

# Zurich Wealth Protection Business expenses cover Target Market Determination



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## 1. About this document

This document is a Target Market Determination (TMD). It sets out the target market for business expenses cover under the Zurich Wealth Protection product suite (Business expenses cover). This TMD also sets out how the product is distributed, review periods and triggers relating to the TMD, and reporting on and monitoring of the TMD. It forms part of Zurich's design and distribution framework and is required under section 994B of the Corporations Act 2001 (Cth).

This TMD has been prepared to give consumers, distributors, and staff an understanding of the target market for Business expenses cover, based on the objectives, financial situation and needs of the class of consumer comprising the target market.

This document is not a Product Disclosure Statement (PDS) and is not a summary of the features or terms of the product. This document does not take into account any person's individual objectives, financial situation or needs. Persons interested in acquiring this product should carefully read the PDS for Zurich Wealth Protection before making a decision to apply for this product. The PDS can be found at [zurich.com.au/pds](http://zurich.com.au/pds). Consumers may want to consider obtaining personal financial advice to ensure the cover they select is tailored to their objectives, financial situation and needs.

Business expenses cover is an intermediated insurance product that can suit consumers with simple or complex needs, including consumers who either:

- have completed their own research, including having received general advice, know what type of insurance they want and seek help with the application process; or
- want insurance that is tailored to their specific circumstances through a needs analysis and a fact find by a qualified financial adviser.

Consumers who apply for this product are comfortable to provide us with information about their health, financial situation, lifestyle, and pastimes for our assessment and they understand that the outcome of the assessment may be that they are not eligible for cover.

## 2. Product description

Business expenses cover is designed for consumers with the needs and objectives set out below. Business expenses insurance provides a monthly benefit for ongoing fixed business expenses or the costs to hire a replacement employee while the life insured is disabled due to a sickness or injury, as described below.

### Product variations

- Ongoing fixed expenses cover will pay up to 100% of allowable business expenses incurred each month. Allowable business expenses include items such as rent on a business premises, electricity, and rates.
- Key-person replacement cover will pay up to 75% of key-person replacement costs incurred each month to replace the life insured in the business.

This product provides insurance protection only, so that benefits are only payable if an insured event occurs. It is not a savings product and does not accumulate a cash or surrender value.

## 3. Target market

### Needs and objectives

Business expenses cover is designed to provide financial protection for consumers who are small business owners (including sole traders and partnerships) who have financial commitments, where the fulfilment of those commitments will ensure that their business continues to operate upon their disability.

The product is designed for consumers who would like to secure the future of their business during a limited period of disability, to ensure that they have either:

- a business to return to; or
- a business that is operating effectively and could be sold as an ongoing concern.

Ongoing fixed expenses cover and key-person replacement cover are designed for different consumers:

- Ongoing fixed expenses cover is designed for consumers who would like a fixed operating costs solution which will ensure that regular expenses can continue to be met during disability.
- Key-person replacement cover is designed for consumers who could recruit a replacement person to take their place in the business during a period of disability. It can be matched with an income protection policy with a one year waiting period to provide a cost saving.

### When cover may be suitable

Business expenses cover may be suitable for consumers who:

- meet the eligibility requirements outlined below;
- are a small business owner with business operating financial commitments and expect that those commitments will not be met in the event they suffer a sickness or injury;
- seek cover that can be tailored to meet their individual needs or circumstances (for example, by selecting between ongoing fixed expenses cover and key-person replacement cover, the amount of cover and the waiting period that suits their needs);
- are working a minimum of 20 hours per week in their principal occupation;
- are willing to undergo an assessment conducted by Zurich in relation to health and medical history, occupation, pursuits and pastimes to obtain insurance cover, and are willing to accept restrictions, loadings or exclusions determined by Zurich following that assessment;
- are engaged in an occupation for which Zurich provides insurance cover; and
- have capacity to pay premiums on an ongoing basis over the timeframe identified for financial protection.

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### When cover may not be suitable

Business expenses cover may not be suitable for consumers who:

- are not self-employed business owners;
- are engaged in an occupation for which Zurich does not provide insurance cover;
- are working less than 20 hours a week in their principal occupation;
- seek automatic insurance cover without health or medical assessment;
- are ineligible for underwritten cover on the basis of medical history, occupation (for example, hazardous occupations), pursuits or pastimes;
- require a longer benefit period than that available under the product;
- already hold sufficient insurance cover or are otherwise able to meet business operating financial commitments in the event they suffer a sickness or injury;
- are unable to fund premiums over the timeframe identified for financial protection; or
- are seeking cover for any benefit which is subject to any of the exclusions outlined below.

### Financial capacity

Business expenses cover is designed for consumers who have the financial capacity to purchase it and to fund the cost of cover, in accordance with the chosen premium structure, selected level of cover, fees and government charges over the timeframe identified for financial protection. This is important for two reasons:

- the cost of cover will generally increase over time;
- cover will be cancelled, and the life insured won't be covered, if premiums are not paid.

Appropriate consumers will thus be gainfully employed and meet some or all of the following criteria:

- have a business funding source;
- be earning income;
- have personal or business savings;
- have other means to fund premiums, management fees and government charges, such as family or other relationships.

## 4. Product design and key attributes

### Product value

Business expenses cover provides value to consumers because it provides a monthly benefit which helps fulfill the financial commitments of the consumer's business, so that the business continues to operate upon their disability. The product can be tailored to consumer needs. There are two product variations to choose from: ongoing fixed expenses cover or key-person replacement cover. Consumers can also select an appropriate waiting period, depending on the expected cash-flow impact of a disability.

### Eligibility requirements

When applying for business expenses cover, consumers must satisfy all of the following\*:

- are aged between 19 and 60;
- are self-employed consumers, responsible for the fixed costs of the business, and working in the business;
- are seeking an insured monthly benefit of at least \$1,000 per month;
- are in Australia; and
- have Australian residency or are in the process of applying for permanent Australian residency.

Business expenses cover provides a monthly benefit to reimburse either ongoing fixed business expenses, or the costs of hiring a key person replacement, while the life insured is disabled due to a sickness or injury. It assists in meeting business operating financial commitments and the above eligibility criteria provides parameters for consumers for whom Business expenses cover is likely to be suitable.

Business expenses cover is subject to our assessment of health, financial information, occupation, and pastimes and so:

- consumers in certain occupations may not be eligible for cover or they may be subject to restrictions on the maximum monthly amount insured and the maximum entry age;
- consumers with pre-existing health conditions may not be eligible for cover;
- consumers who participate in high risk pastimes may not be eligible for cover;
- the outcome of the assessment may impact the premiums, the monthly amount insured and the terms of the insurance policy, or cover may be declined.

\* Where we issue a new policy for one of the scenarios below, the consumer will still be considered eligible and within the target market:

- replacement of existing cover as a result of a change of ownership; or
- policy reinstatement after cancellation due to non-payment of premium.

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### Premium structure

The product is suitable for consumers who have capacity to pay premiums on an ongoing basis over the timeframe identified for financial protection.

There are two premium types:

- variable age-stepped premium
- variable premium

Variable age-stepped premiums generally increase each year based on rates for the consumer's age. They may be lower at the start of the policy, on the basis that the customer's health has been recently assessed. Variable premiums for the benefit amount at policy outset are based on the age of the consumer when cover begins.

Variable premiums are 'averaged out' or smoothed, which means they are generally higher than variable age-stepped premiums during the initial years, but lower than variable age-stepped premiums in later years. Variable premiums may be more cost effective than variable age-stepped premiums for a consumer's longer term need for insurance.

Variable age-stepped premiums may be more suitable where there is a preference for lower upfront cost or there is uncertainty as to how long cover will be held. Variable premiums may be more suitable where cover is to be held for a duration such that the variable premiums are expected to result in lower overall cost than variable age-stepped premiums and where the consumer is comfortable with higher upfront costs, particularly in the event of early policy terminations.

Whether variable age-stepped or variable premiums apply, premium rates aren't guaranteed and can change. Detailed information on understanding premiums, what factors impact them and why they change are available in the PDS.

### Key exclusions and limitations

#### Key exclusions

We will not pay a benefit for sickness or injury caused directly or indirectly by any of the following:

- an intentional self-inflicted act;
- attempted suicide;
- illicit drug use;
- uncomplicated pregnancy or childbirth;
- an act of war, whether declared or not. War doesn't include acts of terrorism;
- participation in criminal activity (and during incarceration due to participation in criminal activity).

Benefits will also not be paid where a claim arises from a cause other than sickness or injury. For example, loss of a professional qualification.

Elective and donor transplant surgery is not covered in the first six months of any cover or any reinstated cover. This also applies to any increases in cover after the cover starts.

This product may be subject to additional exclusions, based on our assessment of an application.

#### Key limitations

- This product provides indemnity cover, which means that the monthly benefit payable is based on allowable business expenses or key-person replacement costs incurred while the life insured is totally or partially disabled. The monthly benefit received may be less than the insured monthly benefit; for example, under ongoing fixed expenses cover, if the life insured's share of the business expenses decreases after the cover commences. Regular review of insurance cover is important to help ensure it continues to meet consumer needs and objectives, which may change over time.
- The maximum payable under Business expenses cover is 12 times the insured monthly benefit (payable over a period of up to 24 months).
- Benefits payable cease at the policy anniversary when the life insured is 65 (or 60 for certain special risk occupations), even if the life insured continues to be disabled and the benefit period for the payment has not ended at that time.

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- To receive a monthly benefit, the life insured must:
  - follow the advice and recommended treatment of a medical practitioner; and
  - actively participate in a rehabilitation or retraining program that they have the capacity to undertake.
- Monthly benefits may be reduced to offset benefits the life insured receives from another source because of the sickness or injury.
- Benefits will cease when the business ceases to operate.

Full details regarding the terms and conditions of this product are available in the PDS.

## 5. Appropriateness of the product for the target market

The target market is consumers who have or expect to have outstanding business operating financial commitments that will not be met in the event they suffer a sickness or injury and who have capacity to pay premiums on an ongoing basis. As the product pays monthly expenses it is likely to meet the needs, or go towards meeting the needs, of consumers in the target market.

## 6. Conditions and restrictions on distribution

### Distribution conditions

In light of the obligations under Part 78A of the Corporations Act (product design and distribution obligations), an application for Business expenses cover must be submitted by a Distributor who is operating under an AFSL with appropriate authorisations. The Distributor must be authorised by Zurich to distribute the product as per the terms of the distribution agreement. The Distributor may only submit applications for consumers who:

- have received a current Zurich Wealth Protection PDS;
- have been given personal or general financial advice; and
- meet the eligibility criteria set out in this TMD.

The Distributor must consider when the cover may be suitable and when the cover may not be suitable as set out in this TMD.

The Distributor should not sell this product to a consumer who is unlikely to ever be eligible to claim the benefits under the policy.

Where the product is distributed under general advice, the Distributor must also have in place, where appropriate, processes relating to general advice scripting, training, monitoring and quality assurance.

These distribution conditions for Business expenses cover are appropriate and will assist in distribution being directed towards the target market.

### Why these distribution conditions and restrictions will make it more likely that the consumers who acquire the product are in the target market

#### Personal advice

Consumers that obtain personal advice are more likely to be in the target market for Business expenses cover because financial advisers have a duty to comply with the statutory best interests duty when providing personal advice.

The Distributor is expected to consider any relevant information obtained about the consumer's financial situation, to ensure that Business expenses cover is sold in accordance with this TMD. Relevant information could include (but is not limited to):

- dependants
- employment and income
- other insurance
- debts.

#### General advice

Consumers that obtain general advice are more likely to be in the target market providing Distributors follow Zurich's distribution conditions regarding:

- eligibility criteria;
- having considered the suitability of the product; and
- having provided general advice.

In addition, for every application, Zurich's application process will require information covering the key eligibility criteria. If the eligibility criteria is not satisfied, cover will not be provided for those applicants. This will improve the likelihood that cover has been sold to consumers within that target market.

## 7. Zurich's TMD review process

### Review triggers

The following events and circumstances (review triggers) will trigger a review of this TMD as they may mean that it is no longer appropriate:

- The commencement of a significant change in law that materially affects the product design or distribution of the product or class of products that includes this product. This triggers a mandatory review. Zurich may choose to undertake a review even if this review trigger is not met.
- Product performance is materially inconsistent with the product issuer's expectations of the appropriateness of the product to consumers having regard to:
  - product claims ratio (i.e. the proportion of premiums returned to consumers as benefits)
  - the number or rate of paid, denied, and withdrawn claims
  - the number of policies sold
  - policy lapse or cancellation rates
  - percentage of applications not accepted.
- The use of Product Intervention Powers in relation to the distribution or design of this product where Zurich considers this reasonably suggests that this TMD is no longer appropriate.
- Significant or unexpectedly high number of complaints regarding product design, product availability, claims and distribution condition that would reasonably suggest that the TMD is no longer appropriate.
- Zurich determines that a significant dealing in the product outside the target market (except for an excluded dealing) has occurred.
- Changes in medical advances impact product design or the market for the product.
- Distribution conditions set out in the TMD are otherwise no longer appropriate.
- Zurich makes a material change to the insurance product terms.

### Maximum TMD lifespan

Subject to intervening review triggers, this TMD will be reviewed no more than two years after the effective date of the TMD. Any of the above review triggers will bring forward the two-yearly review.

### Reporting period for any complaints about this product

Distributors must report complaints to us half-yearly (end of March and September), within 10 business days of the end of the relevant half-year.

Complaints data should include sufficient information to understand the substance of each complaint but should not include personal information.

### How Zurich will decide if this TMD is no longer appropriate

Zurich's product manager will review the information set out below on a regular basis to ensure that the TMD is still appropriate:

- Relevant regulation, legislation and/or ASIC instruments relating to the change in law.
- During the review period, compare expected and actual data for the following:
  - product claims ratio (i.e. the proportion of premiums returned to consumers as benefits)
  - the number or rate of paid, denied, and withdrawn claims
  - the number of policies sold
  - policy lapse or cancellation rates
  - percentage of applications not accepted.
- Relevant Product Intervention order.
- Complaints and the nature of the complaints regarding product design, claims and distribution condition.
- A significant dealing in the product which Zurich's product manager becomes aware is not consistent with the TMD (within 10 business days of becoming aware of the dealing).

Where relevant, Zurich's product manager will consider actual data against expected amounts, with thresholds around the expected position. Thresholds are set at green, amber and red levels and results in the amber or red thresholds are analysed and monitored more closely and escalated for action as considered appropriate. Metrics are also monitored for trends and step changes.

The following information collected from Distributors will be considered as part of the review:

- Complaints and the nature of the complaints regarding product design, claims and distribution condition (must be reported to us by Distributors within 10 business days of the end of the half-year).
- A significant dealing in the product which the Distributor becomes aware is not consistent with the TMD (must be reported to us by Distributors within 10 business days of becoming aware of the dealing).

### Submitting data to Zurich

Distributors may submit data to Zurich in any of the accepted formats. Refer to our website for more information: [zurich.com.au/tmd](http://zurich.com.au/tmd).