

# Run-off Insurance

## What is it?

Run-off insurance is a form of insurance which can be bought to provide cover for claims arising after a firm or individual has ceased trading.

## Why may I need it?

It is required because professional indemnity insurance is provided on a 'claims made' basis which means that it is the policy in place at the time that you become aware of the claim that provides the cover and not the policy that was in place at the time the work was undertaken. For example, if a firm ceases trading in 2011 a claim may still arise from the work they have done prior to closure at any time up to 15 years after the work has been completed; run-off insurance will cover this. If run-off cover is not purchased the individual may be held personally liable for any claims which may arise after closure. Some trade organisations for example, the Royal Institute of Chartered Surveyors, stipulate that all member firms purchase run off cover for a minimum period after a firm has ceased trading.

## Who provides run-off cover?

Typically run-off cover is provided by the insurer(s) which provided cover in the year prior to closure. Unlike standard professional indemnity insurance it is rarely possible to "shop around" for run-off cover as new insurers are reluctant to take on a run-off policy for a firm that they have not insured prior to closure.

Whilst it is appreciated that the closure of a business cannot always be anticipated it is advisable to try and remain with the same insurer two to three years ahead of closure as loyalty may help ensure that run-off is available at a competitive rate.

Where a business has been involved in activities that are perceived to be high risk i.e. valuations for lending purposes, in extreme circumstances run off cover may not be available. If you are concerned about this you should contact your professional body i.e. the RICS or the RTPI at the earliest opportunity.

## How much does it cost?

Typically the premium for the first year's run off cover will be the same as the premium for the year prior to closure. After the first year the premium will reduce by c.15% per annum. However like all forms of insurance the cost will be dependent on a number of factors including the work undertaken and the claims history.

When buying run-off cover there are often two options:

1. To buy it year on year. In this case the purchaser renews their insurance on a yearly basis as they did when trading. This is the most common way to buy run off.
2. To buy block cover. In this case the purchaser can obtain a block of cover often ranging from 3-6 years. Whilst this is often cheaper than buying an annual policy and simpler to administer few insurers offer this facility.

Several professional bodies, for example the RICS and the RPTI require members to carry run-off insurance for a minimum of 6 years after they have retired or ceased trading. If you are a member of a professional body you should check the specific requirements relating to your business.

## Is there a situation when I may not need run-off cover?

If your Company is sold and the liabilities are taken on by the acquirer there may be no need to purchase run-off cover however you must be absolutely confident that insurance arrangements are accurately detailed in the sale and purchase agreement.

If you are a partner or employee of a firm and you retire, any liabilities arising from your previous work should continue to be covered under the firm's professional indemnity policy. However you should make sure that you obtain satisfactory undertakings from the continuing partners or directors that you will continue to be covered by the practice.

For further assistance, please contact Howden's Professional Risks team on 020 7648 7210.

This document is intended for general guidance. It is not intended to apply to any particular case and does not constitute either legal or insurance advice. For further information please contact the author. September 2011.