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Selling, retiring or closing your business? Why you might need run-off insurance

If you're planning to sell your business, retire, or close your doors, it's important to understand how your insurance cover may change. While your business activities may have ended, the risk of a claim may not.

Run-off insurance can protect you against claims that arise after you've stopped trading, particularly under certain liability policies that only respond to claims made while the policy is active.

Three key benefits of having run-off cover include:

01 **Peace of mind:** Run-off insurance helps protect you from claims linked to work completed before your business closed or changed hands.

It can provide reassurance that you're covered for unexpected issues that come to light later, allowing you to focus on your next chapter with greater confidence.

02 **Protection from 'zombie' claims:** Sometimes clients only discover an error, omission, or issue months, or even years, after a service has been provided.

Without run-off cover, you could be left dealing with the cost and stress of defending a claim long after you've stopped working. Run-off insurance can help protect you against these delayed claims.

03 **Claims-made policies:** Some liability policies operate on a claims-made basis. This means the policy must be active when a claim is made, regardless of when the work was carried out.

If a claim is made after the policy has ended, you may not be covered, even if the work was completed while the policy was in force.

Run-off insurance extends protection for claims made after your business has closed, been sold, or your policy has ended. This can be particularly important for service-based businesses.

Which policies may require run-off cover?

Several common business insurance policies work on a claims-made basis, including:

- **Professional Indemnity (PI):** accountants, doctors, engineers, hairdressers, natural therapists, tattooists and other professionals who provide services.
- **Directors and Officers' (D&O) liability:** executives and senior managers who can be held accountable for their business's activities.
- **Product Liability (PL):** businesses that manufacture or distribute products which may prove to be unsafe or faulty. Often, this is an occurrence-based policy, where the policy in place when the incident occurred responds to the claim.
- **Management Liability:** similarly to D&O, past managers and employees can be held responsible for negative outcomes.
- **Information Technology Liability:** errors, omissions or any negligence may be discovered after providing IT service to a client.

When should you consider run-off insurance?

There are a number of possible scenarios where run-off cover offers vital protection from allegations of negligence, duty breaches and insolvency claims, among others.

If your business is being wound up, merged with another company, sold, or you as a senior manager are leaving, you could still be held liable personally for a past mistake.

Common situations where run-off cover may be appropriate include:

- **Change of corporate structure:** such as a sale to or merging with another business and transferring control to another entity. The cover provided by policies such as PI and D&O will lapse effective from the change to the business.
- **Retirement:** even if you have retired from an active role in your business, your former clients and stakeholders can still make a claim of misconduct or mismanagement against you.
- **Business closure:** closing your business won't exempt you from any claims your previous clients or employees may file against you.
- **Contracts:** some commercial contracts may require that your work remains covered by insurance for a period after completion of the job.
- **Industry standards:** some industries or professional associations stipulate insurance cover should remain in place for a specific number of years. This includes professions such as doctors, accountants, engineers and architects.
- **Non-renewal:** for various reasons your insurer may decline to renew your policy, but run-off cover ensures you remain protected for a set period.

Important run-off insurance considerations

Before making any significant change to your business, it's worth reviewing your insurance programme, especially any claims-made policies.

In some cases, policies may automatically provide a short period of run-off cover following a sale, merger, or closure. Where longer protection is required, extended run-off cover is generally available, often on an annual basis.

Factors to consider when deciding how much run-off cover you need include:

- Contractual specifications
- Terms of the sale agreement
- Statute of limitations requirements
- Regulatory obligations
- Potential costs.

How we can help

Closing, selling or stepping away from a business doesn't always mean your exposure to risk ends. With access to local and international insurance markets, our brokers can help you secure run-off insurance tailored to your circumstances.

Contact us today for expert guidance on run-off insurance to help protect against any future claims.

Connect with us
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Please talk to your Gallagher broker for advice on your specific circumstance.