

Business Expenses – what’s the best fit?

Zurich offers two unique business expense product solutions, however the key is determining which one is the best fit for your client.

Ongoing Fixed Expenses explained

Traditionally, when a small business is reliant on the business owner to generate revenue, if and when the owner is not able to work because of sickness or injury the business can be at significant risk (see diagram A).

Without revenue to cover the on-going costs incurred by the business, the business can quickly find itself in a precarious and challenging situation. This is where Ongoing Fixed Expenses can provide a financial plan to cover these on-going costs. It’s like a financial spare tyre for the business, to help it through a challenging period whilst the owner is unable to work.

Ongoing Fixed Expenses covers up to 100% of allowable business expenses which include:

- All the fixed infrastructure costs of the business that would continue if the life insured was not able to work; plus
- Capital/principal repayments on business debts related to identifiable business assets.

What is classed as allowable business expenses are outlined in the Zurich Adviser Guide.

The benefit payable is the lesser of the insured monthly benefit and the allowable business expenses incurred (hence, at claim time to determine what has been incurred we will need to see the draft business Profit and Loss statement and any employee payment schedules where there are non-income generating employees). There is no offset against any revenue generated in the business, provided the allowable business expenses are incurred the benefit is payable.



Key Person Replacement cover explained

In some businesses, if the business owner is not able to work because of sickness or injury the business will need to hire a replacement or locum immediately. The cost of a replacement can significantly impact the cash flow and overall profitability of the business (see diagram B). Key Person Replacement cover provides a short term solution to help fund the cost of a replacement or locum to ensure the business continues to operate and meet client service/delivery expectations.

To consider Key Person Replacement cover the life insured should be a business owner who is a key person in the business and would need to be replaced by the business if unable to work because of sickness or injury.

The benefit payable is the lesser of the monthly insured amount and 75% of the replacement cost incurred (hence, at claim time we need to see evidence of the replacement cost incurred). There is no offset against any revenue generated in the business or by the replacement/locum.

Diagram A - Revenue stops – Client unable to work

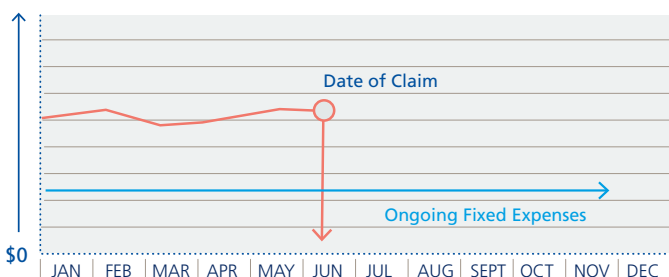
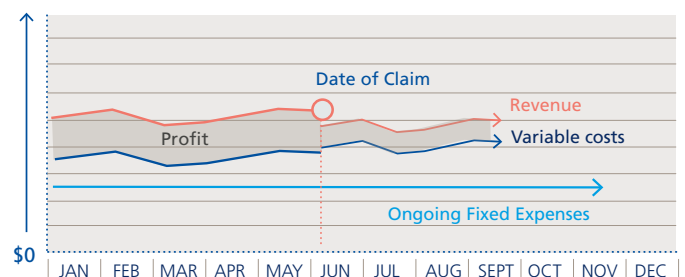


Diagram B - Revenue continues – with replacement



What's the best fit?

Determining what is the best fit starts with asking the following question:

- If the life insured was unable to work because of sickness or injury what would happen in the business? If the....

Revenue stops	Revenue continues... with a replacement or locum	Revenue continues... (even without a locum or replacement)
Revenue Stops and the business is not able to meet fixed costs	Revenue continues...because the business gets a replacement or locum who generates revenue and helps the business cover ongoing fixed costs, breakeven and /or continue to make a profit	Revenue continues...however it only continues to the extent the business is able to cover most of the ongoing fixed costs and/or breaks even (and would not get a replacement or locum)
BE Ongoing Fixed Expenses	BE Key Person Replacement Cover	Income Protection
Determine average allowable business expenses over the last 2 years	Determine the cost of a replacement or locum	IP Calculator based on the last 2 years financials
Benefit payable is the lesser of the monthly insured amount and the allowable business expense incurred	Benefit payable is the lesser of the insured monthly benefit and 75% of the replacement cost incurred	Benefit payable depends on the type of IP ie EAV, AV or Indemnity
Available with IP	IP is only available with a 1 year waiting period	

Business Expenses at a glance

Both Business Expenses solutions provide a short-term solution, subject to the following:

- Cover is to be owned by the business
- Life insured must be a business owner
- Cover is limited to 12 times the monthly benefit (payable for up to 24 months)
- Maximum benefit amount is \$60,000 pm
- There is no revenue or income offset
- Ongoing Fixed Expenses BE cover is not available with BE Key Person Replacement cover
- Income protection cover is only available with at least a one year wait when taken with BE Key Person Replacement cover



How to Quote

Go to zurich.com.au and complete a quote, selecting which BE solution you are applying for.

How to apply:

Complete the Business Expenses Questionnaire in the application and lodge with the life insured's application.

For more information

Contact your Zurich BDM on 1800 252 650 or call Tony Baker, Financial Underwriting Manager on +61 02 9995 1941 or adviser.service@zurich.com.au

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