

Using Unrated Insurers

Insurance is a vital component of any organisation, as it provides a sense of security and protection for when a potentially costly incident occurs. Although insurance is important for financial success, and, in some cases, a requirement before businesses can begin operating or employing workers, it can be difficult as a business owner or manager to ensure you have procured the best cover for your specific risks. That is why you should rely on brokers who can use their specialist knowledge to place your business with the insurer that offers the most comprehensive cover at the best price.

But not all insurers are created equal—some are rated, others are unrated. There are some potential benefits to choosing an unrated insurer, but the potential disadvantages are far more numerous. Rest assured that **Crendon Insurance Brokers** only works with reputable, rated insurers. To help grant you peace of mind and ensure you are an informed insurance buyer, we put together this overview.

What Is an Unrated Insurer?

Put simply, an unrated insurer is an insurer that does not carry an insurer financial strength rating given by international rating agencies, such as Standard & Poor's 500 index (S&P), Moody's, Fitch Ratings and A.M. Best. Using Fitch's definition, the insurer financial strength rating 'provides an assessment of the financial strength of an insurance organisation' and its ability to pay claims to its policyholders.

Each agency has its own methodology, but ratings are usually organised on a scale based on letter grades to indicate the degree of credit risk. For example, an 'A' rating means that the insurers have an excellent ability to pay out claims, while a 'C' rating means that the insurer has a weak ability to pay out claims.

There is no legal requirement for an insurer to be rated, and brokers are not obligated to solely conduct business with rated insurers. However, generally businesses and brokers should refrain from purchasing cover through an unrated insurer until after assessing all the options available from rated insurers. That is because, although both rated and unrated insurers are capable of going bust, statistically unrated insurers have a higher propensity for failure. Yet, there are some benefits to using an unrated insurer.

Your organisation should never sacrifice the security that cover can offer just to save a few pounds.

What Are the Benefits of Using an Unrated Insurer?

When all of the details about unrated insurers are laid out, it may seem like that there would be no incentive or reason for brokers to conduct business with them. Yet, unrated insurers can be appropriate for a limited number of circumstances. Some of the benefits of using unrated insurers include the following:

1. They can offer competitively lower prices.
2. Sometimes brokers have no choice but to place business with unrated insurers if they are unable to secure cover anywhere else.
3. Some unrated insurers have already been trading in the United Kingdom for several years, and thus, are not as risky.
4. Their reputation may be supported by the Prudential Regulatory Authority and the Financial

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Conduct Authority, which are the same authorities that endorse A-rated insurers.

5. The Financial Services Compensation Scheme (FSCS) may pay out for claims that the failed unrated insurer cannot meet, but cannot offer 100 per cent compensation in all cases. The FSCS does not cover the following:
 - a. Non-UK risks
 - b. Ship (including yacht) policies
 - c. Larger businesses, except in the case of compulsory insurance, such as employers' liability
 - d. Small businesses who purchase credit or goods in transit insurance
 - e. Reinsurance

What Are the Drawbacks of Using an Unrated Insurer?

While even A-rated insurers carry the risk of failure, they can generally offer more stability to their policyholders to prevent going into liquidation. Even though the potential benefits of choosing an unrated insurer may appear to be worth the risk, the possible detriments can end up being far more expensive.

There are many variables that determine the drawbacks of using unrated insurers, but here are five of the most common:

1. They are higher risk.
2. They lack independent verification of the quality of their cover as well as their financial stability.
3. Unrated insurers, typically based in continental Europe, are not held to the same solvency test and other regulations as UK-based rated insurers.
4. They may be difficult to contact when there is an issue or concern about a policy.
5. Clients may have to wait a significant amount of time in order for their claims to be paid.

Recent Developments Concerning Unrated Insurers

The risk of using unrated insurers is not just hypothetical—it is very real. On 17th November 2016, Gable, an unrated Liechtenstein insurance company, went into liquidation with an automatic cancellation date of all their policies on 16th December 2016—leaving policyholders only one month to secure alternate cover. A similar high-profile insurer default occurred with Enterprise Insurance in October 2016.

Unrated insurers are generally higher risk because they are outside the influence of UK insurance regulations. They have a higher propensity for defaulting—leaving their clients uninsured and vulnerable to potential risks. However, as using an unrated insurer appears to have become an accepted option rather than a passing trend, the British Insurance Brokers' Association (BIBA) has developed a new, free tool that will make choosing an unrated insurer safer.

The Litmus Test Report is accessible to all BIBA members and is intended to provide information on several key indicators to effectively determine the financial strength of an unrated insurer.

While the tool cannot provide European-based unrated insurers with the robust legislative support that UK-based insurers have, it can provide business owners with a comparable rating to make choosing between unrated and rated insurers simpler.

Choose the Insurer That Can Provide Peace of Mind

Here at **Crendon Insurance Brokers**, we always strive to direct organisations toward reputable and trusted A-rated insurers to guarantee that your policy is in safe, capable hands. For more information on meeting your insurance needs, contact **Crendon Insurance Brokers** today.