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How Safe is Your Insurance Company?

By Sean Scully / Philadelphia

Consumers could be forgiven for being jittery this week when news came that MetLife and The Hartford, two well known insurance giants, had experienced huge losses on their investments and were seeking billions in private investment to keep up their reserves. Their stocks have dropped by at least half in just a month. After all, wasn't this the way Bear Sterns, Lehman Brothers, Washington Mutual, and Wachovia started their slides into oblivion?

But major American insurance companies are in little danger of going the way of the extinct banks, industry analysts and officials say. And policy holders are in no danger of being unable to insure their lives, homes, and property. "We don't have a liquidity crisis, we aren't experiencing a credit crisis," says Robert Hartwig, president of industry trade group The Insurance Information Institute. "We have the cash to pay claims."

Unlike the banks that have collapsed or merged under pressure, insurance companies are tightly regulated, mostly by the states. The companies are required to keep vast sums of cash and short term investments to be able to pay off policies, and they are required to pay into state funds to protect policy holders in case one of the companies should ever fail.

Despite the stomach churning stock plunges, the situation with insurance companies simply doesn't compare with the failed banks, says financial analyst Barry Rabkin of Financial Insights, an IDC company. "They're solvent — solidly solvent" thanks to conservative investments and tight state regulator oversight. The big companies are "not going anywhere."

Insurance companies did invest in real estate and mortgages, he says, but not in the huge way the banks did — only about 10% of investments were in those areas industry-wide. It is those investments that have caused recent reported investment losses at MetLife and The Hartford. About two-thirds of insurance company investments are in solid, conservative instruments like federal and municipal bonds. Even AIG, the insurance giant bailed out by the federal government in September, is solvent in its insurance operation. The losses at AIG came mostly from the unrelated financial services division, which other insurance companies do not have.

And even if a company were to fail outright, consumers are protected much in the way that routine bank deposits are guaranteed by the FDIC. Under a 40-year-old system, each state has an "Insurance Guarantee Fund" to which companies contribute that guarantees property, casualty, life and health claims if a company is insolvent. The maximum amount per claim varies by state and by the type of

insurance, but it is as high as New York State's \$1 million on property and casualty claims.

But insolvency is quite rare, Hartwig says. There have been about 600 such cases in more than 30 years, most of those small companies that were overwhelmed by natural disasters. Last year was a record low year for solvency problems in the industry and those all involved small companies that were still staggering under the weight of claims from Hurricane Katrina.

The jitters over insurance companies came to public attention this week, when stocks of both MetLife and The Hartford took a pummeling as they announced losses on their investments, particularly in the distressed mortgage sector. And the *Wall Street Journal* reported Thursday that the two companies had discussed merging, though the talks had not produced an agreement. Analysts for the credit rating company A.M. Best have downgraded their outlook for insurance companies, but they say the companies have weathered the financial crisis better than banks and investment houses so far. While warning that "nobody is immune" in such a dismal financial market, analyst Tom Rosendale says customers aren't facing an immediate collapse of the major insurance companies. "At the end of the day," he says, "I don't think people should be panicking about their insurance companies just yet."

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