

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 considered 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 and Moody's, 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 these criteria:

AAA

An insurer rated 'AAA' has extremely strong capacity to meet financial commitments. 'AAA' is the highest insurer financial strength rating assigned by S&P Global Ratings.

AA

An insurer rated 'AA' has very strong capacity to meet financial commitments.

A

An insurer rated 'A' has strong capacity to meet financial commitments but is somewhat susceptible to economic conditions and changes in circumstances.

BBB

An insurer rated 'BBB' has adequate capacity to meet financial commitments but is more subject to adverse economic conditions.

An insurer rated 'BB', 'B', 'CCC', 'CC' and 'C' is regarded by S&P as having vulnerable characteristics that may outweigh its strengths. 'BB' indicates the least degree of vulnerability within the range and 'C' the highest.

BB

An insurer rated 'BB' is less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.

B

An insurer rated 'B' is more vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.

CCC

An insurer rated 'CCC' is currently vulnerable and dependent on favourable business, financial and economic conditions to meet its financial commitments.

CC

An insurer rated 'CC' is highly vulnerable. Default has not yet occurred but is expected to be a virtual certainty.

C

An insurer rated 'C' is highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations.

D

An insurer rated 'D' is in payment default on a financial commitment or breach of an imputed promise, 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.

A detailed explanation of S&P's ratings can be found on their website

<https://www.spglobal.com/ratings/en/about/intro-to-credit-ratings>

Policyholder protection for UK customers - Financial Services Compensation Scheme (FSCS)

If a UK insurer regulated by the Prudential Regulation Authority (PRA) cannot meet claims against it policyholders may be entitled to compensation from the Financial Services Compensation Scheme (FSCS). This depends on the type of insurance and the circumstances of the claim. Further information about the compensation scheme arrangements is available from the FSCS at www.fscs.org.uk.