

**INSURANCE GUARANTY  
ASSOCIATIONS IN  
CONNECTICUT**

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**“THE CONSUMERS’  
SAFETY NET”**

Note: It is a prohibited unfair trade practice and a violation of state law for any person to make use in any manner of the existence, except for the distribution of any publication approved by the commissioner and describing the general purposes and current limitations of the insurance guaranty association acts, such as this brochure.

Connecticut General Statutes,  
Sections 38a-852 and 38a-871

# FORWARD

**I**nsurance - the very word conveys the idea of conservatism, stability, and protection. We buy it to protect our homes, our businesses, our families, and ourselves. We count on it to be there when we need it.

Insurance companies understand this. They are in business for the long term. Many have been around for a hundred years or more, and temporary upheavals are nothing new to them. Because they look to the long term, the vast majority of companies make the most conservative of investments. In fact, every analyst agrees that the insurance industry, as a whole, is steady, safe, and stable.

Because insurance exists to protect what we value most, the State of Connecticut has created protections for consumers. As a result, the insurance industry is highly regulated. Companies must be licensed to do business here. Business practices are monitored. Books are scrutinized. Under Connecticut's system of regulation, most potential problems with a licensed company can be identified -and dealt with - long before they become serious.

But what happens if, despite the safeguards, a Connecticut-Licensed company begins experiencing financial difficulties? What if it appears that a company may not be able to meet all of its obligations? Are there any protections for policyholders in that case?



In a word, yes. There is a safety net to protect insurance consumers from financial loss in most cases of company insolvency. The safety net is called a guaranty association. Connecticut has two: one for property/casualty insurance, and one for life and health insurance and annuities.

The purpose of this booklet is to explain, in clear, non-technical language, how this safety net operates. It is not, however, a definitive statement of the rules governing the guaranty associations; those rules are expressed definitively only in the applicable state statutes. If there is any inconsistency between this pamphlet and any statute, then such statute or regulation will control. Any decisions you make in purchasing insurance should not be based on the existence of a guaranty association. This protection is not a substitute for consumers' care in selecting companies that are well managed and financially stable.

Should you have any questions, call the Connecticut Department of Insurance Consumer Affairs Division at 860-297-3800 or toll free 1-800-203-3447. You may also call the property and casualty guaranty association directly at 1-800-852-2003 or the life and health insurance guaranty association at 860-647-1054.

# CHAPTER ONE:

## What is a Guaranty Association?

An insurance company failure may cause extreme hardship to policyholders and other claimants. To ease this hardship, every state, including Connecticut, has a property/casualty insurance guaranty association and a life and health insurance guaranty association. All insurance companies licensed to issue coverage-with the exceptions prescribed by law-must belong to the guaranty association that protects the lines of insurance written by that company.

A guaranty association pays valid claims of policyholders and other claimants, up to the dollar limits of the policy subject to ceilings fixed by state law. Policyholders also may receive partial refunds of premium.

In Connecticut, payment of claims by guaranty associations is coordinated with the Connecticut Department of Insurance. Guaranty association payments are triggered by an order of the Commissioner of Insurance or a court of competent jurisdiction declaring a life or health insurance company to be "impaired", or by an order of a court of competent jurisdiction declaring a property/casualty company to be insolvent.

Funds to pay claims, administrative costs and other guaranty association obligations are raised by mandatory "assessments" on insurance companies licensed to issue the same lines of insurance as the problem company. For example, automobile insurers provide the money to pay claims when an automobile writer fails. The assessments are made by the Board of Directors of the guaranty association, based on guaranty association liabilities. A company's assessment is based on its market share of the particular line of insurance involved.

## **CHAPTER TWO:**

### **Property and Casualty Guaranty Association**

The Connecticut Insurance Guaranty Association, established in 1971, is the state's "safety net" for policyholders of property and casualty insurance. In the event that an insurance company becomes insolvent and is unable to pay claims, the guaranty association will step in and pay property and casualty claims, as provided by Connecticut General Statutes Section 38a 836. The guaranty association not only covers claims for insured losses; it may also refund part of the premium on your policy if the policy is canceled before its expiration date.

#### **RESIDENCY**

A claimant or insured must be a resident of Connecticut at the time of the insured event for which a claim is filed. A claim of a non-resident claimant, other than a workers' compensation claimant, against an insured whose net worth exceeds \$25,000,000.00 is not covered by the guaranty association. In the case of claims for property losses, the claim must be a first party claim for damage to property permanently located in Connecticut. Partial refunds of premium may be made both to residents and former residents who lived in Connecticut when their policies were issued.

#### **TYPE OF COMPANY**

##### **Covered:**

This guaranty association backs policies written by property and casualty companies licensed to do business in Connecticut. A licensed company's policies are covered regardless of whether the company is a Connecticut-based company or one chartered out-of-state.

##### **Not Covered:**

The property and casualty guaranty association does not cover policies issued by insurers that are not licensed by the Connecticut Department of Insurance to issue such policies in this state.



## **TYPE OF COVERAGE**

### **Covered:**

The Connecticut Insurance Guaranty Association covers most kinds of policies issued by licensed property and casualty insurers to individuals, and businesses.

These include:

- Automobile
- Homeowners
- Commercial property
- Workers' compensation
- General liability, and
- Malpractice insurance

### **Not Covered:**

The guaranty association does not cover:

- Life, annuity, health and disability insurance (see Chapter Three for life and health coverage).
- Title insurance
- Mortgage guaranty, financial guaranty and other forms of insurance offering protection against investment risks
- Fidelity and surety insurance, and any bonding obligations
- Ocean marine insurance
- Credit, vendors single interest and collateral insurance, and the like
- Flood insurance pursuant to the Federal Flood Disaster Protection Act of 1973
- Insurance of warranties, service contracts and the like
- Transactions between any person and an insurance company involving the transfer of investment risk or credit risk unaccompanied by the transfer of insurance risk, and
- Insurance provided or guaranteed by government



## **LIMITS OR CAPS**

### **Covered claims:**

The association will cover claims for most types of losses, in excess of \$100 and less than \$400,000 arising under policies of insurers determined to be insolvent on or after October 1, 2007 (\$300,000 for insolvent insurers prior to October 1, 2007).

If a claim is for workers' compensation benefits, there is no limitation on how much the guaranty association may pay.

The amount paid also is limited by the terms of the insurance policy itself. The association is obligated to pay only the amount which the insolvent insurer would have been liable to pay under the policy. For instance, if an automobile liability policy limits payments for bodily injury to \$40,000 per accident, the guaranty association may not pay more than that for a claim against that policy.

### **Premium refunds:**

The guaranty association will refund 50 percent of the policyholders' unearned premium, up to a maximum of \$2,000 per policy. Unearned premium is that premium for the portion of a policy period for which coverage was not received. For instance, if you paid a \$1,000 premium for a one-year auto policy, and coverage was cancelled after six months, the unearned premium is \$500. The guaranty association would refund 50 percent of that, or \$250.

## **OTHER COVERAGE**

Claimants must exhaust all other applicable coverages with solvent insurance companies and any governmental insurance or guaranty program before they are entitled to benefits from the Connecticut Insurance Guaranty Association. For example, automobile liability claimants must exhaust their own uninsured motorist coverage before they may receive reimbursement from the guaranty association.

## **CHAPTER THREE:**

### **Life and Health Insurance Guaranty Association**

The Connecticut Life and Health Insurance Guaranty Association was created in 1972. It provides a mechanism to protect policyholders, certificate holders and their beneficiaries in the case of a judicial finding of financial impairment or insolvency of life and health insurance companies. Depending on the circumstances and subject to the consent of the Commissioner of Insurance, the guaranty association may continue policy coverage. It may do this directly or transfer policies to another insurer. The guaranty association will also accept, investigate and pay claims of policyholders and group certificate holders, but only up to dollar limits of the policy subject to ceilings fixed by state law. Policyholders may also receive partial refunds of premium.

#### **RESIDENCY**

Coverage extends to policyholders who are Connecticut residents when a company is declared impaired or insolvent. Generally, non-residents must look to their own state's guaranty association for payment, however there are circumstances under which U.S. residents living abroad and non-residents may qualify for coverage. Non-resident beneficiaries, assignees or payees are protected by the guaranty association if the policy owner was a resident of Connecticut at the time the insurer was declared impaired. Resident payees under structured settlement agreements are afforded coverage.

#### **TYPE OF COMPANY**

##### **Covered:**

Policyholders are protected by the association if they are insured with companies that were licensed in Connecticut to sell life and health insurance at the time the company is declared impaired or insolvent.

  
**Not Covered:**

The life and health insurance guaranty association does not cover policies issued by insurers that are not licensed by the Connecticut Department of Insurance to issue such policies in this state.

The guaranty association does not cover policies or contracts of insurance issued by fraternal benefit societies.

The guaranty association also does not cover benefits provided by health maintenance organizations (HMO's). Enrollees of an HMO are protected under state law prohibiting health care providers under contract with the HMO from billing patients for covered services in the event the HMO becomes insolvent.

The guaranty association act does not provide benefits which would duplicate benefits payable under a similar act of another state.



## **TYPE OF COVERAGE**

### **Covered:**

The association pays valid claims for life, health, annuity and supplemental policies or contracts and for certain unallocated annuity contracts issued by insurers licensed to do business in Connecticut.

Annuity contracts include guaranteed investment contracts (GIC's), deposit administration contracts, allocated and unallocated funding agreements, structured settlement agreements, lottery contracts and immediate or deferred annuity contracts.

### **Not Covered:**

Excluded by state law from guaranty association protection are:

- Any portion of a policy or contract not guaranteed by the insurer or under which the policyholder bears the risk
- Reinsurance agreements that do not create a direct obligation to the policyholder
- Unallocated annuity contracts issued to employee pension benefit plans, which are protected by the Federal Pension Benefit Guaranty Corporation
- Any portion of an unallocated annuity contract, which is not issued to or in connection with a specific employee, union or association of natural persons benefit plan or a governmental lottery
- Claims based on marketing material, unapproved policy forms, misrepresentations of policy benefits, penalties, extra-contractual, consequential or incidental damages.
- Property and casualty policies (see Chapter Two for property and casualty coverage), and any plan of an employer, association or similar entity to provide life, health or annuity benefits to the extent such plan is self-funded or uninsured including:
  - Multiple employer welfare arrangements as defined by federal law
  - Minimum premium group insurance plans
  - Stop-loss group insurance plans and
  - Administrative services only contracts

## LIMITS OR CAPS

Generally, the life and health insurance guaranty association may not pay claims in excess of:

- \$500,000 for death benefits from one or more life insurance policies on the same insured
- \$500,000 for net cash surrender or net cash withdrawal values of one or more life insurance policies on the same insured
- \$500,000 in present value of annuity benefits under one or more annuity contracts issued on anyone life, including net cash surrenders or withdrawals
- \$500,000 under one or more accident and health insurance policies on anyone insured and
- \$500,000 in present value as to anyone participant in a government retirement plan established under sections 401, 403(b) or 457 of the U.S. Internal Revenue Code covered by an unallocated annuity contract
- \$500,000 limit in present value annuity benefits, including net cash value and withdrawal values to each payee or beneficiary of a structured settlement annuity
- The limits set forth above are subject to overall limits of an aggregate of \$500,000 with respect to anyone individual and the amount due under the terms of the policy or contract to the extent that the impaired or insolvent insurer (if it were not so impaired) would have been obligated.
- \$5,000,000 with respect to one owner of multiple individual life insurance policies, whether the owner is an individual, firm, corporation or other person, and whether the persons insured are officers, managers, employees or other persons.
- \$5,000,000. In the case of a contract holder or plan sponsor of one or more unallocated annuity contracts.

## **CHAPTER FOUR:**

### **Connecticut Guaranty Associations at a Glance**

#### **PROPERTY/CASUALTY**

|                           |   |
|---------------------------|---|
| <b>RESIDENCY</b>          | Limited to Connecticut residents or insured and the first party claims of nonresident owners of insured property permanently located in Connecticut. A claim of a non-resident claimant, other than a workers' compensation claimant, against an insured whose net worth exceeds \$25,000,000.00 is not covered by the guaranty association.  |
| <b>COVERED COMPANIES</b>  | Insurers licensed by the Connecticut Department of Insurance to do business in Connecticut.   |
| <b>EXCLUDED COMPANIES</b> | Surplus lines insurers, unauthorized insurers, and insurers not licensed to sell property and casualty insurance in Connecticut.  |
| <b>COVERED POLICIES</b>   | Most property and casualty, including auto, fire, homeowners, commercial property, workers' compensation and general liability.   |
| <b>EXCLUDED POLICIES</b>  | Life, annuity, health and disability insurance, title insurance, mortgage guaranty, financial guaranty and other forms of insurance offering protection against investment risks, fidelity and surety insurance, any bonding obligations, ocean marine insurance, credit, vendors single interest and collateral insurance and the like, flood insurance pursuant to the federal Flood Disaster Protection Act of 1973, insurance of warranties, service contracts and the like, transactions between any person and an insurance company involving the transfer of investment risk or credit risk unaccompanied by the transfer of insurance risk, and insurance provided or guaranteed by government. |
| <b>LIMITS</b>             | <ol style="list-style-type: none"><li>1. Most claims - \$300,000 prior to 10/1/2007; \$400,000 on or after 10/1/2007</li><li>2. Workers' compensation - no limit</li><li>3. Unearned Premium – 50% with \$2000 maximum.</li></ol>   |

(See chapters 2 and 3)

## LIFE/HEALTH

1. Connecticut residents;
2. Certain non-residents who purchased insurance from Connecticut domiciled companies.
3. Non-resident beneficiaries of policies owned by Connecticut residents.

Insurers licensed by the Connecticut Department of Insurance to sell insurance in Connecticut.

Health maintenance organizations, fraternal benefit societies, unauthorized insurers, and insurers not licensed to sell life and health insurance in Connecticut.

Individual and group life, annuity, and health and accident policies, including cash value accumulations.

Self-funded plans, certain unallocated annuity contracts and property/casualty policies, among others.

1. Death benefits -- \$500,000
2. Cash values -- \$500,000
3. Annuities -- \$500,000
4. Health -- \$500,000
5. Above subject to overall limit of \$500,000 per individual
6. Unallocated annuities -- \$5,000,000 per contract-holder
7. Life Insurance - \$5,000,000 Corporate or Business owned.

## **CHAPTER FIVE:**

### **Questions and Answers about Guaranty Associations**

*Q. ARE POLICIES WITH UNLICENSED COMPANIES COVERED BY GUARANTY ASSOCIATIONS?*

A. No, they are specifically excluded by law.

*Q. MY EMPLOYER SELF-INSURES OUR COMPANY'S HEALTH BENEFITS UNDER A PLAN CREATED UNDER THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT (ERISA) OF 1974. ARE WE PROTECTED BY A GUARANTY ASSOCIATION?*

A. No. Only policies issued by insurance companies licensed to do business in Connecticut are covered by the guaranty association.

*Q. MY HEALTH INSURANCE COVERAGE IS WITH A HEALTH MAINTENANCE ORGANIZATION. AM I PROTECTED BY A GUARANTY ASSOCIATION IF MY HMO BECOMES INSOLVENT?*

A. HMO's are not covered by a guaranty association. However, state law prevents health care providers under contract with the HMO from billing patients for covered services in the event the health maintenance organization becomes insolvent. Patients may be billed only for uncovered health care expenses, such as medical treatment obtained outside the HMO's service area.

*Q. DO INSURERS HAVE TO TELL YOU ABOUT GUARANTY ASSOCIATION PROTECTION?*

A. It is a prohibited unfair trade practice and a violation of state law for any person to make use in any manner of the existence of insurance guaranty association protection in the solicitation, negotiation, procurement or effectuation of insurance, except for the distribution of any publication approved by the commissioner and describing the general purposes and current limitations of the insurance guaranty association acts, such as this brochure. Connecticut General Statutes Sections 38a-852 and 38a-871 (e).



*Q. WILL I RECEIVE OFFICIAL NOTIFICATION IF MY INSURER IS INSOLVENT?*

A. Yes. Notification usually is mailed to each policyholder upon an order of the Commissioner of Insurance or by an order of court declaring a company to be impaired or insolvent.

*Q. IF MY INSURANCE COMPANY IS IMPAIRED OR INSOLVENT, IS MY ONLY SOURCE OF PROTECTION THE GUARANTY ASSOCIATION?*

A. No. In some instances, with the approval of the Commissioner of Insurance, a financially sound insurance company will take over a troubled company's assets, policies, and contracts. The financially sound company then assumes the responsibility of continuing coverage and paying all covered claims, with no involvement from the guaranty association. In this manner, the policyholder's coverage continues with little or no disruption in service.

*Q. MY INSURANCE COMPANY IS CHARTERED IN ANOTHER STATE AND HAS ITS HOME OFFICE THERE. AM I COVERED BY THE CONNECTICUT GUARANTY ASSOCIATION?*

A. Yes, if the company is licensed to do business in Connecticut at the time you purchased your insurance and all other guaranty association requirements are met.

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