

Financial Security of Insurers & Related Issues

This note seeks to help our clients and prospective clients understand issues relating to the financial security of Insurers. It provides general information only and each Insurer must therefore be treated on their individual merits.

Insurer ratings represent no guarantee but they are a guide to the likelihood of an insurer being able to meet its obligations.

We generally refer to ratings provided by international rating agency, Standard & Poor's. A Standard & Poor's Insurer Financial Strength Rating is an opinion of the financial security of an insurer in respect of its ability to pay claims under its insurance policies. There are other rating agencies in existence, such as AM Best, who use similar methods of assessment but we are not a rating agency and provide no warranty or in any way validate the opinions or assessments of others.

Insurer ratings, regulatory arrangements and compensation schemes vary across the insurers we use.

Should you wish to discuss any issues relating to the insurers we use, do not hesitate to talk to your usual PoundGates contact.

Insurers rated 'BBB' or higher are regarded by Standard & Poors, as having financial security characteristics that outweigh any vulnerabilities, and are likely to have the ability to meet financial commitments. Therefore insurers who have the following ratings, represent those with financial strength (The ratings shown are those used by Standard & Poors):-

AAA

An insurer rated 'AAA' has EXTREMELY STRONG financial security characteristics. 'AAA' is the highest Insurer financial strength rating. .

AA

An insurer rated 'AA' has VERY STRONG financial security characteristics, differing only slightly from those rated higher.

A

An insurer rated 'A' has STRONG financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.

BBB

An insurer rated 'BBB' has GOOD financial security characteristics, but is more likely to be affected by adverse business conditions than are higher rated insurers.

Insurers rated 'BB' or lower are regarded by Standard & Poors, as having vulnerable characteristics that may outweigh their strengths.

BB

An insurer rated 'BB' has MARGINAL financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.

B

An insurer rated 'B' has WEAK financial security characteristics. Adverse business conditions will likely impair its ability to meet financial commitments.

CCC

An insurer rated 'CCC' has VERY WEAK financial security characteristics, and is dependent on favourable business conditions to meet financial commitments.

CC

An insurer rated 'CC' has EXTREMELY WEAK financial security characteristics and is likely not to meet some of its financial commitments.

R

An insurer rated 'R' has experienced a REGULATORY ACTION regarding solvency. The rating does not apply to insurers subject only to non financial actions such as market conduct violations.

Insurers with a Plus (+) or minus (-) sign following their rating (applicable from 'AA' to 'CCC') show the relative standing within the major rating categories.

Certain Insurers are not captured by this rating system and are listed by ratings agencies such as Standard & Poors with the label NR (Not Rated). Not being rated is not necessarily a sign of poor financial strength.

UK Insurers

The Financial Services Authority is responsible for the regulation of UK Insurers. This regulation includes the imposition of solvency requirements on the insurer.

If a UK authorised Insurer cannot meet claims against it because it has been placed in liquidation (or provisional liquidation or administration) then eligible policyholders are entitled to compensation from the Financial Services Compensation Scheme (FSCS).

The compensation is financed by a levy raised on all UK authorised insurers.

Eligible policyholders are:

Private individuals.

Companies with a turnover under £1,000,000 (non-compulsory risks). All policyholders (in respect of compulsory risks ie: Third Party Motor Liability & Employers' Liability).

Compensation available is:

100% for compulsory risks.

100% of the first £2,000 and 90% of the balance for non-compulsory risks.

European Member State Insurers

Authorised Insurers in EU States are 'passporting' to enable them to write business in the UK.

Passporting rights arise under EU single market directives. The rights entitle a person or firm to set up a branch in another EU state or to do business there on a cross-border basis, as long as they fulfil the conditions in the relevant directive. The rights can be exercised after following simple notification procedures which form the "passporting" process.

It is the intention that all Member States regulate to the same standard as our Financial Services Authority but this may not always be the case.

In addition, compensation also may vary within the EU and the EU Insurer may not subscribe to the UK's Financial Compensation Scheme or The Financial Ombudsman Service.

Other Insurers

Insurers from other parts of the world are regulated according to the laws of the country in which they are based and compensation arrangements, should they exist, will vary from country to country.