

Use of Unrated Insurers

Ask yourself what is your business worth to you and your family?
 With the amount of time put into your business, would you trust your money with an unrated insurer with no assurances over keeping your investment safe?

As part of our commitment to educating our clients and giving them the opportunity to make an informed decision when buying insurance, we have written this article to give you some background to what an unrated insurer is, and things to consider if you choose to buy from them.

What is a ‘rating’ and why is it important?

Insurance is simply a promise to pay to in the event of something going wrong. To give weight to that promise insurance companies pay an independent company to check their finances are in order and that they will be able to pay the claims they will incur. Companies such as Moody’s, Standard and Poors and Fitch will give their professional and expert opinion about the financial strength of an insurer. Here is an example of Standard and Poor’s rating scale:-

Insurer Financial Strength Ratings*		
Category	Definition	Category
AAA	An insurer rated ‘AAA’ has extremely strong financial security characteristics. ‘AAA’ is the highest insurer financial strength rating assigned by S&P Global Ratings.	Investment Grade
AA	An insurer rated ‘AA’ has very strong financial security characteristics, differing only slightly from those rated higher.	Investment Grade
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.	Investment Grade
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.	Investment Grade
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.	Speculative Grade

B	An insurer rated 'B' has weak financial security characteristics. Adverse business conditions will likely impair its ability to meet financial commitments.	Speculative Grade
CCC	An insurer rated 'CCC' has very weak financial security characteristics and is dependent on favourable business conditions to meet financial commitments.	Speculative Grade
CC	An insurer rated 'CC' has extremely weak financial security characteristics and is likely not to meet some of its financial commitments.	Speculative Grade

An insurer rated 'BB' or lower is regarded as having vulnerable characteristics that may outweigh its strengths. 'BB' indicates the least degree of vulnerability within the range; 'CC' the highest.

Are unrated insurers bad?

The truth is that we often don't know. Some unrated insurers are owned, or are subsidiaries, of companies who are financially strong but choose not to pay for the rating. Others maybe just don't want to disclose their finances into the public domain.



If unrated insurers are flawed, then it is because your decision becomes harder to make.

You are faced with a decision to place the security of your business into the hands of a company with an unknown financial strength.

How do I recognise an Unrated Insurer?

This can be difficult, they are often based outside of the UK and can be the financial backing behind other companies and brands.

While UK-based insurers are regulated by the PRA, the passporting provisions in place within the EU and the European Economic Area (EEA) mean the FCA can't stop a business from trading in the UK as long as it is regulated in a country within the EEA.

The FCA only authorise companies that can pay claims

The FCA's principals do expect that the company has sufficient funds and reserves to pay all claims. The FCA also expect the company to have procedures in place, to check and maintain that they have adequate funds at any given time to pay all claims.

However, they will not manage these companies on an ongoing basis, this would not be sustainable. The FCA also want to encourage competition within the market, which unrated insurers arguably bring.

This doesn't happen often

Over recent years there have been three large failures, each insurer had thousands of policy holders.

Three big unrated failures

- **25 May 2016** William Dewsall, CEO of unrated Liechtenstein-based Gable Insurance, admitted the insurer could not comply with Solvency II. On 15 July it was reported the business had closed to new business. The insurer was ordered to stop trading by the Liechtenstein regulator on 7 September and it was confirmed Gable entered administration on 12 October. Then on 17 November Batliner Wanger Batliner was appointed as liquidator for the provider. On 22 November 2016 Gable was declared in default by the FSCS.
- **22 July 2016** Gibraltar-based Enterprise Insurance Company was ordered to stop writing new business by the Gibraltar Financial Services Commission (GFSC). The regulator declared Enterprise insolvent and in late September administrators were called in to its parent company, Enterprise Holdings. The liquidator report into Enterprise, published in October 2016, revealed a deficit of up to £96m and showed the business had been selling unauthorised business.
- **2 March 2018** Alpha Insurance, domiciled in Denmark, was ordered to develop a recovery plan by the Danish Financial Supervisory Authority following an inspection. The troubles at CBL Insurance in New Zealand, one of Alpha's largest reinsurers, led the Alpha board of directors to stop writing new business and renewals as of 3 March. On 8 May the insurer was declared bankrupt after a filing by its liquidators.

What are the effects of an insurer failure on your business?

You will be familiar with surprise departures of high street shops where there is often little notice when they go into administration. This is very much the same with these insurers and arguably less mainstream media coverage.

This leaves you the policyholder with no cover. You lose the money paid for your premium, you need to quickly place cover with another insurer who are likely to be busy dealing with many similar enquiries. Where your company requires Employers Liability by law, you will not be able to trade until you have sourced alternative cover. The repercussions go further where these insurers are protecting you against long tail claims such as Noise Induced Hearing Loss (Industrial Deafness), asbestos related diseases and other risks that we may not be aware of yet. There will be no guarantee that there will be insurer to pay these claims, unless their liabilities have been purchased by another insurer.

Our clients want to ensure that their families, home and other assets are protected in the event that something should happen to their business. Insurer failure can mean that this does not happen, which means there is no guarantee of such protection.

Is there any compensation or other protection?

For small businesses there is some cover under the Financial Services Compensation Scheme, you must be an **eligible company** (a partnership, body corporate (Limited Company), unincorporated association or mutual association with an annual turnover of less than £1 million (or its equivalent in any other currency at the relevant time).

For insurance firms declared in default on or after 3 July 2015 protection is at 100% where claims:

- (a) arise in respect of a liability subject to compulsory insurance; or
- (b) arise in respect of a liability subject to professional indemnity insurance; or
- (c) arise from the death or incapacity of the policyholder due to injury, sickness, or infirmity;

Protection is at 90% where claims arise under other types of policy with no upper limit.

No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. Contracts of reinsurance are also not protected.

We have seen the effects and the panic caused by the collapse of these unrated insurers and want to support you in making an informed decision in advance of these scenarios. Please call **amb Insurance on 01782 740 044** about should you require more advice and help in arranging your insurance.

