

# REDUCE THE RISK TO YOUR BUSINESS

Small business owners frequently fail to understand the risks they face. Understandably, business owners are usually too busy working to think about what “might” happen.

A comprehensive risk assessment is vital for all businesses. This includes documenting as many conceivable events as possible, including but certainly not limited to:

- suppliers going out of business;
- major customers taking their business elsewhere;
- internal and external theft;
- data loss; or
- major weather disasters.

Despite the above, one of the most important factors to consider is the ongoing availability and capability of the business principal/s.

## KEY PERSON INSURANCE

The purpose of having key person insurance is to make sure the business continues to operate when a key person is unable to perform their duties due to an insurable event. While individuals may be covered by income protection; ongoing business costs also need to be covered if revenue stops. Typical expenses include rent, wages, advertising, accounting fees, business insurance, equipment leasing, communications costs and electricity.

Expenses which may be specific to a particular type of business requires special consideration. For example, a business may need to take into account motor vehicle leases, mortgage payments or the use of a home office.

Employees may also be less productive in the absence of their boss. In these instances, it is important to obtain professional guidance when establishing the policy to ensure full and correct cover in the event of a claim.

## COULD THIS BE YOU?

Adam and Mark operated a boutique winery business in a partnership. Their skills and experience were highly complementary, with Mark supervising manufacturing whilst Adam handled administration and marketing. After talking to their adviser, they entered into an appropriate buy/sell agreement including taking out a “Key Person” insurance policy on the life of each partner.

A couple of months, later Mark got hit by a proverbial bus and died. The proceeds from the policy on Mark’s life enabled Adam to buy Mark’s share of the business and pay out his widow. Without this, Adam would not have had sufficient funds available and may have been forced to sell the business.