

Risk Management

Professional Liability Insurance Trends May Rise 10 Percent

by Jennie Sue Brown, FAIA

AIA Risk Management Committee

Professional liability insurance carriers foresee an average 10 percent rise in premiums in the coming year, with larger firms doing complex projects taking on the lion's share of increases. A hardening market was just one of the findings of the AIA Risk Management Committee and its counterpart committees of the National Society of Professional Engineers and American Consulting Engineers Council from a survey of 10 professional insurance liability carriers and follow-up interviews with 9.

Common themes throughout the October 2001 discussions included potential rate increases, trends in claims, and the impact of the September 11 World Trade Center attack on the insurance industry.

Following a period of soft market conditions for professional liability insurance, brought on by a great deal of available capital in the market and by new companies entering the market and seeking to gain market share, carriers are now anticipating the 10 percent rate increases on average. Small to midsize firms (less than \$5,000,000 in revenue) with good claims records may see very little increase while larger firms with more complex risk exposure are likely to see greater increases, perhaps as much as 15 percent. The risk management committees advise firm principals to be prepared for possible sticker shock from rate increases combined with growth in firm billings.

Another coming trend is the phasing out of the multiyear policy. Some carriers will discontinue them altogether, while others indicated that there is still an opportunity for multiyear coverage for small and perhaps midsize firms.

Certainly, a firm's claims trends and project types are factors when a carrier

establishes rates. Most carriers agreed that condominium projects continue to be problematic for claims activity. Toxic mold is an issue that has received a lot of press lately, and general contractors are seeing exclusions in their policies. There was no indication of impending exclusions in professional liability insurance policies for toxic mold problems at this time, but the issue is being monitored closely by all carriers. There is also more attention to design/build as a source of claims due to unmet expectations.

The overriding theme during the October 4 interviews was the uncertainty in the reinsurance market following the tragedies of September 11. Reinsurance is the vehicle used by carriers to spread their risk on a given policy to other underwriters. Most firms indicated that for limits over \$1,000,000 they rely on the reinsurance market for placement of the excess risk. While most professional liability insurance carriers have limited exposure to the World Trade Center collapse, some of the reinsurance underwriters were hit quite hard, causing that market to tighten and become a cost factor.

Survey background

Monitoring professional liability insurance trends and issues and reporting to the AIA membership on them is one of the key responsibilities of the AIA Risk Management Committee. Each fall, in conjunction with the NSPE and ACEC, the AIA committee interviews professional liability insurance carriers. The interviews are based on written surveys distributed ahead of time and may include other issues the carriers feel appropriate for discussion. The committees' goal, on behalf of A/E principals, is to gain insights into issues affecting policies and rates as well as sharing with the insurers current concerns of design professionals.

The 2001 survey questionnaire went to

13 professional liability carriers and requested information on coverage, changes in coverage, and claim trends. Ten carriers responded, of which, seven accepted an invitation for an interview. Paragon (Lloyds of London) and Insight (SAFECO) did not submit completed questionnaires but did agree to participate in the interview.

The firms that submitted questionnaires were:

- Euclid Managers, representing National Casualty Company & Scottsdale Insurance Company
- ECS, an XL Capital Company, representing Greenwich Insurance Company & Indian Harbor Insurance Company
- GE, Westport Insurance Corporation
- Kemper Insurance Companies
- RA&MCO Insurance Services, representing Great American Insurance Companies, Zurich Specialties London Limited Underwriting at Lloyds
- Victor O. Schinnerer & Company, Inc., representing Continental Casualty Company (CNA Insurance)
- Lexington Insurance Company (AIG)
- Interstate Insurance Group
- Benchmark Professional, representing Gulf Insurance Group, a member of Citigroup
- DPIC Companies.

The Risk Management Committee takes seriously its mission to monitor trends within the professional liability insurance industry, and it welcomes suggestions and comments from members regarding any aspect of risk management. Contact Jay Stephens, Esq., 202-626-7379 or jstephens@aia.org

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