in place.

Here are some questions that can help you understand your customers' needs.

- › Tell me about your business, what do you do?
- › How long have you been in business?
- › Tell me about why you run your business, and why it would be important for your business to carry on if you were out of action?
- › Who owns your business?
- › What are your future plans for the business?
- › Do you have staff, and if so how many?
- › Who is the key person (or key people) in your business? What role do they play in generating revenue and maintaining the reputation of your business?
- › Is your spouse involved in the running of the business?
- › Would you be able to replace your key people if they were sick, injured or passed away? And if so, how long could your business operate 'normally' following the loss of a key person without replacing their contribution to revenue or expertise?
- › Do you have any business risk insurance in place already?
- › Do you have business debt and who is responsible for the repayment of that debt?
- › When was the last time you were able to take a holiday from work?

Chubb Assurance Extra Business overview

Lump sum covers	Monthly disability	Start-up monthly disability
<p>Life Cover:</p> <ul style="list-style-type: none"> › Eligibility ages 16–70 for entry › Expires – Does not expire › Maximum sum insured – unlimited subject to underwriting terms and conditions <p>Trauma:</p> <ul style="list-style-type: none"> › Eligibility ages 20–65 for entry › Expires – age 70 › Maximum sum insured – \$2,000,000 accelerated or standalone (or a combination of both). <p>Complete disablement:</p> <ul style="list-style-type: none"> › Eligibility ages 20–65 for entry › Expires – age 70 › Own occupation available for classes 1–3 › Any occupation available for classes 1–4 › Maximum sum insured – \$5,000,000 accelerated. 	<p>For established businesses/farms (3 years or more)</p> <p>Agreed Value (Business Expenses limited to first 3 months and indemnity there on after)</p> <p>SME Enterprises (2-15 employees) (IC for larger businesses)</p> <p>Provides cover up to \$50,000 p/m</p> <p>Flexible monthly benefit options:</p> <ul style="list-style-type: none"> › Replacement Labour Cost (6 or 12-month benefit) – variable or standard options › Revenue Replacement (6, 12 or 24-month benefit) – standard option only › Business Expenses (6, 12 or 24-month benefit) – standard option or (6 or 12) variable. <p>Seasonal Booster Benefit (Farming Only)</p> <p>Farm Consultancy Benefit (Farming Only)</p>	<p>For businesses/farms which have been established for less than 3 years</p> <p>Provides cover up to \$8,000 p/m</p> <p>Flexible monthly benefit options:</p> <ul style="list-style-type: none"> › Cost of replacement (6, 12 or 24-month benefit). <p>Seasonal Booster Benefit (Farming Only)</p> <p>Farm Consultancy Benefit (Farming Only)</p>

Which business risk solution?

The goal is to put together a solution that reflects the unique requirements of the business. Consider what cover would put the business back in the same financial position it was in before sickness, injury or death affected its operations.

However, it's not always possible to fully replace the contribution of a key person. So you may need to consider an alternative to enable the business to recover from the loss.

Business expenses



Sole traders and those running a small business may want to ensure that expenses would be paid if they were disabled and not generating an income. Those expenses might be rental payments, salaries of non-income generating employees, accounting fees, motor vehicle leases, and other fixed business expenses which would continue in the event of disability.

Replacement of revenue



Would the key person in the business be very difficult to replace? Replacement of lost revenue while that person is unable to work could be an ideal solution. It would allow the business to continue to trade and meet its financial obligations in the event of the key person's disability.

Replacement labour



Could the business find a locum to stand in for a key person while they were unable to work due to a disability? Are there external factors that could affect the replacement of that person? For example, would they need experience or qualifications not available in New Zealand and therefore need to recruit from overseas? Does the business know the cost of replacing that key person?



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This Why Business Risk flyer is based on information current as at June 2023 and is subject to change.

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