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Insurance With Assurance

Selecting an Insurance Company with a High Financial Rating *by Rick Janis*

Why is selecting an insurance company with a high financial rating so important?

During the past 15 years we have seen a dramatic reduction in the costs of all lines of commercial insurance coverages. If you kept records for that long, most of you can compare your premiums today in 2000 with those in 1985 and easily see that they are less than what you paid for the same coverage 15 years ago. There are several reasons for this situation ranging from more competition among insurers to the fantastic financial returns that have been attained on Wall Street.

Insurance companies are in business to make a profit just like most other businesses. We say most because the "dot coms" of the world seem to be in business to lose money. However, with the returns on Wall Street shrinking during the last two quarters and the recent financial problems of several insurance companies, we believe that the importance of selecting an insurance company with a high financial rating is extremely important and will become even more so in the future.

There are two rating agencies, Best and Standard & Poor, whose reliability seems to be the best to follow. Best, as well as Standard & Poor, provide an ongoing rating service for insurance companies. In view of the financial changes of Wall Street, it will be very important in the future to purchase your insurance from an "A" rated company, "A" obviously being a top rating.

An insurance company with a lower financial rating may go out of business a couple of years after you sign with them or even a number of years after you decide to go with another insurance company. Here's the catch. Not every insurance claim is brought to someone's attention in the year it occurs. Some claims are not known about until several years later so it is very important to have an insurance carrier whose financial condition spells longevity. An insurance company that has gone out of business certainly can't cover your claim.

There are some provisions for that type of circumstance. All States have "Guaranty Funds." These funds provide coverage for state policyholders that were covered by an insurance company that has gone out of business due to financial difficulties. Keep in mind that these funds only cover policyholders that have purchased coverage from an "Admitted" Insurance Company. There is an easy way to check. If your policy does not have a "Surplus Lines Tax" you have coverage from an Admitted Market.

However, some of these "Funds" provide only sub-limits. For example, in Connecticut the Guaranty Fund would only respond for \$500,000 in Limit. Even if you had been paying a \$1,000,000 limit for a number of years, you would only have half the limit available if your insurance company went out of business.

As you renew or purchase coverage in the future we recommend that you discuss the financial stability of your carrier with your Insurance Agent, Broker or Company. Given the changing economy, we suspect that more companies will experience rating reductions in the near future.

Rick Janis is a Certified Insurance Counselor and president of the Alarm Insurance Agency. With over 7 years of experience in the security industry, he has been responsible for developing and managing comprehensive insurance and bonding programs for alarm dealers and monitoring companies. Rick is CEU certified by NBFAA and teaches CEU courses to the alarm industry on General Liability/Errors and Omissions and Worker's Compensation. He can be reached at 800-474-0933 or by fax at 800-240-0631. You may also e-mail him at rjanis@alarmins.com.