

ERRORS & OMISSIONS

RISK MANAGEMENT ALERT

Carrier Ratings: Have the Necessary Process in Place

by **Curt Pearsall, CPCU, AIAF, CPIA**
*President – Pearsall Associates, Inc. and Consultant
to the Utica National E&O Program*

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Rating agencies such as A.M. Best, Demotech, S&P, etc., periodically dissect the financials of nearly every insurance carrier in the marketplace. **Ratings can change based on these reviews, so have a process to secure a carrier's most up-to-date information.**

Every agency should have an established minimum financial rating for the carriers they do business with. While a minimum rating of "A-" using the A.M. Best rating approach is common, consider how your E&O carrier addresses insolvency in the policy form.

Review your carriers' ratings at least once a year, including those used by the wholesalers you do business with. Ratings are available for free at www.ambest.com and www.demotech.com. You must register with A.M. Best before viewing the full rating information. You can also sign up for Demotech emails advising you of new or changed ratings among the companies they rate. Contact **Barry Koestler** at **614-526-2164** or bkoestler@demotech.com to receive these emails.

Not many carriers are downgraded each year. For example, an agency could have a carrier going from "A+" to "A." While agency management may want to examine the situation more closely, there will probably not be further action needed. *But what would your agency process be if one of your carriers was downgraded from "A-" to "B"?*

WHAT YOU SHOULD DO

Identify the clients with those carriers. If the carrier is used by a wholesaler, the wholesaler should be able to provide this information unless it was captured in your agency system.

Give those clients a written notice. Explain the situation and advise the client that the coverage was placed with an insurance carrier that was recently downgraded.

Include the explanation of the rating as provided by the rating agency. For example, in the A.M. Best methodology, a "B" rating is defined as "Fair," a "B+" is "Good," etc.

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Inform your client you are not able to attest to the carrier's future status and that there is the potential for the carrier to be unable to satisfy its obligation to pay claims. A goal of this written document is to educate the client to enable them to make an informed decision on whether they want to continue or discontinue coverage with the current carrier. Before doing that, be aware that some state laws can restrict or limit oral or written statements about the financial condition of an insurer. If you are unsure about your state's law, contact your state/trade association.

Include language advising the client that the agency is willing to remarket the account to a carrier with a higher rating. Note that there is no guarantee that the premium will be equal to or less than what the client is currently paying or that the coverage will be identical.

The client must decide and communicate in writing what direction they want the agency to take. Some agencies have the choices listed on a document and require the client to check the box that indicates their decision.

WHAT IF ONE OF MY CARRIERS IS PLACED IN REHABILITATION?

If a carrier is unable to meet its financial obligations, the insurance department in the carrier's home state may initiate a process – known as rehabilitation – to try to help them, before taking the stronger action of declaring the carrier insolvent. This action will often be coupled with a rating downgrade.

In general, you will want to take the same steps in the case of rehabilitation as a carrier downgrade, however, carefully review the rehabilitation orders to best inform your clients. The rehabilitation process varies, and specifics are provided by the state department of insurance which include a contact to address further questions or concerns.

In a rehabilitation scenario, it may be in the best interest of the client to keep their coverage in place. However, the client should make this decision after being presented with details of the rehabilitation. For the agent, it is vital to document any interactions with the client and get a sign-off if they choose to stay with the carrier.

SAMPLE DOWNGRADE LETTER AND DISCLOSURE FORM

These are a [sample letter](#) and [disclosure form](#) for informational purposes only. You should develop your agency's letter and form based on your clients' particular situation.

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