How are North Carolina Insurance Companies Regulated for Financial Strength?

North Carolina's Commissioner of Insurance is charged with monitoring the financial condition of insurance companies doing business in our state to make sure they have sufficient assets to pay claims and fulfill their obligations to North Carolina policyholders. This type of regulation is called "financial" or "solvency" regulation. An insurance company that does not have sufficient assets to meet its obligations is called "insolvent."

Monitoring Activities

The Department of Insurance (Department) monitors the solvency of insurance companies in the following ways:

- Company Licensing – Before an insurance company is licensed to sell policies in North Carolina, it must prove to the Department that it has enough capital and reserves to meet requirements under North Carolina law.
- Financial Statement Review – The Department reviews and analyzes quarterly and annual financial statements filed by licensed insurance companies. By conducting this review and analysis, the Department can determine whether an insurance company has the required amount of capital and reserves and identify warning signs that an insurance company's financial position may need to be strengthened.
- Financial Examinations - The Department periodically conducts financial audits of insurance companies licensed in North Carolina.
- Handling of "Troubled Companies" – If an insurance company does develop financial problems, the Department can require the company to take corrective action, and will monitor the company closely while the company does so. In some cases, a troubled company may be unable to return to financial health and may ultimately have to be declared insolvent. When insolvency occurs, the Commissioner of Insurance takes on the separate role of "Liquidator" and is responsible for paying claims out of available company assets, to the extent possible.

Financial Requirements

North Carolina law places financial requirements on insurance companies to limit the risk that insolvency will occur. For example:

- Minimum Capital Requirements – Insurance companies doing business in North Carolina are required to maintain a minimum amount of capital and surplus.
- Risk Based Capital (RBC) Requirements – Risk-Based Capital addresses the minimum amount of capital that an insurance company must have to support its overall operations. This amount is based not only on the risk associated with a company's promise to pay future claims in accordance with an insurance policy, but also on the amount of financial risk to which a company is exposed through its business debts and investments.
- Reserve Requirements – Insurance companies are required to maintain adequate reserves to pay future claims and policy benefits and to cover potential losses on investments.
- Investment Restrictions- North Carolina law limits the amounts and types of investments that an insurance company can make.

Guaranty Associations

The North Carolina General Assembly created (by statute) two nonprofit guaranty associations, the North Carolina Life and Health Insurance Guaranty Association and the North Carolina Insurance Guaranty Association. The N.C. Life and Health Insurance Guaranty Association is for life insurance, health insurance, and annuities, while the N.C. Insurance Guaranty Association is for property and casualty insurance.

The guaranty associations protect North Carolina policyholders from severe financial losses and delayed claim payments if an insurance company is declared insolvent. A guaranty association assumes ultimate responsibility for paying most claims that would have been paid by the insolvent insurance company had it remained solvent. Only certain types of claims are eligible for guaranty association coverage including products such as annuities, life, health, auto, homeowners, general liability and other commercial policies. In addition to the types of claims that are eligible, there are limits on how much each guaranty association will pay per claim and in total (per policy and per policyholder).

Each insurance company licensed in North Carolina is required to be a member of one of the guaranty associations, depending on the type of products they sell. Guaranty associations obtain funds to pay an insolvent company's claims from two sources: 1. from assessments paid by solvent member companies in the guaranty association, and 2. from the remaining assets of an insolvent insurer.

For more information about the North Carolina Life and Health Insurance Guaranty Association, visit www.nclifega.org.

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