

From Risk to Profit: Benchmarking and Claims Studies

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Victor O. Schinnerer & Company, Inc.



What is Benchmarking?



SOURCE: Schinnerer & CNA

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Benchmarking Defined

- Initiative to analyze and translate claims data into information and knowledge.
- Knowledge can be used by firms to evaluate performance, make business decisions, and improve their practices.



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Steps to Benchmarking

- Research of construction industry trends
- Information from claims in the Schinnerer and CNA program
 - 50 years of experience
 - Based on roughly 4,000 claims per year
 - Schinnerer and CNA is the only organization that has this depth of information



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Factors for Design Professionals to Consider

- Growth patterns of similar firms
- Client types
- Project types
- Consultants
- Construction entities
- Other parties
- Fees
- Your firm
- Contracts



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Benefits to Design Professionals

From Risk to Profit: Benchmarking and Claim Studies, will assist design professionals in:

- Evaluating exposures
- Comparing their firm's performance to that of other similar firms
- Providing risk management insight as firms establish their future goals



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Why Did Schinnerer Publish this Information?

As an insurance industry leader, Schinnerer's mission is to provide quality benchmarking and claims studies to assist our clients in best practices management.



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

The background is a blue-tinted image of architectural blueprints. A large compass is positioned diagonally across the center, and a pencil lies horizontally below it. The blueprints contain various technical drawings, lines, and text, including the word 'SKIN' repeated in large letters. The overall scene represents design and engineering work.

How Design Professionals Can Use this Study

How can members of the design and construction industry use this study?

- Develop practice management guidance
- Develop business plan
- Project target markets and future opportunities
- Help manage claims frequency and severity



SOURCE: Schinnerer & CNA

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How can members of the design and construction industry use this study?

- Allows firms to compare:
 - Their limits on their professional liability policy with their peers
 - A firm's loss experience
 - Types of claims (and associated costs) usually made based on project types



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Important Terminology to Remember

- **Frequency** – Reported claims
- **Severity** – CNA dollars spent
- **Small Firm**
 - Annual billings below \$500,000
- **Premier Firm**
 - Annual billings between \$500,000 and \$5 million
- **Large Firm**
 - Annual billings more than \$5 million



SOURCE: Schinnerer & CNA

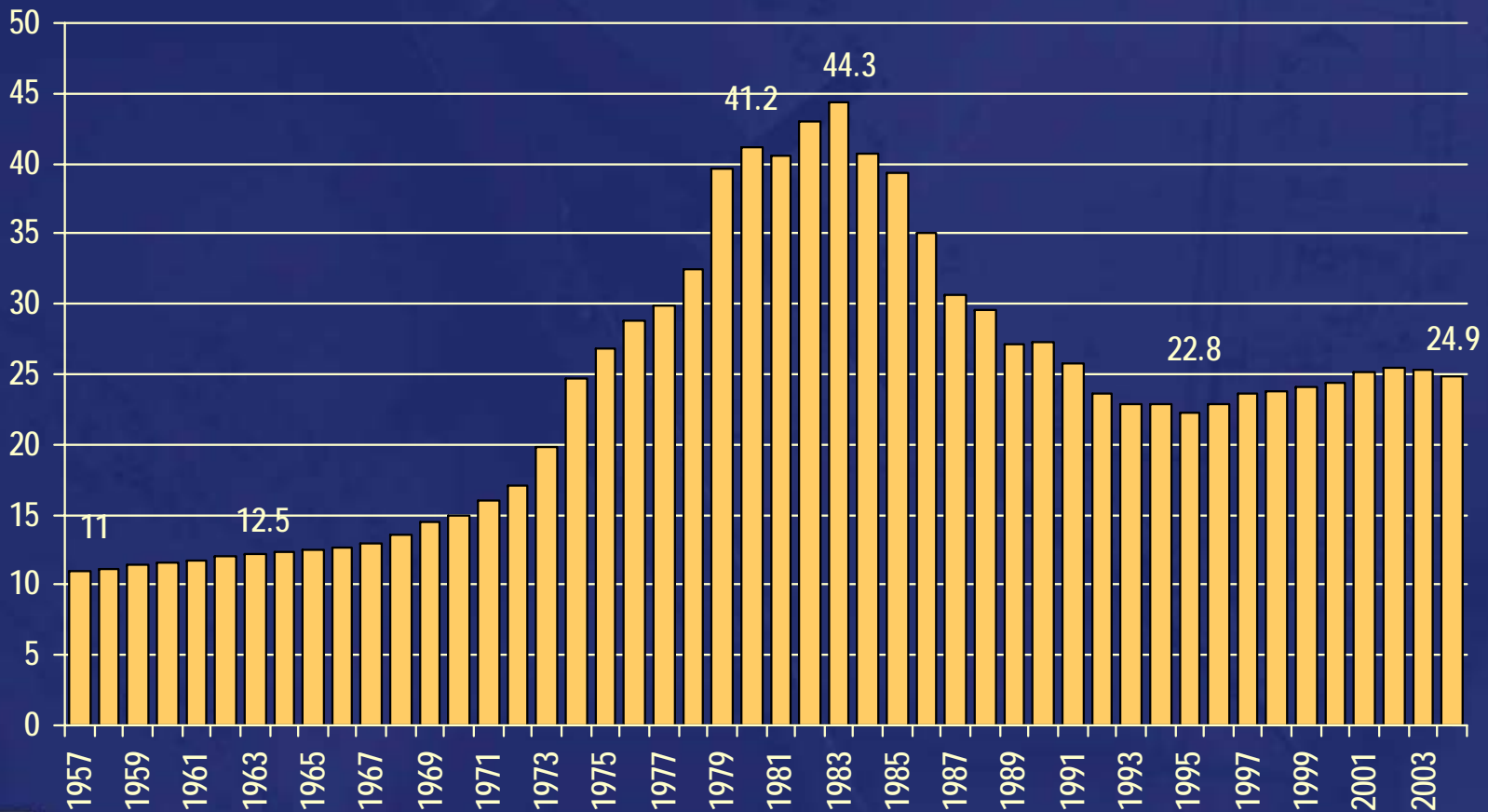
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Industry Trends

Industry Trends

Frequency of Claims Per 100 Firms (1957 – 2004)

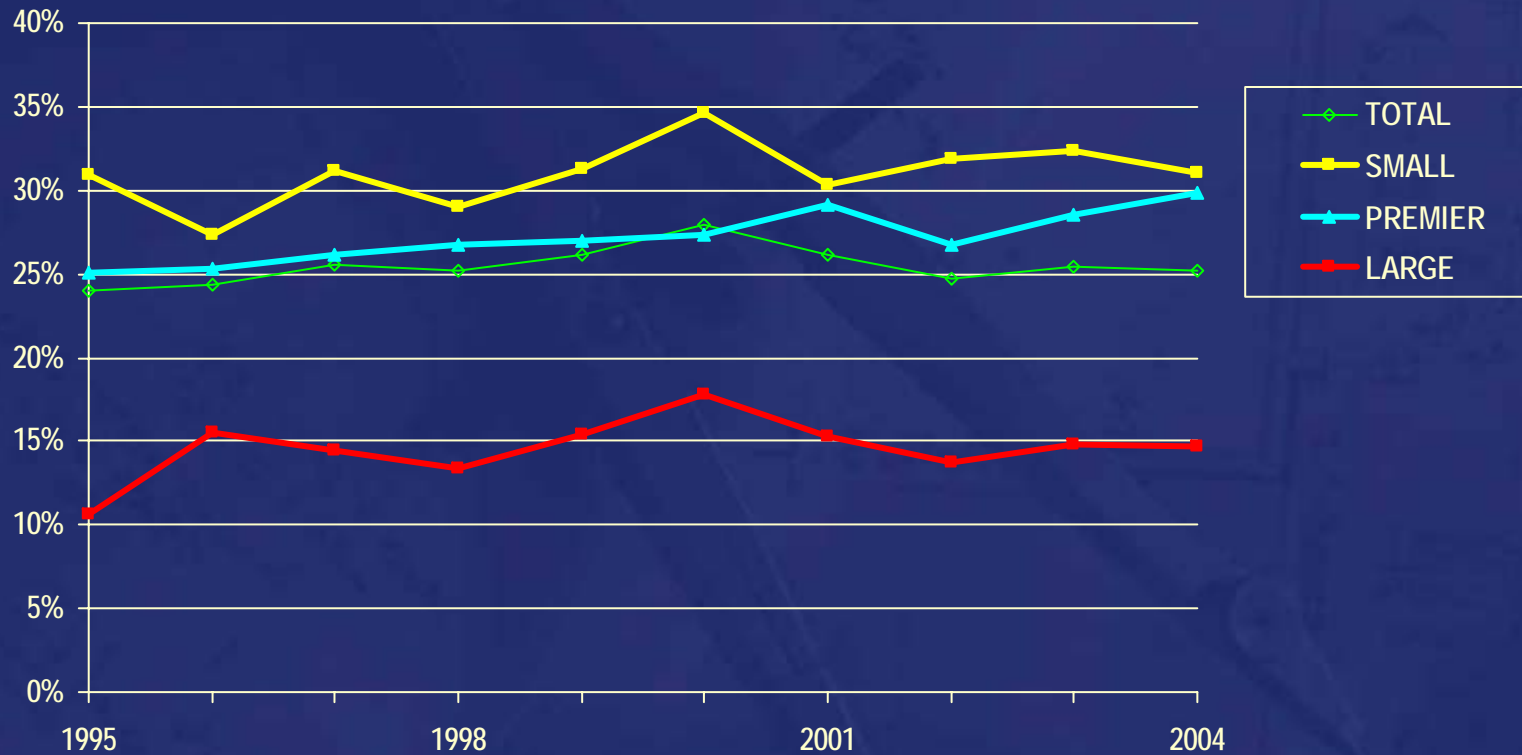


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Industry Trends

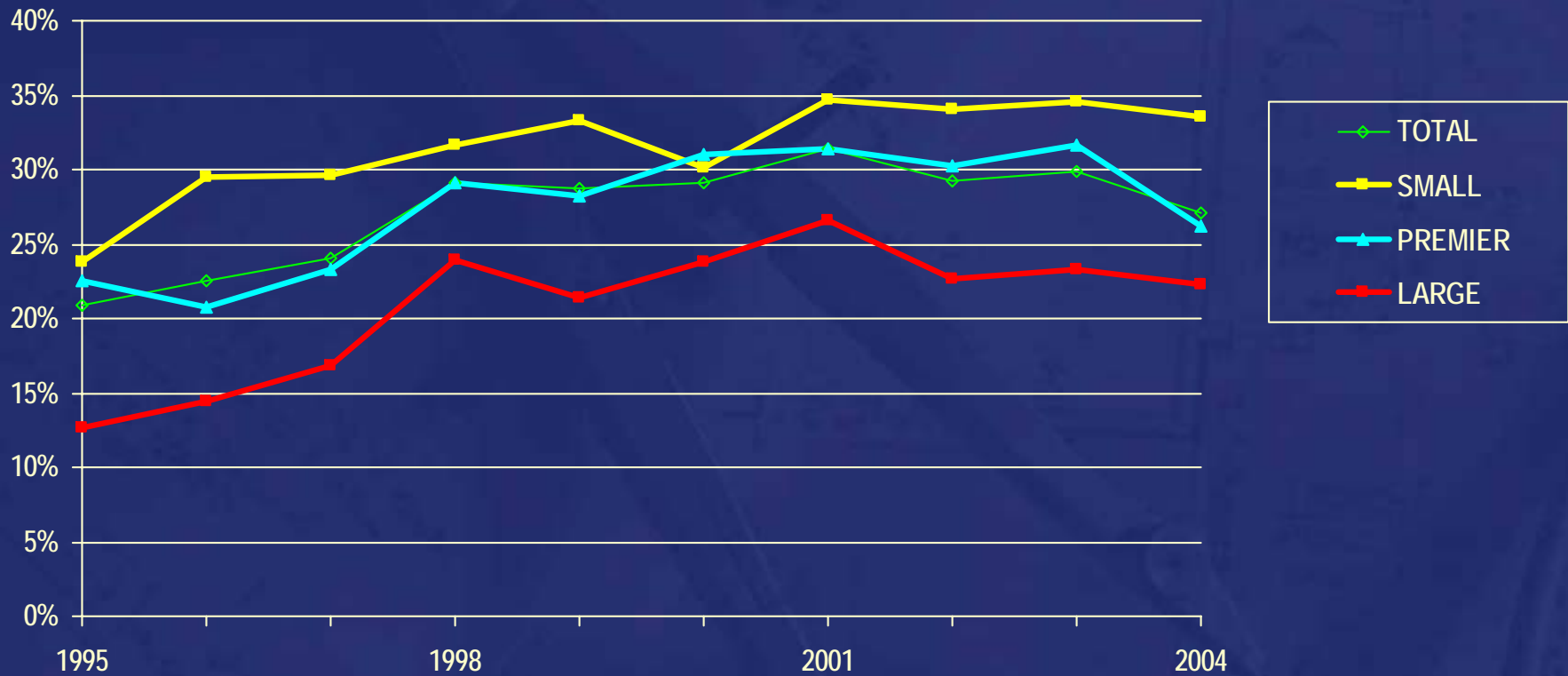
Percentage of Claims Closed with Indemnity Payments



SOURCE: Schinnerer & CNA
From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Industry Trends

Percentage of Claims Closed with Defense Payment Only



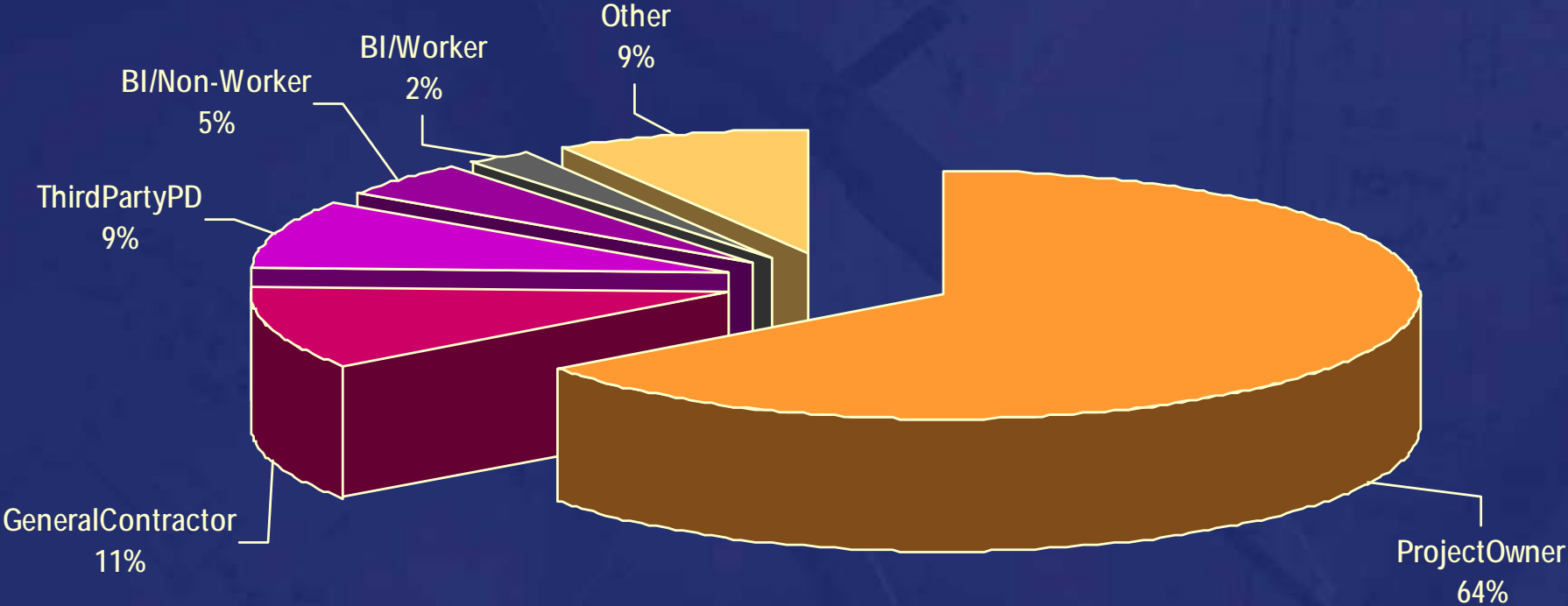
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Eight Key Factors of Benchmarking

The Client

Frequency of Claims by Claimant Identification (1995 – 2004)



SOURCE: Schinnerer & CNA
From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

The Client

What You Need to Know

Client selection can help minimize
the chances of a claim.



SOURCE: Schinnerer & CNA

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The Client

Identifying the Risks

1. Does the client have clear project objectives?
2. Do you or your peers have experience with this client?
3. What is the client's attitude toward you and the project?

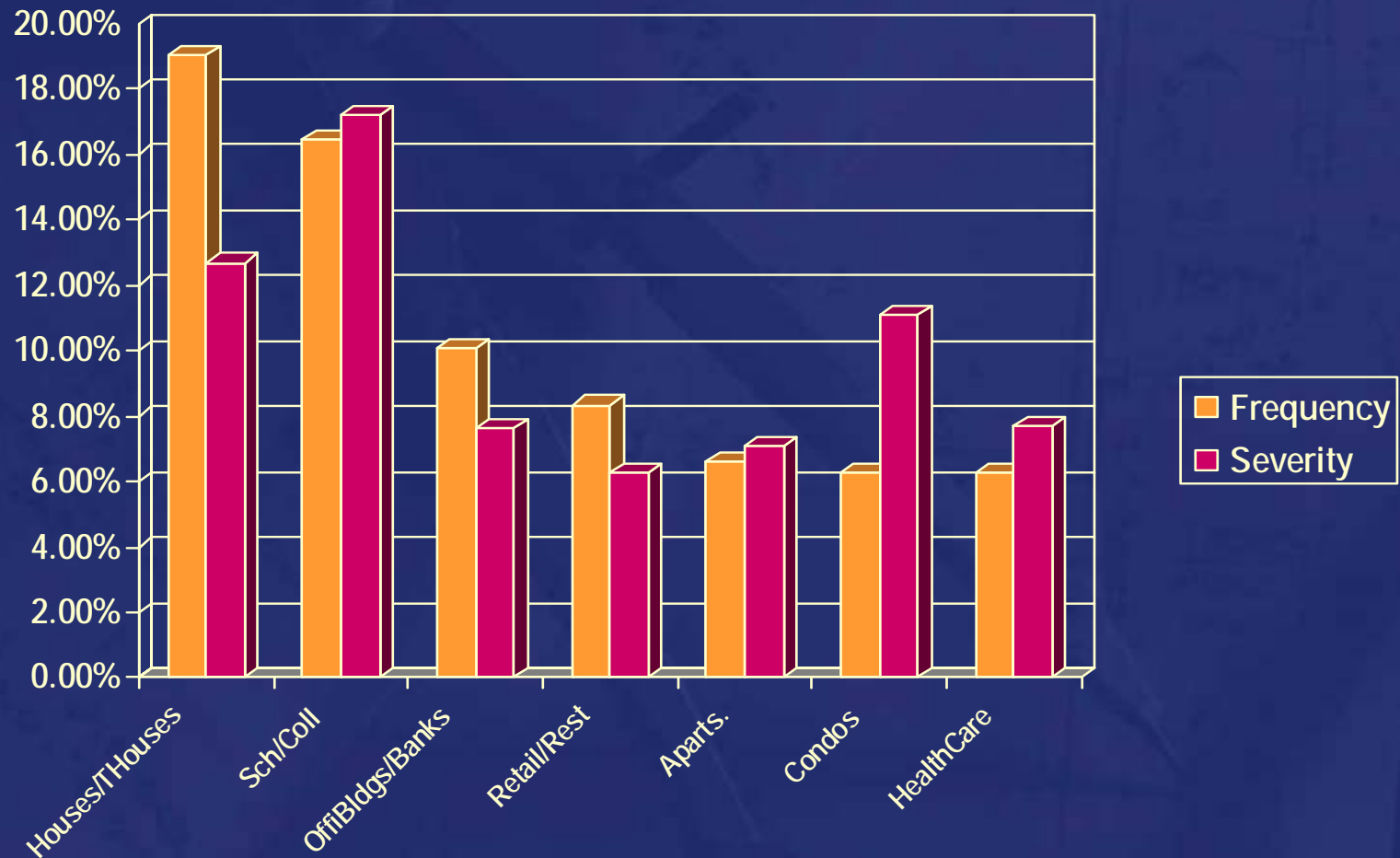


SOURCE: Schinnerer & CNA

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The Project

Frequency/Severity of Project Types (1995 – 2004): Architects

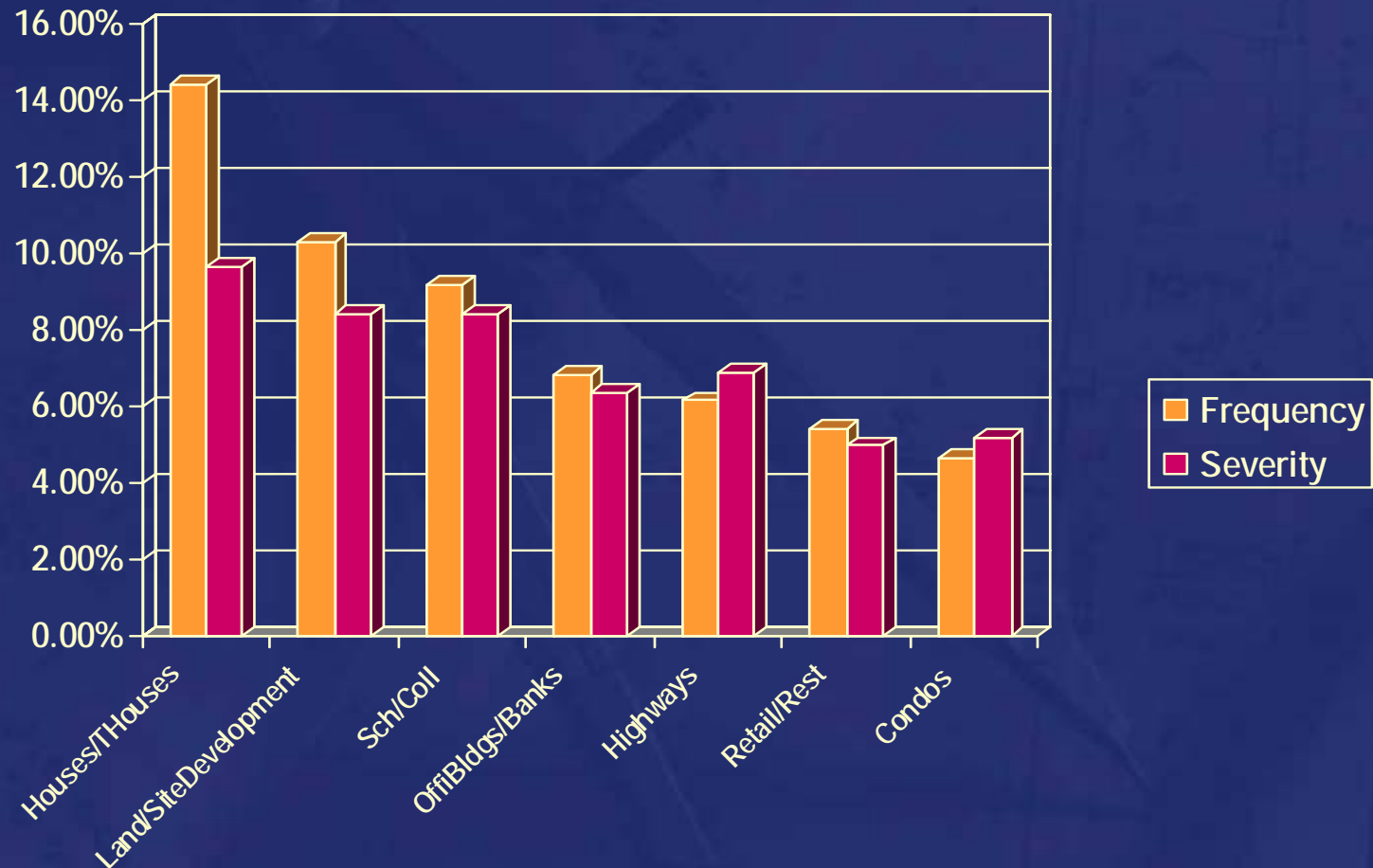


SOURCE: Schinnerer & CNA

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The Project

Frequency/Severity of Project Types (1995 – 2004): Engineers



SOURCE: Schinnerer & CNA
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The Project

What You Need to Know

Some projects are riskier than others. How you respond can help control risks.



SOURCE: Schinnerer & CNA

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The Project

Identifying the Risks

- ✓ Have you considered the following:
 - Project type
 - Geographic location
 - Scope of services
 - Schedule
 - Construction complexity

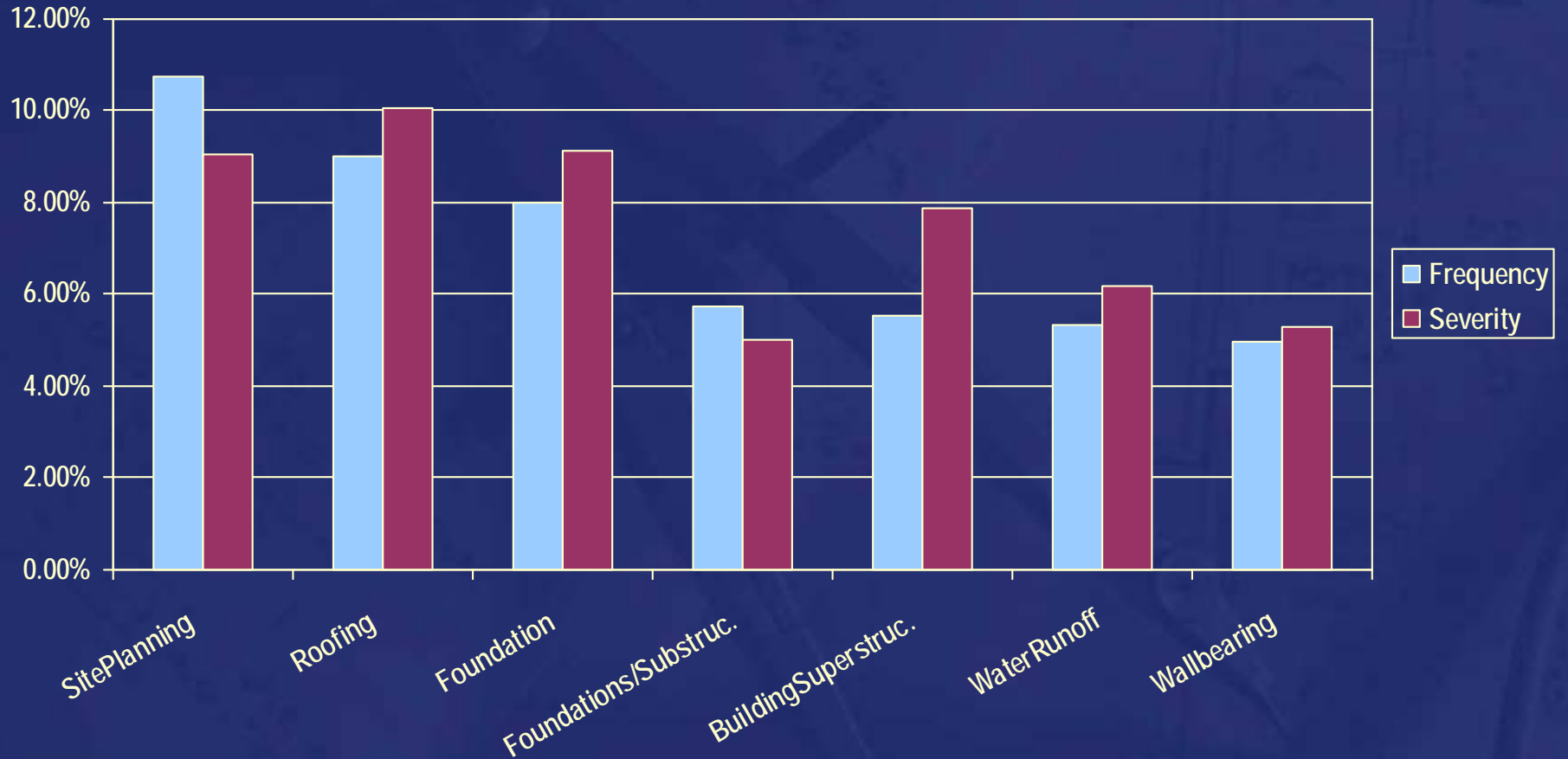


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Residential

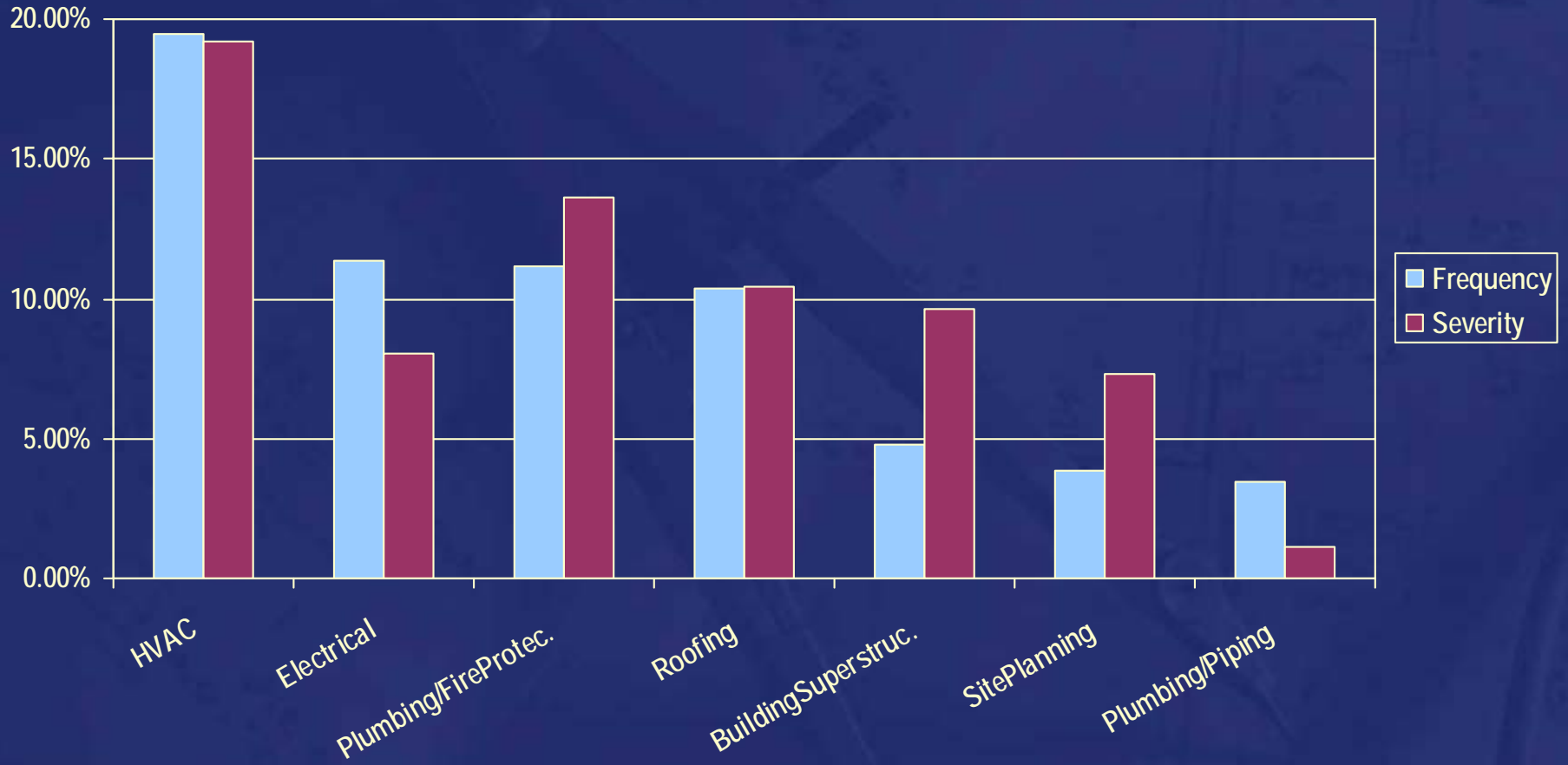
Project Type Problem Area Claims by Frequency/Severity 1995 - 2004



SOURCE: Schinnerer & CNA
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Schools/Colleges

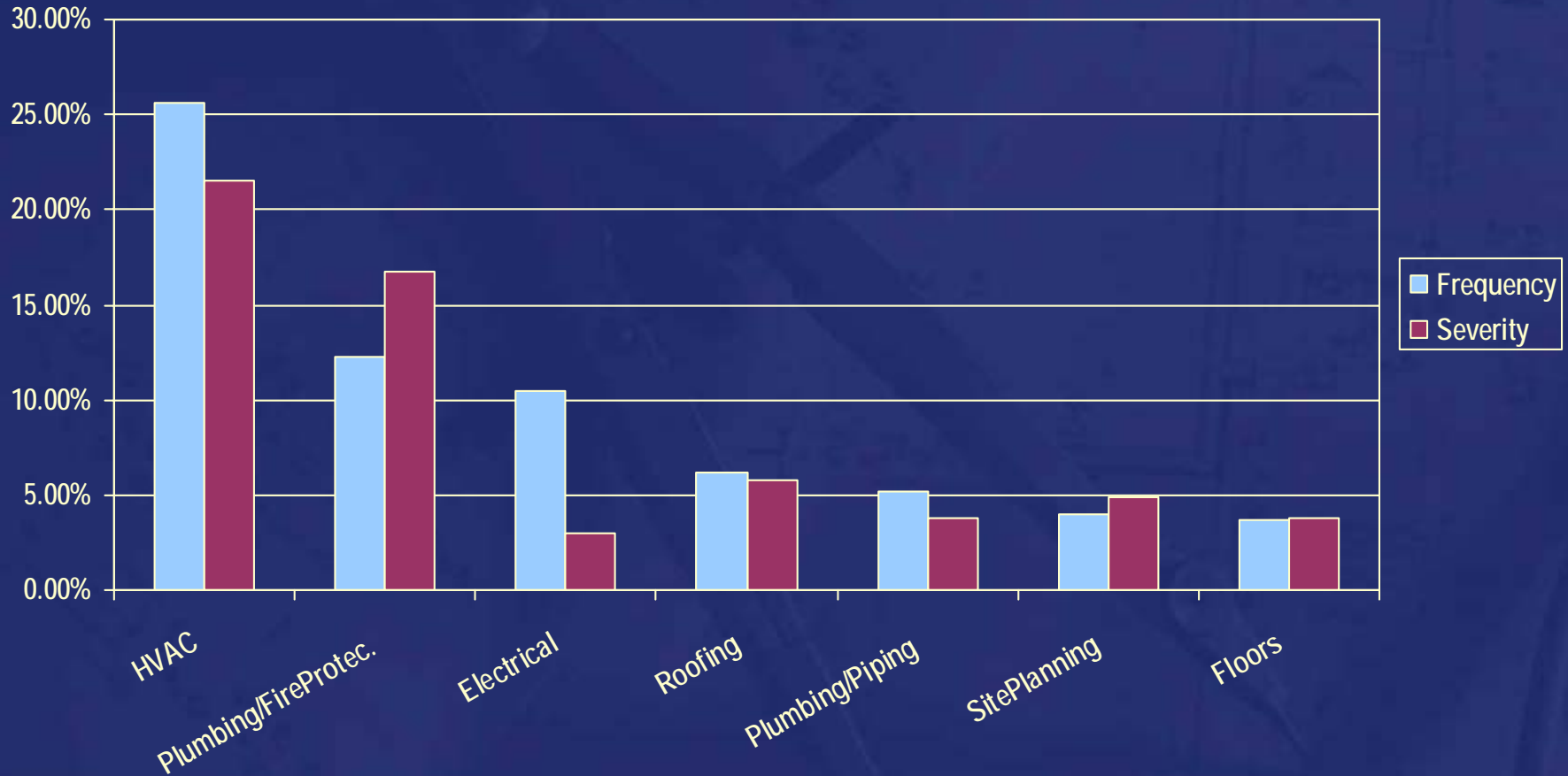
Project Type Problem Area Claims by Frequency/Severity 1995 - 2004



SOURCE: Schinnerer & CNA
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Hospital/Healthcare

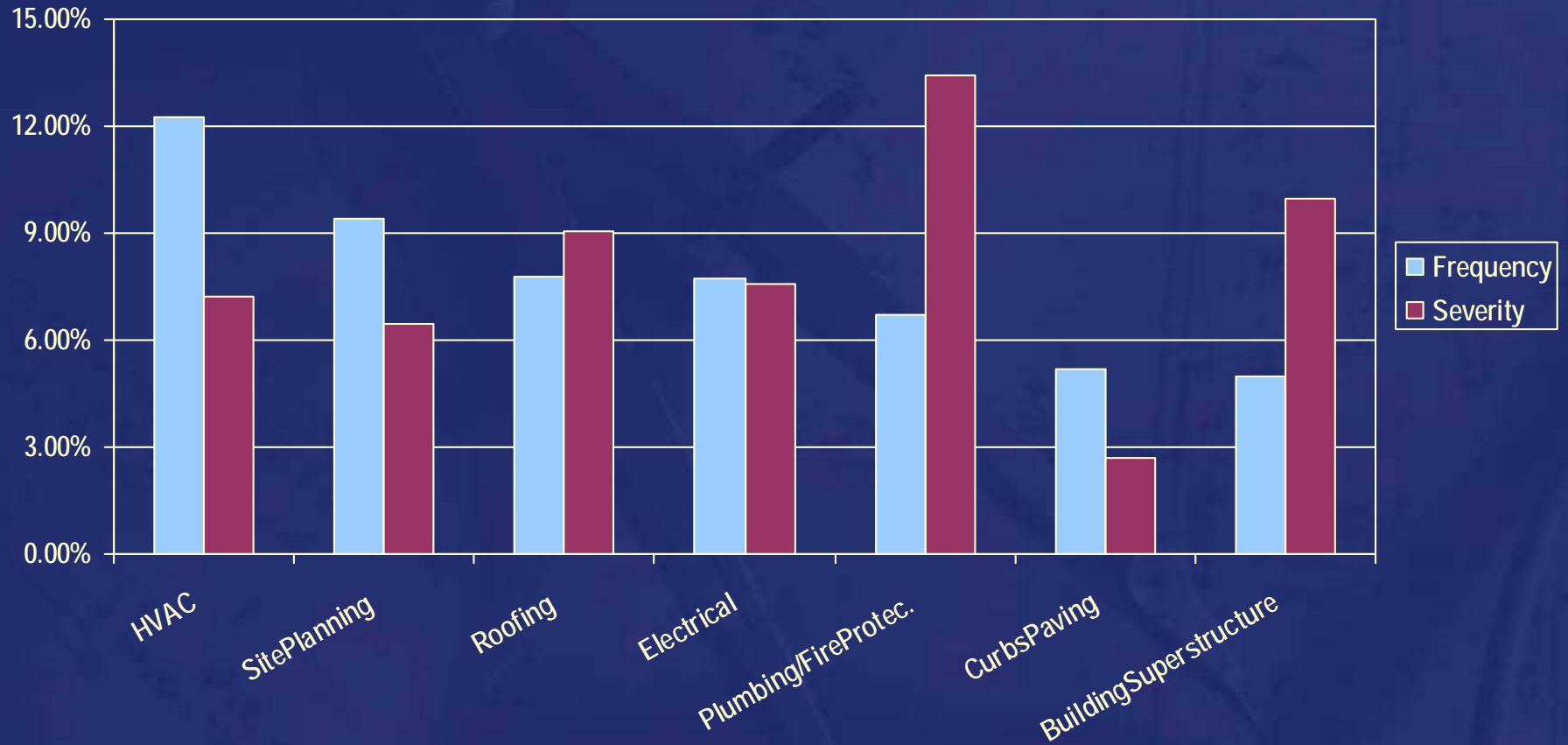
Project Type Problem Area Claims by Frequency/Severity 1995 - 2004



SOURCE: Schinnerer & CNA
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Commercial and Retail Building

Project Type Problem Area Claims by Frequency/Severity 1995 - 2004



SOURCE: Schinnerer & CNA
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Consultants

“The subconsultant paid his \$250,000 policy limit, leaving the engineer to pay the remainder of the \$2.5 million claim.”

CNA Claim Write-up



SOURCE: Schinnerer & CNA

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Consultants

What You Need to Know

Prime design professionals are vicariously liable for the consultants they retain.



SOURCE: Schinnerer & CNA

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Consultants

Identifying the Risks

1. What is your experience with the consultant?
2. Is the consultant available and qualified?
3. Is the consultant adequately insured?

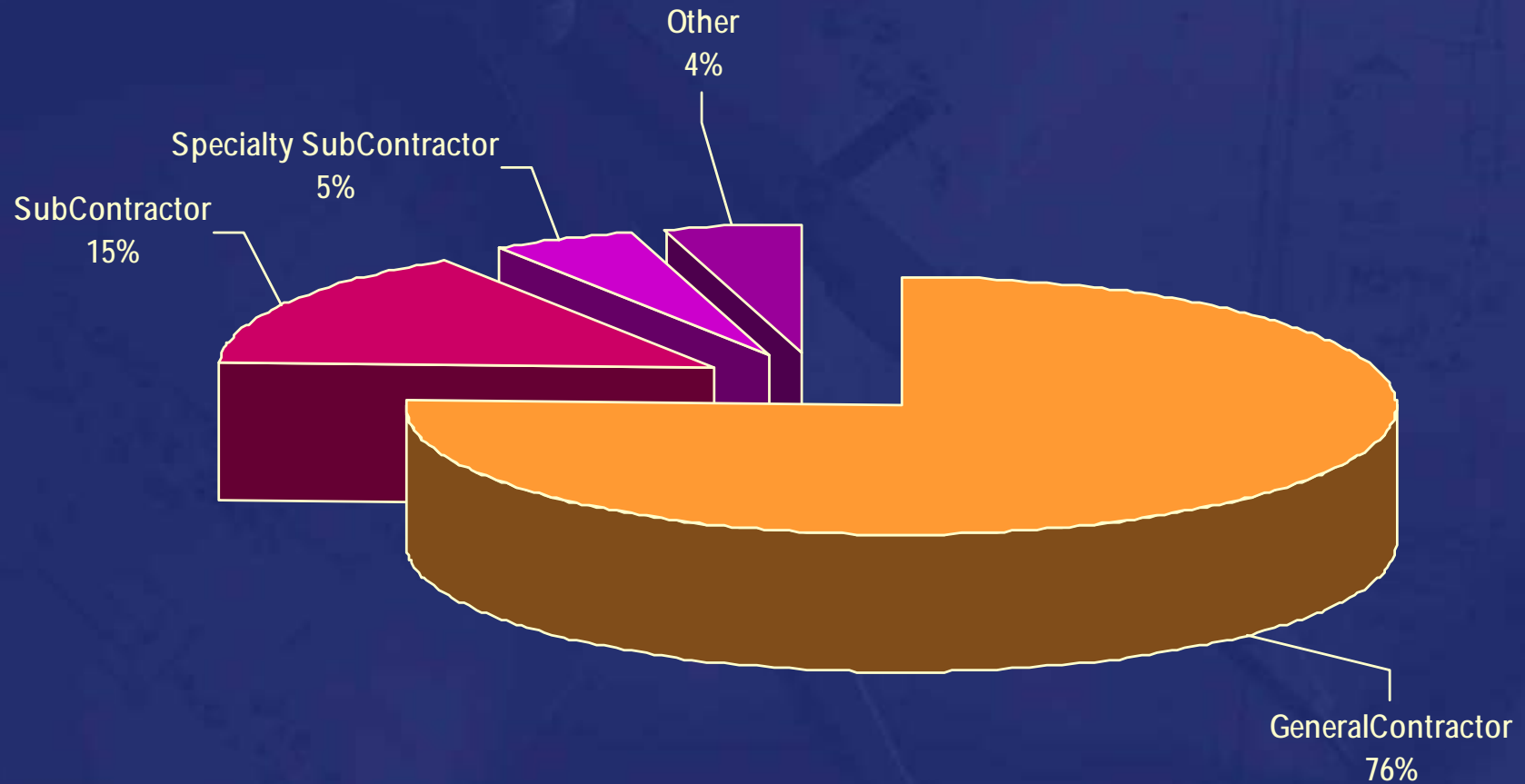


SOURCE: Schinnerer & CNA

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Contractor

Frequency of Claims by Construction Entities (1995 – 2004)



SOURCE: Schinnerer & CNA
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Contractor

What You Need to Know

Contractors can and do file claims
against design professionals.



SOURCE: Schinnerer & CNA

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Contractor

Identifying the Risks

1. Does the contractor have experience with this project type?
2. Is the bid/negotiated proposal adequate?
3. Does the contractor have the financial strength to complete the project?



SOURCE: Schinnerer & CNA

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Other Parties

“...9% of claims against design professionals come from third parties for property damage...”



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Other Parties

What You Need to Know

Claims can be filed against design professionals by those that have not been involved in the design and construction process.



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Other Parties

Identifying the Risks

1. Has another party been introduced into the project (i.e., construction manager) after the agreements have been signed?
2. Are there “interested” third parties that have a stake in the outcome?



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Fee

“Inadequate fees for professional services ultimately go against the client’s interest for a successful project.”



SOURCE: Schinnerer & CNA

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Fee

What You Need to Know

Fee disputes can lead to claims
against design professionals.



SOURCE: Schinnerer & CNA

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Identifying the Risks

1. Is your fee adequate for the services to be provided?
2. Does your agreement have clear payment terms?
3. Do you have a "collection strategy?"

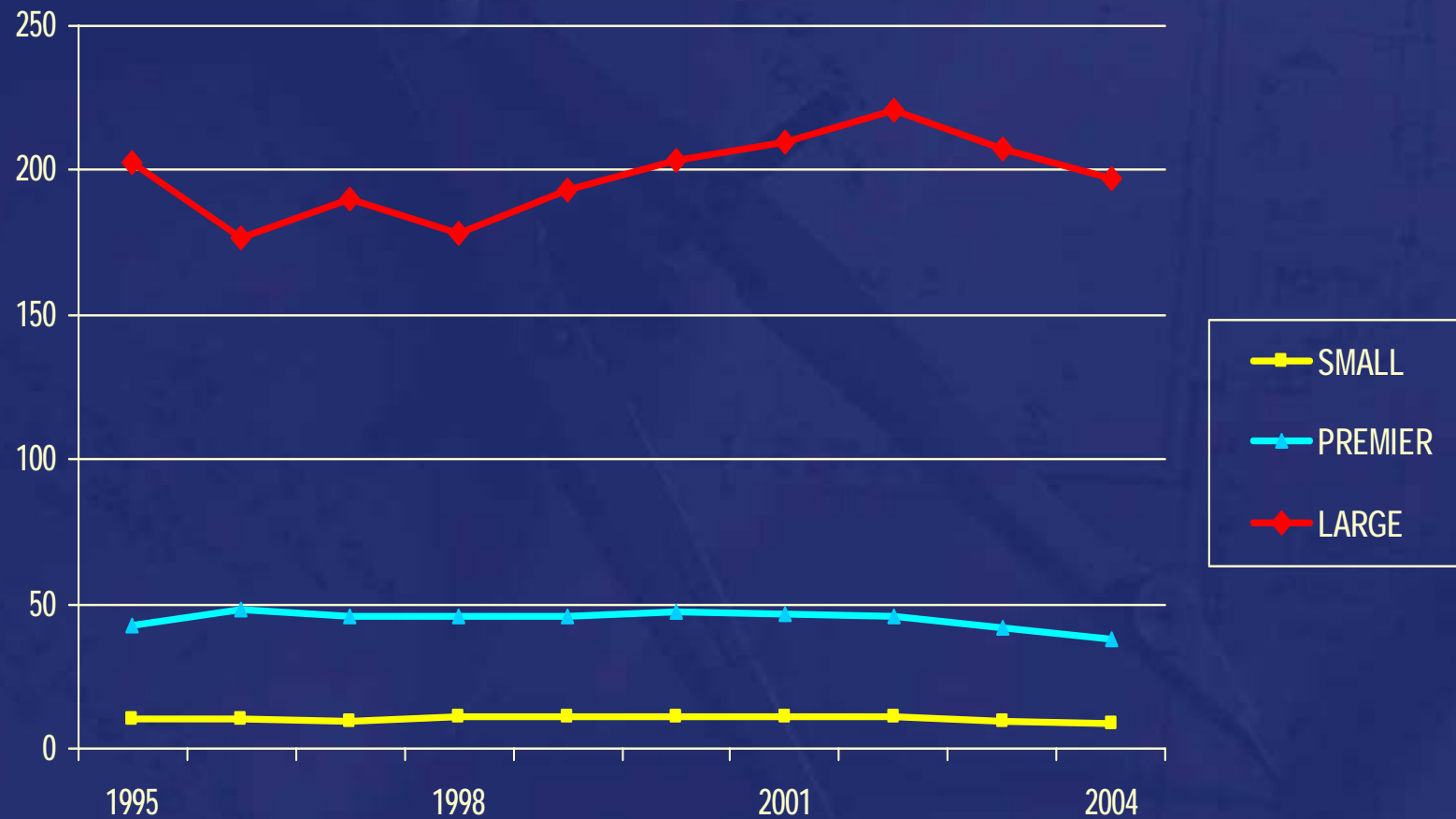


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Your Firm

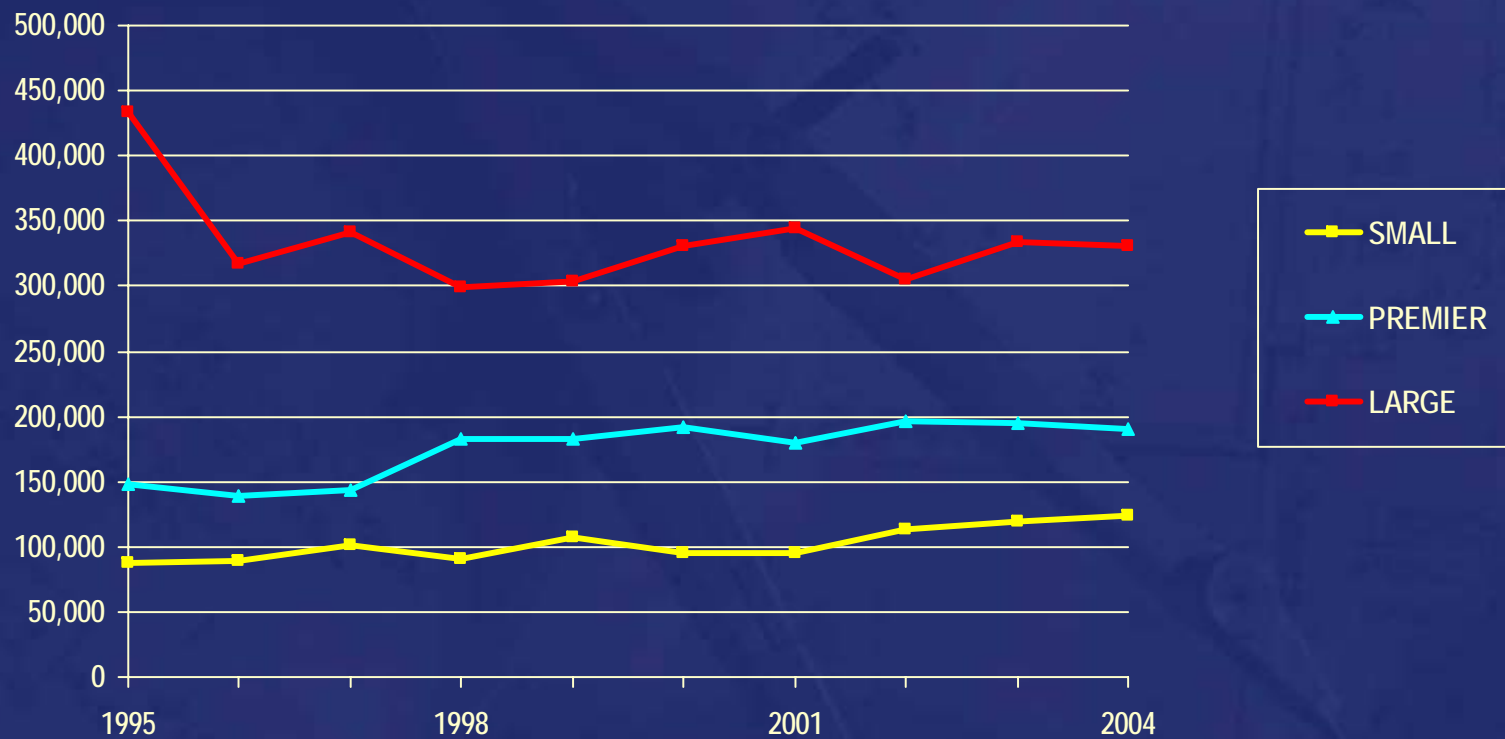
Claims Frequency Per 100 Firms: Small/Premier/Large



SOURCE: Schinnerer & CNA
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Your Firm

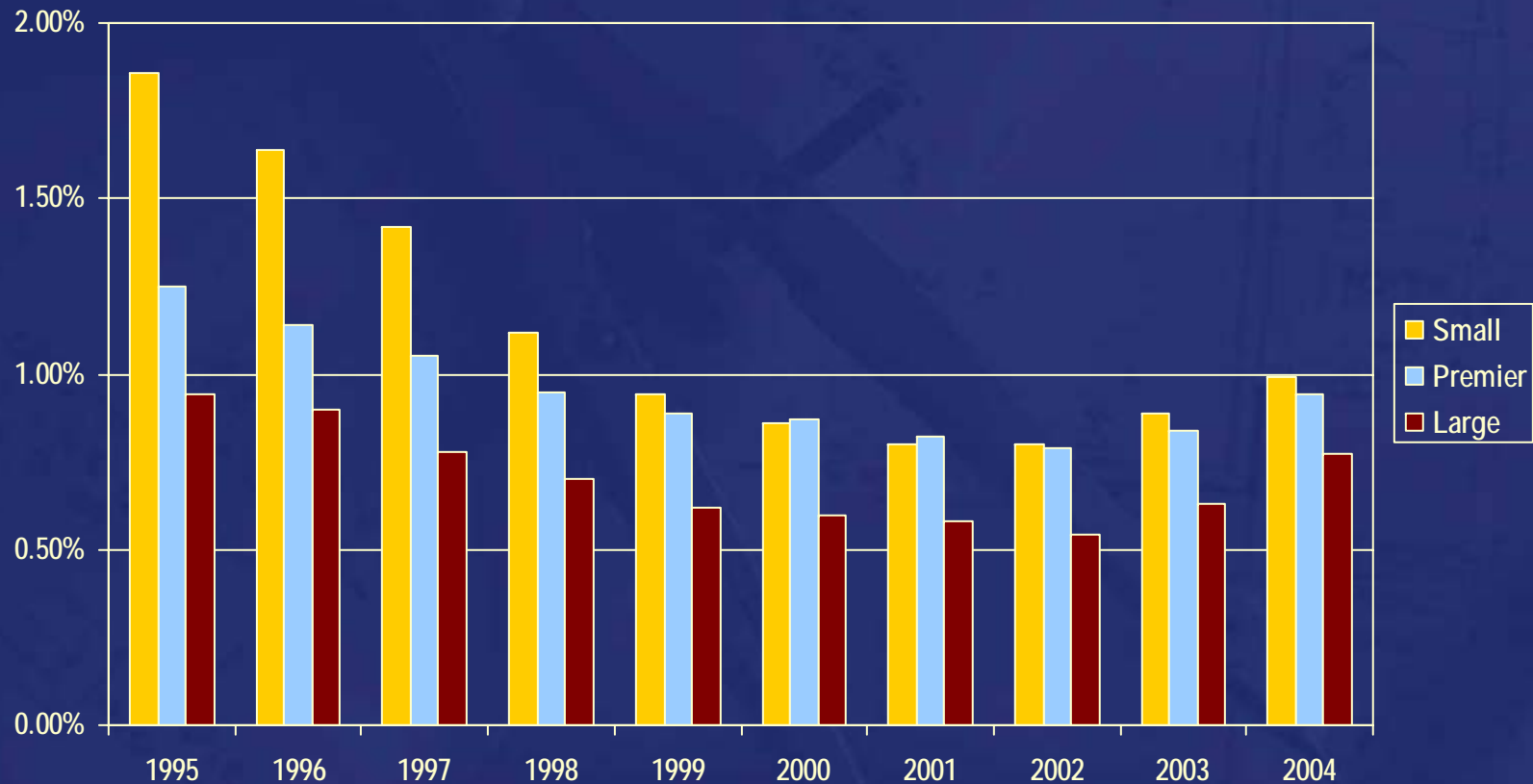
\$1 Million Average Severity: Small/Premier/Large



SOURCE: Schinnerer & CNA
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Your Firm

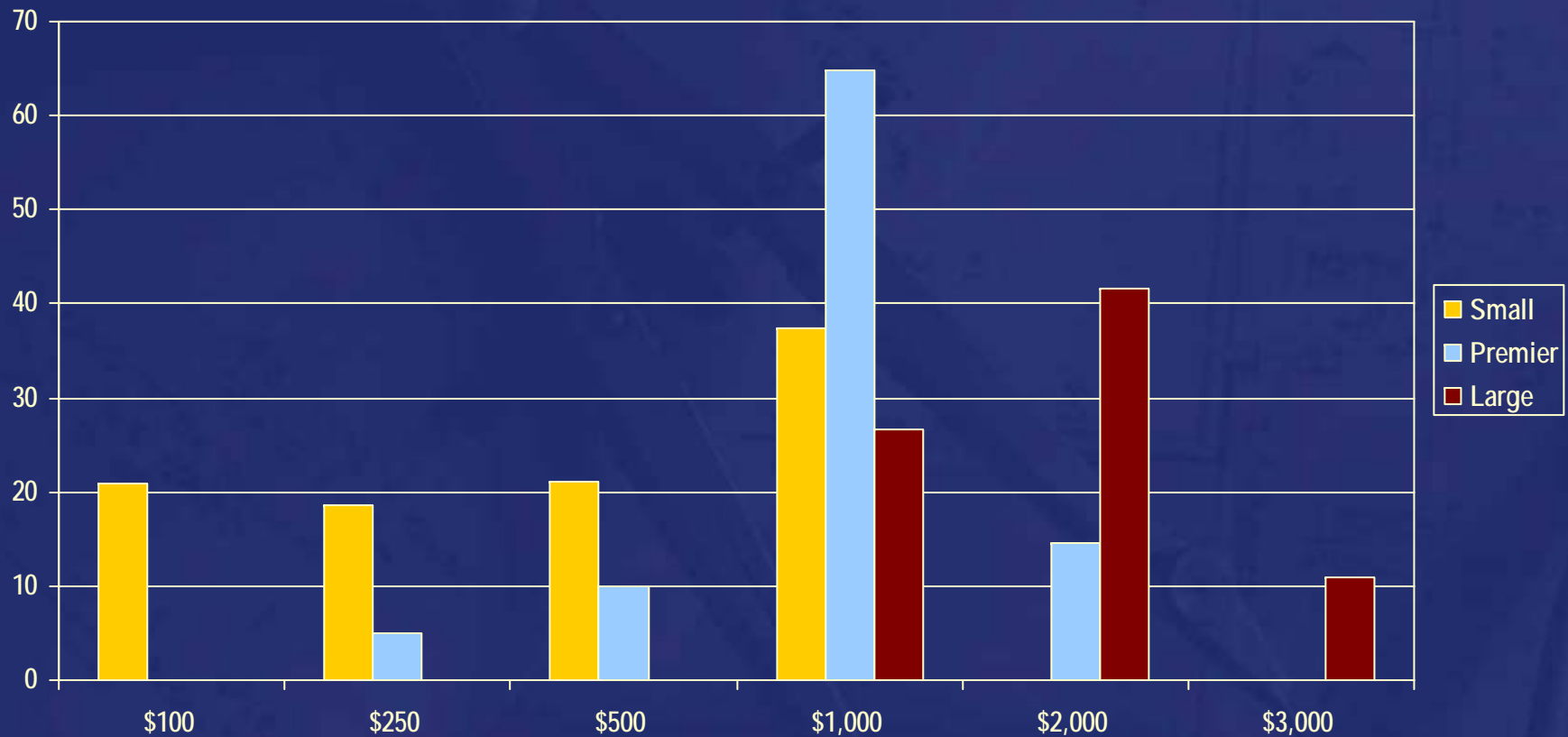
Percentage of Deductible to Gross Billings (1995 – 2004): Architects



SOURCE: Schinnerer & CNA
From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Your Firm

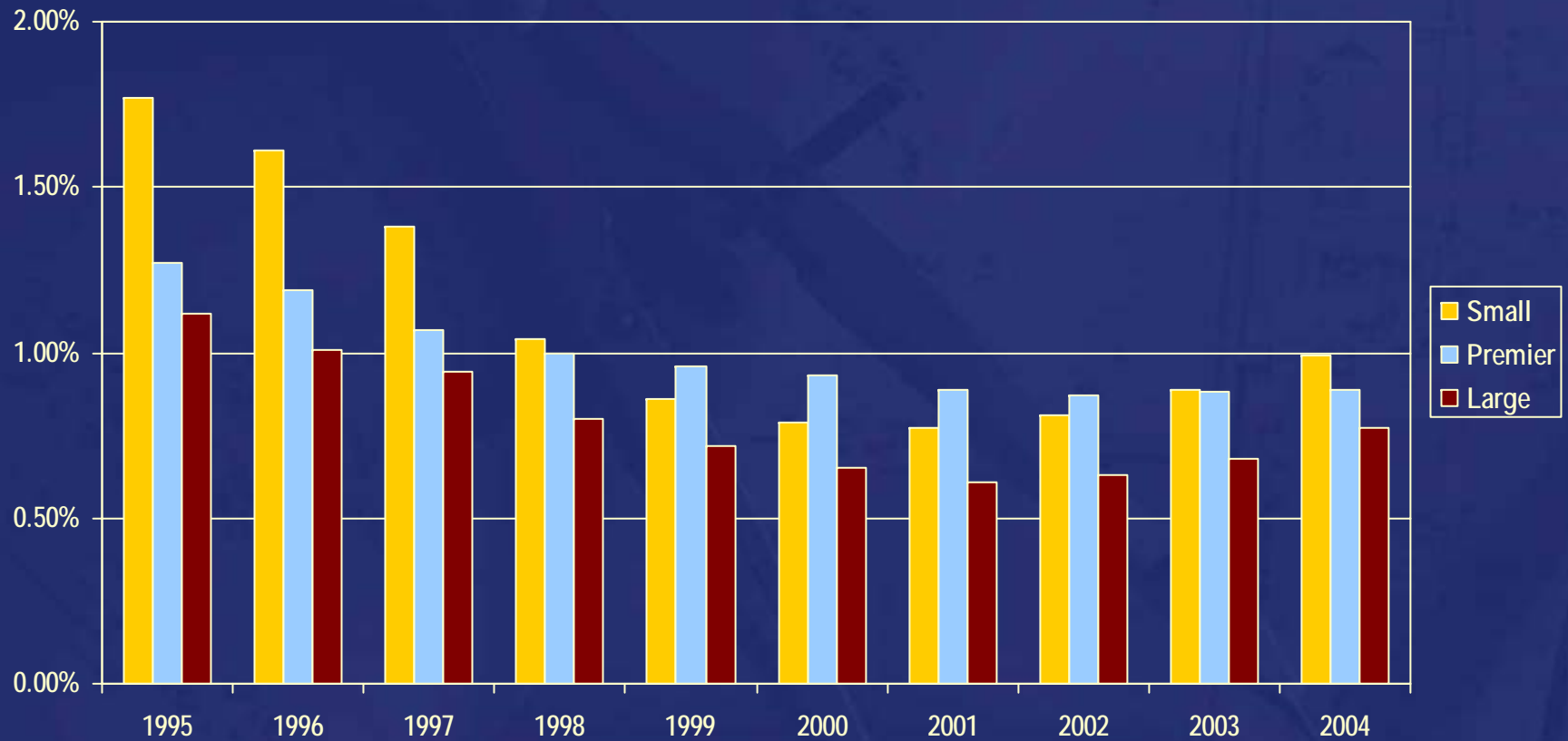
Per Claim Limit (in thousands) (April 2005): Architects



SOURCE: Schinnerer & CNA
From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Your Firm

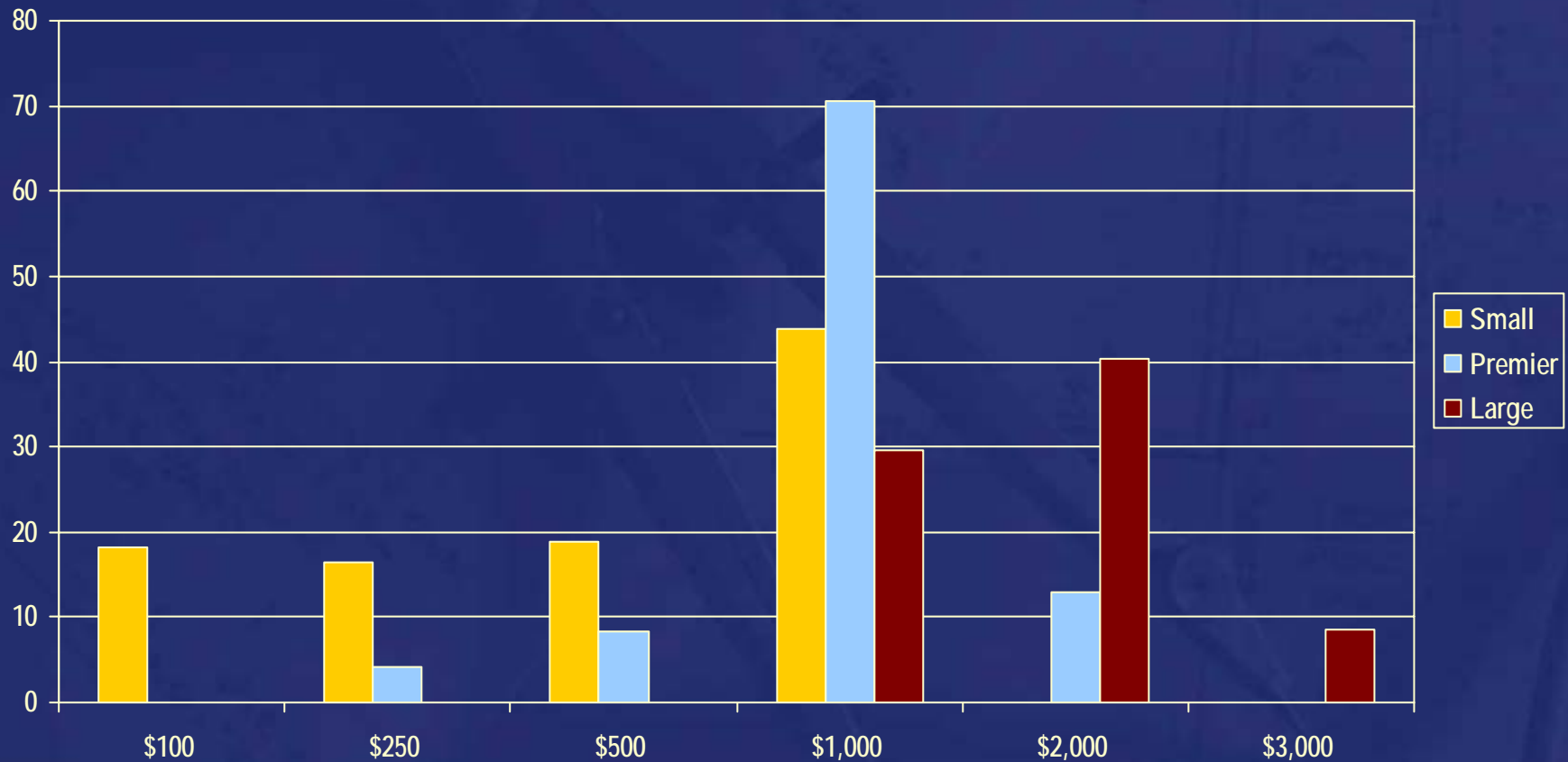
Percentage of Deductible to Gross Billings (1995 – 2004): Engineers



SOURCE: Schinnerer & CNA
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Your Firm

Per Claim Limit (in thousands) (April 2005): Engineers



SOURCE: Schinnerer & CNA
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Your Firm

What You Need to Know

Many claims may be avoided if
firms would take a
“hard look” at themselves.



SOURCE: Schinnerer & CNA

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Your Firm

Identifying the Risks

1. Does your firm have experience with this project type?
2. Have you identified the potential problem areas with this project?
3. Does your firm have the "capacity" to take on this project at this time?
4. Is your firm adequately insured?

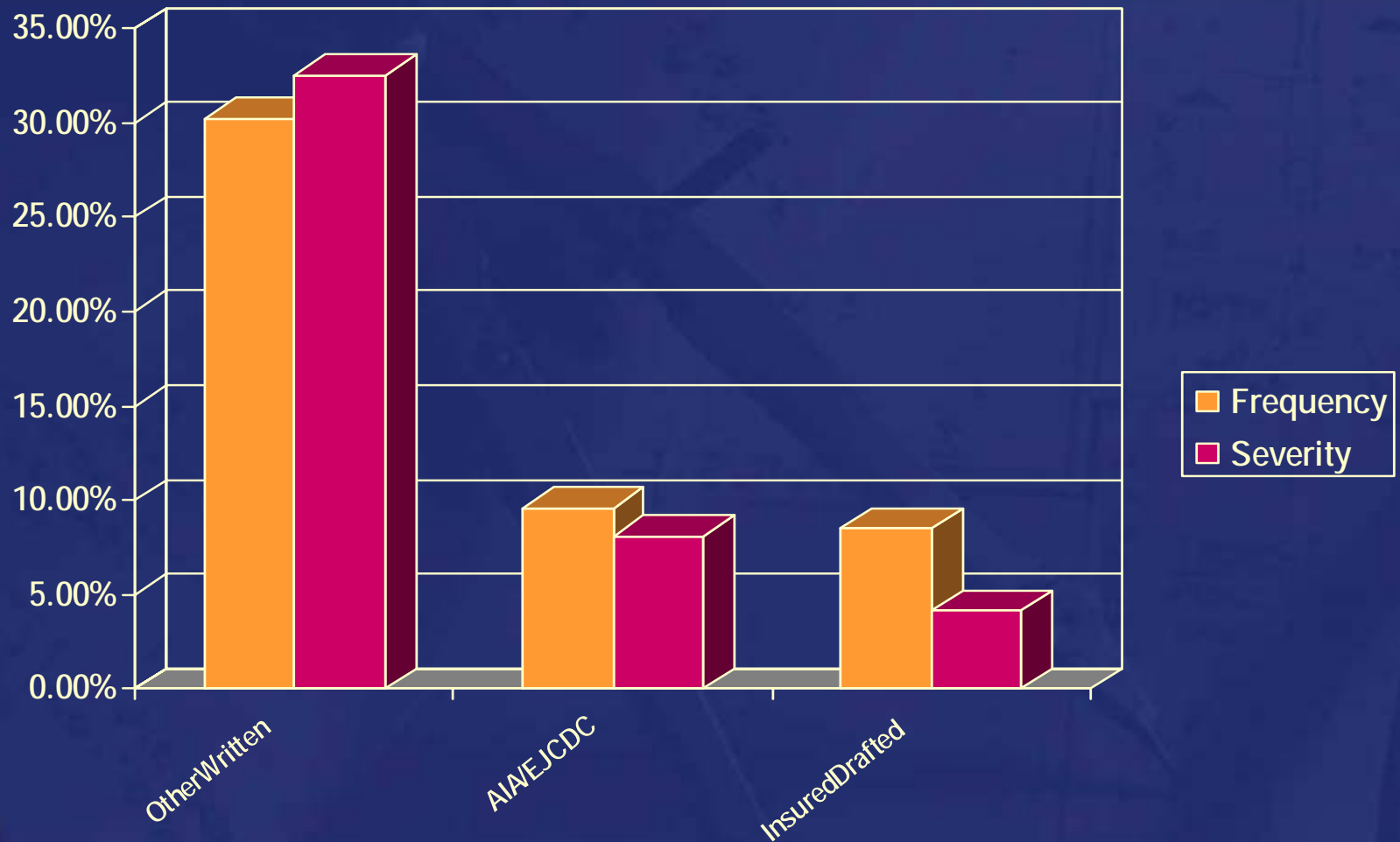


SOURCE: Schinnerer & CNA

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Contracts

Frequency and Severity of Select Contract Types



SOURCE: Schinnerer & CNA
From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Contracts

What You Need to Know

A well-drafted contract can be
your best risk management tool.



SOURCE: Schinnerer & CNA

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Contracts

Identifying the Risks

1. Does your agreement have a clear scope of services?
2. Does your agreement fairly allocate risks by:
 - Assigning risks to the entity in the best position to manage those risks?
 - Assigning risk with proper authority?
 - Assigning risk to only one entity?



SOURCE: Schinnerer & CNA
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Resources to Help Identify and Manage Risks

These resources are available to Schinnerer and CNA insureds

WWW.**Schinnerer**.com

- *From Risk to Profit: Benchmarking and Claims Studies*
- Risk Management Matrix
- Online Benchmarking Study
- Library of Claims/Case Studies
- *Managing Risk Through Contract Language*
- The VEP
- Many Other Resources



SOURCE: Schinnerer & CNA

From Risk to Profit: Benchmarking and Claim Studies © 2006 Victor O. Schinnerer & Company, Inc.

Example #1

Q: I've heard that the construction of schools is still going strong and that claims are following this trend. What can you tell me about it?

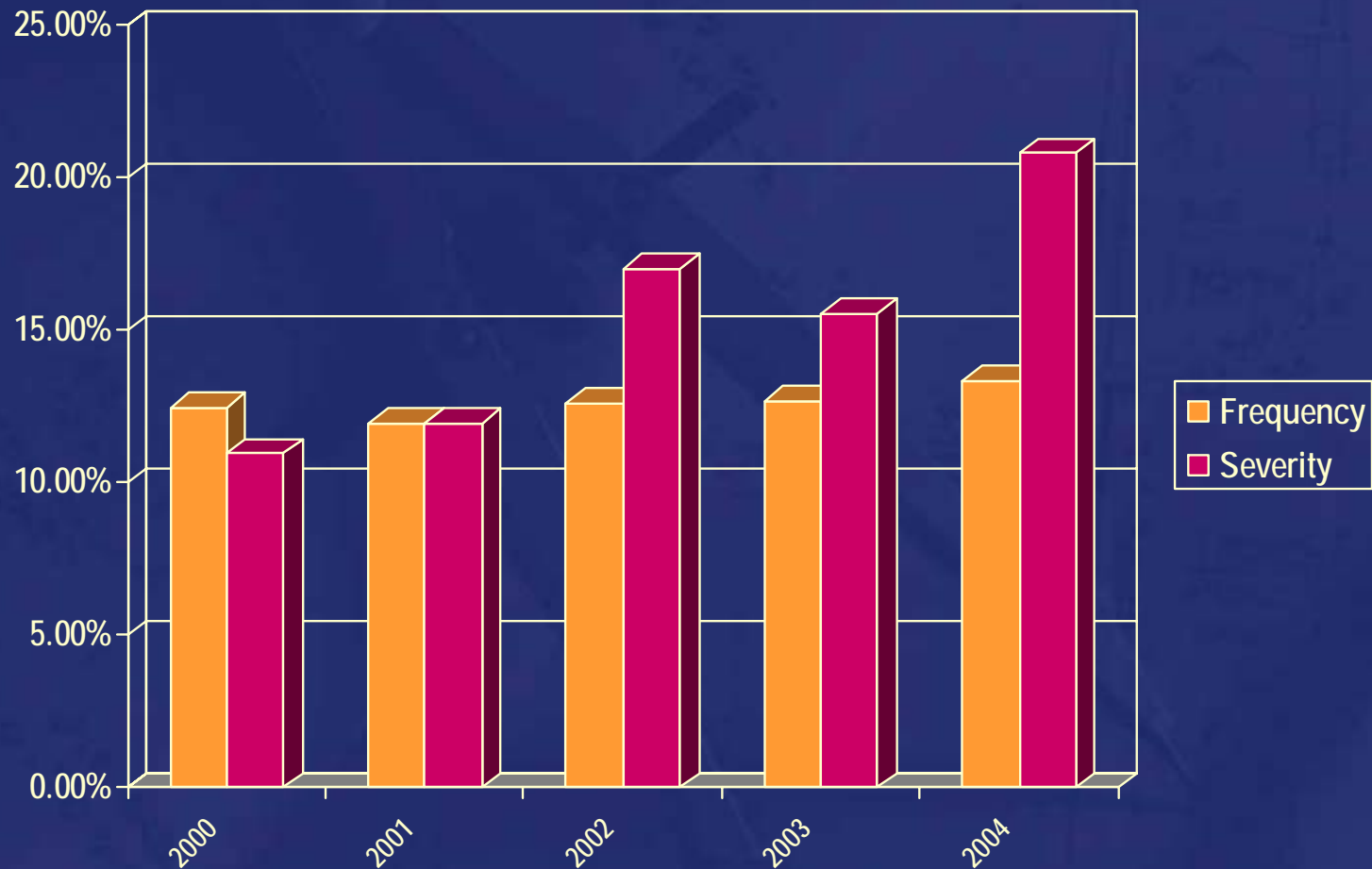


SOURCE: Schinnerer & CNA

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What is the recent claims trend with school projects?

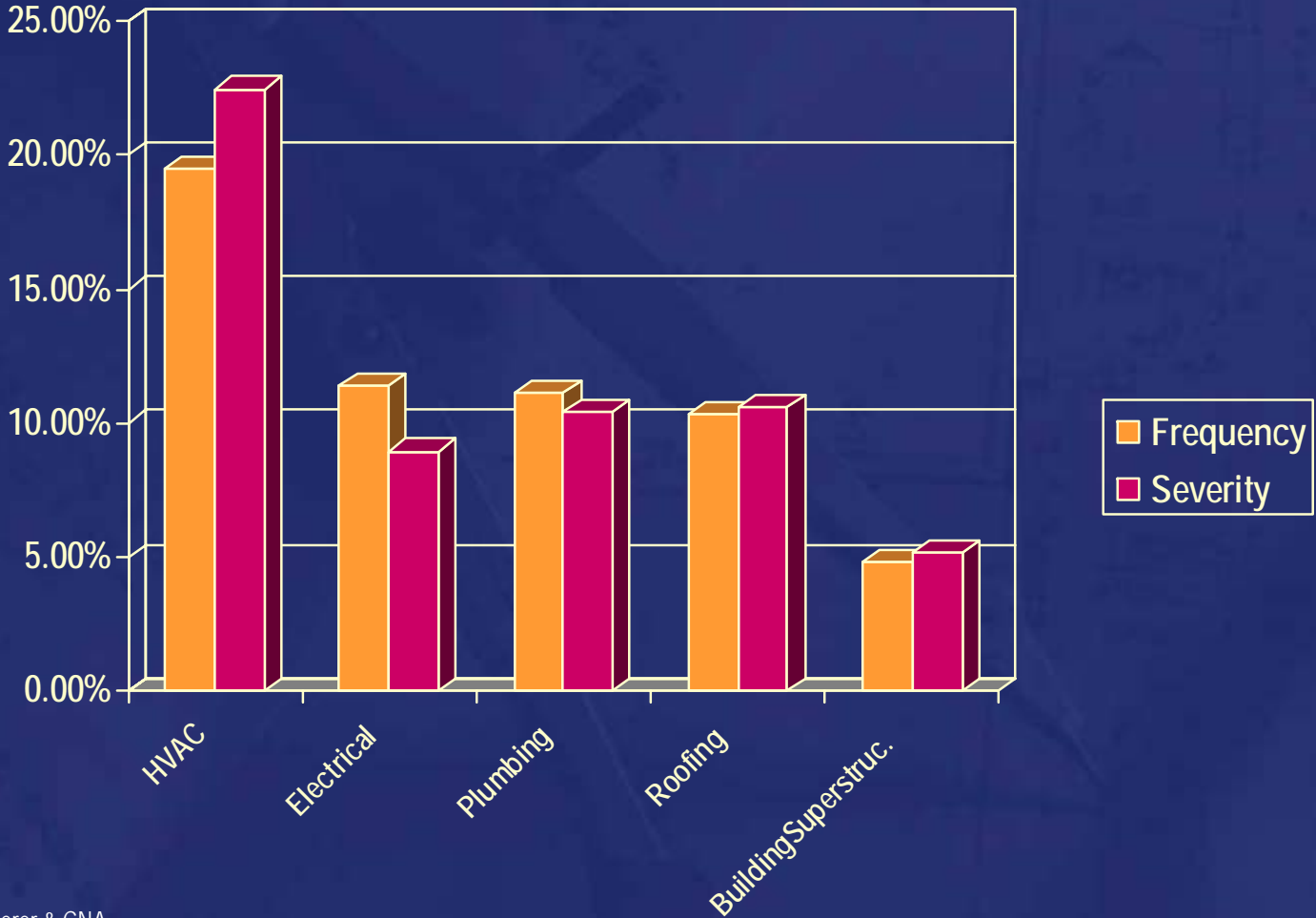
Frequency/Severity of School Projects (1995 – 2004)



SOURCE: Schinnerer & CNA
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What are the problem areas with school projects?

Frequency/Severity of School Projects – Problem Areas (1995 – 2004)



SOURCE: Schinnerer & CNA
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What are the specific types of claims?

See Claims Study:
“Educate Yourself on School Claims”

Available at
www.PlanetRiskManagement.com/claims.html



SOURCE: Schinnerer & CNA
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Example #2

Q: We are a \$10 million civil engineering firm that has been selected for a large, new highway project in the Midwest. We do very little highway work. We may consider other project types in the Midwest as well.

What are the issues we should be considering?

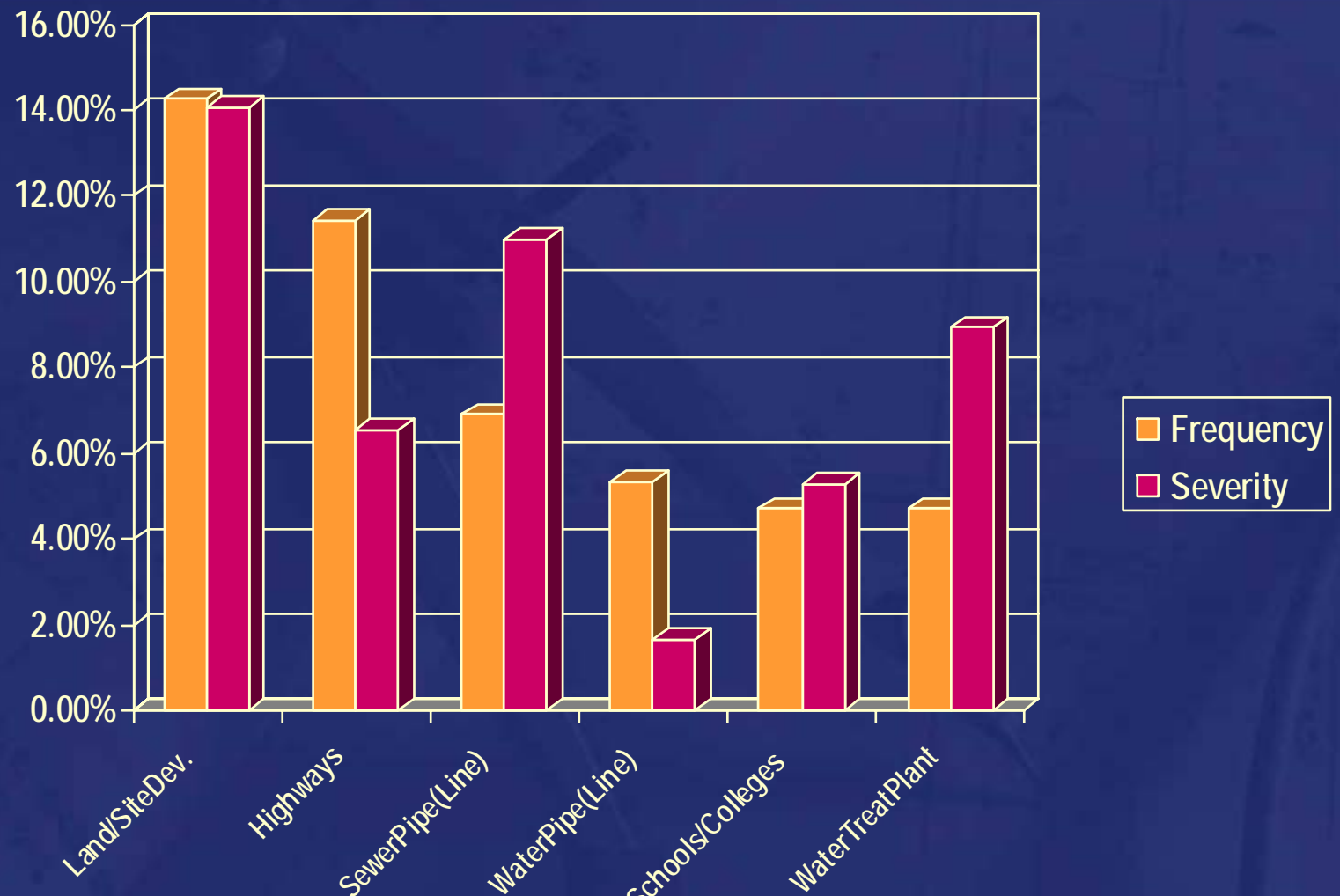


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Midwest Civil Engineer Projects

Frequency/Severity (1995 – 2004)

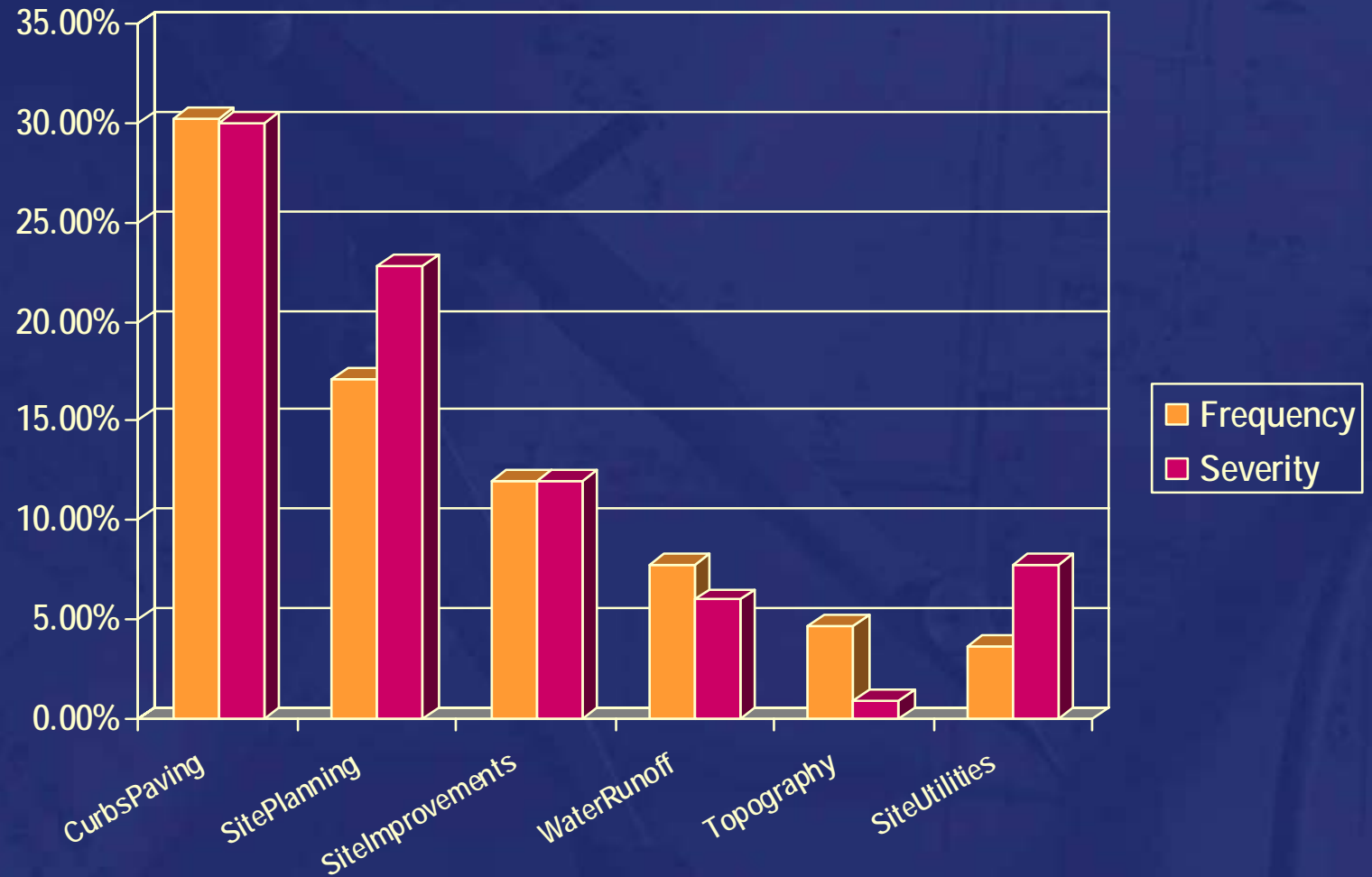


SOURCE: Schinnerer & CNA

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Highway Projects

Frequency/Severity of Highway Projects – Problem Areas (1995 – 2004)



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Conclusions

- Benchmarking and claims/case studies are valuable risk management tools.
- Examining factors such as the client, the project, and the contract, among others, can help you identify risks.
- Identifying risk is the first step in managing risk.
- Schinnerer has info to help!



SOURCE: Schinnerer & CNA

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Questions?

More Information Is Available at

www.Schinnerer.Com

Click on Risk Management on top

Click on Design Professionals on the left



SOURCE: Schinnerer & CNA

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Thank You!

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