

# Assessing Your Professional Liability Coverage

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# Five policy features to consider in an era of new strategies

Financial events have taught us that professional liability insurance is an essential offering in an insurance plan and a major component in any long term business strategy. Accountants and CPA firms are facing new demands that are revolutionizing the way they conduct business. Many are renewing their insurance programs without fully understanding the policy coverage or how it relates to their changing needs.

Resurgence in professional liability insurance is driving firms to choose providers that have the knowledge and capabilities to help them manage their risks. There are many competitive and pricing options, but cost should not be the prime consideration. How do you find coverage that is best suited for you and that keeps pace with your firm's changing dynamics? This article will address some of the more critical parts of a professional liability policy and highlight why they are important to the success of an overall insurance program.

## Why Gamble with Protection?

Professional liability (sometimes referred to as errors and omissions) insurance offers accounting firms peace of mind in their day-to-day practice. Unlike general liability which covers bodily injury, personal injury or property damage, professional liability coverage protects you and your business against claims from frivolous lawsuits, disgruntled clients or charges of professional negligence. If you get sued, attorneys' fees and expenses could cost you thousands of dollars. However, you could mitigate the financial losses you could incur by purchasing a professional liability policy for a relatively low premium.

## Defining a Professional Liability Program

Policies can be customized to meet the specific needs of CPA practitioners, no matter what the size of their firms or their areas of expertise. Insurance companies tout the benefits of flexible and responsive programs and offer an abundance of information and opinions online. Before making a final decision, be sure that the professional liability insurance program you are considering includes these key features:

**1) Claims-made and reported versus occurrence coverage.** Most professional liability policies are written today on a claims-made and reported basis. In a

claims-made policy, insurance begins on the first day of purchase and ends when your policy expires, typically a one-year term. The first day of your coverage becomes your prior acts date, or retroactive date, and will continue to be noted as such on future renewal policies. Protection extends when subsequent continuous renewal policies are purchased. Occurrence coverage provides protection after the policy expires as long as the claim occurs during the active policy period. Claims-made policies respond to current pricing and claims costs and offer lower initial premiums than occurrence coverage.

Professional liability policies are generally offered on a claims-made basis. An accounting firm may have a client engagement that spans a number of years, so it is vital to have continuous coverage for that period of time. There is no telling when something may happen to that relationship that will result in financial loss, failure to perform or other incidents that may lead to a claim being made against you.

**2) Policy limits.** Indemnity payments and defense expenses can erode a professional liability policy. For that reason some companies offer expenses outside the policy limits, generally as an option for an additional premium. You should take a hard look at your accounting practice and client base to see what is most appropriate for your needs before considering coverage for expenses inside and outside the limit of liability. Where do you project growth opportunities for your firm and what are the business trends, exposures and risks ahead? This review process will help you to understand the cost of various options and provide a basis for determining the right level of coverage.

Another frequently offered option is a split limit. A split limit offers a per claim limit that is available for a single claim and an aggregate limit, which is a multiple of the per claim limit for additional claims should a claim reported during the policy period erode the per claim limit. This option also will result in an additional premium charge.

**3) Deductible features.** Firms should have some skin in the game when it comes to managing their risk. Deductibles vary like policy limits and can apply to indemnity

payments as well as defense costs, depending on the policy. The industry offers various options ranging from loss only deductibles to no deductibles. However, these come at a cost that needs to be considered: the higher the deductible, the lower the premium.

**4) Prior acts coverage.** A claims-made and reported policy includes a prior acts date also known as a retroactive date. A policy with a prior acts date will only cover claims from acts committed on or after the prior acts date. This date is carried forward to maintain continuity of coverage in an accounting practice, avoiding gaps in service for work that has been done in the past. Some firms believe they lose this coverage when they move from one insurance company to another, but that is not usually the case.

The prior acts date does impact your premium during subsequent renewals. As an example, if you purchase your first policy today, you have coverage for work you perform today going forward. When your policy is renewed in subsequent years, the length of time for which your work is covered increases. To reflect this change in exposure, it is typical for your premiums to increase for a period of time (typically 4-6 years), after which the prior acts date impact on your premium ceases.

**5) Supplemental coverage.** There are a number of specialty features that are designed to help insureds in pre-claim situations. These can include coverage for regulatory inquiries or assistance with subpoenas or disciplinary proceedings. Over time, these features address regulatory compliance and legal issues before they develop into more serious events that result in lawsuits and claims.

In summary, there are many reasons to buy professional liability insurance, but not all policies are the same. To make sure that yours is on track, take a moment to review the coverage to determine if the features meet your needs. Understanding the options is an important step to effectively managing risk.

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