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Isaac M. O'Bannon • Oct. 18, 2017

What Accountants Need to Know About Professional Liability Insurance

By Charong Chow

It's ironic that a profession dedicated to minimizing financial risks is so fraught with risk. While many business owners worry about liability and property risk — especially in the immediate wake of Hurricanes Harvey and Irma — insurance for accountants usually means professional liability insurance, which is sometimes called errors and omissions ([E&O](#)) insurance.

There are a great many choices when it comes to accounting insurance. Sometimes, wading through the choices is such a chore that many busy professionals are tempted to simply go without insurance and chance a lawsuit.

[A good insurance broker](#), who knows both you and the industry, is invaluable here. Individual shopping is very time-consuming, mostly because with each new contact, one must start over from the beginning. On the other hand, a broker who deals in professional liability insurance for accountants does all the legwork, so you can focus on adding to your clients' bottom lines.

The Risks

CPA lawsuits are nearly always expensive and protracted. In fact, the average weak claim costs [\\$3.7 million in legal defense fees](#) and requires 3.7 years to conclude. These

financial and temporal costs may well be debilitating even for larger firms, so just

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- Alleged errors,
- Professional negligence,
- Breach of professional duty,
- Misleading or misinterpreted statements, and
- Performance-related claims.

In civil court, the burden of proof is very low, especially at the pretrial phase. As a result, almost any claim that has any evidentiary support whatsoever will survive the summary judgement phase, a result which makes a lucrative financial settlement (lucrative for the plaintiff, that is) almost inevitable.

Professional Duty

The low evidentiary threshold is even lower in many accounting insurance cases, if the accountant has a **fiduciary duty** to the client. Basically, this duty applies if there is a high degree of trust in the accountant-client relationship. Some examples include:

- Estate trustee, administrator, or personal representative,
- ERISA plan adviser, and
- Investment adviser or stockbroker.

In other accounting insurance cases, the “reasonable professional” standard applies. So for example, if most of the other accountants in that area give separate EITC questionnaires to their tax preparation clients, a failure to do so may be negligence.

Types of Accounting Firm Insurance Policies

Regardless of type, these policies cover not only legal fees and costs related to a vigorous defense, but also any settlement costs. As a result, even if the covered CPA

was clearly at fault, the CPA pays nothing except the deductible, unless the lawsuit

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In addition to liability lawsuits, professional insurance for accountants sometimes covers other claims as well, such as cybersecurity breaches and electronic data processing (EDP) claims which arise from a hack or malware attack on your computers or servers. Once again, an [experienced broker](#) is an excellent guide here, because if the E&O policy does not cover these other losses, and there is a very good chance that it will not, you should consider additional insurance to eliminate any coverage gaps.

Minimizing Insurance Premiums

In the insurance business, premiums are nearly always based on risk, at least to a considerable extent. So, premiums will be a little higher for certain CPAs.

For example, high-volume accountants may pay a little more, simply because more volume means more likelihood of error from a purely statistical standpoint. If that is a concern, consider off-loading some work to a colleague in exchange for a referral fee. But typically, the difference is negligible.

If you've dedicated your career to reducing the risk that other people face, reduce your own risk with professional liability insurance for accountants.

Charong Chow is Head of Content at [Embroker](#), which empowers businesses to take the risks that will help them grow. Based in San Francisco, she's been published in both online and print media and makes a point to takes risks every day.

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