

FAQS FOR THE EXPERIENCE RATING FACTOR

Effective April 1, 2025, upon renewal, premiums will include an Experience Rating Factor (ERF) which will drive discounts or surcharges, based on a rolling 10-year period of claims. This helpful FAQ provides additional context for understanding the Experience Rating Factor and the impact to professional liability insurance premiums.

What is changing within the Premium Calculation Formula?

Pro-Demnity is introducing an Experience Rating Factor (ERF) into the existing Premium Calculation Formula for Annual Practice professional liability insurance. This update will factor in an architectural practice's claims experience when calculating premiums. There are no other changes to the pricing model.

What is the Experience Rating Factor?

The Experience Rating Factor (ERF) is a component of the premium calculation model that reflects an architectural practice's history of claims severity. It adjusts the base premium based on the firm's ten-year loss ratio compared to the overall Pro-Demnity ten-year loss ratio.

When is the claims Experience Rating Factor (ERF) being integrated into the Premium Calculation Formula?

The Experience Rating Factor will be applied in the Premium Calculation Formula starting April 1, 2025, upon policy renewal.

How will claims experience affect my premium?

Premiums will now reflect a 10-year history of claims (paid expenses, or damages, or both). Depending on your architectural firm's claims history, you may receive discounts or surcharges on your premium for professional liability insurance.

Why is Pro-Demnity making this update?

The update to the premium calculation model aims to continue to enhance fairness and reward positive risk-awareness habits within the architectural community. It responds to the majority of architectural firms that have been claims-free or have had a minimal number of claims over their lifetime. The spirit of this change is to align premiums more closely with actual risks incurred by architectural practices, while ensuring fairness across all architectural firms.

How does this update support fairness and integrity?

Pricing fairness matters to us and to all of our clients. When claims experience is factored into the standard premium calculation, then every practice pays their fair share of premium for professional liability insurance. By factoring in individual claims experience, the Premium Calculation Model ensures that discounts and surcharges are applied using the same formula, so that premiums are priced in accordance with each architectural practice's claims history.

How does an Experience Factor Rating in the Premium Calculation Formula benefit architectural practices?

All architectural firms will benefit as premiums will reflect their actual claims experience. With claims experience factored into the standard premium calculation, every practice pays their fair share of premium for professional liability insurance. It allows the majority of practices with a positive claims history to potentially receive discounts, and gives firms with significant claims, sufficient time to plan financially for future surcharges, or to adjust their planning annually to account for severe claims within a 10-year period.

How does the Experience Rating Factor (ERF) work?

The ERF is based on the individual policyholder's ten-year loss ratio compared to Pro-Demnity's loss ratio for the same time period. Depending on this comparison, the Base Premium will be adjusted between a 3% discount and up to a 7% surcharge.

How are claims accounted for in the Experience Rating Factor (ERF) calculation?

The ERF considers the **severity** of claims, not the frequency. It reflects claim costs over a ten-year period (paid expenses, or paid damages, or both) and excludes all paid claims less than \$5,000.

What timeframe is being used for the Experience Rating Factor (ERF) calculation?

Annually, the ten-year loss ratio period will exclude the two newest years' loss ratios. For example, for the 2025 renewal year, the period used will be 2013-2022; in 2026, it will be 2014-2023, etc.

What formula is being used for the premium calculation model? What factors influence premium?

The premium calculation model is based on the architectural firm's most recent three-year average reported gross fees, with adjustments for deductibles, limits, the annual rate that is applied (up to 5%) and other factors. This model has been in place for 38 years and provides a stable and predictable premium structure.

Starting April 1, 2025, the claim experience factor will be integrated into the formula which adjusts the base premium based on the firm's ten-year loss ratio compared to the overall Pro-Demnity ten-year loss ratio. Specific details of the formula are provided in renewal documentation. There is no other change to the formula other than the inclusion of the ERF.

Once gross fees exceed either \$499,999 or \$1M, new mandatory limits are applicable, resulting in

a higher premium for these established coverage limits. Please refer to [Architects Insuring Architects](#) for more detail.

What should policyholders do in the event of a claim?

Architectural practices are reminded of their obligation as policyholders to notify Pro-Demnity of potential claims promptly so that we can act immediately to defend and protect your firm from any allegations of error, omission, or negligence. Policyholders will find this obligation outlined in their policy and are encouraged to visit the [Report a Claim](#) page on our website; e-mail us at claims@prodemnity.com; or call us at 416-386-1770 x1.

What can policyholders do to mitigate the risk of claims?

While claims cannot be entirely avoided, architectural practices can mitigate and manage risks. For starters, read:

1. your Professional Liability Insurance Policy together with the Technical Requirements Schedule,
2. risk management articles and bulletins published on our website
3. Speak with an Expert for personalized guidance.

What is happening to the Claims Expense Contribution (CEC)?

Policyholders who are currently subject to the Claims Expense Contribution (CEC), will remain in this program for the foreseeable future. The CEC is a deductible that was introduced in late 2019,

as a means of recovering claims costs from a small handful of firms whose loss ratios significantly exceeded their premiums due to frequent and severe claims. These firms are expected to pay their CEC invoices when they are issued. For firms who have paid a CEC, their ERF will be adjusted accordingly within the premium calculation to bring them into an equitable standing.

Starting April 1, 2025, the CEC will be discontinued for any new claims, as the Experience Rating Factor (ERF) within the Premium Calculation Formula will ensure that premiums are always higher for firms with frequent and severe claims.

What is my firm's Experience Rating Factor (ERF)?

Starting April 1, 2025, upon renewal, your renewal documentation will include details of your firm's Experience Rating Factor and how it affects your premium calculation. The ERF will be integrated into your invoice total to ensure transparency and understanding.

What is the impact on my premium?

The impact on your premium depends on your firm's claims history. Firms with a positive claim history may see a reduction, while those with higher claim severity will experience an increase. Your Experience Rating Factor will be reflected in your invoice total and your renewal package will have further information.

Does the Experience Rating Factor get factored into the premium calculation formula for Spike-ups or Increased Limits?

Yes, the Experience Factor is factored into the premium calculation model for renewals, spike-ups and increased limits.

How many years must I be claims-free in order to see a discount?

To receive a discount, your firm must have a favorable ten-year loss ratio as compared with Pro-Demnity's loss ratio for the same period of time. The severity and cost of claims are considered, not the number of claims, nor paid claims less than \$5,000.

What is the discount if my firm's loss ratio is better than Pro-Demnity's?

The discount will range between 0% and 3% off the base premium for firms with a favorable claims history.

What is the surcharge if my firm's loss ratio is worse than Pro-Demnity's?

The surcharge can range between 0% and 7%, added to the base premium for firms with a less favorable claims history.

Will there continue to be annual rate increases? Are these different from premium increases?

Yes. Annually, a rating factor, also known as the rate increase is applied equitably across all policyholders – regardless of claims experience – and is integrated into the premium calculation formula.

Architectural Practices are encouraged to budget for annual rate increases and plan their forecasting around a 5% rate increase each year, regardless of whether a discount or surcharge applies in any given renewal period.

The rate increase from April 1, 2024, to March 31, 2025, is **3%**. The planned rate increase starting April 1, 2025, until March 31, 2026, is **4%**.

How does Pro-Demnity fulfil its mandate and ensure that there are sufficient funds to pay for claims?

Pro-Demnity retains sufficient capital as required by our regulator, the Financial Services Regulatory Authority, to fulfill our mandate to architects. Capital is generated through premiums, investments, and cost/expense containment, ensuring our viability and sustainability today and into the future.

My firm is relatively new and does not have a 10-year claims history, but we have had a claim. How will my firm's ERF be impacted in the event of a claim?

In the event an architectural firm does not have a 10-year history of claims experience, the premium surcharge will be prorated.

What is the impact of a current litigated claim on premium in the future?

That will not be known until at least two years after the claim is made. In addition, each firm's ERF will be benchmarked against Pro-Demnity's loss ratio at that time. The surcharge will remain within the range of 0% and 7%, providing the architectural firm with up to two years to budget and plan for the impact of the claim to their future premium and book of business.

It is also important to remember that the surcharge is applied to the first \$250 K of coverage which is Pro-Demnity's *retained* premium and does not apply to higher levels of coverage which are *ceded* to reinsurance.

Can all claims be litigated by Pro-Demnity's in-house legal counsel so that the impact to future premiums for every firm is minimized?

Since 2022, Pro-Demnity has been growing its in-house legal team (now up to four), and overall expenses have been decreasing as a result, particularly as more non-litigated claims are brought in-house. Pro-Demnity follows strict litigation guidelines and reserves the right to select and assign

the best legal counsel to achieve success on behalf of the architectural practice. We utilize a combination of internal and external lawyers for this purpose based on our litigation guidelines as well as the nature and complexity of the claim.

Will a claims settlement decrease the impact to my future insurance premiums?

Yes, it will. Typically, the majority of claims are settled out of court, as going to trial always carries an element of litigation risk – both for the plaintiff and the defendant (the architect).

Pro-Demnity retains the right to make the decision to proceed to trial or settle, depending on the merits of a case, and likelihood of a win. It is sometimes more prudent, and in the architectural firm's best interest – both reputationally and economically – for the claim to be settled privately instead of going to trial, which becomes a matter of public record.

Given the impact of costly litigation on future premiums as well as the public nature of trials, settling a claim can be a successful resolution.

How frequently are the pricing model and premium calculation formula reviewed?

The premium calculation formula and our pricing model more generally, are reviewed regularly and at a minimum every two years to ensure these remain fair and reflective of current risk factors.

What other criteria might influence Pro-Demnity to make changes to the pricing model or premium calculation formula in the future?

Future changes may be influenced by industry trends, sector risks, regulatory requirements, and ongoing policyholder feedback.

What is claims-made insurance? How does the premium calculation formula support this type of insurance?

Claims-made insurance covers claims made during the policy period, regardless of when the incident occurred. The premium calculation formula supports this by reflecting the firm's claims history and encouraging proactive risk management. Read more about [Claims-made Insurance](#).

What is Pro-Demnity's commitment to policyholders?

Pro-Demnity is committed to fair and equitable pricing and providing high-quality professional liability insurance solutions at the best possible premium for architects. We understand architectural risk and premiums reflect the realities and potential risks of running and maintaining an architectural practice.

What benefits are included in the premium that architectural practices pay for professional liability insurance?

Your premium includes:

- Best-in-class professional liability insurance coverages
- Access to Risk Education, including an online library of risk-related articles and resources such as [ARM/r](#) (The Architectural Risk Management Assessment & Report)
- Access to complimentary and confidential Risk Services for consultations
- Supportive, helpful client service from all members of the Pro-Demnity team
- Robust, proactive legal defense in the event of a claim

- Claims reporting and management support
- Flexible payment options with generous installment terms
- Eligibility in our Retirement from Practice Program when you are ready to surrender your Certificate of Practice.

What is the Underwriting Project? How many phases are there?

The Underwriting Project is a four-phased initiative that began in 2023:

- **Phase 1 (2023/2024):** Update to Policy Wordings. *(Completed)*
- **Phase 2 (2024/2025):** Re-evaluation of the Premium Calculation Model, including the ERF. *(Completed)*
- **Phase 3 (2025):** Focus on underwriting processes, workflows, and service standards. *(In progress)*
- **Phase 4 (2025/2026):** Implementation of technology and digital solutions to simplify annual renewals for policyholders. *(In progress)*

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