Business owners are often financially vulnerable to the loss of a business partner or key employee.

It's not something we like to think about it, but serious illness or injury – even premature death – doesn't just happen to other people. If you're running a business, the impact of getting ill or injured can be far more serious than for a salaried employee.

What if you couldn't work for weeks or months while you received medical treatment?

And it may not just be yourself that you need to think about. The illness or death of a business partner or key employee could be just as serious for your business.

Fortunately, various forms of insurance cover are available to help protect your business.

Paying the bills

Business expenses insurance allows you to insure up to 100% of allowable expenses, generally for up to 12 months, if you're unable to work due to sickness or injury. Allowable expenses include:

- office rent
- interest/fees on a loan to finance the business
- equipment leasing costs
- electricity, gas, water and telephone repayments.

This type of insurance is particularly important for sole traders and partnerships where expenses would continue to be incurred if the business owner became sick or injured.

Coping without a key team member

The prolonged absence or death of a key employee can impact any business.

Unless there's a suitable back-up within the business, it can take considerable time and resources to find and train a replacement and restore lost revenue.

Key person insurance can provide a cash buffer to help offset the loss of profits and/or capital if a key employee dies, becomes disabled or suffers a major traumatic condition. The money can be used to:

- hire temporary staff or, if necessary, recruit and train a suitable replacement,
- cover lost revenue (such as a drop in sales or a cancelled project).

Giving business partners more options

Problems can arise when a business owner's interest in the business is left to his or her beneficiaries. These beneficiaries may not have the skill, resources, experience or desire to take on the responsibility of business ownership.

The remaining business owners may wish to purchase the business outright, but may have neither the cash nor the right to purchase at an agreed price.

A buy-sell agreement allows business partners to take out lump sum cover on each other, which is triggered on the death or disability of either partner. This cover can, for example, ensure that on your death your beneficiaries would receive the full value of your share in the business, while at the same time your business is protected and secure for the future.

There can be tax implications depending on the type of ownership structure chosen for buy-sell insurance, so it's best to seek advice that is appropriate to your individual situation and objectives.

Key questions answered

Your financial adviser can answer key questions such as:

- Which types and levels of cover are best for my situation?
- How can I make insurance more affordable?
- How can I help ensure my policy will deliver at claim time?
- How do I structure insurances to make sure things go as I would have wished after I'm gone?

Speak to your adviser today to develop an insurance strategy to protect your business in the event of an illness or injury to yourself, your business partner or a key employee.

Veronica and Tony, who have been good friends since primary school, are equal partners in a hardware business, Handy Hardware. Veronica looks after the day-to-day operations and manages the store, employees and stock levels, while Tony focuses on sales and managing the suppliers.

Business is booming thanks to the development of several new housing estates in the area, and is currently valued at about $600,000. While Veronica and Tony have local competition, they are currently expanding their existing store at a cost of $200,000.

Both in their early 40s, Veronica and Tony are married to different partners and both have young children. Their families are totally dependent on the fortunes of the business, so they are looking to protect their families' futures and the value of their business.

Realising they could be exposed in the event of an illness or injury, Veronica and Tony's accountant suggested they visit a financial adviser, Sophie.

Sophie took the time to understand Veronica and Tony's complete financial situation and evaluated their circumstances in detail:

- Realising that the current levels of insurance would only service debts and maintain the lifestyle of their young families for just 5 years should they be unable to work, Sophie increased the current levels of personal insurance for both Tony and Veronica.
- Sophie uncovered that Tony's sales skills and business contacts were vital to the success of their business. Were he to die or be unable to work, the business would suffer an immediate loss of business to the competition. To protect the business she calculated that $300,000 of key person insurance on Tony was needed to cover the cost of finding a suitable replacement and potential lost revenue.
- Sophie realised that as neither Veronica's nor Tony's spouse was equipped to work in or manage the business, they should take out $400,000 of life and TPD (total and permanent disability) cover each. In the event of either partner's death or permanent disability, the other partner would receive a $400,000 payout to purchase outright ownership of the business.

Sophie's insurance strategy meant that Veronica and Tony had enough insurance cover to protect the business in the event that one of the partners is unable to work. Knowing their families and future were secure gave Veronica and Tony peace of mind and further confidence they need to invest in and grow their business.