Insurance Companies are Among the Most Closely Monitored Business Entities in the United States.

There has been a dramatic change in people's attitudes about their money. Investors have begun seeking ways to properly eliminate risk and preserve long-term, guaranteed growth. When people seek safety and protection, they often consider utilizing the services and guarantees of the American insurance industry. For many years, people have considered Annuities to be a safe haven for their life savings. The following outline reveals some of the reasons annuities and insurance companies are so safe.

REGULATION: The US insurance industry is truly one of the tightest regulatory environments in the world. Each state has a Department of Insurance (DOI) regulating insurance activity in their respective state. Your DOI is keeping an eye on the operation and solvency of each insurance company that does business in your state. The same holds true if that same insurance company is approved to do business in another state. In other words, your DOI is not the only one watching over the insurer. Every state the insurer does business in has another DOI looking over their shoulder as well. This creates a truly remarkable level of supervision to catch potential problems early in some of the following key areas:

Capital & Surplus Requirements: Insurers use capital and surplus as a buffer to finance growth and pay for emergencies and other business commitments. Each state specifies a minimum dollar amount for required capital and surplus that each insurer must maintain.

Risk Based Capital Ration (RBC): This sophisticated formula allows regulators to evaluate whether the insurer maintains sufficient capital in relation to the relative risk within the insurers operations. Each year, the RBC levels for each company are reported to the National Association of Insurance Commissioners (NAIC) and the state where the insurance company is domiciled. These ratios are then compared to the standards set by the NAIC for monitoring. The NAIC prescribes action based on six categories within the levels of performance for the RBC ratio.

Solvency: Annual Statements are filed with every state where the insurance company is licensed to do business along with a copy sent to the NAIC. This allows for a thorough annual review of overall solvency within the company.

Other Ratios and Formulas: The Insurance Regulatory Information System (IRIS) is a system that has been developed to monitor financial conditions and prevent insolvency within an insurer. There are a total of 12 financial tests performed within the IRIS. The Financial Analysis and Solvency Tracking (FAST) system was created for additional analysis of larger insurers. The FAST system is applied to review the insurance company's financial status every three years. The FAST system reviews both current financial records along with the review of the company's 5-year history.

Guaranty Associations: As an additional safety net, each state has established a life and health guaranty association, which operates under the supervision of the state insurance commissioner. Insurers are required to participate in a state's guaranty association in order to do business in the state. The association is responsible for funding obligations to policy-holders should an insurance company be unable to meet the financial obligation. The members of the association are assessed fees to pay for obligations to customers. Guaranty funds have specific limitations on the amount they cover. These amounts vary from state to state. State laws ordinarily prohibit an insurer from using the existence of the guaranty association for the purpose of the sale of insurance and annuities.

OTHER INSURANCE COMPANIES: In order to keep a safe distance from financial challenges, insurance companies work together to create an additional level of safety for policy holders. Many insurers actively pursue reinsurance through other insurance carriers. This further spreads the risk against the potential for a catastrophic financial dilemma to have a substantial impact on any individual company.

SPECIALIZATION: Today, many insurance companies specialize in a particular line of business. While this may skew their risk into specific types of areas, it can also provide another level of security. For instance, an insurer that focuses almost exclusively in the annuity business is not exposed by large natural disasters or unforeseen health circumstances. A well-managed annuity company can provide tremendous levels of safety and confidence by properly managing the funds in their care through a conservative portfolio of government issued and investment grade bonds.

TIME: Insurance companies are built to last. In Europe for example, you can find insurers that are literally hundreds of years old. The tradition of conservative asset management and well tested formulas for performance put insurance companies in a class by themselves.

SIZE: Insurance companies today are measured in terms of the billions of dollars that they have under their care. This financial clout allows companies to weather the storms of time and keep the promises they have made to their policy holders.

RATINGS SERVICES: Insurance companies are among the most closely monitored business entities in the United States. Most active insurers are scrutinized by ratings services such as Weiss, Standard & Poor's, Fitch, and the premier insurance rating company, A.M. Best. Companies like A.M. Best do more than simply make sure the company is meeting the minimum standards for regulatory clearance. Most ratings service is measuring the amount by which the insurance company actually EXCEEDS the minimum requirements.

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