

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 the international rating agency, Standard & Poor's (S&P). An S&P Insurer Financial Strength Rating is an opinion of the long term financial security of an insurer in respect of its ability to pay claims under its insurance policies. There are other rating agencies, 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 Pound Gates contact.

Insurers rated 'BBB' or higher are regarded by S&P as having financial security characteristics that outweigh any vulnerabilities, and are likely to have the ability to meet financial commitments. An insurer holding one of the following four ratings is deemed to meet this criteria (The ratings shown are those used by S&P):-

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.

An insurer rated 'BB' or lower is regarded by S&P as having vulnerable characteristics that may outweigh its 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.

SD or D

An insurer rated SD or D is in default on one or more of its insurance policy obligations but it is not under regulatory supervision that would involve a rating of R

R

An insurer rated 'R' is under regulatory supervision owing to its financial condition. The rating does not apply to insurers subject only to non financial actions such as market conduct violations.

NR

An insurer designated NR is not rated, which implies no opinion about the insurer's financial security.

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

UK Insurers

The Financial Conduct 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, as of 1st January 2010, are:

Private individuals. Sole traders. Small businesses, including partnerships, unincorporated or mutual association with a turnover below £1,000,000.

All policyholders (in respect of compulsory risks e.g. Third Party Motor Liability & Employers' Liability).

Compensation available is:

100% for compulsory risks.
90% for non-compulsory risks.

EEA Member State Insurers

Authorised Insurers in EEA States may be '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 EEA 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. Switzerland is outside the EEA but equivalent rights apply via a bilateral treaty. Gibraltar is also outside the EEA but insurers there may trade with the UK under special arrangements (the Gibraltar Order). The Channel Islands and Isle of Man are outside the EEA. For further detail please contact Pound Gates.

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

In addition, compensation also may vary within the EEA and the 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.