A.M. Best reports rise in P/C insurance company failures to 38

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The number of insolvencies among property and casualty insurance companies remained high in 2002, with 38 companies placed either under regulatory supervision or into liquidation. — a pace greater than that experienced in 2000 and 2001, with 30 insolvencies in each year.

This news is according to a special report, "Rising Number of P/C Company Impairments Continues Trend," issued by A.M. Best Co. Several years of inadequate pricing, escalating loss costs and the need to strengthen loss reserves fueled declining operating profitability and further weakened balance-sheet strength. This caused many of the companies with severely leveraged surplus to fail. Current market conditions and economic volatility continue to challenge property/casualty companies to maintain strong balance sheets.

The insolvencies stemmed predominantly from two notably troubled business lines. Of the 38 companies, roughly two-thirds provided coverage in commercial lines, predominantly workers compensation, and some commercial-automobile liability. The remaining one-third offered personal-lines insurance, primarily private-passenger auto, which A.M. Best says primarily reflect the effects of long-term depressed pricing in these lines, as opposed to sudden catastrophic events that triggered insolvencies in the early 1990s.

Remarkably, during 2002, only one company had significant exposure in medical malpractice, and only one was exposed heavily in surety, business lines that had received considerable notoriety. Nonetheless, in early 2003, several medical-malpractice insurers have come under the supervision of their respective insurance regulatory authorities.

In 2002, high-profile insolvencies included Highlands Insurance Group Inc. and Legion Insurance Group, with both insolvencies affecting a number of policyholders. The remaining companies, however, were primarily small, single-state or regional carriers. Of the 38 companies, just seven had net premiums written exceeding $100 million in any of the three years before they became insolvent.

The cause for insolvency has remained consistent over the past 10 years, with more than 51% of all such cases the result of insufficient reserves and/or inadequate pricing of the insurance product.

In the near term, A.M. Best predicts that the insurance industry will continue to experience an elevated insolvency rate. Unlike year-end 2001, when a number of investors committed huge amounts of additional capital to the market, year-end 2002 appears to reflect an erosion of capital because of loss-reserve strengthening and investment losses, the rating organization said. ❐