

# PROFESSIONAL INDEMNITY INSURANCE

## RUN-OFF COVER FOR SOLE PRACTITIONERS

**Professional Indemnity insurance policies are generally underwritten on a “claims made and notified” basis. To be covered by the insurance, a claim must first be made against the Insured during the Period Of Insurance specified by the Policy Schedule and must be a fact not known by the Insured at the inception of the policy.**

This unique nature of Professional Indemnity insurance can cause problems for a practice which closes, unless that practice continues to maintain insurance even after the closure. Such insurance is referred to as Run-Off cover. This is not however, a special type of policy, it 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 simply a Professional Indemnity policy which is amended to only provide limited cover (i.e. cover which is limited to work done prior to the date the practice closed).

In the case of a partnership, where one of the partners retires or dies, the partnership can continue to operate and maintain ongoing Professional Indemnity insurance that will extend to protect the partnership for work that was done by the past partner.

There is however, no-one else available to maintain the insurance if a Sole Practitioner retires or dies.

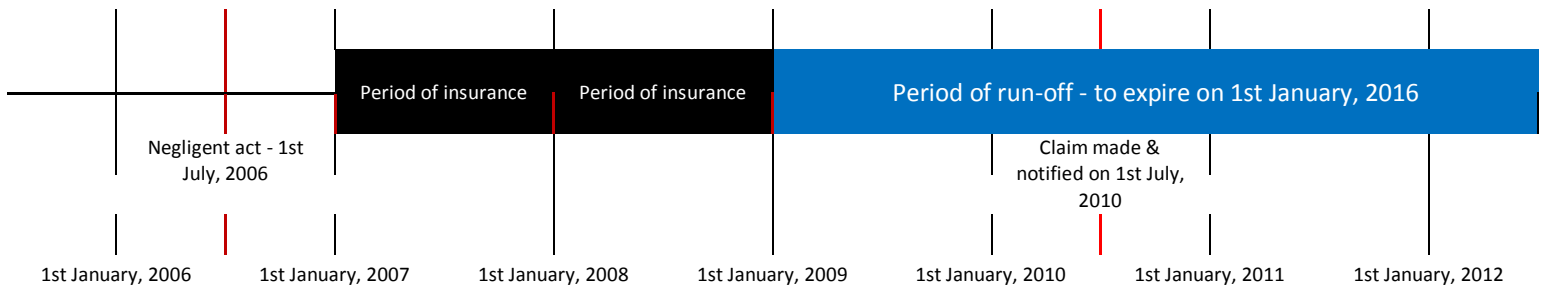
Under the CPA Australia Professional Indemnity insurance Scheme (the CPA Scheme), the policy offers a Sole Practitioner an extension of the term of cover for an additional seven years. This extension can be triggered by applying in writing to Fenton Green & Co and confirming the date upon which the business closed.

This extension is only available to a CPA Australia member who has operated their practice as a sole practitioner and who has maintained continuous Professional Indemnity insurance for two year under the CPA Scheme. The payment of one final additional premium will also be required.

**If a retroactive date is also specified in the Policy Schedule then the act that becomes the focus of the claim must have taken place after the specified retroactive date.** In the following examples, the claim would not be covered if the retroactive date on the insurance coincided with the beginning of the first policy on 1<sup>st</sup> January, 2007 because the work which becomes the negligent act was done prior to that date, on 1<sup>st</sup> July, 2006. If we assume however, that the insurance didn't specify a retroactive date, then the relevant timing is the date when the claim is made against and notified by the Member, i.e. 1<sup>st</sup> July, 2010. For this matter to be covered the Member must have a policy that is current at that time.

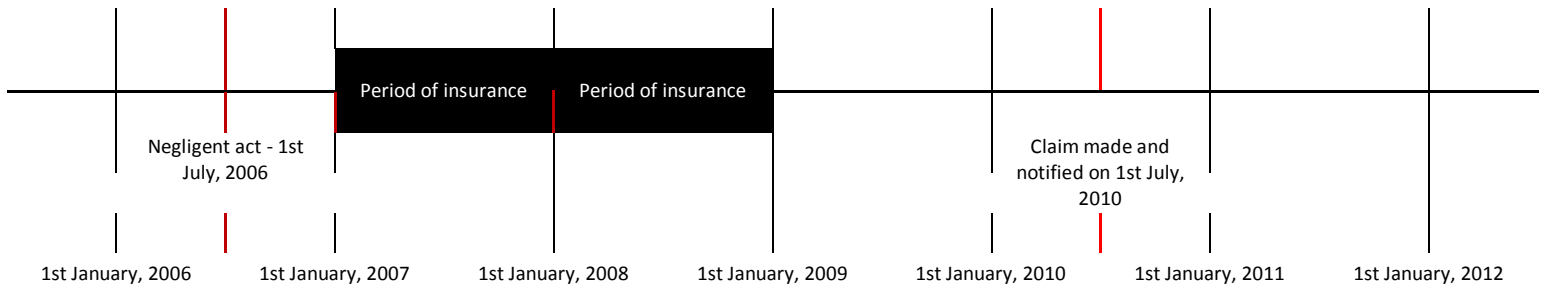
### Example 1

The CPA member is a Sole Practitioner who retires during the second Period of Insurance. The two Periods of Insurance were issued under the CPA scheme. Since cover was issued under the Scheme the retroactive cover is unlimited and the member is provided with seven years of run-off cover which continues the protection from 1<sup>st</sup> January, 2009 to 1<sup>st</sup> January, 2016. As the claim is made in this period, the member's policy responds.



### Example 2

In the second example the member retires during the second insurance period but, having not purchased run-off cover, and not having been insured through the CPA Scheme, is not protected against the claim which is made after the last insurance policy has expired.



### Additional information about Run-Off cover.

- Run-off cover can only be provided to a practice which is no longer operating.
- 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. At least with this extension for Sole Practitioners, a CPA member can feel more comfortable in their retirement.
- For a partnership that closes or is sold to another, the practice would need to make arrangements in advance of closing to ensure that sufficient funds are available to purchase their Run-off Professional Indemnity insurance.