



CAMBRIDGE
PROPERTY & CASUALTY

INSURANCE COMPANY FINANCIAL RATINGS

Where a lease imposes a requirement on a tenant to provide insurance, the lease should also specify the financial rating of the insurance company.

Typically, financial ratings are published by A.M. Best Company, which is a nationally recognized rating organization for property and casualty insurance carriers. This organization can use ratings from “S” (suspended) to the highest rating of “A++” (superior).

When selecting a rating of an insurance company, you should endeavor to require an “A++” or “A+” rating, which is the A.M. Best Company ratings for insurance companies which have a “...superior ability to meet their ongoing obligations to policy holders.” Many carriers have an “A” or “A-” rating, which A.M. Best Company described as “...an excellent ability to meet their ongoing obligations to policy holders.”

A “B++” or “B+” rating should generally be avoided, but even “A” or “A-” ratings may not be secure. For example, let us look at the rating history of two insurance companies that are currently out of business.

Kemper Insurance Co.		Reliance Insurance Co.	
1999	A	1999	A-
7/3/2000	A	7/14/2000	B++
5/7/2002	A-	8/16/2000	B
12/24/2002	B+	12/1/2000	C
3/3/2003	B+	1/30/2001	D
3/3/2003	B		
5/1/2003	C++		
6/10/2003	D		

This illustrates how quickly and “A” or “A-” insurance company can fail.

One of the reasons for this is that when an insurance company rating drops from “A” or “A-” to “B++” or “B,” mortgage companies will typically no longer deem them acceptable and major insurance brokers will no longer do business with them. Thus, a runoff of their business begins and the downward spiral ensues.

Admitted or Non-Admitted

In Michigan, insurance carriers are either “admitted” or “non-admitted.” This is similar to being licensed or non-licensed.

If an insurance carrier is “admitted,” the Property and Casualty Guarantee Association Act applies. If an insurance company is a “non-admitted” or a surplus lines carrier, the guarantee fund does not apply. Even when the guarantee fund applies, it does not apply to any property or liability claim by or against an insured whose net worth exceeds \$25,000,000 (as adjusted annually to reflect CPI increases). The protection of the act also does not apply to any claim that is in excess of \$5,000,000 (again, adjusted by the CPI annually).

With these limitations in mind, is it better to have a non-admitted insurance carrier where the guarantee fund does not apply with a Best Company rating of “A++” or an admitted insurance company where the guarantee fund does apply with a Best rating of “A-”? This consideration must be made based upon the nature of the risk itself. An admitted insurance company often may not be the appropriate placement for a particular property insurance risk. Another consideration is the net worth of the insured and the possibility of a property or a liability claim that is in excess of \$5,000,000.

For example, if there is a substantial liability exposure on a high-risk account, it would likely be better to have an “A++” rated insurance company, even if the insurance company was not admitted, rather than an “A-” insurance company that was admitted. From a property insurance standpoint, where the value of a particular risk (including possible business interruption claims) significantly exceeds \$5,000,000, again it might be better to have an “A++” insurance company, even if that insurance company was not admitted, as well.

Suggested Lease Language

“When the tenant is required to maintain insurance, the insurance will be secured from an insurance carrier admitted to issue insurance policies in the State of Michigan. The insurance carrier will be rated by A.M. Best Company with a rating of at least ‘A+.’”