<u>Professional Indemnity Insurance</u>

<u>Run off Cover FAQ</u>

What is run off cover?

Run off cover is a form of professional indemnity insurance that applies when a business (a partnership, a limited liability partnership or a body corporate or unincorporated company) or individual stops trading. This might be because the business has been sold, it has gone into administration, an individual has retired, etc. Run off covers claims made after the business has ceased but which relate to work carried out before trading stopped.

How does it work and how can I have run-off cover if the company no longer exists?

Run off protects the business' principals, partners or directors and employees by covering the cost of defending any claim made against those insured under the policy and reimbursing the losses incurred should the claim be upheld (within the limits of the policy). Note that even spurious or speculative claims (for example, having a claim made against you as a director personally where you think you cannot be held liable as the company is no longer in existence) can be brought and require a defence so without run off cover these can be financially damaging. Claims can be also made against a deceased person's estate.

If your company is going to be dissolved, before you do anything check with your own PI provider if the policy needs to be moved into your own individual name.

Generally, the insurance premium in the first year after trading is similar to that for the last year of trading as that is when the risk of a claim being made is at its highest. As the likelihood of a claim reduces as time progresses, so the cost of a run off policy generally reduces year on year.

Who can I get run off cover from?

Standard practice dictates that it is the incumbent insurer at the time when trading ceased who provides the insurance. This is because as a standalone product, run off cover is of high risk but low value to insurance companies if people only purchase the insurance immediately after trading ceases while they feel the risk of a claim is at its highest. For this reason, there is little to no appetite or competition in the insurance market to provide standalone run off cover. This means that an alternative quotation can be very hard to find. Because of this, it is important to check on purchasing PI cover from an insurer that they will ultimately also cover you for run off.

How long is it needed for?

Whilst the majority of claims are made within a few years of the work being completed, it is still possible for a claim to go back a number of years. That is why our PI Regulations stipulate that you must have run-off cover for not less than 6 years. Note that if your practice were sold to another practice and all its historic liabilities were taken on then the purchasing practice would cover the run off; although it is rare for a purchasing practice to want to do this.