

Run-Off Cover

Fact Sheet
August 2008

What is run-off cover?

Run-off is only a term which is used by the insurance industry to describe how a practice will reduce (or run-off) its liability to its clients after it has ceased operating. It is not a special type of policy, it is simply a professional indemnity policy which provides limited cover (i.e. cover which is limited to work done prior to the date the practice closed).

Why is run-off cover necessary?

Professional indemnity insurance is underwritten on a 'claims made' basis. A practice is therefore only covered against claims that may be made against it, for work it did whilst operating, for as long as that practice maintains insurance protection.

Who is eligible for run-off cover?

Run-off cover can only be provided to a practice which is no longer operating. Such a practice may be closed because the principal has retired or following the sale of the business to another practice.

For how long is run-off cover necessary?

There is no limitation on your liability to your clients and therefore no limitation on the period of time for which the insurance needs to be continued. Cover simply needs to be continued until the practice's principals are comfortable that there is no longer any likelihood of problems with their work.

Run-off cover: the facts

- › A policy which only provides run-off cover is a professional indemnity policy which limits the cover to work done prior to the date when the practice ceased to operate
- › Many insurers will only offer run-off cover to practices which have been insured with that insurer immediately prior to closing
- › The cost to purchase run-off cover should reduce the longer the practice has been closed but it may not change in the first year that the insurance is purchased
- › Insurers normally do not allow a practice to buy more run-off cover than the amount of cover the practice held whilst in business
- › Some insurers offer run-off policies for more than one year at a time
- › Anyone contemplating the sale or closure of their practice should factor in the cost of buying run-off cover for a number of years to come.

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Further information

CPA Australia and Fenton Green & Co offer run-off cover to CPA Australia members who are eligible for the policy. An annual policy can be arranged which might normally cost about 90% of the premium charged in the previous year. A three year policy is also available at a cost of double the standard annual premium. Premiums may, however, be subject to minimum charges.

Access Fenton Green's new online facility at fentongreen.com.au.

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