

XL Insurance @-Clips

QBS ACEC AIA A/E PLI Alphabet Soup for the Design Professional's Soul

"...just as you would want your client to select you for a project based on your qualifications and not a lowest 'bid' price, so should YOU embrace QBS when considering...your PLI carrier."

The procurement of professional liability insurance ("PLI") can be very complex and, accordingly, should be considered one of the more significant events in the life of any A/E firm. It is an extremely critical process, essential to the financial health and viability of the firm and part of the larger practice of risk management. But regardless of how much importance you attach to the process, *PLI definitely should not be viewed as a commodity*, interchangeable with another product of the same type and distinguished only by its price.

The AIA, ACEC and FIDIC, the International Federation of Consulting Engineers, all strongly support Qualifications Based Selection ("QBS"), requiring that architects and engineers be selected on the basis of professional qualifications, competence and prior performance, and that providers of professional services not be treated as commodities to be selected on a lowest price basis. In addition to the procurement of

professional services, this is a philosophy that makes sense in many other business situations and, in particular, should be fully embraced by A/Es when undertaking the PLI procurement process.

Why is this so important now? In the last three years the number of carriers that have entered the A/E PLI market has increased dramatically. To make a long story short, many newer carriers inexperienced in A/E liability, and seeking market share, are looking at projected fees as the ratable basis when developing premiums. It is a flawed strategy because the more realistic risk exposure (from where claims originate) comes from fees generated from past-work, done in a healthier economy. Therefore, certain carriers' underwriting of current policies may be artificially depressed as compared to the true claims exposure.

At the same time we're seeing a growing phenomenon of a greater frequency of more recent accident year claims, i.e., 2008 and 2009 claims developing much more quickly with larger damages being assessed. Due to a compromised accessibility to credit and financing, claimants are pushing larger demands more quickly because they see the professional liability



policy as possibly the only resource available to salvage their projects. Given these current dynamics, it doesn't take much to imagine what could be in store for the A/E marketplace. As some carriers "underbid" the price of the PL exposure while claims emerge more rapidly, the profitability and long-term viability of those markets will be compromised far more quickly. Where will that leave the policyholder when it is time to pay the claim?

It is, therefore, extremely important that the A/E and its agent/broker develop sound QBS pre-screening practices to assist in selection of a PLI carrier. Here are a few items to consider:

- Expertise of the carrier
- Breadth of coverage being offered
- Resources committed to service their A/E program (are they a committed A/E specialist or just dabbling?)
- Availability and quality of risk management and loss prevention services
- A proactive and proven claims handling record with a committed A/E claims department

- The extent of their industry involvement (AIA, ACEC, etc.)
- Length of time offering A/E coverage continuously
- Long-term philosophy of the A/E segment (a carrier in for the long haul or one that comes in/out with market cycles?)

So, just as you would want your client to select you for a project based on your qualifications and not on a lowest "bid" price, so should YOU embrace QBS when considering not only your PLI carrier, but your agent/broker as well. Think of your PLI carrier and your agent/broker as your business partners. And, as we all know, business partners are also not interchangeable commodities!

This article has been provided courtesy of the Design Professional group of the XL Insurance companies as an educational service to the design community. For additional information on this or other professional liability topics visit www.xldp.com.



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