

## RATES, INFLATION AND PREMIUMS

Over these last many years, Pro-Demnity has consistently shared that the costs it faces continue to climb. Several trends over the last 10 years have increased architects' exposure over longer periods of time, and we anticipate these trends to persist into the foreseeable future.

As a reminder, your professional liability program serves two purposes:

1. To protect you, our policyholder. As the architects' professional, trusted ally, Pro-Demnity *guarantees* that we will protect and defend architects in accordance with their respective insurance policies. To do so, we need to ensure we maintain the fiscal strength and capacity to meet these requirements.
2. As a wholly owned subsidiary of the OAA, we were created to re-assure the public that architectural firms have the financial resources, through their insurance policy, to fulfill their duty of care to clients and society when there are allegations of error, omission or negligence.

By being fiscally responsible, diligent in our governance and helpful in our service to you, Pro-Demnity is upholding our promise to provide architectural practices with an alliance for protection.

## 2022 FISCAL SUMMARY: CONTEXT FOR 2023 RATES

Pro-Demnity depends upon its capital base to fulfil its fiduciary obligations and to ensure it has the resources to honour the promise we make when we issue our policies: to protect and defend architects against claims and allegations made against them. Although we are not a profit-maximizing company, we must generate sufficient capital to ensure financial strength and viability.

To improve our capital position, we look to a combination of increasing revenues and controlling expenses. We've been working proactively to control our costs and keep the non-claims portion of operating expenses growing slower than our revenues. In addition, we have also been resolute in controlling claims costs, using internal lawyers and improved processes to do so.

In many ways, we had a strong operational year in 2022, the first in a decade, however, our capital grew by only \$585,000. This is not a sustainable level of capital growth considering current economic, market and financial conditions. Unprecedented volatility in the investment market diminished operational profits and lessened our overall net income. The impact of the volatile investment market to the business would have been dramatically worse, had Pro-Demnity not

begun its efforts toward operational stability.

To ensure we have sufficient capital – including dealing with levels of inflation that have not been seen for decades, our traditional rate increases will not be sufficient.

For 2023 we will:

- a. increase rates by 5% to address expected increases in operating and claims costs; and,
- b. implement an inflationary increase of up to 4% to what we expect to be a temporary impact of inflation.

We are taking this two-pronged approach to ensure that the temporary impact of a high inflation environment does not get calculated into our current base rates that will become the foundation of future rates.

## **RATE INCREASE REMAINS STEADY AT 5%**

For 2023 Pro-Demnity is keeping the rate increase at 5%, consistent with that of the last four years. This predictable increase enables architects to budget, plan and forecast with greater confidence and reliability. The rate covers normal increases to running our business, including both claims and operating expenses, is inclusive of typical inflation, and is validated annually.

## **ADDITIONAL INFLATION ADJUSTMENT OF UP TO 4%**

While inflation remains volatile and well above typical levels, we are introducing **an inflation adjustment of up to 4%**, applied to reported fees in the calculation of premiums for the 2023-2024 underwriting year, to better match our basis of premium calculation with our expected claims costs in the future, arising from past work. **Assuming no change in average fees, most firms will experience an up to 9% premium increase upon renewal inclusive of both the rate increase and inflation adjustment.**

## **CALCULATING PREMIUM – A TRANSPARENT, EQUITABLE FORMULA**

Understanding how your professional liability insurance premium is calculated can help you to manage your business and plan or forecast with greater confidence.

The formula is very simple and is applied equitably across all architectural practices.

As an illustration only, imagine a practice had annual reported fees of \$200,000, and purchased

the minimum mandatory coverage of \$250,000. Assume that there have been the same fees earned each of the past four years.

Fees reported for 2020 renewal:	\$200,000	
Fees reported for 2021 renewal:	\$200,000	
Fees reported for 2022 renewal:	\$200,000	
Fees reported for 2023 renewal:		\$200,000

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**3-year average revenue (2020 - 2022): \$200,000**

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***Last Year (2022):***

Premium = rate x 3-year revenue (i.e., Gross Fees) average.

For simplicity, assume that the rate charged for this practice in 2022 was exactly 4.0%. This means they would have paid [(3-year average fees) x (rate)] = \$200,000 x 4% = \$8,000.00 as a premium in 2022.

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.

***This Year (2023) with inflation adjustment:***

This year's formula is: Premium = rate x inflation adjustment x 3-year revenue (i.e., Gross Fees) average.

In 2023, the rate will increase by 5%, so it is now  $(4.0 \times 1.05) = 4.2\%$ . The three-year average fees will have a 4% inflationary factor applied, so the three-year average will be  $(\$200,000 \times 1.04) = \$208,000$ . This means they will have paid [(3-year average fees) x (rate)] =  $\$208,000 \times 4.2\% = \$8,736.00$  as a premium in 2023. This new premium reflects our rate increase of 5% and the impact of inflation of 4%. The difference in premium between 2022 and 2023 is an increase of \$736.

Should you require a more detailed explanation specific to your firm, please don't hesitate to reach out to our Underwriting team after you've reviewed your renewal.

## BEING YOUR ALLY

We take being your professional, trusted ally very seriously. No one understands the risks that architects face better than Pro-Demnity. We actively share our knowledge and expertise with you and encourage you to prioritize your ongoing education of these risks. Even if your firm has never had a claim to date, our experience suggests that no firm – no matter their size, location, length of time in business, reputation, or expertise – is immune from being named in a claim.

Pro-Demnity operates on behalf of architects, and only architects. Our unwavering commitment to Ontario's 1,580+ architectural practices is to ensure that they, and your firm, will always be protected and defended in the event of allegations of error, omission or negligence.

We have heard from our clients that transparency regarding general rate communications is of utmost importance to you, and we genuinely hope you find the information in this update for 2023 to be of value to you. Should you have any questions about rates, premiums, or inflation, please do contact me at [brucep@prodemnity.com](mailto:brucep@prodemnity.com) or on my direct line at 437-747-4576.

Sincerely,

Bruce H. Palmer  
President and CEO