

[How to check an insurer's financial strength](#)

When shopping for insurance, you want to buy protection from a company financially strong enough to pay the claims of its customers even when a big disaster hits. An easy way to check on an insurance company's financial strength is to find out how they're rated by experts.

The following are agencies with expertise in rating insurance companies' financial condition.

Rating Companies

There are five major agencies that rate insurance companies on a regular basis and offer their ratings and analysis online free of charge; although, most require registering with them before you can read their ratings.

- [A.M. Best Company](#)
- [Demotech](#)
- [Fitch Ratings](#)
- [Moody's Investor Service](#)
- [Standard and Poor's Corporation](#)

These agencies look at financial leverage, management stability, recent performance, and the rated company's overall financial situation. External factors such as competition, diversification, and market presence may also be considered. Each rating agency provides a description of its analysis and defines the meaning of each rating from highest to lowest.

Since there are differences between rating agencies, a fair comparison between ratings can be confusing. Information on how to contact each rating service is found below. The following summary describes each rating service and the rating criteria used, along with a brief explanation of how insurance companies initiate the rating process. It is important to keep in mind that these criteria may change.

[A.M. Best Company](#)

The information presented in this publication is for general informational purposes and is not a substitute for legal advice. If you have a specific legal issue or problem, United Policyholders recommends that you consult with an attorney. Guidance on hiring professional help can be found in the "Find Help" section of www.uphelp.org. United Policyholders does not sell insurance or certify, endorse or warrant any of the insurance products, vendors, or professionals identified on our website.

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A.M. Best Company has the most experience rating insurance companies, having been in the business since 1906. Each year Best publishes Best's Insurance Reports, a multi-volume set in two editions – Life and Health Insurance Companies and Property/Casualty Companies. Many large public libraries subscribe to Best's Insurance Reports. Best rates each company on either an alphabetical (A++ to F) or a numerical scale. The latter is the Best Financial Performance Rating ("FPR"), with 9 being the highest rating and 1 being the lowest.

For the latest Best Ratings and Best Company Reports, visit the A.M. Best web site at www.ambest.com (or call 908/439-2200, ext. 5742). There is no charge for this service because Best bills the rated insurance companies. To locate the rating(s) on the website, enter the name of the company under the "Search Ratings" category. In addition to providing you with an up-to-date rating, under the various folder tabs you will find the following:

1. The age of the company (a minimum of 50 years experience is recommended);
2. The corporate address;
3. The company ownership structure (stock or mutual);
4. The Financial Size Category (recommended minimum is IX);
5. The business overview; and
6. The history of the company, including any mergers and acquisitions.

In addition to this free data, A.M. Best also offers a complete company report, which provides financial statistics for the past five years. But unless you're proficient at interpreting insurance company financials, this report may prove rather overwhelming.

Fitch

A Fitch Insurer Financial Strength rating (IFS rating) provides an assessment of the financial strength of an insurance organization, and its capacity to meet senior obligations to policyholders on a timely basis. The IFS rating is assigned to the insurance organization itself, and no liabilities or obligations of the insurer are specifically rated unless otherwise stated (for example, Fitch may separately rate the debt obligations of an insurer). Most companies that are rated by Fitch request the rating and go through an interview process. According to the Fitch website, as of January 23, 2001, about 220 large, medium, and small sized life and health insurers, representing nearly 85% of the total industry, have Fitch ratings.

For the latest Fitch Ratings, visit the Fitch website at www.fitchratings.com (or call 800/753-4824). To locate the Financial Strength Ratings Reports on the web site, they are located under the “Insurance” category. In addition to a letter rating, the Fitch website will provide you with a detailed business review and overall outlook for the company. In particular, you should pay attention to the following:

1. The product mix (life, annuities, group insurance);
2. The company’s marketing focus (upscale and advanced marketing is usually a sign that much of the company’s business is tax-oriented);
3. The primary states where the company sells insurance (diversification between several states is advised);
4. The company’s reinsurance practices; and
5. The quality of the company’s investments. High-risk investments (junk bonds and defaulted mortgages, for example) have caused the downfall of several large insurance companies such as Executive Life, First Capital Life, and Monarch Life, and a company’s exposure to such investments should be very limited.

Demotech

Demotech, Inc. is a financial analysis firm specializing in evaluating the financial stability of regional and specialty insurers. Since 1985, Demotech has served the insurance industry by assigning accurate, reliable and proven Financial Stability Ratings ® (FSRs)

Demotech’s philosophy is to review and evaluate insurers based on their area of focus and execution of their business model rather than solely on financial size. Financial Stability Ratings ® (FSRs) are a leading indicator of the financial stability of an insurer. The rating process provides an objective baseline for assessing solvency based upon changes in financial stability, as manifested in an insurers’ balance sheet. FSRs are based upon a series of quantitative ratios and considerations which together comprise the Financial Stability Analysis Model. Demotech believes that balance sheet strength and financial integrity are the ultimate determinants of the long term financial stability required to honor meritorious claims. Accordingly, while operating profit remains an important element of FSRs, the ability of an insurer to remain financially stable under a variety of economic stress tests requires a focus on balance sheet integrity.

FSRs summarize Demotech’s opinion of the financial stability of an insurer regardless of general economic conditions or the phase of the underwriting cycle. FSRs utilize statutory financial data based on

insurance accounting principles prescribed or permitted by the National Association of Insurance Commissioners (NAIC). Since 1989, FSRs of A or better have been accepted by the major participants in the secondary mortgage marketplace.

Visit www.demotech.com for more information or to search insurers that are currently assigned an FSR. Insurers can be searched by name, group affiliation, and jurisdiction.

Moody's Investor's Services

Moody's Investor's Services assigns what it refers to as Financial Strength Ratings that measure the insurance company's ability to meet its senior policyholder obligations and claims. The rating analysis is similar to Moody's well-known and respected bond ratings. Most companies that are rated by Moody's have voluntarily requested the rating and go through an interview process similar to Standard & Poor's. A Moody's Insurance Financial Strength Rating is an opinion of the insurer's ability to repay senior policyholder claims and obligations punctually. The rating gradations are broken down into nine distinct symbols, with each symbol representing a group of ratings in which the quality characteristics are broadly the same. The symbols, comprising two distinct rating groups of strong and weak companies, range from those used to designate the greatest financial strength (i.e., highest investment quality) to those denoting the least financial strength (i.e., lowest investment quality). Numeric modifiers are used to refer to the ranking within the group — with 1 being the highest and 3 being the lowest. The financial strength of companies sharing a generic rating symbol (Aa, for example) is roughly the same with only minor differences.

For the latest Moody's rating, visit the company's website at www.moodys.com (or call 212-553-0377). The Insurance Financial Strength Ratings on the web site are located under the "Insurance" category.

Standard and Poor's Corporation

Standard and Poor's Corporation rates what it refers to as the claims paying ability of insurance companies that request and pay for a rating. Standard and Poor's also publishes "Security Circle" and "Financial Enhancement Ratings". An S&P Financial Strength Rating is the agency's current opinion of the financial security aspects of an insurance company, with specific focus on the company's ability to pay claims on its insurance policies. The Insurer Financial Strength Ratings are based on information furnished by rated organizations or obtained by Standard & Poor's from other sources it considers



reliable. Standard & Poor's does not perform an audit in connection with any rating and may on occasion rely on un-audited financial information. S&P ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information or based on other circumstances.

For the latest Standard and Poor's Ratings, visit the agency's website at www.standardandpoors.com (or call 212-438-2400). To access the Insurer Financial Strength Ratings on the website, click on the "Ratings Lists" link, and then choose the "Insurance" category.

Check for Complaints

The National Association of Insurance Commissioners web site features a section on complaints at [How to File a Complaint and Research Complaints Against Insurance Carriers](#). Their Consumer Information Source (CIS) presents key information about insurance companies you can use BEFORE purchasing insurance such as closed complaints, licensing information and financial data. You can also find a link to file an official complaint with your state insurance department.

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