

Manager/Supervisor Risk Management

#102– 10/30/12

A twice weekly e-mail training for YCPARMIA members

TOPIC: INSURANCE LIMITS – RATING AN INSURANCE CARRIER

After making sure that the contractor is carrying adequate limits with no unreasonable deductibles or self-insured retentions, the focus has to shift to the insurance company. The entity wants some confidence that the insurance company will be there to pay for the defense and indemnification if and when it is needed. To accomplish this, the entity's insurance requirements generally limit the choice of acceptable carriers by requiring that they have a Best rating of at least A VII.

A.M. Best Company is one of the firms that rates insurance companies based on their financial strength and size. The financial strength ratings run from A++ (Superior) down to F (liquidation). There is seldom an adequate justification to accept a rating below A- (Excellent). The Roman numeral following the letter denotes the financial size of the carrier. A Class VII represents a company with an adjusted policyholders' surplus of between \$50M to \$100M.

One final consideration is whether the carrier is an "admitted carrier." Carriers that are admitted, or licensed by the state insurance department, are subject to the state's rules, regulations, and review. Not all insurance requirements found in a contract require that the carrier be admitted, but it is obviously preferable. It gives the entity the opportunity to look to state regulators for assistance and leverage when there is a problem with the carrier. There are times where the entity is forced to accept a non-admitted carrier; in those situations the entity might want to consider raising their rating requirements.

Generally liability policies are written on an occurrence basis; if the accident occurs during the policy period it is covered regardless of when the claim is made. We have seen claims made against our members decades after the policy expired, and the insurance carrier had to respond. Insurance companies do go bankrupt; the insurance rating requirements are designed to improve the odds that the coverage will be there if and when you need it.

Next topic: Occurrence vs. Claims-made