Run-off cover

Fact sheet

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.

With the introduction of RG 194, registered liquidators are also required to have automatic run-off cover provided by their policy. Any liquidator who enters into, renews, varies or extends their professional indemnity insurance on or after 1 August 2010 will need to ensure that this extension is included.

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.

Run-off cover for sole practitioners

When a partner leaves a practice the continuing professional indemnity insurance generally provides cover for the work done before leaving, effectively providing run-off cover for that partner. But, when a sole practitioner closes a business there is no-one left behind to maintain the insurance protection. A sole practitioner, therefore, needs to purchase run-off cover and factor the cost of this ongoing insurance into their decision to close the business or retire.

The CPA Australia Professional Indemnity Insurance Scheme policy, for example, offers seven years of run-off cover for a sole practitioner as an extension. This extension can be triggered by the sole practitioner at the next renewal date after closing the business.

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 is 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 practices 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.

Further information

For more information about the run-off cover provisions available to CPA Australia members contact the preferred broker of the CPA Australia Professional Indemnity Insurance Scheme, Fenton Green & Co:

T: 1300 760 123
E: cpa@fentongreen.com.au
W: http://fentongreen.com.au/accountant-cpa.php

The above material is only general in nature and not intended to be specific to the reader's circumstances. The reader should therefore seek independent advice from a broker or solicitor before making any decisions or relying on the information provided.

This fact sheet was prepared by QBE Insurance (Australia) and Fenton Green & Co (underwriter and broker of the CPA Australia Professional Indemnity Insurance Scheme), which partner with CPA Australia in the provision of insurance and risk management education.

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