

AM Best Ratings: What do they mean and how do I evaluate them?



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October 2008

With the recent turmoil in the financial markets, including challenges faced by various insurance companies, we are receiving a lot of questions about carrier stability and how their performance is being monitored by outside regulatory agencies. The AM Best Company was founded in 1899 and is the oldest and most widely recognized rating agency dedicated to the insurance industry. Within our industry AM Best is considered one of the main barometers of the financial strength for insurance companies and is inclusive of all lines of business. In addition to tracking the domestic insurance market, AM Best also monitors the status of many international carriers.

While AM Best is generally considered to be a strong indicator of the financial health of an insurance company, it should not be used in a vacuum when evaluating insurance carriers. It is important to consider other rating agencies including, Standard & Poor's, Moody's, and Fitch. If these rating agencies downgrade an insurance carrier, we will typically see increased scrutiny within AM Best on that carrier.

AM Best has two symbols that indicate their rating analysis:

The first is the financial strength rating represented by an alphabetical range between A++ and E. When providing this rating AM Best completes a comprehensive quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile.

The second symbol is numeric and designates the Financial Size Category. This provides an indicator of the size of a company based on the carriers reported policyholder surplus, conditional or technical reserve funds, other investment and operating contingency funds and miscellaneous voluntary reserves reported as liabilities in US dollars. A roman numeral is assigned to each company, anywhere from roman number I (less than \$1,000,000) to XV (greater than \$2,000,000,000).

The majority of insurance companies have an alphabetical rating of A- (Excellent) or better by AM

Best. There are a few companies that fall within the B++ category, but still considered to be excellent by AM Best. A carrier with an alphabetical rating of B or less is considered by AM Best to be Vulnerable. E is the final category they offer and a carrier with that rating is under Regulatory Supervision. At Parker, Smith & Feek, Inc our minimum acceptable Best Rating is A- V.

Until recently AIG had a Best Rating of A+ XV; they along with other carriers have seen AM Best review and/or change their rating depending on what was happening with that company. AIG currently has a Best Rating of A XV, still considered to be very strong. As carrier ratings change we continue to monitor carefully and keep our clients advised as warranted.

What does this mean for me?

Business owners are asking themselves, *how can we be confident the insurance company currently providing our insurance will continue to exist five years from now?* This is difficult to predict, but knowing and understanding how the AM Best rating system works is a good indicator. You should be working with your Broker to determine the financially strong carriers available to your organization, then determining if they are the best fit. Ideally your broker is providing alternative options with multiple strong carriers so that you have choices.

The second question that is asked is how much confidence we have in any regulatory agency at this point, given the current financial crisis. AM Best has worked hard to provide an independent evaluation of an insurance carriers operations and we still rely on their ratings. It is also important to use their ratings in conjunction with other rating agencies to determine the full picture.

We also suggest that any contractors, subcontractors or vendors you are employing should be able to provide evidence of insurance through their broker using insurance companies with AM Best ratings of A - V or better. On their certificates they should identify the Best Rating next to the insurance companies name in the upper right hand corner of



the certificate.

Your vendors are ideally they are working with insurance companies whose ratings meet your individual requirements as recommended by your broker, and been reviewed by with your attorney and any other outside entities making specific AM Best requirements. In addition to your own insurance program it is important to make sure that those who are performing work on your behalf or entering your buildings for routine maintenance have carriers that are stable today and into the future. If their carriers fail, then your insurance becomes primary for claims that might occur as a result of work they are performing on your behalf.

One last item to keep in mind. When evaluating your carrier's AM Best rating, be sure you know your lenders minimum AM Best requirement and if your current or proposed carrier continues to meet those minimum requirements. We recommend reviewing this annually with your broker.