Are Insurance Companies Really Safe?

Recently we have all witnessed a dramatic change in the attitudes people have about their money. Investors have begun seeking ways to properly eliminate risk and preserve long-term guaranteed growth. When people seek safety and protection, they often consider utilizing the services and guarantees of America's insurance industry. For many years people have considered Annuities to be a safe haven for their life savings. The following is a brief outline that reveals some of the reasons annuities and insurance companies are so safe.

Regulation

The US insurance industry is truly one of the tightest regulatory environments in the world. Each State has a Department of Insurance (DOI) regulating insurance activity in their respective state. For example, if you live in Texas your DOI is keeping an eye on the operation and solvency of each insurance company that does business in Texas. It is important to keep in mind that the same holds true if that same insurance company is approved to do business in another state. In other words, your DOI is not the only one watching over the insurer. Every state the insurer does business in has another DOI looking over their shoulder as well. This creates a truly remarkable level of oversight to catch potential problems well before they can get out of hand. The following is short list of the key areas under constant supervision.

Capital &. Surplus Requirements - Insurers use capital and surplus as a buffer to finance growth and pay for emergencies and other business commitments. Each state specifies a minimum dollar amount for required capital and surplus that each insurer must maintain.

Risk Based Capital Ratio (RBC) - This sophisticated formula allows regulators to evaluate whether the insurer maintains sufficient capital in relation to the relative risk within the insurers operations. Each year the RBC levels for each company are reported to the National Association of Insurance Commissioners (NAIC) and the state where the insurance company is domiciled. These ratios are then compared to the standards set by the NAIC for monitoring. The NAIC prescribes action based on 6 categories within the levels of performance for the RBC Ratio.

Solvency - Annual Statements are filed with every state where the insurance company is licensed to do business along with a copy sent to the NAIC. This allows for a thorough annual review of overall solvency within the company.

Other Ratios and Formulas - *The Insurance Regulatory Information System (IRIS)* is a system that has been developed to monitor financial conditions and prevent insolvency within an insurer. There are a total of 12 financial tests performed within the IRIS. The *Analysis and Solvency Tracking (FAST)* system was created for additional analysis of larger insurers. The FAST system is applied to review the insurance company's financial status every three years. The FAST system reviews both current financial records along with review of the company's 5-year history.

Guaranty Associations

As an additional safety net, each state has established life and health guaranty association which operates under the supervision of state insurance commissioner. Insurers are required to participate in a state's guaranty association in order to do business in the state. The association is responsible for funding obligations to policyholders should an insurance company be unable to meet the financial obligation. The members of the association are assessed fees to pay for oblations to customers. Guaranty funds have specific limitations on the amount they cover. These amounts vary from state to state. State laws ordinarily prohibit an insurer from using the existence of the guaranty association for the purpose of the sale of insurance and annuities.

Other Insurance Companies

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Specialization

Today, many insurance companies specialize in a particular line of business. While this may skew their risk into specific types of areas, it can also provide another level of security. For instance, an insurer that focuses almost exclusively in the Annuity business is not exposed by large Natural Disasters or unforeseen health circumstances. A well-managed Annuity company can provide tremendous levels of safety and confidence by properly managing the funds in their care through a conservative portfolio of government issued and investment grade bonds.

Time

Insurance companies are built to last. In Europe for example, you can find insurers that are literally Hundreds of years old. This tradition of conservative asset management and well tested formulas for performance put insurance companies in a class by themselves.

Size

Insurance companies today are measured in terms of the billions of Dollars that they have under Their care. This financial clout allows companies to weather the storms of time and keep their Promises they have made to their policyholders.

Ratings Services

Insurance companies are among the most closely monitored business entities in the United States. Most active insurers are scrutinized by ratings services such as Weiss, Standard & Peers. Fitch, and the premier insurance rating company. A.M. Best. Companies like A.M. Best do more than simply make sure the company is meeting the minimum standards for regulatory clearance. Most rating Services are measuring the amount that the insurance company actually EXCEEDS the minimum requirements.

This additional monitoring level cannot be overstated. Nobody thinks twice when a consumer asks, "What is that insurance company rated?" In fact, most agents don't wait for the question to be asked. They often offer the current company ratings to the client because it is assumed that they expect to receive this type information. Why! Because the insurance industry is safe and measurable to a high degree. Now think carefully; when was the last time you asked, “What is my bank rated?" or how about, "I wonder what the credit rating of my local stock broker is?”

Taxation

The Items discussed above are indicative of a truly safe environment for an individual's long-term money. However, there is a risk that is often overlooked; the erosive nature of the personal income tax. Every American that earns interest in non-qualified CDs, Checking Accounts, Money Market Account, Bonds and other interest bearing vehicles must pay Uncle Sam a percentage of what was earned whether they used this money or not. Insurance products like Annuities allow people to determine when, if ever-in their lifetime, they are going to pay income taxes on their earned interest. This advantage can dramatically increase the amount of money people have available when they need it most.

Summary

Are insurance companies really safe? Absolutely! Insurance companies that follow the prescribed Formulas, practices and traditions mentioned above can achieve a level of financial security for Customers that other financial service entities can only dream of.