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GAO

Report to Congressional Requesters

July 1987

INSURER FAILURES

Property/Casualty Insurer Insolvencies and State Guaranty Funds

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General Government Division

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July 28, 1987

The Honorable James J. Florio
Chairman, Subcommittee on Commerce,
Consumer Protection and Competitiveness
Committee on Energy and Commerce
House of Representatives

The Honorable Henry A. Waxman
Chairman, Subcommittee on Health
and the Environment
Committee on Energy and Commerce
House of Representatives

The Honorable Paul Simon
United States Senate

The Honorable Daniel K. Inouye
United States Senate

The Honorable Albert Gore, Jr.
United States Senate

The Honorable Jay D. Rockefeller
United States Senate

In accordance with your request of May 27, 1986, this report provides information on property/casualty insurance company insolvencies. Specifically, this report provides data on the incidence of insolvencies and the characteristics of selected companies which have failed, and reviews the system of state guaranty funds which were established to pay claims made against insolvent insurance companies.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will make this information available to other interested parties upon request.

Craig A. Simmons
Senior Associate Director

Executive Summary

Purpose

Congressional interest in state regulation of the property/casualty insurance industry has focused on the issue of solvency and the protection of policyholders and claimants in the event an insurer fails. Federal alternatives to the states' efforts in these areas were proposed in 1966, 1969, and 1977 but legislation was not enacted. A series of hearings on state regulation and the liability insurance crisis were also held in 1986 after a significant number of insolvencies occurred in 1984 and 1985.

Several Congressional requesters asked that GAO provide information on recent insolvencies of property/casualty insurance companies and the regulatory mechanisms that exist to deal with them. Specifically, GAO obtained data on

- the incidence of property/casualty insurance company insolvencies,
- the financial and operating characteristics of selected insolvent companies, and
- the system of state property/casualty guaranty funds.

GAO carried out this review from September 1986 to February 1987.

Background

Regulation of the insurance industry and control over insurance company insolvencies is primarily the states' responsibility. In general, state legislatures set the rules under which insurance companies must operate. Because the laws enacted by the states are not uniform, difficulties can arise when insolvencies of multistate insurers occur.

Providing protection for policyholders in the event an insurance company fails is also a responsibility of the states. To carry out this function, each state has established a guaranty fund for property/casualty insurance. Most of the funds were established in the late 1960s and 1970s in response to a series of automobile insurer insolvencies and possible federal intervention. The funds are administered by the insurance industry under the supervision of the state insurance departments. (In New York, the fund is administered by the Superintendent of Insurance.)

The National Association of Insurance Commissioners consisting of the heads of the insurance departments of each state, performs various analyses and reviews of financial statements submitted annually by insurance companies to identify those which may require closer monitoring. The Association also drafts model laws and regulations for adoption by the states. In 1969, the Association prepared a model guaranty fund act and, today, almost all the states follow its basic guidelines.

Results in Brief

From November 1969 through 1986, there have been about 140 insolvencies of property/casualty insurance companies. Forty-two percent of these insolvencies have occurred since 1983, and the number of companies designated by the National Association of Insurance Commissioners as requiring "regulatory attention" because of troubling financial conditions has increased.

Analysis of selected data on 49 of 95 property/casualty insurance companies that were liquidated in the 10-year period from 1977 through 1986 did not reveal any characteristics or trends common to all companies. (See chapter 2.)

Questions have been raised on the effectiveness of state regulation of solvency. Moreover, inconsistencies in the state fund laws have caused confusion and conflicts between the funds and raised questions on whether the state-by-state approach is appropriate. (See chapter 3.)

GAO's Analysis

Insolvencies

The incidence of insolvencies has generally followed the profitability cycle of the property/casualty insurance industry. That is, the number of insolvencies was higher after low-profit or loss years and lower after more profitable years. Forty-two percent of the insolvencies which took place between November 1969 and the end of 1986, occurred since 1983. Although the number of insolvent companies has increased, it still totalled less than 1 percent of all property/casualty companies in each year.

The incidence of insolvencies has also been geographically widespread. However, just over half of these insolvencies occurred in six states - New York, California, Pennsylvania, Texas, Illinois, and Florida.

The number of companies designated for regulatory attention by the Association increased from 132 in 1978 (8.43 percent of the 1,566 companies reviewed) to 590 in 1986 (23.55 percent of the 2,505 companies reviewed). (See p. 13).

Insolvencies in the late 1960s and 1970s generally could be attributed tc companies that were small, handled mostly automobile insurance, and operated in one state or on a regional basis. According to officials with experience in insolvency proceedings, no such profile can now be drawn because of the diverse nature of the companies, their lines of insurance, the reasons for impairment, and the economic and financial conditions existing at the time of failure. GAO's analysis of the financial and operating characteristics of 49 of 95 companies that were liquidated from 1977 through 1986 also showed this. Officials within the industry indicated that the causes of insolvencies are many and varied and cited the following as contributing factors: underpricing premiums, underreserving for losses, reinsurance problems, fraud or incompetence, and overexpansion. (See pp. 15 and 16).

Property/Casualty Guaranty Funds

State property/casualty funds, except New York's, base their structure and operations on the Model Act. Claims against insolvent insurers are paid by the funds from assessments on companies licensed in their states. Assessments are made only when a property/casualty insurer fails. In New York insurers pay a yearly amount into the guaranty fund; the fund then keeps the money in reserve for when it is needed. In most states, insurers can recover their assessments through rate increases or tax offsets that transfer the cost of insolvencies to policyholders and taxpayers. (See pp. 27, 28 and 31).

Differences among the state funds include variations in when they start paying claims, what claims they cover, how much they will pay, and how they administer claims payments. As a result, coverage depends on one's state of residence. In addition, because of differences in the states' laws, disagreements between funds have occurred concerning which fund should pay certain claims. (See pp. 29 to 33).

The increasing incidence of large company insolvencies has prompted concern over the ability of the fund system to pay all covered claims. However, there is no agreement on the scope of this or other problems in the system or on solutions. Studies conducted since 1984 suggest that many of the state funds may have difficulty, within their capacity limits, in handling large-scale insolvencies. As a result, various reforms have been proposed to address problems as they are perceived, ranging from simply increasing the amount companies can be assessed to replacing the existing state-by-state system with a single national guaranty fund. (See pp. 33 to 37).

Recommendations

GAO is not making any recommendations. The purpose of this report is to provide basic information on solvency issues. GAO did not assess the structure and effectiveness of insurance regulation nor the implications of the various proposals to change the guaranty fund system.

Agency Comments

GAO discussed this report with officials of the National Association of Insurance Commissioners and the National Committee on Insurance Guaranty Funds. These officials generally agreed with the report but made suggestions for the purpose of clarification which GAO incorporated where appropriate.

Contents

Abbreviations

AAI	Alliance of American Insurers
GAO	General Accounting Office
IRIS	Insurance Regulatory Information System
ISO	Insurance Services Office, Inc.
NAIC	National Association of Insurance Commissioners
NCIGF	National Committee on Insurance Guaranty Funds

Introduction

Regulation of the insurance industry and control over insurance company insolvencies have been and are primarily the states' responsibility. A U.S. Supreme Court decision of 1868 excluded the federal government from the field of insurance regulation. Although the Court later overturned that precedent in 1944, Congress reestablished the primacy of state regulation with the enactment of the McCarran-Ferguson Act in the following year. In general, state legislatures set the rules under which insurance companies must operate. State departments of insurance have authority to license companies to sell insurance in their states, to set the rates insurers can charge for various lines of insurance, to examine the records of licensed insurers, to take regulatory action in the case of problem companies and, when necessary, to supervise the liquidation of insolvent insurance companies. Because the laws enacted by the states to accomplish these functions are not uniform, difficulties can arise when insolvencies of multistate insurers occur.

Providing protection for policyholders in the event an insurance company fails is also a responsibility of the states, although Congress has considered several proposals for solvency protection at the federal level. To carry out this function, each state has established a guaranty fund for property/casualty insurance (similar funds have been established by most states for life and health insurance). In general, the funds are administered by the insurance industry under the supervision of the state insurance departments and funded by assessments made on insurance companies. The purpose of the funds is to pay claims made against insolvent companies.

State regulators and the guaranty funds have established central structures to help coordinate their activities. The National Association of Insurance Commissioners (NAIC) consists of the heads of the insurance departments of the 50 states, the District of Columbia, and 4 U.S. territories. The NAIC's basic purpose is to encourage uniformity and cooperation by the various states and territories as they individually regulate the insurance industry. The NAIC has no statutory or regulatory authority but, through its committees and a central staff, serves as a clearinghouse for legal and regulatory information, provides information and financial analyses of insurance companies, drafts model laws and regulations for voluntary adoption by the states, and coordinates multistate financial examinations of insurance companies.

In 1971, the Alliance of American Insurers (AAI), the American Insurance Association, and the National Association of Independent Insurers organized the National Committee on Insurance Guaranty Funds (NCIGF).

This committee assists the funds by providing a channel of communication and information exchange, apprising them on legal and regulatory developments and the status of on-going insolvency proceedings, and sponsoring various training workshops and seminars.

Questions about the adequacy of state regulation of insurance have been raised in Congress and by consumer groups. State officials and insurance industry executives, however, strongly argue that state regulation should continue and cite the following as major advantages:

- The system is in place and consists of a complex and extensive system of regulation, statutes, and case law.
- Its pluralistic nature encourages innovation and adaptation to changing needs.
- Regulators are stimulated to do a better job by the constant threat of federal intervention.
- The system can respond to local needs in the most effective and timely manner.

Critics of state regulation, on the other hand, emphasize what they see as the deficiencies of state regulation:

- The existence of state-by-state regulation and the lack of uniformity in state laws with respect to insurance result in duplication of effort.
- States do not have adequate funds and personnel to monitor the industry.
- Regulation from the local level is incomplete and inadequate to effectively and efficiently deal with the size, scope, and complexity of the insurance industry.

Congressional interest in state regulation has focused on the issue of insurance company solvency. Federal alternatives to state regulation or guaranty funds were proposed in 1966, 1969, and 1977, but legislation was not enacted. A series of hearings on state regulation and the liability insurance crisis were also held in 1986 after a significant number of insolvencies occurred in 1984 and 1985.

Objectives, Scope, and Methodology

Several congressional requesters asked us to provide information on recent insolvencies of property/casualty insurance companies and the regulatory mechanisms that exist to deal with them. Our objective was to obtain data on (1) the incidence of property/casualty insurance company insolvencies, (2) the financial and operating characteristics of selected insolvent companies, and (3) the system of state property/ca alty guaranty funds. We did our work from September 1986 to Febru 1987.

We obtained data from published material, interviews, and insurance companies' financial statements. We reviewed articles published in pe odicals and industry trade journals, reports, records of congressional hearings, and other literature on property/casualty insolvencies and state guaranty funds. We interviewed officials of the NAIC, the NCIGF, state insurance departments, industry trade associations, the Marylan insurance guaranty fund, and others with experience in insolvency proceedings.

To obtain a perspective on the nature of recent insolvencies, we attempted to collect financial statements of 95 property/casualty companies that were declared insolvent during the 10-year period from 19 through 1986 and subsequently were placed in liquidation. Our list of liquidated companies was compiled from information provided by the NAIC and the NCIGF. We did not verify the completeness of the list. The NCIGF furnished a listing of all insolvencies, from November 1969 through 1986, that required assessments by state guaranty funds. Data on insolvencies and assessments that may have been made by the few funds existing prior to 1969 were not available. The NAIC gave us a list of multistate insolvencies and liquidations occurring from 1983 throug December 15, 1986. We requested copies of relevant portions of the 95 companies' financial statements from the NAIC and various state insurance departments. Information was available and provided for 49 of the 95 companies. Since the 49 we received do not represent a statistical sample, we cannot say whether their characteristics are representative of the remaining companies.

We obtained oral comments on a draft of this report from the NAIC and the NCIGF. These officials generally agreed with the report. However, some suggestions were offered for the purpose of clarification. We incorporated these suggestions where appropriate.

Property/Casualty Insolvencies

The detection and prevention of insurance company insolvencies is a primary concern and responsibility in state regulation of the insurance industry. Although each state varies in its approach to solvency regulation, a number of basic methods are used to ensure and assess the financial strength of insurance companies. These include the following:

- Financial requirements such as minimum capital and surplus levels and investment restrictions. Companies must meet these requirements to obtain a license and continue as a licensed insurer. These requirements vary among the states.
- Review of annual financial statements that companies are required to submit to the state insurance departments.
- Periodic financial examinations. State laws usually require examinations at least once every 3 to 5 years. The NAIC also coordinates zone examinations of companies that have a large volume of business in many states (NAIC has divided the country into four geographic zones). These examinations are conducted by state examiners from participating zones. This program was established to avoid duplication in examining companies with multistate operations.
- Insurance Regulatory Information System (IRIS). This system, which is administered by NAIC, applies diagnostic tests to certain of the financial data submitted annually by insurance companies and is intended to provide an early identification of those companies that may require closer monitoring by state regulators. The IRIS program consists of two phases. The first is a statistical phase in which financial ratios and other computer generated reports on the financial condition of companies are developed from the annual statement data. These reports are distributed to the state insurance departments for their review. Eleven ratios are derived and insurers that do not meet specified levels in four or more of those ratios are designated for further review. The second phase, known as the "Examiner Team Project," involves analysis of the ratio results and selected annual statement data by a team of experienced state examiners and financial analysts. On the basis of these reviews, the Examiner Teams may designate companies for immediate regulatory attention or targeted regulatory attention. This means that the Examiner Teams' questions on the financial condition of companies designated for immediate attention must be investigated by the companies' state of domicile. Those companies designated for targeted attention are to be examined on a priority basis. This program replaced a prior early warning system in 1978.

The Effectiveness of State Solvency Regulation

In spite of efforts by the NAIC to improve the ability of the states to detect companies in financial trouble, questions have been raised on the effectiveness of state regulation of solvency. In a 1979 report[1] on state regulation of the insurance business, we concluded that there had been little progress by the states in implementing improvements recommended in a 1974 report[2] on the system for examining the financial condition of insurance companies. That report, prepared for the NAIC by McKinsey and Company, Inc., concluded that there were a number of serious flaws in the system, such as

- deficiencies in the early detection of problem companies due to the varying quality of the analysis of financial statements, infrequent and poorly scheduled examinations, and poor exchange of market conduct and financial condition information among the states;
- deficiencies in developing information needed for action, including deficiencies in evaluating internal controls and analyzing reinsurance agreements, auditing computer-based records, and examining holding company relationships; and
- deficiencies in using personnel effectively, including spending too much time examining companies least likely to have financial problems.

In April 1981, the NAIC appointed a Special Joint Committee on Examinations to review the changes which had been made as a result of the McKinsey study recommendations. In its resolution appointing the Committee, the NAIC concluded that "it has become increasingly apparent that such changes have not generally produced more efficient and effective insurance company examinations of financial condition since the same valid criticisms persist."

The Committee focused its work on problems and criticisms of the system as they related to the scheduling and conduct of financial condition examinations, examiner personnel practices, examination funding, and ways to bring about changes. The Committee stated that there was an increasing need for a more effective regulatory system to protect against insolvencies and concluded that, while some good progress had been made in some areas, overall progress in implementing the improvements had not been sufficient. Specific recommendations were made in each of the study areas, including:

[1] Issues and Needed Improvements in State Regulation of the Insurance Business (PAD-79-72, Oct. 9, 1979).

[2] Strengthening the Surveillance System: Final Report (McKinsey and Company, Inc. (NAIC) April 1974).

- conducting examinations on a priority basis so that attention can be given to companies most in need of examination;
- requiring annual examinations of insurers by independent certified public accountants;
- using a more selective approach to conducting examinations so that the most critical areas are emphasized, developing written examination plans, encouraging the use of specialists and scientific sampling techniques; and
- developing and adopting a minimum educational requirement for examiners and a continuing education program.

To facilitate the implementation of these changes, the Committee incorporated its recommendations into a Model Act and developed a Model Regulation requiring annual audits of insurance companies by independent certified public accountants. In reporting its recommendations, the Committee emphasized that the purpose of financial surveillance—to protect against insolvencies—must be reestablished and highlighted by the states before significant improvements can occur. According to a representative of the NAIC's central office, the Committee's recommended Model Act on Insurance Company Financial Condition Examinations was not adopted by the NAIC and progress has been slow in implementing an annual audit requirement. As of March 1987, 2 states have adopted the Model Regulation requiring annual audited financial reports and about 14 others have established a similar requirement.

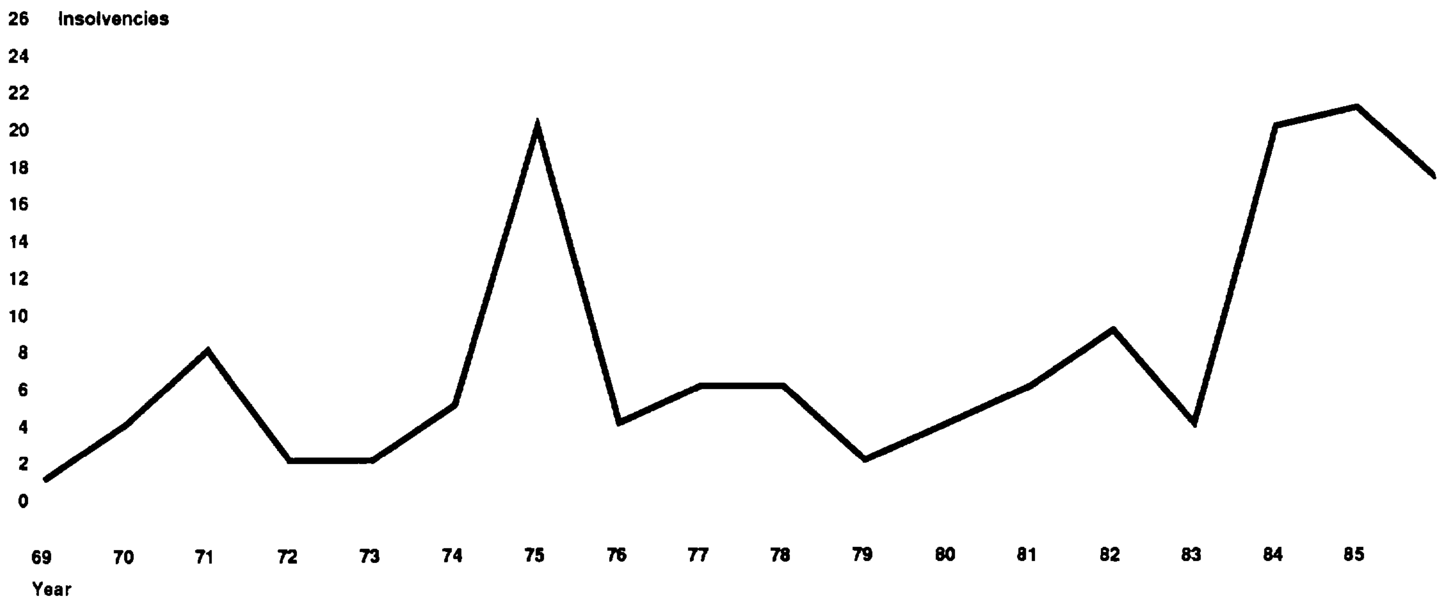
Trends in Insolvencies and Liquidations

From November 1969 through 1986, there have been about 140 insolvencies of property/casualty insurance companies. Forty-two percent of these insolvencies have occurred since 1983 and the number of companies designated by the NAIC as requiring "regulatory attention" because of troubling financial conditions has increased. In 1978, 8.43 percent (132 companies) of the 1,566 companies reviewed by NAIC were designated for regulatory attention. In 1986, 590 companies, or 23.55 percent of the 2,505 reviewed, were in this category.[3] The incidence of insolvencies has also been geographically widespread. Thirty-five states, Puerto Rico, and the Virgin Islands experienced insolvencies from November 1969 through 1986. Fifty-five percent of these insolvencies occurred in six states—New York, California, Pennsylvania, Texas, Illinois, and Florida. The number of insolvencies from November 1969 through 1986

[3] The IRIS designations for each year are based on annual statement data covering the previous year Thus, the 1978 designations cited above were based on 1977 statements, while the 1986 designations were based on 1985 statements.

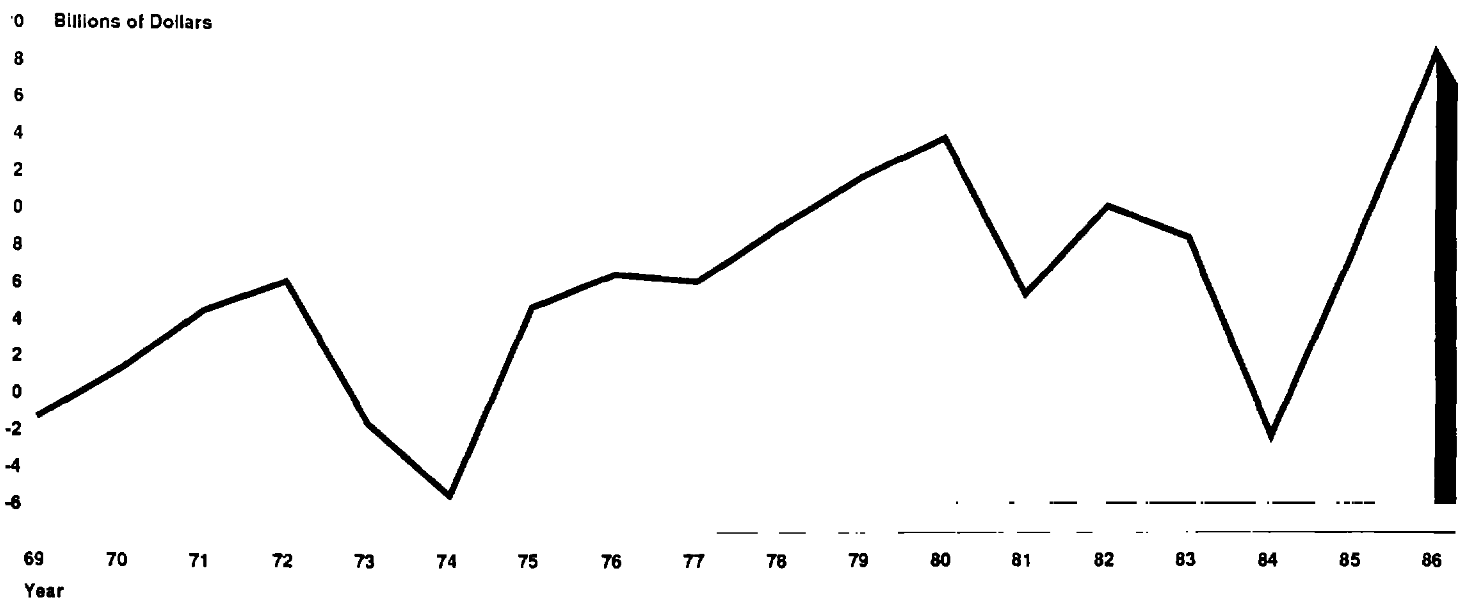
and the number of companies designated for regulatory attention by th NAIC from 1978 through 1986 are contained in figures 2.1 to 2.5.

Figure 2.1: Property/Casualty Insolvencies, November 1969 Through 1986



One of the stated purposes of the state guaranty funds was to assist states in detecting and preventing insurer insolvencies. Section 13 of NAIC's Model Act also provided for the preparation, by the state guaranty fund associations, of reports on the history and causes of insolver cies. According to officials of the NCIGF, these provisions were included on the assumption that insurance companies (which constitute the men bership of the associations) are in a position to alert regulators about financially troubled companies. However, according to these officials, because of possible legal problems (antitrust concerns) associated with such activity, the associations have not acted on these provisions.

State regulatory officials, representatives of insurance companies and trade associations, and others with experience in insolvency proceedin gave us their views on recent insolvency history and some reasons why the insolvencies have occurred. According to these officials, insolvencie igure 2.2: Property/Casualty Gains or Losses[a], 1969 Through 1986



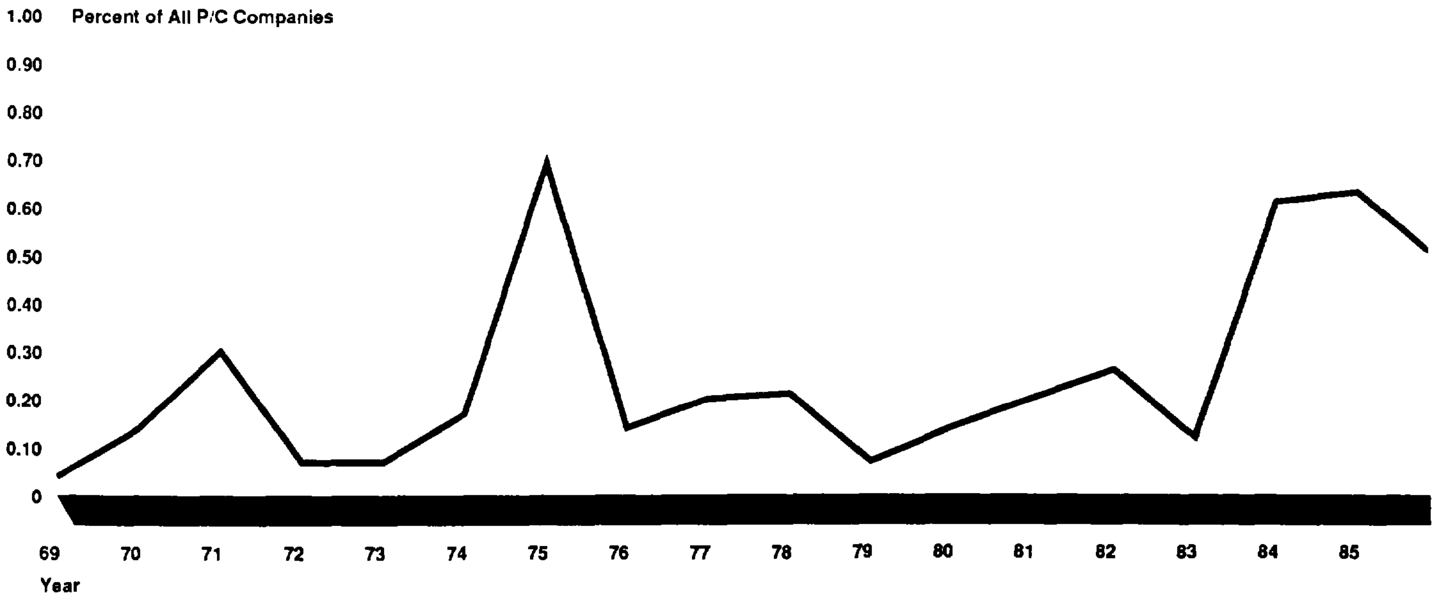
[a]Reflects investment and underwriting results rather than overall industry profits or losses

in the late 1960s and into the 1970s generally involved small companies handling mostly automobile insurance and operating in one state or on a regional basis. No such profile can be drawn for insolvencies that have been occurring since the late 1970s. This is because of the diverse nature of the companies, their lines of insurance, the reasons for impairment, and the economic and financial conditions existing at the time of failure. The officials also indicated that the causes of insolvencies are many and varied and cited the following as factors contributing to insolvencies:

- cash-flow underwriting (underpricing premiums in order to encourage sales and obtain funds for investment),
- underreserving for losses,
- reinsurance problems,[4]
- fraud or incompetence, and
- overexpansion.

[4]Reinsurance is the assumption by one company of all or part of an insurance risk undertaken by another insurance company

Figure 2.3: Insolvencies as a Percent of All Property/Casualty Companies, November 1969 Through 1986



In order to gain some perspective on recent insolvencies, we attempted to obtain selected information—size, lines of insurance, scope of operations, age, etc.—on 95 companies that were declared insolvent from 1977 through 1986. However, we did not obtain information on all of these companies. We collected data on 49 of the companies. These data are presented in figures 2.6 to 2.12 and table 2.1.

Analysis of the data did not reveal any characteristics or trends common to all companies; rather, it showed they varied in size, scope of operations, and lines of insurance written.

igure 2.4: Property/Casualty Companies esignated for Regulatory Attention, 978 Through 1986

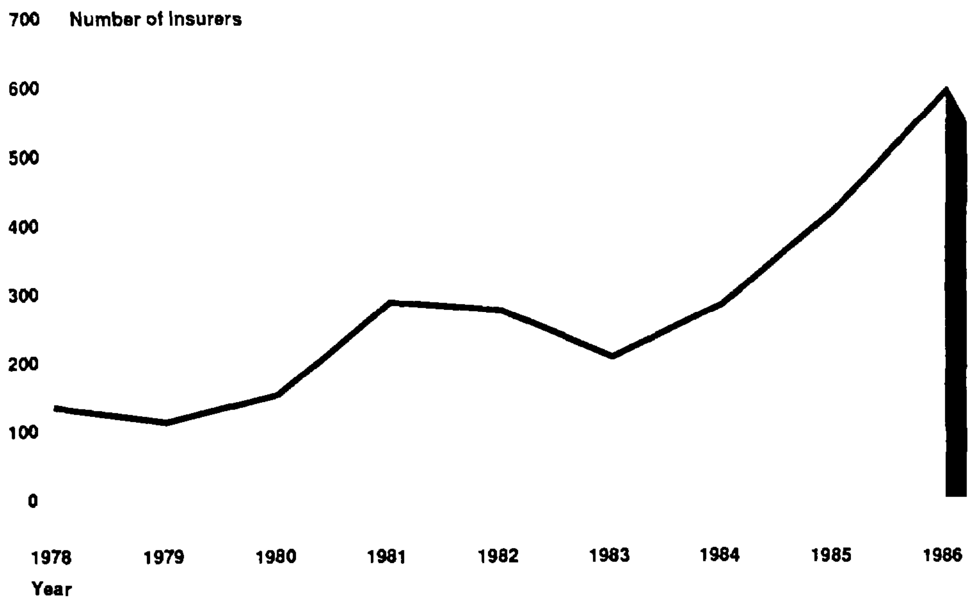
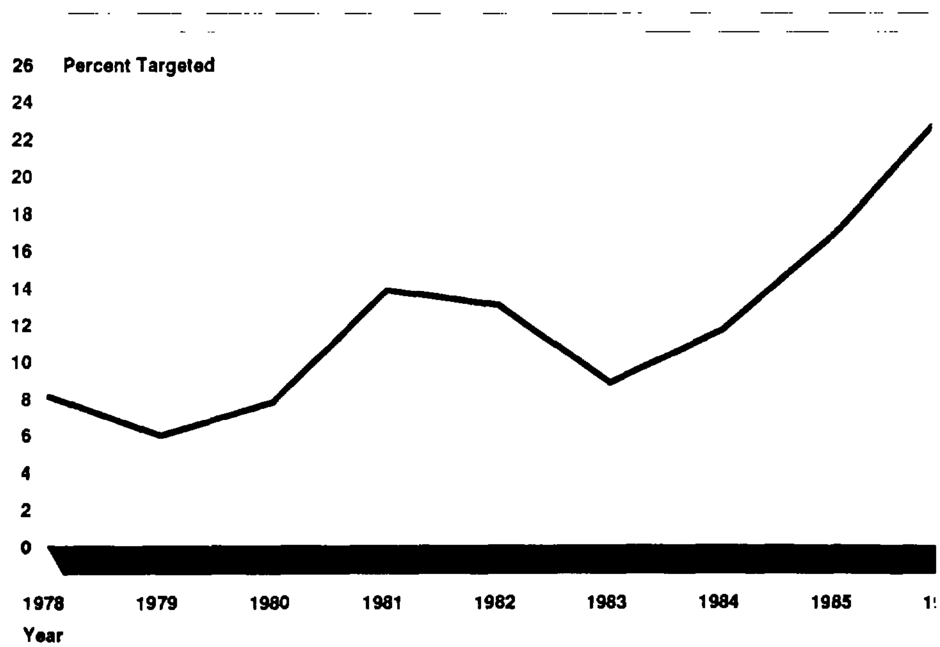


Figure 2.5: Percent of Property/Casualty Companies Designated for Regulatory Attention, 1978 Through 1986



Based on number of insurer statements reviewed by NAIC.

igure 2.6: Volume of Business for Failed ısurers (Year Before Liquidation)

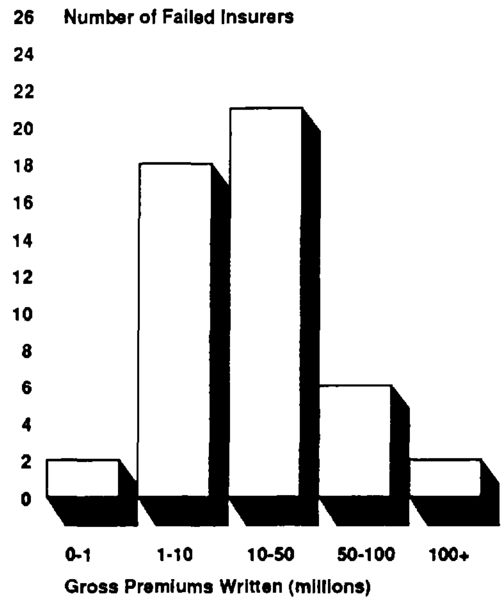


Figure 2.7: Asset Size of Failed Insurers
(2 Years Before Liquidation)

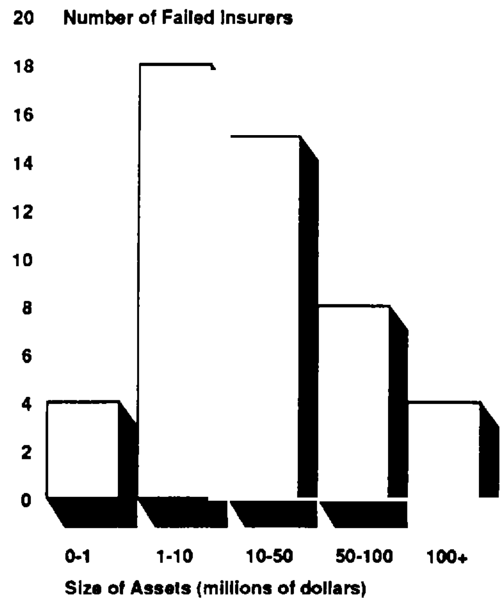


Figure 2.8: Size of Insurer Operations
(Number of States in Which Insurers Were Licensed)

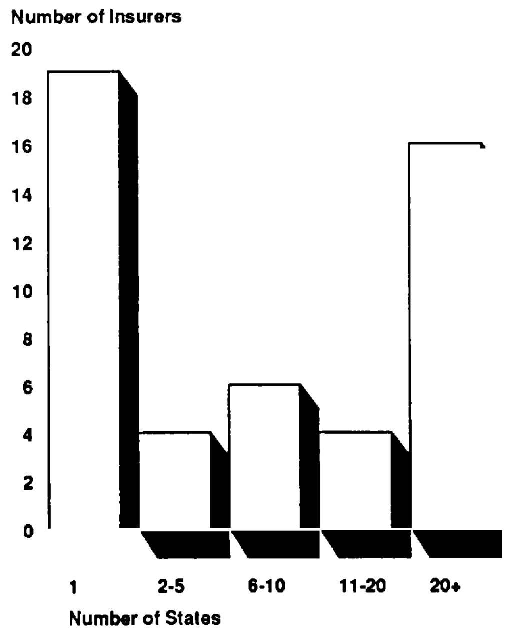
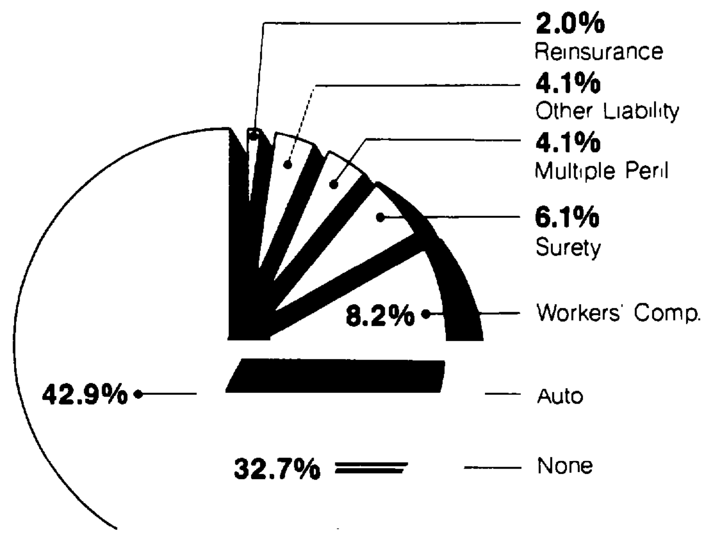


Figure 2.9: Primary Line of Failed Insurers (More Than 50 Percent of Net Premiums Written[a])



[a]Does not add up to 100 percent because of rounding

Table 2.1: Premium Volume for Insolvent Insurers by Primary Line of Insurance

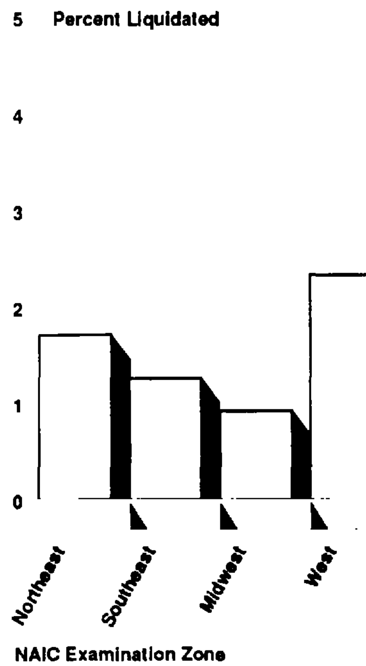
Dollars in millions

Primary line[a]	Number of companies	Total ne premiu volum (all line
Auto	21	$287
None	16	264
Worker's comp	4	96
Surety	3	9
Other liability[b]	2	8
Multiple peril	2	23
Reinsurance	1	9
	49	**$698.**

[a]More than 50 percent of net premiums written

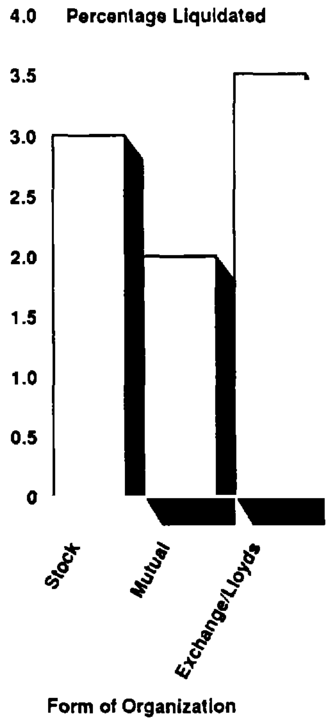
[b]In recent years, other liability and medical malpractice have been cited as problem lines that is they have been generally unprofitable for insurers Other liability was a primary line for 2 of the 49 companie and none had medical malpractice as a primary line

Figure 2.10: Percent of Insurers Liquidated (By Region[a])



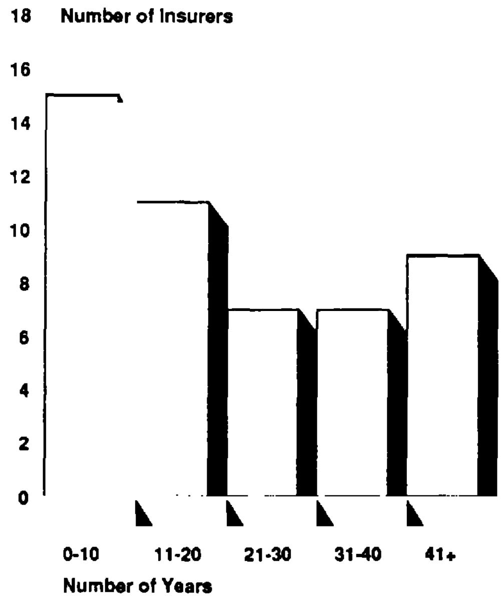
[a]The number of failed property/casualty insurers (from 1977 through 1986) domiciled in each region as a percent of the total number of companies in each region in 1986

Figure 2.11: Percent of Insurers Liquidated (By Corporate Form[a])



[a]The number of failed property/casualty insurers (from 1977 through 1986) of each corporate form as a percent of all companies of each form in 1986

Figure 2.12: Age of Insolvent Insurers
(Number of Years Since Founding)



Property/Casualty Guaranty Funds

Property/casualty insurance guaranty funds exist in all states.[5] Their purpose is to protect policyholders and claimants from the financial losses that could result from the insolvency of an insurance company. Claims against insolvent insurers are paid by the funds from assessments made on licensed companies in their states after a property/casualty insurer fails.

Origin of Property/Casualty Guaranty Funds

A few states created property/casualty guaranty funds in the 1930s and 1940s because they were concerned that policyholders might be deprived of coverage, especially worker's compensation and auto coverage, if insurers became insolvent. However, the vast majority of states did not establish funds until the late 1960s and early 1970s, in response to the prospect that Congress might create a federal guaranty fund.

In 1935, Wisconsin created the first state guaranty fund, which at the time only covered worker's compensation. New York created a worker's compensation fund in 1937 and in 1939 became the first state to establish an automobile insurance guaranty fund. This fund covered only taxicabs and other public conveyances at first, but was expanded in 1947 to cover all private motor vehicles. By 1960, two states had guaranty funds for auto insurance, and five states had funds for worker's compensation.

In the mid-1960s, Congress became concerned about insurance insolvencies and, specifically, about the effect of insolvencies of companies that insured "high-risk" drivers. Senator Thomas Dodd, Chairman of the Senate Antitrust and Monopoly Subcommittee, expressed concern in hearings[6] that such insolvencies created financial hardship for innocent victims of auto accidents. In 1966, Senator Dodd introduced a bill that would have created a federal guaranty fund for automobile insurers. The NAIC and insurance industry representatives opposed this bill, claiming it would be an intrusion on state authority and would force successful insurers to subsidize claims on insolvent ones.

In 1969, Senator Warren Magnuson, Chairman of the Senate Commerce Committee, introduced legislation that would have created a federal

[5] Specific references in this section to provisions of the various state guaranty fund laws are based on an NCIGF analysis of those laws. We did not obtain and review these statutes except for those of New York, that state not being included in NCIGF's analysis.

[6] The Insurance Industry (Part 12): High Risk Automobile Insurance. Hearings before the Senate Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary (89th Cong., 1st Sess. May 11-12, 1965).

guaranty corporation to cover all property/casualty insurance. The Commerce Committee held hearings on this legislation in late 1969 and early 1970. In response to the possibility of federal intervention, efforts to establish guaranty funds at the state level were quickly initiated with the sponsorship of the NAIC. In June of 1969, the NAIC formed a committee to prepare a model guaranty fund act; in December, the Model Act was adopted by NAIC and recommended to the states. By mid-1971, 33 states had established guaranty funds; by the end of 1974, all but three states had them (Arkansas passed a guaranty fund law in 1977, Oklahoma in 1980, Alabama in 1981). No federal guaranty fund legislation has been enacted.

How the Funds Operate

State guaranty funds are basically similar in structure and in the way they work and generally parallel the NAIC's Model Act. New York's fund, however, is not patterned on the act and is therefore not included in this report's discussion of the funds except where specifically noted.

A guaranty fund, as envisioned in the Model Act, is administered by licensed insurers under the supervision of a state's insurance department. The act prescribes that all insurers licensed within a state that write lines of insurance covered by the guaranty fund are automatically members of the guaranty fund. These members elect a board of directors, subject to approval by the insurance commissioner, which governs the fund (in some states, the commissioner of insurance is also a member of the board). Because the level of fund activity varies from state to state, the number and nature of the administrative staff vary. Some state funds have a full-time administrator and/or staff; others do not. A number of state funds combine administration on a regional basis—eight guaranty funds in the East are administered by a firm in Boston, while six funds in the Midwest and West are administered by a similar firm in Denver. Additionally, some funds handle claims by hiring claims people or by hiring the services of an insurance company. No matter how the funds are administered, however, the act provides for paying administrative costs out of insurers' assessments.

Assessments are made only when a property/casualty insurer fails. The definition of "failure," and thus the precise event that triggers operation of the funds, differs among states. Some states regard an insolvency order from a state court as sufficient to trigger a guaranty fund operation, while others require an order of liquidation from a court. There may be a significant length of time between when a company is declared insolvent (and placed in rehabilitation or conservation) and when it is ordered into liquidation. This situation can result in the payment of claims to some claimants, while others may have to wait until the guaranty funds they are covered by are activated.

Once an insurer is put into liquidation, all policies are declared to have terminated, usually 30 days after the date of failure. However, claims on the policy dating from before its termination are still valid. These will be paid out of the guaranty fund of the policyholder's state of residence (assuming that the policyholder does not have another policy to cover the claim) if the insolvent insurer was licensed in the policyholder's state of residence. Under the Model Act, if the insurer was not licensed in the state, the policyholder or claimant is not entitled to file a claim with a guaranty fund but may seek payment through a claim on the failed insurer's estate, which is handled by a liquidator.

As each insolvency takes place, the guaranty fund estimates how much it will need to pay claims resulting from the insolvency, and then assesses member insurers. If the guaranty fund has underestimated the amount necessary, or if the amount cannot be collected because of limits on how much insurers can be assessed in a year, or if more claims are made after the initial insolvency, the process can be repeated in subsequent years. In most states insurers may recover their assessments at a later time, either through a rate increase or by an offset on premium taxes. All states have a limit on how much insurance companies can be assessed in a single year but this limit varies. In 27 states that limit is 2 percent of a member insurer's net direct premiums for the calendar year preceding the assessment, and 20 states have a limit of 1 percent. According to information provided by the NCIGF, guaranty funds have assessed insurers approximately $1.4 billion from November 1969 through December 1986. The net amount assessed during this period was $1.2 billion after refunds were made to member companies. Table 3.1 shows the total assessments as of December 1986 by insurer insolvency and by the amounts assessed insurance companies by the individual state funds.

In New York State the fund is run by the Superintendent of Insurance and the assessment process described above does not apply. Instead, insurers pay an amount equal to 1/2 of 1 percent of their net direct written premiums each year into the guaranty fund (unless the fund has more than $150 million in any given year), and the fund keeps the money in reserve for when it is needed. The NAIC considered recommending that other states adopt this "pre-assessment" approach but decided against doing so, in part out of concern that state legislators and executives might divert the funds for other purposes, as occurred in New York in the 1970s during the New York City fiscal crisis.

Differences Among Property/Casualty Guaranty Funds

Although the property/casualty guaranty funds, except New York's, base their structure and operations on the NAIC Model Act, these funds differ in several important details—details that can in some cases result in differences in the amounts paid for claims. In addition, inconsistencies in the state fund laws have caused confusion and conflicts between the funds.

Claim Coverage

State guaranty funds vary somewhat in the areas of insurance they cover. No fund covers reinsurance or surplus lines insurance (except in New Jersey).[7] The Model Act recommends fund coverage for all kinds of direct insurance except life, title, surety, disability, credit, mortgage guaranty, and ocean marine insurance. While most states have followed this recommendation, some states provide different coverages. One state, for example, excludes only life and disability insurance and another excludes life, health, and annuities. Several states, on the other hand, have excluded additional types of insurance, such as home warranty, health contracts, and mutual protective insurance.

Limits on Claims

The NAIC Model Act recommends that state fund laws limit the maximum that can be collected from the fund on any one claim to the lesser of $300,000 or the amount of the insurance policy limit. Thirty-three states and the District of Columbia have followed that recommendation. Of the remainder, 14 funds (including Puerto Rico) have limits lower than $300,000 (5 at $150,000, 7 at $100,000, 2 at $50,000). Two funds have limits set at higher levels (one at $500,000 and one at $1 million). Michigan does not set any dollar figure, but sets the maximum in any 1 year as 1/20 of 1 percent of premiums written by licensed insurers within the state that year. There is no limit on worker's compensation claims in 32 states and the District of Columbia.

The effect of these limits is that part or all of a claim may be paid, depending on the type of claim and the state of policyholder residence. If, for example, a business with $1 million theft coverage is burglarized and has a $500,000 claim against its insolvent insurer, the business could collect the entire claim if it were located in Rhode Island, more

[7]Surplus lines relates to insurance sold by a company in a state in which it is not licensed.

than half of it ($300,000) if it were located in Ohio, and one-tenth of it ($50,000) if located in Colorado. If a worker had a $500,000 worker's compensation claim against an insolvent insurer, he or she could collect the entire amount if a resident of Tennessee, but only $50,000 if a resident of neighboring Kentucky, because the former has no limit on worker's compensation claims and the latter does.

Unearned Premiums

Unearned premiums are premiums paid on a future portion of an insurance contract. If a premium was paid for a year's coverage, a portion of the premium would remain unearned until the year expired.

Guaranty funds in 41 states, Puerto Rico, and the District of Columbia have some provision for refund of unearned premiums. Of these, seven states have limits on how much unearned premium can be collected from the fund, ranging from $500 to $10,000 per policy. In the eight states that have no unearned premium claim provision, a policyholder is not entitled to receive any guaranty fund reimbursement for the unexpired term of a paid-up policy.

Deductibles

A deductible is a provision that a certain amount will be deducted from a claim when it is paid by an insurer (or, in the present discussion, a guaranty fund). Thirty-two states, the District of Columbia, and Puerto Rico have deductibles for claims on insolvent property/casualty insurance policies. Most of these are $100 deductibles but Wisconsin and Missouri set the deductible at $200, Puerto Rico at $50, and Michigan at $10. Twenty states which have such a deductible exempt worker's compensation claims from it. Of the states that have no deductible for liability claims, three have a deductible for unearned premium claims and two others provide that the guaranty fund need not pay claims below a certain amount ($25 in Georgia, $50 in North Carolina). The amount that can be received on a claim will therefore also vary according to a state's deductible provision.

Separate Fund Accounts

In the Model Act, NAIC provides states the option of splitting their guaranty funds into separate "accounts" so that assessments could be limited to insurers that write the same type of insurance as an insolvent company. For example, if a guaranty fund found that it had a large number of automobile claims on an insolvent insurer, it could assess only automobile insurers on their automobile premiums and pay the automobile claims out of such assessments. The NAIC recommends that each state examine its insurance markets to determine whether separate accounts would have an assessment base sufficient to cover possible insolvencies.

Thirty-four states, the District of Columbia, and Puerto Rico currently divide their property/casualty guaranty funds into separate accounts. These states most commonly divide their funds into three accounts: auto, worker's compensation, and all other lines. But some states divide their funds in other ways and may have as many as five or six separate accounts.

Recovery of Assessments

As mentioned previously, almost all guaranty funds allow insurers to recover their assessments through one mechanism or another. One state, Illinois, has no specific provision for the recovery of assessments, because it does not require insurers to notify the state regulator of rate increases. Thus, companies may consider insolvency assessments in their rate increases. The NAIC Model Act recommends that insurers be allowed to recover assessment costs through rate increases; and 32 states, the District of Columbia, and Puerto Rico have such a provision in their guaranty fund laws. For the most part, the remaining states that allow recovery do so by permitting an offset, usually over a period of 5 years, on the annual premium tax insurers must pay in these states.

In essence, those states that provide for assessment recovery are passing the cost of paying an insolvent insurer's claims on to policyholders of other insurers through rate increases or to taxpayers through a premium tax offset. This situation has prompted concerns about whether it is appropriate to require homeowners to subsidize, through rate increases, for example, guaranty fund payments to large commercial insureds.

Priority and Early Access in Liquidation

An insurance company's liquidation is usually handled by the state insurance department, which acts as liquidator/receiver in the domiciliary state. The guaranty funds that must pay off claims against the failed insurer have only as much access to the insurer's assets as state law and the actions of the liquidator give them.

Until the late 1970s, guaranty funds generally could not obtain proceeds from the distribution of a failed insurance company's assets until the liquidation process was completed. Even at that time, the funds would not receive their share of those assets until higher priority claims were paid (at this point, no assets may remain for distribution to a guaranty fund). This situation and the increasing incidence of large company insolvencies prompted NAIC to propose that guaranty funds have a higher priority in the distribution of assets and be permitted access to the assets prior to the final distribution. NAIC incorporated priority and early access provisions into its "Insurers Supervision, Rehabilitation, and Liquidation Model Act," that it adopted in 1979, and urged states to put such provisions into their laws.

Thirty-six states and Puerto Rico have both priority and early access provisions, 1 state has priority but not early access, and 6 have early access but not priority. (Of the remaining jurisdictions, two states have an arrangement under which the receiver, rather than the guaranty fund, processes and pays claims.) These provisions may not directly affect the policyholder, but they do affect the guaranty fund assessments, since claims that cannot be paid out of an insolvent insurer's assets must be paid by assessments.

Disputes Between Funds

In the mid-to-late 1960s, insolvent insurers tended to be small in size an operation and engaged primarily in writing automobile insurance. The system of state guaranty funds was established to handle these types o insolvencies. However, since the mid-1970s, an increasing number of large, multistate, diversified companies have failed. As these insolvencies occurred, questions and disagreements arose about which guaranty funds were responsible for claims because of the differences in the states' laws.

To address this problem, the NCIGF appointed a subcommittee to review the issues and to recommend how to resolve any disagreements betwee funds on which fund is primarily responsible for a given claim. The sub committee developed two methods to resolve these problems. The first involves cooperation between funds that agree that a given claim could be covered by any of them. To reach a determination of the appropriat claim coverage the subcommittee developed a set of criteria and incorporated them in guidelines entitled "Guiding Principles for Settling Disputes Between and Among Property and Casualty Insurance Guaranty Associations as to Responsibility for Claims." The subcommittee furthe recommended arbitration, rather than litigation, in situations where th funds could not reach agreement under the Guiding Principles. The Guiding Principles and an agreement on the arbitration program were distributed to the funds in September 1985. As of February 1987, 29 states and the District of Columbia have adopted the Guiding Principle and 26 of those states and the District of Columbia have agreed to the arbitration program. This approach is intended to apply only to situations in which two or more funds agree that a claim should be paid by one of them but cannot reach agreement as to which. If funds disagree initially as to whether a claim applies to any or all involved, these conflicts must be resolved through negotiation between the funds or through litigation.

Capacity of the Guaranty Funds

The increasing incidence of large company insolvencies has highlighted concerns about the capacity of the property/casualty guaranty fund system. However, there has been no agreement on how large the fund capacity should be nor on how to increase it.

Studies performed since 1984 by the AAI, the Insurance Services Office, Inc. (ISO), and the Illinois Department of Insurance attempted to determine whether the fund system could cover one or more large insurance company insolvencies. While the studies varied in their approach and implications on the scope of the capacity problem, they agreed that the fund system would have difficulty handling large-scale insolvencies.

- The AAI study, which was substantively based on industry averages, projected that in the first year after the insolvency, 38 assessment accounts in 31 states would not be sufficient to cover all costs. Also, 31 accounts in 29 states would not be sufficient in the second year.
- The Illinois study, which used the Reserve Insurance Company insolvency as its basis, projected fund capacity over a number of years. It found that in the first year after the insolvency, 60 assessment accounts in 37 states would not be sufficient to cover costs, 52 accounts in 34 states in the second year, and 41 accounts in 30 states in the third year.
- The study performed by the ISO used a number of hypothetical insolvencies rather than an actual one. ISO took the largest insurers in the United States and calculated the projected liability if each were to go insolvent. It found that the present system could handle any one large insurer insolvency. For example, an Aetna insolvency would require 97.9 percent of the nationwide total capacity of all state guaranty funds; an Allstate insolvency, 86.8 percent; a Hartford insolvency, 67.8 percent.

We discussed the implications of these studies with the Chairman and the Executive Secretary of the NCIGF and representatives of the AAI and the American Insurance Association. These officials disagreed with the insolvency projections used in the studies. They believe that the studies' assumptions were not realistic and that if such situations were to appear, the state insurance departments and the industry would intervene to work out a solution. They noted that this was done previously ir the case of Geico, when the industry ultimately "bailed out" the company rather than permit the consequences that Geico's liquidation would have had on the industry. The officials further commented that the system has worked well and although some or a series of insolvencies may strain capacity, they saw no need for concern that the system would not be able to handle future insolvencies.

In March 1985, the NAIC's Task Force on Guaranty Funds appointed a Policy Committee to examine the existing fund system. The Committee, which was comprised of insurance industry representatives, issued its final report to the Task Force in June 1986.[3] Concerning the capacity o the fund system, it concluded:

> "While the guaranty funds are not generally experiencing capacity and liquidity problems, the number of companies currently on the immediate regulatory watch list, the increase in companies downgraded by independent rating services, the sh in the nature of insolvencies from substandard auto writers to multi-line insurers and the resulting growth in the size and complexity of claims, reports of the inade quacy of reserves (particularly for companies subsequently declared insolvent), a administrative delays in the funds' access to company assets lead the committee t conclude that potential liquidity and capacity problems for guaranty funds shoul be addressed."

The Committee noted that revisions to the Model Guaranty Associatio Act, adopted by the NAIC in December 1985, will increase the capacity the system, if they are enacted by the states. The major change adopt by NAIC, in this respect, was a reduction in the scope of coverage. Add tional types of insurance specifically excluded were:

- annuities and health insurance,
- financial guaranty or other forms of insurance offering protection against losses on investments,
- fidelity or any other bonding obligation,
- insurance of warranties and service contracts, and
- credit insurance.

Proposals for Change

The Policy Committee's report also contained a discussion of numerc proposals to revise the guaranty fund system. These proposals rang from simply increasing assessment rates to a complete restructuring

[3] Report of the Policy Committee on Guaranty Funds and Solvency (NAIC, June 1986).

the operation and funding of the system. The following is a brief description of guaranty fund reform proposals and, where available, a discussion of their advantages and disadvantages as cited in the committee report and other documents we have reviewed.

Increase the Maximum Assessment

The studies performed by the AAI, the Illinois Department of Insurance, and the ISO used the current state-by-state annual assessment limits. Proponents believe that raising these limits from the present 1 or 2 percent would relieve any concern about possible fund shortfalls. Opponents believe that requiring significantly larger annual fund assessments would seriously weaken the financial position of some smaller insurers.

Single Guaranty Account

As stated previously, most states have separate guaranty fund accounts for certain lines of insurance. Consolidation into one account would enhance the capacity of a guaranty fund to deal with insolvencies of insurers with different insurance lines. However, it could also result in additional assessments for some insurers that would not normally be assessed under the multiple account system.

Prefunded Assessment Funds

The NAIC has given a proposal to establish preassessment funds a great deal of consideration in recent years and NAIC's Policy Committee on Guaranty Funds and Solvency reviewed it in detail in its June 1986 report.

The NAIC Committee set out the major arguments both for and against a preassessment system. The major arguments for such a system involve predictability and capacity. If prefunding is instituted, all insurers will know how much they have to pay each year, and state regulators will know that the money will be there when it is needed to meet claims.

The opposition to preinsolvency assessments centers around possible use of the accumulated funds by state legislators for noninsurance purposes. The NAIC report also cited arguments that preassessment funds might jeopardize guaranty fund associations' tax-exempt status, that they might make state regulators more likely to involve insurers in involuntary "bailout" schemes for failing companies, and that they might increase costs for insurers and policyholders.

After reviewing these arguments, the NAIC Policy Committee decided not to recommend a preinsolvency assessment system to NAIC.

Private Insolvency Reinsurance

The Nationwide Insurance Company proposed establishing a state-chartered, nonprofit, mutual reinsurance company from which all licensed insurers in the state must purchase insolvency reinsurance. The reinsurance would cover claims that exceeded a guaranty fund's assessment limit. Proponents argue that not only would this plan take care of potential capacity problems without further government involvement, but it would allow risk-based assessments and the building up of a reserve for catastrophic insolvency losses. Others question whether the Internal Revenue Service would allow the buildup of such a reserve, whether the entire arrangement might create antitrust problems, and whether the states would allow risk-based solvency insurance premiums.

"Policyholder Security Account"

A proposal to require all insurers to maintain a "Policyholder Security Account" was made by the State Farm Insurance Companies. This woul(require companies to maintain a custodial account containing assets in an amount sufficient to satisfy crucial policyholder liabilities, i.e., reserves established to pay for future losses and the insurance company's expenses associated with handling loss claims, plus unearned premium reserves. It would be a custodial account with an unaffiliated bank or the state insurance commissioner serving as custodian.

The supporters of this plan point out that it would create an automatic triggering mechanism for insolvency (if there were insufficient assets i the account to meet the liabilities as required, the insurer would be insolvent), thus avoiding the delays and "judgment calls" now present the insolvency process. By giving the guaranty fund a lien on the account's assets in case of insolvency, the account might minimize the effect of an insolvency on other insurers and their policyholders. Oppo nents in the industry believe it would limit a company's freedom to ma age its assets and investments, diminish regulatory interest in the adequacy of loss reserves by focusing on investment policy, and could result in state-by-state variations in special deposit laws.

More recently, in June 1986, the Vice President and General Counsel c State Farm proposed the establishment of a single, national guaranty fund chartered by the federal government but controlled by the insur ance industry. The fund would have more limited coverage than that the existing state funds, and insurers would be required to also establish a policyholder security account as previously proposed by State Farm.

Pre-Insolvency Policyholder Surcharge

The Hartford Insurance Company proposed a prefunded trust fund that would be used to pay covered claims. The fund would derive from identifiable surcharges added to all property/casualty insurance policies and would equal the maximum annual assessment rates of the individual state post-insolvency guaranty funds. In the event of an insolvency, the trust fund would pay the guaranty funds the money needed to pay claims. If the trust fund is exhausted, the guaranty funds then would make post-insolvency assessments on companies. These assessments could be recovered by the companies, as the trust fund is reinstated, through subsequent policyholder surcharges. The arguments for and against this arrangement are similar to those discussed for the prefunded proposals.

The Crum & Forster Corporation proposed a similar policyholder surcharge plan, but the surcharges would be collected and paid to the guaranty funds after an insolvency occurs.

Table 3.1: Total Assessments by State of Domicile and Insurer Insolvency (From November 1969 Through December 1986)

Domicile	Insolvent company	Total assessed[a]	Date of insolvency
Alabama	Early American	15 420 158	1985
	Standard Fire	1,931 817	1985
Arizona	Epic Insurance Company[c]	•	1975
	Arizona General Insurance Company[c]	•	1984
	Great Global Assurance Co	9,589 616	1986
California	Key Insurance Exchange	1 350 649	1969
	Los Angeles Insurance Company	1,692,463	1971
	Transnational Insurance Company	3,142 465	197
	Westgate-California	2 536,802	197
	Eldorado Insurance Company	19,231,619	197
	Signal Insurance Company/Imperial Insurance Company	53,478 429	197
	Interco Underwriters Exchange	4 216,027	198
	Western Carriers Insurance Exchange	9,862,520	19
	Golden West Insurance Exchange	1,999,812	198
	Independent Indemnity Company	91,904	198
	Surety Insurance Co of California[c]	•	198
	Cal-Farm Insurance Company	46,821	19
	S & H Insurance Company	5,206 887	19
Colorado	Manufacturers & Wholesalers Indemnity Exchange	2,710 599	19
	Aspen Indemnity	4 765,893	19
Delaware	Pacific American	13,924,034	19
	American Protective Excess Insurance Company[c]	•	19
	Commonwealth Marine	400,000	19
Florida	First American Insurance Company	2,569,023	19
	Financial Fire & Casualty Insurance Company	2 414 820	19
	Bankers Fire & Casualty Insurance Company	2,036,284	19
	Southern American Fire Insurance Company	297 812	19
	Eastern Insurance Company	817,308	19
	Gulf American	5,260,479	19
	Lawyers Professional Liability Insurance Company	24,636,099	19
	Universal Casualty Insurance Company	41,149,005	19
	Consumers Ins Group (Kent Ins Co)	15,549 925	1
	RGAF Underwriters[c]	•	1
Georgia	Maryland National Insurance Company	466,921	1
Hawaii	Financial Security Insurance Company	15,705,027	1
Illinois	Fidelity General Insurance Company	199 580	1
	Homeowners Insurance Company	601,102	1
	LaSalle National Insurance Company	10,043,847	1
	Reserve Insurance Company (includes American Reserve Insurance Co of Rhode Island)	85,197,399	1
	Market Insurance Company	1,250 000	
	Security Casualty Company	11 941,734	
	Kenilworth Insurance Company	4,599,254	
	Main Insurance Company	2,431 266	

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Domicile	Insolvent company	Total assessed[a]	Date of insolvency
	Heritage Insurance Company	1,838,963	1986
	Optimum Insurance Company	12,592,595	1986
Indiana	United Bonding Company	616,151	1971
	Guard Casualty & Surety Co	325,000	1985
	Allied Fidelity	5,520,233	1986
	Presidio Insurance Company[b]	•	1986
Iowa	United American Insurers	2,462,946	1974
	Iowa National Mutual Ins Co.	39,660,691	1985
	Carriers Insurance Co	50,211,195	1986
Louisiana	Lloyds of Louisiana[b]	•	1986
Maine	Maine Insurance Company	1,880,626	1971
Maryland	Maryland Indemnity Insurance Company	1,005,149	1977
	Eastern Indemnity	9,095,476	1985
Massachusetts	Rockland Mutual Insurance Company	14,041,436	1974
	Associated Merchants Mutual Insurance Company	999,822	1975
Michigan	Commercial Underwriters	2,998,766	1973
	National Mutual Insurance Company	200,000	1975
	Woodland Mutual	746,382	1976
Minnesota	Excalibur	43,094,275	1984
Missouri	Metro Casualty Company	500,000	1972
	Medallion/Missouri General Insurance Company	6,041,485	1975
	Consolidated Underwriters	185,079	1978
	Transit Casualty Co	111,490,656	1985
Montana	Glaco Automobile Insurance Company	346,576	1975
	Glacier General Assurance Co	30,981,491	1985
	Intermountain Insurance Company	33,894	1986
Nebraska	State Farmers Insurance Company	2,873,674	1980
New Hampshire	Sutton Mutual Insurance Company	583,363	1970
New Jersey	Interstate Insurance Company of West Collingswood	1,835,071	1975
New York	Citizens Casualty of New York	2,435,056	1971
	Professional Insurance Company	1,594,436	1974
	Resource Insurance Co. of New York	4,320,854	1975
	Summit Insurance Company of New York	12,380,159	1975
	Empire Mutual Insurance Company/Allcity Insurance Company	4,824,324	1977
	New York National Insurance Company[b]	•	1977
	Bakers Mutual Insurance Company[b]	•	1978
	Consolidated Mutual Insurance Company	9,491,029	1978
	Long Island Insurance Company	582,444	1979
	Cosmopolitan Insurance Company	16,029,938	1980
	Horizon Insurance Company	8,653,196	1984
	Ideal Mutual Insurance Company	170,427,995	1984
	Nassau	13,230,271	1984
	American Consumer Ins Co	150,000	1985
	American Fidelity Fire Ins Co.	3,935,626	1985
	Union Indemnity	12,142,103	1985

(continued)

Domicile	Insolvent company	Total assessed[a]	Date of insolvency
	Midland Insurance Company	26,875,352	1986
	Carriers Casualty Company[b]	•	1986
Ohio	Ohio Valley Insurance Company	1,362,602	1970
	Manchester Insurance & Indemnity Company	11,214,030	1976
	Proprietors Insurance Company	29,195,701	1981
	Columbus Insurance Company	3,246,231	1985
	American Druggists' Insurance Company	5,913,074	1986
	Merchants and Manufacturers of Cleveland[b]	•	1986
Oklahoma	Oklahoma Insurance Logistics Company[b]	•	1984
	Southwestern Ins Co[b]	•	1985
	Southwestern National Ins Co	16,056,395	198
Oregon	North-West Insurance Company	2,080,779	198
	Inter-West Insurance Company	968,638	198
	Forestry Industries Insurance	1,558,244	198
Pennsylvania	Gateway Insurance Company	38,679,583	197
	Granite Mutual Insurance Company	1,880,802	197
	Capitol Mutual Fire Insurance Company	409,735	197
	Guardian Mutual Insurance Company	114,685	197
	Pennsylvania Taximen's Mutual Insurance Company	199,620	197
	Satellite Insurance Company	257,497	197
	State Security Insurance Company	548,948	197
	Penn State Mutual Insurance Company	183,847	197
	Concord Mutual Insurance Company	9,987,912	19
	Amherst Insurance Company	1,499,419	19
	Safeguard Mutual Insurance Company	7,978,698	19
	Stuyvesant Mutual Plate Glass Insurance Company	1,999,957	19
	Colonial Assurance Company	2,348,123	19
	Gibraltar Mutual Insurance Company	224,595	19
	Northeastern Fire Insurance Company of Pennsylvania[b]	•	19
	Temple Mutual Ins. Co[b]	•	19
Puerto Rico	Builders Insurance Company	1,883,178	19
	Commonwealth Insurance Company	24,358,242	19
	Great Indemnity Insurance Company	3,170,041	19
	Lincoln Insurance Company	4,202,265	19
	Guaranty Assurance Company	7,638,565	1
Rhode Island	American Reserve Insurance Company (included with Reserve Ins. Co , Illinois)	(note c)	(not
South Carolina	Security Fire & Casualty Insurance Company	19,921	1
	Atlantic and Gulf States	749,764	1
Tennessee	Cotton Belt Insurance Company	364,584	1
Texas	Liberty Universal Insurance	247,388	1
	Trans Plains Insurance	49,592	1
	First Fire & Casualty Company of San Antonio, Texas[b]	•	1
	Mobile County Mutual/Mobile Insurance Company	8,063,409	
	Equitable Insurance Exchange, Inc.	15,000	
	Lloyds of America (Texas only)	1,084,484	
	Superior Lloyds[b]	•	

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Domicile	Insolvent company	Total assessed[a]	Date of insolvency
	Commercial Standard	11,032,790	1985
	United Employers Ins Co.	1,000,000	1985
	National Allied Insurance Company[b]	•	1986
	Texas Fire and Casualty[b]	•	1986
Vermont	Ambassador Insurance Company	21,835,906	1984
Virgin Islands	Dome[b]	•	1984
Virginia	Fauquier Mutual Insurance Company	339,902	1981
West Virginia	Church Layman Insurance Company	585,489	1981
Wisconsin	Wisconsin Surety Company	1,650,252	1975
	All-Star Insurance Corporation	12,560,767	1977

Source National Committee on Insurance Guaranty Funds

[a]figures do not include amounts assessed by the Louisiana, Missouri, New Mexico, South Dakota, and Utah guaranty funds to pay for claims arising out of the noted insolvencies Information from these funds indicating assessment allocation by insolvency is not available

[b]Information on assessments that may have been made on these insolvencies is not available

[c]Reserve Insurance Company and its affiliate American Reserve Insurance Company of Rhode Island are listed separately in this table to identify their states of domicile only and their insolvency is counted as a single insolvency

Glossary

Casualty Insurance	Insurance concerned primarily with the insured's legal liability for injuries to others or for damage to other peoples' property; casualty insurance also encompasses such forms of insurance as plate glass, burglary, robbery, and workers' compensation.
Claim	A request to recover under an insurance policy for a loss covered by that policy.
Conservation and Rehabilitation	Proceedings in which an insurer that is experiencing financial or other problems is placed under court-ordered regulatory control. Generally, the purpose of conservation is to conserve company assets and maintair the status quo pending a final determination of the company's status. In the rehabilitation process, steps are taken to resolve the cause and condition underlying the company's problems so that it can be returned to normal operations.
Guaranty Fund	An association established by state law to pay certain claims made against an insolvent insurance company.
Insolvency	A state of financial condition in which a company is unable to pay obli gations as they fall due in the usual course of business.
Insurance	A system under which individuals, businesses, and other organization or entities, in exchange for payment of a sum of money (a premium), a guaranteed compensation for losses resulting from certain perils unde specified conditions.
Insurance Company	An organization chartered to operate as an insurer.
Insurance Exchange	A group of persons, firms, or corporations that mutually insures risk some or all exchange members.

Insured	A person or an organization covered by an insurance policy, including the "named insured" and any other parties for whom protection is provided under the policy terms.
Liquidation	A formal, court-ordered process in which an insolvent company's assets are converted to cash and applied toward its outstanding indebtedness.
Lloyd's Organization	An unincorporated association of underwriters that shares the risk for policies written by each underwriter.
Mutual Insurance Company	An insurance corporation that has no capital stock but is instead controlled by its policyholders.
Policy	A contract of insurance.
Policyholder	A person who pays a premium to an insurance company in exchange for the protection provided by a policy of insurance.
Premium	The sum paid for an insurance policy. Net premiums written represent premium income retained by insurance companies, directly or through reinsurance, minus payments made for business reinsured. Direct written premiums are the amounts actually paid by policyholders.
?roperty Insurance	Insurance providing financial protection against loss of or damage to real and personal property caused by such perils as fire, theft, windstorm, hail, explosion, riot, aircraft, motor vehicles, vandalism, malicious mischief, riot and civil commotion, and smoke.
'einsurance	Assumption by one insurance company of all or part of a risk undertaken by another insurance company.
isk	The chance of loss. Also used to refer to the insured or to property covered by a policy.

Stock Insurance Company	An insurance corporation that has its capital divided into shares and that is controlled by its shareholders.
Surplus Lines Insurance	Insurance of a risk for which there is no normal market available and is therefore provided by unlicensed insurers.
Underwriting	The process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept the risks.

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