

# Insurance survey illuminates trends

As professional liability rates stabilize, design firms need to keep focus on sound risk management.



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Architects and engineers are generally seeing their businesses stabilize or grow after several years of less favorable conditions. While this is good news, with opportunity comes risk and with risk comes a need for insurance; in particular, professional liability insurance. The good news is that most A/E firms are going to find broad availability of coverage and relatively stable premium costs. Although insurers would like to raise premium rates, competition is helping to keep rate hikes in check.

A recent survey by specialty insurance broker [Ames & Gough](#) of 14 top insurance companies writing A/E professional liability coverage in the U.S. sheds some light on what architects and engineers can expect in the year ahead.

■ **Competition in 2014 held down rate increases.**

The effects of competition on premium rate actions are evident when you compare insurer expectations for rate increases leading into 2014 against their actual results. Of the insurers in the Ames & Gough survey, 64 percent had rate increases last year, 29 percent had flat rates, and one insurer lowered its rates. Notably, however, the sizes of any increases achieved were significantly below insurer expectations at the start of 2014. For example, as 2014 began, 22 percent of insurers planning to raise rates expected increases of 6 - 10 percent; yet, only one insurer actually had such gains. Indeed, the overwhelming majority (88 percent) of these insurers had actual increases of 5 percent or less.

■ **2015: More of the same?** For 2015, the insurer survey reveals that just over half plan rate increases of up to 5 percent this year. The remaining insurers expect to keep rates flat. Those seeking increases are often responding to the impact of multiple years of declining premium rates from 2005 - 2011, as well as what they consider to be increased risks in today's economic and litigation environment.

■ **Sound underwriting practices still the order of the day.** In a drive to maintain or increase profitability insurers are committed to sound underwriting practices – even in the face of increasing competition. In this environment, most design firms with effective risk management, a stable mix of business, and positive loss history are likely to experience only modest increases in their premium rates. One key is to have an active risk management program, including client selection parameters, a thorough contract review process, and a robust quality control regimen. Another important step is to ensure a well-completed professional liability insurance application.

■ **Rising claim severity still garners attention.** Even though the frequency of professional liability claims appears in check with only 7 percent of those

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insurers surveyed experiencing more claims last year, the size of claims is another story: 43 percent reported higher claim severity last year. With respect to claim costs, 36 percent of the insurers surveyed cited increased defense costs as an emerging cost driver. As to their largest single claim payment in 2014, 71 percent paid a claim of \$1 million or more, including 14 percent reporting their largest claim was between \$10 million and \$19 million.

Design firms need to take steps to monitor their professional liability loss experience. As you renew your coverage, be sure you have adequate limits to address any changes in your project mix and potential exposures. Today, even many mid-size or smaller firms purchase limits as high as \$5 million, either to satisfy client requirements or because they recognize their overall risks have increased. The Ames & Gough survey found insurers have significant capacity to meet ever higher coverage requirements for even the largest A/E firms in the form of excess professional liability insurance.

**KEY UNDERWRITING CONSIDERATIONS.** As they approach the underwriting process with greater diligence, professional liability underwriters are focusing on several elements that make up a design firm's overall risk profile. Ultimately, rate changes for an individual account are driven by multiple considerations, including type of projects, historic loss experience, recent claims experience and type of work/service.

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## BUSINESS NEWS

### SIX STATES RECEIVE GRANTS FOR INNOVATIVE INFRASTRUCTURES

U.S. Transportation Secretary Anthony Foxx announced that \$4.38 million in grants from the Federal Highway Administration's Accelerated Innovation Deployment Demonstration Program would be awarded to Kansas, Minnesota, North Carolina, South Carolina, Vermont, and Virginia. The grants will fund innovative road and bridge work that will lead to better, safer infrastructure efforts nationwide. The awards include:

- **Kansas DOT:** \$1 million to offset the cost of a technology project known as "CANSYS III," designed to integrate roadway data from the best sources into a single authoritative and innovative transportation geospatial data system.
- **Minnesota DOT:** \$1 million to fund Intelligent Compaction and Infrared technologies for 10 paving projects with long-life asphalt pavement, lowering life-cycle costs and improving construction quality.
- **Vermont Agency of Transportation and Chittenden County Regional Planning Commission:** \$981,780 to deploy Bluetooth monitoring devices on up to five transportation corridors. The project is designed to advance traffic monitoring in high-volume roadway corridors where

safety, commuter congestion, and construction activity are issues.

- **South Carolina DOT:** \$787,104 to invest in structural health monitoring technology deployed to complement visual inspection and management of selected bridges and determine whether SHM technology can be used statewide.
- **North Carolina DOT:** \$400,000 to help pay for a bridge replacement project in Anson County using Geosynthetic Reinforced Soil-Integrated Bridge System technology, which can minimize traffic congestion during construction.
- **Virginia DOT and Town of Vienna:** \$211,200 to design and construct the state's first mini-roundabout, which is expected to improve safety for pedestrians and bicyclists, reduce congestion, and increase capacity at an existing intersection without the need of acquiring additional right-of-way.

**ZACHRY GROUP DONATES \$25 MILLION TO TEXAS A&M** [Zachry Group](#) (San Antonio, TX), a turnkey construction, engineering, maintenance, turnaround, and fabrication firm with more than 20,000 employees serving the power, energy, chemicals, manufacturing, and industrial sectors, has donated \$25 million to the Dwight Look College of Engineering at Texas A&M University. The

contribution will support the construction of the Engineering Education Complex and establish the Zachry Leadership Program and Zachry Group Professor of Practice in the Department of Mechanical Engineering.

**FLUOR A FINALIST FOR EDISON AWARDS** [Fluor Corporation](#) (Irving, TX), a 40,000-person global engineering and construction firm, has been selected as a finalist for the 2015 Edison Awards. Fluor's 3rd Gen Modular Execution approach is being considered for the prize, which is inspired by Thomas Edison's persistence and inventiveness and recognizes innovation, creativity, and ingenuity in concept, value, delivery, and impact. The nominees are judged by more than 3,000 national senior business executives and academic professionals, including members of professional organizations, such as the American Society of Mechanical Engineers and the Association of Technology Management & Applied Engineering.

**W.B. MOORE NAMED SAFEST CONSTRUCTION COMPANY IN 2014** [W.B. Moore Company](#) (Charlotte, N.C.), a , was named the nation's safest construction company in 2014 by the Associated General Contractors of America. W.B. Moore Company was selected because of its exceptional leadership in safety and safety program innovation.

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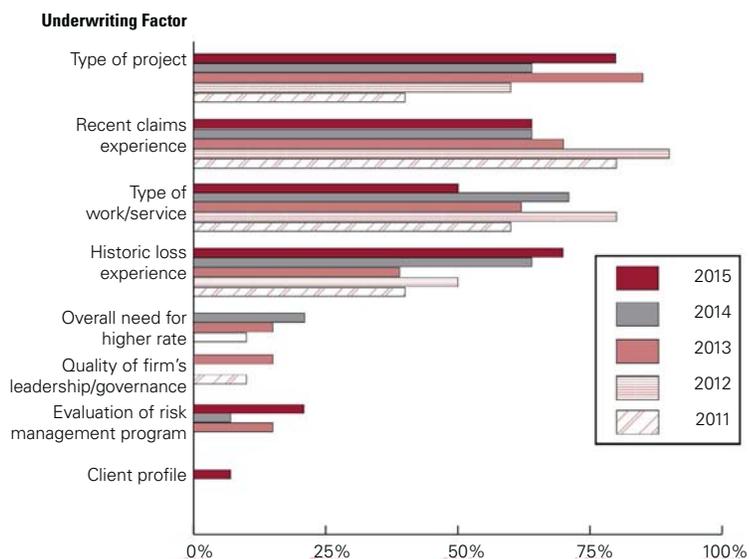
While these factors have evolved over time, the top underwriting considerations have been fairly consistent in recent years, as the accompanying chart illustrates. More specifically, the types of projects currently raising flags for underwriters are those involving schools, water works, and condominiums. Insurers have also been watching emerging exposures associated with new construction materials and methods – BIM, design-build, and the growing number of private-public partnerships.

In closing, we would note that architects and engineers should generally face favorable renewals, albeit with the potential for slight premium rate increases. One key to achieving positive results is working with a specialty insurance broker who knows the A/E professional liability insurance market and can provide expert guidance and counsel not only on premium rates, but also on coverage terms and risk management and claims service. Being properly informed and working with an industry expert can help A/E firms and other construction professionals turn risk into opportunity.

For a complete copy of the 2015 Ames & Gough Architect/Engineer Professional Liability Insurance Market Survey, please email me. ▀

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### KEY UNDERWRITING CONSIDERATIONS (2015 VS. FOUR PRIOR YEARS)



Note: Insurers provided multiple answers, so responses sum to more than 100%.

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