

Lowering insurance standards

Chartered accountants in public practice will have lower mandatory insurance standards following a recent meeting of the governing board of the Institute of Chartered Accountants in Australia.

The ICAA has watered down its mandatory insurance standards requirements because of the worsening insurance crisis, according to Stephen Harrison, the Institute's chief executive.

ICAA guidelines now stipulate that members in public practice must hold a minimum \$500,000 of indemnity cover in the aggregate per practice, a media statement issued by the ICAA states.

'Currently the level of PI required is based on the number of principals in the firm and two reinstatements were mandatory,' the Institute statement says.

Harrison says the situation has slumped into crisis and chartered accountants are being hit hard by a market in which premiums are rising following a spate of corporate collapses and other insurance troubles.

'We face a situation of market failure, where insurers are unable or unwilling to underwrite the scale of risk for all services provided by professionals', Harrison says. 'It is severely restricting the ability of our members to access affordable professional indemnity (PI) cover to meet existing ICAA mandatory requirements.'

The Institute's chief argues there is little merit in setting insurance requirements a market cannot meet. This could have at least two major consequences, Harrison notes. Institute members would either be forced to limit the services they provide to clients or resign their membership of the ICAA.

'Neither option is in the best interest of the public who deserve the protection that professional standards and indemnity insurance provide', Harrison explains.

This latest development is a part of the ICAA's long-running campaign for reform in laws dealing with public liability in all Australian States. It is understood the Institute and other professional organisations have sought audiences with various Federal and State government ministers in an attempt to have the insurance situation clarified.

Harrison says various representations have been made before Federal parliamentary committees in order to get politicians to understand the grave nature of the insurance problem.

'Six months ago we gave evidence to the Senate inquiry into public and professional indemnity insurance and warned we would need to change our insurance regulations if the insurance market continued to deteriorate', he says.

‘We said then that liability reforms, including national Professional Standards legislation and the introduction of proportionate liability, were needed to address the problems in the insurance market.’

A recent survey of ICAA members showed the professional indemnity market has been worsening, with premiums rocketing upwards and a severe contraction in the breadth of services being covered by insurers.

‘Unfortunately until liability reforms are implemented there is a need for us to take immediate action to alleviate the pressure on our members and particularly their clients’, Stephen Harrison says.

This article was supplied by Tom Ravlic. Tom is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.