



Understanding Professional Liability Insurance

Design firms face a myriad of risks to manage. [Professional Liability Insurance](#) (AKA Errors and Omissions Insurance) is one critical tool that a design firm can use for protection from actual or alleged negligent acts in the performance of its professional services.

Professional Liability Insurance coverage demands special attention due to the unique nature of the coverage that is provided. Understanding your policy will empower you with the precise knowledge of exactly what you are paying for and may even help to improve your firm's profitability. In addition, your understanding of professional liability insurance can help you purchase appropriate coverage in order to reduce the impact of [claims](#).

Purchasing Professional Liability Insurance is a very important decision. The premium for Professional Liability Insurance can range from one to two percent of a firm's revenues or even more. As [insurance brokers](#) dedicated to serving your industry, we understand the intricacies of professional liability insurance for design firms. We would like to share four basics with you via this professional liability insurance primer.

Q. What does a professional liability policy cover?

A. In general, the policy covers actual or alleged negligence in the performance of professional services. Failure to meet your applicable industry's standard of care will typically trigger negligence. Professional services typically include [Architecture](#), [Interior Design](#), [Engineering](#) and [Land Surveying](#). Some policies also include [Environmental Consulting](#), [Construction Management](#) and Technical Consulting as covered professional services. Insurance policies can differ widely. It is important to know the professional services that you are covered to perform. You can find this in the definitions section of your policy under "Professional Services".

Another item worth mentioning is that many client-written agreements include [adverse indemnification wording](#) that may place your firm in the unfortunate position of being uninsured if such indemnification is triggered. Many indemnification clauses will make the design firm responsible beyond the applicable standard of care. As your agent, we are available to review such [contract wording](#) for you at no charge.

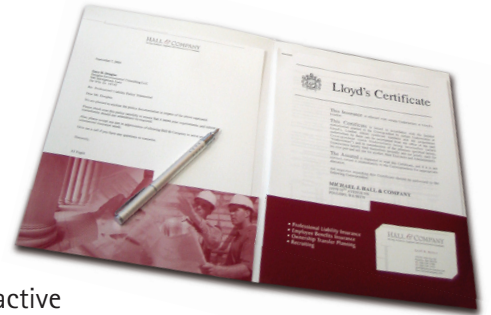


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Q. What is the “retroactive date” on my policy and why is it so important?

A. The policy will only cover professional services performed *after* the retroactive date of the policy. Your policy may provide “fully retroactive” coverage or it may be limited to a certain date. The retroactive date is typically the date that the firm first purchased professional liability insurance. The policy does not respond to claims, incidents, or circumstances that are related to professional services performed prior to the retroactive date.



When reviewing professional liability proposals pay special attention to the retroactive date to assure that it is not compromised. Keep in mind, a lapse in insurance coverage will typically result in losing your retroactive date.

Q. My professional liability policy is on a “claims made” basis. What does this mean?

A. This means that the policy provides coverage for claims made against your firm during a policy period provided that they arise out of professional services performed after the “retroactive” date on your policy. Under a claims made policy, all coverage ceases when a policy cancels or is not renewed. Once a claims made policy lapses, it is like it never existed. Therefore it is crucial to avoid compromising your retroactive coverage as well as to maintain continuous insurance coverage.

Any claims, or potential claims should be reported to the insurance company that has a policy in force at the time you are made aware of the claim. It is also important to know that most professional liability insurance policies do not automatically renew.

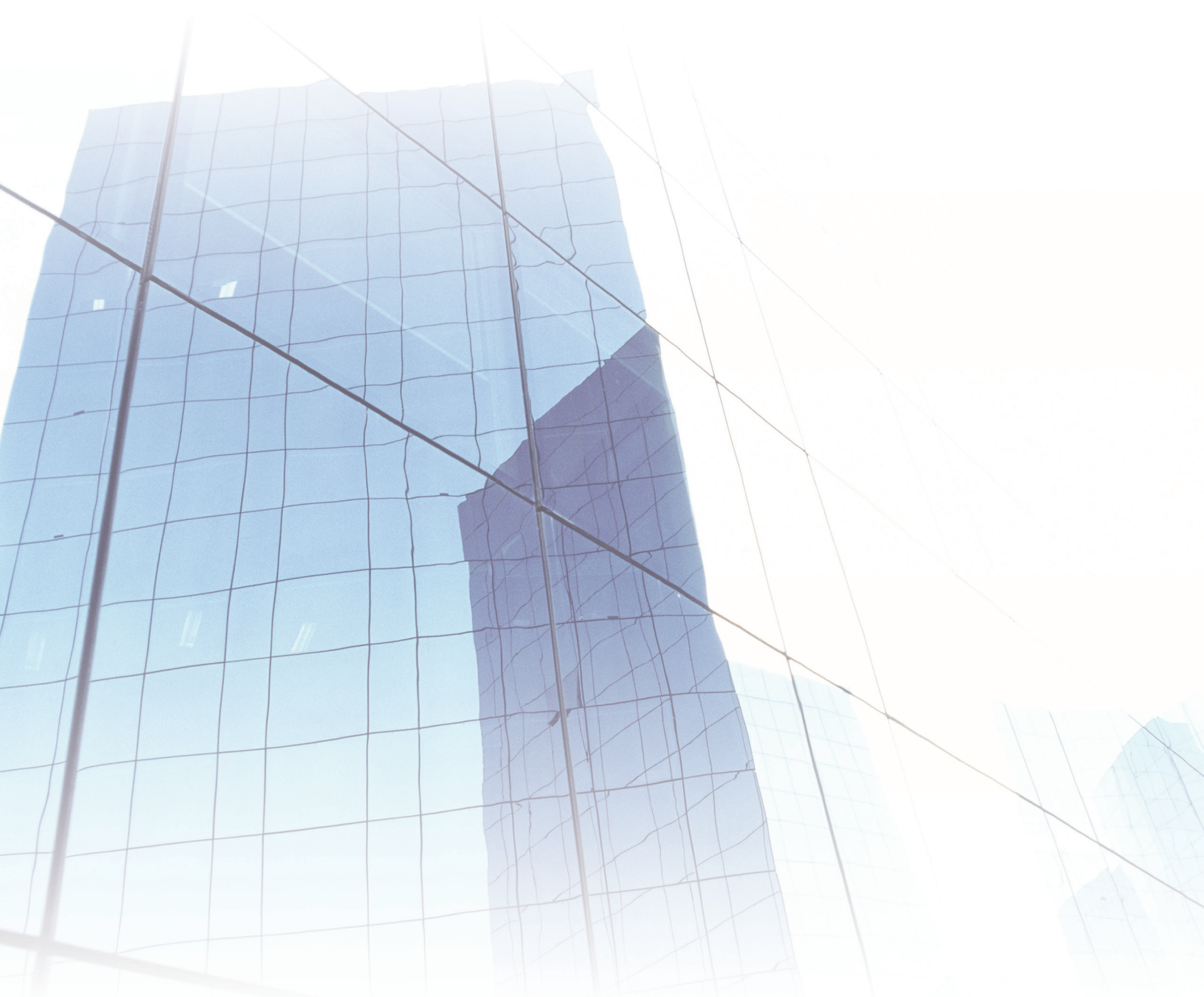
Q. What are some common exclusions listed on a professional liability insurance policy?

A. It is very important to be aware of the exclusions listed in your professional liability policy. Following are some exclusions that we have seen to be the reason for a claim to be denied:

1. Prior knowledge: The insurance company will not cover any claims that a member of the insured firm had knowledge of prior to the effective date of the policy.
2. Prior to the retroactive date: The insurance company will not cover any claims that arise out of professional services performed prior to the retroactive date of the policy.
3. Not reporting the claim in a timely manner: The insurance company will only cover claims that are reported within a reasonable amount of time.
4. Claims against a firm not named on the policy: It is important to list all current and predecessor firms for which insurance coverage is desired. Most insurance policies will only cover claims made against a firm named on the policy.
5. Arising out of non-professional services: The policy will only cover negligence in the performance of professional services. Examples of claims of a non-professional nature are breach of contract, fraud, payment disputes, faulty workmanship, and intentional acts.

Please remember that this provides only general information regarding professional liability insurance and is not a determination of insurance coverage for specific situations. The actual insurance policy should be consulted for specific coverage details.

We hope this information has been helpful for you in understanding a little bit more about professional liability insurance. Feel free to consult our website at www.hallandcompany.com for more resources and information about our capabilities. As brokers specializing in serving A/E firms we are readily available to help you further. We can be reached at 1-800-597-2612.



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