

Structural Engineering Claims

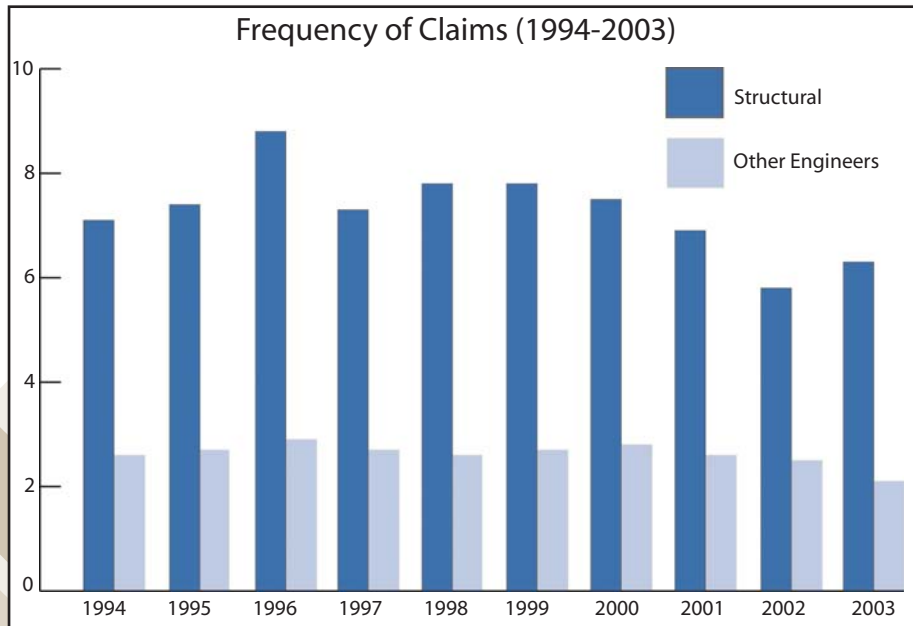
Claims Demand Management's Attention

By Tom Porterfield Jr.

In 2003, for every dollar of professional service fees earned by a structural engineering firm, the frequency of a claim was almost three times that of other engineering disciplines. And the cost of every paid claim averaged almost 30 percent higher.

According to the claims frequency and severity statistics, compiled for the Schinnerer underwriting process, structural engineering firms have consistently faced more frequent claims for the level of professional services provided as measured by reported billings. The percentage of claims filed that resulted in both defense and indemnity costs has consistently been higher than those for claims against other types of engineering firms. And the indemnity cost of each paid claim has been, on average, greater.

The claims picture for structural engineering firms is not entirely bleak. The ratio of the frequency of claims to billings peaked in 1996 and has improved fairly steadily since then. There were close



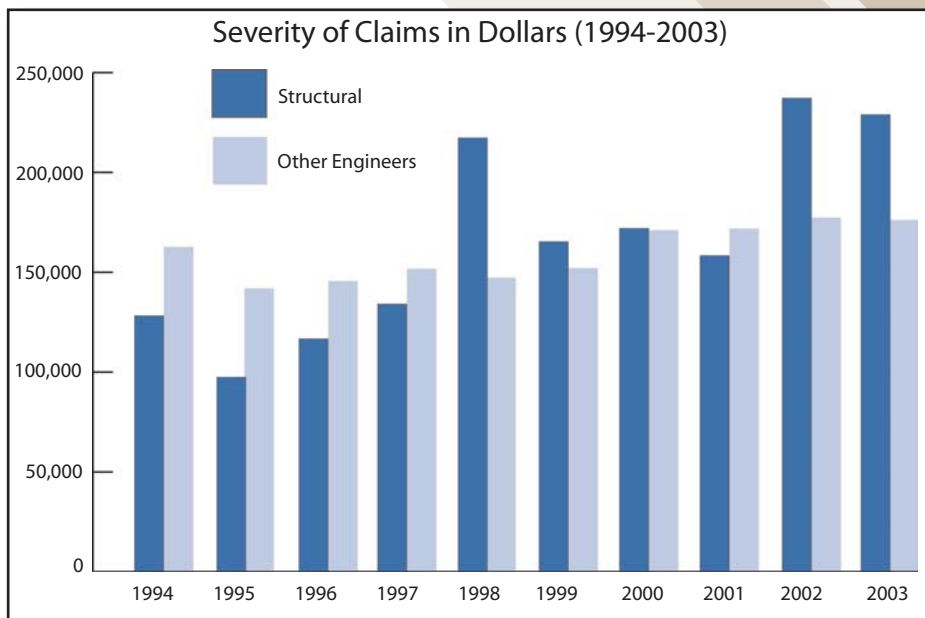
The frequency of claims is highly important to both the operational and insurance costs of a firm. Adjusted to an "equal billings" basis, the risk of a claim against a structural engineering firm is significantly higher than the risk to other engineering disciplines, with a ratio of nearly three-to-one.

to 30 percent fewer claims for the same dollar volume of services in 2003 than at the 1996 apex of claims.

Claims without Payment Still Affect Insurance Costs

Insurance costs are based on the likelihood of a claim expense for the type of services performed and the overall dollar volume of services being provided. Although some claims are closed without any recorded insurance company payment, claims increasingly involve defense costs. The percentage of claims in which a payment is made on behalf of the policyholder continues to rise.

Paired with this frequency is the total cost or severity of claims. With structural engineering claims, those claims in which the CNA program paid both indemnity and defense costs averaged about \$230,000 within the first \$1,000,000 limit of coverage. ■



In recent years, the average paid claim for structural engineering firms has soared above the average for other engineering disciplines. In 2003, the average cost of the defense and indemnity for paid claims was almost 30 percent higher for structural engineering firms than for other engineering firms.

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