A Message from the CEO

The 2019-20 policy year was both a year of change and a year of continuity for Pro-Demnity Insurance Company.

On the change side of the equation, I took over as CEO in May from the amazing Byron Treves, who had guided the company (and, before that, the OAA Indemnity Plan) since the late 1980s, and who is staying on as Executive Advisor until July of this year.

The legendary David Croft stepped out of the VP Claims role and into the role of Executive Claims Advisor in preparation for his well-earned retirement at the end of 2020. Long-serving Quality Assurance Manager Julia Mo left Pro-Demnity after more than 30 years to return to school. We added new staff too: a second lawyer, Basil, and a legal assistant, Parth, joined the Claims and Litigation team led by our VP Legal, Rosemarie; Gavin and Sariha were a welcome addition to the Underwriting team, led by Chief Underwriter, Andrea; and early in the 2020 calendar year, Iliana joined as VP Marketing and Communications.

Despite these staff changes, continuity of service to our policyholders was a key focus for us. Our Claims Managers (David & Sal, both architects), together with the Claims & Litigation team, manage a portfolio of 561 open claims (including more than 188 new claims this past year). John, our dedicated VP Practice Risk Management and his team continue to develop and deliver practice risk management workshops in addition to providing practice advice and guidance addressing contracts and practical management of the risks of being an architect. Diane, VP of Finance, and the Finance team keep us on the road to improved financial stability; Margarette and the Corporate team ensure we stay organized and focused on our journey.

With the world being unpredictable, we know that you need us now more than ever before. We asked about what you thought of us last summer and are continuing to follow-up on that valuable feedback to improve our service to you. We are working on easier and more convenient ways for you to pay. Our communications tools and, later this year, our website, are being updated and upgraded. In every area of the company, we are working to ensure your Plan, with a storied past and an evolving present, continues to face a bright future.

“With the world being unpredictable, we know that you need us now more than ever before.”

Success requires the work of many groups. Our Board of Directors continues to provide guidance and governance, asking us tough questions to make sure we never lapse into complacency. Our Employees continue to exemplify commitment and dedication. And you, our Policyholders both individually and collectively, provide us with the feedback, the commitment, and resources we need so that we can, in turn, defend and support your practice and your profession in these uncertain times.

Thank you for your continued confidence in Pro-Demnity and putting your trust in us, today and into the future.

Bruce H. Palmer  President & CEO
Pro-Demnity Insurance Company
Claims Expenses and Damages continue their upward trend in these litigious times. In order to ensure we have sufficient capital to vigorously defend architects now and into the future, Pro-Demnity has been slowly increasing rates. Despite dramatic changes in the professional liability insurance and reinsurance markets, the rate increase for the 2020-2021 year will remain at 5%.* This is despite dramatic rate increases – 10% or more – being experienced by other professionals.

We understand that rate increases present a challenge for the entire profession.

We are working to reduce the rate of increase in claims and operating costs, which will translate into lower rate increases in the future. Some of the measures we have taken include:

- **Capping expense fees when there is another insurer on the excess layer of coverage.** In the past, these insurers got a free ride from Pro-Demnity, as we paid all the expenses on claim allegations far in excess of our policy limits. You – all the architects in Ontario – paid to defend our policyholder and to help these for-profit insurers who paid nothing toward supporting you.

- **Claims Expense Contribution.** This new policy feature introduces a deductible on expenses – which represent about 70% of all claims costs – to the most frequently claiming practices. It is not our intention to ever penalize architects for having claims – that is an inherent risk of the profession – but some practices have significantly more claims than average and we believe it is fair for all that they bear an increased portion of this cost.

- **In-house Lawyers.** We now have two internal lawyers handling architect claims and lawsuits. This results in lower costs and tighter control, ultimately reducing the cost to you.

- **Litigation Management.** We continue to also use our external panel of lawyers whenever possible, giving policyholders access to the combined experience of some of the best architectural defence lawyers in Ontario at negotiated rates … again, reducing your costs.

  Pro-Demnity operates on behalf of architects, and only architects. We are 100% owned by the OAA, and we are committed to helping you survive and thrive in these tumultuous, innovative times.

As insurance claims increase in number, dollar amount and attendant legal costs, many insurers are experiencing “negative underwriting profit margins.” In plain English: Insurers, are paying out more money than they are bringing in from insurance operations. We are all hoping to see an end to rate increases. Unfortunately, many economic and social factors prevent this from happening at this time. Although we are not profit-driven it is essential that we maintain the financial stability needed to ensure we are there for you, no matter what.

* Premium = rate x 3-year revenue average. For example, if 3-year average revenue increases by 5% and the rate increases by 5%, the premium increase will be 10.25%, all else being equal.

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**Affordable Insurance**

Ultimately, insurance is a necessary cost of doing business and its costs reflect the risks of being an architectural practice in our current environment.

Rates continue to rise despite our actions to help lower costs. And, given the way insurance premiums are calculated – using the average revenue for the past three years – some practices are finding current year revenues shrinking as overall premiums continue to increase. Using the three-year average helps while firms are growing but hurts if revenues shrink.

**There are some things you can do to help,** either by reducing costs, spreading them out, or by finding other sources of support that free up some cashflow for insurance.

- **Increasing your deductible will save you money.** There is a risk involved, since if you have a claim you will have to pay a larger portion of the cost. Since we do not charge you your deductible until the claim is closed, this step will at least save cash now and give you time before having to pay the deductible in the future. In addition, Pro-Demnity’s Disappearing Deductible (See “Deductible” section of Policy 1 or part 11 of Endorsement 1 to Policy 4) means you may pay a reduced deductible if your claim settles below $250,000.

- **Pay in instalments.** You have the option to pay in one, two, four, or six instalments. Again, this helps your cash flow.
• Look for government support during the current crisis. Programs by both federal and provincial governments are being announced and updated regularly. Check out their websites for assistance in subsidizing wages and other potentially beneficial support programs. None of these will reduce your insurance costs, but they may help your cash flow through these tough times.

Some policyholders have asked about reducing liability limits. Subject to the mandatory minimums established by the OAA, this is always an option. We caution that this move involves significant risk:
• The claim made against you tomorrow is subject to the limits of your insurance tomorrow. If you reduce them today, you may regret not having more coverage in place.
• Clients often ask for minimum liability limits in excess of mandatory limits. Not getting a job because you saved money on your insurance may not be a good business decision.
• Claim allegation amounts are often unrelated to the size of your fees. (Even if you were smart enough to limit your liability under contract, that only limits the claim from your client, not others). Even small projects can cause large losses, especially if there is a personal injury, damage to adjacent properties, multiple parties involved, etc. We have had architects sued for millions on jobs where the fees were in the thousands.

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**Retirement from Practice Coverage**

In a nutshell, Retirement from Practice Coverage – a feature of our policies for the past 31 years – is provided without charge to all architects who have been insured by Pro-Demnity for the two previous years and wish to withdraw from their careers at any age, without losing insurance coverage. If a new claim arises from old work, they are protected. Further, to protect a policyholder’s estate, coverage exceeds the member’s lifespan by six years.

Retirement from Practice Coverage is a complimentary and valuable benefit, requiring no additional fees – and it will live longer than you. No other insurance policy (professional liability or otherwise) provides this coverage.

If you’re ready to hang up your construction hat, refer to the Retirement from Practice Coverage policy.

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**Adjudicator Coverage**

This coverage is available under the Ontario Construction Act, and for those who wish to purchase it, meeting the $5 million E&O requirement is simple and more cost-effective.

Since the Adjudicator coverage is personal coverage only for the individuals authorized as Adjudicators, the coverage is added as an endorsement to the practice policy with coverage restricted to the specific names listed on the endorsement.

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**Computer Network Security Liability Extension**

Computer Network Security Liability coverage helps to respond to claims for which you are legally liable to pay arising from the performance of professional and non-professional services by you, as a result of an error, omission or negligent act which results in one or more of the following scenarios (some conditions apply):
• the denial of access to an authorised third party to your computer systems;
• a failure to prevent unauthorised access to your computer systems that results in the destruction, deletion or corruption of data;
• theft of data or denial of service attacks against Internet sites or computers; or,
• a failure to prevent the transmission of malicious code to third party computers and systems.

For this insurance to respond to claims, you must install or apply in your servers, computers or other related devices and components, such available software product updates and releases and security related software patches, and further implement a reasonable program of internal network computer
security for your employees or other authorised persons who access your computer systems. You may be expected to be able to show proof that you are conforming to these requirements.

This coverage is not a feature of standard liability policies, so Pro-Demnity offers coverage as an extension to its standard policy. Refer to the Computer Network Security Liability policy wording on our website.

### Spike-Up Coverage

This coverage allows you to increase your liability limits for a specific project without having to increase your overall limits. We are looking at ways to simplify the process, so that it is quicker and easier for you to get accurate costing when you are putting an RFP response together.

Access the Spike-Up coverage application form for your next project. For additional information, please e-mail us at mail@prodemnity.com.

### Pro-Demnity in Four Figures

**Net Profit.** Pro-Demnity operates very much like a mutual insurer, putting the protection and interests of its policyholders first. In order to support the profession as it grows over time, we need to grow our capital strength so that we stay compliant with insurance regulations and the requirements of the Financial Services Regulatory Authority (FSRA) of Ontario.

Since we do not have shares to sell on the market, we increase capital by keeping retained earnings. Although Net Profits are not the driver of our business, they are important to our long-term stability and they ensure we are here to defend you.

Over the past five years, our cumulative Net Profit is ($94,270). In other words, we have not quite broken even on a cumulative basis since 2015.

**Claims.** Claims are at the core of the promise we make to architects: to defend you against allegations that you did something (or failed to do something) in the fulfillment of your professional duties that caused damage. Generally, we spend about 70% of our claims costs on defending and only 30% on damages.

**Expenses** consist of the costs of lawyers, expert witnesses, document search, preparation and management (the hundreds of thousands of documents – which include all those e-mails we all write – end up with the lawyers as “evidence” in any claim). This is what it costs to defend you, even if you are completely not at fault.

**Damages** are the costs we pay for any damage caused by your alleged errors or omissions. Sometimes these are court-ordered damages, but more often they are negotiated settlements.
In managing our claims, we have two categories from our claims management perspective: notification – usually from a policyholder – that there is a circumstance that is creating a potential issue, and an actual lawsuit or legal action.

This first group – we call them “non-litigated claims” – are the early notice signals that often allow us to step in and help an architect. The second group – “litigated claims” – are when the lawyers get involved.

The line between the two is somewhat artificial and is often blurred: increasingly, we work to avoid any litigation even starting, and we will, when it makes sense, settle before litigation commences.

Although the number of litigated claims is not up significantly, our legal teams are getting involved earlier in the process to try to improve the ultimate outcome.

Thank you for your continued confidence in Pro-Demnity and putting your trust in us, today and into the future.

About Pro-Demnity

Since 1987, Pro-Demnity Insurance Company provides the mandatory professional liability insurance to Ontario architects in accordance with the Architects Act.

Although Pro-Demnity is a wholly owned subsidiary of the Ontario Association of Architects (OAA), it operates independently with its own Board of Directors. As an insurance company, it is regulated by the Financial Services Regulatory Authority of Ontario.

In addition to its mandatory role, Pro-Demnity provides to Ontario architects:
- Increased limits up to $10,250,000;
- Spike-up coverage;
- A Retirement from Practice Program;
- Risk management services offering advice and support to individual practices and publication on current topics of concern for its insured practices.

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