

Understanding Professional Liability Step Rate Factors

By Jim Jacobsen

Professional Liability and Step Rate Factors

Step rating is one of the least understood aspects of the engineer's professional liability policy. Professional liability step rating is a system used in the insurance industry to assess the risk associated with providing professional engineering services. While it may come as a surprise to some first-time policyholders, this step rating system plays a crucial role in determining the premiums that technologists and engineering firms pay for their professional liability insurance coverage. Understanding the reasoning behind this step rating system is essential for both technologists and insurance providers.

What is Step Rate?

Insurers implement step rating to recognize that the longer an engineer is in practice, the more exposure is created. Step rating allows insurers to match the premium charged to the risk of a claim being made.

As the carrier assumes more prior acts coverage, the premium increases incrementally. This is generally done by use of "step factors" applied to the premium. In the field of engineering, this process recognizes that the longer a given technologist is in practice the more exposure is created. This occurs due to the greater number of services provided the number of clients served, and increasingly, related projects. Since each subsequent year of coverage represents a higher exposure, professional liability insurers use incremental rates or steps.

If you have never been insured, you carry no insurable (or covered) past risk exposure. With step rate, the first year of coverage is the most discounted because only one year of coverage is being provided during which a claim can be filed against you or your firm. The likelihood that a technologist will take on a project, commit an error, and have the client file a claim all during the one-year policy period is generally rare.

However, once you have carried a professional liability insurance policy for more than a year you begin to build up and carry more exposure. At the first renewal, the premium will increase due to an additional year of coverage being provided, or two years of coverage during which a claim could come against you. The premium continues to increase each year because the likelihood of having a claim increases with each additional year of coverage.

Factors That Affect Step Rating

Several factors can affect step rating and may include the number of technologists in the firm, dates of hire, areas of practice, the insurer's rates, any limits of liability, and the deductible chosen. Claims history and the frequency of lawsuits are also factors influencing technologists' professional liability step rating. Insurance providers analyze the number and severity of prior claims made against the technologist or firm to assess the likelihood of future claims.

Other factors can also affect premium increases, these include: additions to or subtractions to the firm employee roster, changes to the policy limits and deductible, the firm's areas of practice, revenues, claims history, etc., and also interest rates and yes, inflation.

Keep in mind most insurers calculate a premium for the firm's individual technologists and a premium for the firm as a whole, then combine them to get the final premium. While step rating applies to all technologists, solo technologists buying their first professional liability policy may especially notice the increases, particularly in the first three years, when the increases are typically larger and the premium is smaller. However, after the fifth year, they won't continue to see the effects, as the firm is considered mature.

What Step Rate Means For Your Engineering Business

In the end, premium increases can be very confusing for the insured, especially if the reason behind it isn't properly explained or understood. Insurance providers use step ratings to determine the appropriate premiums to charge based on the level of risk associated with providing engineering services. This relationship allows insurance providers to accurately assess the risk associated with providing technologists services and adjust the premiums accordingly. Additionally, the significance of experience and expertise in a given discipline help determine step rating and reinforces the logic behind this rating system.

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