

Admitted vs. Non-Admitted Insurance Companies of California

Business Owners Want To Know The Difference

by Raymond Fuentes, Property & Casualty Broker, LIC#: 0147061

If you are a business owner conducting business in the state of California, it is very important to understand the difference between an “admitted” and a “non-admitted” insurance company.

Definition of an Admitted Insurance Company

- An “admitted” or “licensed” insurance company— is an insurance company that must file its rates and specific requirements with the California Department of Insurance (CDI).
- Once an admitted insurance company files its rates, it cannot change its rates without authorization from the CDI.
- Admitted carriers are required to participate in the California Insurance Guarantee Association (CIGA). In the event that an admitted insurance company declares bankruptcy, or depletes its reserve of funds— CIGA will step in to pay your outstanding claims up to the specified amount of \$500,000.

Definition of a Non-Admitted Insurance Company

- A “non-admitted” or “surplus lines” insurance company— is an insurance company allowed to conduct business in the state of California; however, it is not required to file its rates with the CDI.
- It is required to demonstrate its financial stability, reputation, and integrity with the state of California; adhering to specific solvency standards established under the California Insurance Code.
- Must maintain the following: a minimum of \$45 million in capital and surplus on reserve at all times, three years of qualifications, and a valid license to transact insurance in its permanent residency.
- Prior to binding coverage with a non-admitted carrier, you are required to sign the Disclosure Form (D-1 Form), formally making you aware of the insurance policy being issued by the non-admitted insurance company.
- Many non-admitted insurance companies are admitted in another state, or are subsidiaries of admitted insurance companies transacting insurance in the state of California.
- A list of approved non-admitted insurance companies can be found on the website of the California Department of Insurance: www.insurance.ca.gov

Benefits of an ‘Admitted’ Insurance Company

It is not necessary to pay the additional surplus lines tax and stamping fee as required when purchasing a policy from a non-admitted insurance company. In the event an insurance company files bankruptcy, or depletes its reserve of funds, CIGA will step in to make payments on your outstanding claims within its limits of coverage. Another advantage of placing coverage with an admitted insurance company is the ability to appeal the decision with the CDI if the claim was processed incorrectly.

Benefits of a ‘Non-Admitted’ Insurance Company

Depending on the type of business in operation, a non-admitted insurance company may be the only viable option for coverage. Since a non-admitted insurance company is not required to file its rates with the CDI, it allows for greater flexibility in terms of coverage and pricing. A common misconception about a non-admitted insurance company is that it’s riskier to do business with than an admitted insurance company; however, the bottom line is the financial strength of a company determines the risk.

Financial Strength

Regardless if an insurance company is, or is not, admitted in the state California, it is just as important to purchase an insurance policy from a reputable institution. An insurance company is issued a letter grade from A++ to F, and a roman numeral ranging anywhere from I (less than \$1,000,000) to XV (greater than \$2,000,000,000). These ratings work similar to classroom grades, rating the company’s financial strength and ability to pay claims. A “non-admitted” insurance company with an A+XV rating is more financially secure than a C+ rated “admitted” insurance company. These ratings are published by the A.M. Best Company and can be found at: www.AMBest.com

Conclusion

Whether or not an insurance carrier is admitted in the state of California, non-admitted insurance companies play an important role. They step in to provide coverage that would otherwise be unavailable, or with lower limits of coverage. As a business owner, be sure you’re completely informed of the insurance company you choose to protect your assets before making the important decision of purchasing business insurance.

Last updated: January 10, 2014