

# INSOLVENCY CHECKLIST

Agency: \_\_\_\_\_ Name: \_\_\_\_\_

Company: \_\_\_\_\_ Date: \_\_\_\_\_

Answer each of the questions below by checking the "Yes" or "No" block. There is no magic formula for evaluating the financial stability or predicting the insolvency of a company, but 3 or more "Yes" answers to questions that appear in *italics* or an accumulation of *any* 8 or more "Yes" answers may indicate a need for further investigation. This survey may be conducted at least annually for each company represented, preferably immediately after the publication of the latest A.M. Best data, and conducted more often (at least quarterly) for companies suspected to have real or potential financial problems (including those accumulating 5 or more "Yes" answers). Refer to the accompanying manual and disclaimer on the reverse side for details.

YES    NO

## ORGANIZATIONAL FACTORS

- |                          |                          |   |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Has the company been in business for less than 15 years?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. <i>Is the company's primary line(s) PP auto, workers comp, or predominantly commercial or E&amp;S/specialty?</i> |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Is there any atypical ownership/management recent changes, heavy use of MGA's or delegated authority?            |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Have there been any general premium finance company or E&O or umbrella/excess carrier refusals?                  |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. Have there been any known problems with insurance departments or other government agencies?                      |

## CAPITALIZATION & GROWTH FACTORS

- |                          |                          |   |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Is current policyholders' surplus (PHS) less than \$5 million?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. Has there been an abnormal decline, or significant fluctuation, in PHS in the last 3-5 years?                        |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. <i>Have there been any significant increases in PHS from non-operating revenues in the last 3-5 years?</i>           |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. <i>Is the ratio of net premiums written (NPW) to PHS significantly in excess of 2:1?</i>                             |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. <i>Have there been increases in NPW or reinsurance of 25%+, or erratic NPW fluctuations, in the last 3-5 years?</i> |

## CASH FLOW & PROFITABILITY FACTORS

- |                          |                          |   |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | 11. Have there been any cash flow problems (claims payments, unearned premium returns, commissions)?                |
| <input type="checkbox"/> | <input type="checkbox"/> | 12. <i>Have any significant combined ratios been abnormally high or increasing in the last 3-5 years?</i>           |
| <input type="checkbox"/> | <input type="checkbox"/> | 13. <i>Has there been any negative operating income or sustained underwriting losses during the last 3-5 years?</i> |
| <input type="checkbox"/> | <input type="checkbox"/> | 14. <i>Are there any questionable investments (in affiliates, real estate, cash increases, low yields, etc)?</i>    |

## MARKETING FACTORS

- |                          |                          |  |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 15. Have there been any major market withdrawals/changes or assumed books of business?                       |
| <input type="checkbox"/> | <input type="checkbox"/> | 16. Has the company (particularly if involuntarily) implemented any significant rate increases or decreases? |
| <input type="checkbox"/> | <input type="checkbox"/> | 17. <i>Does the company pay above-average commissions on below-average premiums?</i>                         |
| <input type="checkbox"/> | <input type="checkbox"/> | 18. <i>Does the company's product pricing seem overly competitive for the market and nature of risks?</i>    |

## BEST'S RATING FACTORS

- |                          |                          |  |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 19. <i>Is the company's current Best's Rating less than "A-"</i> ?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 20. <i>Is the company's Best's Rating a D, E, F, NA-3, NA-5, NA-6, NA-11 or no rating?</i>                       |
| <input type="checkbox"/> | <input type="checkbox"/> | 21. Does the company's Best's Rating include a "q," "w," or "x" rating modifier?                                 |
| <input type="checkbox"/> | <input type="checkbox"/> | 22. <i>Has there been a significant or multiple declines in the company's Best's Rating in the last 5 years?</i> |
| <input type="checkbox"/> | <input type="checkbox"/> | 23. Any other adverse Best's, or other, information: _____   |

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