The U.S. economy is continuing a moderate but steady growth, which is good news for ACEC Member Firms, according to results from the recent ACEC Professional Liability Insurance (PLI) Survey of Member Firms for fiscal year 2015. Positive financial indicators and strong market conditions signal that the country as a whole has largely recovered from the Great Recession, and corresponding revenues among Member Firms remain on an upward trajectory.

Price is important, but service and relationships have significant value, too

By Bob Woods
Indeed, two-thirds of survey respondents (66 percent) report that their revenues increased last year, reflecting a slight uptick from 2014 (63 percent) but a giant leap from the 35 percent growth reported in 2010. “It’s exciting to see the extent to which the economy is returning to normalcy,” says Kevin Collins, senior vice president for professional liability at Victor O. Schinnerer.

The upbeat environment bodes well for the state of PLI, Collins adds. “From the insurance cost standpoint, firms are seeing a flat-to-slight decrease in rates, as we would expect,” he says. “Firms with the largest revenue volume have the lowest rates, and the rates increase as you get to the smaller firms.” Regardless, virtually all respondents—99 percent—report carrying PLI, although 3 percent of those from the largest firms ($100 million-plus in revenues) opted out of coverage last year.

The rate at which all firms changed PLI carriers rose just a point, to 14 percent from 13 percent last year, the survey reveals, with the highest rate (23 percent) reported by structural engineering firms. “The reasons cited, not surprisingly, were lower premium [72 percent] and better policy terms [28 percent],” says Chuck Kopplin, an industry consultant and member of the ACEC Risk Management Committee, which is responsible for conducting the survey. What impresses Kopplin most is that—although it remains one of the reasons for making a switch—dissatisfaction with pre-claims assistance plummeted this year to 6 percent compared to 22 percent a year ago. That’s heartening evidence, he says, that pre-claims systems are getting better.

Nonetheless, the fixation on premium as the overwhelming reason to make a switch is vexing for PLI carriers. “That’s the wrong way to think about it,” Collins says. “Firms should not focus solely on insurance premium for their policy but total risk management.”

Choosing the Right PLI Carrier
Al Rabasca, director of industry relations for the design professional unit of XL Catlin, uses the term “insurance program” instead of “insurance policy” when discussing reasons why firms switch carriers. “While premium cost will always be a factor, there are many others of equal or perhaps greater importance to consider,” he says. Those include expert claims service, loss prevention and education, agents specialized in A/E liability, and qualified defense counsel with experience in A/E cases.

John Rapp, managing director, design professionals, bond and specialty insurance
at Travelers, says, “Firms should consider the financial stability of the carrier. Many PLI carriers come and go, and you want yours to be around when resolving claims. Keep in mind, it is not uncommon for claims to remain open for five years after they are initially reported.”

When choosing a PLI carrier, Collins says firms should be proactive in defining total value and cost of PLI. “Engineering firms are astute around individual costs, such as continuing education and cost of time to go after new business versus insurance,” he says. “The issue is connectivity—seeing coverage holistically instead of as just individual components. Connect the dots on the total value a carrier offers.”

Costs related to claim limits continue to be an issue in PLI coverage, Kopplin notes. More firms are choosing policies with split limits, such as $2 million per claim with a limit of $3 million, he says. “That decision becomes important if you have a major claim that goes beyond that limit,” Kopplin says. “You risk having to run without insurance for the rest of that year, or trying to buy additional insurance, which isn’t going to be cheap.”

Broker Ken Estes, president of Professional Liability Agents Network (PLAN), says firms may change carriers due to a carrier’s inability or unwillingness to offer higher limits. Those limits might be one reason for changing carriers, says fellow broker Eric Moore, president of a/e ProNet and vice president of Moore Insurance Services in Hillsdale, Michigan. “Deductibles could be another—the type of deductible being offered, i.e. first-dollar defense coverage, or maybe an aggregate deductible would appeal to large firms with large deductibles,” he says.

Schinnerer’s Collins addresses the subject from the carrier’s perspective. “We’re seeing an increase in the average limits carried by firms, which reinforces our view—that project owners continue to push or re-evaluate, from their own risk-management perspective, limit requirements they need to have to contract with engineers,” he says. “A $1 million limit used to allow most firms to compete on public work projects. We now see that rising between a $2 million and $5 million limit for an individual project.”

### Reasons for Turning Down Work

Even though the growing economy translates to increased opportunities for firms and flat-to-slight increases in PLI coverage, risk management remains constant. Still, the number of firms reporting that they “frequently” or “sometimes” turn down work rose only slightly from 41 percent last year to 42 percent. And though the three most
The Importance of Claims Handling

Relationships also play a role in firms’ decisions about whether to change PLI brokers, an incidence that rose to 7 percent in 2015 from 3 percent a year earlier. But for those who did make a change, it wasn’t because of dissatisfaction with their broker. In fact, only 32 percent cited that as a reason, which was a dramatic drop from a year earlier, when the number was 71 percent. Kopplin mentions a similarly stark year-to-year difference as another reason to change brokers. “The new broker offering additional services more than doubled, from 14 percent to 32 percent,” he says. “Those figures tell me that brokers are doing a better job.”

On the flip side, both those principals imagine instances where the potential risk is not great enough to actually turn down a project. “Desperation” is the first word that comes to Hantzsch’s mind. “The need to generate revenue when work is scarce causes people to spin the wheel of fortune,” he says. A positive relationship with the client is Bailey’s caveat. “Even if some terms of the contract are onerous, when we know a client, we’re more likely to not turn that work down,” he adds.

The survey reveals that of the 194 claims resolved last year, 95 percent occurred before trial, for a total of $75,740,000 in awards and settlements. In spite of the numbers, claims handling is always key when considering a PLI carrier.

One of the most important aspects, Hantzsch says, is that they should provide firms with good legal representation that has experience in engineering and construction. “They should be clear and timely on how invoices will be processed and where we stand relative to our deductible,” he adds. “I recognize that it is our decision on how we spend our deductible, but the carriers’ claims people have far more experience in dealing with those issues than the typical engineering firm does.”

As the U.S. economy continues to chug along, ACEC Member Firms can expect to ride the tailwinds. And if the trend maintains this steady pace, firms, carriers and brokers will all remain upbeat and assured about the state of professional liability insurance.

Bob Woods is a technology and business writer based in Madison, Connecticut.

### Reasons Firms Changed PLI Carriers

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Premium</td>
<td>72%</td>
</tr>
<tr>
<td>Better Policy Terms</td>
<td>28%</td>
</tr>
<tr>
<td>Changed Carrier Based on Advice of Broker</td>
<td>22%</td>
</tr>
<tr>
<td>Could Not Renew with Existing PLI Carrier</td>
<td>6%</td>
</tr>
<tr>
<td>Needed Higher Limits Than Existing Carrier Provided</td>
<td>6%</td>
</tr>
<tr>
<td>Not Satisfied with Pre-Claims Assistance</td>
<td>6%</td>
</tr>
<tr>
<td>Not Satisfied with Claims Handling</td>
<td>2%</td>
</tr>
<tr>
<td>Not Satisfied with Risk Management Programs</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: 2016 ACEC PLI Survey of Member Firms for F.Y. 2015