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News Release

ARCHITECTS & ENGINEERS 2014 PROFESSIONAL LIABILITY INSURANCE MARKET: COMPETITION SOFTENS RATE HIKES

**Ames & Gough Survey Finds Insurer Premiums Growing from New Business, Improving
Economy, Moderately Higher Rates**

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WASHINGTON, DC, March 10, 2014 – Although most insurers providing professional liability insurance for architects and engineers sought to raise rates last year, the size of the increases generally failed to meet their expectations. Nevertheless, nearly all leading insurers offering this specialty coverage did see premium growth in 2013 mainly from new business, an improving economy and moderately higher rates. A new survey by insurance broker Ames & Gough finds a majority of these insurers expect to seek further modest increases this year to compensate for what many of them consider inadequate pricing.

According to the Ames & Gough survey of 14 leading insurance companies (which, on a combined basis, represent about 75 percent of the overall marketplace providing professional liability insurance to architects and engineers in the U.S.), 79 percent had rate increases last year and the remaining insurers had flat rates. None saw their premium rates drop. Notably, however, the size of the increases actually achieved was significantly below insurer expectations at the start of 2013.

For example, as 2013 began 33 percent of insurers planning to raise rates expected to see increases of 6 – 10 percent; however, only 18 percent actually had such gains. Indeed, the overwhelming majority (82 percent) of these insurers had actual increases of five percent or less.

This year, nine of the 14 insurers surveyed are planning increases; five expect to keep rates steady. Of those planning higher rates, 78 percent expect increases of 5 percent or less, and the remaining 22 percent expect to raise rates by 6 – 10 percent.

“We’re still seeing steady competition in the professional liability insurance market, especially for the business of smaller A/E firms and those insurers consider as having desirable risk profiles – good loss history, lower risk projects, and strong risk management,” said Dan Knise, president and CEO of Ames & Gough. “At the same time, A/E firms with higher-risk projects or poor claim histories generally are seeing their incumbent insurers push for larger rate increases at renewal.”

In their drive for higher premium rates, most insurers in the survey (78 percent) consider rates to be inadequate, primarily due to successive years of premium reductions from 2005 – 2011. Nearly half (44 percent) cited historic claims experience (losses going back more than two years); 11 percent also pointed to recent claims experience (losses in the past two years) as a key factor driving up rates.

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

Meanwhile, insurers are keeping a watchful eye on claims. Although only 7 percent of those surveyed experienced greater claim frequency last year, half reported higher claim severity. When asked for the dollar amount of their largest single claim payment in 2013, 64 percent paid a claim of \$1 million or more, including 21 percent reporting their largest claim was between \$10 million and \$19 million.

“Any trend toward higher claim severity should be a red flag for A/E firms renewing their insurance programs to double-check if their limits are adequate,” said Mike Herlihy, executive vice president and partner in the Ames & Gough Boston office. “Today, even many smaller firms purchase limits of \$5 million or more either because clients require that protection or because they recognize the risks they face are greater.”

From the insurers’ perspective, rate changes for an individual account may be driven by a number of considerations, including type of projects, recent claims experience and type of work/service. This year, there is a greater emphasis on historic loss experience, cited by 64 percent of insurers versus 39 percent in the 2013 survey. Further, more insurers (21 percent) this year also cited the overall need for higher rates as a key factor being applied to the underwriting of individual accounts.

“Even though insurers are again seeking to raise rates, the good news is that most of the increases have been modest,” Mr. Knise said. “Nonetheless, in this environment design firms need to maintain sound risk management practices that should encompass client selection, careful review of contractual agreements, effective project management, and proactive client communications and claim reporting.”

To obtain a complimentary copy of the Ames & Gough survey, *PLI Market 2014: Market Remains Competitive Despite Insurers' Push for Rate Hikes*, email info@amesgough.com.

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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 30 professionals and staff located in the three offices. Visit the Ames & Gough Website at <http://www.amesgough.com/>.