

# How Effective Risk Management Training Can Address Potential Indicators of Risk

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When weighing the risks of design and construction professionals, professional liability underwriters typically look at indicators such as a firm's size, billings, geographic location, clients, professional services provided, and project types. Actuaries collect data on these claims indicators that help predict a firm's risk exposure. Victor conducted a study to determine what additional factors, besides those supported by actuarial data, underwriters should look at when assessing a firm's risk.

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In this study, Victor explored the broad categories of internal continuing education, business practices, and financial parameters. Though these are difficult to track from an actuarial standpoint, it was thought that these factors could be potential indicators of risk. Our study consisted of looking at firms that were classified as having acceptable or outstanding loss ratios, as well as firms with problematic loss ratios. Data was collected from in-house seminars and webinars, and in-depth interviews with the firms' senior management.

The study sheds light on the relationship between the additional underwriting factors and the loss ratios of the firms. The study found that firms in the acceptable/outstanding category demonstrated a commitment to continuing education, making sure that key principals and a large proportion of their staff attended training sessions. In addition to extensive internal training programs, firms with acceptable/outstanding loss ratios facilitated external training. The same level of commitment to training was not shown by firms with problematic loss ratios.

## Methodology

The study began by developing a consensus of what additional factors beyond those that underwriters typically use may be considered in assessing a firm's potential risk exposure. After consultation with risk managers and underwriters as to what factors may influence a firm's overall performance and risk exposure, the following broad categories were agreed upon:

- internal continuing education;
- business practices, and
- financial parameters.

The next step was verifying if any of these factors could be an indicator of a firm's potential risk. Over a two-year period, Victor's risk managers collected data on the firms that requested and were provided in-house presentations or webinars. Underwriters also identified several firms with "acceptable" to "outstanding" ten-year loss ratios, as well as several firms that had "problematic" loss ratios. Victor risk management staff

conducted personal interviews with the leadership from these firms on the topics listed above to get more information than the data collected from in-house seminars and webinars.

It is very important to note that data was collected from an extremely limited number of firms, and the firms were not diverse in terms of size, services provided, or geographical location. Also, despite our best efforts, most of the information was collected from firms that fit the acceptable/outstanding category, and only a few from the problematic category. So it is important that whatever is stated in be taken in this context. These are not actuarial conclusions, but rather suggestions of what other factors may be indicators of a firm's risk.

### **Internal Continuing Education**

Over the two years of this study, Victor's risk managers collected data on participants in in-house seminars and webinars (principals, CFOs, general counsel, project managers, staff professionals, administration staff, etc.). Risk managers also looked at the percentage of the overall staff that attended the presentation. The interviews focused on the process, commitment, and philosophy regarding a firm's approach, if any, regarding continuing education. Once all the information was collected, a comparison was done between the firms with acceptable/ outstanding loss ratios and firms with problematic loss ratios.

### **Firms in the Acceptable/Outstanding Category**

The majority of firms in the acceptable/outstanding category demonstrated a real commitment to continuing education. Most of the firms had some sort of formal continuing education plan that incorporated not only internal training but facilitated external training as well. Some firms also had plans to help new employees get acclimated to the firm's culture and procedures. Many of the firms identified, planned, and scheduled appropriate continuing education opportunities for the year. For example, one firm that was transitioning to building information modeling (BIM) had a product representative present on the technical aspects of BIM. The following month they had an attorney and an insurance representative discuss the professional liability exposures of BIM. The third month, the firm's principals presented a plan to the staff on how the firm was going to transition to BIM. Most of the firms in this group also had principals that actively participated in the planning and in-house presentations. As one risk manager noted, "Of the firm's five principals, four were in attendance, and the one that was not was out of the office on business. The four that attended not only asked questions and provided feedback, but also shared with the staff how the topic being presented applied to the firm either in a negative or positive fashion."

For those firms that had multiple offices, there was a conscious effort to have the other offices participate in the live presentation either via a video or audio connection, or later via a recording of the presentation.

Finally, many of the firms in this category had a higher percentage of their overall staff attend the presentations. Most had 30% of their staff attend, and a few had above 50% of their staff attend. The majority of firms in the "acceptable/outstanding" category demonstrated a real commitment to continuing education.

### **Firms in the Problematic Category**

Conversely, firms in the problematic category gave no indication of a commitment to continuing education. Although only a few were in the study, those that we were able to collect data from did not have a formal continuing education plan, and there seemed to be no commitment to continuing education from firms'

leadership (principals, CFOs, general counsels). Also, most of these firms had a very low percentage of their overall staff attend the presentations, often with the percentage of attendance being 10% – 20%.

## **Conclusions**

While the limited scope of this study does not allow definitive conclusions to be drawn based on the information gathered, some conclusions can be inferred from the data collected.

A commitment to a system for internal continuing education appears to be a vital component in managing risk. Firms that foster an environment of continuing education on a range of technical, business, management, and professional liability subjects generally had lower loss ratios than firms that did not demonstrate the same level of commitment to continuing education.

For architecture firms, self-evaluation is important, and this information may help you benchmark yourself against other firms. In particular, for firms that have had some costly loss experience, it may suggest changes that could be implemented to help minimize risks in the future. Implementation and a commitment to continuing education, as well as to business practices that include proper contract negotiation, review, and implementation, succession planning, and financial management, will help firms minimize their risk and provide a foundation for present and future business challenges.

Victor and CNA work with the AIA Trust to offer AIA members quality risk management coverage through the [AIA Trust Professional Liability Insurance Program](#), [Business Owners Program](#), and [Cyber Liability Insurance](#) to address the challenges that architects face today and in the future. In addition, they offer [various educational opportunities, free to AIA Members, available on the AIA Trust website](#).