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Finding The Right Professional Liability Insurer For Your A/E Firm: Criteria For Evaluation

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There are some 50 insurers that offer Professional Liability (PL) Insurance for Architects and Engineers (A/E) today, and they place more than $2 billion of annual premium. The good news is that this large number of insurers creates considerable competition in the marketplace, which can help keep premiums down and keep broad coverage available. The bad news is that you must factor in the many differences among these insurers when choosing where to place your coverage.

But where do you begin? An independent broker with design-firm-specific experience can help you sort through all the many facets of insurer offerings in premium, coverage and other services, and can provide important context that will help you make a knowledgeable decision.

This article provides an overview of these key differences among the many A/E PL insurers – financial strength, underwriting appetite, scope of coverage, claims-handling, risk management services, underwriting flexibility and pricing sensitivity – and explains how an experienced broker can help your firm make a well-informed selection.

Financial Strength

There are some basic financial ratings that could affect your firm's ability to comply with certain contractual insurance requirements. Many construction contracts, for example, require an A.M. Best Rating of at least A-: VII. (The A.M. Best rating symbol is a grade of the insurer's financial strength, and any insurer with an A rating is considered in the “excellent" range. The second part of the rating indicates the financial size category of the insurer.) Also, some project owners will not allow their design consultants to have a non-admitted (or surplus lines) PL policy.

Underwriting Appetite

Underwriting plays a major role in A/E PL pricing and coverage. Underwriters can apply pricing credits or debits to a policy as they see fit based on a firm's claims history, risk management practices, areas of practice and client selection. Coverage enhancements or exclusions can also be added by underwriters at their discretion. Some insurers may also prefer certain disciplines and project types over others. For example, some insurers will not agree to write a geotechnical or structural engineer. Other insurers specialize in firms under $5M in revenue, and some prefer to write excess policies but not primary.

Pricing Sensitivity

Underwriter flexibility in both pricing and coverage should be taken into account when determining which insurer is best for your firm. Some underwriters are more sensitive to adverse claims experience and market conditions than others. An underwriter's pricing pressure is determined by your firm's individual loss experience, their A/E PL book of business, the overall PL book, the specialty book (PL, property and casualty) and, ultimately, the overall performance of the insurer as a company.

Insurer premium rates vary greatly depending on discipline, loss experience, project type and even geographical location. Insurers have a base rate that is applied to a firm's revenue that generates the starting point for the premium. The premium can then increase or decrease based on credits and debits applied by the underwriter. Positive things like ideal project type, good risk management practices and good loss experience will generate credits and lower the premium, while the opposite is true for debits.

Scope of Coverage

Since there is no standard coverage form for A/E PL like there is for other lines of coverage, the coverages offered are different from insurer to insurer. For example, some insurers provide worldwide coverage territory while others only cover claims arising out of projects in the United States, and some cover pollution incidents caused by your firm's activities while others exclude such claims. More often than not, policy amendments or endorsements are needed to sufficiently cover your firm's exposure, which makes having a broker with A/E experience who can negotiate those coverages all the more important.

Claims Handling

Insurers' claims handling capabilities can vary widely. Before choosing an insurer, you'll want to vet the claims handlers by inquiring about experience, case load, and areas of expertise. Will your firm work with one claim handler for all claims, or will the handler be assigned based on geographical location or case load? Is the person assigned a lawyer? Will the carrier allow you to choose or have input on defense counsel? Some insurers reserve the right to force you to settle a claim, otherwise known as a “hammer clause,” while others will not settle without your approval. Pre-claims assistance is a must have that can potentially save your firm from a sticky situation becoming a full-blown claim.

To complicate matters further, new insurers are constantly entering the A/E PL market. Ask your broker if they have any claims experience with an insurer. If your firm has frequent claims activity, choosing an unproven insurer may not be the best option for your firm, even if they have the best pricing and coverage.

Risk Management Services

Most A/E PL insurers offer risk management to their insureds, but the quality varies widely. These services may be provided by a website platform with webinars, white papers and claims studies, while some carriers offer in-person training programs.

Contract review is another risk management offering from some insurers. To ensure that this service is effective, you'll want to make sure the reviews are handled by qualified personnel, are turned around in a timely manner and are redlined so the edits can be easily sent back to your clients for negotiation.

Some insurers also offer credits to premium if your firm meets a certain threshold of risk management education during the policy period. There are pros and cons to these credits, however. Risk management credits do force your firm to do some risk management training throughout the year, which is a good thing. Many insurers offer live in-person or online training, which can be beneficial for your staff. However, some of these “canned" sessions may not offer much value to your firm – other than the 10% premium credit you get for attending.

Other Considerations

- Capacity - How much limit can any one particular insurer deploy for your firm?
- Premium installment plans – If cash flow is a concern for your firm, some insurers offer interest-free installment plans. These could potentially save your firm hundreds or thousands in finance costs or keep your line of credit free for other expenses.
- Meeting your underwriter in person – For larger firms, meeting with potential new insurers before renewal and again with its incumbent underwriters each year makes sense and will help solidify the relationship. Ask your broker how much business they have with a particular insurer and about their relationship with the underwriter. How long has that particular underwriter been at that insurer? Is that position a revolving door or is there stability? An underwriter will typically be more flexible with coverage and may not penalize as much for adverse claims history if they have a good relationship with your broker. Being connected to the top leaders of an insurer may pay dividends down the road.

Ready to Learn More?

There are many options from which to choose in the A/E PL marketplace. Choosing the right insurer for your firm can make your life easier, as well as positively affect your bottom line and affect the overall success of your organization. You should not have to make this choice alone. A good broker with design firm experience should lay out all of the options for you and identify the pros and cons of each. Making the choice is ultimately up to you and your firm, but having good representation from your broker should make that task far less daunting.

Please contact Greyling if you would like to receive a copy of our criteria spreadsheet for evaluating your insurer.

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