

A complete and accurate application

Steps to manage professional liability insurance costs.

Here's an issue that comes up more frequently these days: Two A/E firms with the same total billings and scope of services complete professional liability insurance applications. Yet, one firm's premium is 15 percent higher than the other's. Why is that? It is likely due to how the firm's billings and activities were portrayed on their professional liability insurance renewal application. Experience has shown that being accurate and providing sufficient detail can help keep your firm's premium low. Here are a few areas where added clarity may make a significant difference in your premium costs.

BILLINGS. From an underwriter's perspective, all billings are not equal. Be sure to allocate billings as accurately as possible among the available categories in the application. For example, consider the following:

- **Feasibility studies.** Most insurers discount billings for feasibility studies, master plans, reports, and opinions by as much as 60 to 75 percent. If a study then becomes a full-blown project, you still may be able to categorize the original study billings under "feasibility." For instance, if you examine four alternatives and one is chosen, billings for analyzing the other three options may fall under feasibility studies.
- **Abandoned projects.** Billings for projects abandoned prior to the construction documents phase are also discounted or excluded. Such projects may be on hold, pending financing or other considerations, or truly abandoned. So, there is nothing likely to lead to a claim.
- **Projects with project-specific policies.** Many insurers treat billings from a project covered by a project-specific professional liability insurance policy differently.
- **International work.** International projects have generally created fewer claims and may be discounted by 25 percent or more.
- **Direct reimbursables.** Your insurer may exclude from the premium calculation any directly reimbursable expenses billed separately and not included in your fees for professional services. These expenses include costs of copying documents, traveling to construction sites, and other incidental costs. Even when clients include reimbursables as a percentage of your fees, you still may be able to negotiate a discount with your insurer by estimating the amount of reimbursables involved.
- **Insured subconsultants.** Some underwriters discount revenues associated with subcontracted work to other consultants, as long as these subconsultants are insured. If your application does not request this information, ask about possible discounts.



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SERVICES, PROJECTS AND PROFESSIONAL STAFF. In calculating premium, underwriters also focus on services provided, whom they are provided for, types of projects undertaken and the number of professionals employed by your firm. A few areas to think about when completing your application are:

- **Construction or facilities management.** A discount of 35 percent or more may apply to a firm's coordination of the interface between design and construction or your role in facilities management.
- **Type of client.** History has shown that some clients (e.g., schools) create more litigation and claims than others. Applications will typically ask you to identify the percentage of work you do for each type of client. Be careful to provide an accurate picture.
- **Services and projects.** Most applications include choices for firms to describe their professional service and request allocations by percentage for each category. Some categories, such as structural or geotechnical

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engineering, generate significant debits (i.e., higher premiums); others, such as landscape architecture, generate credits (i.e., lower premiums). The same is true for types of projects. Debits and credits vary by insurer, so ask your insurance broker to explain your insurer's approach. Services, such as project or program management, that may not fit the specified categories, should be listed under "other." Provide thorough explanations of each service.

■ **Licensed professionals.** Practically all professional liability insurance applications ask for the number of licensed professionals your firm employs: architects, engineers, land surveyors, landscape architects, and all others. This breakdown does not include temporary or leased professionals and these individuals should be listed separately with an explanation. That will help you avoid surprises if a claim arises from their work.

CLAIMS. Claims information is another key determinant of your insurance premium. Be sure to review your insurer-provided loss runs to make sure that the claims information listed is accurate and hasn't changed (e.g. maybe a claim has

been settled for less than the reserve amount). Also, be sure you (and your broker) understand the information on the insurer loss run. Some insurers actually not only list reported claims but also reported circumstances (otherwise known as potential claims or pre-claims).

While we always encourage reporting such circumstances/potential claims, you wouldn't want a potential new insurer reviewing your loss run to assume that each item listed on the loss run is a claim if, in reality, it is a pre-claim. In addition, if you decide to change insurance companies, be extra careful to ensure that all claims and potential claims are reported to your current insurer before expiration.

Today, A/E professional liability insurance applications are thorough, requiring you to provide a great deal of detailed information. By answering the questions as carefully and completely as possible, you may be able to shave some costs off your annual premium. ▲▲

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