



How well protected is your business?

If you're like many business owners you have already insured the physical assets of your business from theft, fire and damage. But have you considered the importance of insuring yourself - and other key people in your business - against the possibility of death, disability and illness.

Not being adequately insured can be a very risky oversight, as the long term absence or loss of a key person can have a dramatic impact on your business and your financial interests in it.

Protecting your assets

The business knowledge (known as intellectual capital) provided by you or other key people, is a major profit generator for your business. Material things can always be replaced or repaired but a key person's death or disablement can result in a financial loss more disastrous than loss or damage of physical assets.

If your key people are not adequately insured, your business may be forced to sell assets to maintain cash flow – particularly if creditors press for payment or debtors hold back payment. Similarly, customers and suppliers may not feel confident in the trading capacity of the business, and its credit rating could fall if lenders are not prepared to extend credit. In addition, outstanding loans owed by the business to the key person may also be called up for immediate repayment to help them, or their family, through their situation.

Asset protection can provide the business with enough cash to preserve its asset base so it can repay debts, free up cash flow and maintain its credit standing if a business owner or loan guarantor dies or becomes disabled. It can also release personal guarantees secured by the business owner's assets (such as the family home).

Protecting your business revenue

A drop in revenue is often inevitable when a key person is no longer there. Losses may also result:

- from demand that can't be met
- while you're finding and training a suitable replacement
- from errors of judgement that can happen due to a less experienced replacement, and
- through the reduced morale of employees.

Revenue protection can provide your business with enough money to compensate for the loss of revenue and costs of replacing a key employee or business owner should they die or become disabled.

Protecting your share in the business

The death of a business owner can result in the demise of an otherwise successful business simply because of a lack of business succession planning. While business owners are alive they may negotiate a buy-out amongst themselves, for example on an owner's retirement. But what if one of them dies?

The remaining owners must now negotiate with the deceased owner's legal representative, who may be more concerned about the needs of the estate than the needs of your business. Many business owners mistakenly believe that this contingency has been catered for in the business' constitutional documentation or business owners' agreement. But often there is no buy-out provision, or if there is, it may be ineffectually drawn up and inadequately funded.

Ownership protection can provide sufficient cash to facilitate the transfer of the outgoing owner's equity to the continuing owners in the event of a business owner dying, becoming disabled, or suffering a critical illness resulting in the outgoing owner leaving the business.

Considerations

The right type of business protection to cover you, your family and business associates is dependent upon your current situation. A financial adviser can help you with a number of issues you may need to address when it comes to protecting your business. Such as:

- working with your business accountant to determine the value of your business
- reviewing your personal insurance needs to ensure you are suitably covered with potential tax effective and convenient ways to package and pay premiums, and review any of your existing insurance
- facilitating, with legal advice from your solicitor, any changes that may need to be made to your estate planning and ensure your insurances are adequately reflected in your legal documentation.

A financial adviser can provide or facilitate advice regarding all these and other issues you may encounter. They can also work with other professionals to ensure all areas are covered in an integrated and seamless manner.

To find out more about the information in this article contact Rick Maggi on 9382 8885.

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