

Questions About an Insurance Company's Financial Strength?

Some ways to determine the financial strength of an insurance company is to evaluate ratings from independent rating agencies, analyze financial reports, and consider industry benchmarks.

1. Check Ratings from Independent Agencies

Several agencies assess the financial stability of insurance companies based on their ability to pay claims and meet financial obligations. Each agency has its own rating scale:

- **AM Best** (Focuses on insurance companies): Ratings range from A++ (Superior) to D (Poor)
- **Moody's**: Ratings from Aaa (Highest) to C (Lowest)
- **Standard & Poor's (S&P)**: Ratings from AAA (Highest) to D (Default)
- **Fitch Ratings**: Ratings from AAA (Strongest) to D (Weak)

2. Review Financial Reports

Most insurers publish annual reports and financial statements, which include:

- **Assets and Liabilities**: A strong surplus (assets > liabilities) indicates financial health.
- **Loss Ratio**: (Claims paid ÷ Premiums collected). A lower ratio is preferable.
- **Combined Ratio**: (Loss Ratio + Expense Ratio). A ratio under 100% suggests profitability.
- **Cash Flow and Reserves**: Sufficient cash reserves show the ability to cover claims.

3. Look at Regulatory Filings

- In the U.S., insurance companies file financial statements with the **National Association of Insurance Commissioners (NAIC)**.
- Many state insurance departments also provide oversight and solvency reports.

4. Industry Comparisons

Compare the insurer's financial performance with competitors' using:

- **Market share**

- **Claim payment history**
- **Customer complaints (via NAIC, BBB, or state insurance departments)**

5. Stress Testing & Risk Exposure

- Companies that conduct regular stress tests (assessing their ability to handle economic downturns or disasters) show better risk management.
- Avoid companies overly exposed to high-risk investments or liabilities.

By using these methods, you can make a well-informed decision about an insurance company's financial strength.

The **National Association of Insurance Commissioners (NAIC)** provides valuable information to assess an insurance company's financial strength, regulatory compliance, and consumer experience. Here's what you can find:

1. Financial Solvency Information

- **Risk-Based Capital (RBC) Ratios:** Measures whether an insurer has enough capital to cover risks.
- **Annual & Quarterly Financial Statements:** Reports on assets, liabilities, and reserves.
- **Solvency Monitoring & Stress Tests:** Helps determine if an insurer can withstand economic downturns.

2. Consumer Complaints & Company History

- **Consumer Complaint Ratios:** Shows how many complaints an insurer receives compared to its size.
- **Regulatory Actions:** Details past violations, fines, or disciplinary actions.
- **Company Licensing & Admitted Status:** Confirms if the insurer is authorized to sell policies in a specific state.

3. Market Conduct Reports

- Examines how insurers handle claims, underwriting, and customer service.
- Identifies unfair practices or policyholder mistreatment.

4. Financial Strength & Stability Tools

- **NAIC's Insurance Company Search:** Allows users to check a company's licensing, financials, and complaint history.
- **Guaranty Fund Information:** Provides details on protections available if an insurer fails.

How to Access This Information

- Visit the **NAIC Consumer Information Source (CIS)** (<https://content.naic.org/consumer.htm>)
- Check **state insurance department websites**, as they often use NAIC data.

This makes the NAIC a crucial resource when evaluating an insurer's financial health and reliability.

Note: Send comments on this article to Rbradshaw@iiav.com