

Making an informed choice about whether to use an Unrated Insurer

Car insurance is a necessity for anyone wanting to drive in the UK. It provides security and protection in case a potentially costly incident occurs. Although car insurance is compulsory, it's difficult to be certain that you've got the right cover for your personal circumstances.

That is where you rely on us to use our specialist knowledge to assist you in sourcing an insurer that offers the most appropriate cover for your personal circumstances, at the best price.

Not all insurers are the same. Some are rated, others are unrated. Both have their advantages and disadvantages.

As an insurance broker that specialises in non-standard insurance risks where customers have motoring or criminal convictions, multiple claims or limited driving experience, we work with a range of insurers, both rated and unrated. Where both options exist, it is ultimately your decision on which you find most suitable.

What is an Unrated Insurer?

An unrated insurer is one that does not carry an insurer 'financial strength rating' given by international rating agencies. The rating provides an assessment of the financial strength of an insurer and most importantly, its ability to pay claims.

Insurer ratings differ depending on the agency doing the assessment, however most will use a scale based on letter grades that indicate the degree of credit risk. For example, an 'A' rating means that the insurer has an excellent ability to pay claims, while a 'C' rating means that the insurer may be less able to pay claims.

In simple terms, unrated insurers are generally a greater risk because they have not been rated in terms of their financial strength and some foreign insurers are not subject to UK or EU insurance regulations. They may present a greater risk of failure, leaving customers uninsured and exposed to financial loss.

There is no legal requirement for an insurer to be rated, and brokers are not obliged to restrict placing business with rated insurers only. Although both rated and unrated insurers are capable of collapsing, statistically, it is the unrated insurers that present a greater risk of doing so. Nevertheless, there can be benefits to using an unrated insurer.

What are the Benefits of using an Unrated Insurer?

Unrated insurers can be appropriate for a number of circumstances. Some of the benefits of using unrated insurers include the following:

1. You may only be able to source cover from an unrated insurer due to your particular circumstances.
2. They may be regulated by the Prudential Regulatory Authority and the Financial Conduct Authority, which are the same authorities that regulate the rated insurers in terms of their ability to meet their obligations to customers
3. They may offer comparably lower prices than the rated alternative.

What Are the Drawbacks of using an Unrated Insurer?

While even A-rated insurers carry the risk of failure, using an unrated insurer does have a number of drawbacks for the customer.

Here are the most common:

1. They sometimes lack independent verification of their financial stability.
2. Unrated insurers, typically based outside of continental Europe, are not always held to the same solvency tests and regulations as UK or EU based insurers.
3. They may be difficult to contact when there is an issue or concern about a policy.

Unrated Insurer Failures

On 17th November 2016, Gable, an unrated Liechtenstein insurance company, went into liquidation with an automatic cancellation date for all their policies on 16th December 2016 — leaving policyholders only one month to secure alternative cover.

A similar high-profile insurer failure occurred in October 2016 when Enterprise Insurance collapsed.

The Financial Services Compensation Scheme (FSCS) may pay out for claims that the failed, unrated insurer, cannot meet if they are members of the scheme or they may be a member of a similar scheme in their own country. It is important to note that the FSCS and schemes in other countries do not usually offer 100% compensation in all cases and may only offer compensation to private rather than commercial customers.

Our approach to Unrated Insurers

For many of our customers, unrated insurers are the best option and sometimes, the only option. As a result, we may offer you products with unrated insurers. For example, Mulsanne Insurance Company Limited is Gibraltar based and is a subsidiary of Complete Cover Group Limited. XS Direct is based in Dublin, Eire. Both are subject to regulatory oversight in their own countries.

We work very closely with all our insurers and only use those which have representation and claims handlers in the UK. We closely monitor their claims processes to ensure that they are meeting our expectations for service to our customers.

Whilst no one can guarantee the financial stability of any insurer, rated or unrated, our aim is that from a service perspective, there be no noticeable difference between them. Additionally, some unrated insurers have already been trading in the United Kingdom for several years, which can be reassuring.