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Insurance With Assurance

Admitted and Non-Admitted Insurance Companies *by Rick Janis*

What is the difference between an “Admitted Insurance Company” and a “Non-Admitted Company?”

An Admitted Insurance Company has to be approved by every individual state in which it wants to do business. If the company wants to do business nationwide, it has to apply and be approved by 52 State Insurance Departments (that includes Washington, DC and Puerto Rico).

It also means that the insurance company has to file their rates for every class of business that they want to write with the Insurance Department. Those rates are monitored by the State Insurance Department.

An Admitted company also has to file and receive approval for their company forms, and coverage so that those policies are at least conforming to a standard of coverage. That coverage standard is usually established by ISO (Insurance Services Office), an independent entity that literally creates and writes insurance company policy forms. If you have an ISO coverage form, you have an industry standard for coverage.

Filing rates and forms in each state is a very cumbersome, expensive and time consuming endeavor – sometimes it takes a year or more. In order to make it more enticing for an Admitted Company to do business in their state, a number of states have become “File and Use States.” That means the insurance company can file their rates and forms and immediately go ahead and use them (subject to modification and final approval).

Competition however, dictates that Admitted Companies are not going to offer anything on the street other than ISO forms and coverage unless the company is trying to develop coverage for a single niche industry such as the alarm industry.

A Non-Admitted Insurance Company has to be approved to do business by each individual state that they do business in. However, they do not come under the same scrutiny or requirements as an Admitted Company. A Non-Admitted Insurance Company is not required to have their policy forms and coverage, nor their rates approved by the Insurance Department. They can use whatever coverage forms and rates they want to and they can change them at will. If an Admitted Company found that it needed higher rates due to losses in a particular area or wanted to lower their rates and become more competitive, they would have to go through a whole filing process (which could take 6 or 8 months). A Non-Admitted Company can simply indicate to their agencies that their rates or forms are changing as of a certain date.

Here's a little secret. You can know what type of insurance company you are dealing with by two tell tale signs. If it is Non-Admitted, the premium and quotation proposal will always show a premium and a tax (dollars plus cents). An Admitted Company's premium will have no "cents" it will be rounded to the nearest dollar. Every company has to pay a tax to the individual states, however an Admitted Company because they are filed and approved, remits their taxes monthly or quarterly to the individual states and that tax is already built into the premium. A Non-Admitted Company has to by regulation show the tax as a separate item (in most states it's 3-4% of the premium).

Another tell-tale sign is that when you receive the policy you'll see a warning stamped in red ink and using a size font prescribed by the particular Insurance Department telling you that this is a Non-Admitted or Surplus Lines Insurance Company. The warning states that the company is not covered by the State Solvency Fund. That's similar to the FDIC, which insures the money in banks. This means that if a Non-Admitted company goes out of business, the State Insurance Fund will not step in to pay for any claim. If an Admitted Company goes out of business, the State Solvency Fund is available and will pay for outstanding claims up to certain limitations depending on your state's regulations.

Basically, it's "Buyer Beware" for Non-Admitted Companies. However, on the other side of the coin, Non-Admitted companies fill a void in the marketplace by writing higher risk coverage that many Admitted Companies will not write such as vacant buildings in downtown urban areas.

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