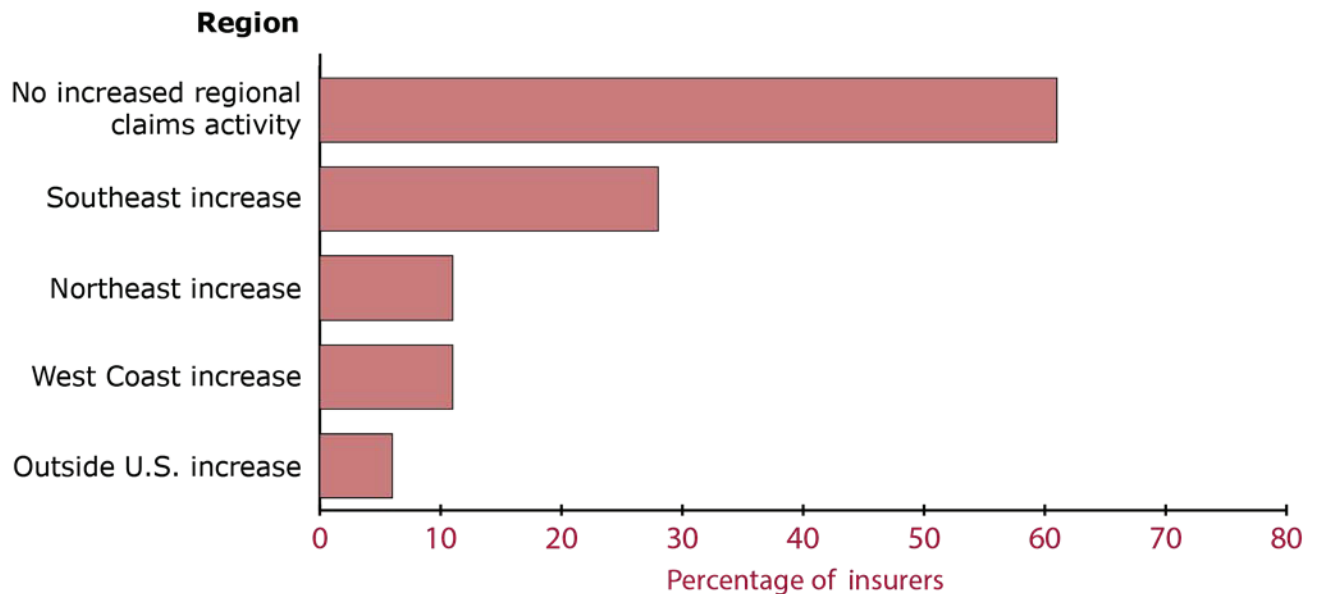


Insurers Reporting Increased Regional Claims Activity in 2018



Note: No insurers reported greater claims activity in the U.S. Central, Mid-Atlantic, and Southwest regions.

Source: Ames & Gough 2019 A/E Professional Liability Insurer Survey

Key factors

For AEC firms, findings of latest annual professional liability insurer survey may help guide 2019 risk management and renewal strategies.



Joan DeLorey

Findings of a new survey of 18 leading insurance companies providing professional liability insurance to architects and engineers in the U.S. may prove instructive for design firms as they examine or review their 2019 risk management and insurance renewal strategies.

For starters, competition and generally favorable claims experience are helping most insurers hold the line on rates. The majority of the insurers – 67 percent – participating in the annual survey by Ames & Gough plan to leave rates unchanged this year. Yet, among the remaining six insurers, four will seek rate hikes of up to 5 percent and two, from 6 to 10 percent.



Jared Maxwell

This year, rather than aiming for across-the-board rate hikes, insurers planning to raise rates are targeting AEC firms with large claims, higher risk projects, disciplines or those operating in regions with greater claims activity. Here are specific details along with applicable risk management measures:

- **Claim severity, a key underwriting factor.** Although insurers weigh several factors in underwriting a particular risk, 83 percent of insurers surveyed

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this year cite claim severity as their biggest concern. In comparing 2018 claims patterns with those of prior years, 33 percent saw higher claim severity last year. This underscores the need for design firms to practice sound risk management. That includes proactively addressing circumstances that could become

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claims and working with their attorneys, insurance advisors and carriers to manage any claims that occur. Further, in advance of their professional liability insurance policy renewals, design firms with large claims should be prepared to explain any losses to their insurers, including steps taken to avoid any recurrence.

- **Condos, residential projects may trigger rate hikes.** Of the insurers surveyed, 67 percent identified type of project as a top factor for raising a firm's premium rates. Thus, AEC firms need to be aware of how underwriters view their project mix. Nearly all the insurers surveyed (16 of 18) view condominiums as the riskiest projects, followed by other residential projects, bridges and tunnels, large public facilities (such as airports, stadiums, and convention centers), and K-12 schools. Design firms with these projects should examine their risk management and loss experience and work with their insurance advisors to shore up any deficiencies. They should also assess how taking on this kind of work through organic growth or acquisition might affect their insurance programs and costs.
- **Higher risk disciplines: Structural engineering and geotechnical.** Among insurers surveyed, 39 percent pointed to high-risk disciplines as a reason for raising rates on individual AEC firms. More specifically, 16 of 18 ranked structural engineering – and 13 of 18, geotechnical engineering – among the top three disciplines in terms of significant underwriting risk, followed by architectural, process engineering and land surveying. Clearly, design firms with large investments in these disciplines, and those acquiring such firms, need to maintain a sharp focus on risk management. Any related claims are likely to be more severe and, consequently, may trigger more substantial premium increases at renewal.
- **Insurers flag certain regions for claims volume.** Some insurers cite geography as a key consideration for potential rate increases. Among the 39 percent of insurers surveyed that experienced greater claims activity in specific areas, 71 percent had more claims in the Southeast and 29 percent, each, in the Northeast and West Coast. AEC firms with operations or projects in these areas might double-check their related risk management practices and carefully track their loss trends.
- **Insurers monitoring judicial rulings, other issues.** In terms of their near- and longer-term risk management, design firms may want to stay on top of emerging developments being watched by their insurers. When asked to rate their level of concern about various risk trends they are monitoring from an underwriting perspective, the insurers surveyed appeared most concerned (72 percent) about judicial rulings eroding protections for design firms under state statutes, such as economic loss doctrine. Other key concerns include:

new construction materials/methods (61 percent), public-private partnerships (28 percent), and increase in design-build (22 percent).

Besides tracking trends and maintaining underwriting discipline, many professional liability insurers continue to focus on innovation. In preparing for their policy renewals, AEC firms might check their insurance advisors about new coverage solutions to address their specific needs, including:

- **M&A policy endorsement.** Irrespective of a target firm's project mix, disciplines or geography, any deal is likely to have an impact on the acquiring AEC firm's premium. Some professional liability insurers now offer special coverage endorsements enabling AEC firms to make an acquisition (subject to a defined percentage of current revenue) with no premium increase until the next policy renewal.
- **Multi-year or automatic renewals.** Some insurers now offer two- or three-year policies to smaller firms with up to \$2 million in annual revenues. While each insurer has different criteria for qualification, growing firms can lock in their premium rather than potentially experiencing a premium increase due to revenue growth. Additionally, a few insurers now offer automatic annual renewals for small firms whereby the same coverage and premium terms are provided prior to renewal without the need for added underwriting.
- **Client- or project-specific additional and/or excess limits.** The need for AEC firms to obtain additional limits due to client contract requirements is more prevalent now than in prior years. Most insurers now can offer higher overall limits and endorsements to bump up coverage for a given project or client, providing a cost-effective approach to address these requirements.

Given the continued soft insurance market conditions, AEC firms with favorable loss experience and/or less risky services may potentially see little to no increase in their premium rates this year. Even so, change in billings, whether through organic growth or acquisition, is likely to have an impact on a design firm's premium calculations. Meanwhile, individual insurers are continuing to develop new solutions to address AEC firms' evolving needs for protection.

To obtain a complimentary copy of the Ames & Gough Survey, PLI Market 2019: Insurers Achieve Strong Growth Despite Competition and Flat Rates, email info@amesgough.com. ▀

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