

## **Insurance Companies' Financial Stability – Yes it Matters! August 2022**

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On Behalf of the WASB Insurance Plan

WEA Insurance Corporation's ("WEA") recent announced withdrawal from the Wisconsin health insurance market is a stunning reminder that your school district's insurance companies' financial positions should be reviewed and discussed with your insurance agent each year prior to renewal.

**Why is this so important?** Even though most insurance policies are in effect for twelve months, claims may not be paid until three to five or more years later. The financial health of an insurance company is correlates directly with its ability to pay future claims.

**I have to keep track of this, too?** Don't worry. Three sources offer helpful information.

1. A.M. Best – In return for a fee from the carrier, Best performs quantitative analyses of carriers' financials, reserving and pricing policies, reinsurance arrangements and capital management strategies. It also conducts qualitative research, usually in the form of interviews with top management, to understand the overall strategic direction of the company.<sup>1</sup>
2. Weiss Ratings – are issued based solely on publicly available information, and carriers do not pay for the Weiss rating. Weiss' revenue comes from the consumers and companies who buy the ratings. Per the U. S. General Accounting Office, "Weiss places far less reliance than the other agencies on analysts' judgement."<sup>2</sup> ; and
3. Wisconsin's Office of the Commissioner of Insurance – conducts financial examinations of Wisconsin-domiciled insurance companies on a rolling five-year cycle, and reports are usually issued within twelve months of completion. The exams are based on meeting Wisconsin's insurance company operations statutory and administrative law requirements.

The WASB Insurance Plan recommends school districts place their insurance with companies that carry an A.M. Best rating of not less than A-, VIII, or a Weiss rating of not less than B.

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<sup>1</sup> Tom Stephenson, "The Value of (or problem with) Rating Agencies," *Robus Research*, July 5, 2013, <<http://www.robust-risk.com/the-value-of-or-problem-with-rating-agencies/>>.

<sup>2</sup> William J. Kravant et al., "Insurance Ratings – Comparison of Private Agency Ratings for Life/Health Insurers," (GAO/GGD-94-204BR Insurance Ratings), *United States General Accounting Office, Briefing Report to the Chairwoman, Subcommittee on Commerce, Consumer Protection, and Competitiveness Committee on Energy and Commerce House of Representatives*, September 1994, <<http://www.gao.gov/products/GGD-94-204BR>>.

**What if my insurance company does not carry a minimum rating?** Consider how far below the recommended minimums the carrier is rated, check the direction of rating changes over the last few years, and ask your insurance agent what the carriers' "combined ratios" have been over the last five years. A ratio greater than 100% means the insurance company is unprofitable.

The WASB Insurance Plan helps WASB members make the most informed decisions possible. For further assistance with this topic, contact one of the Plan's endorsed insurance agencies:

**Arthur J. Gallagher Risk Management Services, Inc.**

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