



Fact sheet

Professional Indemnity Insurance

October 2019

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 claims made by third parties alleging negligence or wrongdoing in the performance of your professional services.

The low-down

In our blame-culture society, it's important for professionals to protect themselves against claims of malpractice or professional misconduct which have the potential to cripple your business or ruin your reputation

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

It provides protection if a claim is made against you or your business for loss arising from an act, error, omission or breach of professional duty made in the course of your professional business. It can assist you even if a claim is ultimately 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 has the potential to take a toll on your business. It may also consume a huge slice of your time to prepare and defend against a claim of professional misconduct, breach of duty or malpractice.

Having **Professional Indemnity** insurance assists you in minimising the disruption to your business. For claims covered by your PI policy, you will also have defence costs cover. This means that your insurer will have (and pay for) a specialised legal team to take on your defence, negotiate a settlement or represent you before a Court.

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What is typically covered?*

- ✓ Payment of compensation as a result of a professional negligence claim, including but not limited to Court awarded damages
- ✓ An award of legal costs against you
- ✓ Reasonable legal costs incurred in defending or responding to a claim
- ✓ Claim investigation costs
- ✓ Disciplinary proceeding costs

What is typically not covered?*

- ✗ Claims and circumstances known prior to inception of the policy
- ✗ Contractual disputes
- ✗ Disputes in relation to your professional fees
- ✗ Personal injury or property damage (unless caused by a breach of your professional duty)
- ✗ Intentional damage
- ✗ Fraud or dishonesty

Did you know?

- The cost of Professional Indemnity insurance policies vary greatly, depending on the professional occupation, the size of the business and the profession/industry you work in[^].
- 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, allied health professionals, architects and real estate agents.

[^] We know, sometimes you just want a quick idea of how much your insurance is actually going to cost. However, it's important to note that the data included within this article was sourced from BizCover customer data during 2016/2017 and is intended as a guide only. It may not reflect pricing for your particular business as individual underwriting criteria will apply.

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 being provided with all relevant documentation by the client, the accountant failed to include capital gains tax from the sale of one of the investment properties.

Several months later the client received a letter from the ATO advising they were required to pay \$220,000 which comprised an amount of capital gains tax plus penalties and interest. The client issued a demand on the accountant alleging he had acted negligently in preparing and lodging the tax return.

The accountant's Professional Indemnity insurer appointed solicitors to manage the claim and attempt to negotiate a settlement. At mediation, it was agreed that the accountant had required the client to review the tax return before submission to the ATO such that the client had themselves also contributed to the loss. A settlement of \$180,000 was agreed, which was met by the accountant's Professional Indemnity insurer. The insurer also paid \$25,000 in defence costs.

*As with any insurance, cover will be subject to the terms, conditions and exclusions contained in the policy wording.

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