


Admitted vs non-admitted insurance coverage



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What is the difference between “admitted” and “non-admitted” insurance?



It can be confusing to a client when they are informed that their insurance coverage is offered on a non-admitted (aka Excess & Surplus) basis. The initial reaction may be that a policy that is non-admitted is inferior to an admitted policy. This is not true, and as with all insurance, the policy should be judged on the actual policy wording, competitiveness of terms, as well as, the financial strength of the insurance carrier. In addition, most states require insured's that are placed with a non-admitted carrier to sign a form acknowledging that they are purchasing coverage on a non-admitted basis. These forms can be intimidating and add to the concern and confusion. The following questions are intended to clarify the difference between admitted and non-admitted insurance



Frequently Asked Questions (FAQ's)

○ **Are non-admitted carriers licensed in my state?**

Every insurance company is required to be approved in the states that they offer insurance regardless of if they do so on an admitted or non-admitted basis. Admitted carriers are licensed by state. Non-admitted carriers are white-listed.

○ **What does it mean when an insurance company is admitted?**

It means that the company has submitted their applications, policy forms, endorsements, and rating structure for approval by the department of insurance in a particular state. This is typically done when the carrier is offering an insurance program for a large, homogenous class of business where they do not anticipate a frequent need to change the rates and/or policy form.

○ **Why would an insurance company offer coverage on a non-admitted basis?**

If the insurance carrier feels the particular class of business requires flexibility in rating and/or coverage, they will offer coverage on a non-admitted basis. It provides the carrier more leeway in pricing and the ability to customize coverage as needed. The policy form and rating structures are not filed, or approved by the state department of insurance. In addition, if the carrier offers coverage on an admitted basis but a particular account does not fall within their underwriting criteria, they may offer coverage on a non-admitted basis to that particular risk which allows them to make changes outside of their admitted product.



○ **Why is the non-admitted insurance policy more flexible in customizing a policy form over admitted insurance policies?**

Certain risks need specific coverage clarifications and endorsements. Because admitted carriers are required to submit endorsements in advance to the various state insurance departments they are unable to create unique customized “on the spot” coverage enhancements. This can be a critical reason to choose flexibility in a non-admitted insurance policy.

○ **Does the fact that coverage is offered on an admitted, or non-admitted, basis reflect on the financial solvency of the insurance carrier?**

Not at all. You should review the individual financial rating of each carrier with an independent financial rating company (ie. AM Best). Many large, financially stable carriers offer coverage on both admitted and non-admitted basis.

○ **Are non-admitted carriers covered by my state Insurance Guarantee Fund?**

No. Because non-admitted programs are not reviewed, and approved, by the state department of insurance they are not included and covered under the particular state guarantee fund. However, non-admitted carriers have financial regulations that require them to establish large monetary reserves or secure adequate re-insurance in order to be white-listed. In addition, the protection available through a State Guarantee Fund may be a misnomer. State Guarantee funds may not be available to insureds who exceed certain revenue thresholds. Further, State Guarantee Funds are usually limited to \$100,000 to \$500,000 (most states \$300,000) per insured regardless of the limits your actual policy provided.

○ **Is non-admitted insurance more expensive?**

This can only be answered on an individual basis. In some cases it could be less expensive because of the carrier’s flexibility in pricing. In other cases, there may be reasons that make the client a higher risk (areas of practice, claims history, etc) and insurance is not available on an admitted basis. In these cases, the premium will reflect the exposure of the risk.

○ **Are there additional costs to non-admitted insurance?**

When your insurance is placed on a non-admitted basis your agent/broker is required to pay the state a surplus lines tax. In addition, there may be filing fees required to administrate the paperwork and taxes. All taxes and fees should be disclosed on your insurance quote.

○ **Is non-admitted insurance only for “bad” risks?**

Absolutely not. The flexibility of non-admitted carriers makes them ideal for any class of business that does not have the sheer numbers to support an admitted program. It is also beneficial for classes of business that may vary from client to client and can benefit from flexibility in underwriting and coverage.

○ **Is the non-admitted insurance market regulated?**

Yes. Each carrier is required to be licensed in the state they operate. In addition, non-admitted insurance requires specific reporting procedures, with supporting documentation, to the state. Non-admitted (Excess & Surplus) insurance providers are an essential part of the insurance industry. These carriers bring flexibility and responsiveness where admitted carriers are limited. Always take the time to judge the quality of your insurance through the actual policy terms, conditions, exclusions, and endorsements. In addition, evaluate the financial strength of the carrier through an independent financial rating company. This information is for illustrative purposes only. Only the policy form and endorsements themselves can provide actual coverage wording and conditions. Coverage may be subject to underwriter approval and may not be offered or available to all firms.

