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Insurance With Assurance

What Happens When an Insurance Carrier Goes Out of Business

by Rick Janis

Should I be worried if my insurance carrier is financially suspect or goes out of business?

Yes, because the possibility of a claim arising can hang over your head for years to come. First, remember that your insurance policy is written on an occurrence basis. A claim can be made against you today on an occurrence that happened yesterday or five years ago. Even if you have changed carriers, the carrier that you were insured with at the time of the occurrence is the one responsible. If that carrier is out of business, then you are responsible.

If the carrier goes out of business and a claim arises, then the assets of your company are up for grabs. Here's a very real situation. Your subscriber suffers a burglary or fire loss and his homeowners insurance company pays the claim. However, it takes the homeowners' insurance company several months or a year to send notice to your alarm company that they intend to proceed against your company to collect those monies paid to the homeowner. If the occurrence occurred during the time when the policy was in force with your carrier that is now defunct then your alarm company will have to rely on its own assets to pay for that loss. Plus, it's also up to your company to pay all the legal bills associated with defending and dealing with that claim.

That's why it's so important to deal with companies that are "A" rated and Admitted. Insuring your company with a carrier that doesn't meet that criteria means that you're dealing with a carrier that is not as financially stable.

Almost any insurance professional will tell you that unless there is no other alternative in placing coverage, you should always be buying coverage through an "A" rated, Admitted company. In fact, many states around the country mandate by statute that an insurance agent must place with an "A" rated, Admitted company if that company is offering coverage in your jurisdiction.

If you are not in one of those states, you might purchase your insurance from a carrier with a "B" or "C" rating. Doing so means placing your business in financial jeopardy. A "B" or "C" rating indicates that the carrier is undergoing financial stress. While they may still be operating and writing coverage, their main focus is on preserving their existence. That's not to say that there are not good "B" rated insurance carriers around –there are. Most of them supply a very specialized type of insurance or service a specific segment of the marketplace and they are the only source available for that type of insurance. That's not the case in the alarm industry.

A company focused on survival is not focused on processing claims to the same standards as financially stable carriers. In fact they may very well look at the claims division of their company

as a place to shore up their financial problems with claim denials, slow payments or compromised payments.

Especially in this time of economic success and mergers and acquisitions, it's still important that you ask the right questions so you can place your coverage with a sizable, stable and financially strong insurance carrier. The consequences of not doing so are frightening.

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.