

Glossary

of Insurance Terms



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GLOSSARY OF INSURANCE TERMS

This glossary:

- Is an introductory training tool intended to give common, nontechnical definitions for basic insurance terms. It does not provide the reader with policy, legal or contractual definitions; Farmers® specific acronyms; or terminology which is unique to the Farmers companies.

*Note: Farmers' policy contracts and training materials, such as the Policy Processing System Training Manual, product guides, etc., define most Farmers specific terms you will encounter.

- Is not intended to be all-inclusive. More detailed glossaries of insurance terms are available on the market and through the Internet.
- Lists terms and acronyms alphabetically; the acronyms appear before the actual terms under each respective letter of the alphabet.
- Recognizes that insurance terms are subject to change due to legal decisions, new policy forms and coverages, and the ever-changing business environment; therefore, definitions may change without notice.

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A

AAI[®] - Accredited Advisor in Insurance.

ACLI - American Council of Life Insurance.

ACV - See Actual Cash Value.

AD&D - Accidental Death and Dismemberment.

ADPL - See Accidental Direct Physical Loss.

AIDS - Acquired Immunodeficiency Syndrome.

AIPSO - Automobile Insurance Plans Service Office.

AMTC - Agency Management Training Course.

ARM - See Associate in Risk Management.

ABANDONMENT - Surrender to an insurer the insured property after the event insured against has occurred. Not permitted under most property insurance contracts.

ABSOLUTE ASSIGNMENT - Assignment by the policyowner of all control and rights to a third party.

ACCIDENT - An unforeseen and unintentional act identifiable in time and place.

ACCIDENT AND HEALTH INSURANCE - Insurance under which benefits are payable in case of disease, accidental injury, or accidental death. Also called health insurance, personal health insurance, sickness and accident insurance.

ACCIDENTAL BODILY INJURY - A bodily injury which is not intentionally self-inflicted.

ACCIDENTAL DEATH BENEFIT - A form of insurance that provides payment if death of the insured results from an accident, subject to the conditions of the specific policy. Accidental death insurance is often combined with dismemberment insurance in a form called Accidental Death & Dismemberment (AD&D).

ACCIDENTAL DIRECT PHYSICAL LOSS (ADPL) - Property insurance that covers an insured against essentially all perils except those specifically excluded.

ACCOMMODATION LINE - Insurance that by itself would not be acceptable to an insurer, but written as an accommodation where the possibility of securing other desirable business seems to justify it.

ACCUMULATION ACCOUNT - An account to which funds are added and from which risk charges are deducted. The balance earns interest.

ACQUISITION COST - The cost to a company of securing business, including commissions, inspection costs, etc.

ACT OF GOD - An occurrence which results from natural causes without any human intervention and could not have been prevented by reasonable care or foresight (e.g., flood, lightning, earthquake, hurricane).

ACTUAL CASH VALUE (ACV) - The amount that the property in question could have been sold for by the insured on the date of the loss. Computed on the basis of replacement value less its depreciation by obsolescence or general wear.

ACTUARY - A person trained in mathematics whose job is to apply the theory of probability to the business of insurance to develop insurance rates. This is done largely from past experience, though future probable trends are also taken into account.

ADDITIONAL INSURED/ADDITIONAL INTEREST - Some person, other than the original named insured, who is entitled to protection under a policy either by virtue of the wording of the basic policy or because the policy has been modified to protect such interest.

ADDITIONAL LIVING EXPENSE CLAUSE - A type of coverage that may be included in a policy; it provides funds to pay for increased living costs that result from damage covered by the policy.

ADJUSTABLE PREMIUM - The contractual right of a company to modify a policyowner's premium payments under certain specified conditions.

ADJUSTER - An individual representing the insurance company and acting for the company in working on agreements as to the amount of a loss and the liability of the company in same.

ADJUSTMENT INCOME - One of the basic uses for life insurance. Also called "Readjustment Income." An added, "step?down" income, over and above that required to cover the family's minimum needs, to help adjustment to the shock of lower income following the insured's death.

ADMITTED COMPANY - An insurance company authorized and licensed to transact business in a given state.

ADVANCE PREMIUM, OR DEPOSIT PREMIUM - The premium for many policies depends on payroll or some other factor which can only be determined accurately at the end of the policy period. In such cases, an estimated premium is charged in advance and an adjustment is made at the close of the policy term.

ADVERSE SELECTION - Selection "against the company." The tendency of less favorable insurance risks to seek or continue insurance to a greater extent than others. Also, the tendency of policyowners to take advantage of favorable options in insurance contracts. Adverse selection may result in high loss ratios.

AGE LIMITS - Set ages contained in a specific policy for the insuring of new applicants or for the renewal of that policy.

AGENCY - 1) A situation wherein one party (an agent) has the power to act for another (the principal) in dealing with third parties. 2) An insurance sales office.

AGENT - An individual appointed by an insurance company to solicit, negotiate, effect or countersign insurance contracts, and to provide policyholder services on its behalf.

ALIEN COMPANY - An insurance company incorporated or organized under the laws of a foreign nation, province, or territory.

ALL-RISK COVERAGE - See Accidental Direct Physical Loss.

ALLIED LINES INSURANCE - Coverage for such miscellaneous perils as floods, earthquakes, and sprinkler leakage, all of which have no immediate relationship to fire insurance but are normally associated with it. Some of these perils are written by endorsement to the fire contract; others are written in separate policies.

AMOUNT SUBJECT - The total value which is exposed to loss at any one location or from any one event.

ANNUITANT - The person whose life is measured to determine the timing and amount of annuity payments.

ANNUITY - A contract that provides for a stipulated sum payable at certain regular intervals during the lifetime of one or more persons, or payable for a specified period.

APPLICATION - A form designed to show whether the person seeking insurance meets the company's underwriting requirements and to establish proper price or rating. Requested coverage may be accepted, modified, or declined.

APPORTIONMENT CLAUSE - This clause provides that if there is other insurance covering the loss, the policy to which the clause is attached will not pay more than its pro rata share of the loss.

APPRAISAL CLAUSE - Used when the insured and insurer agree that the loss is covered, but the amount of the loss is in dispute. In general, each party selects its own appraiser. If the appraisers cannot agree, they select an umpire. An agreement by any two is binding on all parties.

APPURTENANT STRUCTURES - Buildings on the same premises as the main building insured under a property policy (e.g., a tool shed).

ARBITRATION CLAUSE - In a property insurance contract, a clause that provides that if the policyholder and the company cannot agree on the settlement amount on a claim, they both select a neutral arbitrator. Any differences between the arbitrators are submitted to an umpire. The amount agreed to by any two of the three will be the amount of reimbursement.

ARSON - The willful and malicious burning of any property.

ASSIGNED RISK - A risk which is not ordinarily acceptable to insurers and, thus, is "assigned" to an insurer by an assigned risk pool or plan. Each participating company agrees to accept its share of these risks.

ASSIGNEE - The person, firm or corporation to whom a right or rights under a policy are transferred by means of an assignment.

ASSIGNMENT - The transfer of a policy or certain policy rights from one party to another.

ASSOCIATE IN RISK MANAGEMENT (ARM) - A designation granted by the American Institute for Property and Casualty Underwriters to qualified persons who successfully pass a series of examinations.

ASSOCIATION GROUP INSURANCE - Group insurance issued to an association rather than to an employer or union.

ASSUMED EXPENSE - Refers to the amount of money that will be spent to get a policy into the hands of the policyholder. These costs include such items as commissions, underwriting expenses, salaries for company employees, state insurance filing fees and product development costs.

ASSUMED INTEREST - Assumed interest is an estimate of how much a company will earn on the money it receives from policyholders.

ASSUMED LIABILITY - See Contractual Liability.

ASSUMED MORTALITY - An estimate of when a policyholder is likely to die and is based primarily on age, but it can be influenced by health. Mortality tables, covering large cross sections of people in varying degrees of health, different occupations and multiple lifestyles, have been developed to help insurance companies determine the average number of people of any given age who will die within a certain year.

ATTAINED AGE - The age an insured has reached on a given date.

ATTORNEY-IN-FACT - A person or entity given the power of performing stated acts for another person. This is done by a written contract, called a power of attorney. Often used to define the powers of the person or entity which operates a reciprocal or interinsurance exchange.

ATTRACTIVE NUISANCE - Any object, place or condition that is attractive to children and may prove harmful to them. People may be held liable for injuries to children caused by an attractive nuisance, even if the children were trespassing when they got hurt.

AUDIT - A survey or examination of the insured's books (payroll records) or other records to determine the premium due the carrier for coverage provided.

AUTHORIZATION - The amount of insurance which an insurer will accept from a broker; also the limit of authority for a claims adjuster in settling losses on his/her own initiative.

AUTOMATIC COVERAGE - Subject to contract terms, coverage of additional property or other risk by an existing contract without specific request by the insured.

AUTOMATIC PREMIUM LOAN - An option which may be available on certain policies to automatically pay premiums in default at the end of the grace period by charging the amount against the policy as a policy loan.

AUTOMATIC REINSTATEMENT CLAUSE - In a property insurance contract, a clause providing for the automatic restoration of the full face value of the policy after the payment of a loss.

AVERAGE RATE - A rate used in fire insurance to determine the premium for a policy or policies covering more than one location or more than one type of property. It is obtained by multiplying the rate for each location by the value at that location, totaling the premium for all locations, and dividing the sum of the results by the total value.

B

BI - See Bodily Injury.

BOP - Businessowners Policy.

BAILEE - A person who has lawful, temporary possession of the personal property of another in trust for a specific purpose, and who is obligated to return it.

BAILOR - The person who gives or entrusts their personal property to another person.

BENEFICIARY - The party to whom the proceeds of a life insurance policy or the values of an annuity policy are payable when the insured or annuitant dies. There are, however, various types of beneficiaries, including the following which are defined in this glossary:

- Contingent beneficiary
- Irrevocable beneficiary
- Primary beneficiary
- Revocable beneficiary

BENEFIT PERIOD - In health insurance, the length of time money will be payable by the insurer to the insured under the provisions of an insurance policy.

BENEFITS - The money provided by an insurance policy to be paid for covered losses.

BINDER - A statement that coverage is in force; a preliminary, temporary agreement between the carrier and the insured to provide immediate coverage. The purpose of the binder is to provide temporary coverage until the policy arrives.

BLANKET INSURANCE - A type of property insurance that covers, through a single contract, more than one type of property in one location or one or more types of property at more than one location.

BODILY INJURY - Refers to physical injury, sickness, or disease, or death resulting therefrom, subject to any definitions or limitations in the policy.

BODILY INJURY LIABILITY - The legal obligation that stems from the injury or death of another person.

BOND - See Fidelity Bond and Surety Bond.

BORDEREAU - Memorandum containing detailed information regarding the passing of reinsurance from one insurance company to another under a reinsurance agreement.

BROKER - A person who acts as the representative of the applicant for insurance. Although brokers are compensated with a commission from the insurance company (just like agents), they do not represent the insurer. Their sole duty is to get the best possible coverage for their clients at the lowest possible cost.

BUSINESS INSURANCE; PARTNERSHIP INSURANCE; CORPORATION INSURANCE - Insurance concerned primarily with the protection of an insured's business or vocation. Business insurance protects a business against the loss of its valuable lives or key people; stabilizes the business through the establishment of better credit relations; and can provide a practical plan for the retirement of business interests in the event of the death of one of the owners.

BUSINESS INTERRUPTION INSURANCE - Protects against the loss of prospective earnings because of the interruption or suspension of business caused by an insured peril.

BUY-BACK DEDUCTIBLE - A deductible that may be eliminated for an additional premium, thereby providing first dollar coverage.

C

CAARP - California Automobile Assigned Risk Plan.

CEA - California Earthquake Authority.

CFP® - Certified Financial Planner®.

CGL - Commercial General Liability.

ChFC - Chartered Financial Consultant.

CIC - Certified Insurance Counselor.

CLF - Chartered Leadership Fellow.

CLU - Chartered Life Underwriter.

COBRA - See Consolidated Omnibus Budget Reconciliation Act of 1985.

CPCU® - See Chartered Property and Casualty Underwriter.

CPL - See Comprehensive Personal Liability.

CANCELLATION - The termination of a policy prior to the expiration date stated in the policy. A policy may be canceled at the request of the insured or by the carrier.

FLAT - Cancellation of an insurance policy as of its date of inception, without premium charge.

PRO-RATA - Termination of an insurance contract or bond by the insurance company, with the premium charge then adjusted in proportion to the exact time the protection has been in force.

SHORT RATE - A cancellation by the insured that refunds the unearned premium minus administrative expenses.

CAPITAL SUM - The amount paid to an insured under an accident or disability policy if the insured suffers the loss of limb, sight or hearing.

CAPITATION - A rate paid, usually monthly, to a health care provider. In return, the provider agrees to deliver the health services agreed upon to any covered person.

CASH SURRENDER VALUE - The amount, if any, available to the policyowner when certain life policies are surrendered.

CASUALTY INSURANCE - This is a broad term which includes nearly every form of insurance except life, fire and its allied lines and marine and inland marine.

CATASTROPHE - An event or occurrence that causes a loss of extraordinarily large values.

CAUSES OF LOSS - A substitute term in the Commercial Property forms that replaces the old term "perils."

CERTIFICATE OF INSURANCE - A memorandum stating that a policy has been issued. The certificate states the coverage afforded in general terms. A mortgagee usually insists upon holding the fire insurance policy on the mortgaged property, so a certificate of insurance is sent to the mortgagor.

CHARTERED PROPERTY CASUALTY UNDERWRITER (CPCU)- A designation awarded to qualified persons who successfully pass a series of examinations involving, in addition to insurance knowledge, the broad range of related business subjects such as accounting, economics, law, management and finance. Offered by the American Institute for Chartered Property and Casualty Underwriters.

CLAIM - A demand or notice of a right or alleged right of any party to recover from an insurance company due to a loss covered by the policy.

CLAIMANT - The person making a demand for payout of benefits.

CLAIMS ADJUSTER (or CLAIMS REPRESENTATIVE) - The person responsible for investigating and settling claims covered by insurance.

CLAIMS MADE - Policies on a "claims made" basis cover claims reported during the policy terms, regardless of the date of occurrence. In contrast, "occurrence" policies cover claims which occur during the policy term, regardless of when reported.

CLASS RATING - A rate-making method in which similar insureds are placed in the same underwriting class and each is charged the same rate.

CLAUSE - Any specific part or provision of a policy or endorsement.

CODING - The process of inputting numerical and/or alphabetic data to represent policy information.

COINSURANCE CLAUSE - A clause which requires the policyholder to maintain at all times a certain percentage of insurance to the actual value of the property insured. If they fail to maintain the required percentage, they have to pay part of every loss themselves.

COINSURER - An insurer or insured that shares losses under a coinsurance agreement

COLLATERAL ASSIGNMENT - The assignment of a policy to a creditor as security for a debt. Under a collateral assignment, the creditor is entitled to be reimbursed out of policy proceeds for the amount owed. The beneficiary is entitled to any excess of policy proceeds over the amount due the creditor in the event of the insured's death.

COLLUSION - A secret agreement between two or more persons to defraud a third party. Collusion with intent to defraud an insurance company voids coverage under a policy of insurance.

COMBINED RATIO - The sum of the expense ratio and the loss ratio. A combined ratio under 100% indicates an underwriting profit; a combined ratio over 100% indicates an underwriting loss.

COMMERCIAL LINES - Used to refer to insurance for businesses, professionals, and commercial establishments.

COMMERCIAL PACKAGE POLICY - A policy containing two or more of the following coverage parts: Commercial Property, Commercial General Liability, Commercial Crime, Commercial Inland Marine, Boiler and Machinery or Commercial Auto.

COMMISSION - That portion of the premium paid to the agent in return for his/her sales and service activities.

COMMON CARRIER - An individual or corporation that offers its services to the public for the carrying of persons or property from one place to another for payment.

COMMON DISASTER CLAUSE - A clause sometimes added to a life policy which is designed to provide an alternate beneficiary in the event that the insured and the original beneficiary meet death as the result of a common accident.

COMMON LAW - Law based upon custom, usage and case law of the courts during the past several hundred years, as distinguished from Statute Law which is passed by State Legislatures or congress.

COMPREHENSIVE COVERAGE - This means having a wide scope, including many things. It does not mean including everything. Thus, a comprehensive liability policy is not an all-risk liability policy; there are a number of exclusions. However, it does provide far more protection than a scheduled policy. Often referred to as "Comp."

COMPREHENSIVE PERSONAL LIABILITY (CPL) - This coverage protects individuals and families from liability for nearly all types of accidents occurring in their personal lives.

COMPULSORY ISSUANCE - Any form of insurance required by law.

CONCEALMENT - Withholding material facts concerning a risk or a loss. Concealment usually voids coverage.

CONCURRENT INSURANCE - Two or more policies covering the same interest in exactly the same manner are said to be concurrent. It is extremely important that all fire policies covering the same risk should be concurrent as to forms and clauses.

CONDITIONAL BINDING RECEIPT - A receipt given to an applicant in exchange for an initial premium, sufficient to bind the company under certain circumstances.

CONDITIONS - A section in an insurance contract that lists the duties and responsibilities of both the insured and insurer.

CONSEQUENTIAL LOSS (OR INDIRECT LOSS) - A financial loss that results indirectly from the occurrence of a direct physical damage or theft loss (e.g., loss of rent or rental value if a building burns).

CONSERVATION - Efforts to prevent current policies from lapsing.

CONSIDERATION - An exchange of something of value between two parties. This is one of the requirements of a valid contract. Payment of the premium is an applicant's consideration. The company's promise to pay proceeds is its consideration.

CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT OF 1985 (COBRA) - Federal legislation mandating that participants in health care plans be allowed to continue their coverage under certain circumstances for a specific period of time after it would normally end.

CONSTRUCTIVE TOTAL LOSS - A partial loss of such severity that the cost of repairing the damaged property plus salvage value is more than the property is worth in a repaired state.

CONTINGENT BENEFICIARY - A person entitled to receive policy benefits if the primary beneficiary is deceased at the time benefits become payable.

CONTRACT - An agreement entered into by two or more persons under which one or more of them agree, for a consideration, to do or refrain from doing acts in accordance with the wishes of the other party(s).

CONTRACT CARRIER - A transportation company that carries the goods of only certain customers, and not the public in general (as in the case of a common carrier).

CONTRACTUAL LIABILITY - Liability assumed under any written or oral contract. This kind of liability is excluded by the automobile liability policy and most other liability policies.

CONTRIBUTION CLAUSE - See Coinsurance Clause.

CONTRIBUTORY NEGLIGENCE - Lack of care by the injured person when such lack of care helps to cause the accident. Under common law, contributory negligence may bar the right to recover damages.

CONTROLLED BUSINESS - Business written by a producer covering the life, property or interests of that producer and members of his or her immediate family.

CONVERSION - 1) The wrongful use of disposition of another person's property by someone who is in lawful possession of it. 2) In life insurance: changing a life policy, at the policyowner's request, from a term policy to a permanent policy without new evidence of insurability. Conditions and limitations in the original term policy vary by plan.

COUNTERSIGNATURE - Signature of an insurer's representative validating an insurance contract.

COVERAGE - The specific protection provided by the policy against the results of the hazards insured against.

CREDIT LIFE INSURANCE - Usually written as decreasing term life insurance on a group or an individual. The amount of coverage is based on the amount of a loan. If the insured borrower dies, the balance due is canceled.

CREDIT REPORT (OR CONSUMER REPORT) - A confidential report obtained from a professional reporting agency on the financial, physical and moral status of an applicant or insured.

CUSTOMER - A person who secures insurance through an agent or broker and depends on the agent or broker for help and advice.

D

DEBRIS REMOVAL - A clause often added to the policy under which the company assumes liability for the removal of debris resulting from damage to the property covered by the peril insured against.

DECLARATIONS - Statements made by the applicant relating to the risk. In casualty insurance, the declarations are frequently made a part of the policy - included in this portion of the contract is descriptive information relating to the subject covered, insured, policy period, policy limits, deductible and premium.

DECLINATION - Rejection of an application for insurance by the insurer.

DEDUCTIBLE - A certain dollar amount beyond which insurance protection begins. The insured assumes the loss up to the deductible limit and the insurer pays the remainder, up to the policy limit.

DEFERRED ANNUITY - An annuity contract which provides for the postponement of the commencement of annuitized payments until after a specified period or until the annuitant attains a specified age. Deferred annuities may be purchased either on the single premium or annual premium basis. Deferred annuities are sometimes known as "retirement annuities."

DEMOLITION CLAUSE - Used to insure against loss resulting from laws or ordinances regulating construction or repair. Requires additional premium.

DEPOSIT PREMIUM (DEP. PREM.) - That premium paid at the inception of the policy based on known or expected exposures. Premium is adjusted following an audit, to reflect the actual exposures during the policy period.

DEPRECIATION - The decline in value of property due to age, use, wear and tear, etc. Depreciation is a very important item in the adjusting of property losses.

DIRECT LOSS - Loss of, or damage to, the primary subject of the insurance agreement which is the immediate result of a hazard insured against. It is frequently very difficult to determine whether a loss is direct or consequential.

DIRECT-RESPONSE INSURER - An insurer that sells through the mail or other mass media (e.g., newspapers, magazines, radio). No agents are used to sell the insurance.

DIRECT WRITER - An insurer in which the salesperson is an employee, not an independent contractor.

DISABILITY INCOME INSURANCE - A form of insurance that provides periodic payments to replace income if the insured is unable to work due to injury or illness.

DISCOVERY PERIOD - A term used in the bonding business. An employee might misappropriate money during the term of a fidelity bond but the employer might not discover this until several months after the termination of the bond. Bonds usually provide a definite period of time after their expiration during which the employer may discover dishonest acts committed while the bond was in force.

DIVIDEND - In insurance, this means a refund to the policyholder of that portion of their premium which is not needed to pay their share of the losses and expenses incurred during the policy period. Dividends are paid by mutual, participating stock companies and sometimes by reciprocals.

DIVIDEND ADDITIONS - Participating policies provide that policy dividends may be used as single premiums at the insured's attained age to purchase paid-up insurance as additions to the amount of insurance specified on the face of the contract. See Paid-up Additions.

DOMESTIC INSURANCE COMPANY - An insurer organized under the law of the state of domicile.

DOUBLE INDEMNITY - Payment of twice the basic benefit if the loss results from specified causes or under specified circumstances.

DRAFT - An instrument, similar in appearance to a check, directing the payment of money subject to approval by the payor when presented for payment. Most often used for payment of insurance losses.

E

E&O - Errors & Omissions.

EPL (or EPLI) - See Employment Practices Liability Insurance.

ERISA - See Employee Retirement Income Security Act.

EARNED PREMIUM - The portion of the premium that represents coverage already provided. For example, if you paid \$600 for a six-month automobile insurance policy one month ago, the earned premium on the policy is \$100 (or 1/6 of \$600).

EFFECTIVE DATE - The date upon which the insurance policy goes into effect.

ELIMINATION PERIOD - The time interval (waiting period) between events specified in the policy. Examples include the time between the occurrence of a disability and when the first benefit is paid; and the time between the issue date of a health insurance policy and the date when certain coverages become effective.

EMBEZZLEMENT - The fraudulent use of money or property that has been entrusted to one's care.

EMPLOYEE RETIREMENT INCOME SECURITY ACT (ERISA) - Legislation applying to most private pension and welfare plans that requires certain standards (for funding, participation, vesting, termination, disclosure, fiduciary responsibility, and tax treatment) to protect participating employees.

EMPLOYMENT PRACTICES LIABILITY (EPL) INSURANCE - A specialized form of insurance specifically designed to protect against loss incurred in litigating and settling wrongful employment practices-liability claims. This is also commonly called "EPLI."

ENCUMBRANCE - Any outside interest in property, such as a mortgagee, conditional sales contract or mechanic's lien.

ENDORSEMENT - A written provision that adds to, deletes, or modifies the provisions in the original contract.

ENDOWMENT - A life insurance contract which provides for the payment of the face amount at the end of a fixed period, or at a specified age of the insured, or at the death of the insured before the end of the stated period.

ESTOPPEL - A legal doctrine that prevents a person from denying the truth of a previous representation of fact, especially when the representation has been relied on by the one to whom the statement was made.

EVIDENCE OF INSURABILITY - Any information concerning the proposed insured required to satisfy underwriting standards, such as a medical examination or physician's statement.

EXCESS INSURANCE - Coverage which becomes available to the insured only above a stipulated amount of loss, or only after any other applicable insurance has been exhausted.

EXCESS INTEREST - The difference between the rate of interest the company guarantees to pay on proceeds left under settlement options and the interest actually allowed on such funds by the company.

EXCLUSION - Something not covered by the policy and specifically so stated in the policy contract.

EXCLUSIONS - The section of the policy contract that specifies the losses not protected by the policy.

EXPECTED MORTALITY - The number of deaths which theoretically should occur among a group of insured persons during a given period according to the mortality table in use.

EXPENSE CONSTANT - A flat amount sometimes imposed in workers' compensation insurance if the estimated premium is less than the specified amount. Intended to pay the cost of issuing and servicing a small policy.

EXPENSE RATIO - A measure of a company's expenses; it is determined by dividing the company's expenses by its written premiums.

EXPERIENCE - This refers to the loss ratio status of a particular risk, or of a particular coverage, or of a particular carrier, etc. over a specified period of time.

EXPERIENCE MODIFICATION - A percentage increase or reduction in rates produced by application of the experience rating plan.

EXPIRATION DATE - The date on which coverage ceases; exact dates and times vary by policy.

EXPIRY - The end of coverage under a term life insurance policy at the end of its stated term period.

EXPOSURE UNIT - A unit of measurement used in insurance pricing; it varies by line of insurance.

EXTENDED COVERAGE ENDORSEMENT - An endorsement added to the standard fire policy giving protection against the perils: Windstorm and hail, explosion, riot, civil commotion, aircraft, vehicles and smoke.

EXTENDED REPORTING PERIOD - Also known as a "tail," it is a period of time allowed for making claims after a claims-made liability policy expires.

EXTENDED TERM INSURANCE - One of the nonforfeiture options contained in most whole life and endowment policies; it provides that the policyowner may elect to have the cash surrender value of the policy used to extend the coverage for whatever term period the cash value will purchase.

EXTRA EXPENSE COVERAGE - This protects the policyholder against the extra expense that may be involved in carrying on his/her business after the occurrence of a loss. For example, if a newspaper plant was damaged by fire, the publishing company might have to get their paper published by a rival plant until their own could be restored. Thus, they could carry on their business but at extra expense to themselves.

F

FAIR PLAN - See Fair Access to Insurance requirements.

FCAS - See Fellow of the Casualty Actuarial Society.

FDIC - See Federal Deposit Insurance Corporation.

FEMA - Federal Emergency Management Agency.

FLMI - Fellow of the Life Management Institute.
See Life Office Management Association.

FACE AMOUNT - The principal amount of insurance provided at the time of issue by an insurance policy. The term derives from the fact that the amount of insurance is usually indicated on the first page or "face" of the policy.

FACE SHEET - A form attached to the policy identifying the insured, the subject matter of the insurance, the policy limits, etc. In casualty insurance, the face sheet is very often a copy of the declarations.

FACILITY OF PAYMENT - Many weekly premium policies contain a provision that the company may pay the sum due on the policy to a relative, by blood or marriage, or to any person appearing to be entitled to the payment by reason of having incurred expenses on behalf of the insured or expenses for his or her burial.

FAIR ACCESS TO INSURANCE

REQUIREMENTS (FAIR) PLAN - A state-run property insurance plan that makes basic property insurance available to those in high risk areas who cannot obtain insurance through normal markets.

FAIR CREDIT REPORTING ACT - An act requiring that an applicant be informed in advance if an inspection/consumer report may be ordered. If insurance is declined due to information contained in that report, the applicant has the right to ask the inspection company about the information it obtained.

FEDERAL DEPOSIT INSURANCE

CORPORATION (FDIC) - A federal government agency that insures bank deposits up to a stated maximum.

FEDERAL ESTATE TAX - An excise tax currently levied upon the transfer of property or interests in property at death. Life insurance proceeds are taxable if payable to the decedent's estate, or if payable to named beneficiaries and the insured possessed at death any incidents of ownership in the policy or policies. The value of life insurance policies owned by the decedent on the lives of others is also taxable.

FELLOW OF THE CASUALTY ACTUARIAL

SOCIETY (FCAS) - Awarded by the completion of a series of examinations and other requirements.

FIDELITY BOND - A bond which will reimburse an employer for loss up to the amount of the bond, sustained by the employer named in the bond (the insured), due to any dishonest act of a covered employee.

FIDUCIARY - Holding in trust. A person upon whom a trust has been handed down. When an agent collects an insurance premium, he/she holds the money in a fiduciary capacity. The money does not belong to them, and they should remit the premium as soon as possible.

FILE-AND-USE LAW - A law for regulating insurance rates under which insurance companies are required only to file the rates with state insurance department before putting them into effect.

FINANCIAL RESPONSIBILITY LAW - A law requiring motorists to furnish proof of their ability to pay damages up to a stipulated amount following a loss.

FIRE - A combustion accompanied by a flame or glow that escapes its normal confines to cause damage.

FLAT CANCELLATION - Cancellation of a policy at or before it becomes effective. All premium is refunded to the insured.

FLEET POLICY - A policy which provides insurance for a number of vehicles owned by one insured.

FLOATER POLICY - A policy that covers property that can be moved from one location to another.

FOREIGN INSURER - An insurance company chartered by one state but licensed to do business in another state(s).

FORGERY - Imitating the signature of some other person with fraudulent intent.

FORM - The insurance policy itself, the application, and any endorsements or riders which may be attached are each considered a "form" by the Departments of Insurance.

401(K) PLAN - A qualified profit-sharing or thrift plan that allows eligible employees the option of putting money into the plan or receiving the funds as cash. This tax-deferred savings plan, authorized by Section 401(k) of the Internal Revenue Code, can be established with or without employer contributions.

FRATERNAL ORGANIZATION - A society or order that is organized solely for the benefit of its members and their beneficiaries, not for profit. This organization offers insurance only to its members.

FRAUD - A false representation of a matter of fact (whether by words or conduct, by false or misleading allegations, or by concealment of that which should have been disclosed) which deceives and is intended to deceive another to his/her legal injury.

FREE LOOK - A period of time during which a policyowner may examine a newly issued policy and, if not satisfied, surrender it in exchange for a full refund of premium.

G

GAMA International - A worldwide professional association serving field managers in the life and financial services industry. It provides a wide variety of education and training programs, including publications, seminars and resources to facilitate the sharing of ideas and techniques on recruiting, selecting, training and supervising sales associates and professional development of field managers.

GARAGE LIABILITY (GL) - A special policy written to cover auto salesrooms, used car lots, service stations, or repair garages for Bodily Injury and Property Damage with premiums based on payroll of the business.

GENERAL AGENT - An agent who supervises other agents in a given territory and acts as an exclusive agent in this territory.

GENERAL DAMAGES - Money paid to a claimant for losses that cannot be specifically measured, such as pain and suffering.

GRACE PERIOD - Prescribed period of time after the premium due date during which the coverage remains in force and the late premium may be paid.

GROSS EARNINGS - Revenue from operating sources, before deducting expenses incurred in gaining such revenue.

GROUP INSURANCE - An insurance plan by which a large number of persons are protected under one master policy.

GUARANTEED INSURABILITY (GUARANTEE ISSUE) - An arrangement, usually provided by rider under an existing policy, whereby additional insurance may be purchased at various times, without a new medical examination or other evidence of insurability.

H

HIV - Human Immunodeficiency Virus.

HMO - Health Maintenance Organization.

HAZARD - Any factor that creates or increases the chance of loss.

A **physical hazard** is created by the condition, occupancy or use of the property itself. Examples include faulty brakes increasing the chance of collision and faulty electrical wiring increasing the chance of fire.

A **moral hazard** is a subjective characteristic of the insured that increases the chance of loss. Examples include arranging an accident to collect the insurance and inflating the amount of a claim.

A **morale hazard** is carelessness or indifference to a loss because of the existence of insurance. An example is leaving the car keys in an unlocked car.

HEALTH INSURANCE - This term has become accepted by the industry for the branch which includes all types of loss of time and medical expense insurance. It is also known as accident and health insurance, sickness and accident insurance, etc.

HIRED CAR - An automobile of which the exclusive use and control has been temporarily given to another for a consideration. This should be distinguished from contract hauling, since in the latter case the owner retains control of the movements of the vehicle and simply agrees to furnish transportation.

HOLD-HARMLESS AGREEMENT - An agreement by which one party assumes the liability another. Hold-Harmless agreements are often found in leases; the lessee (tenant) agreeing to assume the lessor's (landlord's) liability if members of the public are injured through some faulty condition in the premises occupied by the lessee.

HOSPITAL BENEFITS - Additional benefits payable under an accident, health or disability policy in case the insured is confined to a hospital.

I

IBNR - See Incurred But Not Reported.

IIA - See Insurance Institute of America, Inc.

IIAA - See Independent Insurance Agents of America.

III - Insurance Information Institute.

IMSA - See Insurance Marketplace Standards Association.

IRA - See Individual Retirement Account. (Also referred to as Individual Retirement Arrangement.)

ISO - See Insurance Services Office.

IMMEDIATE ANNUITY - An annuity contract which provides for the first annuitized payment immediately after issue.

IMPAIRED RISK - One which presents an unduly high probability of loss.

IMPROVEMENTS AND BETTERMENTS

INSURANCE - Additions or changes, made by a lessee at his/her own cost to a building which he/she is occupying, which enhances its value. These become part of the realty and require special insurance consideration.

INCIDENTS OF OWNERSHIP - The rights to exercise any of the privileges in the policy: to change the beneficiary, withdraw cash values, make loans on the policy, assign it, etc.

INCONTESTABILITY CLAUSE - A clause in an insurance contract that provides the company may not void the policy after it has been in force more than the specified period, usually two years after issue. The policy may be voided only under certain conditions (for example, a misstatement in the application).

INCURRED BUT NOT REPORTED (IBNR)

RESERVE - The liability for future payments on losses which have already occurred but have yet been reported in the insurer's records.

INCURRED LOSS RATIO - This is calculated by applying incurred losses to the earned premium to determine the percentage of losses.

INDEMNIFY - To restore an individual to the approximate financial position occupied before the loss.

INDEMNITY - A type of contract, such as insurance, that serves to restore the individual to the approximate financial position occupied prior to the loss.

INDEPENDENT CONTRACTOR - One who agrees to perform services or supply commodities under a contract. In carrying out his/her contract, he/she is not under the control of, or an employee, of the party with whom he/she contracts.

INDEPENDENT INSURANCE AGENTS OF

AMERICA (IIAA) - An association of independent insurance agents. Members in this association are also members of their state associations.

INDIRECT LOSS - See Consequential Loss.

INDIVIDUAL RETIREMENT ACCOUNT (IRA) -

A qualified retirement plan established under ERISA for individuals with earned income. An IRA plan enjoys favorable income tax advantages. (Also referred to as Individual Retirement Arrangement.)

INHERENT EXPLOSION - An explosion caused by some condition existing in, and natural to, the premises or property (for example, a dust explosion in a grain elevator).

INHERENT VICE - A condition which is in the very nature of the property and results in damage. For example, if you fill an ordinary glass vessel with very hot water, it will crack. This is an inherent vice. It is in the very nature of ordinary glasses to crack under such conditions.

INLAND MARINE INSURANCE - Coverage for goods shipped on land, including insurance on imports and exports, domestic shipments, and means of transportation, such as bridges and tunnels. It is also used to insure fine art, jewelry, furs, and other similar property.

INSPECTION OF RISK - Examination of property to decide as to its desirability.

INSURABLE INTEREST - A relationship or condition such that loss or destruction of life or property would cause a financial loss. For property insurance, such interest must exist at the time of loss.

INSURANCE - Transferring the risk of a loss to an insurer under the terms and conditions of an insurance contract. The insurer will indemnify said person against loss, damage, or liability arising from a contingent or unknown event.

INSURANCE CARRIER - The insurer, incorporated or otherwise.

INSURANCE COMMISSIONER - (known in some states as the Superintendent of Insurance.) The official who presides over the regulation of the business of insurance within the state.

INSURANCE INSTITUTE OF AMERICA (IIA) - Offers a number of study programs for which special diplomas or designations can be earned in property and liability insurance, risk management, insurance adjusting and management.

INSURANCE MARKETPLACE STANDARDS ASSOCIATION (IMSA) - An industry organization aimed at promoting ethical life sales practices.

INSURANCE POLICY - The document which is the contract between the insured and the insurer; it defines the rights and duties of the contracting parties.

INSURANCE SERVICES OFFICE, INC. (ISO) - A leading supplier of statistical, actuarial, and underwriting information for and about the property/casualty insurance industry. ISO provides advisory services to participating insurers and their agents.

INSURED - The person to be indemnified in case of loss or liability. In life insurance, the person whose life is covered by the policy.

INSURER - The person guaranteeing to provide indemnity in case of loss or liability.

INSURING AGREEMENTS - This section of the insurance policy sets forth the specific obligations assumed by the insurance company. Here is where the coverages of the policy are defined.

INTER-INSURANCE EXCHANGE - See Reciprocal Insurance Exchange.

IRREVOCABLE BENEFICIARY - A designation allowing no change to be made in the beneficiary of a policy without the beneficiary's consent.

J

JUA - See Joint Underwriting Association.

JOINT LIFE AND SURVIVORSHIP ANNUITY - An annuity contract covering two or more lives and continuing in force as long as any one of them survives.

JOINT LIFE ANNUITY - An annuity contract covering the lives of two or more persons and terminating at the first death among the lives covered.

JOINT LIFE POLICY - A contract which covers two or more lives; the payment of proceeds varies by plan.

JOINT UNDERWRITING ASSOCIATION (JUA) - An organization of automobile insurers operating in a state that makes automobile insurance available to high-risk drivers. Underwriting losses are shared proportionately by insurers based on premiums written in the state.

JUDGMENT RATES - Rates established by the judgement of the underwriter with or without the application of a formal set of rules or rate schedule.

JUVENILE INSURANCE - Life insurance policies written on the lives of children who are within specified age limits.

K

KEOGH PLAN (for self-employed - HR-10 Plan) -

A retirement plan individually adopted by self-employed persons that allows a tax-deductible contribution to a deferred-contribution or defined-benefit plan.

KEY-EXECUTIVE (OR KEY-PERSON)

INSURANCE - Protection of a business firm against the financial loss caused by the death of or disablement of a vital member of a firm. A means of protecting a business from the adverse results of the loss of individuals possessing special managerial or technical skill or experience.

L

LIMRA - See LIMRA International.

LOMA - See Life Office Management Association.

LUTC - See Life Underwriting Training Council.

LAPSE - The termination of a policy because of the failure of the insured to pay the renewal premium.

LAW OF LARGE NUMBERS - A mathematical principle of probability stating that the actual losses in a given category of insurance will come closer to a predictable number as the number of units of exposure increases. In insurance, a prediction must be made from actuarial experience or statistical analysis of the number of losses to be expected in a group of exposures. (The larger the sample, the more accurate the prediction.)

LEASE - A contract for the use and possession of land; buildings or parts thereof for a specified time and cost.

LEASEHOLD INSURANCE - Protection against loss of a leasehold in case the lease is terminated as a result of fire, etc.

LEGAL RESERVE COMPANY - An advance premium company which maintains loss reserves, unearned premium reserves, and other miscellaneous reserves as prescribed by the laws of the states. Practically all insurance companies are legal reserve companies.

LEGAL RESERVES - The amount of money which most insurance carriers are required by law to set aside for the payment of claims and for unearned premiums.

LESSEE - The person to whom a lease is granted, often called a tenant.

LESSOR - The person who grants the lease, often called the landlord.

LEVEL PREMIUM INSURANCE - Insurance for which the cost is distributed evenly over the premium-paying period. The annual premium remains the same from year to year.

LIABILITIES - All debts owed by a person, whether immediate or contingent.

LIABILITY INSURANCE - Insurance protecting the insured against financial loss arising out of legal liability imposed upon him/her in connection with bodily injuries (or death) suffered, or alleged to have suffered, by persons of the public, or damage caused to property other than property owned by or in the custody of the insured as a result of the maintenance of the premises, or the business operations of the insured.

LICENSE - Certification issued by a State Department of Insurance, that an individual is qualified to solicit insurance applications for the period covered. Usually issued for a period of one year, renewable on application without necessity of the individual's periodic repetition of the original qualifying requirements. Agents should study carefully the licensing laws and regulations of their own states.

LIFE ANNUITY - An annuity which is payable during the continued life of the annuitant. No provision is made for the guaranteed return of the unused portion of the premium.

LIFE EXPECTANCY - The average duration of the life remaining to a number of persons of a given age, according to a given mortality table. The term life expectancy should not be confused with probable lifetime. The latter refers to the difference between a person's present age and the age at which death is most probable, i.e., the age at which most deaths occur.

LIFE INSURANCE - Insurance in which the risk insured against is the death of a particular person, the insured, upon whose death while the policy is in force, the insurance company agrees to pay a stated sum or income to the beneficiary.

LIFE OFFICE MANAGEMENT ASSOCIATION (LOMA) - This organization offers educational programs related to the administrative and technical procedures within the life insurance business. For those who complete the prescribed course of study, a designation of Fellow, Life Management Institute (FLMI) is awarded.

LIFE UNDERWRITING TRAINING COUNCIL (LUTC) - An organization that prepares and administers training material for life insurance agents.

LIMITS OF LIABILITY - The maximum sums of money which an insurance company agrees to pay in the event of a loss covered by the policy.

LIMRA International (LIMRA) - A marketing research organization in the financial services industry. Its worldwide members include life/health insurance companies and financial services companies.

LOADING - The amount added to net premiums to cover the company's operating expenses and contingencies. The loading includes the cost of securing new business, collection expenses, and general management expenses. Precisely: The excess of the gross premiums over net premiums.

LOAN VALUE - The amount that can be borrowed from the cash value of a life insurance policy.

LOSS - Typically refers to:

- The amount sought through an insured's claim;
- The amount of reduction in the value of an insured's property caused by a covered peril;
- The amount paid on behalf of an insured under an insurance policy.

LOSS CONTROL - Risk management activities that are taken to reduce the frequency and severity of losses.

LOSS EXPENSE - The cost of investigation and adjustment of claims, as distinguished from the amount of a claimant's recovery from the insurance carrier under the policy. Unallocated loss expense is for expenses outside the office overhead. Allocated loss expense is for expenses outside the organization.

LOSS RATIO - The rate of incurred losses to earned premiums.

LOSS REPORT - A report submitted by an agent or claimant giving the facts of a claim.

LUMP SUM - Payment of the entire proceeds of a life insurance policy in one sum.

M

MDRT - See Million Dollar Round Table.

MIB - See Medical Information Bureau.

MVR - See Motor Vehicle Record.

MAJOR MEDICAL - Coverage for serious or expensive medical cost or hospitalization.

MAJOR MEDICAL INSURANCE - That form of medical insurance designed to supplement a basic medical expense plan in the event of extra-ordinary medical expenses which the average person cannot pay without great hardship. There is usually a deductible or coinsurance or both involved.

MALPRACTICE - Professional misconduct or lack of ordinary skill in the performance of a professional act. Coverage for malpractice liability is insuring for performance of a professional act. Coverage for malpractice liability is excluded by most public liability policies; this is a specialized form of insurance.

MANUAL RATES - The cost of insurance protection as quoted in a rating manual. Also, may refer to those rates developed by the application of a recognized rating plan.

MARKET CONDUCT EXAMINATION - An examination, conducted by insurance department examiners, of the business practices and operations of an insurer and its agents. Areas of review may include: company operations and management; complaint handling; marketing and sales; producer licensing and conduct; policyholder service; underwriting; and claims.

MASTER CONTRACT - Issued to the employer under a group insurance plan, and containing all the insuring clauses which define employee benefits. Individual employees participating in the group plan receive individual "certificates," which seldom repeat all the insuring clauses contained in the master policy.

MATURE - A life policy is mature when the face amount becomes payable during the lifetime of the insured.

MATURITY - The date at which a security, like a bond, is redeemed at face value by the issuer.

McCARRAN-FERGUSON ACT - A federal law, passed in 1945, affirming that regulation of insurance by the states was in the public interest and exempting insurers from federal law and regulations if they impaired state regulation.

MEDICAL EXAMINATIONS - Usually conducted by a licensed physician, the medical examination is part of the application for life insurance. Thus, it becomes part of the policy contract, and is attached thereto. The so-called "non-medical" in reality is a short-form medical report, and is filled out by the agent. Various company rules, such as amount of insurance applied for or already in force, age of applicant, sex, past physical history, date revealed by inspection report, etc., determine whether the examination shall be "medical" or "non-medical."

MEDICAL INFORMATION BUREAU (MIB) - A clearinghouse that stores information on the health histories of persons who have applied for insurance from subscribing companies. Insurers use this to get more thorough underwriting information.

MEDICAL PAYMENTS COVERAGE - A coverage found in auto and liability policies that pays medical expenses to covered (injured) persons without regard to liability.

MERIT RATING - A system for measuring the difference of an individual risk by some standard in order to reflect the difference in the rate.

MILLION DOLLAR ROUND TABLE (MDRT) - An association of life insurance agents who produce a million or more in face amount of new insurance in a year. Applicants for membership must be members of the National Association of Life Underwriters.

MINIMUM PREMIUM - The smallest amount for which an insurance company will issue coverage under a given policy.

MINI TAIL - Refers to the provision that automatically extends the reporting period of an expiring CGL "claims-made" policy to 60 days for claims not covered by renewal or replacement policies.

MISREPRESENTATION - Generally, a misstatement of fact(s) on an application for insurance. Also, a misstatement of coverage made by an agent to an insured.

MISSTATEMENT OF AGE PROVISION - If the age of the insured is misstated in an application for life insurance, the benefit payable is usually adjusted to what the premiums paid would have purchased at the correct age.

MONOLINE POLICY - A policy containing a single coverage part plus the common policy conditions and common declarations.

MORAL HAZARD - The effect of personal reputation, character, associates, personal living habits, financial responsibility, and environment upon an individual's general insurability.

MORALE HAZARD - An insured's definite indifference to loss. An attitude that increases the probability of loss from a peril. The attitude of "it's insured, so why worry?" is an example of a morale hazard.

MORTALITY TABLE - "The instrument by means of which are measured the probabilities of life and death." It can be likened to the march of an imaginary generation through time.

MORTGAGE INSURANCE - One of the basic uses for life insurance. So-called because many family heads leave insurance for the specific purpose of paying off any mortgage balance outstanding at their death. Many companies have designed special policies for this purpose. Insurance is generally made payable to a family beneficiary instead of to the mortgagee.

MORTGAGEE - The party loaning money toward the purchase of personal property. Usually, a bank or other lending institution.

MORTGAGEE CLAUSE - A clause making the proceeds payable to a named mortgagee, as interest may appear, and stating the terms of the contract between the insurer and the mortgagee.

MORTGAGOR - The party borrowing money to purchase property.

MOTOR VEHICLE RECORD (MVR) - The record of an automobile driver's accidents and/or traffic violations.

MUTUAL FUNDS - These are mutually owned funds invested in diversified securities. Shareholders are issued certificates as evidence of their ownership and participate proportionately in the earnings of the fund.

MUTUAL INSURER - A corporation owned by the policyholders; there are no stockholders. The policyholders elect the board of directors, which appoints the executives who manage the corporation. The company may pay a dividend or give a rate reduction in advance to insureds.

N

NAIC - See National Association of Insurance Commissioners.

NALU - National Association of Life Underwriters.

NASD - National Association of Securities Dealers.

NFIP - National Flood Insurance Program.

NICB - See National Insurance Crime Bureau.

NAMED INSURED - 1) A policyholder, the person to whom the policy is issued; any person or corporation, or any member thereof, specifically mentioned as insured in a policy, as distinguished from others, who, though unnamed, are protected under certain circumstances. 2) In life insurance: this is the person named on the face page of the policy whose life is covered by the basic contract. (Other persons may be covered by riders attached to the basic contract.)

NAMED PERILS - Named peril property coverage specifies perils insured against, as compared to "all risk" coverage which specifies perils not covered.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC) - A national organization of insurance officials who meet regionally and nationally to discuss matters of common interest.

NATIONAL INSURANCE CRIME BUREAU (NICB) - A not-for-profit organization dedicated to combating insurance-related crime. NICB personnel work in partnership with insurers and law enforcement to identify, investigate and prosecute organized rings, corrupt professionals and repeat offenders.

NEGLIGENCE - An unreasonable or imprudent act resulting from carelessness, ignorance, thoughtlessness or inaction, but never the intention of an individual. Before a court awards to an injured party for the negligent act of another, four elements of negligence must be present at the same time:

- 1) There must have been a duty by one party to protect the other party or the other party's property;
- 2) There must have been a failure to live up to that duty;
- 3) An actual injury to a person or property must have taken place;
- 4) The failure to exercise the proper degree of care must be the proximate cause of the injury or damage.

NET COST - Premiums paid minus cash value and any policy dividends paid as of the date the calculation is being made.

NET PREMIUMS - The premiums calculated on the basis of a given mortality table and a given rate of interest, without any allowance for loading.

NO-FAULT AUTOMOBILE INSURANCE - An insurance plan providing that after an automobile accident, each party collects from his or her own insurer, regardless of fault.

NON-ADMITTED ASSETS - Assets that the insurer carries on its books, but that must be deducted from gross assets to determine its financial condition in reporting to a state insurance department. Also, adjustments to book value of an asset to bring it into agreement with statutory value.

NON-CANCELABLE POLICY - In health insurance, a policy on which the insurer may not refuse to renew the contract nor can the premium be increased.

NON-CONCURRENCY - The situation which exists when a number of fire or other policies covering the same property are not identical as to the forms of coverage afforded. When this situation exists, the adjustment of losses becomes extremely difficult and usually unsatisfactory.

NON-CONTRIBUTORY PLAN - A group insurance plan in which the entire premium is paid by the employer.

NONFORFEITURE OPTIONS - This term refers to options available under terms of the contract after cash values have been created.

NON-MEDICAL INSURANCE - Life insurance issued on a regular basis without requiring the applicant to submit to a regular medical examination. In passing on the risk, the company relies on the applicant's own answers to questions regarding his/her physical condition and on personal references or inspection reports.

NON-OWNERSHIP LIABILITY - This protects the policyholder against claims for bodily injury or property damage liability arising out of the use of automobiles not owned by but used by his/her employees (or other people) in the course of his/her business.

NONPARTICIPATING POLICY - One under which the policyowner is not entitled to dividends or other refunds.

O

OASDHI - Old Age, Survivors, Disability, and Health Insurance (Social Security).

OL&T - Owners, Landlords, and Tenants Liability Insurance.

OSHA - Occupational Safety and Health Act.

OBLIGEE - In bonds this means the person protected by the bond. The obligee under a bond corresponds to the insured under an insurance policy.

OBLIGOR - The person or entity required to perform on a debt or obligation. See Principal.

OCCUPANCY - This term refers to the type and character of the use of property in question; business enterprise at that specific location.

OCCUPATIONAL ACCIDENT - An accident occurring in the course of one's employment and caused by inherent or related hazards.

OCCUPATIONAL DISEASE - Impairment of health caused by continued exposure to conditions inherent in a person's occupation or a disease caused by an employment or resulting from the nature of an employment.

OCCUPATIONAL HAZARD - A condition in an occupation that increases the peril of accident, sickness or death.

OCCURRENCE - An event that results in an insured loss. Coverage on an "occurrence" basis is generally considered to differ from coverage on an "accident" basis in that "occurrence" connotes gradual or accumulative damage without regard to exact time or place, whereas "accident" refers to instantaneous damage, unidentifiable as to time and place. In other words, "occurrence" may be defined as an event, or repeated exposure to conditions, that results in injury during the policy period.

OTHER INSURANCE CLAUSE - A provision found in most policies stating how a loss will be handled in the event there is other insurance covering the same loss.

P

PD - See Property Damage Insurance.

PIP - See Personal Injury Protection.

PPO - See Preferred Provider Organization.

PACKAGE POLICIES - A combination of coverages marketed as a single policy. Homeowners Multi-Peril and Businessowners Policies are examples of package policies.

PAID-UP ADDITIONS - Additional insurance purchased by participating policy dividends on a net single premium basis. The premium is determined by the insured's attained insurance age at the time additions are purchased.

PAID-UP POLICY - A policy on which no future premiums are due while the company is still liable for the benefits provided under the terms of the contract.

PARTIAL DISABILITY - Defined in many accident policies as: "Inability to perform one or more important duties of one's occupation."

PARTIAL LOSS - In property insurance, a loss which does not either:

- (1) completely destroy the property, or
- (2) exhaust the applicable insurance.

PARTICIPATING POLICY - One under which the insured shares in the saving resulting from good underwriting and favorable loss experience. Such policies are usually written by mutuals, sometimes by reciprocals, and occasionally by stock companies.

PAYOR BENEFIT - A benefit available under certain Juvenile policies, upon payment of an extra premium. It provides for the waiver of future premiums in the event the named payor dies or is disabled while the benefit is in effect.

PAYROLL AUDIT - An examination of the insured's accounts by the insurer to determine exactly the amount of premium due when the policy has been written on a payroll basis and the advance premium has been merely estimated.

PER CAPITA RULE - Under this rule, the death proceeds of a life insurance policy are divided equally among the living primary beneficiaries.

PERIL - The specific event causing a loss, such as fire, windstorm or accidental death.

- A "named peril" policy covers losses from perils specifically named in the policy.
- An "Accidental Direct Physical Loss" (ADPL) policy covers losses from all perils except those it excludes.

PERSISTENCY - The "staying" quality of life insurance policies. High persistency means that a low percentage of policies lapse for non-payment of premiums.

PERSONAL INJURY - Distinguished from "bodily injury," this term relates to injury arising from false arrest, libel, slander, wrongful eviction, etc.

PERSONAL INJURY PROTECTION (PIP) - The formal name usually given to no-fault benefits in states that have enacted mandatory or optional no-fault Automobile Insurance coverages. PIP typically includes benefits for medical expenses, loss of work income, essential services, accidental death and funeral expenses.

PERSONAL LINES - Used to refer to insurance for individuals and families, such as private passenger automobile insurance and homeowner policies.

PERSONAL PROPERTY FLOATER - This is similar to the personal effects floater, but it may be written on any kind of personal property, and it covers property in the principal residence of the insured as well as elsewhere.

PER STIRPES RULE - Under this rule, the death proceeds of a life insurance policy are divided equally among the named beneficiaries. If a named beneficiary is deceased, his or her share then goes to the living descendants of that individual.

PHYSICAL HAZARD - A hazard created by the condition, occupancy, or use of the property itself.

PILFERAGE - Petty theft, especially theft of articles in less than package lots. In auto insurance this would include the theft of such things as hubcaps, spotlights, spare wheels, and so on.

POLICY - The written contract effecting insurance, or the certificate thereof, by whatever named called, and including all clauses, riders, endorsements, and papers attached thereto and made a part thereof.

POLICY FEE - A fee added to the premium to help defray the costs of acquisition and/or maintenance. The fee may be onetime or annual; some policies have no policy fee.

POLICYHOLDER - The person in possession of an insurance policy.

POLICYOWNER - The legal owner of a life insurance or annuity policy; may be the insured or annuitant or another party.

PRE-EXISTING CONDITION - A physical or mental condition that existed before issuance of a policy.

PREFERRED PROVIDER ORGANIZATION (PPO) - A health care delivery system in which the employer or insurer enters into contracts with health care providers (physicians, hospitals, etc.), to provide health care services at a discount.

PREFERRED RISK - A class of risk that is considered to be particularly desirable.

PREMIUM - A periodic payment by the insured to the insurance company in exchange for insurance coverage.

PREMIUM NOTICE - Notice of premium due, sent out by the company or one of its agencies, to an insured and/or policyowner.

PRIMARY BENEFICIARY - The party who is usually first entitled to receive the policy proceeds upon the insured's death.

PRINCIPAL - The person, firm or corporation whose performance of certain obligations is covered or guaranteed by a bond.

PRINCIPAL SUM - In a health and accident policy, the amount specified to be paid in the event of covered losses. In a life policy, the amount of insurance provided by the policy at the time of issue.

PRIOR-APPROVAL LAW - A law for regulating insurance rates under which the rates must be filed and approved by the state insurance department before they can be used.

PROCEEDS - The net amount of money payable by the insurer at the death of an insured or at the maturity of a policy.

PRODUCER - In insurance, this refers to any person engaged in the production of business, i.e., sales. In most other forms of business, the producer is the manufacturer who turns out the product to be sold.

PRODUCT LIABILITY INSURANCE - Protection against liability arising out of the handling or use of the existence of any condition in goods or products manufactured, sold, handled or distributed by the insured if the accident occurs after the insured has relinquished possession to others and away from the insured's premises. Coverage also applies to accidents caused by faulty workmanship if the accident occurs away from the insured's premises and after the work has been allegedly completed.

PROHIBITED RISK - A risk which an insurance company will not insure.

PROOF OF DEATH - A usual requirement before paying a death claim is that a formal statement (proof of death form of some type) be submitted to the insurer.

PROOF OF LOSS - A formal statement that the insured typically must furnish before the insurance company will pay any property insurance loss.

PROPERTY DAMAGE INSURANCE - Coverage for liability due to damage to the property of others.

PROPERTY INSURANCE - Insurance written to cover the loss, by damage or theft, to specified objects of value owned, possessed, or held by the insured. Sometimes called physical damage in case of automobile insurance.

PRO RATA CANCELLATION - A cancellation by the insurer that refunds an amount equal to the daily earned premium multiplied by the days remaining in the policy.

PRO RATA DISTRIBUTION CLAUSE - A form usually attached to a fire policy covering several buildings. It provides that the insurance shall apply to each building only in the proportion that the value of such building bears to the total value of all buildings covered under the policy.

PROSPECT - A potential buyer for insurance.

PROTECTION CLASS - The rating of the local fire department's capabilities and the availability of fire hydrants and other water supply sources. Protection classes are typically numbered 1 through 10, with 1 being best and 10 having essentially no fire protection. Used in pricing property insurance.

PROVISIONAL RATE - Estimated temporary rate. Always subject to adjustment.

PROXIMATE CAUSE - The factor causing damage or loss for which there is an unbroken chain of events between the occurrence of an insured peril and the resulting injury or damage.

PUNITIVE DAMAGES - Money awarded by a jury as a result of a negligent act, to punish a negligent party and deter others from committing the same act. These damages are over and above compensatory damages.

PURE PREMIUM - The amount of premium required to pay losses alone. An amount, usually a percentage, must be added to pay the cost of acquiring and managing the business, etc., in order to determine the manual rate.

Q

QUOTATION - Also referred to as a Quote. The rate at which an insurance company indicates its willingness to assume certain liabilities, or provide coverage, under an insurance policy. An approximation of the premium for a given policy.

R

RATE - The premium charge for specific coverage for the regular policy period. Also, the cost of a unit of insurance for a specified period of time.

RATED - A term used to describe insurance issued to a person, who is a substandard risk, at a premium rate which is higher than that charged for a standard risk.

RATING BUREAUS - Organizations which ascertain, determine and sometimes fix and regulate insurance rates.

REBATING - Giving a premium reduction or another financial advantage not stated in the policy as an inducement to purchase the policy. The offer of sharing commissions with the applicant is an inducement that is not part of the insurance policy and, therefore, is considered rebating. Rebates include not only cash but also personal services and items of value. Rebating is considered a violation of the Unfair Trade Practices Acts in most states.

RECIPROCAL INSURANCE EXCHANGE - An unincorporated insurance company whose members exchange contracts of insurance with each other. Each member, called a subscriber, contributes to pay for the losses of other subscribers. Subscribers pay only their share of losses and expenses.

REDLINING - Unfair discrimination against a risk based on its location, not on the risk's characteristics.

REDUCED PAID-UP INSURANCE - One of the nonforfeiture options contained in certain policies; it provides that the insured may elect to have the cash surrender value of the policy used to purchase a paid-up policy for a reduced amount of insurance.

REINSTATEMENT - A process for making a coverage applicable again after it has been canceled or suspended, but before the original normal expiration date of the policy in question.

REINSURANCE - An agreement by which one insurance company transfers to another carrier part or all of its risk of loss under its policies by means of a separate contract or treaty with another insurance company. The company providing reinsurance protection is the REINSURING COMPANY OR REINSURER. The one receiving reinsurance protection is the CEDING COMPANY.

Under the common form of reinsurance known as excess reinsurance, the reinsurer covers losses exceeding a certain limit specified in advance, and then only for the excess of the amount of the loss over the fixed limit. There are also quota share (pro rata) and stop loss (excess) types as well as facultative, which is specific for a given risk and may be of any type. The liability retained by the ceding company is known as its "retention."

RELEASE - An instrument signed by an insured or a third party claimant relieving the insurance carrier of any further liability (or any liability at all) with respect to a specific claim.

RENEWABLE TERM - Term insurance that may be renewed for another term without evidence of insurability.

RENTAL VALUE INSURANCE - Insurance which reimburses an owner of a building for loss of income as a landlord or, if he/she occupies the building, for loss of such comparable value.

REPLACEMENT - A new policy written to take the place of one currently in force or recently terminated.

REPLACEMENT COST - The cost of replacing property without deduction for depreciation.

REPORTING FORM POLICY - A policy covering property with varying values (inventory), etc., which contains a provision that requires reported values at stated intervals.

REPRESENTATIONS - Statements made by the proposed insured in the process of securing coverage. Coverage may be voided if the representation is false and material to the determination of risk. The standard of truth in representation is substantial, that is, "to the best of knowledge and belief," but not exact to detail.

RESERVE - An amount set aside by the insurer to meet future obligations. The amount of reserve varies with different types of claims, as well as with differences in severity of claims.

RETAINED LIMIT - See Self-Insured Retention.

RETENTION - That part of the insurance on a risk retained or not reinsured, the balance of which is reinsured.

RETIREMENT INCOME - One of the basic uses for life insurance. Life income, beginning at a selected retirement age, derived by applying contractual settlement options to policy or annuity case values. The definition may apply to individual or to joint lives.

RETROACTIVE DATE - A date that may be entered by the insurer on the Declarations Page of a "claims made" policy. This provision establishes that no claims for injury of damage that occurred before the Retroactive Date will be covered by that policy.

REVOCABLE BENEFICIARY - This designation means the policyowner can change the beneficiary without the beneficiary's consent.

RIDER - A document that amends or changes the policy. In life insurance, a rider usually adds coverage to the basic policy.

RISK - The hazard, or chance of loss, on any particular item of insurance. The term "risk" usually is used in a general way to designate the entire subject matter of insurance covered under a policy or upon which an application for insurance has been received. Risk is also sometimes used to designate a policyholder.

ROBBERY - The felonious and forcible taking of property by violence inflicted upon the victim of the robbery, or by putting such person in fear of violence. This includes money, checks, and goods taken from such person during a holdup.

ROTH IRA - An individual retirement plan that features nondeductible contributions and tax-free withdrawals pursuant to qualified distributions.

S

SEGLI - See Service Employees Group Life Insurance.

SEP - See Simplified Employee Pension Plan.

SIR - See Self-Insured Retention.

SALARY SAVINGS INSURANCE - Regular forms of life insurance sold to a group of employees with premiums collected on a monthly basis from the employer who deducts the premiums from the wages of the insured employees.

SALVAGE - Property transferred to an insurer to reduce its loss. The insurer secures an ownership interest from paying a claim for total loss or damage based on the true value of the property in its undamaged state or before the loss occurred.

SCHEDULE - The list of individual items covered under one policy (sometimes showing descriptions and values), as the various buildings or the list of items insured under a floater.

SELF-INSURANCE - Periodically setting aside sums of money which in time will cover losses as they occur. Only very large concerns with widely scattered property can safely afford to self-insure.

SELF-INSURED RETENTION (also known as retained limit) - In an umbrella policy, this is a deductible that applies to liability losses not covered by other underlying policies.

SERVICE EMPLOYEES GROUP LIFE INSURANCE (SEGLI) - Insurance issued to members of the armed forces while they are in the service. After separation, it is convertible to individual policies from certain private insurers.

SETTLEMENT OPTIONS - Nearly all life insurance policies issued provide for several optional modes of settlement in lieu of payments in a lump sum. The usual options are:

- (1) interest,
- (2) installments for a period certain,
- (3) life income with specified number of years' payment certain,
- (4) fixed income as long as proceeds and interest will last.

SHORT RATE CANCELLATION - A cancellation by the insured that refunds the unearned premium minus administrative expenses.

SHORT TERM POLICY - A policy written for less time than is normal for that type of policy.

SIMPLIFIED EMPLOYEE PENSION PLAN (SEP) - A written arrangement (a plan) that allows an employer to make contributions to an employee's retirement. Contributions can be made to an employee's individual retirement account or annuity (IRA).

SOFT MARKET - Used to describe a condition in which insurance is relatively inexpensive and easy to obtain.

SPECIFIC RATES - Rates provided by ISO State Officers for particular risks. They are based on a physical survey and on the application of rating schedules.

SPLIT LIMITS - In auto insurance, where rather than one liability amount applying on a per accident (occurrence) basis, separate amounts apply to bodily injury and property damage liability. For example, a liability limit of 100/300/100 means bodily injury limits of \$100,000 per person, \$300,000 per accident (occurrence) and a property damage limit of \$100,000 per accident (occurrence).

SPRINKLER LEAKAGE INSURANCE - A fire policy covers damage caused by discharge of water from a sprinkler system when the operation of the system is due to fire, but not otherwise. Damage caused by a fault in the system may be covered by a Sprinkler Leakage policy.

STACKING - Application of the limits of more than one policy to a claim or loss. Some courts have required stacking of limits when multiple policies cover an accident (occurrence).

STANDARD RISK - A person who according to a company's underwriting standards is entitled to insurance protection without extra rating or special restrictions.

STATED VALUE POLICY - A policy of property insurance which states the maximum amount the company will pay in case of loss.

STATUTE OF LIMITATIONS - The time limit set by law in which a person must bring legal action on a claim.

STOCK INSURER - A corporation owned by stockholders who participate in the profits and losses of the insurer.

SUBROGATION - When the insurer pays the insured for a loss, the insurer takes over the insured's right to collect damages from the other party responsible for the loss. Subrogation upholds the principle of indemnity by preventing the insured from collecting twice for a given accident.

SUBSTANDARD RISK - A risk that does not measure up to the company's underwriting requirements.

SUICIDE PROVISION - Most life policies provide that if the insured commits suicide within a specified period, usually two years, after the date of issue, the company's liability will be limited to a return of premiums paid.

SURETY - In bonds, this means the company which provides the bond is guaranteeing the behavior of the principal.

SURETY BOND - A bond guaranteeing the faithful performance of a contract, or the faithful performance of a duty or trust.

SURPLUS - The dollar amount remaining after company operation expenses. Surplus typically grows from underwriting gain and investment income. Surplus is diminished if payout on claims (insured losses) exceeds premiums collected.

A favorable surplus ratio, excess assets over liabilities, guarantees available funds for solvency and the ability to pay claims. It allows an insurer to grow and offer more products, as well as helps maintain a favorable rating within the insurance industry.

SURRENDER - Policyowner's requested termination of a policy with cash value. The insurer pays the policyowner any cash value that the policy has built up.

T

TPA - Third Party Administrator.

TARGET RISK -

- (1) A large risk that attracts unusually keen competition among insurers, agents or brokers, or
- (2) A large, hazardous risk for which insurance is difficult to place.

TEMPORARY INSURANCE AGREEMENT - A separate contract included with a life insurance application providing coverage to eligible proposed insureds during underwriting, which ends when the application is issued or declined.

TERM - Generally, the period of time for which a policy or bond is issued.

TERM INSURANCE - A type of life insurance policy that provides protection for a specified time period; most do not have cash value.

THEFT - "The willful taking of one person's property by another, wrongfully. To recover indemnity, an intent permanently to deprive the owner of his/her property need not be established for there to be a 'theft' under the policy.

THIRD PARTY (UNDER A LIABILITY INSURANCE POLICY) - A person, not a party to the insurance contract, who has an alleged or actual claim for injury or damage against the person insured under the policy.

TOTAL DISABILITY - Frequently defined as the inability to perform any of the duties of one's occupation.

TRUST AGREEMENT - A supplemental settlement agreement which distributes the proceeds in a special way, much as a regular fiduciary trust does. Insurance companies cannot enter into trust agreements.

TRUSTEE - A person appointed to manage the property of another.

TWISTING - The practice of inducing a policyowner in one company to lapse, forfeit, or surrender a policy for the purpose of taking out a policy in another company. It is a crime in all states and is typically classified as a misdemeanor.

U

UL - Underwriters Laboratories, Inc.

UMBRELLA POLICY - A liability insurance policy that takes over where basic liability insurance policies leave off. An Umbrella policy usually has a liability limit of \$1 million or more, which is added on top of the limit for any other policy - such as a homeowners policy - that covers liability.

UNDERLYING LIMITS - The limits of liability of the policy(ies) underlying an umbrella or excess policy.

UNDERWRITER - In short, one who underwrites. An underwriter decides whether to accept or reject applications based on the insurer's written standards, and their own experienced judgment. An agent is often referred to as a "field underwriter."

UNDERWRITING - A systematic process for evaluating risks. It involves evaluating, selecting, classifying and rating each risk, and establishing the standards of coverage and amount of protection to be offered to each acceptable risk.

UNEARNED PREMIUM - That portion of the premium which has not yet been earned and which is consequently owed to the policyholder if the policy is canceled.

UNFAIR TRADE PRACTICES - Practices that constitute unfair methods of competition or unfair or deceptive acts or practices. They include misrepresentation, twisting, rebating, deceptive or false advertising, inequitable claim settlement, and unfair discrimination.

UNIFORM SIMULTANEOUS DEATH ACT - The Act which states that, when an insured and beneficiary die at the same time, it is presumed that the former (the insured) survived the latter.

UNIVERSAL LIFE - A life policy that has flexible premiums and death benefit. Premiums are paid into an interest-bearing account from which maintenance fees, if any, and costs of insurance are deducted.

USE AND OCCUPANCY INSURANCE - Protection against actual loss sustained including loss of net profits and such fixed charges and expenses as must continue during enforced disruption of manufacturing and business operations caused by fire or other contingencies insured against.

V

V&MM - See Vandalism and Malicious Mischief.

VIN - Vehicle Identification Number.

VALUED POLICY - A form of policy in which the amount of indemnity to be paid in case of loss is fixed by the terms of the policy itself and does not depend on adjustment. This should not be confused with a Stated Value Policy.

VANDALISM AND MALICIOUS MISCHIEF (V&MM) - Willful physical injury to or destruction of property.

VARIABLE ANNUITY - Similar to a traditional fixed annuity. Retirement payments will be made periodically to the annuitants, usually over the remaining years of their lives. Under the variable annuity, there is no guarantee of the dollar amount of the payments. Payments will fluctuate up and down in accordance with the value of an account invested primarily in common stocks.

VARIABLE LIFE INSURANCE - A policy in which the death benefit and cash surrender values vary according to the investment experience of a separate investment account.

VIATICAL SETTLEMENT - A settlement that enables a person facing terminal illness to sell a life insurance policy for cash to a third party (i.e., a viatical settlement company), who then become the beneficiaries of the policy upon the death of the policyholder.

VICARIOUS LIABILITY - Under certain circumstances, a person is liable for the actions of (or damage done by) someone else. For example, if the owner of an automobile gives permission to a friend to drive an automobile, and the friend negligently causes an accident, the owner can be held liable.

W

WC - See Workers' Compensation.

WIIS - Western Insurance Information Service.

WAIVER - The voluntary surrender of a known right.

WAIVER OF PREMIUM PROVISION - A provision in a life insurance policy wherein the coverage continues without further premium payments (premiums coming due are waived) if the insured becomes disabled as defined in the policy.

WAR CLAUSE - A clause in an insurance contract relieving the insurer of liability, or reducing its liability, for specified loss caused by war.

WARRANTY - A statement made by the applicant which becomes a condition of issuance of the contract. Strictly speaking, a false warranty voids the policy even if it is not material. In practice, U.S. Courts are inclined to be lenient towards a policyholder who has made a false warranty which does not materially affect the risk, but British Courts still insist upon the truth of warranties.

WHOLE LIFE - A traditional type of life policy (not universal or variable) which provides coverage for the "whole life" of the insured, rather than for a specific term period. The proceeds are paid at the insured's death or at the age specified in the policy, usually age 100 or more, when the insured survives that long.

WORKERS' COMPENSATION - The benefits (weekly payments, medical, hospital, etc. bills) which an employer is bound by law to provide for his/her employees who are injured on the job, regardless of fault. Every state in the U.S.A. now has a Workers' Compensation Law. These laws vary in detail, but the general intent is the same, namely to make sure that an employee, who is disabled through his/her work, shall not become a public charge.



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