Life Insurance Ratings Agencies

The life insurance industry has been remarkably solid over the years. Insurance companies are heavily regulated by state insurance commissioners and are required to hold considerable reserves to protect their abilities to pay claims. In addition, many larger insurance companies are publicly traded so, in addition to regulation by state insurance commissioners, these companies are governed by federal agencies as a publicly traded corporation.

Historically, in the rare instances when life insurance carriers have experienced financial difficulties, other carriers have typically stepped in and acquired the struggling company or their in-force block of policies. As a result of heavy state and (sometimes) federal regulations, combined with insurance industry leaders protecting the industry by acquiring distressed companies and policies, the insurance industry has done a remarkably good job of paying insurance claims.

Despite the industry’s strong record of solvency and honoring claims, it is important to note that state guaranty associations provide only limited protection to their residents. The maximum death benefits protected by these state guarantee funds often fall short of the coverage that a family should buy. In fact, death benefits are protected only up to $300,000 in many states, so consumers with larger policies could be left out in the cold. Moreover, many states provide only $100,000 coverage for cash surrender or withdrawal value of permanent policies and annuities.

As previously noted, before state guaranty fund payouts kick in, regulators will try to rehabilitate, sell, or liquidate the company. If that happens, you could see an acquiring company adjust your coverage by increasing the premium or otherwise making the terms less favorable. Moreover, if you die while your carrier is in state receivership or liquidation, the payment of benefits, up to state limits, could even be delayed.

Despite the insurance industry’s strong track record of paying claims, there are real risks associated with a long-term obligation like life insurance. For this reason, it remains important to consider the size, ratings, and stability of the company issuing your policy. Not surprisingly, you sometimes see lower premium costs and aggressive policy features from carriers with lower ratings. In essence, the insured (and his or her beneficiary) is paying less in exchange for accepting a degree of solvency risk. When purchasing life insurance protection, it isn’t enough to simply “spreadsheet” premium costs. Consideration of policy features and flexibility is important – as is consideration of the stability of the issuing company. Reviewing carrier financial statements can be an important means of determining carrier financial strength, but obtaining third party rating agency summaries is probably the easiest and most widely used method of evaluating claims paying ability.

The following page introduces you to A.M. Best, Standard & Poor’s, Moody’s, and Fitch. These ratings agencies are generally regarded as the leaders in evaluating claims paying ability. Although the various agencies generally look at similar information and seek to make similar assessments – it is generally wise to consider multiple ratings when making your evaluation of carrier strength. Page XXX shows you select ratings for a number of the larger life insurance companies. Ratings are not the only important consideration when selecting a life insurance company, but they can help you reach an informed decision regarding policy selection or retention. We also provide a chart below with the 30 largest life insurers in the United States along with each companies’ ratings by the various agencies.