

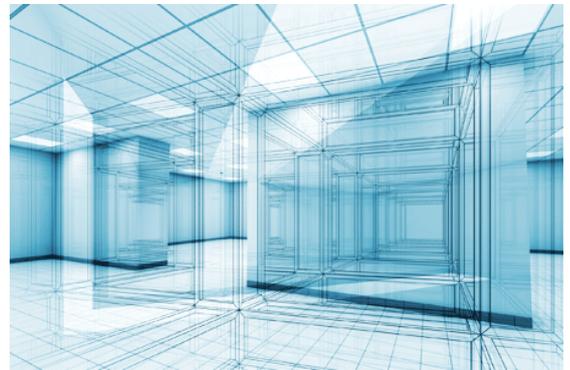
ARTICLES

Managing your Firm's Professional Liability Renewal

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It's renewal time again?! Dreaded yet routine, the Professional Liability renewal process usually involves firms skimming their broker's proposal, comparing premiums, making a choice, and filing away the policy. This is a dangerous approach to the annual negotiation of a contract that transfers your firm's largest exposure to liability. Rather than dreading what can seem a monotonous process, design firms can ensure maximum return on their premium dollar by planning early and devoting a little time to engage in exposure and coverage evaluation.



Any firm's exposure to liability will change periodically. Check for changes to your firm's operations, staffing, project types/sizes, or clients. With that information in hand, check that existing coverage is properly structured to handle the changes in your firm's profile. Not sure? Ask your broker. Ask for claim scenarios to see what coverages are triggered and how they operate. Renewals should be interactive.

Evaluating the amount of coverage being purchased each year is also important. Owners will often contractually require their design professionals to carry certain Professional Liability limits on a per-claim basis. While there are longstanding "formulas" that may be used to determine appropriate insurance limits, there is no hard and fast rule. Project locations and types, discipline(s) of the design professional, firm experience, and appetite for risk all are factors to consider. Your broker can supply limit and deductible benchmarking, providing you a good idea of the limits and deductibles being carried by similar design firms. Remember, defense costs count against your firm's Professional Liability policy limit, so by the time you get to settlement or judgement you could have much less coverage left.

Perhaps the most crucial Professional Liability annual renewal task for any design firm is polling Principals to uncover any potential issues that might give rise to a claim against the firm. Professional Liability policies generally are written on a "claims made and reported" policy form; meaning that the policy responding to the claim will be the one in effect when the claim was reported to the insurance company. Most claims-made policies include a provision allowing you to notify your insurer of a potential claim situation and requiring the insurance company to accept this notification as the coverage trigger for any future claims. This is important because many claims begin as smaller complaints that take months or even years to develop into actual claims. Having an eventual claim assigned to the oldest policy possible helps improve the loss ratio calculation used to determine your premium.

The consequences of failing to report a potential claim can be substantial. The failure to disclose a potential claim may give the insurer the right to rescind the policy in its entirety, if the misrepresentation is deemed material. This means that the policy will be void from its inception, and it will be as if the policy was never issued.

So, skip the routine. Make your Professional Liability policy renewal an annual reassessment of the road behind and the challenges ahead.

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