Professional indemnity insurance at a glance

What is professional indemnity insurance?

Anyone can make a mistake – but if your business is found liable for negligence, the costs can be financially devastating. Not only can it lead to an expensive lawsuit, but your business' hard-earned reputation may be damaged as a result.

That's why professional indemnity insurance matters – for help protecting your assets and brand if your advice causes a client to take legal action against you.

Who should consider it?

Professional indemnity insurance is mandatory in some industries, such as medicine, accounting, law and financial advisers – with the requirements differing from state to state.

But even in cases where it's not required by law, it's recommended for anyone who is providing professional services or advice in exchange for a fee – like, graphic designers, IT consultants and more. Regardless of your legal obligation, it's often a customer requirement that you have this cover in place.

"If you own a business, you can be liable for damages or injuries to another person or property… consider [professional indemnity insurance] for your business if the likelihood of legal action is high."

Australian Government, Business.gov.au

Did you know?

27.7%

In 2014 alone, professional indemnity and public and product liability claims increased 27.7%.

(Insurancenews.com.au 'Claims up, premium down for PI and PL', 2015)

$1,362m

$1,362 million of gross premium during the 2016 underwriting year.

(APRA, National Claims Policy Database, 2017)

701,000

701,000 PI risks written in the 2016 underwriting year.

(APRA, National Claims Policy Database, 2017)

What can it cover?

As a wide-ranging insurance solution, professional indemnity cover may include anything from accidents to errors and omissions.
Depending on your policy, professional indemnity insurance can cover:

Type of cover	Potential benefits
Civil Liability	Civil liability to a third party arising out of the conduct of their professional business.
Inquiry costs	The cost of defending an inquiry by a regulatory body into the professional conduct of the insured.
Defence costs	The costs involved in defending a claim triggered by the policy.
Fidelity cover	Direct financial loss of the business caused by the dishonest or fraudulent conduct of an employee which is first discovered during the period of insurance.
Advancement of costs and expenses	Additional costs and expenses incurred during a claim.

What usually isn't covered?

Exclusions, the excess you need to pay and limits of liability can vary greatly depending on your insurer. Policies generally won't include cover for:

- Contractual or commercial liabilities
- Liabilities which results from fraud and dishonesty
- Pollution
- Unpaid fees

Case Study

Michael is an engineer who designs the supporting foundations of a residential property. He makes an error with the site calculations – which leads to the slab cracking and damage to the property of the owner. His company is liable for this loss, which could be anywhere between $150,000 up to the full value of the house.

But because Michael has professional indemnity insurance, he's covered for this amount – as well as any legal expenses if the matter goes to court.