

# LARGER ARCHITECTURE FIRMS

## CLAIMS STUDY



### Annual billings over \$5 million

From 2013 through 2022, clients filed the most claims against architects with annual billings of more than \$5 million. 68.0% of all claims against these architects were filed by clients, and general contractors brought the second most claims at 7.6%. Injuries from third parties constituted the third highest amount of claims at 7.2%.

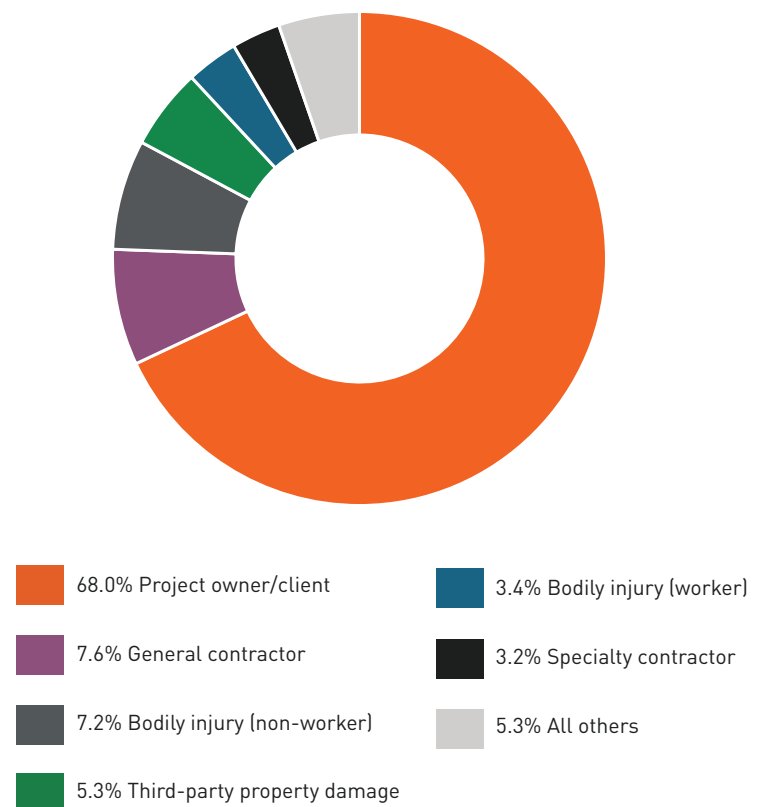
Most claims against architects are filed by project owners because of the contractual relationship between the architect and project owner. Project owners will sometimes file a claim against the architect in response to a claim filed against the project owner by the contractor.

Claims filed by contractors may be linked to those states that have abandoned the economic loss doctrine. Abandonment of the doctrine allows contractors to sue architects directly for allegations of financial harm, even though there is no contractual relationship between the two.

Claims filed by third parties for bodily injuries often are the result of the architect assuming some responsibility for construction site safety either through contract or behavior. Liability for third-party bodily injury may also result from the architect's failure to design or specify proper safety aspects of the project, such as handrails or non-skid surfaces.

FIGURE 1

### Frequency of claims by claimant ID (2013 - 2022)



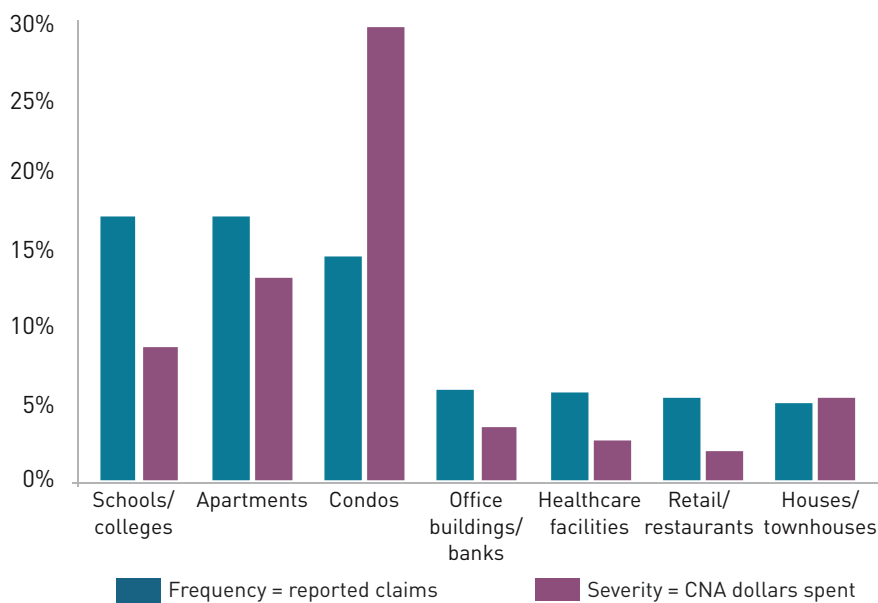
For more information about client selection, please refer to our publication, [Project Risk Matrix](#). For more claims information, please visit Victor's library of [claims and case studies](#).



## Nationwide (2013 - 2022)

FIGURE 2

### Project type claims by frequency/severity



Claims happen most frequently on residential projects. Compared to the reported billings by firms, the claims frequency (where defense costs are always involved) and claims severity (where payments are made on behalf of firms) are significantly higher than on any other project type.

From 2013 through 2022, the frequency of claims against architecture firms with annual billings of more than \$5 million on schools/colleges projects was 17.4%. This project type had the third highest dollars spent percentage at 8.7%. Condo projects ranked third in frequency at 14.7% and first in severity at 29.8%. Apartments were the second highest claims frequency and severity percentages with 17.3 and 13.4, respectively%.

With any type of residential project, the greatest risk to the architecture firm is the client—either because the client brings claims for cost recovery efforts or because the client is simply unwilling to invest in the design and ancillary services necessary to increase the quality of the design and construction effort. If the developer client has past condo or apartment experience and is interested in preserving its reputation in the marketplace, the project has a greater likelihood for a less litigious future. Developers who are “build it quickly and leave it quickly” types often have tight budgets and short lives. They are often legally organized to have few assets and to let others, often the design team, be targets for claims demanding remediation of deficiencies in the project.

At times, townhouses, apartments, and especially condos have design or construction deficiencies, such as those causing water intrusion, that are repeated in multiple units. Apartment dwellers often “move away from the problems” while the project developer

or subsequent owner brings claims. Those who have purchased a townhouse or condo and see their expectations shattered and feel their assets misspent look to recover costs for any real or perceived defect. There is a large community of plaintiff attorneys who are willing to find ways to assist in assuaging the harm felt by purchasers and their homeowner associations through litigation against any party that could have been responsible for the issues.

School projects also can lead to significant claims and indemnity payments. Unlike residential projects, however, the cost of claims is not significantly out of line with the billings reported for the services provided by architecture firms. Often, claims occur to show taxpayers or donors that the funding for school projects was not ineffectively spent. School projects are usually deadline driven with little or no possibility of time extensions for construction. Because of the need to have a facility open at the start of a school year, claims for consequential damages—the cost to the client caused by delays—can be significant.

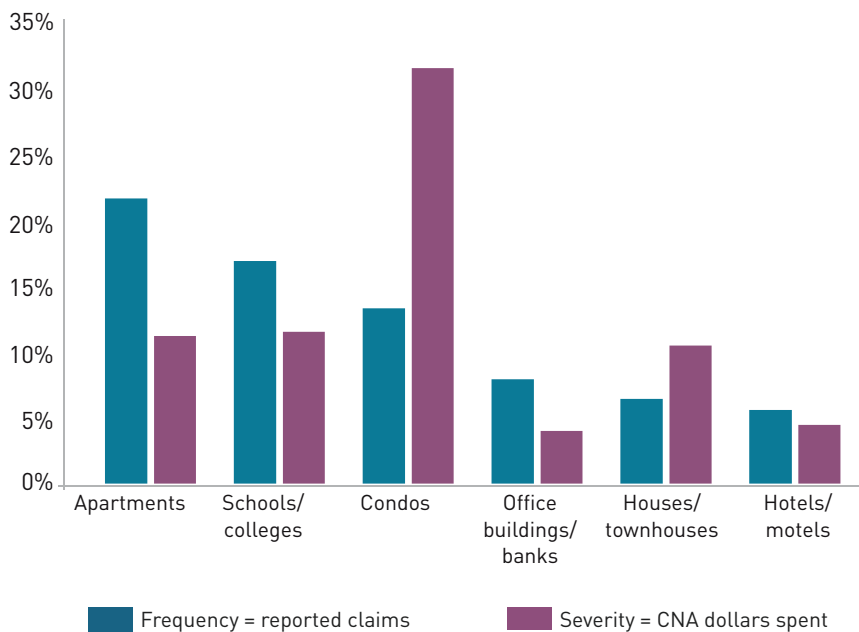
School projects require special expertise and a skill set that centers on educating clients on the importance of the design team consulting with the stakeholders and final decision-makers during the design process and representing the interests of the clients during construction. Since construction of public schools is often on a low-bid basis, claims can be avoided if there are strong communication channels, clear contractual obligations, and realistic understanding of the need for flexibility in bringing the project to completion.



## States in East region (2013 - 2022)

FIGURE 3

### Project type claims by frequency/severity



CT, DC, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VA, VT, WV

For architects in the East with annual billings of more than \$5 million, condo projects wreaked havoc on a firm's practice. This project type generated the third highest claims count (13.3%) and highest dollars spent (31.6%) percentages. Apartments (21.7%) and schools/colleges (16.9%) had the first and second highest claims count percentages. Condos and houses/townhouses generated higher dollars spent percentages versus their claims count percentages.

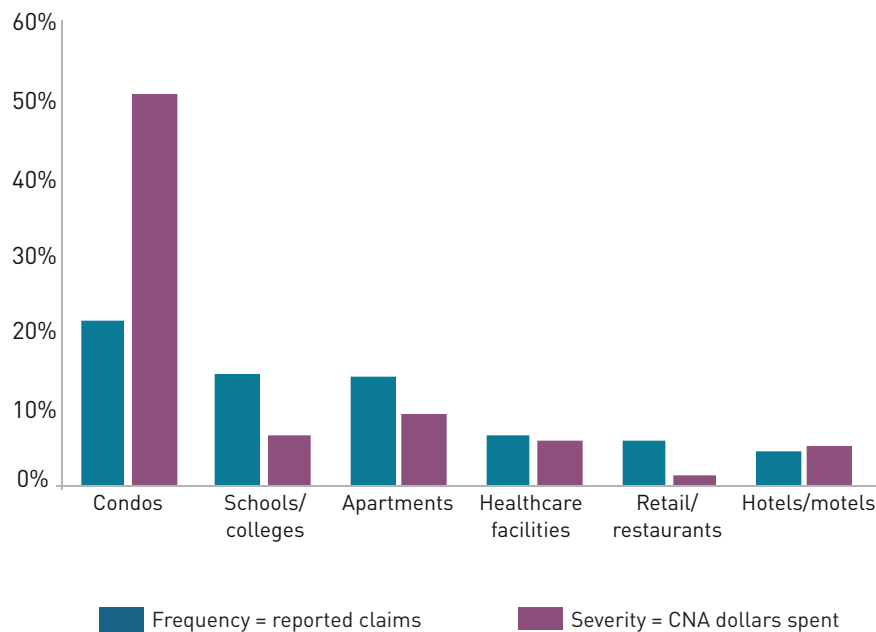
Two of the biggest problem areas were interior construction (33.5% / 29.7%) and building exterior closure (14.7% / 36.0%). These problem areas contributed to the high percentage of dollars spent on behalf of larger architects for these project types.



## States in South region (2013 - 2022)

FIGURE 4

### Project type claims by frequency/severity



AL, AR, FL, GA, KY, LA, MS, NC, OK, SC, TN, TX

For larger architects in the South, condos, schools/colleges, and apartments projects accounted for the three highest claims count percentages at 21.9%, 14.7%, and 14.5%, respectively. Condos, apartments, and schools/colleges projects accounted for the three highest dollars spent percentages at 51.5%, 9.3%, and 6.7%, respectively. Condo projects were especially problematic with a dollars spent percentage more than twice the claims count percentage.

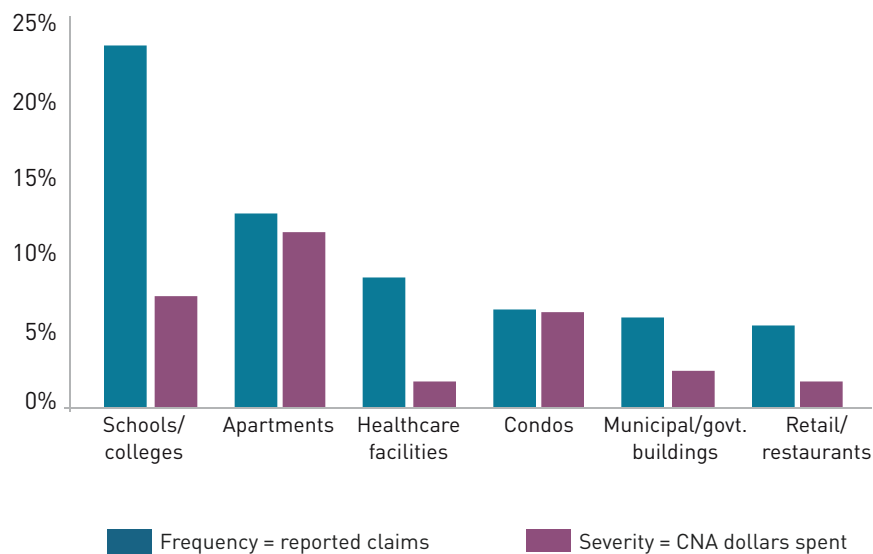
Interior construction (25.1% / 18.7%), building superstructure (22.0% / 23.8%), and building exterior closures (11.6% / 29.7%) were the three biggest problem areas.



## States in Midwest region (2013 - 2022)

FIGURE 5

### Project type claims by frequency/severity



IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI

Schools/colleges projects in the Midwest had the highest claims count (23.8%) and second highest dollars spent (7.3%) percentages for larger architects. Apartments ranked second with a 12.7% claims count and first in dollars spent percentage at 11.6%, with healthcare facilities third in dollars spent percentage at 8.5%.

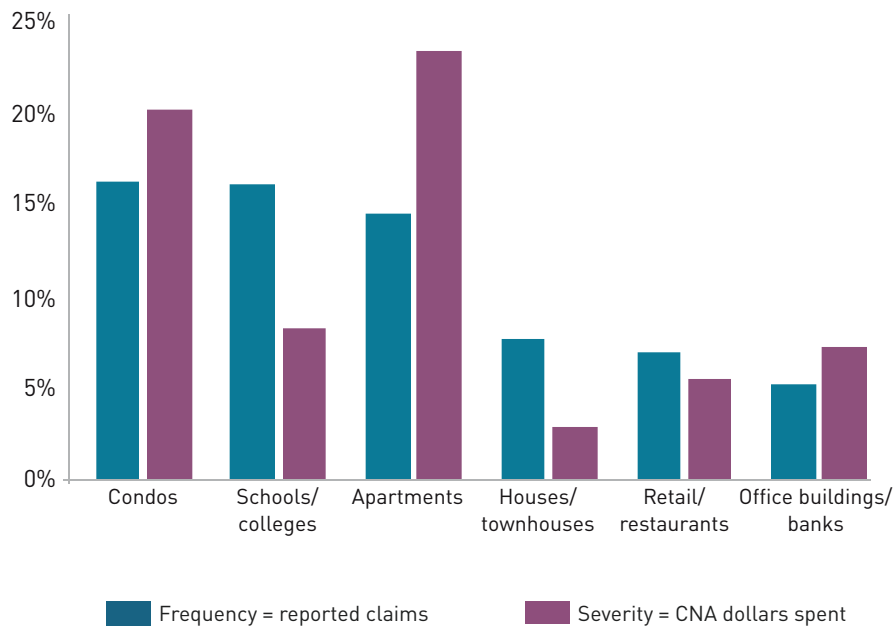
Interior construction (26.4% / 14.6%), plumbing/HVAC/fire protection systems (17.1% / 9.1%), and building exterior closures (15.0% / 26.3%) were the biggest problem areas for larger architects on all project types in the Midwest.



## States in West region (2013 - 2022)

FIGURE 6

### Project type claims by frequency/severity



AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

Condos projects accounted for the highest claims count (16.4%) and dollars spent percentages (20.4%) in the West. Schools/colleges projects ranked second in claims count at 16.2% and third in dollars spent at 8.3%. Condos, apartments, and office buildings/banks projects all had dollars spent percentages that outpaced their claims count percentages. Apartments and condos projects (23.6% and 20.4%, respectively) were both problematic in terms of dollars spent percentages.

Building superstructure (35.7% / 28.4%) and interior construction (14.9% / 16.8%) were big problem areas out West for architects with more than \$5 million in annual billings across all project types.

Visit [Victor Risk Advisory](#) to learn more.

\* The claims scenario is strictly documented for illustrative purposes only and provides an example of what a policy could cover. It is intended to provide a general overview of the program described. Please remember only the insurance policy can give actual terms, coverage, amounts, conditions and exclusions. Program availability and coverage are subject to individual underwriting criteria.

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