Risk Management

Some Tips on Minimizing Your Insurance Premium

Prepare now for renewing your professional liability insurance

by Ben Fisher, AIA

The market is hardening, the market is hardening! We see this news in the *Wall Street Journal*, our trade magazines, local newspapers, and especially from our insurance brokers. It is true. The insurance industry is seeing significant increases in the premium they can charge for a given risk. The amount of increase depends on the risk. If you are just now renewing your professional liability insurance (PLI), you may be feeling very frustrated at the quotes you are receiving…however, be grateful that you are not trying to buy coverage for a fleet of airplanes!

What do you need to do and be aware of to minimize the sticker shock this year? Some ideas that you might find both practical and useful:

- Start the renewal process early. In a difficult market, you want your broker to have your completed application in the hands of underwriters with plenty of lead time. Consider 45 days prior to renewal as an absolute minimum.
- Spend real quality time with your application. Although your broker will explain a lot to your underwriters, the application is what they are reading when they come up with a quote. Some things that you might consider:
  1. Point out your firm's risk management virtues.
     - Do you practice "safe design" – i.e., do you have good processes in place to which everyone adheres?
     - How do you respond to your client's problems?
     - How do you handle contract negotiations?
     - Do you use AIA standard agreements and forms?
  2. Carefully consider the allocation of your total revenues.
     - Break out your reimbursable expenses
     - Break out your consultant's fees. Since they carry their own insurance, the exposure for your carrier is lower.
     - Break out fees for other areas of reduced exposure, such as master planning, facilities management, feasibility studies, program management, interiors.
     - Break out fees for projects that have been abandoned.
     - Ask your broker if your total revenues can be reduced by your write-offs.
  3. Carefully consider the different categories of services you provide and be accurate in allocating percentages to each, as well as using accurate descriptions. An application that indicates "40% residential" will raise questions in the underwriter's mind. Saying "40% custom single-family detached housing" will be looked upon more favorably. One which states "40% three-story wood-framed condominiums" will generate a higher quote!
  4. When identifying current and past claims, be sure to give all pertinent information, including how they have been/are expected to be resolved, lessons learned, and how you have modified your practice to avoid the same problem in the future. Be objective. The underwriters want an accurate picture, not an overly optimistic story that will become an embarrassment at your next renewal.
- If you incorporate mediation into your contracts, ask for a mediation credit or reimbursement of certain mediation costs in the event of a mediated claim.
- Consider multi-year policies (not as readily available, but they may still be possible). These can be either with a single limit or with an annual limit, which is usually preferable but more costly.
- Consider how high a deductible is reasonable for your firm. Remember that a higher deductible is likely to bring your premiums down as well as cause you to pay more attention to issues of risk. You might also look at an aggregate limit for your deductible expenses to cap your top end exposure.
- Some smaller practices can still obtain "first dollar defense," meaning the firm does not pay anything if the judgment is in its favor.
- Consider what limits of coverage you truly need. If you decide you need $1,000,000 in coverage and a client is adamant that you carry $2,000,000, consider a project-specific excess policy or a project-specific policy rather than paying premiums for increasing your entire practice policy to $2,000,000.
- For particularly high-risk or unusual projects, you might consider a project-specific policy. This has the benefit of removing the fees associated with the project from the calculation of premiums for your practice policy, keeping them lower. It also may have the benefit of allowing you to pass through these costs to your client as a project specific reimbursable expense.
- Market the account. Be sure your broker approaches multiple carriers. Though long-term relationships with your carrier are generally beneficial (loyalty *does* count), you do need to be aware of your options.
- Level of coverage. Look closely at the coverage that is being offered by each carrier. There are differences. There are also

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options available at a price, which can be added to a standard policy, tweaking it to fit your practice.
- Look carefully at the financial strength of your carrier and its commitment to the professional liability market. It can be a very rude shock to find your carrier has gone bankrupt or is no longer writing professional liability insurance.
- Ask about premium financing. There are a wide variety of options available which can take the sting out of a large premium.
- Discuss paying your broker a set fee rather than having his/her reimbursement coming from a commission.
- Develop and implement sound risk management practices in your firm and make them a part of the firm's culture. This will ultimately reduce claims, give you a better track record with your underwriters and hence lower premiums, and keep your clients happy.

Though not a panacea guaranteed to provide minimal PLI costs, the issues enumerated here can help. When thought through and applied conscientiously and in a timely manner, they will have an impact on your practice through reduced exposure and reduced long-term expenses.

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