National Conference of Insurance Guaranty Funds NCIGF[SM]

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National Conference of Insurance Guaranty Funds (NCIGF)
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Frequently Asked Questions

What is a guaranty fund?

A guaranty fund, also known as a guaranty association, protects policyholders and claimants when an insurance company becomes insolvent. Guaranty funds are nonprofit entities created by state law. Most guaranty funds were created in the 1960s as state insurance commissioners and lawmakers reacted to an increase in the number of insurers that became insolvent after writing policies in the high-risk auto insurance business.

There are separate guaranty funds for property and casualty and life and health insurance insolvencies. This information concerns only the property casualty guaranty funds.

Do many insurance companies become insolvent?

Insurance is a business that deals with risk, and although the vast majority of companies are well managed and financially sound, occasionally a company does run into problems. Since the late 1960s when most property and casualty guaranty funds were first established, there have been about 600 insolvencies. Since they came into being, guaranty funds have paid out more than $35 billion to protect policyholders impacted by failed insurance companies.

What happens if the company is liquidated?

Insurance companies in each state are required to become members of the guaranty fund as a "condition of authority" to transact insurance business. Guaranty funds generally operate under the authority of the state's insurance code, work cooperatively with the insurance commissioner to protect policy claimants of an insolvent insurer, and pay covered claims as defined by the insurance code.

When a company is placed into liquidation, the state insurance commissioner is appointed as receiver and begins the process of collecting assets and determining the company's outstanding liabilities.

After the court declares an insurer insolvent and puts it into liquidation, many of the state's policy claims will be handled by the guaranty fund. Policyholders are also told they will have to find a new carrier for their insurance coverage going forward. Generally, they must find replacement coverage within 30 days of the date the company is liquidated.

When a guaranty fund is alerted that an insurer doing business in its state is insolvent, it works with the insurer's receiver as the receiver marshals the insurer's data and converts it for use with a data system universally used by guaranty funds and receiverships.

In insolvencies where a number of state guaranty funds are impacted, the funds, with coordinating support from the National Conference of Insurance Guaranty Funds, (NCIGF) will typically form a coordinating committee to coordinate activity and serve as an intermediary between the guaranty funds and receiver.

What is the role of the guaranty funds?

Guaranty funds ease the burden on policyholders and claimants of the insolvent insurer by stepping in and assuming responsibility for most policy claims immediately following the liquidation. By virtue of their unique role, guaranty funds are able to provide two important benefits: prompt payment of covered claims and payment of the full value of covered claims up to the guaranty fund's cap.

Are there limits on the amount that guaranty funds will pay?

Yes. Most guaranty funds limit the amount they will pay to the amount of coverage provided by the policy or $300,000, whichever is less. Many guaranty funds apply a deductible, usually $100, which is subtracted from the amount paid on the claim. All guaranty funds in the United States pay 100 percent of their state's statutorily defined Workers' Compensation benefits.

How long does a policyholder have to wait to receive a payment from the guaranty fund?

It varies, but claim payments usually begin as soon as possible once a company has been placed into liquidation. It is not uncommon for claims to be paid within 60-90 days after the Order of Liquidation. Guaranty funds, coordinating with the receivers of the liquidating companies, work hard to avoid any interruption in periodic benefits that are being paid to claimants, such as Workers' Compensation bi-weekly payments.

Does a guaranty fund pay all claims that a policy obligation of an insolvent insurer?

No. The state insurance guaranty funds are designed as a safety net to pay certain claims arising out of policies issued by licensed insurance companies. Claims are paid to limits established by state law. Guaranty funds do not pay non-policy claims or claims of self-insured groups or other entities that are exempt from participation in the guaranty fund system. There are also certain lines of business that are excluded from guaranty fund coverage.

Will the guaranty fund provide a new policy to the policyholder whose company was liquidated?

No. Guaranty funds do not sell insurance policies. The affected policyholder must purchase new coverage through another company.

How many guaranty funds are there?

Every state has a guaranty fund set up to pay property and casualty insurance claims. Several states also have separate funds for Workers' Compensation claims. In addition, every state has a separate guaranty fund set up to handle claims related to life and health insurance companies that become insolvent.

Are all of the state guaranty funds the same?

While many of the funds are based on a model set forth by the National Association of Insurance Commissioners (NAIC), there are differences from state to state. Most of the differences center on the amount of coverage provided by the fund.

Where do guaranty funds get the money used to pay claims?

Funding comes from two sources. Historically, approximately half of the guaranty associations' funding has come from assessments made against solvent licensed insurance companies doing business in their state. Assessments are made as needed and are typically capped at two percent of a company's net direct premium written in that state the prior year. The other source of funding is recoveries from assets of the insolvent insurance companies for which the guaranty funds pay covered claims.

Do insurance companies pass this cost along to their customers?

The cost of this consumer protection system established by the states is passed on to the public either in the form of increases in the cost of insurance policies, surcharges on policies or tax offsets. For this reason it is important to have a well-managed, financially sound guaranty fund system to keep the costs as low as possible.

What is the role of the National Conference of Insurance Guaranty Funds (NCIGF)?

NCIGF, located in Indianapolis, is a nonprofit association incorporated in 1989 to provide national assistance and support to the property and casualty guaranty funds located in each of the 50 states and the District of Columbia.

The NCIGF monitors national insurance activities and coordinates information for multi-state insolvencies. We provide support to our members in various legal and administrative matters. The NCIGF works in close cooperation with the property and casualty insurance trade associations on a range of guaranty fund-related issues, and helps develop model legislation. The NCIGF provides a national forum for discussions and interchange of information on guaranty fund and insolvency matters.

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