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News Release

ARCHITECTS & ENGINEERS 2013 PROFESSIONAL LIABILITY INSURANCE MARKET: RISING RATES, STEADY CAPACITY

Ames & Gough Survey Finds Insurers Planning Further Rate Hikes Despite Flat Claims Experience

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WASHINGTON, DC, March 11, 2013 – For the second consecutive year, the insurance market for architects and engineers professional liability insurance continued its firming trend as a number of leading insurance companies providing this specialized coverage again achieved moderate price increases. A new survey by insurance broker Ames & Gough finds a majority of insurers expect to seek further increases this year even as their overall claim experience in this line remains flat.

According to the Ames & Gough survey of 13 leading insurance companies (which, on a combined basis, represent more than 70 percent of the marketplace providing professional liability insurance to architects and engineers in the U.S.), 62 percent had rate increases last year and the remaining insurers had flat rates. None saw their premium rates drop. Significantly, half those with the higher rates had average increases of 6 – 10 percent or more.

For 2013, 69 percent of insurers are planning rate increases. The expectations as to the size of these increases range from the low single digits to 10 percent or more with the average expected increase in the 4 – 8 percent range.

“Although professional liability insurance premiums are rising for most architectural and engineering firms, the market is far from uniform in its pricing,” said Dan Knise, president and CEO of Ames & Gough. “We’re seeing different dynamics at play, as some insurers reconfigure their portfolios to include more small firms and lure them with competitive pricing while raising rates for larger firms. Similarly, insurers just beginning to offer this coverage are being more aggressive on pricing when compared to longer-term players who’ve paid some claims.

“Even renewals are sometimes playing out differently than new business for the very same insurer as management tries to balance cautious underwriting with the need to grow premium revenues,” he added.

The Ames & Gough survey traced the insurers’ drive for higher rates to a variety of factors. More than half (56 percent) of those planning increases indicated rates had been inadequate as a result of premium reductions over time. Historic claims experience (losses going back more than two years) was the second biggest factor, cited by 44 percent of those planning to raise rates. Rising reinsurance costs and recent claims experience each were cited by 11 percent of the insurers as factors driving up rates.

Despite the rate increases, capacity for architects and engineers professional liability insurance remains stable. For any individual qualified insured firm, 25 percent of the insurers can provide up to \$25 million in limits, 54 percent can provide a maximum of \$10 million to \$20 million, and 31 percent can provide up to \$5 million. In addition, with the ability of multiple insurers to participate on any individual firm’s program, the larger publicly traded design firms can access \$100 million in limits or more.

“We’re in an environment in which more design firms are purchasing higher limits – either because they need added protection to address an evolving risk profile or because owners are requiring their architects and engineers to carry much higher limits,” said Mike Herlihy, executive vice president and partner in the Ames & Gough Boston office. “Today, more clients are seeking \$5 million of limits or more, compared with \$1 million or \$2 million that was practically standard only a few years ago.”

To help keep their costs under control some firms are looking at increasing the size of their policy deductibles and/or purchasing so-called “split limit” policies as a way to increase protection while holding down premium costs. For instance, a split-limit policy might have a \$2 million per claim limit and a \$4 million aggregate limit. Others are relying on “single-project excess limits” to meet demands for more insurance.

From the insurers’ perspective, rate changes for an individual account may be driven by a number of considerations. This year, type of projects was cited by 87 percent of survey participants as the biggest driver of rate changes. That was followed by loss experience within the past two years (70 percent); type of work or service (62 percent), and historic loss experience (more than two years), cited by 39 percent.

“Although there are a number of drivers for rate increases, the fundamental pricing mechanism for architect/engineer professional liability coverage continues to be applying a premium rate to billings,” Mr. Knise said. “Thus, higher billings typically mean higher premiums and lower billings, lower premiums. Still, not all billings are identical – abandoned projects and feasibility studies are considered to be less risky, and may be priced lower than billings associated with condominium design and structural engineering projects, which may be higher risk from an insurer’s perspective.”

To obtain a complimentary copy of the Ames & Gough survey, *PLI Market 2013: Insurers Adjust Rates, But Maintain Capacity*, email info@amesgough.com.

With 1,000 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 non-profit 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; Philadelphia, PA, and Washington, DC. Clients throughout the U.S. are served by a team of 28 professionals and staff located in the three offices. Visit the Ames & Gough Website at <http://www.amesgough.com/>.

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