

Article 2 - What Has Been the Industry Trend Regarding Insurer Ratings

There is no doubt the propensity over the last five to six for the dominant rating agency of the U.S. insurance industry, A.M. Best, is to downgrade property-liability insurers. This could reflect a general deteriorating credit worthiness of the industry in general or an overall increase in the performance threshold's Best's has deemed necessary to achieve a given rating classification. Consistent with a recent study of corporate bond ratings, there is evidence of an increase in rating stringency. There appears to be pressure for insurers to maintain their existing ratings which provides a plausible explanation of the dramatic buildup of capital in the industry during the 1990's. In addition, trends suggest Best's raised the bar in terms of capital required to maintain the highest ratings differential relative to the increase in standards they required for lower rated categories. The actual pattern of capital buildup across firms in different rating categories is consistent with an attempt by the high quality firms to defend these ratings.

What Do Consumers Value?

Consumers, overwhelmingly, value insurers with strong financial ratings. The size of companies and scope of their activities was less important than their consistently strong balance sheet and income statement. Having their performance validated by independent third-party rating organization provided additional peace of mind.