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Carrier Ratings – Do They Really Matter?

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The quick and simple answer is yes – they do matter. Let's look at this in more detail.

A.M. Best uses letter ratings with "A" being the best down to "D", which is considered "Poor". When a carrier gets below "D", they are typically under either some degree of regulatory supervision or in liquidation. There are also carriers that are assigned an "NR" rating of some degree. This can be due to the lack of operating experience of the company, insufficient data, the rating procedure is inapplicable due to a uniqueness of the carrier, or the company potentially has declined their letter rating and thus is assigned an "NR" rating. Carriers whose rating is B or less are considered "vulnerable" and need to be watched carefully.

Why does all of this matter? What should an agent do about this?

Your clients trust you to place them with a carrier that will be there to honor their obligations. How can you meet this level of trust if you don't know the financial condition of your markets? Knowing the ratings of your companies is actually a very simple process. Logging onto the rating organization's Web site will enable you to input the carrier name and get a real-time rating. If you have 10 markets, it would take you no more than 5 minutes to perform this task. Suggestion: assign someone the responsibility of checking these ratings at least once a month.

What about Guaranty Funds? The purpose of Guaranty Funds is to pay the claims of insurance companies that become insolvent. The monies they use come from assessments on other insurance companies. These funds definitely have their purpose, but they have restrictions and limitations. To begin, there are a number of classes that are restricted from coverage by a Guaranty Fund, most notably marine, surety and credit insurance, reinsurance, and excess and surplus lines. Payments are also subject to deductions and limits. Most notably, however, is that there are maximum dollar limitations, typically from $100,000 to $500,000, with $300,000 being the most common. As a result, a loss of $1,000,000 would not be fully covered by the Guaranty Fund. Where would the client go to collect the remainder? You can count on your agency being the target.

Plus, in a number of states, wealthy individuals and corporations are barred from fund payments. This is called the Net Worth Exclusion, and it varies by state. Consequently, while they would be barred from collection under the Guaranty Fund, this would not preclude them from bringing legal action against your agency. In the majority of the states, Workers Compensation benefits are not capped by fund limits.

The bottom line: *Guaranty Funds do function somewhat as a safety net, but to rely on them as a total solution is not prudent at all. They have their purpose, but not without limitations.* In my opinion, to place an account with a company without regard to their financials, thus counting on the Guaranty Fund to be the answer, is not a sign of a professional agent.

Do the right thing. It could save you a few E&O headaches down the road.

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