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News Release

WITH CLAIMS RISING, ARCHITECTS/ENGINEERS PROFESSIONAL LIABILITY INSURERS PLAN MODEST RATE INCREASES

**Ames & Gough Survey: Most Insurers Planning Targeted Rate Hikes in 2020,
Focusing on “Higher Risk” Disciplines, Projects, and Locations**

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WASHINGTON, DC, February 25, 2020 – Most insurers providing architects and engineers (A/E) professional liability insurance continued to see significant premium growth last year. However, increasing concerns about deteriorating claims experience are prompting many insurers to consider rate actions this year on clients with higher risk disciplines, project types and even geographic locations, finds a new survey by insurance broker Ames & Gough.

Indeed, as they look ahead to 2020, all insurers in the Ames & Gough survey of 15 leading insurance companies (which, on a combined basis, represent a significant percentage of the overall marketplace providing professional liability insurance to architects and engineers in the U.S.), are planning rate increases. Among them, 82 percent are seeking modest increases of up to 5 percent, while the remaining insurers are planning to raise rates by 6 - 10 percent.

“Without consolidation within the insurance marketplace, insurers are going to be hard-pressed to achieve significant rate increases. That said, insurers reported an increase in claims activity in 2019, which in turn will affect how insurance underwriters assess a design firm’s risk profile,” said Joan DeLorey, senior vice president and partner, Ames & Gough, a co-author of the survey. “With losses mounting, insurers are zeroing in on higher risk disciplines, projects, and geographic locations where they’re seeing not only more claims but higher claim severity.”

Claims activity on the rise. For the first time in several years, claims activity was on the rise last year as 40 percent of the insurers surveyed reported a worsening of their claims experience. By contrast, only 6 percent reported adverse claims results in last year’s survey. Altogether, this year’s survey found an increase in severity, frequency and expenses among those reporting negative changes in claims patterns. Furthermore, the majority of these insurers indicated their losses increased by as much as 10 percent.

Among the insurers surveyed, 33 percent had more claims in 2019 related to certain project types, such as residential and infrastructure. With respect to specific disciplines, architects and

civil engineers were seen as having the highest frequency of claims, followed by structural engineers and mechanical engineers. In terms of claim severity, the insurers overwhelmingly singled out structural engineering as the discipline with this highest severity, followed by architecture, mechanical engineering and civil engineering.

When asked about their largest claim payments in 2019, 47 percent of the insurers surveyed reported paying between \$1 million to \$5 million for a single claim; nearly 34 percent paid up to \$1 million for a given claim.

“There’s a correlation between the increases in claims and the supply of the A/E workforce as compared to the demand in the construction industry,” said Jared Maxwell, vice president and partner, Ames & Gough, and a co-author of the survey. “Although the continued competition in the professional liability insurance marketplace for A/E firms has kept rate increases to a minimum, that may be unsustainable if the heightened claims activity continues.”

With respect to their underwriting assessments, 93 percent of the insurers surveyed cited structural engineering as the top discipline in terms of risk; meanwhile, mechanical engineering, geotechnical engineering and architecture were also cited by multiple insurers as having significant risk. Other areas of concern for insurers from an underwriting standpoint include construction complexity and increased costs, design resiliency as it relates to climate change, and state laws adversely impacting design firms.

“As insurance market conditions begin to evolve, it’s critical for design firms to be proactive about adopting and adhering to sound risk management protocols, especially in their due diligence for any potential merger or acquisition,” Mr. Maxwell noted.

Insurers concerned about social trends. Some insurers surveyed are watching how “social inflation” and legal financing are affecting claim severity. The former is linked to higher litigation costs driven by sympathetic jury awards; the latter, with prolonged litigation ratcheting up defense costs.

To obtain a complimentary copy of the Ames & Gough Survey, *PLI Market 2020: As Claim Costs Grow, Insurers Eye Targeted Rate Increases*, email info@amesgough.com.

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About Ames & Gough

With more than 1,500 architects, engineering firms, and other construction professionals of all sizes as clients, Ames & Gough is the leading insurance brokerage and risk consulting firm serving the needs of these professionals. Ames & Gough also has established itself as a committed, superior resource for law firms and associations and nonprofit organizations in need of professional liability, management liability, and property/casualty insurance and risk management assistance. Established in 1992, the firm has offices in Boston, MA; Orlando, FL; Philadelphia, PA; and Washington, DC. Clients throughout the U.S. are served by a team of more than 40 professionals and staff located in the three offices. Visit the Ames & Gough website at <http://www.amesgough.com/>.