

CALIFORNIA  
CPA

CALIFORNIA SOCIETY OF CPAs  
SEPTEMBER 2017

*plus*

Wearable Tech  
CBA Update  
CPA Insurance Q&A



CPA Evolving

Education  
Foundation  
Looks to the Future

# Are You (In)Sure(d)?

## Q&A with CPA Insurance Experts

**d**aniel W. Hudson and Joseph E. Brunzman are graduates of the United States Naval Academy who, after serving in the Navy, founded a brokerage in 1995 specializing in practice insurance for CPA firms.

“Our goal is to fundamentally change the way that CPA firms purchase and utilize their insurance on a national level,” says Brunzman, who wrote a book on the topic with Hudson. The book, “True Course: The Definitive Guide For CPA Practice Insurance,” came to our attention via our own insurance gurus at CAMICO, and is available at no cost at [www.cplbrokers.com](http://www.cplbrokers.com).

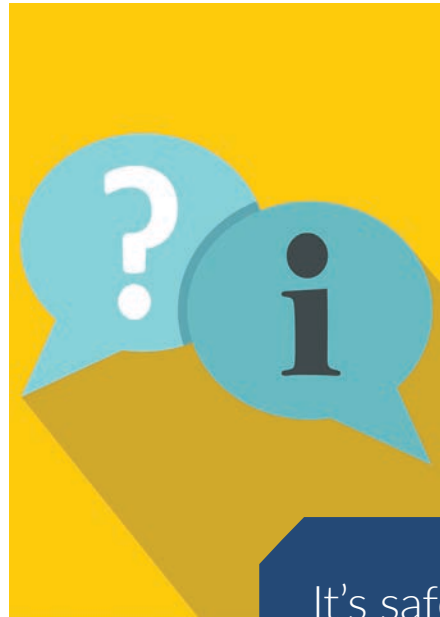
We drilled a little bit deeper with the authors to find out more about why they wrote the book and the importance of CPA insurance.

### Why Write the Book?

**Brunzman:** As an engineer and a former Naval officer, I always had a reference: Everything from how to launch a Tomahawk missile to lacing your shoes. Entering this industry, I thought it was unusual that firms are spending money on something they know relatively little about. Also unfortunate is that novice brokers are selling policies they’ve never read and typically don’t understand. It’s the only industry I can think of where this dynamic still occurs on a large scale. As we say in the Navy, “Trust, but Verify.”

### What Are Some Misconceptions About Professional Liability Insurance?

**Hudson:** You can’t get the same insurance for 20 percent, or more, cheaper. If you do, you’re giving up something significant. The insurance industry is perhaps the most data intensive industry in the world. No one company can realistically claim to have the right formula, while offering the same type and quality of services as the main players. If you have a claim with a discount insurer, your firm’s reputation may be at the mercy of an organization that has only limited staff, or



It’s safe to say that **cyber insurance** is now considered a normal operating expense.

lacks expertise to deal with your complex issues. That’s a painful experience.

### How Should CPA Firms Determine What Insurance is Best, and How Much?

**Hudson:** To begin, make sure that you’re working with the right broker. Chapter 2 of our book, “Warning Signs,” will help you steer clear of novice brokers. Many may mean well, but haven’t invested the time necessary to adequately advise your firm. Chapter 3, “Four Simple Questions,” will help you narrow down the insurance companies that might be the best fit, particularly having the resources and expertise to manage the complexities of accountants’ professional liability.

**Brunzman:** As for coverage limits, it really depends on your firm’s scope of business, industries served and a host of other variables. For example, two firms with similar revenue will have vastly different

insurance needs if one is tax focused and the other is heavily into attestation. Firms should also consider split limits and separate defense limits, as these get factored into the overall “amount” of insurance. Chapters 6 through 8 cover these topics in depth. We use the same chapters when speaking with our own clients.

### What Should Practice Insurance Cover?

**Hudson:** Broadly speaking, this covers professional liability, employment practices, cyber, D&O and investment advisory. Each insurance company provides different coverage options, but our book can provide guidance

on navigating many of these important nuances. I would also recommend that those serving on a board fully understand that organization’s D&O insurance.

### Where Have You Seen CPA Firms Misstep When it Comes to Practice Insurance?

**Brunzman:** Besides the deceptive allure of discount insurance,

I would say that firms don’t adequately investigate their own policies. They should remember that these are legal contracts and should treat them with care. Although I really love researching insurance law and how it applies to policy language, the most common reason a firm is denied coverage is by late reporting a potential claim. As former Naval officers, it’s not what we knew that kept us up at night. It’s what we didn’t know, but should have been told. The same applies to partners at CPA firms. It’s as easy as a junior staff member not knowing, or wanting, to report a problem to senior management. To my knowledge, CAMICO is the only insurer to have solved this problem by offering what

is known as “Continuity of Coverage.” It’s beyond me why every firm wouldn’t seriously consider this coverage at their next renewal.

### How Have Firms Been Dealing With Cyber Insurance?

**Brunsmann:** It’s safe to say that cyber insurance is now considered a normal operating expense. However, the insurance industry doesn’t have a standard policy per se, and most brokers don’t have the technical background to advise on what you need in a policy or how much is necessary. Firms might just be surprised what they don’t have, but should. Too often they find out the hard way.

### What Sort of Things Should Cyber Insurance Cover?

**Brunsmann:** Chapter 24 of our book gives

the “must have” cyber coverages in bold so firms can search their own policies in less than five minutes. The most likely threat they face will be ransomware. Extortion payment, business interruption and forensic analysis coverages are of key importance. As for minimum first-party limits, we spent considerable time investigating that one question. We extrapolated an average of \$132 per unique Social Security Number on file to help understand what might be an appropriate limit.

### What Are the Top Categories Regarding CPA Firms Being Sued?

**Hudson:** Tax claims remain the most frequent type of claim, but the severity has eased when compared to the past three years. Claims from attest work have increased, but

the severity has eased. Most troublesome are claims related to fraud. Frequency and severity seem to have increased. We have even seen an increase in misappropriation of client’s funds by CPA firm staff.

### What Are Some Steps Firms Can Take to Protect From Being Sued?

**Brunsmann:** Unfortunately, we live in a society where baseless claims are routinely made. In our experience, roughly two-thirds of claims occur despite the quality of a firm’s work. Many arise from clients that have questionable backgrounds. Had the CPA taken the time to conduct a background check or investigate their history, they would probably not have engaged with them in the first place. With 50 percent of all professional liability claims involving allegations of fraud, I

## When you see something good...grab it.

CalCPA Health offers HSA plans that you definitely want to get your hands on. HSA enrollment numbers are growing at a fast pace for many reasons.

**Learn More**

[CalCPAHealth.com/SweetHSA3](http://CalCPAHealth.com/SweetHSA3)



Medical • Dental • Vision • LTD • Life

For more information visit [CalCPAHealth.com/SweetHSA3](http://CalCPAHealth.com/SweetHSA3)  
call 877.902.5369 or [HSA@CalCPA.org](mailto:HSA@CalCPA.org)



**CalCPA Health**  
Health plans for CPAs since 1959

Content is copyright protected and provided for personal use only - not for reproduction or retransmission.

For reprints please contact the Publisher.

would say that's the best place to start getting offensive about claims protection. Chapters 13 through 17 can provide more guidance in this area.

### How Can Firms Protect Themselves Against Fraudulent Claims?

**Brunsmann:** Client screening is the most underrated tool firms can use to avoid future problems. Background checks, a simple internet search and court databases such as [Pacer.gov](http://Pacer.gov) can shine a spotlight on potential problem clients. You would be surprised how often firms have a claim from someone who already has a history of being litigious. In many instances, the firm never would have engaged with that client if they understood their history.


### How Important is Employment Practices Liability Insurance?

**Brunsmann:** It's becoming even more important as firms increasingly use remote workers, flexible hours and temporary or

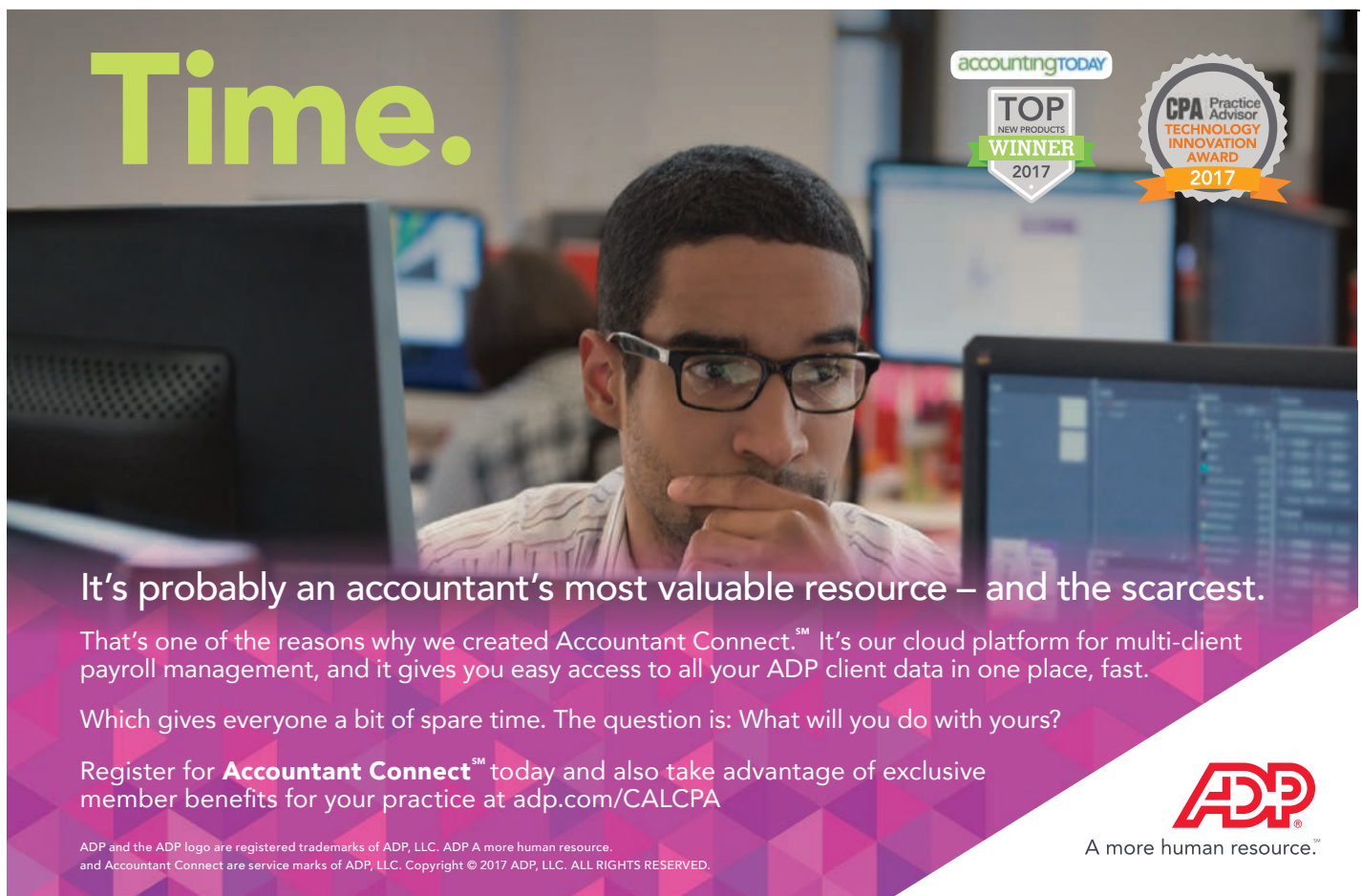
Background checks, a simple internet search and court databases ... shine a **spotlight** on potential problem clients.

seasonal staff. Historically, employment related claims increased when the economy suffered. This seems to have changed, in part, as the EEOC has somewhat become an activist organization. These policies are still relatively inexpensive, so every firm should give it consideration. Chapters 18-22 help firms better understand exposure and loss prevention ideas.

### Can You Have Too Much Insurance?

**Hudson:** It depends on the line of insurance, but on the professional liability side ... perhaps. In a claim that is litigated, your policy limits can be discovered by the plaintiff. The limit can become the target and the nature of how the policy covers defense expense can artificially extend the time it takes to resolve the matter. Ideally you aim for the "Goldilocks zone" we mention in our book. That's enough insurance to manage the defense expenses, resolve the claim within your limit, and not make you the target of opportunity. 

**Joseph E. Brunsmann** specializes in professional insurance and risk management services for CPA firms. **Daniel W. Hudson** has specialized in CPA professional insurance for more than 25 years. You can reach them at [joseph@cplbrokers.com](mailto:joseph@cplbrokers.com) and [dhudson@cplbrokers.com](mailto:dhudson@cplbrokers.com).






**Time.**


It's probably an accountant's most valuable resource – and the scarcest. That's one of the reasons why we created Accountant Connect.<sup>SM</sup> It's our cloud platform for multi-client payroll management, and it gives you easy access to all your ADP client data in one place, fast.

Which gives everyone a bit of spare time. The question is: What will you do with yours?

Register for **Accountant Connect**<sup>SM</sup> today and also take advantage of exclusive member benefits for your practice at [adp.com/CALCPA](http://adp.com/CALCPA)

ADP and the ADP logo are registered trademarks of ADP, LLC. ADP A more human resource. and Accountant Connect are service marks of ADP, LLC. Copyright © 2017 ADP, LLC. ALL RIGHTS RESERVED.

  
A more human resource.<sup>SM</sup>