

Always Read the Fine Print in Your Insurance Policy

Have you ever signed a contract only to find out months later that you didn't get everything that you thought you were getting? This can be the case when you are purchasing professional liability insurance for your practice.

In order to protect the public, the bylaws require all licensed firms carry professional liability insurance with the following minimum levels:

- \$1 million where one member carries on the practice of public accounting;
- \$1.5 million where two or three members carry on the practice of public accounting;
- \$2 million where four or more members carry on the practice of public accounting.

Professional liability insurance is required to pay out awards to an injured party in the event that the member or firm has been found to be at fault.

It's important that members and firms carefully review all of the provisions on the insurance contract to be certain that it provides you with the coverage you require. Some of the inconsistencies between insurance providers include the following:

1. If the limit of the liability includes defense costs, it could mean that a good portion, if not all, of the insurance could be used to pay the defense costs of the claim rather than being used to pay out an award to the injured party. This is not consistent with the minimum requirements and would leave you exposed for any shortfall.
2. An insurance provider may decide to exclude certain high risks clients such as public companies from coverage by your insurance policy. Be sure that there are no such exclusions in your policy.
3. Some insurance providers restrict coverage for services performed prior to the inception of a policy. While this might seem reasonable on the surface, it's important to remember that policies for professional liability insurance are written on a claims-made basis. This means that a lawsuit made today could be for services provided as far back as six years (or more) ago. If your policy does not provide coverage for your prior acts, there will be no coverage for the claim even though you had a policy in force at the time the services were rendered. Therefore, your policy must provide full prior acts coverage.
4. Since policies are written on a claims-made basis, the Institute requires that insurance be carried for a minimum of six years after a member dies or ceases to practice. If you are a partner in a firm, the firm usually continues to carry insurance for retired partners and former partners throughout this six-year period. However, when sole practitioners retire, they must continue to carry professional liability insurance for the six-year "discovery" period. Make sure your policy provides coverage for this entire period.
5. Many insurance providers indicate that they provide worldwide coverage. However, upon more careful review of your policy, you might find that coverage is only available if the suit is brought within North America and Bermuda. Generally, if a Canadian is doing work outside Canada, which is happening more frequently as we work in the global marketplace, any ensuing lawsuit would be brought within the country where the services were performed.

It is your responsibility to ensure that your professional liability insurance policy provides the coverage required for you to meet the by-laws – they're there to protect the public and you. Always read the fine print in your insurance contract. That way, you won't be surprised if you ever face the unfortunate situation of having to make a claim under your policy.

This article has been prepared for the benefit of all members across Canada by Gary Hannaford, FCA, CEO of the Institute Chartered Accountants of Manitoba and Chair of the Council of Senior Executives' Public Trust Committee, and Justine Bond, CEO of AICA Services Inc.