

# 7 Insurance Strategies to MANAGE RISK





## Before you get started

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## Letter from Wealth Today

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Dear [Reader](#)

### WELCOME TO WEALTH TODAY

Wealth Today was built specifically to facilitate the integration of financial planning into existing appropriate businesses and to provide sound individual financial advice to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of Members who share our vision and commitment to providing tailored financial advice and building a new foundation of financial understanding and security for everyone.

With a national network of like minded experts, we have the potential to provide the financial building blocks for future generations.

### KNOWLEDGE GIVES YOU A HUGE ADVANTAGE

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of eBooks that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this eBook and find it informative and professionally presented. Of course your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

### TAKE THE NEXT STEP

We invite you to meet with one of our authorised representative to discuss what it was you were hoping to achieve when you downloaded this eBook and to establish if they can help you achieve your goals and objectives.

At the rear of this book you will find the details on how to book an appointment with one of our experts.

We look forward to meeting you soon.

[Wealth Today](#)

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## Introduction

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**Insurance.** The very mention of the word is enough to give some people a headache. Our first response to the need for insurance is “*That won’t happen to me*”. Then there is a bewildering array of insurance products available from a lengthy range of insurance companies. Making a choice from among these products is further complicated by the fact that we get so much conflicting advice from experts advising us that we should not even step out of the door without first purchasing their preferred insurance products. All of this confusion leads many people to the place where they constantly delay making decisions about insurance. Deep down they know that this is not a very smart thing to do and the natural result is nagging uneasiness and worry.

This reaction is obviously rather ironic as the very purpose of insurance is to make our lives a bit more worry and hassle free!

The purpose of this guide is to take some of the mystery and confusion out of insurance by providing you with an overview of the different types of insurances available. We will begin by discussing the basics of insurance cover before moving on to consider different aspects of constructing your insurance safety net.

It should be noted that the purpose of this guide is not to recommend a particular insurer or insurance products but rather to lay down **general guidelines** that you can use to design an insurance strategy that may suit your particular circumstances. Our advisers will, however, be more than willing to assist you with specialist advice and recommendations should you require it.

## #1 Insurance: The Basics

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Insurance provides protection against certain risks in exchange for a specified amount.

Insurance can assist to protect against risks like a house fire, car accident or burglary. It can also cover you if you are too ill to work or to provide for your family upon your death.

The amount of money that you will be required to pay for this protection will vary according to the likelihood of the specified event occurring (risk) and the potential financial fallout should it occur (i.e. the size of the liability). Premiums are determined through complex calculations performed by actuaries, whereby insurers set the premium so they can still achieve a profit after the deduction of realised liabilities.

This balance of risk, liability and premium levels means that insurance is only ever necessary and economical where there is:

- a) a real and realistic risk (e.g. most people do not insure themselves against being hit by an asteroid!)
- b) the possibility of significant financial loss if the risk should materialize and
- c) affordable premiums.
- d) In designing your own insurance strategy, you should therefore ask yourself the following basic questions:
  - What are the significant risks that I face as an individual and/or business owner?
  - What would the financial implications be should any of these risks materialise?
  - How much would I be willing to pay to protect against (insure) these risks?

Having answers to these questions is a very important first step to creating a suitable protection strategy for your circumstance.

## #2 What to Look for in an Insurer

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Before we discuss individual areas where insurance may be needed it would be good to look at some of the qualities that you should look for in insurance providers:

**Financial stability:** The most important quality that you should look for in an insurer is the ability to actually deliver the desired outcome, namely compensating you (and perhaps many others) when disaster strikes. This means that the insurer should have deep enough pockets (or have strong reinsurance arrangements in place) to deal with even major catastrophes. The last thing you would want in a situation like this is for your insurer to go belly-up because of an inability to cope with the volume and size of claims. It is therefore always a good idea to investigate the capitalisation, reinsurance arrangements and track record of an insurer before you place a policy with them.

**Specialisation:** If you have no specialised needs you will have a number of providers to choose from. If, however, you have specialised needs (e.g. vintage car insurance, life insurance for heart attack survivors etc.) it would be advisable to seek out the services of specialist insurers working in this area. Such insurers will be better able to accurately assess risk in specialised situations and will be able to offer you realistic policies and premiums.

**Customer service:** It is sadly often the case that some insurers offer the world – but only if you can get through to them! Coping with catastrophe or trauma is stressful enough without having the added aggravation of dealing with unresponsive and/or incompetent insurers. This is an area where word-of-mouth and perhaps also a bit of sleuthing on the websites of consumer advocacy groups can save you a lot of trouble in the future.

**Packaging of policies:** It is sometimes possible to make significant savings by placing all your insurance business with one insurer in the form of a bundled package. This is a service that is often offered by larger insurers who are able to offer policies in a variety of risk areas. It is a good idea to ask whether this kind of service is available from the insurer you are considering. Please keep in mind however that going down this route will not be cheaper in all cases, so do your homework on costing. It should also be noted that a combined policy is not advisable if your insurance needs are particularly complex or specialised.



## #3 Asking the Right Questions

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In the introduction we asked you to consider some implications of the risks that are present in your life. What they are, what their impact might be and how much you would be willing to pay to neutralise them.

When designing a personal insurance strategy, you should attempt to 'flesh out' these questions a little by focusing on specific areas of risk. You can do so by asking the following questions:

- What are some potential nasty shocks that could befall me?
- Under what circumstances would I not be able to generate a reliable income?
- What will happen to my loved ones if I am not there to provide for them?
- How will my personal finances hold up if I get sued?
- Will my business be able to survive if I cannot work for due to illness or injury?

The purpose of these questions is to help you to determine your position in certain key areas.

Once you have determined the level of risk it would be prudent to move to protect yourself against the realisation of these risks. You can do so by taking the steps outlined in the rest of this guide.

## #4 Step 1 – Protect Yourself from Nasty Shocks

### *(Short term insurance)*

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The purpose of this type of insurance is to protect you against or adverse or catastrophic events. The most common risks that you will be insured against are accidents, fire, theft and accidental damage. The three areas in which you definitely should seek cover are home, car and travel. Let us look at each in turn:

**Home and Contents Insurance:** This will cover you against adverse events associated with owning (or living in) a home. Separate policies are normally written for the structure (and the land) and contents. It makes a lot of sense to ensure that your policies are as comprehensive as possible as the loss of your home can obviously lead to major financial hardship.

You will often be offered a home owner's policy (arranged by the bank) when you take out a mortgage. It is quite possible that this policy does not represent the best value. You are not obliged to take up the policy recommended by the bank and would therefore be well within your rights to shop around a bit.

If you are renting you will however, be responsible for taking out your own contents insurance.

When looking for a contents insurance policy make sure that it includes a form of 'off site' personal possessions insurance. This will cover your possessions when you are away from home and can significantly contribute to your peace of mind if you regularly leave home with expensive items (e.g. laptops, musical instruments and mobile phones).

**Car insurance:** It is a legal requirement to take out insurance if you own a vehicle. There are two basic types of vehicle insurance namely *comprehensive* and *compulsory third-party, fire and theft* policies. Each state and territory stipulates minimum requirements and providers with relation to compulsory third party insurance.

Because of the very high participation rate car insurance is perhaps the most competitive part of the insurance market.

It would therefore be very much worth your while to shop around as doing so can often lead to savings of hundreds of dollars.

Many car insurance policies include rental car cover. This means that you can avoid the horrendously high insurance rates (for extra 'no-excess' cover) charged by rental car companies. Definitely an add-on that is worth looking into!

**Travel insurance:** An emergency while overseas can very easily escalate into a major financial disaster. This is why travel insurance, especially while travelling abroad, is a nonnegotiable insurance item. There are some very good policies that will cover you for everything from lost luggage to medical repatriation.

Many credit card companies will offer you free travel insurance if you book tickets using their cards. Some of these policies are very good and would be sufficient for most travellers. However, some others are governed by so many restrictions that they are next to useless. You should therefore make sure that you read the fine print before completely relying on a policy underwritten by a credit card company.

It is sometimes possible to arrange travel insurance through your health insurer, resulting in significant savings.

Some larger companies have travel insurance policies that will cover employees (and even their families) on both business and private trips. If you regularly travel for business it might be worthwhile to find out whether any policies arranged by your company also extends to private travel.

Having policies in place in the areas mentioned above (home, vehicle and travel) should make a significant contribution to shielding you from nasty shocks.

Being covered in these areas represents the bare minimum of an ideal insurance strategy; we should therefore continue our discussion by looking at ways of protecting ourselves from the impact of major life events.

## #5 Step 2 – Protect Yourself from the Impact of Major Life Events

### (Life, illness and disability insurance)

The effects of serious illness, or even death, could seriously jeopardise your family's financial well-being. In this area your objectives should basically be twofold:

- a) Protecting your income stream and
- b) Providing for your family in case of death or disability.

Any policy that you take out should include at least the following elements:

**Income protection insurance:** This type of insurance kicks in when you are unable to earn an income due to illness or injury. Policies will generally pay a set amount to compensate you for loss of income over a specified period (usually six months to a year).

**Critical Illness Insurance:** Provides cover in case you contract certain specified illnesses and conditions.

**Total and Permanent Disability insurance:** This type of insurance will usually pay out a lump sum in case of total inability to work. Total and permanent disability policies sometimes differentiate between cover for *own occupation* and cover for *any occupation*. If you are covered for your *own occupation* the policy will pay out when you cannot work in that specific occupation anymore (the profession you are performing at the time of disability). *Any occupation* cover will only pay out if you cannot work at all. It is obviously better to go for the former (i.e. own occupation cover), even though it is usually more expensive. Otherwise the insurer might be able to make the case that even though you cannot work as an opera singer anymore you can still stack shelves at the local supermarket!

**Life insurance:** Life insurance can be used to provide for your family case of your death. Policies will normally pay a lump sum to your family.

**Policy options:** The types of insurance discussed above are often packaged together in a single policy. This can sometimes result in significant cost savings but you should nonetheless make very sure that it is the best option in your case.

**Obtaining insurance via superannuation:** It is often possible to buy income protection, total and permanent disability and life insurances from within your superannuation fund. The obvious benefit of this strategy is that the payment for the policies will be taken from your superannuation balance and therefore not be a direct out-of-pocket expense. This does mean, however, that the cash amount that you will have available in your superannuation fund at retirement will be reduced. It is highly recommended that you discuss the option of insurance in your superannuation with a competent financial adviser before proceeding.

**Consider the level of insurance:** One of the most important aspects of setting up life and disability insurance is to choose the correct levels of cover. It is our experience that most people are **woefully underinsured** when it comes to this type of insurance. This happens because they neglect to adjust coverage levels to reflect changes in circumstances (e.g. the birth of a child) or because they simply underestimate the financial needs of their families. Choosing the right levels of cover can be quite a difficult exercise as there are so many variables to take into account. This is therefore an area where it would be very much to your advantage to get some professional help and input.

**Shop around:** You will sometimes be required to take out life insurance before you can be granted a significant loan. The most common example of this is life insurance linked to a home mortgage. Your financial institution will, in such cases, often recommend a certain provider and policy. You should, however, remember that you are well within your rights to make your own arrangements and that this can very often lead to significant savings.

## #6 Step 3 – Protect Yourself from the Impact of Being Sued

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We live in an increasingly litigious society. Your insurance policies should therefore not only include insurance against the risks themselves, but also insurance against the possibility of being sued by others for your actions.

Most policies will automatically include a certain level of legal liability cover but it is worth checking whether this will be sufficient for your needs, especially if you are in a high-risk profession or regularly take part in risky activities. Home and contents policies, for example, often include a legal liability benefit.

## #7 Step 4 – Protect Your Business

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If you are a business owner your insurance needs will obviously go beyond the previous insurances described above. You should also have insurance to protect your business and your stake in it. Protecting your business, as well as your stake in it, through insurance can be a highly complex and specialised task. It is therefore highly recommended that you make use of the services of a competent and experienced insurance adviser as you develop your strategy for maximum protection. The following areas should ideally form part of your total strategy:

### **Business loan insurance**

What would happen if death or disability makes the repayment of any business debts difficult, if not impossible? Having a good business loan policy in place can be the answer. Under the terms of this type of policy funds will be made available to repay debts and also to protect personal or business assets that may have been used as security for such loans.

### **Business succession insurance**

If a business is co-owned, or is part of a partnership, the disability or death of one of the principals could mark a major crisis point. This person's interest in the business may need to be transferred to the other principals in an orderly manner. Such a transfer can have massive capital implications as the disabled person (or the family of the deceased person) will have to be compensated for his/her share. Insurance is generally considered the best way to raise capital in such circumstances. In addition to the insurances it is essential the appropriate legal agreements are drawn up and reviewed on a regular basis that deals with these possible events.

### **Business expenses insurance:**

How will you be able to cover fixed business expenses if the revenue generating capability of your business is hamstrung by your inability to work due to illness or disability? Business expense insurance takes care of this worry. As such it will enable you to maintain your business as a viable concern through very challenging circumstances, generally with cover for up to 12 months.

### **Business revenue protection- Key Person insurance**

If you are the owner or a major stakeholder in your business it is quite likely that business income will suffer if you are not able to fulfil your role due to illness or disability. Revenue protection insurance most commonly referred to as *Key Person or Key Man* insurance provides cover to offset reductions in revenue should something happen to you (or to other stakeholders named in the policy). Some policies will also provide funds for the recruitment and training of suitable replacements.

### **Personal income protection insurance**

Income protection was discussed previously. This insurance is still required to cover your personal situation should you be unable to work in your business. Business insurances are intended to support the business operations, not the personal circumstances of the business individuals covered.

### **Other business insurances – general insurance**

There are a number of general insurances that relate to businesses. These include workers compensation, professional indemnity, public liability, property, product liability, theft and burglary, money, commercial vehicle, business interruption, glass, employee fraud or dishonesty, machinery equipment/ breakdown, computer/ electronic equipment and insurance for goods/property in transit.

It might seem rather bewildering to try and get all of the different types of cover described above in place. It need not be however. It is often the case that insurers are able to combine the described above into a single policy. A competent and impartial insurance adviser will be worth their weight in gold in this area as they work through all of the different options with you. This will ideally leave you with a solution that will be tailored to your specific needs and the peace of mind that comes with the knowledge that you are protected against much of what life and adverse circumstances can throw against you and your business!

## Conclusion

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We hope that the information presented in this eBook gets you thinking about some of the issues that you will have to pay attention to in planning your next steps and more importantly your financial future. It would be impossible, however, to present a complete guide to all your financial planning needs in a document as brief as this.

We urge you to continue your explorations by making use of some of the other resources and eBooks available on [wealthadviser.com.au](http://wealthadviser.com.au).

We also invite you to meet with us for an obligation free introductory meeting. Details of all our national offices are at the back of this eBook.









## Take the next step

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We trust you enjoyed this eBook and found it informative and professionally presented. Of course your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and to meet with our authorised representative to discuss what it was you were hoping to achieve when you downloaded this eBook and to establish if they can help you achieve your goals and objectives.

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We look forward to meeting you soon.

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# Appointment Booking Request form

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Appointments are available Monday-to-Friday from 8am and until the normal final starting time of 6pm. After-hours appointments are available by request most weekday evenings and on most Saturdays if preferred. Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Day

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Date

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Time

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