Notes

- This chapter should be read in conjunction with the contract documents. If there is any conflict or inconsistency between the contents of the contract documents and this chapter, the provisions of the contract documents will prevail.
- Take note that information contained in this technical guide is with regards to the latest versions of the applicable products/benefits. Refer to the contract documents for information about the existing products/benefits of a life insured.
- Any reference to "Sanlam" or "Sanlam Individual Life" refers to Sanlam Life Insurance Limited.

Business insurance

The need, problem and solution, as well as the tax implications and the structure are discussed for each of the business insurance needs below. An example is also included to demonstrate the practical application.

Business insurance needs

Contingent liability

The need

When a business borrows money from the bank, the bank will require one or more of the owners to sign surety for that loan in their personal capacity. The bank may call up the surety if the business owner is unable to repay the loan as a result of death or permanent disability.

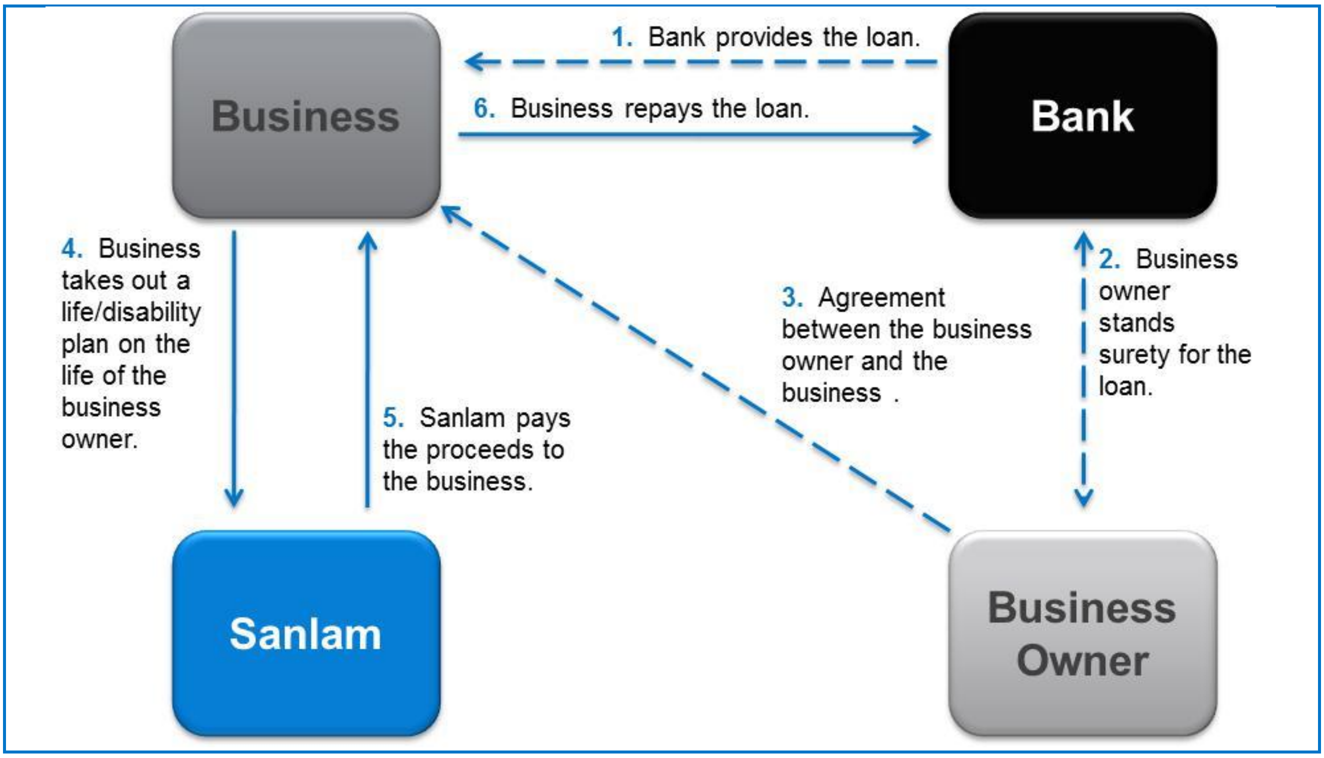
The solution

A contingent liability insurance plan, taken out by the business on the life of the business owner who signed surety, is used to overcome such a dilemma.

The tax implications

Tax implications	
Income tax	• There is no tax deduction for payments made by the business.
Estate duty	• Plans on the life of a deceased, owned by a third party, are deemed to be property in the estate of the deceased (section 3(3)(a) of the Estate Duty Act). • Proceeds of a contingent liability plan will not be deemed to be property in the deceased's estate if the requirements of section 3(3)(a)(ii) are met.
Capital gains tax	• A plan ceded as security does not become a second-hand plan. • A pure risk plan (with no cash or surrender value) will also not become a second-hand plan if ceded outright to anyone (paragraph 55(1)(e) of the 8th Schedule to the Income Tax Act).

Structure



Example

Move It (Pty) Ltd borrowed R1 million from ABC Bank to fund the purchase of new trucks for their transport business. The three shareholders, John, Jack and Jill, were required to sign surety on behalf of the business.

The business takes out a pure risk plan on the life of each of the shareholders for an amount equal to the value of the debt guaranteed, and enters into an agreement with the shareholders compelling the business to settle the debt with the bank on the death or permanent disability of any of the shareholders.

Credit loan account

The need

The capital structure of a business usually includes a loan, also known as a credit loan, from the business owner. In the event of the owner's death or permanent disability, the business could face financial distress as it may not be in a position to repay the loan.

The solution

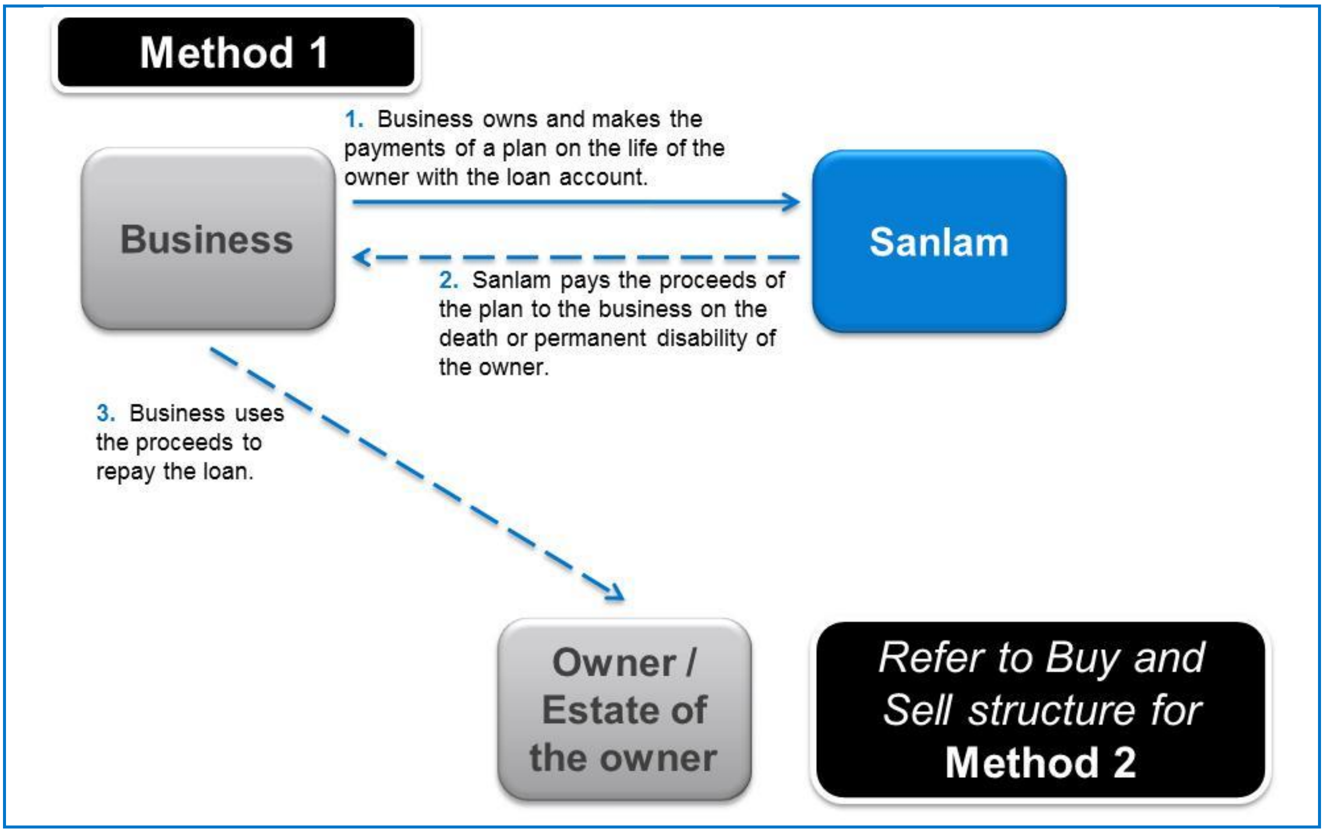
The credit loan can be covered by an insurance plan that includes a death and/or permanent disability benefit. The structure used to cover the loan can either be a plan owned by the business or the loan can be included in the Buy and Sell agreement, resulting in the capital structure of the business being protected.

The tax implications

Tax implications	
Income tax	• There is no tax deduction for payments made.
Estate duty	• Plans on the life of a deceased, owned by a third party, are deemed to be property in the estate of the deceased (section 3(3)(a) of the Estate Duty Act). • Proceeds of a company-owned plan will not be deemed to be property in the deceased's estate if the requirements of section 3(3)(a)(ii) are met. • Proceeds of a Buy and Sell plan (i.e. where a credit loan is included) will not be deemed to be property in the deceased's estate if the requirements of section 3(3)(a)(iA) are met.
Capital gains tax	• A plan ceded as security does not become a second-hand plan. • A pure risk plan (with no cash or surrender value) will also not become a second-hand plan if ceded outright to anyone (paragraph 55(1)(e) of the 8th Schedule to the Income Tax Act).

Structure

"Owner" refers to the business owner and not the planholder.



Example

After 20 years of formal employment, John used the proceeds of his provident fund to start his own business, Move It (Pty) Ltd, a transport business.

To ensure that the business is in a position to repay the start-up capital on John's death or permanent disability, a pure risk plan equal to the total amount owed to John is taken out by the business. John also has the option of including the loan made to the business in a Buy and Sell agreement.

Buy and Sell agreement

The need

The death or permanent disability of a co-owner in the business could jeopardise the existence of the business as the remaining owners may be unable to purchase the deceased owner's equity in the business.

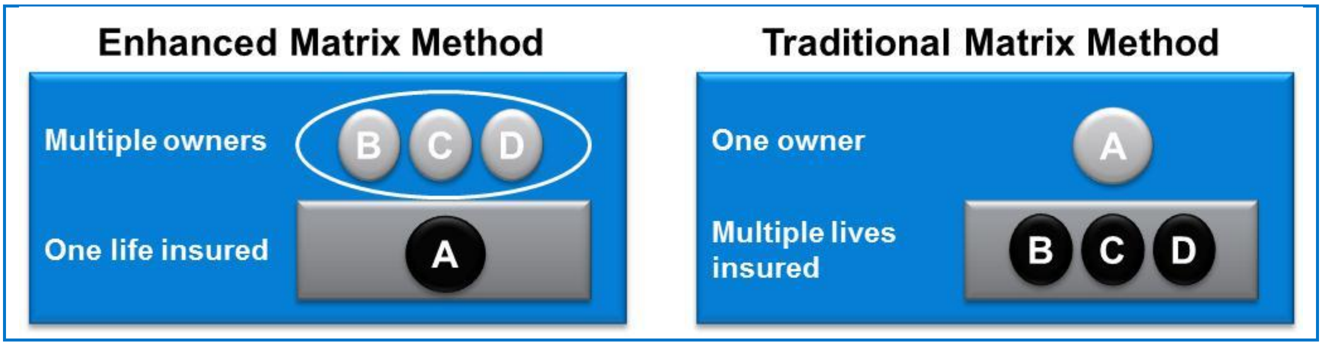
The solution

A Buy and Sell solution presents a smooth exit to a co-owner of a business in the event of death or permanent disability, ensuring continuity of the business. The Buy and Sell arrangement can be structured using the Traditional or Enhanced Matrix Method.

The tax implications

Tax implications	
Income tax	• There is no tax deduction for the payments made by each co-owner of the business.
Estate duty	• Plans on the life of a deceased, owned by a third party, are deemed to be property in the estate of the deceased (section 3(3)(a) of the Estate Duty Act). • Proceeds of a Buy and Sell plan will not be deemed to be property in the deceased's estate if the requirements of section 3(3)(a)(iA) are met.
Capital gains tax	• Plans ceded to the respective lives insured will not become second-hand plans by virtue of the exemption as per paragraph 55(1)(c) of the 8th Schedule to the Income Tax Act. • A pure risk plan (with no cash or surrender value) will also not become a second-hand plan if ceded outright to anyone (paragraph 55(1)(e) of the 8th Schedule to the Income Tax Act).

Structure



Example

Move It (Pty) Ltd has three shareholders: John, Jack and Jill, with shareholdings of 50%, 30% and 20% respectively. The business is valued at R1 000 000. To ensure continuity in the business the shareholders take out a pure risk plan on the life of each co-owner in proportion to their share of the business as set out in the Buy and Sell agreement. Note: A permanent disability benefit can also be included.

The plan contracts can be structured as indicated in the tables below.

Enhanced Matrix Method (multiple owners, one life insured) [1]			
Contracts	**Plan contract 1**	**Plan contract 2**	**Plan contract 3**
Applicants	Applicants as per Plan Note 1 (John and Jack)	Applicants as per Plan Note 2 (John and Jill)	Applicants as per Plan Note 3 (Jack and Jill)
Life insured	Jill (Cover amount: R200 000)	Jack (Cover amount: R300 000)	John (Cover amount: R500 000)
Percentage ownership of cover amount and payment payable	John: 50/80 **x** 100 = 63% Jack: 30/80 **x** 100 = 37%	John: 50/70 **x** 100 = 71% Jill: 20/70 **x** 100 = 29%	Jack: 30/50 **x** 100 = 60% Jill: 20/50 **x** 100 = 40%

Traditional Matrix method (one owner, multiple lives insured) [1]			
Contracts	**Plan contract 1**	**Plan contract 2**	**Plan contract 3**
Applicants	John	Jack	Jill
Life insured	Jack and Jill	John and Jill	John and Jack
Ownership on each life insured	Jack: R214 286 (50/70 **x** 300 000) Jill: R125 000 (50/80 **x** 200 000)	John: R300 000 (30/50 **x** 500 000) Jill: R75 000 (30/80 **x** 200 000)	John: R200 000 (20/50 **x** 500 000) Jack: R85 714 (20/70 **x** 300 000)

[1] A *Sanlam business insurance calculator* has been developed to calculate the ownership percentage based on the Enhanced Matrix Method and the Traditional Matrix Method respectively. It can be downloaded from the "Tools & Calculators" portal on SanPort.

Key person insurance

The need

The sudden loss of expertise due to death or permanent disability could have a devastating impact on a business in the short to medium term. High replacement costs, in addition to a slowdown in turnover, could further strain the cash flow position of the business.

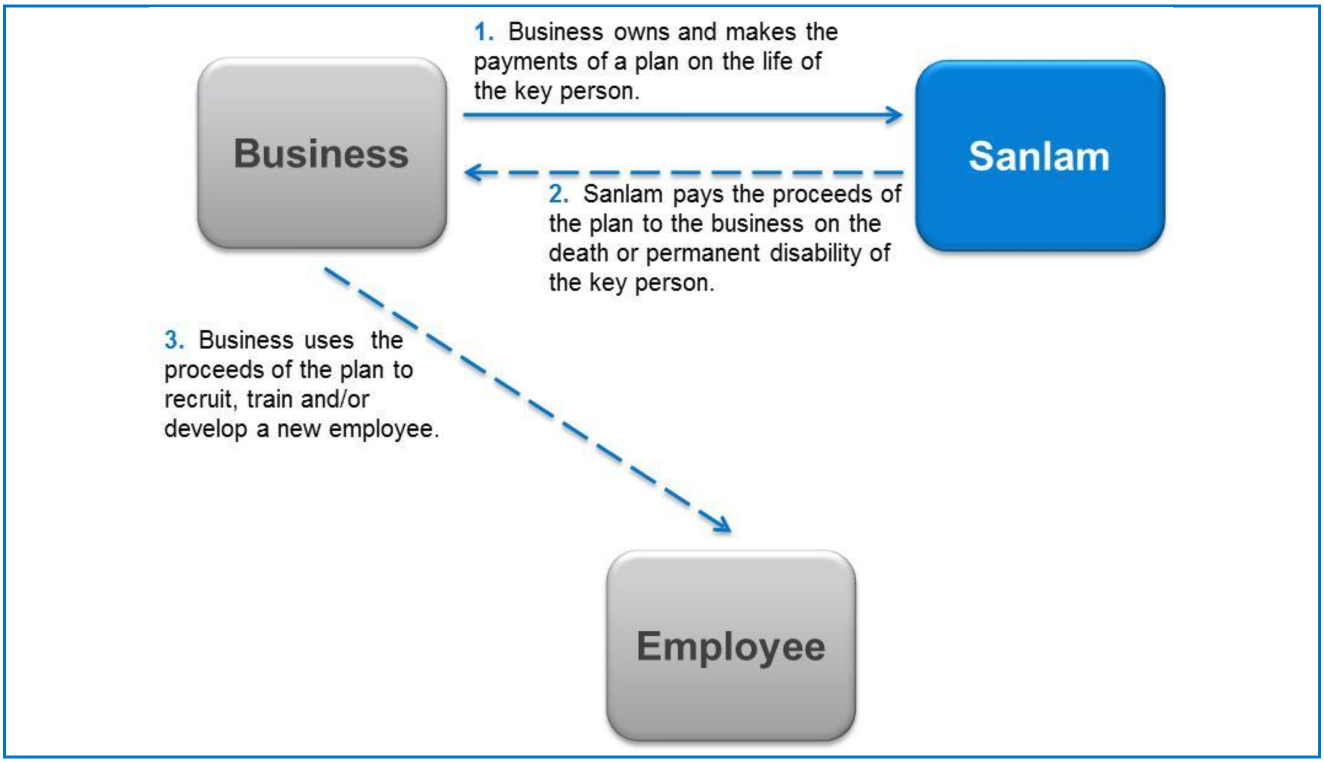
The solution

Key person insurance provides the business with the necessary funds to sustain the business while a suitable replacement is being found.

The tax implications

Tax implications	
Income tax	• Payments – If the requirements of section 11(w)(ii) are met, then the business has a choice regarding the tax deductibility of the payment. • Proceeds – If no election was made to comply with the requirements of section 11(w)(ii), then the proceeds of the plan for the business will be exempt from tax in terms of section 10(1)(gH).
Estate duty	• Plans on the life of a deceased, owned by a third party, are deemed to be property in the estate of the deceased (section 3(3)(a) of the Estate Duty Act). • Proceeds of a Key person plan will not be deemed to be property in the deceased's estate if the requirements of section 3(3)(a)(ii) are met.
Capital gains tax	• Plans ceded to the respective lives insured will not become second-hand plans by virtue of the exemption as per paragraph 55(1)(b) of the 8th Schedule to the Income Tax Act if deducted in terms of section 11(w). • A pure risk plan (with no cash or surrender value) will also not become a second-hand plan if ceded outright to anyone (paragraph 55(1)(e) of the 8th Schedule to the Income Tax Act).

Structure



Example

Matrix Hills (Pty) Ltd is a small wine-making company. John is the winemaker and is considered to be the key person because of his specialist wine-making skill.

The owners of Matrix Hills (Pty) Ltd have therefore insured John as their key person. The proceeds of the insurance will be used to upskill or find a suitable replacement for John on his death or permanent disability. The business also has the option to insure itself against the loss of a key person in a tax-effective manner.

Debit loan account

The need

A business sometimes lends money to its owner, also known as a debit loan. The business therefore faces a risk that the loan may not be repaid on the death or permanent disability of the owner, leading to consequential losses for the remaining owners.

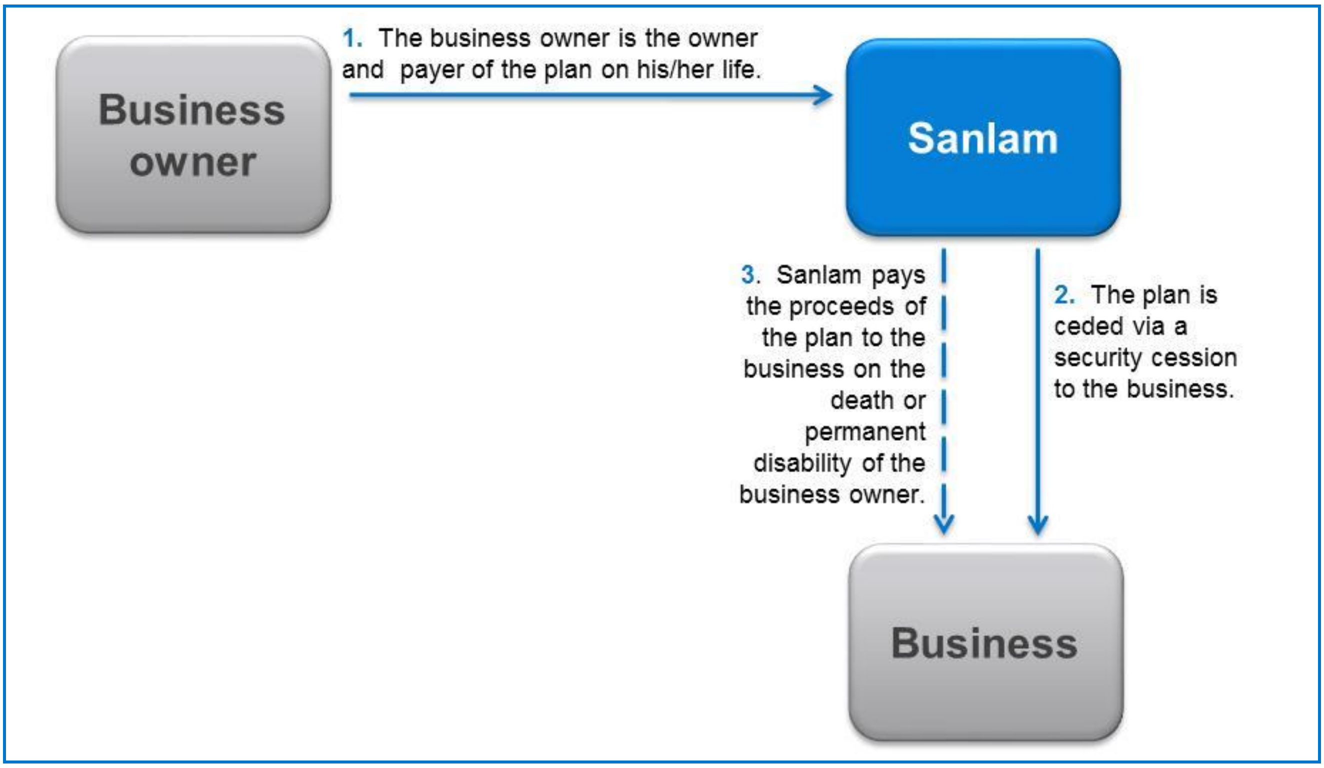
The solution

The debit loan can be covered with an insurance plan that includes a death and/or permanent disability benefit. The business owner is the owner and payer of the plan on his/her life.

The tax implications

Tax implications	
Income tax	• There is no tax deduction for payments made.
Estate duty	• Plans on the life of a deceased, owned by the deceased but for the benefit of a third party, are deemed to be property in the estate of the deceased (section 3(3)(a) of the Estate Duty Act).
Capital gains tax	• There are no CGT implications.

Structure



Example

Business owner John needed to build a wall around his personal property to ensure the safety of his family. As he did not have the means to fund it himself, he borrowed R100 000 from the business.

To ensure that he can repay the business the outstanding debt on his death or permanent disability, he effects a plan on his life equal to the outstanding amount and cedes it via a security cession to the business. Should John die or become permanently disabled, the outstanding debt will be settled.

Business overhead protection

Lump sum payment

The need

The unexpected death of the business owner or one of its co-owners may temporarily affect the business and its cash flow position to such an extent that the business may not be in a position to pay its overheads.

The solution

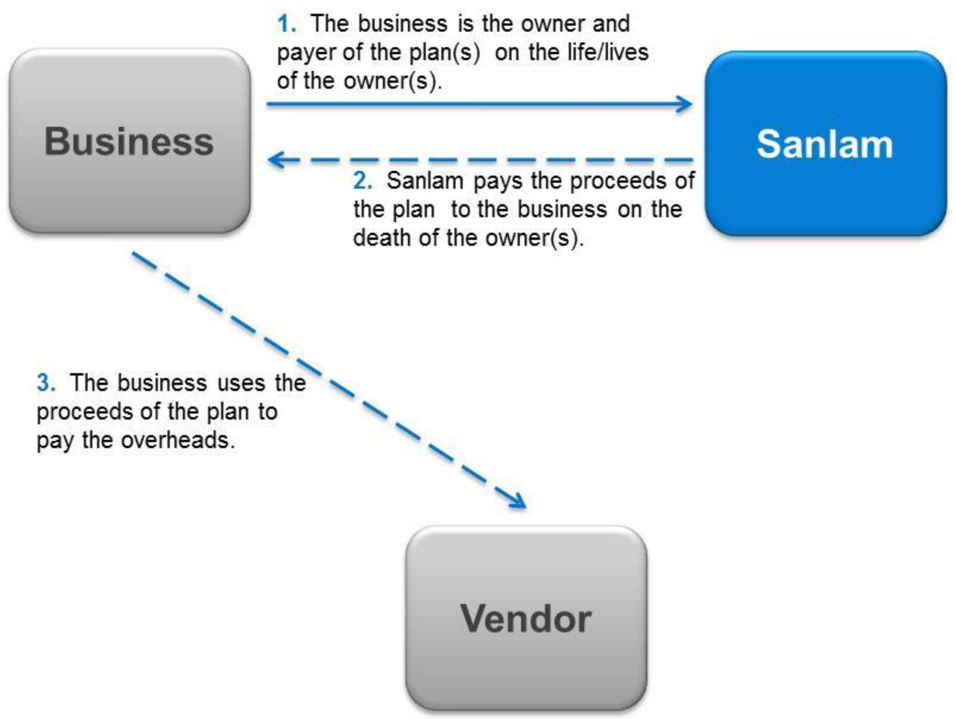
A lump sum business overhead protection benefit provides the business with the necessary funds to satisfy its business overhead commitments after the unexpected death of a business owner.

The tax implications

Tax implications	
Income tax	• Payments – If the requirements of section 11(w)(ii) are met, then the business has a choice regarding the tax deductibility of the payment. • Proceeds – If no election was made to comply with the requirements of section 11(w)(ii), then the proceeds of the plan for the business will be exempt from tax in terms of section 10(1)(gH).
Estate duty	• Plans on the life of a deceased, owned by a third party, are deemed to be property in the estate of the deceased (section 3(3)(a) of the Estate Duty Act). • Proceeds of a business overhead protection plan will not be deemed to be property in the deceased's estate if the requirements of section 3(3)(a)(ii) are met.
Capital gains tax	• Plans ceded to the respective lives insured will not become second-hand plans by virtue of the exemption as per paragraph 55(1)(b) of the 8th Schedule to the Income Tax Act if deducted in terms of section 11(w). • A pure risk plan (with no cash or surrender value) will also not become a second-hand plan if ceded outright to anyone (paragraph 55(1)(e) of the 8th Schedule to the Income Tax Act).

Structure

"Owner" refers to the business owner and not the planholder.



Example

Move It (Pty) Ltd has signed various long-term business overhead commitments (e.g. lease of their business premises). The co-owners of Move It (Pty) Ltd were concerned that their long-term business overhead commitments would not be covered in the event of the death of one or more of the co-owners, as they signed jointly and severally.

To prevent this, Move It (Pty) Ltd insures the lives of the co-owners for an amount equal to the total long-term business overhead commitments, giving them peace of mind should a co-owner die. The business also has the option to insure itself against the loss of contributions towards business overhead commitments in a tax-effective manner.

Replacement of income at death

Lump sum payment

The need

The unexpected death of a business owner, who may also be the breadwinner in the family, could seriously expose his/her family to financial distress, forcing the family to adjust their lifestyle.

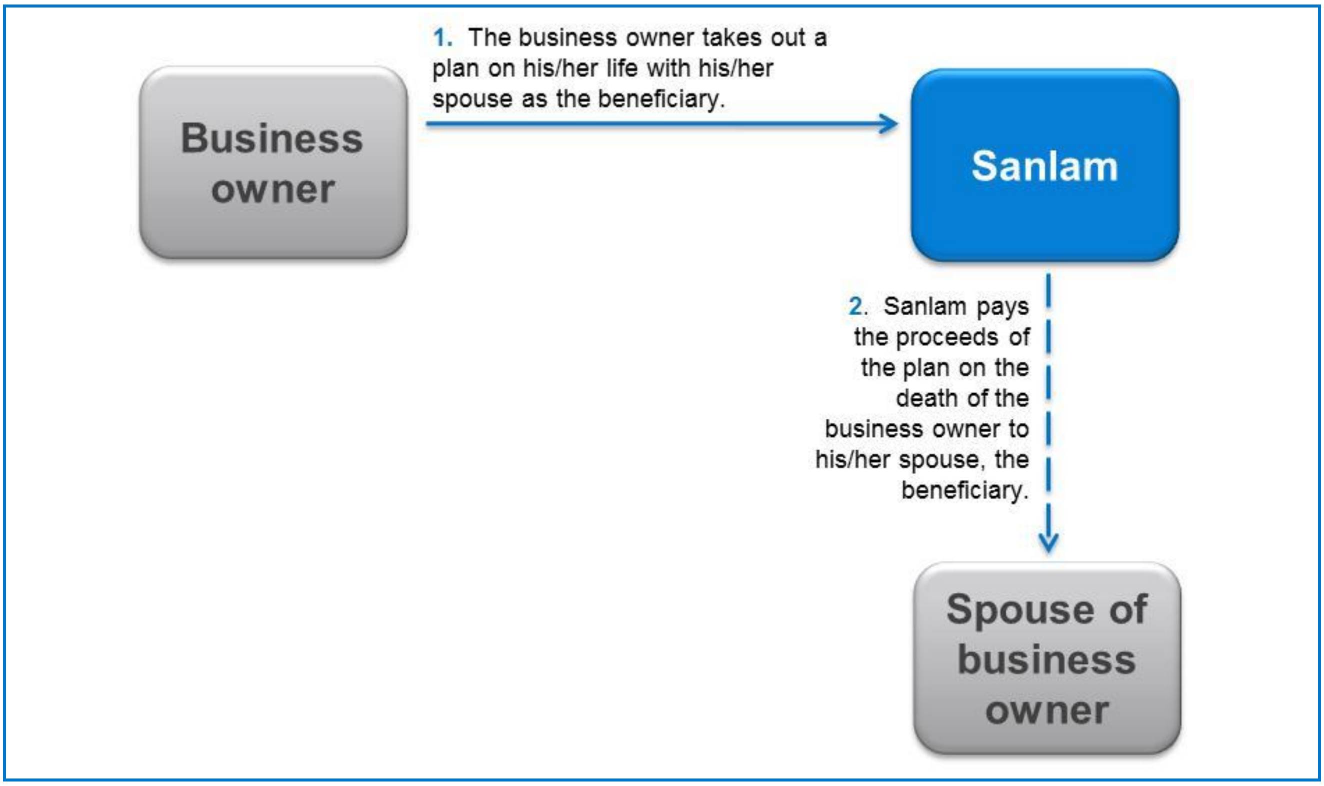
The solution

Replacing the business owner's income with a lump sum benefit on death will minimise the financial impact on the family, allowing them to maintain the lifestyle they were used to before the breadwinner died.

The tax implications

Tax implications	
Income tax	• There is no tax deduction for payments made.
Estate duty	• There are no estate duty implications if the spouse is the beneficiary on the plan.
Capital gains tax	• There are no CGT implications.

Structure



Example

John, the owner of a small business, was concerned that the business would close down or that his family would not be able to harvest the true value of the business on his death.

To avoid the financial shock for his family should he die, John effects a plan on his life to replace the income he drew from the business. This is achieved by capitalising his existing income and funding it with life insurance. On John's death the capital amount will provide the family with an income.

Overhead Expenses benefit

Monthly payment

The need

An unexpected illness or accident involving the business owner or its co-owners could temporarily impact the business and its cash flow position to such an extent that the business may not be in a position to pay its monthly business overheads.

The solution

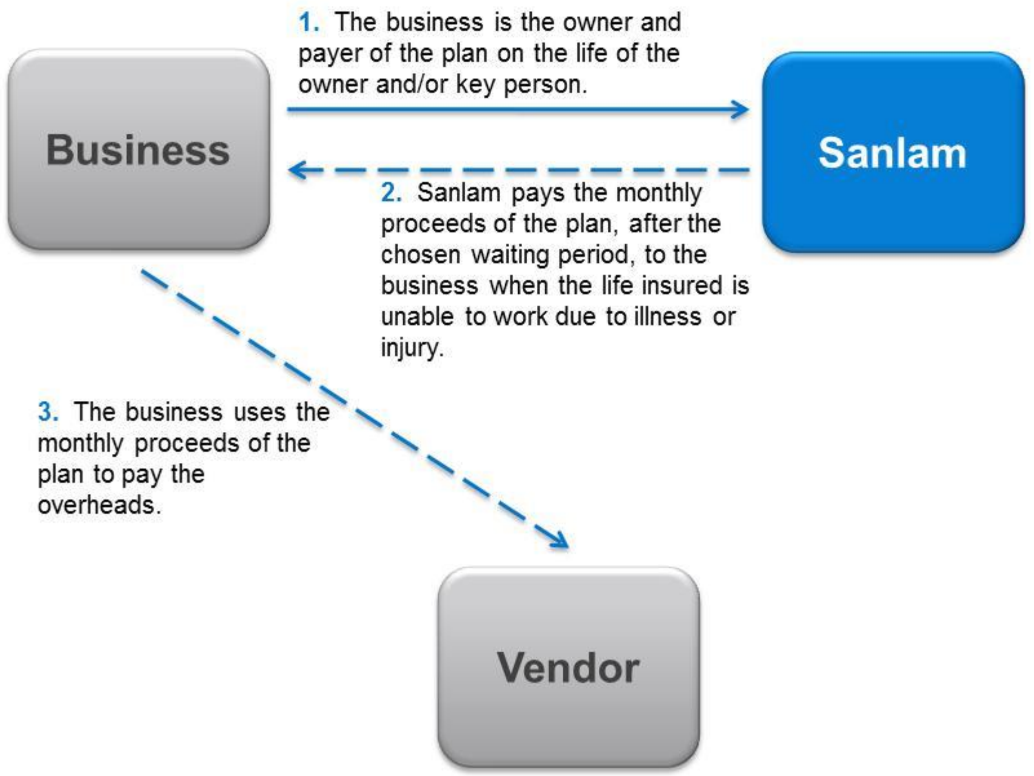
An Overhead Expenses benefit provides the business owner(s) with limited monthly payments, based on their contribution towards turnover, to meet their business overhead commitments while the business owner(s) or a key member of their staff is temporarily unable to contribute to the funding of the running costs of the business.

The tax implications

Tax implications	
Income tax	• Payments – If the requirements of section 11(w)(ii) are met, then the business has a choice regarding the tax deductibility of the payment. • Proceeds – If no election was made to comply with the requirements of section 11(w)(ii), then the proceeds of the plan for the business will be exempt from tax in terms of section 10(1)(gH).
Estate duty	• Not applicable.
Capital gains tax	• Not applicable.

Structure

"Owner" refers to the business owner and not the planholder.



Business overhead expenses	
Include the following	**Exclude the following**
• Rent for the business premises • Water, electricity, telephone • Regular maintenance services • Property taxes and mortgage interest for the business premises • Equipment leasing costs • Insurance payments • Accounting fees • Salaries of employees • Other normal and necessary expenses	• Depreciation • Cost of goods or merchandise or additions to inventory • Cost of furniture or equipment • Capital payments on outstanding debt • Expenditure on assets • Fees on current accounts • Expenses that are remunerable under any other disability insurance • Business rationalisation costs, e.g. retrenchment • Any remuneration or other consideration to the life insured, the planholder, associates in the affected business, and any other person who shares directly or indirectly in the profit of the affected business.

Example

The business was concerned that it would not be able to cover the business overheads of its small to medium enterprise should John be unable to work due to illness or injury.

To ensure that its valued employees and creditors would not be disadvantaged financially as a result of John's temporary absence from the business, the business insures his life with Sanlam's Overhead Expenses benefit. This benefit gives the business peace of mind when the life insured is forced out of the daily running of the business by illness or injury, allowing the life insured to fully focus on the rehabilitation process without having to worry about ongoing administrative expenses of the business. The business also has the option to ensure the other key person(s) in his business with this benefit.

Sickness benefit for Key person insurance

Monthly payment

The need

The ongoing administrative expense of a professional practice is a function of the income generated by the professional. The absence of the professional would therefore put strain on the cash flow and running costs of the practice.

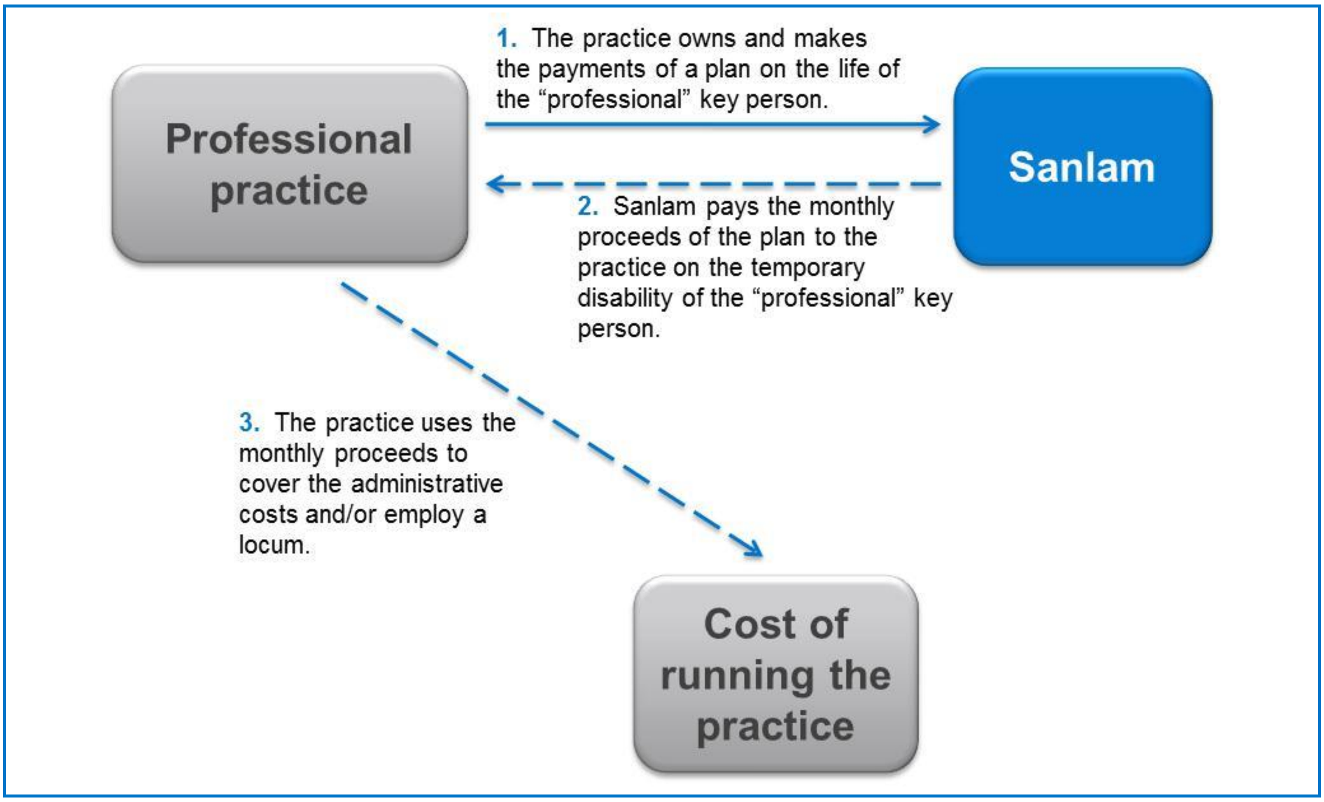
The solution

The Sickness benefit for Key person insurance partially protects the income of the practice should a professional key person be temporarily unable to work due to sickness or injury.

The tax implications

Tax implications	
Income tax	• Payments – If the requirements of section 11(w)(ii) are met, then the business has a choice regarding the tax deductibility of the payment. • Proceeds – If no election was made to comply with the requirements of section 11(w)(ii), then the proceeds of the plan for the business will be exempt from tax in terms of section 10(1)(gH).
Estate duty	• Not applicable
Capital gains tax	• Not applicable

Structure



Example

Jabo is a qualified doctor and a member of an incorporated practice. He makes a significant contribution to the funding of the running costs and profit of the practice.

To ensure that the incorporated practice is not out of pocket when Jabo is temporarily unable to fulfil his duties due to sickness or injury, the practice insured his life for the Sliding scale percentage* of his contribution to the income generated by the practice.

*Refer to the *Underwriting for Classic and Premier* chapter for the Sliding scale percentage.

Calculating the cover required where estate duty and/or income tax is applicable

If the proceeds of the plan are subject to estate duty and/or income tax, then the cover amount must be increased to provide for the estate duty and/or income tax payable. The formulae indicated in the table below can be used to calculate the cover amount required.

Cover required		
	For estate duty[1] only	**For income tax[2] only**
Step 1	Initial cover required 1 - Estate duty rate	Initial cover required 1 - Income tax rate
Step 2	100 000 1 - 0.20	100 000 1 - 0.28
Cover required	R125 000	R138 889

Cover required for estate duty[1] and income tax[2]		
	The long method	**The short method**
Step 1	Initial cover required 1 - Estate duty rate	Initial cover required 0.576
Step 2	100 000 = R125 000 1 - 0.20	100 000 0.576
Step 3	Adjusted cover 1 - Income tax rate	
Step 4	125 000 1 - 0.28	
Cover required	R173 611	R173 611

The formula for "Cover required for estate duty[1] and income tax[2]" takes into account the fact that, in practice, SARS allows the estate duty attracted by the plan as a deduction against the proceeds before income tax is levied.

[1] Estate duty is levied on the dutiable value of an estate at a rate of 20% on the first R30 million and at a rate of 25% on the amount above R30 million..

For this example an estate duty rate of 20% is assumed . It is also assumed that the estate duty exemption has been utilised in full.

[2] It is assumed that the employer tax rate is 28%.

1-2-3 of Business

The 1-2-3 of Business is a web-based analysis instrument for the financial intermediary specialising in business insurance. It is a system by which business insurance needs are identified, quantified and prioritised using the unique Allegiance Risk Type Classification™ (ARTC™) system. The analysis instrument addresses the following business insurance needs:

- ARTC™ 1 – Contingent liability
- ARTC™ 2 – Credit loan account
- ARTC™ 3 – Buy and Sell
- ARTC™ 4 – Key person insurance
- ARTC™ 5 – Debit loan account
- ARTC™ 6 – Business overhead protection (lump sum payment)
- ARTC™ 7 – Replacement of income (lump sum payment)

The 1-2-3 of Business process

- Gather the relevant information using the *1-2-3 of Business questionnaire*. This questionnaire can be downloaded from SanPort or the 1-2-3 of Business website.
- Populate the 1-2-3 of Business with the information gathered:
  - **Option 1 – Assistance Required**
    - Forward the completed questionnaire to Sanlam Legal Consultants.
  - **Option 2 – Self-Service**
    - Access the 1-2-3 of Business analysis tool on SanPort via the Secure Access Portal.
- The analysis tool generates a 1-2-3 of Business Report. The intermediary has the option of requesting a comprehensive, short or customised report.

Allegiance Risk Type Classification™ (ARTC™)

Prioritising the business insurance needs using the ARTC™

A number of risks are attached to the owners and other persons that could have a serious impact on the future wealth of the owners and the sustainability of the business. It is important to understand that the risks vary in impact and to the respective stakeholders.

The financial planning risks that face a business owner are classified in terms of Sanlam's unique Allegiance Risk Type Classification™ (ARTC™).

Allegiance Risk Type Classification™						
Allegiance Risk Type Classification		Business insurance solution	Impact on			Priority group
			Business	Affected owner	Remaining owners	
ARTC™ 1	Third party creditor risk	Contingent liability	High	High	High	1
ARTC™ 2	Unrecovered capital risk	Credit loan account solution	High	High	High	1
ARTC™ 3	Unrealised wealth risk	Buy and Sell solution	High	High	High	1
ARTC™ 4	Key person risk	Key person insurance	High	N/A	Medium	2
ARTC™ 5	Debit loan account	Debit loan account solution	Medium	High	Medium	2
ARTC™ 6	Overhead risk	Overhead	High	N/A	Medium	2
ARTC™ 7	Replacement of income (Supplementary to Buy and Sell with single owner)	Income replacement plan	N/A	High	N/A	(2, if applicable)

All business insurance needs should be covered, but we suggest that the needs be addressed in the following priority:

- First cover the third party creditor risk (ARTC™ 1) - Contingent liability.
- Secondly, cover the unrecovered capital risk (ARTC™ 2) - Credit loan account.
- Thirdly, cover the unrealised wealth risk (ARTC™ 3 - Buy and Sell arrangement.
- Then address Priority Group 2.

The classification of risk is based on the impact of the type of risk on three stakeholders in the business, i.e.

- the business,
- the affected owner and
- the remaining owners.

The "business" as the stakeholder represents the collective interest of the future owners, employees, the suppliers of the business and the clients of the business.

See a detailed account of the risk classification on the next page.

Allegiance Risk Type Classification™					
Risk	**Subject of the risk**	**Risk relevant to the applicable owner/person**	**Remaining owner**	**Business**	**Solution**
ARTC™ 1 Exposure to 3rd Party Creditors	Suretyship that the owner signed for the business.	The creditor may call up the suretyship, exposing the estate of the owner.	If surety is called up against the estate of the deceased estate, it will result in a claim against the business, ultimately affecting the funding structure of the business.	Long-term and short-term funding structure may be exposed. Third-party creditors may withdraw finance or may increase cost of finance.	This risk can be addressed with a **contingent liability** solution.
ARTC™ 2 Unrecovered Capital	The capital, time and expertise spent on the business are the subject of this risk.	The loan account may never be recovered.	The risk of having to raise a large amount of capital to repay the loan account.	Capital structure of the business is exposed. Risk of not being able to replace the capital. Business may be sued for the loan account.	This risk can be addressed with a **loan account** solution.
ARTC™ 3 Unrealised Capital (Wealth)	The equity in the business is the subject of this risk.	The risk that the equity in the business may never be sold.	Risk of having to seek funding to purchase shares or face “foreign” partners.	Risk of foreign partners that may adversely affect the future management of the business.	This risk can be addressed with a **Buy and Sell** solution.
ARTC™ 4 Key Person	A person with special skills to the business is the subject of this risk.	N/A in business insurance context. The risks facing this person can be identified with an estate and financial plan.	Indirectly the wealth of the remaining owners might be at risk because the business’s operations may be exposed as a result of a loss of particular skills.	The business is at risk to suffer a loss if a skilled person is lost to the operations of the business. The loss could be the replacement cost, or a direct loss of sales and profit	**Key person insurance** is a simple and effective solution to this risk.
ARTC™ 5 Debit Loan Account	The money that the owner borrowed from the business is the subject of this risk.	The loan may not be recovered, and the estate of the owner might be sued in an attempt to recover the loans.	Indirectly – If the business cannot recover the loan, then the owner loses some value.	The business may not be able to recover the capital from the owner.	Insure the owner for the **debit loan account**.
ARTC™ 6 Overheads Risk	Funds to continue paying overheads in the business is the subject of this risk.	This risk may be very relevant with a single shareholder where the estate of the shareholder may be attacked for severance pay of employees (if the business does not continue after the death of the owner).	Indirectly the remaining owners are stuck with the business and its overheads, while the ability of the business to pay the overheads may be challenged with the loss of a co-owner.	The business is directly affected by the loss of an owner, but will have to continue paying overheads irrespective of its performance.	The **overhead benefit** creates a buffer for the business enabling the business to continue smooth operations in the event of the death of an owner.
ARTC™ 7 Loss of Income Risk	The income of the affected shareholder is the subject of this risk.	The income that the owner is drawing from the business ceases in the event of death or disability. (very pertinent with single owner businesses).	Not really applicable to the remaining owners.	Not really applicable to the business	This risk can be addressed by capitalising **the income need** and providing for it in the event of death or disability.

Benefits to satisfy business insurance needs

The benefits which are available for a business insurance need are indicated by the product option(s) in the table below. NOTE: The Express product option is currently not available for business insurance.

The benefits which are not listed in this table, are not available for business insurance.

S = Standalone A = Accelerator AB = Additional Benefit C = Classic product option P = Premier product option	Type of benefit	Contin-gent liability (ARTC™ 1)	Credit loan account (ARTC™ 2)	Buy and Sell (ARTC™ 3)	Key person (ARTC™ 4)	Debit loan account (ARTC™ 5)	Business overhead protection (ARTC™ 6)	Replace-ment of income (ARTC™ 7)
Life cover								
Death (DS)	S	C / P	C / P	C / P	C / P	C / P	C / P	C / P
First death (DS80)	S	C / P						
Accidental death (ASC)[1]	S	C / P	C / P	C / P	C / P	C / P	C / P	C / P
Disability and impairment cover								
Comprehensive Disability (CAR3) (fixed term options only)	A	C / P	C / P	C / P	C / P	C / P	C / P	C / P
Comprehensive Disability Plus (CAR4) (fixed term options only)	A	C / P	C / P		C / P	C / P	C / P	C / P
Accidental Comprehensive Disability (ASO3) (fixed term options only)[1]	S	C / P	C / P	C / P	C / P	C / P	C / P	C / P
Accidental Comprehensive Disability Plus (ASO4) (fixed term options only)[1]	S	C / P	C / P		C / P	C / P	C / P	C / P
Dread disease cover								
Core dread disease (TAC)	A				C / P			
Whole life core dread disease (TAC2)	A				C / P			
Credit Life cover								
Credit Life (DSC)	S	C / P						
Future needs cover								
Future cover: Death (FS1)	S	P	P	P	P	P	P	P
Future cover: Comprehensive (FS2)	S	P	P	P	P	P	P	P
Waiver of payment with future growth at disability (OGG1)	AB	C / P	C / P	C / P	C / P	C / P	C / P	C / P
Waiver of payment without future growth at disability (OPG1)	AB	C / P	C / P	C / P	C / P	C / P	C / P	C / P
Sickness and income/Business overhead protection cover								
Sickness (IS4) and Sickness Income Plus (IS5)	S				P			
Temporary Income (OIT4) and Temporary Income Plus (OIT5)	S				P			
Overhead Expenses (OIB4)	S				P			
Cashback								
Cashback (RS)	AB	P	P	P	P	P	P	P

[1] If uninsurable due to medical reasons (*applicable benefits* ***only*** *available* ***with a special quotation***).

[2] Please engage your Sanlam legal consultant where this benefit is selected to satisfy a business insurance need (i.e. partial disability benefits).

Financial underwriting for business insurance

Responsibility of Sanlam Individual Life

Sanlam Individual Life must always protect their own interests and the interests of their intermediaries and clients. In order to do this, on behalf of Sanlam Individual Life, the underwriters of Sanlam Individual Life must ensure that:

- the solutions offered to clients by intermediaries comply with regulations, for example PPR and FAIS rules, and
- the insurable interest between an applicant and a life insured is acceptable, and
- a life insured is not over-insured.

Responsibility of intermediary

Intermediaries are responsible to:

- market life insurance products within the stipulations of their contracts with Sanlam Individual Life, and
- comply with regulations, for example Policy protection rules and FAIS rules, and
- do comprehensive needs analyses for clients, and
- offer the best possible solutions to clients.

Ensuring that financial underwriting runs smoothly

To limit the need to request more information and to ensure that financial underwriting runs smoothly, the intermediary must:

- ensure that the reason for insurance is clearly explained in the application documents, and
- attach copies of relevant documentation, such as needs analyses and 1-2-3 of Business documents**,** letters from banks confirming loan acceptances, audited financial statements, etc., and
- clearly indicate the methods used for calculations.

Valuing the business from an underwriting perspective

Business valuations are very subjective. Applying the “normal” formulae may therefore not always be appropriate. The valuation methods below could be used taking into account the following considerations:

- the industry in which the business operates;
- the period that the business has been in operation;
- the type of business, e.g., service orientated, etc.

Valuation methods	
Company	Net profit after tax on income statement **x** 5
Own business/Partnership	[Income of owner(s) **+** Net profit of business **+** Depreciation on cash flow statement] **x** 10
Alternative method	[Net profit after tax **x** 5] **+** Owner’s interest on balance sheet **+** Shareholder loans **x** % of Shareholders’ interest

Financial underwriting requirements

A signed and fully completed 1-2-3 of Business could assist underwriters to not always insist on the requirements below, or at least to waive some.

It is important to load all financial statements, etc., on the1-2-3 of Business portal for underwriters to retrieve when needed.

Contingent liability

External funding in whatever form is a normal part of business and its capital structure. The funding may be in the form of an overdraft facility, a term loan or asset finance. In terms of their credit plans, South African banks and other financiers normally require the owners of a business to sign surety for the external funding acquired from the relevant financial institution.

Covering the liability would therefore ensure that the personal assets of the shareholder and/or director are protected. These liabilities are recorded in the balance sheet of the business.

Contingent liability: Financial underwriting requirements	**Cover amount per life insured**		
	Up to R8m	**R8m - R30m**	**R30m +**
Sanlam application form	√	√	√
Letter from the bank/financial institution	√	√	√
Financial questionnaire for business insurance (form AE4022)		√	√
Audited financial statements (Business)			√

Business loans from corporate banks: Financial underwriting requirements	**Cover amount per life insured**		
	Up to R8m	**R8m - R30m**	**R30m +**
Sanlam application form	√	√	√
Letter from the bank/financial institution	√	√	√
Financial questionnaire for business insurance (form AE4022)		√	√
Audited financial statements (Business)			√
Audited financial statements (Personal)			√
Copy of loan agreement			√

Buy and Sell

When a co-owner in a business dies or becomes disabled, the deceased owner's estate can be left severely exposed, but the remaining owners could also face potential problems.

The primary purpose of a Buy and Sell arrangement is to provide the surviving partner(s) with cash to purchase the interest of a deceased or disabled partner. A Buy and Sell solution provides a smooth exit for a partner in the event of death or disability. This agreement ensures continuity of the business in the event of the death or disability of an owner.

Buy and Sell arrangements: Financial underwriting requirements	**Value of Business**		
	Up to R8m	**R8m - R30m**	**R30m +**
Traditional Buy and Sell arrangements			
Sanlam application form	√	√	√
Financial questionnaire for business insurance (form AE4022)		√	√
Non-traditional Buy and Sell arrangements (e.g. One-sided/Share Buy-back)			
Sanlam application form	√	√	√
Financial questionnaire for business insurance (form AE4022)		√	√
Copy of Buy and Sell agreement signed by all parties	√	√	√
Security cession in favour of the life insured (One-sided Buy and Sell agreement where life insured is 100% owner)	√	√	√

Key person insurance

The ongoing profitability and sustainability and, as a result, the capital value of the business are largely reliant on the input of the key employees in the business. The loss of a key person therefore constitutes a risk for the business.

The purpose of the cover is therefore to protect the business from financial hardship caused by the loss of service through the death or permanent disability of an individual who is vital to that business.

Key person insurance: Financial underwriting requirements	Cover amount per life insured		
	Up to R10m	R10m – R16m	R16m +
Sanlam application form	√	√	√
Key person insurance questionnaire (form AE4037)	√	√	√
Audited financial statements (Business)			√

A signed and fully completed 1-2-3 of Business could assist underwriters to not always insist on above requirements, or at least to waive some.

It is important to load all financial statements, etc., on the1-2-3 of Business portal for underwriters to retrieve when needed.

Start-up businesses

Obtaining reasonable financial data on start-up businesses is always difficult and, as a result, information obtained that may well be sufficient to justify cover in one case may not be enough in another. Furthermore, the “normal” underwriting formulae used will not always give the underwriter the right answer. Each case should therefore be assessed on its own merits.

The following information will help the underwriter quantify the cover required more accurately:

- pro forma statements
- financial projections
- management accounts of the business
- track record (CV) of the insured
- type of business/market
- copy of loan approval papers, etc.

Sanlam Business Market - Support

Contact details	Contact person	Telephone number	e-mail address
Sanlam Business Market			sme@sanlam.co.za
1-2-3 of Business Support	Support Desk: Legal	086 111 3937	legal.support@sanlam.co.za
Support Desk: Legal	Aidan van der Berg	086 111 3937	legal.support@sanlam.co.za

Support material	Contingent liability (ARTC™ 1)	Credit loan account (ARTC™ 2)	Buy and Sell (ARTC™ 3)	Key person (ARTC™ 4)	Debit loan account (ARTC™ 5)	Business overhead protection (ARTC™ 6)	Replacement of income (ARTC™ 7)	Financial Fitness Analysis	1-2-3 of Business
Application form	AEB2076	AEB2076	AEB2116[1] AEB2076[2]	AEB2076	AEB2076	AEB2076	AEB2076		
Marketing one-pager	√	√	√	√	√	√	√	√	√
Presentation	√	√	√	√	√	√	√	√	√
Podcast[3]	√		√	√					
Questionnaire[4]								√	√

[1] Use this application form for the Enhanced Matrix Method (i.e. multiple owners, one life insured).
[2] Use this application form for the Traditional Matrix Method (i.e. one owner, multiple lives insured).
[3] Podcasts can be downloaded from the 1-2-3 of Business website under the “Downloads” section.
[4] Questionnaires can be downloaded from SanPort or the 1-2-3 of Business website on www.123ob.co.za