

Belly UP: Navigating a claim when your insurer becomes “insolvent”

If the company that insures your home or business has become insolvent or is in danger of becoming insolvent (a fancy word for “broke”), it’s scary and very unfortunate. If your insurer is a licensed and “admitted” company that is covered by a “Guaranty Fund” (or “Association”) you can file a claim for compensation, and while you may not recover the full amounts your insurer owed under the terms of the policy they sold you, you may come close.

All 50 states, Puerto Rico, the United States Virgin Islands and the District of Columbia have a “guaranty” mechanism in place for the payment of covered claims arising from the insolvency of insurers licensed in their state. Guaranty associations are non-profit organizations created for the purpose of protecting policyholders from severe financial losses and delays in claim payment due to the insolvency of an insurance carrier, but only in the case of licensed insurers. (You can check with your state’s Department of Insurance to find out whether your company participates in your state’s insolvency fund).

<https://uphelp.org/recovery/state-by-state-help/>

If your home was damaged in a disaster, you need your insurance benefits to pay for repairs or rebuilding, but your insurer has been officially declared insolvent or is in “receivership,” here are some tips to help you navigate this extra difficult situation.

What is receivership?

Receivership is a process where a court-appointed “receiver” takes control of a company in order to have an orderly process to pay its debts. In the case of an insurance company, your claim is considered a debt.

Insurer insolvency is governed by state law, not federal law. If a state insurance department determines that an insurance company’s financial situation is hazardous to policyholders or the public and that the company is not able to pay claims, state regulators may petition a court to place the company into

receivership. This can happen after a disaster, when many people make large claims all at once. In California, this scenario played out when Merced Property & Casualty became insolvent after the Camp Fire in 2018 burned 14,000 homes (see [Hurry up and wait? What to do when your insurer goes “insolvent.”](#))

What if my claim is with an insurer that goes into receivership?

Typically, your state’s insurance regulator will be the receiver for the failed company, and you will have to navigate a claim process. Unfortunately, you may only get a portion of what your policy promised, and most states have a cap on the total amount of benefits they will pay out in each claim category. In the Merced example above, California’s Guaranty Fund (CIGA) paid a maximum of up to \$500k per claim, but the payout was not automatic – it was contingent on the policyholder completing and submitting paperwork documenting their losses.

(In all states, policyholders’ claims are paid before those of general creditors.) Check your [state’s insurance department website](#) to learn what these caps are.

How will this affect my claim if I have a mortgage?

If you think your insurance company might be in danger of failure, you should monitor the situation, be in touch with your mortgage company, and [start shopping for a new policy](#). This can be stressful if you’re trying to manage a disaster claim at the same time, so take time to educate yourself regarding any circumstances that affect your progress towards settling your claim, such as the scope of damage in your area and the amount of damage.

Since your mortgage company is co-insured for your property along with you as the policyholder, they will need to be informed not only of the possibility of your insurer becoming insolvent, but also of the status of your claim.

Some mortgage agreements require completion of repairs within a certain time period, so [read your policy](#) to determine if this affects you. The type of loss and language in your policy will affect what recourse you have. If you’re trying to repair your home after a large loss, you can ask for extensions of time to complete repairs. Use our [sample letters](#) if you need help with language for communicating with



your insurance company.

Where can I find more information specific to my state and insurer?

The National Conference of Insurance Guaranty Funds [provides a directory](#) that you can use to find your state's Guaranty Fund. The National Association of Insurance Commissioners provides a [guide with contact information for state departments of insurance](#), if you have questions about your insurance company and their financial strength. You can also use the tips in United Policyholders' publication [How to check an insurer's financial strength](#).

For more information:

Louisiana: <https://www.lidi.la.gov/industry/financial-regulation/receivership>

Florida: <https://www.myfloridacfo.com/division/receiver/companies>

California: <http://www.insurance.ca.gov/0500-about-us/02-department/025-clo/>

General: <https://content.naic.org/cipr-topics/receivership>,
<https://www.ncigf.org/resources/insolvencies-an-overview/>

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