

**Insurance for Engineers:  
The Basics**

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**Insurance for Engineers:  
The Basics**

Learning Goals

- Understand the basic concepts and terms found in insurance policies;
- Describe the coverage afforded by the professional liability insurance policy;
- List some of the common exclusions to coverage under a professional liability insurance policy

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**Definition of Insurance :** A Risk Transfer Mechanism to allow an insured, for a price and under certain conditions to transfer to the insurer certain types of risks inherent in the business or the professional practice of the insured.

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**Fact:** Without insurance of varying types, few, if any, construction projects could be undertaken on a prudent and financially sound basis.

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**Commercial General Liability Insurance (CGL):**  
Intended to provide coverage to the engineer for nonprofessional or general liability exposures such as slip and fall accidents in the engineer's office. CGL policies generally contain an exclusion for claims arising out of the performance of professional services

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**Professional Liability Insurance (PLI):**  
Provides coverage for claims arising out of negligent acts, errors, or omissions in the performance of professional services.

## Insurance for Engineers

**Other Insurance:**  
Workers Compensation  
Automobile Liability  
Valuable Papers  
Fiduciary Liability  
Directors and Officers  
Employee Theft/Crime  
Umbrella

## Insurance for Engineers

**A Word About Providing Insurance or Bonding Advice to A Client...**

Such services are typically excluded from the engineer's PLI

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**Coverage, Exclusions, Limits and Deductibles...**

- Insurance is a risk transfer mechanism, but it does not transfer all risk to the insurer
- Policy describes the scope of coverage and policy exclusions;
- Example – under PLI, negligent performance is covered but failure to meet the terms of an express warranty/guarantee is excluded.

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- A deductible is an amount for which the insured is liable before the insurer will pay.
- Deductibles affect the cost of insurance because they limit the number of small claims for which the insurer may be liable.
- They also encourage the insured to limit all claims by prudent risk management.

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**Limit of Liability**

- Most insurance policies have a limit of liability defined both for each claim made and for all claims under the policy period (aggregated).
- The limit of liability generally applies as excess over the deductible amount and the insurer's costs for claims (indemnity payments) and expenses (attorney fees) are generally included within the limit of liability.
- Policy coverage, exclusions, deductible and limits may be modified by an endorsement to the policy, which is an agreement to add or subtract that is attached to the policy.

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**Claims-Made Policies vs Occurrence Policies**

- Almost all professional liability insurance policies are written on a claims-made basis.
- A claims-made policy provides coverage for claims that are first made against the insured during the policy term
- Occurrence Policies provide coverage for claims arising out of occurrences that took place within the policy term regardless of when the claim is made, even if the claim is made years after the expiration of the policy term.

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### What is Covered?

**What:** "Payment of all amounts in excess of the deductible up to the Limit of Liability that you become legally obligated to pay as a result of a wrongful act occurring anywhere in the world...Defense of any claims against you seeking amounts that are payable under the terms of this policy, even if any of the allegations are groundless, false or fraudulent."

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### What is Covered?

**What:** The term "wrongful act" means a negligent act, error, or omission in the performance of professional services by you or any entity, including joint ventures, for whom you are legally liable.

## Insurance for Engineers

### What is Covered?

**What:** "Professional Services" is broadly defined as "those services that you are legally qualified to perform for others in your practice as an engineer (architect, land surveyor, landscape architect, construction manager) or as specifically defined by endorsement to this policy."

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### What is Covered?

**What:** "Claim" is defined as "a demand for money or services naming you and alleging a wrongful act."

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### What is Covered?

#### Examples of Covered Claims:

- Professional negligence in the performance of design services (errors/omissions on drawings, miscalculations, etc.)
- Personal injury or related claims arising out of performance of design or construction contract administration services
- Claims for additional time or cost to a project resulting from professional negligence of the design professional

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### What is Covered?

#### Examples of Covered Claims:

- Claims arising out of negligent recommendations or advice to clients regarding construction contract administration service issues (e.g., payments to contractors, certifications of completed work, certifications of quality of the work, etc.)
- 3<sup>rd</sup> party Claims from contractors, subcontractors, their employees, sureties, condo and home owners, lending institutions, and other 3<sup>rd</sup> party personal injury claims

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**What is Not Covered?**

**Examples of Claims Not Covered:**

- Worker's Compensation Claims
  - Intentional Acts
  - Dishonest Acts
  - Fraudulent Acts
  - Criminal Acts

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**What is Not Covered?**

**Examples of Claims Not Covered:**

- Non professional (general) liability
  - Business obligations
  - Express warranties/guarantees

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**What is Not Covered?**

**Examples of Claims Not Covered:**

- Non-negligent contractual liabilities
- Manufacture of goods and products
- The giving or the failure to give insurance or bond advice

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**Who is covered?**

**Who:** "You" means, (1) any entity listed in on the Declarations page of the policy; (2) any past or present partner, officer, director, stockholder, or employee while acting within the scope of his or her duties for an entity listed on the Declarations page of the policy; (3) a retired partner, officer, director, or employee while acting within the scope of his or her duties as a consultant for an entity listed on the Declarations.

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- Conclusions
  - Q & A
- Thank you !