

Professional Indemnity (PI) Insurance requirements for CA ANZ Certificate of Public Practice holders

Chartered Accountants Australia and New Zealand (CA ANZ) Regulations and the Professional Standards Scheme have specific requirements on the following aspects of your Professional Indemnity Insurance:

- Limit of Indemnity
- Excess / Deductible
- Costs-in-addition vs Costs-Inclusive cover
- Reinstatements

Limit of Indemnity for any one claim

The level of PI cover required for compliance with the Professional Standards Scheme will depend on your largest, single engagement fee and the category of services provided. The sum insured for any one claim for the Practice must be:

- I. For audit services provided after 8 October 2014 not less than:
 1. \$2 million, where the engagement fee* is less than \$100,000; or
 2. \$5 million, where the engagement fee* is \$100,000 or more, but less than \$300,000; or
 3. \$10 million where the engagement fee* is \$300,000 or more, but less than \$500,000; or
 4. \$20 million, where the engagement fee* is \$500,000 or more, but less than \$1,000,000; or
 5. \$50 million, where the engagement fee* is \$1 million or more, but less than \$2.5 million; or
 6. \$75 million, where the engagement fee* is \$2.5 million or more;

- II. For insolvency services provided after 8 October 2014 not less than:
 1. \$2 million, where the relevant fee* is less than \$100,000; or
 2. \$5 million, where the relevant fee* is \$100,000 or more, but less than \$300,000; or
 3. \$10 million where the relevant fee* is \$300,000 or more, but less than \$500,000; or
 4. \$20 million, where the relevant fee* is \$500,000 or more.

- III. For insolvency services the relevant fee* is the highest fee for an insolvency service provided in any single financial year of the 3 prior years.

- IV. For other services, being non-audit, non-insolvency services, provided after 8 October 2014 not less than:
 1. \$2 million, where the engagement fee* is less than \$100,000; or
 2. \$5 million, where the engagement fee* is \$100,000 or more, but less than \$300,000; or
 3. \$10 million where the engagement fee* is \$300,000 or more, but less than \$500,000; or
 4. \$20 million, where the engagement fee* is \$500,000 or more,

* Fee is defined as a payment made to a participant in exchange for services but excludes disbursements and goods and services taxes.

You may also use the [PI calculator](#) to confirm the minimum PI your practice requires.

Cost Inclusive vs Costs-in-addition cover

There must be cover for the costs and expenses that are incurred for a claim, including legal costs and expenses. This is the cost of investigating, defending and settling claims against the insured.

CA ANZ prefers its members to hold cost in addition cover. Where cost-in-addition cover is in place, the limit of indemnity will be the sum insured for the Practice as set out in [CR 2A.5\(e\)\(i\)](#).

Costs-in-addition cover (Costs Exclusive Limit of Indemnity): PII policies which cover costs of investigating, defending and settling claims in addition to the limit of indemnity.

Example: You hold a cost-in-addition cover of \$2million dollars. In the event a client lodge a claim against you, the maximum amount you can claim from your insurer is \$2million for indemnity payments (settlement payment) plus investigating, legal and defending costs.

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Costs-inclusive cover (Costs Inclusive Limit of Indemnity): The limit of indemnity includes insured costs (investigating, legal and defending costs). This means that insured costs incurred in defending a claim reduce the Limit of Indemnity available to satisfy the compensation amount of the claim.

Example: You hold a cost-inclusive cover of \$2million dollars. In the event a client lodge a claim against you, the maximum amount you can claim from your insurer is \$2million. So if investigation/legal/defending fees total \$200K and settlement amount is \$1.9 million, you will have to pay \$100k out-of-pocket.

It is a requirement under Regulation CR2A.5(e)(iv) that, where cost-in-addition cover is not in place, cost-inclusive cover must be for an indemnity limit not less than 25% greater than the amount of the required level of cover set out in CR 2A.5(e)(i). E.g. \$2,500,000 limit of indemnity for any one claim required, where no engagement fee is greater than or equal to \$100,000.

Excess / Deductible

The Excess is a policy condition requiring the insured to pay a portion of the loss. Usually this amount represents the first amount which is payable by the insured in respect of any one Claim with the insurer paying the balance over that amount up to Limit of Indemnity. The Excess can also be referred to as the “deductible”.

There may be an excess for each and every claim, but any such excess should not exceed either of the following two amounts:

- A. whichever is the greater of:
 - i. the amount calculated by multiplying the number of Principals of the Practice as at the beginning of the period of insurance, by \$10,000, for each and every claim, or
 - ii. 3% of the total of the gross fee income of the Member and every Related Entity for the financial year immediately preceding the beginning of the period of insurance, whichever is the greater; and
- B. 5% of the indemnity cover required in CR 2A.5(e).

Reinstatements

Depending on the number of reinstatements provided by the policy, the Automatic Reinstatement clause (or Maximum Aggregate Limit of Indemnity) can provide indemnity for multiple claims during the policy period where the total of these claims exceeds the policy Limit of Liability. However, no one claim payment by the insurer will exceed the policy Limit of Liability.

Example: If the insured purchases a policy with a \$2,000,000 Limit of Indemnity, and the policy contains one Automatic Reinstatement the policy provides cover for Claims aggregating up to \$4,000,000 during the policy period, subject to any one Claim being no greater than \$2,000,000.

It is preferred that your cover has at least one automatic reinstatement.

Note: Some Professional Indemnity Insurance policies only provide this on an optional basis. Please check the quote or policy wording to ascertain whether the policy contains an Automatic Reinstatement or Maximum Aggregate Limit of Liability clause and the number of reinstatements or maximum amount provided. Page | 2

Disclaimer: This document is an abridged version of CA ANZ Regulation and Professional Standards Council policy document and is not a substitute for the full guideline / standard, which should be read in full and is available on [CAANZ](#) and [Professional Standards Council](#) websites.