

ProNetwork News

Risk Management Tools for the Design Professional



Tim Corbett

Timothy (Tim) Corbett is Founder and President of SmartRisk, a Pasadena, CA based consultancy with over 25 years of experience providing risk management and performance management solutions to Design and Building Professionals. Mr. Corbett holds a BS Degree in Security & Risk Management, MS Degree in Management; a degree in Environmental studies as well as concentrated studies in Architecture Design and is LEED accredited.

For more information on this or other topics:

Tim can be reached @
P: 626-665-8150,
E: tcorbett@smartrisk.biz or visit
SmartRisk's website at
www.smartrisk.biz.



a/e ProNet

Dave Johnston, Executive Director

info@aepronet.org

www.aepronet.org

How Effective is Your Risk Management Program?

by Tim Corbett

Many design firms attend risk management training sessions and implement certain practices based on an industry trend or project claim. Other firms may only concentrate on contracts and insurance coverage's as a risk management strategy, which only addresses a portion of an effective risk management program. As they say – "you cannot manage something that is not measured." With that said, the first question should be:

How effective is your risk management program?

An excellent method in answering that question is determining a design firm's risk profile. Similar to how an insurance carrier underwrites and creates a premium for every design firm, each firm also has a different risk profile based on their unique characteristics:

- Background
- Staffing
- Experience
- Services
- Claim activity
- Project types
- Clients
- Geographic region
- Risk Management
- Business Practices
- Other features

Another way of thinking of a risk profile is similar to a physical examination performed by a doctor. The doctor will examine each individual in similar areas such as - blood pressure, blood work and physical evaluations in determining someone's overall health. A risk profile does the same thing in assessing key categories of risk for a design firm. When I have



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evaluated “higher performing design firms” the first step they apply is an assessment. With this information, higher performers make decisions for improved performance and risk reduction to ensure effective practices are applied for meeting the business needs of the firm, clients, and projects.

Industry Risk and Relevance to Your Firm

One important point for managing risk is assessing the softer side of a design firms practice – business and practice management efforts. These areas routinely drive a majority of claims and litigation against design firms, approximately 60 - 75%. Do all design firms apply the same business and practice management efforts? Obviously the answer is no. Design firms apply various methods, techniques, practices, etc., with some more effective than others. With that said, a one-size fits all risk management approach is not very effective in addressing the specific needs of any design firm.

The majority of industry risk management guidance addresses a current trend, topic, or claim in the industry. All very helpful information, however may, or may not be relevant to every firm. For example, client created indemnity provisions in contracts continues to be problematic for many design firms. However, based on the methods your firm has incorporated for the review and approval of contracts - this may not a concern. Another practice is if a design firm has had a claim, they hopefully will identify lessons learned and methods to help prevent a recurrence of a particular claim. A very helpful process - however usually only applies a limited approach addressing certain causes, and usually does not address the many interrelated, upstream sources of a claim creating the possibility of reoccurrence. One important point - if a firm waits until having a claim to make changes to their risk management efforts, it causes more problems. Recovering after having a claim is always more costly and time consuming for a firm. Taking a more proactive approach, evaluating the effectiveness of risk management efforts is always a more effective approach.

Design Firm Risk Analysis

Same as a doctor evaluates each patient and prescribes a remedy based on a their individual circumstances, the same approach should be applied in evaluating risk for a design firm creating an individual risk profile. Based on the results, specific recommendations are made in mitigating current, and future risk and liability exposures.

A risk analysis is based on extensive data related to the design and construction industry including; risks, trends, claim activity, applied best practices, etc. Key assessment categories are created based on the data with an analysis conducted of risk knowledge, and practice management efforts. A risk analysis can be conducted in several ways:

- Initial indication obtained through a questionnaire (*i.e., checking your blood pressure*)
- In-depth analysis conducted through a combination of document reviews, practice management inquires and interviews (*i.e., a full physical examination*)

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Based on the firm's individual responses, the firm would obtain a risk analysis report specific to their firm including risk-ratings with recommendations in categories of concern. A risk management plan can then be developed identifying action items, and time-lines for improving risk management practices, focusing efforts where they are needed.

Design Firms With Claims

The more prudent path is to have a risk analysis conducted before a firm has a claim. Similar to an individual – they should not wait until they have a heart attack to find ways to improve their overall health. Both situations will be more difficult, time consuming, and costly to recover from. However, if a firm has had a claim, or more than one claim, having an independent risk analysis conducted is a very helpful process for identify root causes, interrelated and associated elements that increase risk and the potential for more claims in the future. Many hidden risk factors are identified through the risk analysis process. The results help focus efforts on practices that are increasing risk and negatively impacting the firms overall performance and profitability. Claims can also have a negative impact on the firm's reputation and future business opportunities. Firms with claims usually obtain a significant increase in insurance premium, or even worse can be non-renewed based on the insurance carriers underwriting appetite.

Having an independent risk analysis conducted is extremely helpful in identifying those potential areas of concerns, as well as interrelated risk factors within the firms operations. This information also provides your insurance agent a helpful tool in demonstrating to the insurance carriers on the methods that are being applied for mitigating risk moving forward. These actions place your firm in a better position for your insurance renewal with more insurance options and improved premiums.

Benefits and Insurance

When a risk analysis have been conducted of firms, including those with claims, insurance carriers that previously declined offering coverage routinely decide to offer terms with lower premiums, sometimes between 10 -20% below expiring - creating a significant savings for firms. Certain risk analysis processes are endorsed by insurance carriers, with carriers offering a 50/50 cost sharing credit, or a 10% loss prevention, risk management credit for qualified firms participating in the process.

Conclusion

Every design firm has a different risk profile based on their individual characteristics. The first step in identifying risks, and creating a risk profile along with the prioritization of risk management efforts to minimize, control and monitoring risk moving forward. Talk with your insurance agent or contact SmartRisk on the risk analysis tools and options available for design firms today.

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Broker's Notes:

Visit the a/e ProNet website today for more excellent resources:

ProNet Practice Notes

The Keys to Keeping a Project on Track



In 1985, after five years prosecuting criminals as an assistant US attorney, I became deputy general counsel of The American Institute of Architects. On my very first day, I was introduced to civil law. In his gravelly voice, the general counsel explained to me that the key to success in my new position was to “think liability”. I understood, as the traditional casebooks teach in law school, that appellate decisions in commercial cases tend to focus on determining where something went wrong and deciding who should be blamed. Liability was the proverbial ‘hot potato’, something to be avoided at all cost. As a result, lawyers teach and are trained to concentrate on anticipating potential liability and finding ways to avoid or transfer it so their clients are not caught in its web. The general counsel wanted me to think the same.

Guest Essays

Benefits of a Succession Plan for your Business



You’ve worked hard to establish your business and plan to stay actively involved in its future success. So, why would you plan your exit from it now? Because, as the saying goes, if you fail to plan, plan to fail. You won’t lead your company forever, and statistics show most businesses don’t make it past the second generation of ownership due to the lack of a proper and thorough succession plan.

The ProNet Blog

Gearing Up for EdSymposium15



At the **Society for Design Administrators'** upcoming national meeting in Golden, Colorado—**EdSymposium15** (October 8-10, 2015)—**a/e ProNet** will be in active attendance. On Friday, **a/e ProNet President Eric Moore** will make a keynote presentation titled **Your Application Matters – How to Influence Premiums for the Better**.

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