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AM BEST RATINGS: WHAT DO THEY MEAN AND HOW DO I EVALUATE THEM?

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Over the last ten years, we have continued to see lenders, investors, and others rely on AM Best's ratings as a tool for measuring the financial and management health of insurance companies. When this article was originally published in 2008, we were receiving numerous questions about how AM Best worked and what they did or did not provide when reviewing insurance companies. Since 2008, AM Best has made several changes to their process and have stated clearly that they are simply noting a point in time based on the information provided. Given the growth and changes in our industry over the last ten years, this is an appropriate time to refresh and update this article.

AM Best was founded in 1899 and is the oldest and most widely recognized rating agency dedicated to the insurance industry. AM Best is considered one of the most important barometers of the financial strength for insurance companies and monitors all lines of business. In addition to tracking the domestic insurance market, AM Best also monitors the status of many international carriers.

While AM Best is generally considered to be a strong indicator of the financial health of an insurance company, it should not be the only criteria used when evaluating insurance carriers. It is important to consider other rating agencies, including Standard & Poor's, Moody's, and

Fitch Ratings. AM Best is most frequently referenced within the insurance industry as a measure of carrier stability. In addition, we strongly recommend asking your broker for feedback on processing timing and claims handling experience. Along with AM Best's ratings, this information will help to give you an indication of the overall strength of the organization.

AM BEST USES TWO SYMBOLS TO INDICATE THEIR RATING ANALYSIS:

The first is the financial strength rating represented by an alphabetical range between A++ and E. When providing this rating, AM Best completes a comprehensive quantitative and qualitative analysis of a company's balance sheet strength, operating performance, and business profile.

The second symbol is numeric and designates the financial size category. This provides an indicator of the size of a company based on the carrier's reported policyholder surplus, conditional or technical reserve funds, other investments and operating contingency funds, and miscellaneous voluntary reserves reported as liabilities in US dollars. A Roman numeral is assigned to each company, anywhere from I (less than \$1 million) to XV (greater than \$2 trillion).

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The majority of insurance companies have an alphabetical rating of A- (excellent) or better by AM Best. There are companies that fall within the B++ category but are still considered excellent by AM Best. A carrier with an alphabetical rating of B or less is considered to be vulnerable. E is the final category they offer and a carrier with that rating is under regulatory supervision. At Parker, Smith & Feek, our minimum acceptable Best Rating is A- VII.

AM Best reviews insurance carriers' ratings annually, when they will either reaffirm or adjust a rating depending on the audit results. They will also make changes mid-term if something significant occurs with a carrier's financials or management status, however this is reactionary.

WHAT DOES THIS MEAN FOR ME?

Business owners are asking themselves, how can we be confident that the insurance company currently providing our insurance will continue to exist five years from now? This is difficult to predict, but knowing and understanding how to read AM Best ratings is a good start. Your insurance broker can assist by obtaining quotes from insurance companies with strong AM Best ratings and outlooks. Ideally, your broker is providing alternate options with multiple strong carriers so that you have options.

AM Best has worked hard to provide an independent evaluation of an insurance carrier's operations and we still rely on their ratings. It is also important to use their ratings in conjunction with other rating agencies to determine the full picture.

We also suggest that any contractors, subcontractors, or vendors you are employing should be able to provide evidence of insurance through their broker using insurance companies with AM Best ratings of A- VII or better. On their certificates, they should identify the rating next to the insurance companies name in the upper right-hand corner of the certificate.

Your vendors are ideally working with insurance companies whose ratings meet your individual requirements as recommended by your broker, and have been reviewed by your attorney and any other outside entities setting specific AM Best rating requirements. In addition to your own insurance program, it is important to ensure that those who are performing work on your behalf or entering your buildings for routine maintenance have carriers that are stable today and into the future. If their carriers fail, then your insurance becomes primary for claims that might occur as a result of work they are performing on your behalf.

One last item to keep in mind when evaluating your insurance companies AM Best rating is to be sure you know your lender's minimum AM Best requirement and confirm that your current or proposed carrier continues to meet those minimum requirements. We recommend reviewing this annually with your broker.

If you have any further questions about AM Best or their ratings, contact an experienced insurance broker today.