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INSURANCE

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More Insurance Firms Go Bust, Blocking Collection on Claims

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When George Winchell of Livermore, Calif., rear-ended another car in June 2002, he thought he was covered by an insurance policy he purchased from Legion Insurance Co. just five months earlier.

PLAYING IT SAFE

Some tips to make sure your insurer has the money to handle your next claim.

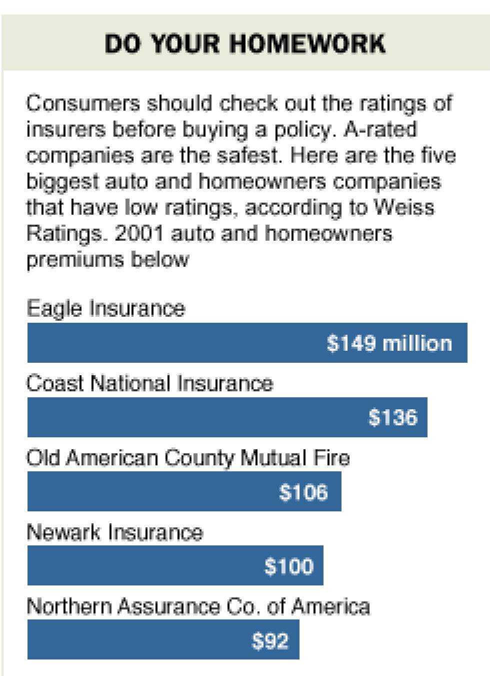
- Don't shop for price alone; distressed companies, like Legion or Reliance, often quoted aggressive rates.
- Check an insurer's financial-strength rating. It's usually on the insurer's Web site.
- Stick to A-rated companies, and check the ratings each year when you renew the policy.

Yet when he called to report his $3,000 claim, Mr. Winchell got a shock. "They said they were in hardship and wouldn't be paying claims for 90 to 120 days," he says. Seven months later, his truck's front end remains a mess. "Now they tell us they might know more in another 30 days," he says.

Mr. Winchell isn't alone in his plight. A rash of insolvencies among insurers means hundreds of thousands of consumers are at risk of not collecting on their auto or homeowners claims. In the case of Legion, now being run by the Pennsylvania insurance department, more than 11,000 claims have yet to be paid in California alone.

Over the past two years, huge losses on everything from workers' compensation insurance to the terrorism attacks of Sept. 11, 2001, have caused a growing number of insurers to file for bankruptcy protection. Reliance Insurance Co.'s collapse in 2001 resulted in delays to some individual policyholders even though the company was primarily a commercial insurer. In both 2000 and 2001, there were 30 insurance-company insolvencies each year, a huge increase from previous years, according to Robert Klein, a professor at Georgia State University.

Adding to the problem is the fact that insurance premiums are soaring nationwide. In the search for cheaper coverage, many consumers are turning to the very companies most likely to go out of business. Mr. Winchell says low prices were the deciding factor in choosing Legion. "That'll never happen again," he says.



The insolvency surge isn't expected to abate soon. About 3% of auto and home-insurance policies were written by companies that qualify as being vulnerable to failure because of their current financial condition, according to insurance rating agency Weiss Ratings Inc. of Palm Beach Gardens, Fla. While the number may seem small, it represents more than 50 insurers and $3.2 billion in premiums.

In addition, an important safety net designed to protect policyholders is proving imperfect. State-run insurance guaranty associations are supposed to pay claims for insolvent insurers. But policyholders are finding that the system has plenty of holes, including delays and caps -- typically $300,000 -- on how much can be paid on a single claim. If there's a liability related to a severe injury, "you could easily burn through that," says Robert Hartwig, chief economist for the Insurance Information Institute, an industry group.

Guaranty funds in each state are at the mercy of the state courts and state insurance departments where each insurer has its headquarters, which often means claims-payment delays even in the best of circumstances.

Even when the guaranty associations work on schedule, it generally takes a month or more to get a claim paid, according to Dale Stephenson, president of the National Conference of Insurance Guaranty Funds.

Many of the insurers that ran into trouble are smaller companies operating in a single state, according to John

L. Ward, an insurance-industry consultant in Cincinnati. Aries Insurance Co. sold auto policies to riskier drivers in Florida, collecting $194 million in premiums in 2001. It was taken over by state regulators in May 2002.

Gallant Insurance and Valor Insurance, both part of Warrior Insurance Group, collected $110 million of premiums on similar policies in Illinois and were seized by regulators in February 2002. The insurance department has asked for orders of liquidation for both Gallant and Valor, but the companies are fighting the orders, so some claims remain unpaid. James Hallberg, formerly the president of both Gallant and Valor, says the department is to blame because it acted prematurely in seizing the companies.

A little research can help consumers avoid potential problems down the road. If you're working with an agent, ask what the company's A.M. Best rating is. Most insurers post those ratings on their Web sites. Best's highest rating is A-double-plus and anything in the A range should be safe. Weiss Ratings uses a similar system in which the strongest companies get A ratings and weak companies get D or E ratings. (Best's site is located at ambest.com[1]; Weiss is weissratings.com[2]. In addition, iii.org[3], the Insurance Information Institute's site, has helpful details on how to choose an insurer.)

Each state's insurance department should also have information on a company's financial health.

At least once a year, it's a good idea to check up on your carrier's financial strength since that can change quickly. "It's very difficult to stay on top of the current status of every insurance company," says John Garamendi, California's insurance commissioner. "Their asset bases can go south in a big hurry."

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