



How Colorado Insurance Companies Are Regulated For Financial Strength

The Colorado Commissioner of Insurance is charged with monitoring the financial condition of insurance companies doing business in Colorado to assure each has sufficient assets to pay claims and fulfill responsibilities to Colorado policyholders. This type of regulation is called “financial” or “solvency” regulation. An insurer that does not have sufficient assets to meet its obligations is considered “insolvent.”

ON-GOING ACTIVITIES

The Colorado Division of Insurance monitors insurance companies domiciled in Colorado in the following manner:

- **Company Licensing** – Before an insurance company is licensed to sell policies in Colorado, it must prove to the Division it has sufficient capital and reserves to meet requirements under Colorado law.
- **Financial Statement Review** – The Division reviews and analyzes quarterly and annual financial statement filed by Colorado domiciled insurance companies. By conducting this review and analysis, the Division can determine whether a company has the required amount of capital and reserves and can identify warning signs that the financial condition of the company must be strengthened.
- **Financial Examinations** – The Division periodically conducts financial audits of insurance companies domiciled in Colorado.
- **Minimum Capital Requirements** – Insurance companies doing business in Colorado are required to meet a minimum amount of capital and surplus.
- **Risk Based Capital (RBC) Requirements** – The Risk Based Capital requirement addresses the minimum amount of capital a company must have to support its overall operations. This amount is based not only on the risk associated with the promise of the company to pay claims in accordance with its insurance policy, but also on the amount of financial risk to which a company is exposed through its business debts and investments.

- Reserve Requirement – Insurance companies are required to maintain adequate reserves to pay future claims and policy benefits and to cover potential losses on investments.
- Investment Restrictions – Colorado law limits the amounts and types of investments that an insurance company can make.

Most states have adopted identical requirements for insurance companies which are domiciled in each state.

LIQUIDATION OF INSURANCE COMPANIES

The Colorado Division of Insurance constantly monitors companies, as do all other states, to assure that an insurance company is solvent. If there are indications insolvency will occur, the Division takes actions which require the company to take corrective action to prevent the insolvency.

However, should insolvency occur, insurance companies are not covered by the federal bankruptcy laws. When a company is considered to be insolvent, the insurance department of the state in which it is domiciled becomes the “liquidator” of the company. The department is responsible for paying claims out of available company assets to the extent possible.

GUARANTY ASSOCIATIONS

The Colorado General Assembly has established two nonprofit guaranty associations. One is responsible for property and casualty insurance claims and one for life, health and annuity claims. The guaranty associations protect Colorado policyholders from severe financial losses and delayed claims 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 Colorado is required to be a member of one of the guaranty associations, depending upon the type of product sold. Guaranty associations obtain funds to pay the claims of insolvent company from two sources. One is the assessments paid by solvent member companies of the association and the other from the remaining assets of an insolvent insurer.