What Happens When an Insurance Company Fails?

Role of the Insurance Commissioner: The insurance commissioner is charged with monitoring and regulating insurance activities within a state. The insurance commissioner also has the responsibility to determine when an insurance company domiciled in that state should be declared insolvent and to seek authority from the state court to seize its assets and operate the company pending resolution of the insolvency.

Role of the Receiver: When the insurance commissioner obtains control of a company, he is, by law, the rehabilitator or liquidator of the company, and may retain someone to serve as special deputy receiver to supervise the company's activities. The special deputy receiver may be either an independent professional experienced in legal, accounting and actuarial issues, or an employee of that state's department of insurance.

Role of the State Guaranty Association: The state life and health insurance guaranty association, a special creation of state law, is required to protect the policyholders of an insolvent insurance company. All insurance companies licensed to sell life and/or health insurance must be members. The guaranty association cooperates with the commissioner and the deputy receiver to gather the information needed to fulfill its statutory obligations.

Guaranteed Coverage: Policyholders in all 50 states, the District of Columbia and Puerto Rico are covered by the guaranty association in their state, up to limits established by state law. These benefits are usually $300,000 for life insurance death benefits, $100,000 for cash surrender value of life insurance, $100,000 for health insurance claims and $100,000 for an annuity. Individual coverage generally does not exceed an aggregate of $300,000 per individual for all lines of insurance with any one insolvent insurer.

How is Coverage Funded: Continued life and health insurance coverage for policyholders of a failed insurer is provided through assessments against life and health insurance companies. The assessments are collected by the state guaranty association, which uses the funds to provide limited continued coverage and to pay claims.

SEVEN KEY QUESTIONS ABOUT GUARANTY ASSOCIATIONS

1. WHAT ARE GUARANTY ASSOCIATIONS?

Life and health insurance guaranty associations are organizations created by state legislatures to protect the policyholders and beneficiaries of an insolvent insurance company, up to specified limits. All insurance companies licensed to write life or health insurance or annuities in a state are required, as a condition of doing business in the state, to be members of the guaranty association. If a member company becomes insolvent, money to continue coverage or pay claims is obtained through assessments of other insurance companies writing the same line(s) of insurance as the insolvent company.

2. WHO IS PROTECTED?

Life and health insurance guaranty associations cover individual policyholders and their beneficiaries; typically, persons protected by certificates of insurance issued under policies of group life or group health insurance are also covered. Limits on benefits and coverage are established by state law.

3. DOES IT MATTER WHERE I LIVE?

All life and health insurance guaranty associations limit protection to residents of their own states, provided the company was licensed there, regardless of where the failed insurance company is headquartered.

4. WHAT BENEFITS ARE GUARANTEED?

If your insurance company fails, the maximum amount of protection provided by the Ohio Life & Health Insurance Guaranty Association for each type of policy, no matter how many of that type of policy you bought from your company, is listed below:

> Life insurance death benefit: $300,000
> Life insurance cash surrender: $100,000
> Health insurance claims: $100,000
> Annuity benefits (present value): $100,000
> No individual may receive benefits aggregating more than $300,000 from the Guaranty Association as the result of the failure of any one insurer.

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5. WHEN MIGHT A GUARANTY ASSOCIATION PROVIDE BENEFITS?

Generally, a guaranty association must provide coverage when a company has been declared insolvent and ordered liquidated by a court of law. Before benefits can be paid, associations must receive details on who is insured and the type of coverage issued. Guaranty associations typically receive this information from the state authorities who have taken control of the failed company. Some delays in claims payments may occur while the necessary information if being gathered.

6. WHAT HAPPENS TO MY INSURANCE COVERAGE IF MY COMPANY FAILS?

In most cases, a guaranty association will continue coverage for a limited amount of time as long as premiums are paid. It may do this directly, or it may transfer the policy to another insurance company. In any case, policyholders should continue making premium payments to keep their coverage in force until the coverage terminates.

7. WHAT SHOULD I DO IF I AM NOTIFIED THAT MY HEALTH INSURANCE COMPANY HAS BEEN TAKEN OVER?

If you receive notice from your company's receiver that the court has ordered the state to take control of your health insurance company, you should determine if your policy will be terminated or if another solvent company has been found to continue the coverage. The receiver will be working with the guaranty associations to make arrangements for limited continuation of coverage and the payment of claims. Claims will continue to be honored until coverage is canceled by you or the guaranty association.