

Managing Your Professional Liability Costs: Things to Consider

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The professional liability insurance marketplace remains competitive. Although the tide may be turning, the good news is that the industry has significant surplus (but the bad news is the insurance industry as a whole has had dismal results the last 3 years). What this means is that while most insurance companies are trying to increase rates 5-10%, there is still enough competition to keep pricing relatively flat for preferred risks.

Regardless of whether rates remain low or begin inching up, design firms should not shop for insurance based solely on price. There can be significant differences in coverages among policies and, more important, differing quality in the claims, loss prevention and other services you receive from insurance carriers and agencies. Lately, some insurance companies have entered the A/E insurance market simply because they have excess capacity and are looking for an additional inflow of premiums. They seek income in this market even though they do not necessarily have expertise in the design industry or solid experience in defending A/E claims.

Is Going Bare an Option?

In tough times, some design firms have decided to forego professional liability insurance altogether. They take the chance that they haven't made and won't make errors or

omissions in their professional services and, if they do have a project dispute, they can resolve the problem without an expensive claim. Some architects and engineers reason that without professional liability insurance, they don't have "deep pockets" and therefore a claimant will look elsewhere to find remedy.

"Going bare" without insurance is obviously fraught with risk. Facing a claim without adequate coverage not only puts a firm's assets at risk, but the principals' personal assets can also be endangered. The corporate veil cannot always protect a design professional's personal savings, home and other valuables.

Most design professionals recognize professional liability insurance as a necessary cost of doing business. They realize they need the financial protection that Professional Liability insurance provides. Equally important, they realize that most clients require the designers they hire to carry adequate insurance limits.

Your best approach to managing professional liability risks is to work closely with a specialist insurance agent who knows the ins and outs of the Design Professional insurance market and who can help you manage your risk and your insurance premiums. An agency like ours can help select the appropriate insurance carrier and recommend the appropriate coverage limits and deductibles. These recommendations will be based on your exposure to claims, your appetite for risk, the types of design services you offer and the annual fees you earn.

So how do you get the best bang for your insurance dollars? How do you minimize the cost while retaining the coverage you need? Here are some tried and true tips for getting the right insurance at the right price.

Managing PL Costs (continued on page 2)

In This Issue...

Managing PL Costs

2012 Risk Management Seminar Series

Live Well, Work Well

Community Bulletin Board

Take Advantage of Loss Prevention Education Programs

Some insurance carriers offer substantial premium credits if you successfully complete their loss prevention education programs. These programs not only result in a sizable reduction in your premiums (typically 10%), they teach you valuable loss-prevention techniques that can avoid future losses and earn the professional continuing education credits you need to practice your profession.

Obtain Contractual Risk Management Credits

Some insurers also provide premium reductions or credits when design firms agree to use specific clauses in their contracts with clients. Clients are often willing to negotiate such clauses when they are educated on the risk-reward inequities that most design firms face when such clauses are absent. These clauses can include:

- A Limitation of Liability (LoL) provision that contractually caps the amount of liability you have to your client, usually expressed as a set dollar limit or your available insurance limits.
- A waiver of your liability for consequential damages.
- A clause that specifies you will use mediation as your first method of dispute resolution.

Consider Alternatives to Higher Practice Policy Limits

Suppose you currently carry \$2 million in professional liability coverage, but your new client on a large project is asking for \$5 million in limits. With claims severity on the rise, coupled with the ever-growing number of projects you have worked on over the years, higher insurance limits may indeed be in order.

However, if increasing your aggregate practice policy limits is overkill for your situation, or the increase in premiums is simply too big a hit on your pocketbook, you might consider a few less-expensive options that provide added protection for your demanding clients:

1. **Specific-project excess.** With specific-project excess coverage, you can maintain your current limits on your practice policy while purchasing an endorsement that provides a higher limit to cover a specific project. For example, you can maintain a \$2 million practice policy and purchase a \$5

RISK MANAGEMENT SEMINAR SERIES

Sexual Harassment Prevention Training

Friday, June 1, 2012

Registration: 7:30 am

Program: 8:00 am - 10:00 am

The Dangers of Distracted Driving

Friday, June 8, 2012

Registration: 8:00 am

Program: 8:30 am - 10:00 am

The "Evil HR Director" - and other Plaintiff Lawyer Traps to Avoid

Friday, July 13, 2012

Registration: 8:00 am

Program: 8:30 am - 10:00 am

All training sessions available to our clients.

* Reserve early / seating is limited!

Register for upcoming seminars

Contact Darcee Nichols at dnichols@cavnac.com or call 619-744-0596

* **NOTE:** Due to the popularity of our seminars and limited space available, we regret we cannot provide refunds or credits with less than 72 hours advance notice of cancellation.

million limit on one project for substantially less than raising your entire policy limit to \$5 million.

2. **Specific-client excess.** Let's take the previous example one step further. Suppose you find a new client who wants you to work on multiple projects, but demands higher insurance limits. Specific client excess is similar to specific project excess, except the higher limits apply to all projects performed for a particular client. Again, this increased coverage is more affordable than raising your entire limit.
3. **Split limits.** Instead of purchasing a \$5 million practice policy you might purchase a \$2 million/\$5 million split-limits policy. Here, the policy limit on a single claim is capped at \$2 million, but the total coverage for any one year is \$5 million. This eliminates the chances that your policy would be

wiped out by another claim and increases the chances that coverage will be there for all of your clients' projects.

Investigate Project Insurance

There is one coverage option that can provide a project owner the higher limits it demands, virtually guarantees that coverage will be there when needed – and may actually *reduce* your insurance premiums. This unique coverage option is called project insurance.

With a project insurance policy, the owner realizes the following benefits:

A single policy for a single project. All members of the design team can be covered under one policy, and the limits are dedicated to that project only.

Full control over policy terms. The owner chooses the policy limits and the duration of coverage — often available up to five years after substantial completion.

Secure coverage. Most project policies are non-cancellable, as long as premiums are paid, policy conditions aren't breached and no material misrepresentations or concealment have been made on the application.

No premium rate surprises. The project policy premium is typically determined according to a guaranteed rate based on final construction cost.

Single-point claims responsibility. Insuring the entire design team with one policy makes it easier to solve problems with less finger pointing and more cooperation.

So what's the catch? Why would an owner turn down the project policy option? Typically, project owners pay for the project policies, since they benefit most from the coverage. However, costs can be offset and shared with design firms through premium reimbursements or negotiated lower fees. (Since fees on the project likely won't be counted to determine practice policy premiums, a design firm saves money on its annual insurance costs.)

Unfortunately, insurance companies have had severe losses on project policies and have become quite selective in writing them. Some insurers do not issue project policies and, among those that do, the cost and the required deductibles can be high.

Despite the advantages, owners may be unwilling to incur the cost of a project policy. A less expensive alternative may be Owner Protective insurance.

Owner Protective Insurance

An owner protective (OP) policy provides protection for

the project owner in the form of excess coverage over and beyond the architects' and engineers' practice policies. The design team's individual practice policies provide primary coverage and come into affect first. Then, if the responsible party's practice policy limits are depleted, the OP policy covers some or all of the additional damages, depending on the policy conditions and limits. This enables the project owner to secure the policy limits they desire without you having to increase your practice limits.

Because the OP policy comes into force only after the practice policy of the design firm has been exhausted or is otherwise unavailable, owner protective insurance is less expensive than a project policy. OP policies can be purchased annually or for the life of the project. Retroactive coverage can often be provided on projects already in the construction phase. Environmental engineering exposures can also be covered. "Blanket" OP policies may also be available for an owner's multiple projects.

In most cases, the design firms must maintain a minimum level of coverage (often \$1 million to \$2 million) on their practice policies. These limits may be higher for projects with substantial construction values. Also, any litigation costs incurred by the owner to bring the claim are not covered. Conversely, since the owner is the named insured on the project, OP limits will not be depleted by the legal defense fees incurred by the design firms.

As an example of an OP policy in action, suppose there is a \$1.5 million loss to an owner's project that is determined to be the result of the negligence of the prime architect. The architect has \$1 million in coverage through a practice policy. The architect's primary policy would cover the first \$1 million in damages and the OP policy would cover the balance of \$500,000.

We Are Your Ally

As we've shown, there are a number of practice management techniques and coverage options that design firms can consider to provide adequate Professional Liability insurance coverage while controlling costs. We are willing and able to help you evaluate your needs, discuss your options and help educate your clients on the various options available. We can even help you bring a client with unreasonable or uninsurable demands back to realistic coverage expectations.✂

Disclaimer: This article is written from an insurance perspective and is meant to be used for informational purposes only. It is not the intent of this article to provide legal advice, or advice for any specific fact, situation or circumstance. Contact legal counsel for specific advice.



Articles courtesy of Cavnac & Associates Employee Benefits Department

LIVE WELL, WORK WELL

Safe and Fun in the Sun

May is Skin Cancer Detection and Prevention month, the perfect time to brush up ways to protect your loved ones, since warmer weather means more time spent soaking up the sun.

Each year, 3.5 million cases of skin cancer are diagnosed, making it the most common form of cancer in the United States. The good news is that skin cancer is easily cured if detected early, so doctors recommend that you perform a monthly self-examination. Here's what to look for:

- A skin growth that increases in size and looks pearly, translucent, tan, brown, black or multicolored.
- Any brown spot (including moles, birthmarks, etc.) that:
 - changes color or texture
 - increases in size or thickness
 - is irregular in outline
 - is larger than ¼ inch
 - appears after age 21.
- A spot or sore that continues to itch, hurt, crust, scab,



erode or bleed.

- An open sore that does not heal within three weeks.

Here are a few ways you can protect your skin when spending time outside:

- Generously apply a water-resistant sunscreen of SPF 30 or higher whenever outside, even on cloudy days. Reapply every two hours and after swimming or sweating.
- Wear breathable, protective clothing, such as a long-

sleeve shirt, pants, a wide-brimmed hat and sunglasses when possible.

- Seek shade between 10 a.m. and 4 p.m. as the sun's rays are strongest during this time.
- Use extra caution—and extra sun screen—near water, snow and sand which can reflect and intensify the sunlight.
- Avoid tanning beds as the ultraviolet light from them can cause skin cancer and wrinkling. ✂

Budget-friendly Vacations

Dreaming of a summer get-away that doesn't bust your budget? As you plan your trip, consider these money-saving travel tips.

- Comparison shop airport options. Big cities often have multiple airports, or smaller ones nearby. The cheapest option might be worth the drive.
- Pack a single carry-on bag. Many airlines are charging up to \$100 for each checked piece of luggage. Plus, if your luggage is lost or delayed, you may have to purchase new items for your vacation.
- Consider vacationing with friends or family. Sharing a rented townhome is often less expensive than staying in a hotel. Check out www.airbnb.com, a vacation rentals service that matches travelers seeking cheaper short-term accommodations with private rental options.
- To save on food, many websites offer deals at certain restaurants, so be sure to research any specials before you hit the road. Or, rent accommodation with a kitchen so you can cook "at home."
- Convert to foreign currency before you leave. Many airport currency exchanges and foreign ATMs often charge hefty fees, so it is best to change your money at a bank before you leave.
- "Staycation" instead. The best way to save money might be to take a few days off to explore your city or one nearby. You might be surprised to discover that you don't have to travel far or spend a lot of money to feel like you got away from it all. ✂





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