

Schinnerer Offers New Risk Mitigation Premium Credit

Risk mitigation is a fundamental part of the management of an architecture firm. Firms have to be aware of their exposures and incorporate procedures and techniques to enable them to practice profitably. And now firms in the AIA Trust-sponsored, AIA-commended program of professional liability insurance not only can be rewarded for their prudent practice after a claim is resolved but also can receive an immediate reduction in their insurance costs.

The Schinnerer program with CNA now can offer a premium credit — an up-front reduction of 5% in the cost of insurance — for architecture firms with good claims records that can show they meet certain risk mitigation criteria in their current practice management procedures.

Schinnerer's unmatched experience in providing professional liability insurance has identified certain practices that make firms more defensible when clients or others bring professional liability claims. In 2005, based on its studies of claims and its discussions with the Architects Risk Management Committee and The AIA Trust, Schinnerer developed a deductible credit for firms that met certain "best practices" in their mitigation of risk. These risk mitigation practices are the basis of a possible deductible credit of 50% (up to \$25,000) when claims are resolved.

Now the Commended Program will offer a 5% premium credit as well as the deductible credit. The risk mitigation premium credit is available to all but the largest firms in the Commended Program. It is currently offered in most states; some jurisdictions have not yet approved this policyholder benefit.

The risk mitigation premium credit program gives firms various ways of not only reducing their insurance costs but also increasing the likelihood of greater firm profitability. The Risk Mitigation Credits, both for premiums and deductibles, are meant to encourage the use of a set of best practices, long recommended throughout the design industry. A synopsis of the practices that could lead both to the premium and deductible credits is as follows:

A Contract in Writing and Three of Six Best Practices

The baseline criterion is a professional service agreement in writing. A written agreement is a fundamental risk management tool. Since 1962, when Schinnerer first became insurance counsel to the AIA contract documents program, the Commended Program has recommended the use of AIA consensus documents. While some firms develop their own standard agreements or are required to use a client's contract form, it is essential that a clear agreement be reached on scope, time, and compensation and properly executed.

Once a firm can show that it routinely uses AIA contracts or carefully reviews and executes non-standard agreements that address important project-specific terms and conditions, it must routinely meet three of the following six criteria to obtain the premium credit.

Payment Terms/Invoicing – By requiring clients to make timely payments for services rendered and by taking action to collect accounts when payments are overdue, firms have an opportunity to identify and cure problems or unmet expectations. Left unaddressed, payment problems often result in claims.

Interprofessional Agreements with Insurance Certificates – Too often agreements between architects and others ranging from structural engineers to sustainability consultants are oral or not properly memorialized. Using written interprofessional agreements such as the AIA standard avoids uncoordinated contracts and mismatched expectations. Exchanging insurance certificates confirm financial responsibility and compliance with applicable contract term.

Pre-Project Planning – Better definitions of risk, increased predictability of cost and schedule, better achievement of business goals, improved operational performance, and fewer changes and disputes all are products of a well-documented project definition process that stresses owner involvement and confirmation.

Internal or External Project Peer Reviews – Increasingly one of the best ways to minimize client dissatisfaction, anticipate problems and control the quality of design documentation is through a documented independent internal or external project peer review. While external peer reviews initiated by project owner have become more common in recent years, internal peer or “quality assurance” reviews have long been a mainstay in firms committed to the delivery of services that satisfy client requirements and protect the public health, safety, and welfare.

Constructability Reviews – Research demonstrates that incorporating construction knowledge and experience into the planning and design of a project can reduce costs and schedule time. Increasingly architecture firms are joining in a constructability review with the owner and selected constructor. As Building Information Modeling becomes a standard tool, constructability reviews will be automatically incorporated into the procedure leading to construction.

Submittal Management – Communication problems during construction often lead to significant claims. A submittal log that tracks as-planned and actual submittal dates is a powerful project management tool that can be used to mitigate an architect’s exposure to contractor delay damage claims. It also reflects the AIA contractual mandate that the contractor provide a submittal schedule, coordinated with the contractor’s construction schedule, for the architect’s approval.

The AIA Commended Program is constantly evolving to support changes in how architects practice. These “best practices” are not coverage requirements nor are they part of the underwriting criteria for firms. But firms that have incorporated many of the procedures identified as being important to preventing claims and limiting losses will benefit immediately from a premium credit as well as a deductible credit if they later have a claim. More information on this 5% premium credit available to AIA members in the Commended Program is at TheAIATrust.com.