

Professional Indemnity Insurance



Professional Indemnity Insurance in a nutshell

As a consultant, director or owner of a business that provides a specialist service or gives advice, Professional Indemnity insurance helps protect you and your business against allegations of wrongdoing.

The low-down

In our blame-culture society it's important to protect your business against claims of malpractice or professional misconduct, which has the potential cripple your business and leave you high and dry.

Professional Indemnity insurance, often referred to as PI, is designed for professionals who provide a specialist service or advice, for example, accountants, real estate agents, engineers, and other types of professional consultants.

It provides protection in the event that a claim is made against you or your business for financial loss or personal injury arising from an act, error, omission or breach of professional duty in the course of your business; even if that claim is found to be false.

Do I really need it?

Unless you have really deep pockets, a huge bank account or a solid plan to skip the country, then the short answer is yes.

But it's not only the financial side that takes a toll on your business. It also consumes a huge slice of your time to defend against a claim of professional misconduct, breach of duty or malpractice. And even if you are found not liable, defending yourself against an allegation will still drain you both personally and financially.

Having Professional Indemnity cover minimises the disruption to your business. Your insurer will have a specialised legal team to fight your corner and take care of any compensation awarded to your client.

Not only that, being covered demonstrates your professionalism to your clients and potential clients, allowing them to feel safe knowing they're in the right hands.

For some occupations, having a professional indemnity policy which meets certain standards is a mandatory requirement of regulatory bodies and industry associations. Often work contracts will also require you to have professional indemnity cover in place.

What is typically covered?

- ✓ Civil liabilities arising from, but not limited to:
 - Professional misconduct, such as providing misleading or negligent advice
 - Breach of duty, including confidentiality and other privacy issues
 - Defamation, libel or slander
 - Loss of or damage to documents
 - Infringement of intellectual property, including copyright infringement
- ✓ Bodily injury or illness claims arising from the professional services covered under the policy
- ✓ Claims investigation costs
- ✓ Legal and defence costs
- ✓ Court attendance costs
- ✓ Public relations costs

What isn't usually covered?

- ✗ Claims and circumstances known prior to the period of insurance
- ✗ Intentional damage
- ✗ Acts of fraud and dishonesty
- ✗ Accidental injury and property damage

Did you know?

- In 2016, APRA-regulated insurers paid out \$766M in Professional Indemnity claims. (APRA, Dec 2016)
- The cost of Professional Indemnity policies vary greatly depending on the occupation it provides cover for, however, on average BizCover customers pay \$84 per month for their Professional Indemnity Insurance.
- There is a legal requirement for some types of occupations to hold a minimum level of Professional Indemnity insurance, for example, accountants and tax agents, migration agents, lawyers, architects, and real estate agents.
- Professional Indemnity insurance is a "Claims" based policy, meaning it will only provide cover when both the alleged incident and the resulting claim happens during the period of insurance.

Claim Case Study

A Sydney based accountant was engaged to prepare and lodge a tax return for a client who owned several investment properties. Despite having been provided all of the relevant documentation by the client, the accountant failed to include capital gains tax from the sale of one of the properties.

Several months later the client received a letter from the ATO advising they were required to pay \$22,211, that comprised of capital gains tax plus penalties and interest incurred. The client then made a claim against the accountant for failure to correctly complete their tax return.

Due to the tax return being prepared in conjunction with the client, who reviewed the return prior to it being submitted to the ATO, it was deemed that there was some exposure on the part of the client as well as the accountant. Following investigation, the accountant's insurer agreed to settle on the claim at mediation for the amount of \$180,000 plus \$25,000 for defence costs. The client was responsible for the remainder.