

## **Property-casualty Insurer Failures/Insolvencies**

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Insurance market could be characterized as an easy enter and exit market. It does not require as many expensive requirement for facilities as any other industry, but only capitalization and regulatory requirements. However, an insurance company's ability to stay in the market is depended on the supply and demand rule, where it might lead the company's insolvency. Property-casualty insurer failures happen when the insurance company's financial company is under distress, and their asset is no longer exceeds the liability. According to a study on property-casualty insolvencies, the number of insolvencies is currently at a modest level, due to early detection and awareness of potential insolvencies.

Based on A.M. Best study, more than half of insolvencies cases are contributed by deficient loss reserve, rapid growth, catastrophes, fraud, and discontinued operations. Failures are more likely to happen during soft market when aggregate written premiums exceed aggregate premium demanded which cause insurers to lower their prices. Hence, companies which are failing to meet their targets have to exit the market. Since 1972, average insolvency frequency was .84% for both traditional and surplus line insurance which demonstrates the lack of rate regulation in pricing discipline. The lack of consistency in regulations between the state regulation and federal regulation also caused the largest property-casualty insolvencies which happened on October 2001 to Reliance Insurance Company. The high number of insolvencies during this period is largely due to

the many numbers of catastrophes during those years and inadequate pricing early 80's which affect the claims later.

However, since 1994, the total industry insolvency rate has stabilized for a few reasons. Firstly, market competition which encouraged rescue to troubling company before they become insolvent. The choice of purchasing market share has proven more effective than waiting for renewal or cancellation business. Also, the regulation has improved and increased in capital requirements in many states make insurance market harder to enter. The awareness about potential insolvency among insurers also helps insurers to take preventive measure against insolvencies. Although the insolvency rate is getting better, insurers still have to be aware of the company's financial situation so that it will be nowhere near impairment.