

Three essential facts about professional indemnity insurance



Professional indemnity insurance can provide cover for businesses and individuals who deliver professional services from the legal costs and claims for damages from an act, omission or breach of duty that occurs as a result of their actions.

This insurance may provide cover should:

- A web designer face legal proceedings after using an image for which it didn't have a licence.
- An architect get sued for creating a flawed house design after the owners had to pay to fix a flawed extension.
- A marketing agency print a client's brochure with incorrect contact details, resulting in the client commencing legal action against the agency.

It's important to understand how this type of cover works because many people don't think it applies to them, when it can provide an important line of defence in many different circumstances.

1. Cover is available in many different industries

Don't assume you can only take out professional indemnity insurance if you are a member of one of the traditional 'professions'. You don't have to be a doctor or a lawyer to take out this type of cover. In fact, anyone who is in a role in which they provide advice should consider whether professional indemnity insurance could provide protection from litigation.

"A lot of people like plumbers and builders give advice, but don't buy professional indemnity insurance. But they may be exposed if a customer follows their advice to their detriment," explains John Clark, Steadfast's broker support manager.

"Anyone who gives incorrect advice that results in a financial loss, including accountants, solicitors, mortgage brokers, engineers and project managers need professional indemnity insurance. You can also be held accountable for not giving advice you would be expected to have given," he says.

“While it’s important to appreciate risks for which you are not covered, it’s equally important to understand which policy extensions are available.”

2. You may be sued for not giving advice

Not only can someone face legal proceedings for giving incorrect advice that causes a loss, a professional may also be sued for not giving advice that is reasonably expected of someone working in their field.

“For instance, doctors may be sued if they fail to diagnose you are suffering from an illness, decline to send you for a scan when they may reasonable have been expected to or neglect to provide you with a duty of care expected of a professional,” he adds.

3. Professional indemnity insurance only provides cover when the policy is current

Professional indemnity insurance only covers policyholders while a policy is live. So if you take out a policy, then let it lapse, you won’t be covered for claims that concern events that happened when the policy was active. This means professionals should consider whether they need to maintain professional indemnity cover even when they retire. In some professions, for instance accounting, there is a requirement to maintain cover even when you retire or leave the profession.

4. Understand any exclusions

Professional indemnity insurance is a complex area and many insurers won’t cover certain risks in policies. For instance, most insurers won’t cover builders and other entities in the construction sector for any damages that relate to building cladding, given the problems many strata buildings have encountered with flammable materials.

This means it’s essential to read the fine print in policies and develop a real understanding about which professional risks are covered and which are not.

5. Understand policy extensions

While it’s important to appreciate risks for which you are not covered, it’s equally important to understand which policy extensions are available.

For instance, many policies will include extensions for investigation costs in the event a claim is made against a policyholder and he or she needs to retain legal services.

“It’s also essential to understand the policy’s retroactive date,” explains Clark. This is the date from which the insurer has agreed to provide cover. “We recommend negotiating unlimited cover,” he adds.

As this shows, professional indemnity insurance is complex and it pays to work with an experienced insurance broker to help you get the right cover for your circumstances. That’s the best way to ensure the policy responds when it comes time to make a claim.

Important note:

This information is to assist you in understanding some of the terms, implications and common considerations with professional indemnity insurance. It is not complete, so please request full details from your Steadfast insurance broker as to whether professional indemnity insurance is appropriate for you.

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