

# Insurance safety nets can be a lifesaver

By **MARK G. PETERS**

The government bailout of AIG, the nation's largest insurer, has brought into sharp focus some nagging questions for consumers:

- What would happen to my insurance policy or annuity if my insurance company were to fail? Am I protected?

- If I suspect my insurer may be in jeopardy, should I cancel my policy and find another company?

- Should I consider sales pitches from companies offering to buy out my life insurance policy for less than its face value because my company is "in trouble?"

First of all, if you are an AIG policyholder, be very wary about invitations to switch carriers; it could be a costly move. The financial problems you've heard about involve AIG's parent company. AIG's insurance subsidiaries are protected by state regulations, which require that they keep plenty of money in reserve to pay claims. Cancelling your policy early could result in your paying penalties, withdrawal fees or higher premiums on a new policy.

What if you're insured by another company but are worried about its health? While they are rare, insurance insolvencies can happen. But even if a major insurer went bankrupt and the federal government failed to rescue it,

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you can take comfort knowing that most policyholders are protected.

We are all familiar with the FDIC's protections for bank depositors, but many are unfamiliar with the safety net protecting insurance policyholders. Here's how it works:

Insurance is regulated on a state-by-state basis. Instead of a national guaranty organization like an FDIC, there is an interconnected web of state agencies, guaranty associations and security funds that protects policyholders when an insurer fails.

Each state's insurance department monitors the financial health of insurance companies. If the state believes a company is in financial danger, it may take legal action to take over that company in order to protect the policyholders.

That's when the state's insurance

security funds and/or guaranty associations — both funded by the insurance industry — come into play. Although coverage limits vary, these funds provide continuing coverage and benefits to policyholders.

In our state, the New York Liquidation Bureau (<http://www.nylb.org>), acting on behalf of Insurance Superintendent Eric Dinallo, oversees more than 30 insolvent New York companies. It has two roles: running the distressed companies and managing the state's multimillion-dollar insurance security funds.

While the security funds have some limits (up to \$1 million per claim for property/casualty claims, less for certain others), the vast bulk of claims filed by policyholders of failed insurance companies is paid out of the security funds.

Let's say you have a policy with a

bankrupt insurer now being managed by the NYLB. If you file a claim, the NYLB's claims examiners review it just as a normal insurance company would. Ultimately the claim will be paid with funds from the appropriate state security fund. While it may take a little longer than with a normal solvent insurance company, the bottom line is that the money is there, and the claim will be paid.

Life insurance policies in New York are handled separately by a state-chartered Life Insurance Guaranty Association, run by the industry itself. The association can be contacted at <http://www.nylifeqa.org>.

This system of security funds and guaranty associations — every state has some variant of it — works quite well. In New York, the state security funds alone have paid out more than \$775 million to policyholders in just the four-year period between 2004 and 2007.

If you happen to hear that your insurance company may be having financial problems, there's no need to panic or make rash decisions. During the current economic crisis, the presence of New York's insurance safety net means you have one less thing to worry about.

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► *Mark G. Peters heads the New York Liquidation Bureau, an agency that aims to protect New Yorkers whose insurance companies have failed.*