



AN ECONOMIC OUTLOOK FOR DESIGN PROFESSIONALS And Managing Risk

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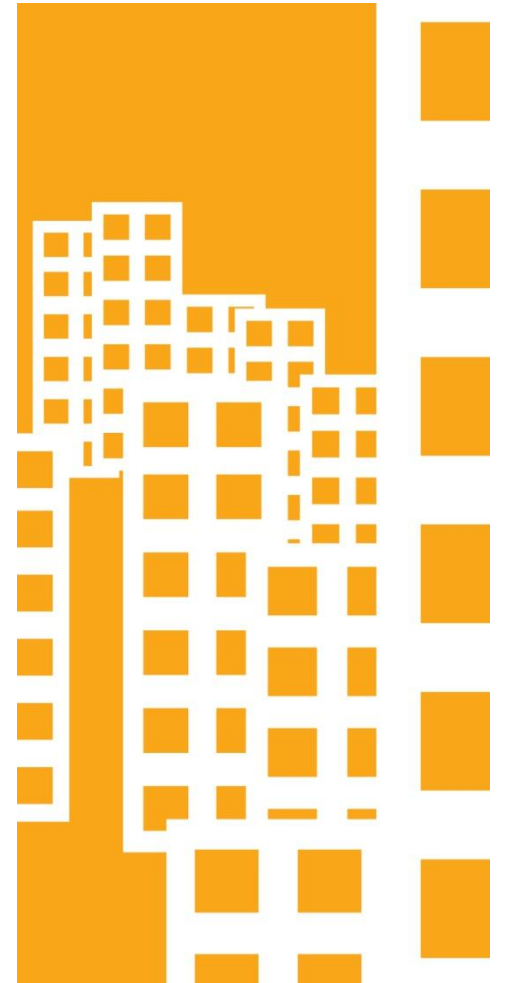
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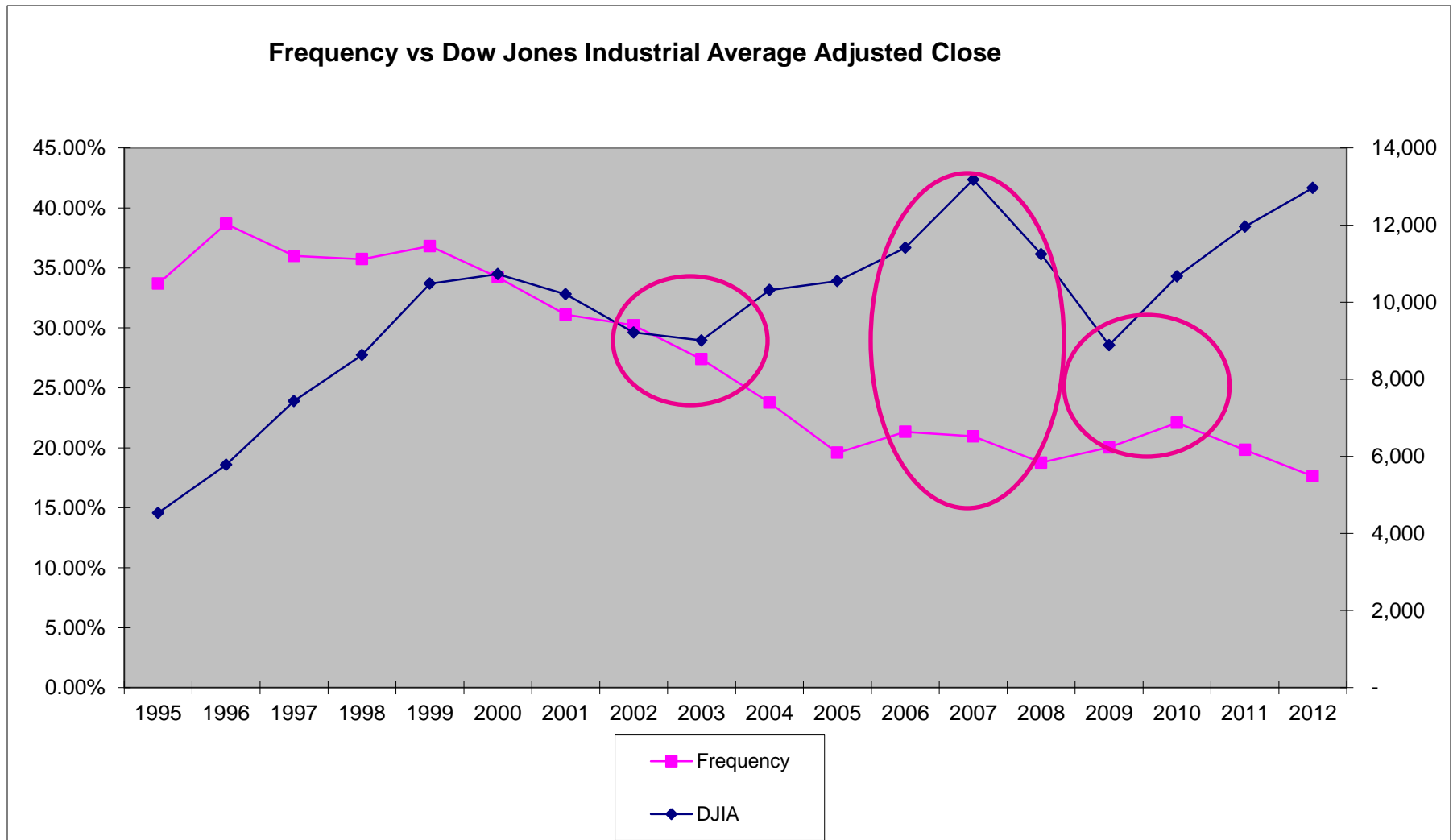
Learning Objectives



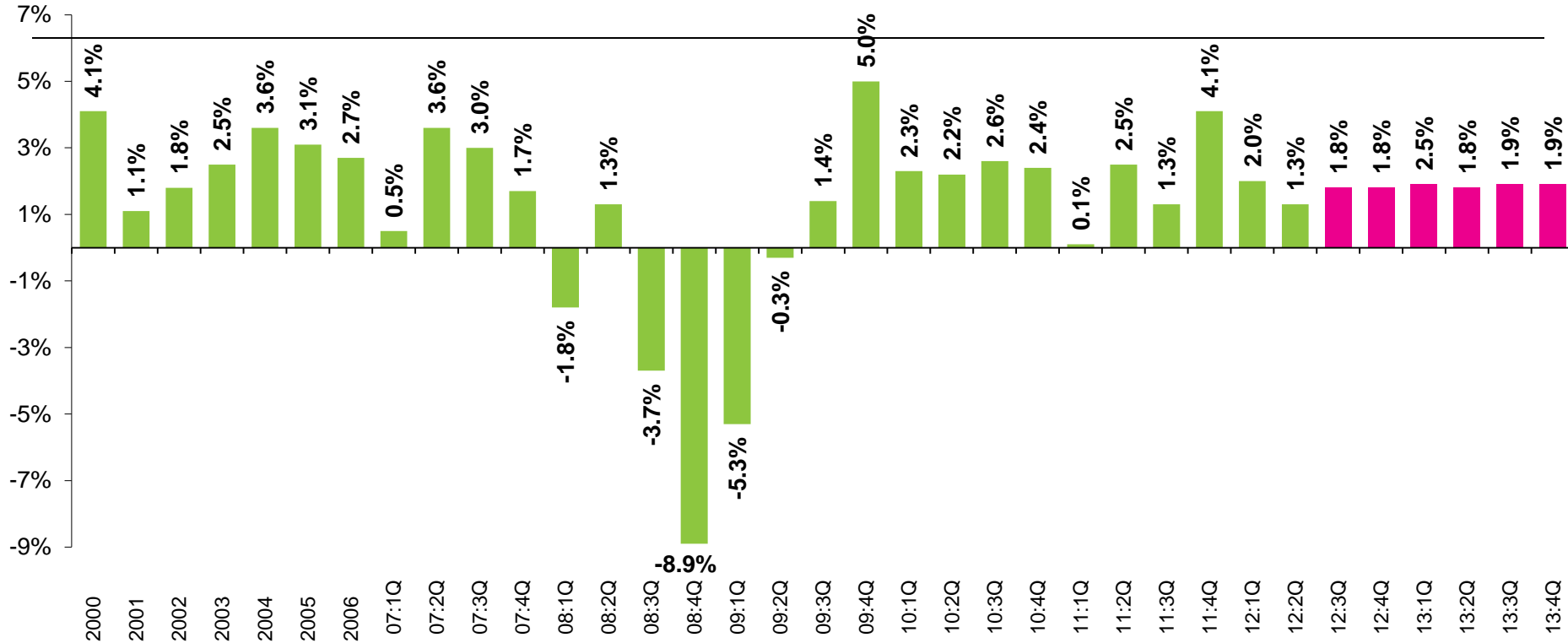
- Understanding challenges and risks to design professionals in current economy
- Identify recent trends in claims activity for A/Es
- Review risk management and best practices in light of current economic conditions and litigation environment
- Acquire strategies to mitigate risk associated with client and project selection



So what is the trend for this type of economic/industry cycle for A/Es?



US Real GDP Growth*



Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 3/13; Insurance Information Institute

3 Cs – version 2013



CAPITAL

- Economy showing resilience: most notably corporate profits; US labor efficiency has aided greatly
- DJIA at 15,000+; credit spreads improving

CREDIT

- SBA – loan volume has increased last 7 (seven) quarters
- Treasury paying down debt – first time in 6 years

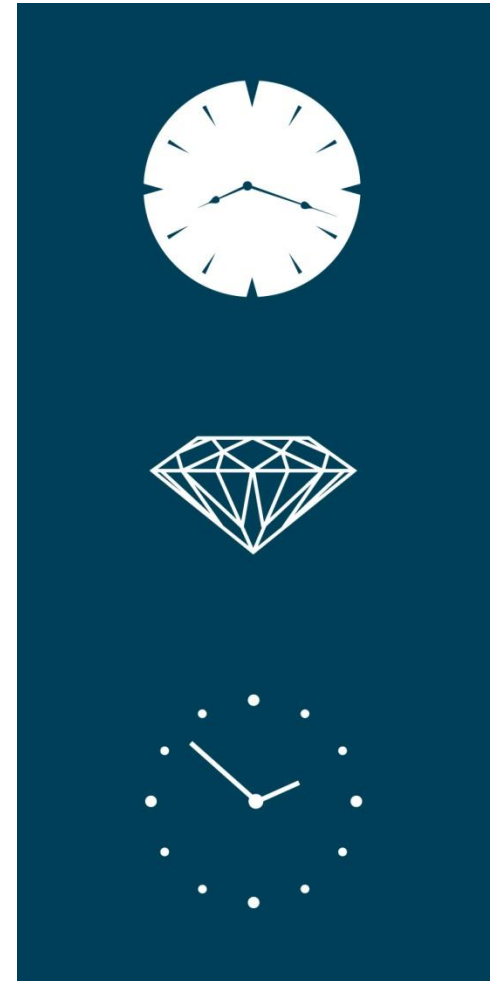
CONFIDENCE

- Consumer confidence increased 6.2 pts in April
- VIX CBOE Volatility Index – Fear Factor – measures implied volatility in the S&P. The higher the value, the more volatile the market. Trending in the low 14's. Long term average at 19. (During height of crisis = 79)

Impact for A/Es – Early signs/indicators



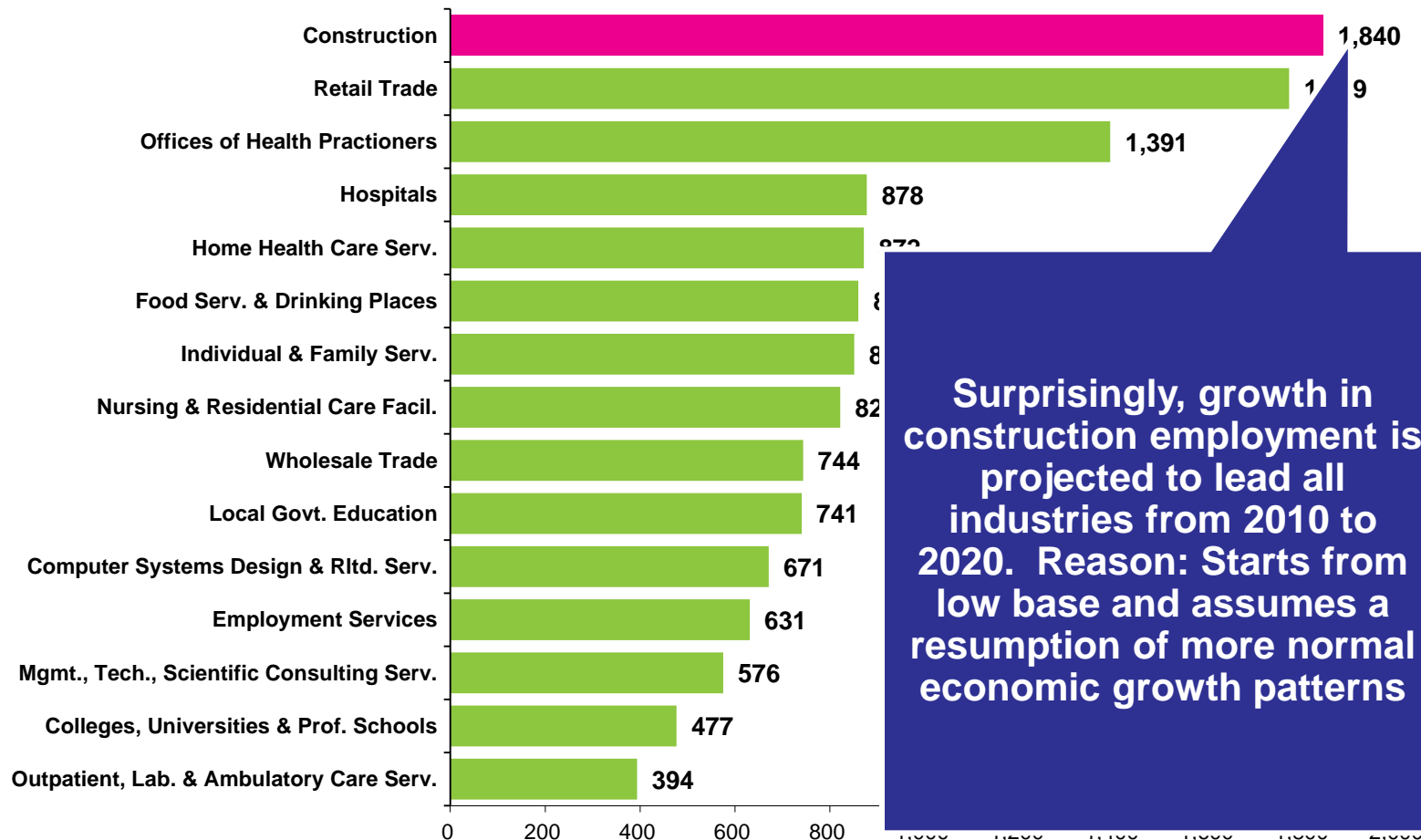
- ABI above 50 (March 2013 @ 51.9)
 - New projects inquiry remain above 60.1
- BLS – 27k more employed A/Es Y-OY
- Commercial Market:
 - Institutional and Industrial seeing some gains
- Residential Market – improving particularly MFH
- Ability to secure financing and weak economy driving project commencement decisions



Top 15 Industries with Largest Projected Growth in Wage and Salary Employment: 2010-2020P



(Thousands)

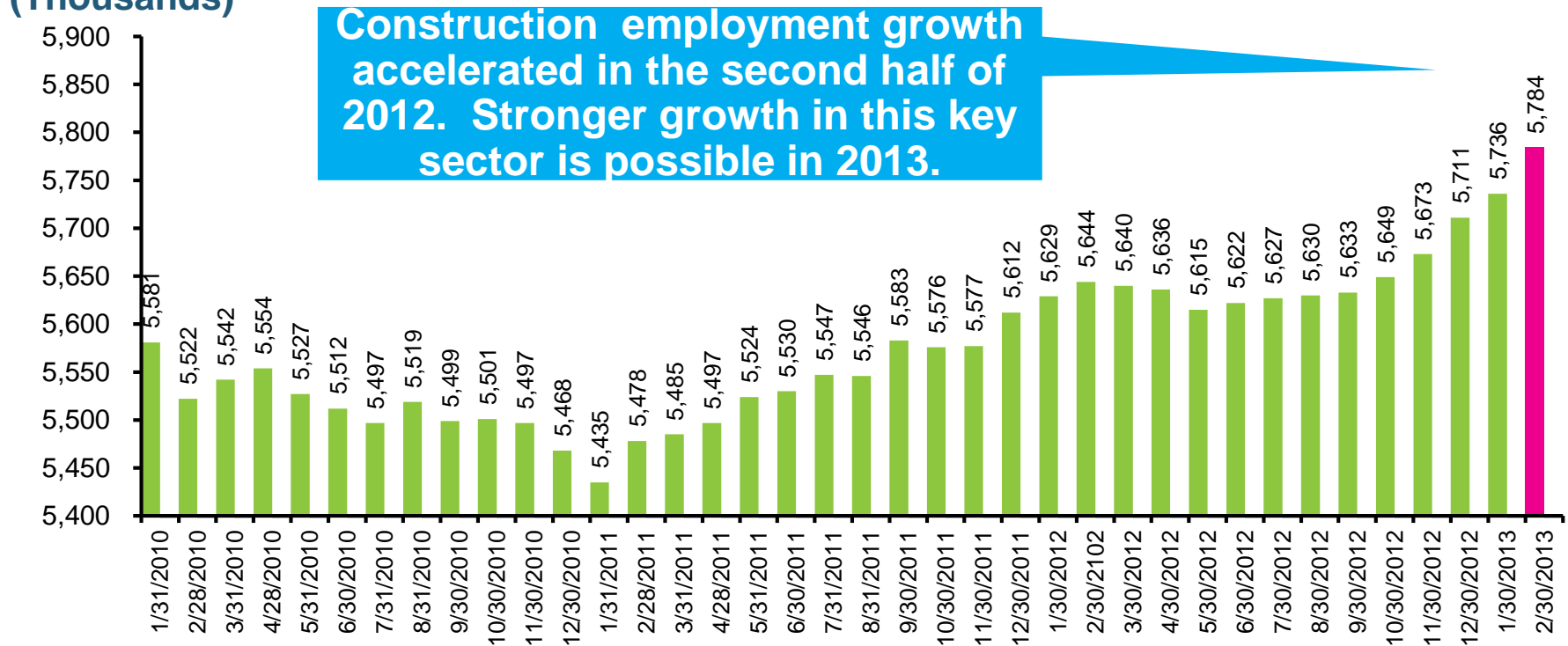


Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Construction Employment, Jan. 2010—February 2013*



(Thousands)



*Seasonally adjusted

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Construction Employment, Jan. 2003–Feb. 2013

(Thousands)



The Construction Sector Could Be a Growth Leader in 2013 and 2014 as the Housing Market and Private Investment Recover.

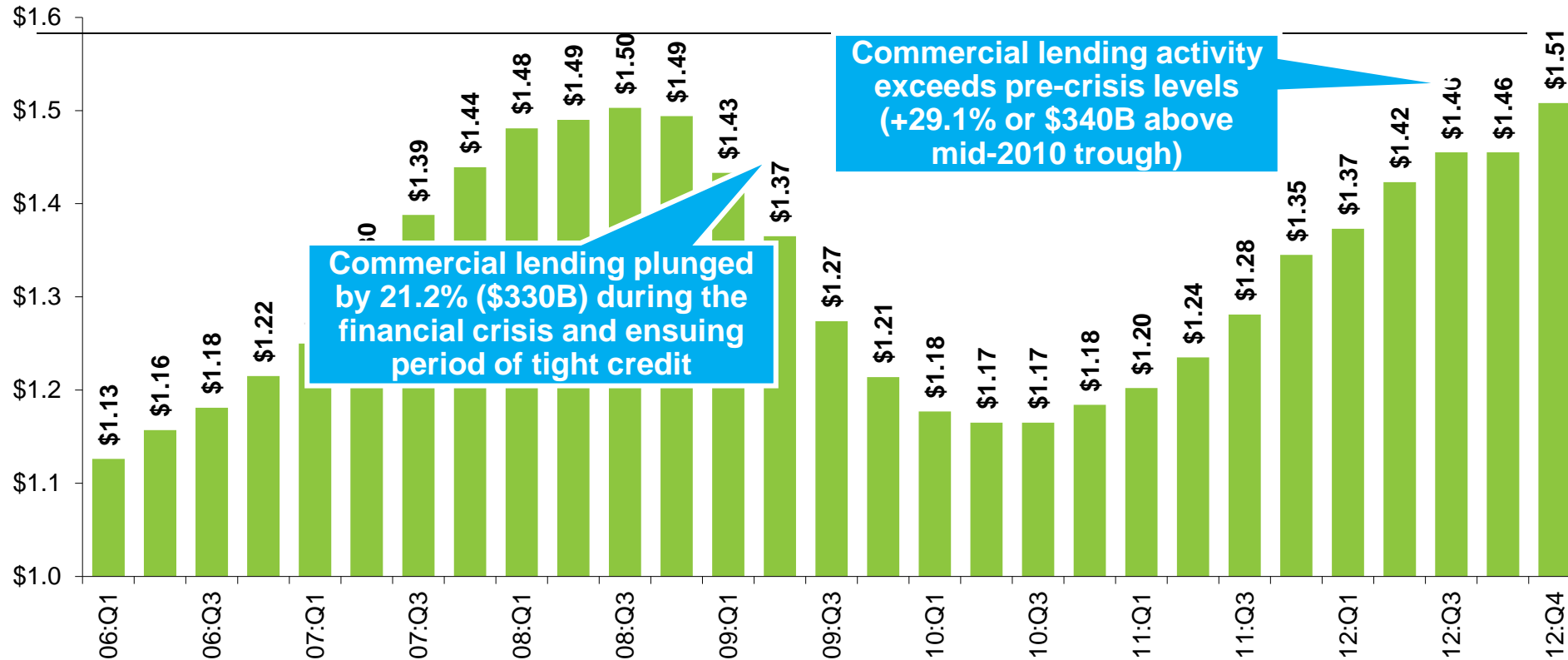
Note: Recession indicated by gray shaded column

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2012:Q4*



\$Trillions

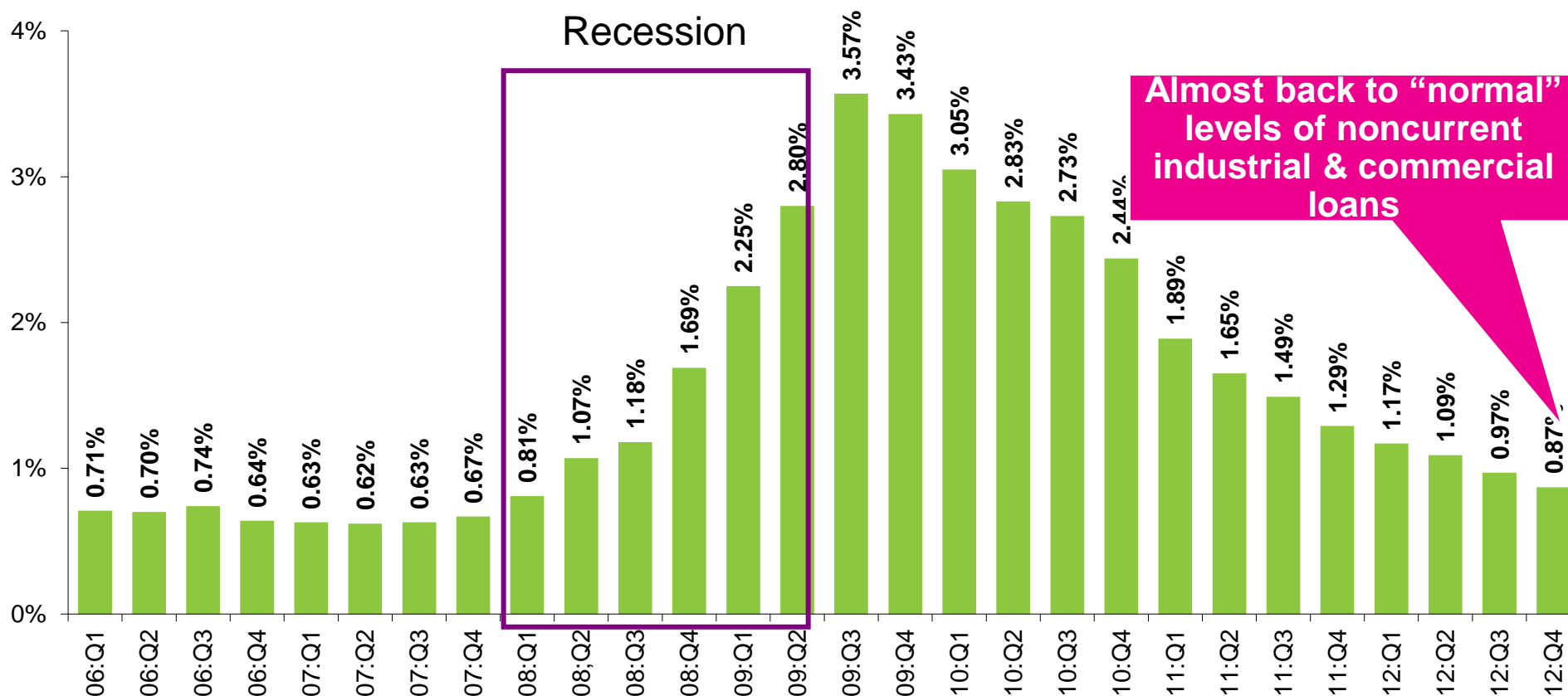


Outstanding Commercial Loan Volume Has Been Growing for Over Two Years and Is Now Nearly Back to Early Recession Levels.

*Latest data as of 3/18/2013.

Source: FDIC (Loan Performance spreadsheet); Insurance Information Institute.

Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2012:Q4*



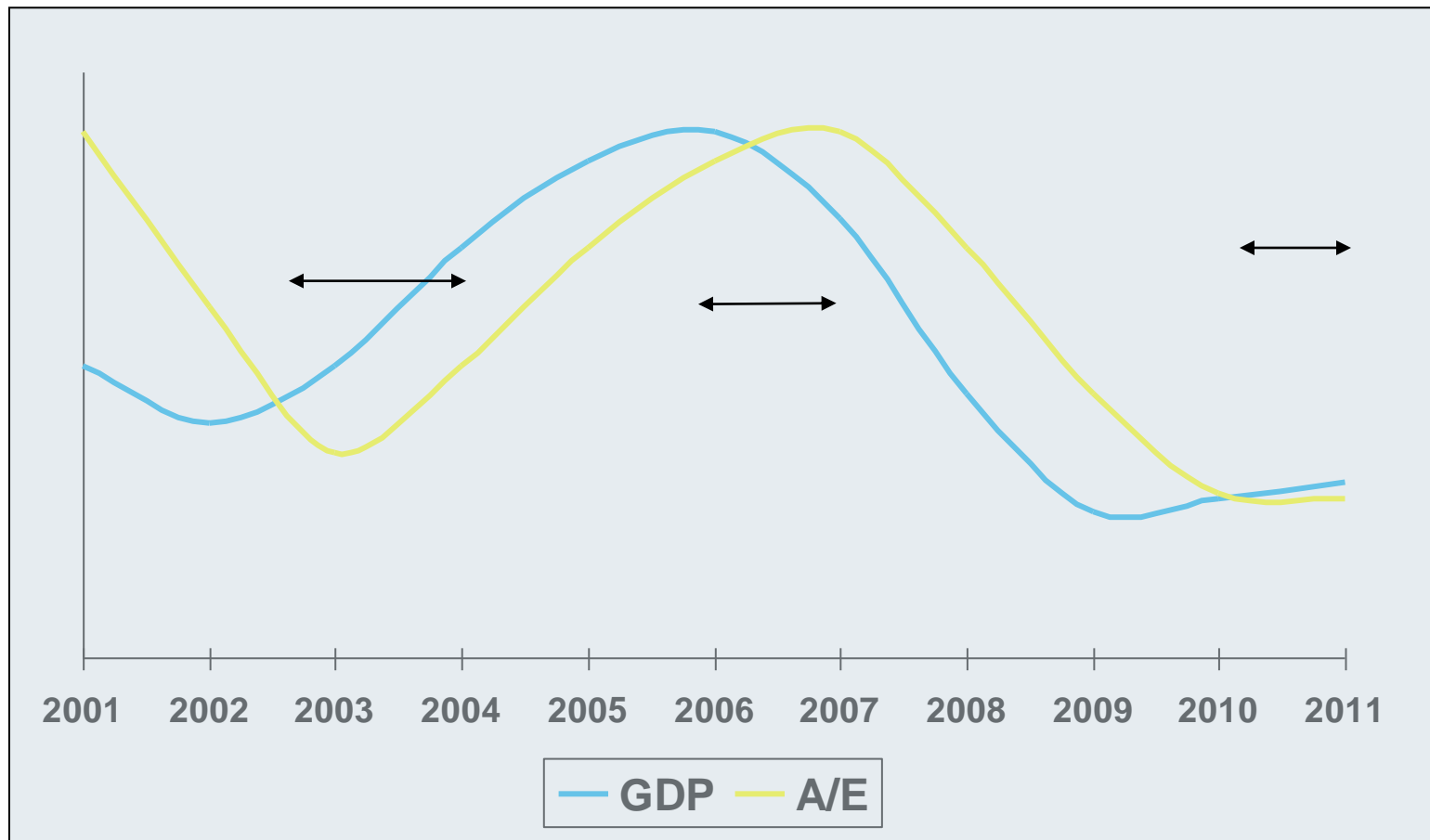
Non-current loans (those past due 90 days or more or in nonaccrual status) are back to early-recession levels, fueling bank willingness to lend.

*Latest data as of 3/18/2013.

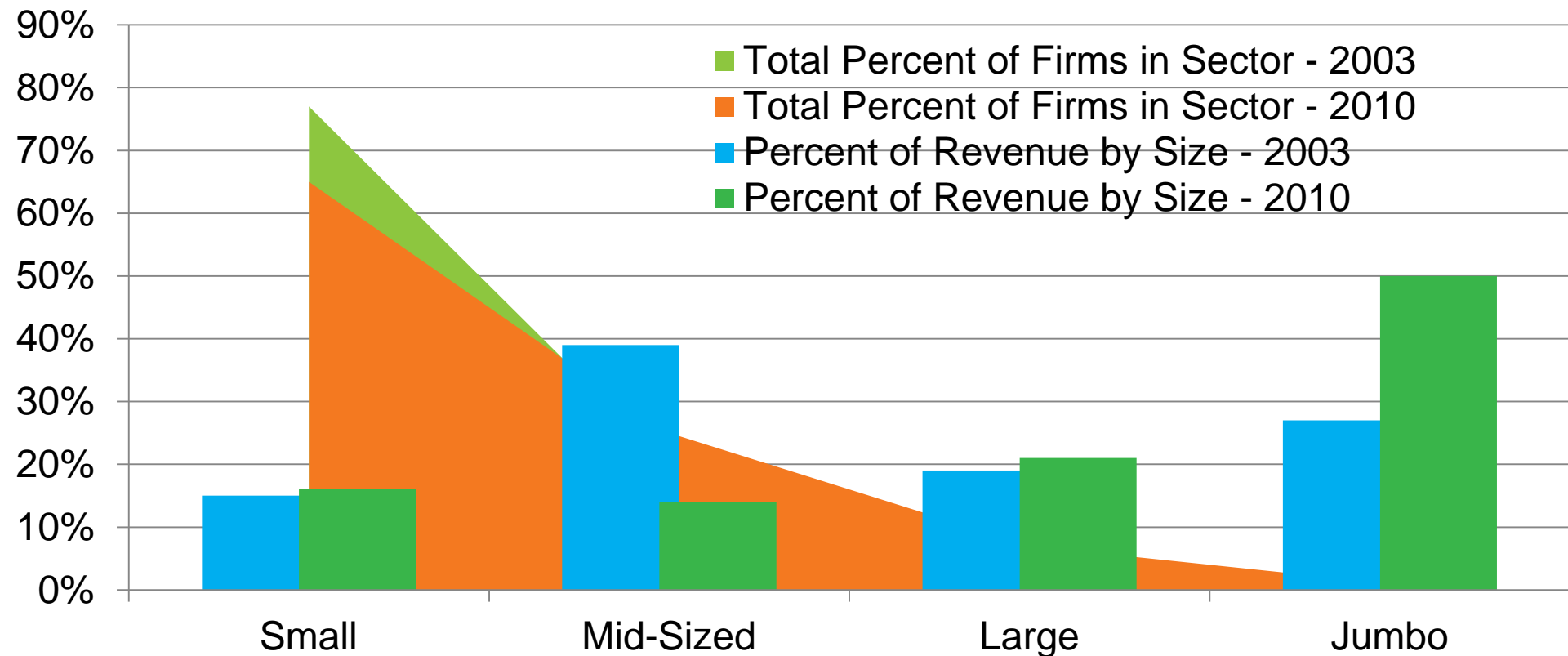
Source: FDIC (Loan Performance spreadsheet); Insurance Information Institute.



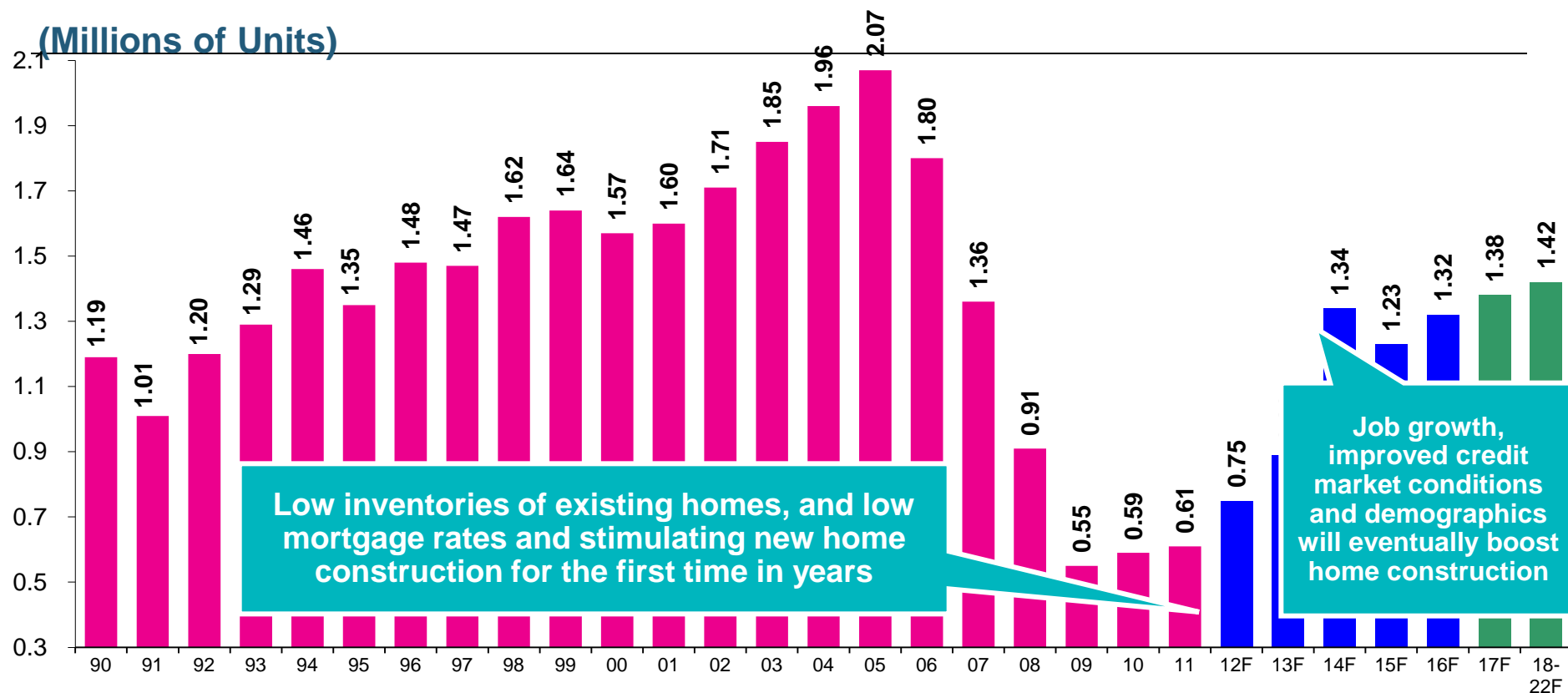
Lagging the Economy



Changes in Engineering Sector 2003-2010



New Private Housing Starts, 1990-2022F



Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 9/12); Insurance Information Institute.

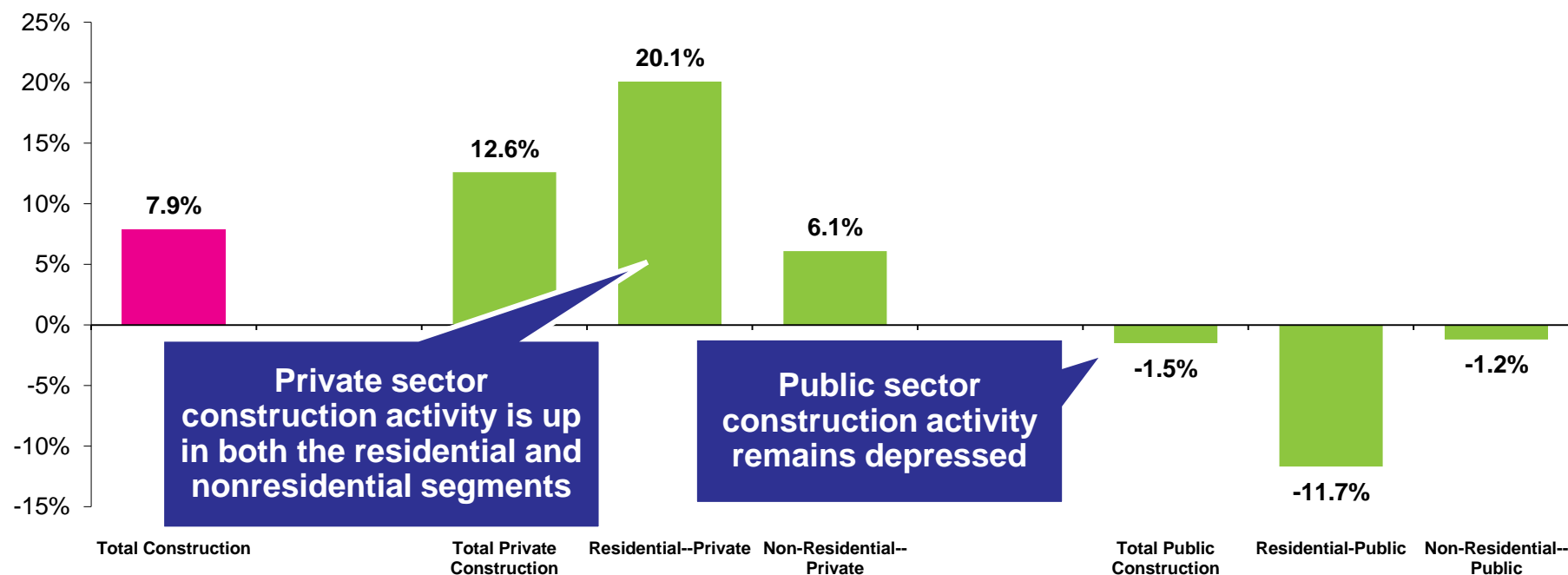
Value of Construction Put in Place, February 2013 vs. February 2012*



Growth (%)

Private: +12.6%

Public: -1.5%



Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue

*seasonally adjusted

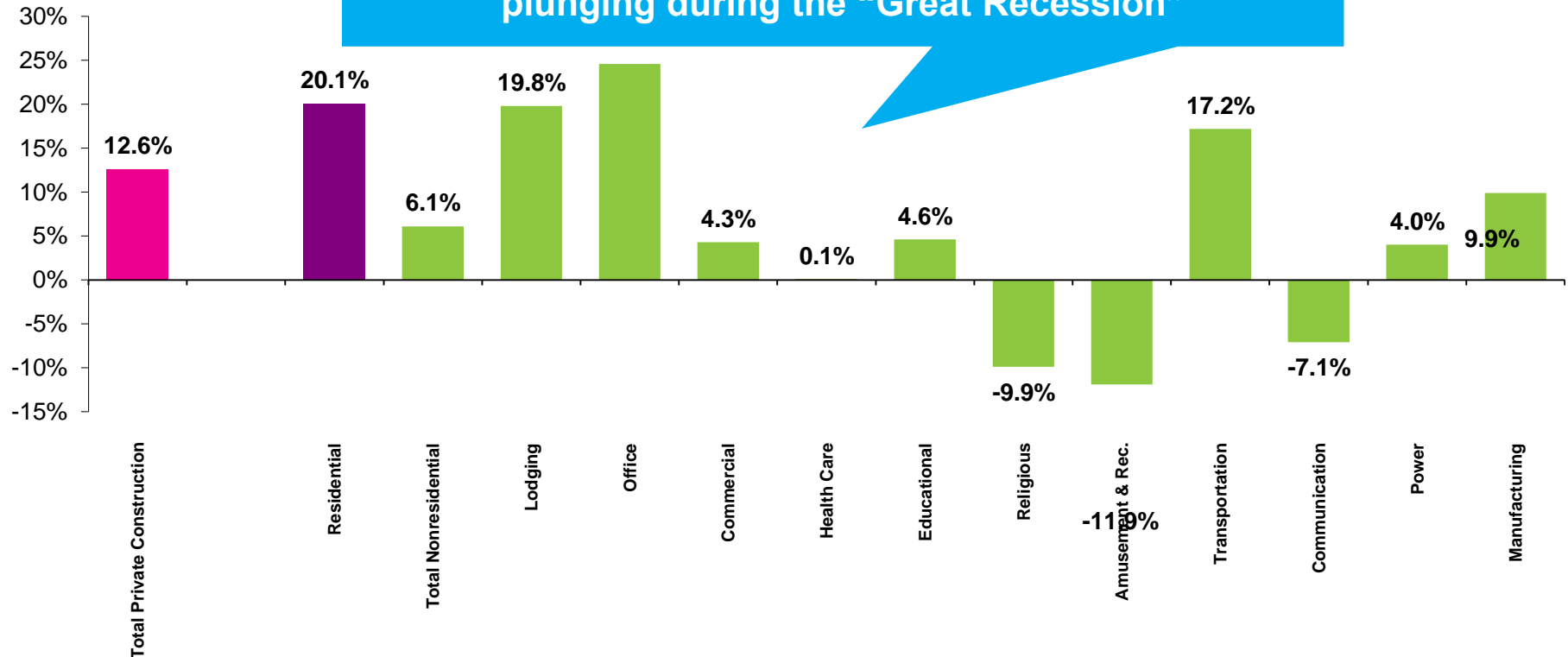
Source: U.S. Census Bureau; Insurance Information Institute.

Value of Private Construction Put in Place, by Segment, Feb. 2013 vs. Feb. 2012*



Growth (%)

Led by the Residential Construction, Lodging, Office, and Manufacturing industries, Private sector construction activity is up across many segments after plunging during the “Great Recession”



Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector

*seasonally adjusted

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Source: U.S. Census Bureau; Insurance Information Institute.

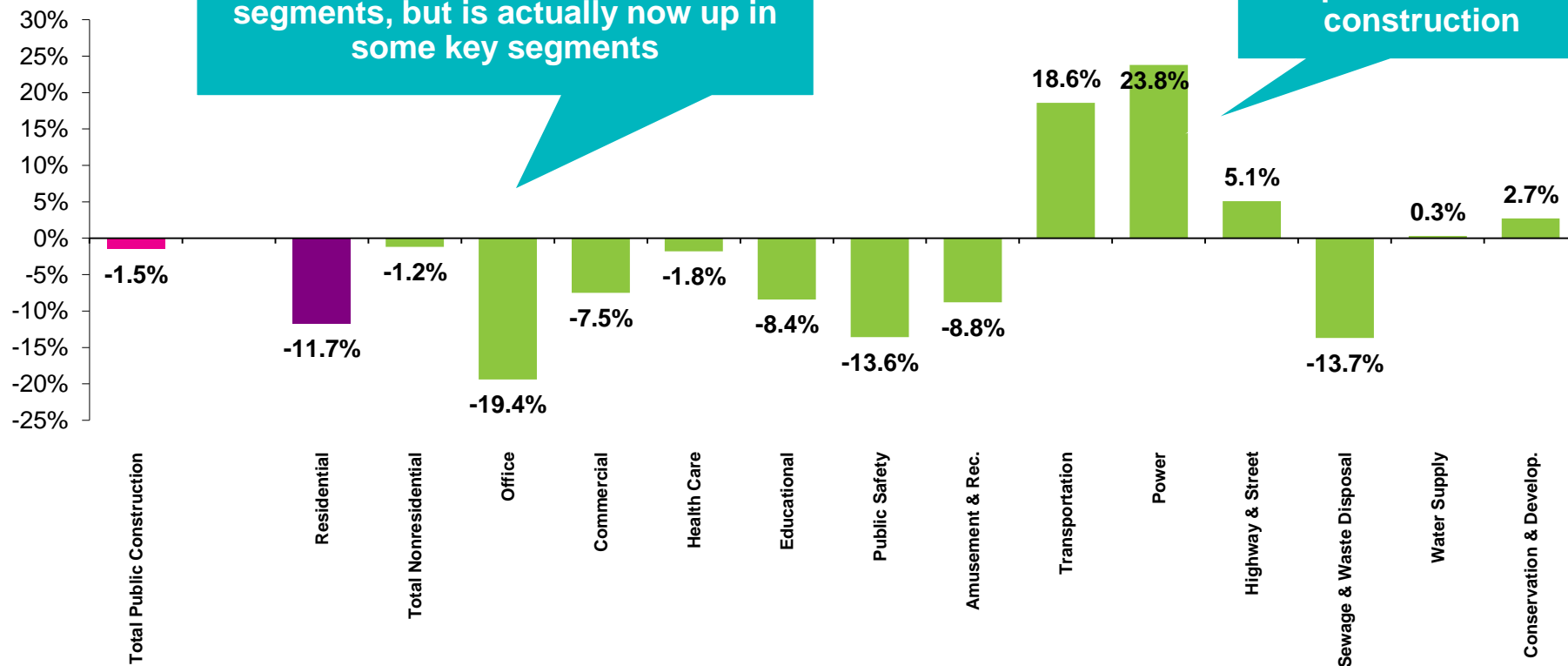
Value of Public Construction Put in Place, by Segment, Feb. 2013 vs. Feb. 2012*



Growth (%)

Public sector construction activity is down substantially in many segments, but is actually now up in some key segments

Transportation and Power projects lead public sector construction



Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2013.

*seasonally adjusted

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Source: U.S. Census Bureau; Insurance Information Institute.

Is anyone still awake?

ARIZONA LITIGATION ENVIRONMENT



Arizona Who Sues A/Es?



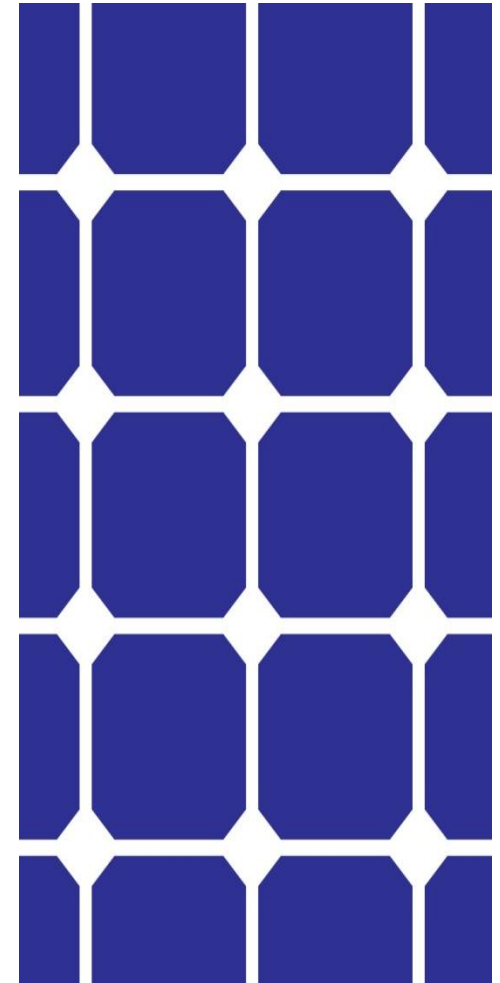
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- 59% of AZ claims are brought by owner
 - 11% are brought by contractor/sub-contractor
 - 15% of AZ claims are filed by non-contracting 3rd party



Arizona Claims by Project Type



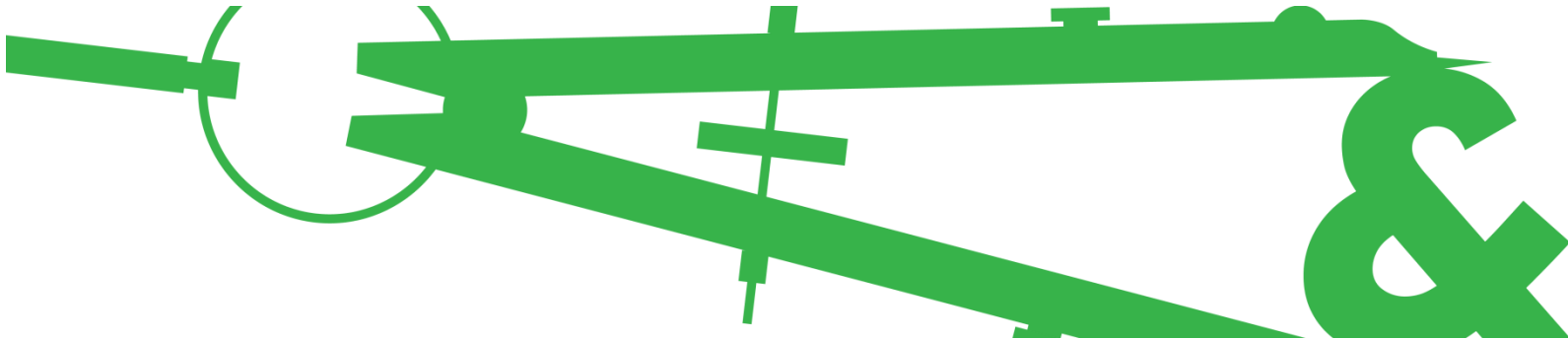
- 26% of claims in AZ are from residential projects
 - Accounting for 26% of claims dollars spent for all AZ claims
 - Compared to 28% of claims and 29% of claims dollars spent in overall US claims
 - Majority of residential projects are from single family residential subdivisions
- Institutional projects represent 20% of claims count and 37% of claims dollars
 - Inconsistent with 22% of claims dollars spent on same project types in the overall US



MORE CLAIMS FACTS (Arizona)



- Project types generating most claims by number:
 - ☐ Single Family Residential Subdivision
 - ☐ Commercial/office buildings
 - ☐ Roads and highways
- By amounts incurred:
 - ☐ Single family residential subdivision/single family residence
 - ☐ Correctional institutions
 - ☐ Utilities



RISK MANAGEMENT PRACTICES TO FOCUS ON IN THIS ECONOMY



Risk Management Fundamentals



Avoid

- Project evaluation
- Client selection
- Go/No-Go decision

Transfer

- Insurance
- Contract

Assume

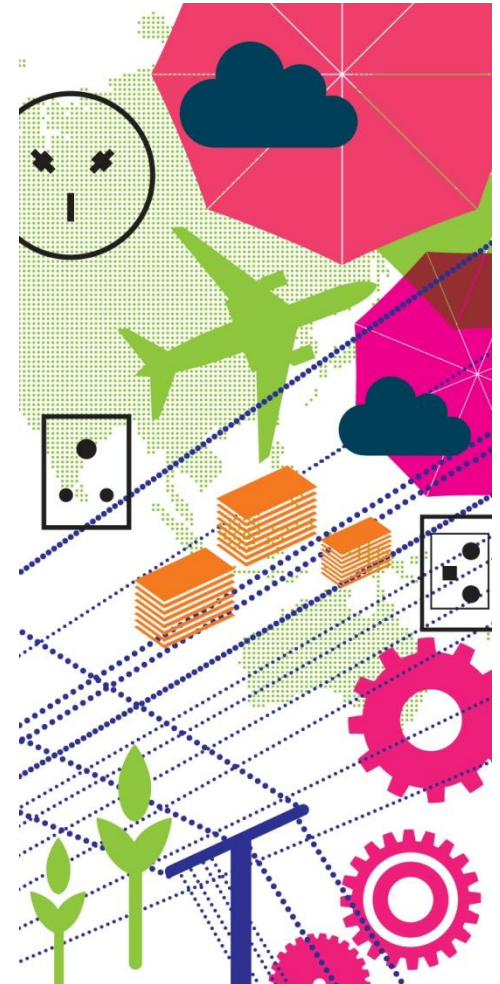
- Deductible
- Self-insurance

Control

- Loss prevention
- Risk management

Select projects and clients carefully

- Beware of higher risk projects
- Ensure projects align with your firm values/expertise
- Beware of higher risk clients

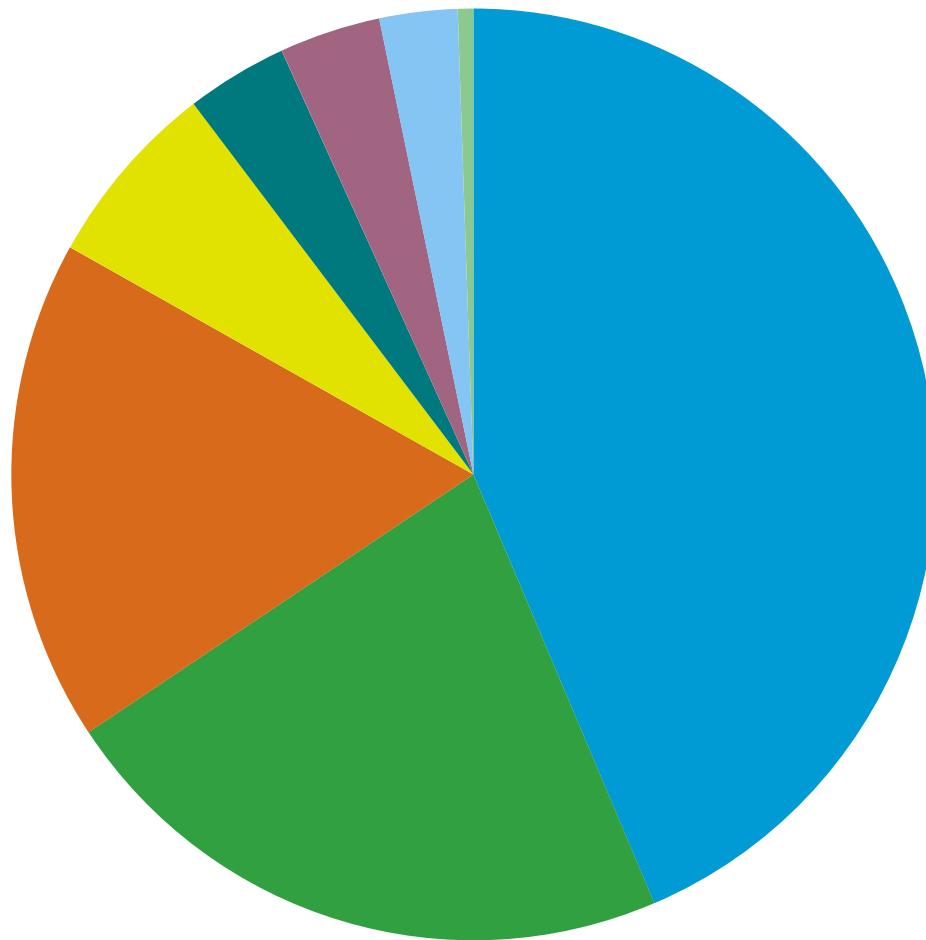


Extra challenges to selecting projects and clients carefully in a recession

- Increased pressure on construction budgets/estimates [avoiding cost recovery]
- Fees are reduced or at risk (suspended, shelved projects)
- Fast Track and Design-Build more prevalent
- Increased third party liability exposure
- Relaxed client intake criteria and contract terms

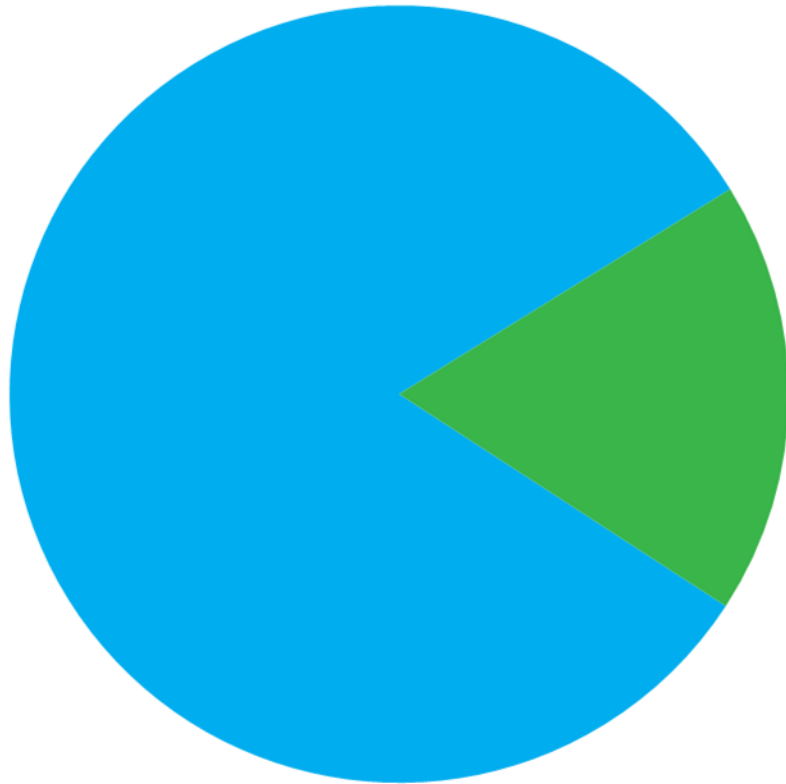


Client Selection Issues



- 44% - Client inexperienced in design issues
- 22% - Client has history of claims / litigation
- 17% - Client in Poor Financial Condition
- 7% - Client behind in fee payments
- 4% - Contractor selection
- 4% - No Formal Review of client
- 3% - Other
- 1% - Client not receptive to ADR

Client Selection Issues



- A primary factor in
 - **23% of claims count**
 - **18% of claims dollars**

SOMEONE WILL SIGN IT.... CONTRACT TERMS



AVOID DEAL BREAKERS

- Unlimited Liability
- Certifications/Warrantees/Guarantees
- Jobsite Safety/Construction Means & Methods
- Ownership of Documents
- Liquidated Damages
- One-sided broad Indemnifications...



NOT GETTING PAID?

- Overall complaints of slow paying or no paying clients becoming common
- Claims for fees generate professional negligence counterclaims

999.9

999

999.9

999



10:1 RULE

Countersuits resulting from a demand for unpaid fees are 10 times higher in claimed amounts than the outstanding fee amount.



BILLING 101



- Bill promptly and in accordance with contract
- Review bills for accuracy
- Provide all supporting documentation with invoice
- Understand how to bill your client to obtain payment
- Be diligent about following up on outstanding invoices



AVOID

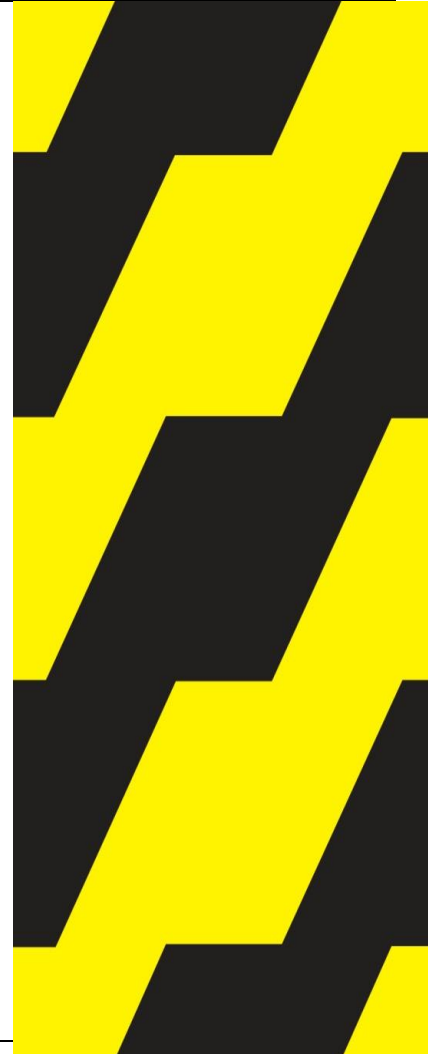
Any provisions that allow client to withhold fees
or to make unilateral determinations on fault or
responsibility for damages.



Know the warning signs

- Communication breakdowns
- Significant overruns on budget or costs
- Work stoppage, jobsite injury
- Behind schedule
- Exclusion from important meetings
- Not getting paid in a timely manner or at all

USE LOSS PREVENTION ASSISTANCE





THANK YOU
Questions?

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