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.

<u>YES</u>	<u>NO</u>	
		ORGANIZATIONAL FACTORS
		1. Has the company been in business for less than 15 years?
		2. Is the company's primary line(s) PP auto, workers comp, or predominantly commercial or E&S/specialty?
		3. Is there any atypical ownership/management recent changes, heavy use of MGA's or delegated authority?
		4. Have there been any general premium finance company or E&O or umbrella/excess carrier refusals?
		5. Have there been any known problems with insurance departments or other government agencies?
		CAPITALIZATION & GROWTH FACTORS
		6. Is current policyholders' surplus (PHS) less than \$5 million?
		7. Has there been an abnormal decline, or significant fluctuation, in PHS in the last 3-5 years?
		8. Have there been any significant increases in PHS from non-operating revenues in the last 3-5 years?
		9. Is the ratio of net premiums written (NPW) to PHS significantly in excess of 2:1?
		10. Have there been increases in NPW or reinsurance of 25%+, or eratic NPW fluctuations, in the last 3-5 years?
		CASH FLOW & PROFITABILITY FACTORS
		11. Have there been any cash flow problems (claims payments, unearned premium returns, commissions)?
		12. Have any significant combined ratios been abnormally high or increasing in the last 3-5 years?
		13. Has there been any negative operating income or sustained underwriting losses during the last 3-5 years?
		14. Are there any questionable investments (in affiliates, real estate, cash increases, low yields, etc)?
		MARKETING FACTORS
		15. Have there been any major market withdrawals/changes or assumed books of business?
		16. Has the company (particularly if involuntarily) implemented any significant rate increases or decreases?
		17. Does the company pay above-average commissions on below-average premiums?
		18. Does the company's product pricing seem overly competitive for the market and nature of risks?
		BEST'S RATING FACTORS
		19. Is the company's current Best's Rating less than "A-"?
		20. Is the company's Best's Rating a D, E, F, NA-3, NA-5, NA-6, NA-11 or no rating?
		21. Does the company's Best's Rating include a " q ," " w ," or " x " rating modifier?
		22. Has there been a significant or multiple declines in the company's Best's Rating in the last 5 years?
		23. Any other adverse Best's, or other, information:

INSOLVENCY CHECKLIST COMMENTS

FACTOR	C O M M E N T

BEST'S RATING CLASSIFICATIONS

<u>R</u> A	ATING	<u>1992 REVISION</u>	RA	TING	1992 REVISION
A++	Superior	Added in 1992 ratings.	D	Below Minimum Standards	Replaced "NA-7".
A +	Superior		Е	Under State Supervision	Replaced "NA-10".
А	Excellent		F	In Liquidation	Replaced "NA-10".
A-	Excellent		NA-1	Special Data Filing	
B++	Very Good	Added in 1992 ratings.	NA-2	Less Than Minimum Size	
B +	Very Good		NA-3	Insufficient Operating Experience	
В	Good		NA-4	Rating Procedure Inapplicable	
В-	Good		NA-5	Significant Change	
C++	Fair	Added in 1992 ratings.	NA-6	Reinsured by Unrated Reinsurer	
C+	Fair	Formerly "Fairly Good".	NA-7	Below Minimum Standards	Replaced by "D".
С	Marginal	Formerly "Fair".	NA-8	Incomplete Financial Information	
C-	Marginal	Formerly "Fair".	NA-9	Company Request	
	-		NA-10	Under State Supervision	Replaced by "E" or "F".
			NA-11	Rating Suspended	Added in 1992 ratings.

BEST'S RATING MODIFIERS

" <i>c</i> "	Contingent Rating	Rating reduction due to a modest decline in financial performance (discontinued in 1992).
"q"	Qualified Rating	Financial strength could be affected, e.g., by state-mandated pricing reduction or limitations.
"w"	Rating Watch List	Company is under close surveillance, e.g., due to a downward trend in financial performance.
" <i>x</i> "	Revised Rating	Indicates the rating shown was revised during the year.
"e"	Parent Rating	Rating assigned is that of the parent company where ownership exceeds 50%.
g''	Group Rating	Rating is assigned to an affiliated group of P&C companies.
p	Pooled Rating	Rating is assigned to companies under common management or ownership which pool 100% NWP.
" <i>r</i> "	Reinsured Rating	Rating assigned is that of an affiliated carrier which reinsures 100% of the company's NWP.
" <i>s</i> "	Consolidated Rating	Similar to "e" rating applies only to the parent company.

Disclaimer: This checklist is a tool for documenting financial and marketing information about property and casualty insurance companies for the purpose of establishing due diligence in the event of errors and omissions claims against agents. It is not a predictor nor guarantor of financial condition, and no warranties, express or implied, are made. This checklist should only be used in conjunction with its accompanying reference manual.