Your Insurance Company's Financial Strength and You

Insurance companies must maintain statutorily-required financial standards to stay in business and pay claims. Here are some suggestions for consideration:

How can I protect myself from insurance companies in hazardous financial condition?

Conduct some research before buying or renewing your policy:

- Talk to several agents or brokers, keeping in mind that they have a vested interest in selling you insurance.
- Make sure the company is authorized to do business in Kentucky. The Kentucky Department of Insurance (DOI) has a *Search for a Company* database online at http://doi.ppr.ky.gov/kentucky/
- Check out the *Complaint Ratio Search* on DOI's Web site to see if there have been an unusually large number of consumer complaints against the company. In addition to accessing this database online, you may contact DOI directly for information at 800-595-6053.
- Contact a rating agency and ask about the company's financial "grade." (See Page 3.) Note: the *Search for a Company* database links to A.M. Best ratings.

What is the likelihood that my company will go broke or be forced out of business?

It's rare, according to the National Association of Insurance Commissioners. Each year, only a fraction of one-percent of insurers in the U.S. fail or become insolvent. Policyholders are generally not harmed because of built-in safeguards.

How is DOI involved when a company is in financial trouble?

DOI has the responsibility of determining whether authorized insurers doing business in Kentucky are financially sound and statutorily solvent. This is accomplished through financial examinations, financial analysis and administrative oversight. Kentucky domestic insurers are examined at least every three years. DOI also has authority to participate in exams of companies that are based out-of-state but do substantial business in Kentucky.

If a Kentucky-based company is in serious financial difficulty, DOI can petition the court to take over the company's operation and either rehabilitate the company or proceed with liquidation (converting assets into cash and paying policyholders, creditors and shareholders). Insurance regulators in other states have similar procedures regarding their domestic companies.

How will I be notified if my company is in trouble?

You should receive a letter from the company or DOI if the state has seized a Kentucky-based company and placed it in rehabilitation or liquidation. If your company is based out-of-state, the appropriate guaranty association or the company's liquidator will notify you.

Who pays claims if my company doesn't have the money? What protections do I have?

Guaranty funds serve as safety nets to protect insurance consumers from financial loss when a company becomes insolvent. Money for a guaranty fund is generated through assessments from companies doing business in a state. There are separate funds for different insurance lines. You may contact these funds to see if your policy is protected. The two Kentucky funds are:

- *Kentucky Life and Health Insurance Guaranty Association* (Life/Health Fund), 4010 Dupont Circle, Suite 232, Louisville, KY 40207; 502-895-5915, Fax 502-895-6543. This fund covers life and health insurance, annuities and supplemental contracts with some exceptions. Policies written by a health maintenance organization (HMO) don't have guaranty fund protection.

- *Kentucky Insurance Guaranty Association* (Property/Casualty Fund), 10605 Shelbyville Road, Suite 605, Louisville KY 40223; 502-327-0819, Fax 502-327-0859. This fund covers all direct property and casualty insurance.

How do I file a claim?

Claims should be filed with the appropriate guaranty fund. Pay close attention to any filing deadlines mentioned in the letter from the association or the liquidation office of the insolvent carrier. You must comply with these deadlines to preserve your rights.

Will my claims be paid in full?

State law places a limit on how much a guaranty fund must pay to a person presenting a claim to an insolvent insurer. These limits vary depending on the type of insurance product. The limits in Kentucky are:

- **Life/Health Fund**
  Death benefits - $300,000
  Net cash surrender/withdrawal value for a life policy - $100,000
  Annuity benefits - not to exceed the present value of $100,000
  Health benefits - $100,000

- **Property/Casualty Fund**
  All claims covered up to $300,000, except workers' compensation. There is no cap on workers' compensation.

Note: *These are maximum total amounts paid to an individual regardless of the number of policies or contracts.*

Since my health insurance coverage with an HMO is not covered by a guaranty fund, what protections do I have?

Most HMO contracts have a "hold harmless" provision that requires contracted doctors, hospitals and other providers to only collect amounts for co-payments, coinsurance and deductible amounts from you. These providers cannot collect unpaid claims that should have been paid by the HMO.

Rating agencies

A rating agency is a private company that takes a look at the finances of an insurance company and gives it a grade or rating. These grades are opinions and, therefore, provide no guarantee. But they can give you some information on how these private analysts view the health of a particular company. You can call a rating agency or go to its Web site, check with your public library for reports and information, or ask your agent or broker for the latest reports. Some rating agencies are: A.M. Best Co., Fitch Ratings, Moody's Investors Service, Standard & Poor's and Weiss Ratings Inc.

If you have additional questions about an insurer's financial strength or other issues, you may contact DOI's Consumer Protection and Education Division through the Web site (doi.ppr.ky.gov) or by phone. The Department's toll free number is 800-595-6053, and the TDD number for the deaf/hard of hearing is 800-648-6056.

Kentucky Public Protection Cabinet
Department of Insurance
P.O. Box 517, Frankfort, KY 40602-0517
Toll free 800-595-6053 Deaf/hard-of-hearing 800-648-6056
http://doi.ppr.ky.gov/kentucky/

Printed with state funds on recycled paper

The Kentucky Department of Insurance does not discriminate on the basis of race, color, religion, sex, national origin, sexual orientation or gender identity, ancestry, age, disability or veteran status. The cabinet provides, on request, reasonable accommodations necessary to afford an individual with a disability an equal opportunity to participate in all services, programs and activities. To request materials in an alternate format, contact the Department of Insurance, Communications Office, P.O. Box 517, Frankfort, KY 40602-0517, toll-free 800-595-6053. Hearing and speech-impaired persons can contact an agency by using the Kentucky Relay Service, a toll-free telecommunication service. For Voice to TDD call 800-648-6057. For TDD to Voice, call 800-648-6056.

June 2008

Kentucky UNBRIDLED SPIRIT