



Glossary of General Insurance Terms

AABD.

Aid to the Aged, Blind and Disabled. See Public Assistance.

AAI.

See Alliance of American Insurers.

AAIS.

See American Association of Insurance Services.

AB.

Aid to the Blind. See Public Assistance.

AFDC.

Aid to Families with Dependent Children. See Public Assistance.

AIA.

See American Insurance Association.

APTD.

Aid to the Permanently and Totally Disabled. See Public Assistance.

ARIA.

See American Risk and Insurance Association.

ARM.

See Associate in Risk Management.

"A" (or Judgment) Rates.

Rates that are not backed up by loss experience statistics. They are based on the judgment of the underwriter on an individual risk basis.

Absolute Assignment.

Assignment by a policy owner of all control of and rights in the policy to a third party.

Accident.

An unplanned event, unexpected and undesigned, which occurs suddenly and at a definite place. See also Occurrence.

Accident Frequency.

The rate of the occurrence of accidents, often expressed in terms of the number of accidents over a period of time. It is one method used for measuring the effectiveness of loss prevention services. Contrast with Accident Severity.

Accident Prevention.

See Loss Prevention Service.

Accident Severity.

A measure of the severity or seriousness of losses, rather than the number of losses. It is measured in terms of time lost from work rather than the number of individual accidents. It is another way of measuring the effectiveness of loss prevention services. Contrast with Accident Frequency.

Accident Year Experience.

Measures premiums and losses relating to accidents which occurred during a 12-month period.

Accidental Bodily Injury.

An injury sustained accidentally. Only the result need be accidental. Contrast with Accidental Means.

Accidental Means.

Unexpected or undesigned cause of an accidental bodily injury. Under a definition of accidental means, the mishap itself must be accidental, not just the resulting injury. An example would be an individual chopping wood: If the axe slipped out of his hand and cut his foot, it would have been accidental means. However, if his finger got in the way of the axe, it would not have been.

Accommodation Line.

Business accepted from an agent or broker which would normally be rejected according to strict underwriting standards but which is accepted because of the overall profitability of the agent's or customer's other business. As an example, an insurer might accept coverage on property that would not



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normally meet its underwriting standards, if the other lines of insurance which it carries for the customer were profitable.

Account Current.

A monthly financial statement provided to an agent by an insurer showing premiums written, cancellations, endorsements, and commissions.

Accumulated Earnings Tax.

A tax penalty which is imposed on corporate earnings which are retained by the corporation for non-business related needs.

Acquisition Cost.

The expenses incurred by an insurer or reinsurance company that are directly related to putting the business on the books of the company. The largest portion of this cost is usually the agent's or sales representative's commission or bonus.

Act of God.

An event arising out of natural causes with no human intervention which could not have been prevented by reasonable care or foresight. Examples are floods, lightning, and earthquakes.

Actual Cash Value.

An amount equivalent to the replacement cost of lost or damaged property at the time of the loss, less depreciation. With regard to buildings, there is a tendency for the actual cash value to closely parallel the market value of the property. See also Market Value.

Actual Total Loss.

See Total Loss.

Actuarial.

Having to do with insurance mathematics.

Actuary.

A specialist trained in mathematics, statistics, and accounting who is responsible for rate, reserve, and dividend calculations and other statistical studies.

Additional Insured.

A person other than the named insured who is protected under the terms of the contract. Usually, additional insureds are added by endorsement or referred to in the wording of the definition of "insured" in the policy itself.

Adhesion.

This is a characteristic of a unilateral contract which is offered on a "take it or leave it" basis. Most insurance policies are contracts of "adhesion," because the terms are drawn up by the insurer and the insured simply "adheres." For this reason ambiguous provisions are often interpreted by courts in favor of the insured. Contrast with Manuscript Policy.

Adjuster.

A representative of the insurer who seeks to determine the extent of the firm's liability for loss when a claim is submitted. Same as Claim Representative.

Adjuster, Independent.

See Independent Adjuster.

Adjuster, Public.

See Public Adjuster.

Adjustment Bureau.

A firm organized to provide adjustment services to insurers not wishing to create their own claims division.

Admitted (or Allowed) Assets.

Assets whose values are permitted by state law to be included in the annual statement of the insurer.

Admitted Company.

An insurance company authorized and licensed to do business in a given state.

Advance Payment.



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Premiums paid in advance of the current policy period, including the amount tendered with an application by an applicant for Life Insurance.

Advance Premium.

See Deposit Premium.

Adverse Selection.

The tendency of poorer than average risks to buy and maintain insurance. Adverse selection occurs when insureds select only those coverages that are most likely to have losses.

Adverse Underwriting Decision.

Any decision involving individually underwriting insurance coverages resulting in termination of existing insurance, declination of an application, or writing the coverage only at higher rates. For property and casualty insurance, it also includes placing the coverage with a residual market mechanism or an unauthorized insurer.

Age Limits.

The ages below which or above which an insurer will not write certain forms of insurance or above which it will not continue a policy presently in force.

Agency.

An insurance sales office which is directed by a agent, manager, independent agent, or company manager.

Agency Company.

An insurance company that produces business through an agency network. Contrast with Direct Writer.

Agency Contract (or Agreement).

The document which establishes the legal relationship between an agent and an insurer.

Agency Plant.

The total force of agents representing an insurer.

Agency System.

See Independent Agency System.

Agent.

One who solicits, negotiates or effects contracts of insurance on behalf of an insurer. His right to exercise various functions, his authority, and his obligations and the obligations of the insurer to the agent are subject to the terms of the agency contract with the insurer, to statutory law, and to common law.

Agent, Independent.

See Independent Agent.

Agent, Policywriting.

See Policywriting Agent.

Agent, Special.

See Special Agent.

Agent, State.

See State Agent.

Agent's Appointment.

Official authorization from an insurance company granting an agent the authority to act as its agent. In most states, agents must be appointed by at least one insurer in addition to being licensed by the state.

Agent's Authority.

The authority and power granted to an agent by the agency contract. The agent is also clothed with additional power under the legal concept of apparent agency. See also Apparent Agency.

Agent's Balance.

A periodic statement of the sums due and owed to an agent under the agent's contract with an insurer.

Agent's Commission.

The method by which an agent is compensated for placing insurance with a company that he represents. The commission is usually a percentage of the premium for the policy. See also Commission.



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Agent's License.

A certificate of authority from the state which permits the agent to conduct business.

Agent's Qualification Laws

Education, experience, and other requirements imposed by the state upon persons desiring to be licensed as agents.

Aggregate Limit.

Usually refers to Liability Insurance and indicates the amount of coverage that the insured has under the contract for a specific period of time, usually the contract period, no matter how many separate accidents may occur.

Aleatory Contract.

A contract in which the number of dollars to be given up by each party is not equal. Insurance contracts are of this type, as the policyholder pays a premium and may collect nothing from the insurer or may collect a great deal more than the amount of the premium if a loss occurs.

Alien Insurer.

An insurer formed under the laws of a country other than the United States. A U.S. company selling in other countries is also an alien insurer.

Alienated.

In insurance, this term describes property that an insured no longer owns or holds title to. Generally a Public Liability policy will cover the insured's liability for premises alienated by him.

Alliance of American Insurers (AAI).

An association of insurance companies working together in the following areas of common interest: (1) Government affairs affecting insurance; (2) Education of the employees of member companies; (3) Loss prevention, and (4) Other insurance activities.

Allowed Assets.

See Admitted Assets.

All-Risks Insurance.

The term "All-Risks Insurance" is used to mean insurance against loss of or damage to property arising from any fortuitous cause except those that are specifically excluded. An insurance contract which provides All-Risks Insurance is an All-Risks policy. Contrast with Named Perils. +++++

Ambiguity.

Terms or words in an insurance policy which make the meaning unclear or which can be interpreted in more than one way. The rule of law is that any ambiguity in the policy is construed against the insurer and in favor of the insured. This is because the contract is one of adhesion; that is, the insured must adhere to what the insurer has written. If the insurance does not make its contract clear, it is responsible.

Amendment.

A formal document which corrects or revises an insurance master policy. See also Endorsement and Rider.

American Academy of Actuaries.

A society concerned with the development of education in the field of actuarial science and with the enhancement of standards in the actuarial field. Members may use the designation MAAA (Member, American Academy of Actuaries).

American Agency System.

See Independent Agency System.

American Association of Insurance Services (AAIS).

An association of insurance companies performing various technical functions for its member and subscribers. AAIS is licensed to operate in all states, the District of Columbia, and the Commonwealth of Puerto Rico. AAIS offers program services, files rates, rules and forms on behalf of member and



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subscriber companies, acts as an official statistical agent, and offers a variety of professional services for its member companies.

American Institute for Property and Liability Underwriters, Inc.

An insurance educational organization which establishes insurance standards and fosters educational work. Properly qualified individuals who pass a series of examinations given by this body receive the designation Chartered Property and Casualty Underwriter (CPCU).

American Insurance Association (AIA).

The informational, educational, technical and legislative organization of the capital stock insurance companies in the Property and Liability fields.

American Lloyd's.

See Lloyd's Association.

American Risk and Insurance Association.

An association of insurance educators and others interested in insurance study and research.

Amortized Value.

The value of bonds purchased by an insurance company which are eligible for amortization. For example, if a 10-year bond were purchased at \$50 more than its face value, that \$50 would be "amortized" or spread over the 10-year period. Each year the bonds would be valued at \$5 less than the year before.

Anniversary.

See Policy Anniversary.

Annual Statement.

A report to the state insurance department of the year's financial results. The insurer's income and expenses are stated in detail as well as its assets and liabilities.

Anti-Coercion Law.

A provision usually contained in a section of the state code entitled "Unfair Trade Practices" or a similar name, declaring the use of coercion to be an unfair practice and, hence, a violation of the state law.

Anti-Selection.

See Adverse Selection.

App.

A trade expression for the insurance application. See Application.

Apparent Agency.

See Presumption of Agency.

Apparent Authority.

Authority of an agent that is created when the agent oversteps actual authority, and when inaction by the insurer does nothing to counter the public impression that such authority exists.

Application.

A form on which the prospective insured states facts requested by the insurer on the basis of which, together with information from other sources, the insurer decides whether to accept the risk, modify the coverage offered, or decline the risk. See App.

Appointment.

See Agent's Appointment.

Apportionment.

The method of dividing a loss among insurers in the same proportions as their participation when two of more companies cover the same loss.

Appraisal.

An evaluation of property made to ascertain either the appropriate amount of insurance to be written or the amount of loss to be paid.

Approved.

The condition which exists when the person or object to be insured meets the underwriting standards of the insurer.



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Approved Roof.

A term used in building construction. It indicates a roof made of fire-resistive materials, such as tile or asphalt shingles.

Assessed Value.

The value of real estate or personal property as determined by a governmental unit, such as a city, for the purpose of determining taxes.

Assessment Company, Society or Insurer.

An insurer who retains the right to assess policyholders additional amounts if premiums are insufficient for operations. In some cases, an assessment insurer may not charge a stipulated premium at all but will merely assess participants in the plan a pro rata share of each claim filed plus expenses.

Assets.

The items on the balance sheet of the insurer which show the book value of property owned. Under state regulations, not all property or other resources can be admitted in the statement of the insurer. This gives rise to the term "nonadmitted assets." See also Nonadmitted Assets.

Assigned Risk.

A risk which is not ordinarily acceptable to insurers and which is, therefore, assigned to insurers participating in an assigned risk pool or plan. Each participating company agrees to accept its share of These risks.

Associate in Risk Management.

A professional designation granted by the American Institute for Property and Liability Underwriters to those who have completed a series of examinations.

Association.

See Pool and Syndicate.

Assured.

Same as Insured.

Assurer.

Same as Insurer.

Attorney-In-Fact.

The individual who manages a reciprocal insurance exchange and to whom each subscriber gives authority to exchange insurance for him with other subscribers. See also Reciprocal Insurance Exchange.

Audit Bureau.

A stamping office. A central office or bureau to which agents and companies send certain daily reports and endorsements for auditing before transmittal to the insurer.

Authorization.

The amount of insurance an underwriter says he will accept on a risk of a given class on specific property. It is given for the guidance and information of agents.

Authorized Insurer.

An insurer authorized by the state to transact business in that state for specific types of insurance.

Automatic Cover.

Coverage given automatically by a policy, usually for a specified period and limited amount, to cover increasing values and newly acquired and changing interests.

Avoidance of Risk.

Taking steps to remove a hazard, engage in an alternative activity, or otherwise end a specific exposure. One of the four major risk management techniques. See Risk Management.

Balance Sheet.



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An accounting term which refers to a listing of the assets, liabilities, and surplus of a company or individual as of a specific date.

Basic Limit.

Usually refers to Liability policies and indicates the lowest amount for which a policy can be written. This amount is either prescribed by law or company policy.

Basic Premium.

A fixed cost charged in a retrospective rating plan. It is a percentage of the standard premium and is designed to give the insurer the money needed for administrative expenses and the agent's commission plus an insurance charge. See also Retrospective Rating.

Basic Rate.

The manual rate from which discounts are taken or to which charges are added to reflect the individual circumstances of a risk.

Benefits.

Financial reimbursement and other services provided insureds by insurers under the terms of an insurance contract. An example would be the benefits listed under a Life or Health Insurance policy or benefits as prescribed by a Workers Compensation law.

Binder.

An agreement executed by an agent or insurer (usually the latter) putting insurance into force before the contract has been written or the premium paid. This term is not usually used in Life Insurance. See also Cover note.

Blanket Contract.

See Blanket Insurance.

Book of Business.

A total of all insurance accounts written by a company or agent. It may be treated in different ways. For example: an insurer's book of automobile business, or an agent's overall book of business, or an agent's book of business with each insurer.

Book Value.

Refers to the value of assets as shown in the official accounting records of the company.

Bordereau.

(1) A written report of individual cessions, usually detailed to show such items as reinsurance premiums or reinsurance losses with respect to specific risks. (2) A memorandum containing information concerning documents that accompany it. Used extensively in passing reinsurance from one insurer to another under a reinsurance agreement and by Property and Liability agents for passing information to various insurers on coverages written. (R,G)

Borderline Risk.

An insurance prospect of doubtful quality from an underwriting point of view.

Boycott.

An unfair trade practice which occurs when someone in the insurance business refuses to have business dealings with another until he or she complies with certain conditions or concessions.

Brick Construction.

Refers to a building where at least 75% of the exterior walls are of some type of masonry construction, i.e., brick, stone or hollow masonry tile, poured concrete or reinforced concrete, or hollow masonry block.

Brick Veneer Construction.

Refers to a building where the outside walls are constructed of wood with a facing of a single layer of brick.

Broker.



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One who represents an insured in the solicitation, negotiation or procurement of contracts of insurance, and who may render services incidental to those functions. By law the broker may also be an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium.

Broker of Record.

A broker who has been designated to handle certain insurance contracts for the policyholder.

Brokerage.

(1) The fee or commission received by a broker. (2) Insurance placed by brokers contrasted with that placed by agents.

Brokerage Business.

Business offered to an insurer by a broker. This is sometimes called excess or surplus business.

Brokerage Department.

A department of an insurer whose purpose is to deal with brokers in the placing of insurance.

Broker-Agent.

One acting as an agent of one or more insurers and as a broker in dealing with one or more other insurers.

Building Code.

This refers to municipal or other governmental ordinances regulating the type of construction of buildings within its jurisdiction.

Bureau, Rating.

See Rating Bureau.

Burning Ratio.

The ratio of losses suffered to the amount of insurance in effect.

Business.

In Property, Liability, and Health lines, it usually refers to the volume of premiums.

"Buy-Back" Deductible.

A deductible which may be eliminated for an additional premium in order to provide "first-dollar" coverage.

CAS.

See Casualty Actuarial Society.

CPCU.

See Chartered Property and Casualty Underwriter.

CUNA.

Credit Union National Association.

Calendar Year Experience.

This measures the premiums and losses entered on accounting records during the 12-month calendar.

Cancelable.

A contract of insurance that may be terminated by the insurer or insured at any time. Practically every form of insurance is cancelable, except Life Insurance and those Health Insurance policies designated as a "guaranteed renewable" or "noncancelable and guaranteed renew-able." Some states also regulate when or if Automobile policies can be cancelled.

Cancellation.

Termination of a contract of insurance in force by voluntary act of the insurer or insured in accordance with the provisions in the contract or by mutual agreement.

Cancellation, Flat.

See Flat Cancellation.

Cancellation, Pro Rata.



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See Pro Rata Cancellation.

Cancellation.

Short-Rate. See Short Rate Cancellation.

Capacity.

The largest amount of insurance or reinsurance available from a company. In a broader sense, it can refer to the largest amount of insurance or reinsurance available in the marketplace.

Capital Stock.

The shares of ownership in a corporation.

Capital Stock Insurer.

See Stock Insurer.

Capital Sum.

The maximum lump sum payable in the event of accidental death or dismemberment.

Capital Transaction.

The sale of a capital asset, such as stock, which results in the transaction being taxed as ordinary income and not as a dividend.

Captive Agent.

One who sells insurance for only one company as opposed to an agent who represents several companies. See also Exclusive Agency System.

Captive Insurer.

A legally recognized insurance company organized and owned by a corporation or firm whose purpose is to use the captive to write its own insurance at rates lower than those of other insurers. Usually it is a nonadmitted insurer that has the right, under special circumstances, to reinsure with an admitted insurer.

Carrier.

Sometimes used to designate the insurer. The term "insurer" is preferred because of the possible confusion of "carrier" with transportation. See also Insurer.

Cash Flow Plans.

Premium payment schemes which allow the insured to retain a large part of the premium and pay it out over a time period such as a year.

Cash Flow Underwriting.

The use of rating and premium collection techniques by insurance companies to maximize interest earnings on premiums.

Cash Value.

See Actual Cash Value.

Catastrophe Hazard.

The hazard of large loss by reason of occurrence of a peril to which a very large number of insureds are subject. An example would be widespread loss due to a hurricane or tornado.

Caveat Emptor.

Let the buyer beware.

Certificate.

See Certificate of Insurance or Participation.

Certificate of Authority.

(1) A certificate showing the powers that an insurer grants to its agents. (2) A certificate issued by a state department of insurance showing the power of an insurer to write contracts of insurance in that state.

Certificate of Convenience.

A term used in some jurisdictions to refer to a temporary license or permit empowering a person to act as an agent even though not fully licensed according to the law. Usually this certificate is granted to an agent who is studying for a licensing examination. It might also be issued to the administrator or executor of the



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estate of an insurance agent, who must have the authority of an agent to settle the estate, or to someone acting for an agent during a disability or an absence such as military duty.

Certificate of Insurance.

(1) A statement of the coverage and provisions of a master contract in group insurance that is issued to individuals covered in the group. (2) A form which verifies that a policy has been written and states the coverage in general, often used as proof of insurance in loan transactions and for other legal requirements.

Charter.

Usually the same as articles of incorporation. This is the grant of rights from a state or federal government, such as the right to incorporate and transact business.

Chattel Mortgage.

A type of mortgage where the collateral is personal property, rather than land or buildings.

Claim.

A demand made by the insured, or the insured's beneficiary, for payment of the benefits provided by the contract.

Claim Expense.

The expense of adjusting a claim, such as investigation and attorneys' fees. It does not include the cost of the claim itself.

Claim Report.

A report filed by an agent setting forth the facts of a claim. Same as Loss Report.

Claim Representative.

See Adjuster.

Claimant.

The person making a demand for payment of benefits.

Claims Reserve.

Amounts set aside to meet costs of claims incurred but not yet finally settled. An example might be a Workers Compensation case where benefits are payable for several years. At any given point in time, the reserve would be the funds kept based on the estimate of what the claim will cost when finally settled.

Class (or Classification).

A group of insureds having the same characteristics and who are, therefore, grouped together for rating purposes. Class rates apply to dwellings and apartments, since they usually have the same characteristics and are exposed to the same perils.

Clause.

A section of a policy contract or endorsement dealing with a particular subject. For instance, a Subrogation Clause deals with the rights of the insurer in the event of payment of a loss under the contract.

Close Corporation.

A corporate form of business controlled and operated by a small, close group of persons such as family members. The corporation's stock is not sold to outsiders.

Coding.

A method of putting information into a numerical form for statistical use. Most information on policies is coded and then put into reports.

Coercion.

An unfair trade practice which occurs when someone in the insurance business applies a physical or mental force to persuade another to transact insurance.

Collusion.

An agreement, usually secret, between two or more persons to defraud or deprive another or others of their property or rights.

Combined Ratio.



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The sum of an expense ratio and a loss ratio. An underwriting profit occurs when the combined ratio is under 100% and an underwriting loss occurs when the combined ratio is over 100%.

Commercial Lines.

This term is used to refer to insurance for businesses, professionals, and commercial establishments. See also Business Insurance. Contrast with Personal Lines.

Commercial Package Policy (CPP).

A commercial lines policy that contains more than one of the following coverage parts: Commercial Property, Commercial Liability, Commercial Inland Marine, Commercial Crime, Boiler and Machinery Insurance, Commercial Automobile Insurance, and Farm Coverage.

Commingling.

An illegal practice which occurs when an agent mixes personal funds with the insured's or insurer's funds.

Commission.

That portion of the premium paid to the agent as compensation for his services. See also First Year Commission, Renewal Commission, Level Commission System, Unlevel Commission System, Contingent Commission and Graded Commission.

Commission of Authority.

A document outlining the powers delegated to an agent by an insurer.

Commissioner of Insurance.

The title of the head of most state insurance departments. In some states, the title Director or Superintendent of Insurance is used instead.

Commissioners' Values.

An annual list of securities published by the NAIC. The values are to be used in recording security values on insurance company balance sheets.

Common Law Liability.

Responsibility based on common law for injury or damage to another's person or property which rests on an individual because of his actions or negligence. This is opposed to liability based on statutory law.

Common Policy Conditions.

Under the latest commercial lines program, a form including six common conditions which apply to all coverage parts attached to a commercial policy.

Common Policy Declarations.

Under the latest commercial lines program, a common declaration page which is part of every commercial policy. It shows information applicable to the entire policy (policy number, insurer, insured, total premium, forms attached, etc.). Each individual coverage part may also have its own declarations page.

Contingency Surplus.

See Contingency Reserve.

Contingent Fund.

A reserve to cover possible liabilities resulting from an unusual happening.

Continuing Education Requirement.

State-level requirement that insurance licensees periodically complete a minimum number of hours of insurance-related education in order to be eligible for license renewal.

Contract.

(1) 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). (2) In insurance, the agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A "policy" is the written statement of the terms of the contract.

(3) An agreement under which an agency or agent does business with an insurer.

Contribution Clause.



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See Coinsurance Clause. Both are similar in effect, but the term Contribution Clause is identified mostly with Business Interruption forms.

Controlled Business.

This term refers to the amount of insurance countersigned, issued or sold by a producer covering the life, property or interests of that producer, members of the producer's immediate family, or the producer's employer or employees. Many states limit the amount of controlled business that may be written, and if the premium or commissions on controlled business exceed a given percentage (usually 50%) of all business, the producer's license may be suspended, revoked, or not renewed.

Controlled Insurance.

(1) See Control. See Control Provision. An insurance account that an agent or broker can control by virtue of his influence with the buyer, as contrasted with controlling it by actual agreement.

Convention.

(1) An adjective, as in convention blank, derived from the original name for the National Association of Insurance Commissioners, which was the National Convention of Insurance Commissioners. (2) A gathering of persons, such as personnel of an insurer or members of a trade association, for the purpose of conducting business and/or receiving instruction and sales ideas.

Convention (or Statement) Blank.

The uniform annual financial statement required by all United States insurance jurisdictions as prescribed by the National Association of Insurance Commissioners. It must be filed annually in an insurer's home state and every state in which it is licensed to do business. Nearly all insurance accounting practices are geared to it.

Convention Examination.

A periodic audit of the books of an insurer by the state in which it is domiciled. Usually such an examination is conducted by the state insurance department with the assistance of representatives from several other state insurance departments.

Convention Values.

Values assigned to insurers' assets in the convention blank.

Conversion.

(1) Wrongful use of property by one in lawful possession of it. (2) Change of one policy form to another, usually without evidence of insurability. This usually refers to Life or Health Insurance contracts.

Cooperative Insurance.

Insurance issued by a mutual association such as a fraternal society, an employee association, an industrial association, or a trade union.

Countersignature.

The signature of a licensed agent or representative on a policy.

Countrywide Rates.

For each major division of the Commercial Lines Manual, a section called "Countrywide Rates" contains rates and minimum premiums. State rates are used for coverages for which there are no countrywide rates, or to modify countrywide rates.

Countrywide Rules.

For each major division of the Commercial Lines Manual, a section called "Countrywide Rules" contains rules and rating factors applicable to coverages in that division.

Court Bond.

Any bond required of a litigant to enable him to pursue a remedy in court.

Cover.

(1) A contract of insurance. (2) To effect insurance, that is, to "cover" an insured, for instance, for Automobile Insurance effective as of a given time. (3) To include within the coverage of a contract of insurance. For example, one could "cover" additional buildings under a Property Insurance contract.

Cover Note.



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Similar to a binder, but binders are usually issued by companies and delivered to agents. A Cover Note is usually written by an agent, and it informs the insured that coverage is in effect. See also Binder. In reinsurance, a Cover Note is a statement issued by an intermediary or broker indicating that coverage has been effected.

Coverage.

The scope of the protection provided under a contract of insurance.

Coverage Part.

Any one of the individual commercial coverage parts that may be attached to a commercial policy. Under the latest commercial lines program, a coverage part may be issued as monoline policy or may be combined with others as part of a package policy.

Covered Loss.

Illness, injury, death, property loss, legal liability, or any other situation or loss for which an insurance company will pay benefits under a policy when such event occurs.

Credit Report.

A confidential report made by an independent individual or organization that has investigated the reputation and record of an applicant for insurance.

Criticism.

A correction suggested by a rating or auditing bureau to an insurer.

Currently Insured Status.

A provision of OASDHI. The requirements for being "currently insured" are less than those for being "fully insured," and the former entitles a worker's dependents to survivor benefits in the event of his death.

Contrast with Fully Insured.

Cut Rate.

This term generally applies to insurance companies who charge premiums below a normal or average rate.

DEFRA.

Deficit Reduction Act of 1984.

Daily Report.

An abbreviated statement of pertinent policy information with copies for the insurer, the agent, and others. It is usually the top page of a policy.

Date of Issue.

The date stated in a policy as the date on which the contract was issued by the insurer. This is not necessarily the effective date of the policy.

Decedent.

Same as deceased.

Declination.

Rejection of an application for insurance by the insurer.

Deductible.

The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.

Deductible Clause.

A contract provision that sets forth the deductible.

Deductible, Disappearing.

See Disappearing Deductible.

Deductible, Franchise.

See Franchise Deductible.

Deficit.



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Any excess of debits over credits at the end of a given accounting period. (G,R)

Deficit Carried Forward.

The transfer of a debit balance from one accounting period to another.

Deflation.

An economic period characterized by falling prices, high unemployment and a generally sluggish or slow economy.

Degree of Risk.

The amount of uncertainty that exists in a given situation. For instance, if you've chosen heads in the flip of a coin, the degree of risk present is 50%, since there is a 50% chance any flip of the coin will come up tails. See also Law of Large Number, Odds, and Probability.

Dependent.

An individual who depends on another for support and maintenance.

Deposit (or Provisional) Premium.

The premium paid at the inception of a contract which provides for future premium adjustments. It is based on an estimate of what the final premium will be. See also Basic Premium.

Depreciation.

A decrease in the value of any type of tangible property over a period of time resulting from use, wear and tear, or obsolescence.

Deviated Rate.

Companies that adhere to rates promulgated by a bureau sometimes offer lower rates than those recommended in certain areas. The company is said to have "deviated" from the bureau rate for that area.

Deviation.

A rate that varies from the manual rate.

Direct Selling System.

A distribution system within which an insurer deals directly with its insureds through its own employees. This definition applies typically to Property and Liability Insurance business. Included are mail-order insurance and the sale of insurance from vending machines at airport booths and elsewhere. Contrast with Independent Agency System.

Director of Insurance.

A title used in some states for the head of the department of insurance. See also Commissioner of Insurance.

Disability.

A condition that curtails to some degree a person's ability to carry on his normal pursuits. A disability may be partial or total, and temporary or permanent.

Disclosure Authorization Form.

A form authorizing the disclosure of personal information obtained in connection with an insurance transaction. Insurers are required to give applicants advance notice of their information practices. Among other things, the form must state the kind of information collected and to whom information may be disclosed.

Discrimination.

Refusal of an insurer to provide comparable insurance or use comparable rates for certain individuals or groups with basic characteristics the same as those to whom the coverage or rates are offered. Unfair discrimination is prohibited by law.

Divided Cover.

The placing of insurance on a given subject or object with more than one insurer.

Dividend.



Glossary of General Insurance Terms

(1) The return of part of the premium paid for a policy issued on a participating basis by either a mutual or a stock insurer. (2) A portion of the surplus paid to the stockholders of a corporation.

Domestic Insurer (or Company).

An insurer formed under the laws of the state in which the insurance is written.

Drive-In Claim Service.

A facility maintained by an Automobile insurer in which the extent of damage to a claimant's automobile can be determined and, in many cases, a settlement made.

Dual Life Stock Company.

A stock Life insurer issuing both participating and nonparticipating policy contracts.

Earned Income.

The money individuals earn as a result of working at some job or occupation for which they are paid a salary.

Earned Premium.

The amount of the premium that has been "used up" during the term of a policy. For example, if a one-year policy has been in effect six months, half of the total premium has been earned.

Effective Date.

The date on which the protection of an insurance policy or bond goes into effect.

Emotional Distress.

See Mental Distress.

Endorsement.

A written or printed form attached to the policy which alters provisions of the contract.

Equity.

The money value of an insurance company that is over and above its liabilities. Liabilities include almost all of its reserves.

Estate Plan.

A plan for the disposition of one's property at death, including the handling of property in the event of the incompetency or total disability of the estate owner. A will is part of an estate plan.

Estimated Premium.

A provisional premium which is adjusted at the end of the year. For example, in Workers Compensation Insurance an estimated premium is based on estimated payrolls for the coming year. At the end of the year, final payrolls are determined and the final premium is computed.

Evidence Clause.

A clause in a policy which requires the insured to cooperate in the investigation of a claim by producing records and submitting to examinations. This is required to help an adjuster establish the validity of a claim. An Evidence Clause in a Health policy requires the insured to submit to physical examinations.

Ex Gratia Payment.

Latin for "from favor." A payment by an insurer to an insured for which there is no liability under the contract. In some cases an insurer may feel there has been a mistake or a misunderstanding, and he may pay a claim even though he does not appear to be liable.

Examination.

See Convention Examination.

Examiner.

An employee assigned by the state insurance department to audit insurers' records.

Exception.

See Exclusion.

Excess Insurance.



Glossary of General Insurance Terms

A coverage designed to be in excess over one or more primary coverages, and which does not pay a loss until the loss amount exceeds a certain sum. Contrast with Primary Coverage.

Excess Line Broker.

A person licensed to place insurance not available in his state through insurers not licensed to do business in the state. A person licensed to deal with nonadmitted insurers.

Exclusion.

A contractual provision that denies coverage for certain perils, persons, property, or locations.

Exclusions.

Specific situations, conditions, or circumstances that are listed in the contract as being not covered.

Exclusive Agency System.

An insurance distribution system within which agents sell and service insurance contracts that limit representation to one insurer and which reserve to the insurer the ownership, use, and control of policy records and expiration date. See also Captive Agent and Direct Writer, and contrast with Independent Agency System.

Executor, Executrix.

A fiduciary named in a will to settle an estate. An executrix is a female executor.

Expense Allowance.

A compensation paid to an insurance agent in excess of prescribed commissions.

FCAS.

See Fellow of the Casualty Actuarial Society.

FC&S Bulletins. Fire, Casualty, and Surety Bulletins.

A service, published by the National Underwriters Company, explaining coverages, forms, underwriting, and rating procedures for the various Property, Casualty, and Surety lines of insurance.

FCII.

Fellow of the Chartered Insurance Institute, whose designation is gained by the completion of examinations and other requisites.

FDIC.

See Federal Deposit Insurance Corporation.

FICA. Federal Insurance Contributions Act.

A law imposing a payroll tax to assist in funding Social Security benefits.

FOB.

See Free On Board.

FSA.

See Fellow of the Society of Actuaries.

FSLIC.

See Federal Savings and Loan Insurance Corporation.

Face Amount.

The amount of insurance provided by the terms of an insurance contract, usually found on the face of the policy. In a Life Insurance policy, the death benefit.

Fair Credit Reporting Act.

Public Law 91-508 requires that an applicant be advised if a consumer report may be requested and be told the scope of the possible investigation. Should his request for insurance be declined because of information contained in that report, the applicant must be given the name and address of the reporting agency.

Federal Deposit Insurance Corporation (FDIC).

An agency of the federal government which insures bank deposits up to a stated maximum.

Federal Estate Tax.



Glossary of General Insurance Terms

The federal tax which is imposed on the deceased's estate which includes the total assets comprising a person's estate at death.

Federal Insurance Administration.

A government office, part of HUD, which oversees the handling of FAIR plans, Federal Crime Insurance plans, and the Flood program.

Federal Insurance Contributions Act (FICA).

See FICA.

Federal Savings and Loan Insurance Corporation.

A United States government instrumentality that insures share accounts in savings and loans and similar institutions up to a maximum per account.

Fictitious Groups.

Groups formed primarily for the purpose of buying insurance. Under the law such groups may not be underwritten.

Fiduciary.

A person holding the funds or property of another in a position of trust. An example would be the executor of an estate.

Field.

(1) See Field Force. (2) A type or line of insurance as "in the Life Insurance field." (3) An area or territory covered by an agent, agency, or insurer.

Field Force.

The agents and supervisory personnel of insurers who operate away from the home office in the branch offices and agencies of the company.

Field Representative.

See Special Agent.

Financial Statement.

The disclosure of the financial results of a firm's operations. It involves the balance sheet, profit and loss statement, and associated information.

Fine Print.

A reference to imaginary small type in a policy contract supposedly containing exclusions, reductions, exemptions, and limitations of coverage. Most state laws include specifications for the minimum type size that can be used in a policy, and they also provide that exclusions cannot be printed in type smaller than that used to print the benefits.

Fire Mark.

An insignia, generally metal, once placed on buildings insured by the insurer represented by the mark. Since the insurers had their own fire brigades, they had to check the mark on a burning building to determine whether or not they should extinguish the fire.

First Loss Insurance.

(1) Popularly used, an insurance policy which is called upon to pay a loss before others covering the same risk. (2) A contract written in such an amount as to cover only an insured's expected loss during the policy period with no other insurance in existence.

"First" Named Insured.

The first named insured appearing on a commercial policy. The latest forms permit the insurer to satisfy contractual duties by giving notice to the "first" named insured rather than requiring notice to all named insureds.

First Party Insurance.

Insurance which applies to coverage for the insured's own property or person. Contrast with Third Party Insurance.



Glossary of General Insurance Terms

First Year.

The term used to refer to various matters during the first year a policy is in force, such as first year premiums and first year claims.

First Year Commission.

The commission paid on the first year's premium.

Flat.

Without interest or service charges. See also Flat Cancellation.

Flat Cancellation.

A policy which is cancelled upon its effective date. Usually under a flat cancellation no premium charge is made.

Flat Commission.

A standard scale commission paid to an agent regardless of the type of exposure or the type of policy. Contrast with Graded Commission.

Flesch Test.

A method for determining the degree of ease or difficulty for reading material. This method counts not only the number of words in a sentence, but also the number of syllables in each word. It has come into popular use because of recent state laws requiring that contracts of insurance be easily understandable by someone at the eighth grade level.

Foreign Insurer.

An insurer domiciled in a state of the United States other than the one in which the insured's insurance is written.

Form.

(1) An insurance document which, when attached to a policy, makes it complete. For example, a Standard Fire policy would have to have a Business Interruption form attached to it to make up a Business Interruption policy. (2) Any rider or endorsement, such as a Deductible Endorsement "form."

GA.

See Agent.

GAAP.

See Generally Accepted Accounting Principles.

GAB.

See Adjustment Bureau, Inc.

GI Insurance.

See United States Government Life Insurance. (G,LI)

Gain and Loss Exhibit.

The portion of the convention blank which represents an analysis of gains, losses, and surplus during an accounting period.

Gambling.

The creation of a situation where there is a chance of either loss or gain. This is the opposite of insurance, which either eliminates or reduces the risk of loss and presents no chance of gain.

Generally Accepted Accounting Principles (GAAP).

These principles have substantial authoritative support for use in the insurance business. They are intended to produce financial results consistent with those of other industries and to assure consistency in financial reporting. Contrast with Statutory Accounting Principles.

Geographical Limitation.



Glossary of General Insurance Terms

A contractual provision which is specifically names geographical areas outside of which the insurance is not effective. Same as Territorial Limitation.

Gift Tax.

Both federal and state governments have gift tax laws which tax gifts made by one person to another.

Goodwill.

An intangible business asset. It refers to the value of a business which has been built up through the reputation of the business concern and its owners.

Graded Commission.

A compensation scale for agents which provides for varying commission rates depending upon the class, type, or volume of insurance written. Contract with Flat Commission.

Grantee.

The buyer of real estate.

Grantor.

The seller of real estate.

Gross Line.

The total limit accepted by an insurer on an individual risk, including the amount to be reinsured.

Gross Premium.

The net premium plus operating expenses, commissions and other expenses.

Group of Companies.

See Fleet of Companies.

Guaranteed Continuable.

See Guaranteed Renewable.

Guaranty Funds.

Funds created by state law from contributions by insurance companies operating in the state which are used to make good any unpaid claims or otherwise to make money available to insolvent companies. Each state which has a fund has a different plan. See Insurance Guaranty Act. Same as Insolvency Funds.

Guiding Principles.

Rules established by major Property and Liability trade associations for the adjustment of losses, particularly with respect to how losses should be apportioned between insurance companies under certain circumstances.

HEW.

The United States Department of Health, Education and Welfare, which administers the OASDHI, Medicare, and Public Assistance programs.

HUD.

United States Department of Housing and Urban Development.

Hangarkeepers Legal Liability Insurance.

Insurance which the owner of an airplane hanger buys to protect himself from liability for damage or injury to others arising out of the ownership, maintenance, or use of the premises for an aircraft hanger.

Hazard.

A specific situation that increases the probability of the occurrence of loss arising from a peril, or that may influence the extent of the loss. For example, accident, sickness, fire, flood, liability, burglary, and explosion are perils. Slippery floors, unsanitary conditions, shingled roofs, congested traffic, unguarded premises, and uninspected boilers are also hazards.

Hazard, Moral.



Glossary of General Insurance Terms

See Moral Hazard.

Hazard, Morale.

See Morale Hazard.

Hazard, Physical.

See Physical Hazard.

Head Office.

See Home Office. The term "head office" is primarily used in British insurance operations, whereas "home office" is used for American operations.

Housekeeping.

The care, cleanliness and maintenance of an insured's property. It is an important underwriting consideration in many forms of insurance, such as Workers Compensation and Property.

Huebner Foundation for Insurance Education.

A foundation which makes fellowship grants for doctoral study and publishes research studies in the field of insurance.

IASA.

Insurance Accounting Statistical Association.

IASS.

Insurance Accounting and Statistical Society.

IBNR.

See Incurred But Not Reported.

ICA.

International Claim Association.

ICC.

Interstate Commerce Commission.

ICEDS.

Insurance Company Education Directors Society.

ICPI.

Insurance Crime Prevention Institute.

IHO.

Institute of Home Office Underwriters.

IIA.

See Insurance Institute of America, Inc.

IIAA.

See Independent Insurance Agents of America.

IIC.

Independent Insurance Conference or Insurance Institute of Canada.

III.

See Insurance Information Institute.

IIS.

See International Insurance Seminars, Inc.

IRA.

See Individual Retirement Accounts.

IRIS.

See Insurance Regulatory Information System.

ISO.

See Insurance Services Office.



Glossary of General Insurance Terms

Impaired Insurer.

An insurer which is in financial difficulty to the point where its ability to meet financial obligations or regulatory requirements is in question.

Impairment of Capital.

A condition in which the surplus account of a stock insurer has been exhausted so that it must invade the capital account (amounts contributed by stockholders) to meet liabilities. Some jurisdictions allow a percentage invasion of capital; some do not.

Implied Authority.

Authority of an agent that the public may reasonably believe the agent to have. If the authority to collect and remit premiums is not expressly granted in the agency contract, but the agent does so on a regular basis and the insurer accepts, the agent has implied authority to do so.

Import.

Goods or services purchased from another country and brought into one's own country.

Incurred But Not Reported.

This refers to losses which have occurred during a stated period, usually a calendar year, but have not yet been reported to the insurer as of the date under consideration. For instance, insurance company statements prepared after the end of the calendar year would have to include an estimate of losses that occurred during that year but have not yet been reported.

Incurred Expense.

Expenses not yet paid. Can also include paid expenses in some accounting systems.

Incurred Loss Ratio.

The percentage of losses incurred to premiums earned.

Incurred Losses.

The losses occurring within a fixed period, whether or not adjusted or paid during the same period. As an example, in Workers Compensation claims losses occur during a given policy period, but benefits may continue to be paid for many years. The estimated value of the total claim would be an "incurred loss" for the policy period during which the loss occurred.

Indemnify.

To restore the victim of a loss to the same position as before the loss occurred.

Indemnity.

Restoration to the victim of a loss by payment, repair, or replacement.

Independent Adjuster.

An adjuster who works as an independent contractor, hiring himself out to insurance companies or other organizations for the investigation and settlement of claims. Independent adjusters represent the interests of insurance companies. Contrast with Public Adjuster.

Independent Agency System.

An insurance distribution system within which independent contractors, known as agents, sell and service Property-Liability Insurance solely on a commission or fee basis under contract with one or more insurers that recognize the agent's ownership, use, and control of policy records and expiration data.

Independent Agent.

An agent operating as an independent contractor under the independent agency system.

Independent Contractor.

One who agrees to perform according to a contract and who is not an employee.

Independent Insurance Agents of America (IIAA).

An association of independent insurance agents historically known to represent stock insurance companies more than mutual companies. Members are also members of their state associations.

Index Bureau Experience.

A measure of losses relating to claims reported through a claim office during a 12-month period.



Glossary of General Insurance Terms

Individual Risk Premium Modification Rating Plan.

A plan which modifies the premium on large package policies by considering such factors as reduced expenses for handling costs (Expense Modification) and special characteristics of the risk not contemplated by the basic rate (Risk Modification).

Industrial Risk Insurers.

A consortium of major stock property and casualty insurers formed to write large, highly protected risks. The organization was formed in 1975 by the merger of the Factory Insurance Association and the Oil Insurance Association.

Inevitable Accident.

See Accident.

Initial Premium.

An amount paid at the inception of an insurance contract, usually subject to adjustment at the end of the policy period.

In-Patient.

A patient admitted to a hospital or other similar medical facility as a resident patient. (G)

Insolvency Funds.

See Guarantee Funds.

Insolvent Insurer.

An insurer which is unable to meet its financial obligations.

Inspection.

Independent checking on facts about an applicant, policyholder, or claimant, usually by a commercial inspection agency.

Inspection Report.

A summary statement of the physical, financial, and moral attributes of an insured or an applicant for insurance on his property. Such reports are prepared by inspection bureaus, specialized organizations, and insurers.

Insurability.

Acceptability to the insurer of an applicant for insurance.

Insurable Interest.

Any interest a person has in a possible subject of insurance, such as a car or home, of such a nature that a certain happening might cause him financial loss.

Insurable Risk.

A risk which meets most of the following requisites: (1) The loss insured against must be capable of being defined. (2) It must be accidental. (3) It must be large enough to cause a hardship to the insured. (4) It must belong to a homogeneous group of risks large enough to make losses predictable. (5) It must not be subject to the same loss at the same time as a large number of other risks. (6) The insurance company must be able to determine a reasonable cost for the insurance. (7) The insurance company must be able to calculate the chance of loss.

Insurance.

A formal social device for reducing risk by transferring the risks of several individual entities to an insurer. The insurer agrees, for a consideration, to assume, to a specified extent, the losses suffered by the insured.

Insurance Commissioner.

The head of a state's insurance regulatory agency in most jurisdictions. In some states the title of Director or Superintendent is used.

Insurance Company Education Directors Society (ICEDS).

An organization of insurance company educators whose primary purposes are to promote insurance education and exchange information on the subject.



Glossary of General Insurance Terms

Insurance Department.

A governmental bureau in each state and the federal government in Canada charged with the administration of insurance laws, including the licensing of agents and insurers and their regulation and examination. In some jurisdictions the department is a division of another state department or bureau.

Insurance Examiner.

The representative of a state insurance department assigned to participate in the official audit and examination of an insurer.

Insurance Guaranty Act.

The legislation enacted in many states providing for guaranty funds for the policyholders of insolvent insurers. See Guaranty Funds.

Insurance Hall of Fame.

An institution created to honor those who have made outstanding contributions to insurance thought and practice. Selections are made on an international basis.

Insurance Institute of America, Inc (IIA).

An organization which develops programs and conducts national examinations in Insurance, Risk Management, Management, Adjusting, Underwriting, Auditing, and Loss Control Management. Diplomas are given to recognize achievement in these areas.

Insurance Policy.

The printed form which serves as the contract between an insurer and an insured.

Insurance, Quota Share.

See Quota Share Insurance.

Insurance Regulatory Information System (IRIS).

Information and early-warning system used by the National Association of Insurance Commissioners (NAIC) to keep track of the financial soundness of insurers.

Insurance to Value.

Insurance written in an amount approximating the value of the property insured.

Insuring Agreement (or Clause).

That portion of an insurance contract which states the perils insured against, the persons and/or property covered, their locations, and the period of the contract.

Interest Rate Risk.

A risk faced by investors who invest in bonds characterized by an individual being locked into a lower interest rate when interest rates are generally increasing in the economy.

Interinsurance Exchange.

See Reciprocal Insurance Exchange.

Interline Endorsement.

Commercial endorsements that apply, or could apply, to more than one coverage part of a package policy.

International Insurance Seminars, Inc.

(IIS). An institution established to promote worldwide exchanges of ideas and techniques between insurance people. The major focus of IIS is its annual seminar which brings together academicians and insurance practitioners.

Interstate Carrier.

A transportation company which does business across state lines.

Investigative Consumer Report.

A report ordered on an insured or applicant under which information about the person's character, reputation, or lifestyle is obtained through personal interviews with the person's neighbors, friends, associates or acquaintances. Contrast with Consumer Report.

Investment Company Act of 1940.



Glossary of General Insurance Terms

A federal law which regulates the organization and activities of investment companies and requires the registration of investment companies with the federal government.

Investment Income.

The return received by insurers from their investment portfolios, including interest, dividends, and realized capital gains on stocks. Realized capital gains means the profit realized on stocks that have actually been sold for more than their purchase price.

Investment Reserve.

An item in the balance sheet of an insurance company which represents a setting aside of assets to compensate for a possible reduction in the market value of securities owned by the company.

JUA.

See Joint Underwriting Association.

Joint Underwriting Association (JUA).

An unincorporated association of insurance companies formed to provide a particular form of insurance to the public. Those who insure with a JUA pay assessments in addition to their premiums which provide monies for the operation of the association. JUA's are usually free to set their own rate levels and use whatever coverage forms are deemed proper, subject to approval by state authorities.

Joint Venture.

This expression is applied most often to construction ventures where several contractors agree to combine together on a construction project rather than to act as separate contractors. Under the joint venture agreement, they share profits and losses in some agreed-upon proportion.

Judgment Rates.

See "A" Rates.

Kenney Ratio.

A rule proposed by Roger Kenney which suggests that to insure solvency, Property and Liability insurers should not write insurance premiums equal to more than twice their capital and surplus.

Kidnap-Ransom Insurance.

This insurance is written primarily for financial institutions and covers named employees for individual or aggregate amounts paid as ransom, with deductible requiring the insured to participate in about 10% of any loss. There are few markets for this coverage and no standardization of rates. See also Extortion Insurance.

LIFO.

Last in, first out. Refers to a method of keeping inventory records for accounting purposes where the last item purchased for inventory is the first item used.

Land Contract.

A type of instrument used in connection with the sale of real estate. It differs from a mortgage in that title to the land remains with the seller until the buyer has completed the payments, though possession rests with the buyer. Specifically, a land contract is the instrument that conveys the deed of land from one person to another upon full payment of the stated purchase price.

Lapse.



Glossary of General Insurance Terms

Termination of a policy because of failure to pay the premium. In Life Insurance, the term refers to nonpayment before the policy has developed any nonforfeiture values. If it has, and the premium is not paid, it is said to have lapsed "except as to any nonforfeiture benefits that may apply."

Lapsed Policy.

One which has been allowed to expire because of nonpayment of premiums.

Last In, First Out.

See LIFO.

Latent Defect.

A defect which is not immediately apparent.

Law of Large Numbers.

This law states that the larger the number of exposures considered, the more closely the losses reported will match the underlying probability of loss. The simplest example of this law is the flipping of a coin. The more times the coin is flipped, the closer it will come to actually reaching the underlying probability of 50% heads and 50% tails. See also Degree of Risk, Odds, and Probability.

Leasehold.

An agreement which gives a person the right to use and occupy property.

Legislated Coverages.

Coverages provided through creation of facilities legislated into existence by federal or state law. FAIR Plans, the Flood Insurance Program and the assigned risk pools are examples.

Legislative Risk.

A risk faced by investors whereby changes in tax laws can result in adverse effects on the individual's investment results.

Level Commission System.

A system of commissions in which the first year and all renewal commissions are the same percentage of the premium.

Liabilities.

Money owed or expected to be owed. Insurance company financial statements, for instance, show assets and liabilities.

License.

A certification of authority for an agent or insurer to operate, given by the appropriate jurisdiction.

Limit, Aggregate.

See Aggregate Limit.

Limit, Basic.

See Basic Limit.

Limit, Standard.

See Basic Limit.

Limitations.

Exceptions to coverage and limitations of coverage as contained in an insurance contract. For instance, a limit of liability would be one limitation on an Automobile policy. Another example would be policies written to cover only certain described automobiles, or, in the case of Liability Insurance, certain described premises.

Limited Agent.

An agent authorized to transact only a limited form of insurance, such as travel-accident or credit insurance. In many states, limited agents are exempt from licensing examination and education requirements.

Limited Partnership.



Glossary of General Insurance Terms

An association of two or more persons who operate and manage a business for profit; at least one the partners does not work in the business but does have some management voice and financial investment. The limited partner has limited liability.

Limits.

(1) Ages below or above which the insurer will not issue a policy or above which it will not continue a policy presently in force. (2) The maximum amount of benefits payable for a given situation or occurrence, e.g., a limit of \$50,000 on the contents of a home, or a \$40,000 per accident limit for Property Damage Liability. See also Limit of Liability.

Line.

A colloquial term with several meanings. It may be used to mean a particular type of insurance, such as the Liability "line." It may be used to describe all the various types of insurance written for a property owner, e.g., carrying all "lines" of the XYZ Company. It is also used to describe the amount of insurance on a given property, e.g., a \$250,000 "line" on buildings of the XYZ Company.

Line of Business.

The classification of business as utilized in the insurance industry, e.g., Fire, Allied Lines and Homeowners.

Line Sheet.

A schedule showing the limits of liability to be written by an insurer for different classes of risks. This kind of guide is also used by a ceding company to define the limits of liability it will assume on various types of exposures.

Liquidation of Insurer.

Action undertaken by a state Insurance Department to dissolve an impaired or insolvent insurer which cannot be restored to sound financial standing. Contrast with Rehabilitation of Insurer.

Liquidity.

The ability of an insurer to convert its assets into cash to pay claims if necessary.

Lloyd's.

Generally refers to Lloyd's of London, England, an institution within which individual underwriters accept or reject the risks offered to them. The Lloyd's Corporation provides the support facility for their activities.

Lloyd's Association.

A group of individuals who band together to assume risks are sometimes called a Lloyd's association. They are organized along the same lines as, though not connected with, Lloyd's of London. Each person is responsible only for the share of the risk that he assumes. There are a limited number of these associations in the United States.

Lloyd's Broker.

A person who has the authority to negotiate insurance contracts with the underwriters on the floor at Lloyd's. See also Lloyd's.

Lloyd's Syndicate.

A consortium of individual Lloyd's or London underwriters. Usually one person acts for the syndicate in accepting risks or rejecting them.

Lloyd's Underwriter.

An individual who underwrites risks through the facility of Lloyd's. These individuals are liable only for their own assumptions of risk and not those assumed by others in the same syndicate or in the overall Lloyd's organization.

Loading.

The amount added to the pure insurance cost to cover the cost of the operations of an insurer, the possibility that losses will be greater than statistically expected, and fluctuating interest rates on the insurer's investments. The "pure" insurance cost is that portion of the premium estimated to be necessary for losses.

Local Agent.



Glossary of General Insurance Terms

An agent representing companies in a sales and service capacity as an independent contractor on a commission basis. A local agent usually has a small territory, and his powers are limited by contract.

Loss.

Generally refers to (1) the amount of reduction in the value of an insured's property caused by an insured peril, (2) the amount sought through an insured's claim, or (3) the amount paid on behalf of an insured under an insurance contract.

Loss Adjustment Expense.

The cost of adjusting losses, excluding the amount of the loss itself.

Loss Constant.

A flat amount included in the premium for small Workers Compensation policies, for dwellings in some jurisdictions, and for some prescribed Inland Marine Insurance lines. The purpose of the Loss Constant is to offset the greater-than-average loss experience which most small risks have when compared to all other risks in a given classification.

Loss Control.

Any combination of actions taken to reduce the frequency or severity of losses. Installing locks, burglar or fire alarms and sprinkler systems are loss control techniques.

Loss Development.

The difference between the amount of losses initially estimated by the insurer and the amount reported in an evaluation on a later date.

Loss Expectancy.

An underwriter's estimate of the probable maximum loss to be suffered on an exposure being considered, with attention given to the expected level of loss prevention activities on the part of the insured.

Loss Frequency.

The number of times a loss occurs over a specific period of time.

Loss Payee.

The party to whom money or insurance proceeds is to be paid in the event of loss, such as the lienholder on an automobile or the mortgagee on real property.

Loss Prevention Service.

Engineering and inspection work done by an insurance company or independent organization with the aim of removing or reducing dangerous conditions in order to prevent losses.

Loss Ratio.

The losses divided by the premiums paid. The numerator (losses) can be losses incurred or losses paid, and the denominator (premium) can be earned premiums or written premiums, depending on what use is going to be made of the loss ratio.

Loss Report.

See Claim Report.

Loss Reserve.

The estimated liability for unpaid insurance claims or losses that have occurred as of a given evaluation date. Usually includes losses incurred but not reported (IBNR), losses due but not yet paid, and amount not yet due. The above describes a loss reserve as it would appear in an insurer's financial statement. As to individual claims, the loss reserve is the estimate of what will ultimately be paid out on that case.

Loss Severity.

The amount of a loss expressed in financial terms.

Losses Incurred.

The total losses, whether paid or not, sustained by an insurer during a given period, e.g., 12 months.

Losses Outstanding.

A summary statement prepared by Property, Life, and Liability insurers showing claims not yet settled.

Losses Paid.

A summary of claims paid.



Glossary of General Insurance Terms

Lost Policy Release.

A statement signed by an insured releasing the insurer from all liability for a lost or mislaid contract of insurance. It is usually signed after the company has issued a replacement policy.

MLIRB.

Multi-Line Insurance Rating Bureau.

Malicious Mischief.

Similar to vandalism. Purposely damaging the rights or property of another. See also V&MM.

Malingering.

To feign a disability for the purpose of continuing to collect benefits longer than actually necessary.

Maloney Act.

A 1938 amendment to the Securities Exchange Act of 1934. The Maloney Act established the National Association of Security Dealers (NASD) as a self regulatory organization (SRO) for those involved in the sale of securities.

Manager.

A common title for the head of an agency that is operated as a branch office, as opposed to being operated as a agency. The manager is a salaried employee, usually with an incentive bonus based on the agency's volume.

Mandatory Valuation Reserve.

A reserve required by a state law to offset any declines in the valuation of securities listed as admitted assets.

Manual.

A book giving rates, classifications, and underwriting rules for some line of insurance. An example would be the Automobile Manual which gives such information for Automobile Insurance.

Manual, Compensation.

where the rates shown apply to each \$100 of the payroll of the insured, \$100 being the "unit."

Manuscript Policy.

A policy written to include specific coverages or conditions not provided in a standard policy. It is often prepared by a large brokerage house for a large account, and it must conform to state laws. In the event of a dispute over policy language, the contract of adhesion doctrine is modified.

Market Risk.

A risk experienced by those who invest in securities which is the risk of possible loss of investment since there are no guarantees associated with such investments.

Market Value.

The price for which something would sell, especially the value of certain types of assets, such as stocks and bonds. It is based on what they would sell for under current market conditions. For example, common stock market value would be the price of the stock as of a specified date. See also Actual Cash Value.

Marketing Representative.

See Special Agent.

Mass Merchandising.

A technique whereby a group of people, usually employees or members of a union or trade association, insure with one company. Premiums are collected and remitted to the insurer in a lump sum.

Master Policy.

(1) The policy contract issued to an employer or other entity authorized by state law for a group insurance plan. See also the first definition of Certificate of Insurance. (2) A Property Insurance policy issued to an insured who can issue certificates of coverage to cover the property of others.

McCarran-Ferguson Act.

See Public Law 15.



Glossary of General Insurance Terms

Mental (or Emotional) Distress.

Usually not covered if a claimant was a bystander to an accident, but usually covered if he was physically involved.

Merit Rating.

A type of rating plan used in several forms of insurance but most commonly in Personal Auto. It is a method whereby the insured's premium will vary up or down depending on his own past loss record.

Minimum Premium.

The smallest amount of premium for which an insurer will issue coverage under a given policy.

Mixed Insurer (or Company).

An insurance company in which the ownership is split among stockholders and policy owners. The term can also be used to indicate an insurer issuing both Life and Health Insurance policies. It is often erroneously used to describe an insurer offering both participating (dividend paying) and nonparticipating plans.

Mode of Premium Payment.

The method of premium payment (mode) elected by the policy owner. Modes generally available are monthly, quarterly, semiannually, and annually.

Monoline Policy.

Any insurance coverage written as a single line policy. Contrast with Multiple Line or Package policy.

Moral Hazard.

A condition of morals or habits that increases the probability of loss from a peril. An extreme example would be an individual who previously burned his own property to collect the insurance.

Morale Hazard.

Hazard arising out of an insured's indifference to loss because of the existence of insurance. The attitude, "It's insured, so why worry," is an example of a morale hazard.

Mutual Fund.

An investment company that raises money by selling its own stock to the public. It then invests the proceeds in other securities, and the value of its own stock fluctuates with its experience with the securities in its portfolio. Mutual funds are of two types: (1) Open-end, in which capitalization is not fixed and more shares may be sold at any time. (2) Closed-end, in which capitalization is fixed and only the number of shares originally authorized may be sold.

Mutual Insurer.

An incorporated insurer without incorporated capital owned by its policyholders. Although mutual insurers do distribute their earnings to their policyholders in the form of dividends, the term should not be used in a sense that makes it synonymous with participating. In most jurisdictions, a mutual insurer is free to issue nonparticipating insurance if it chooses and a stock insurer is free to issue participating insurance. Contrast with Stock Insurer.

Mutual Insurer Policy.

Insurance issued by a mutual insurer.

Mutual Investment Trust.

See Mutual Fund.

Mutualization.

The process of converting a stock insurer to a mutual insurer, accomplished by having the insurer buy stock and retire it.

Multi-Peril Policies.

Policies which cover a number of perils, such as fire, burglary, and liability, in a single contract.

Multiple Line Policy.

A policy that includes several different coverages such as Property, Liability, and Crime. Any personal or commercial package policy.



Glossary of General Insurance Terms

Mutual Benefit Association.

An organization offering benefits to members on a plan under which no fixed premiums are paid in advance but assessments are levied on members to meet specific losses as they occur. See also Assessment Company, Society, or Insurer.

NAIA.

See National Association of Insurance Agents, Inc. and Independent Insurance Agents of America.

NAIB.

See National Association of Insurance Brokers, Inc.

NAIC.

See National Association of Insurance Commissioners.

NAII.

See National Association of Independent Insurers.

NAIW.

National Association of Insurance Women.

NAMIC.

See National Association Of Mutual Insurance Companies.

NAPIA.

National Association of Professional Insurance Agents.

NASD.

See National Association of Securities Dealers.

NFIA.

National Flood Insurers Association.

NFPA.

National Fire Protection.

Named Insured.

Any person, firm, or corporation, or any member thereof, specifically designated by name as the insured(s) in a policy. Others may be protected as insureds even though their names do not appear on the policy. A common application of this latter principle is in Automobile policies where, under the definition of insured, protection is extended to cover other drivers using the car with the permission of the named insured.

National Association of Independent Insurers (NAII).

An association comprised of Fire, Casualty, and Surety insurers which do not belong to large rating bureaus. The association distributes considerable information about legislation and litigation.

National Association of Insurance Agents, Inc.

(NAIA). The former name of the Independent Insurance Agents of America. See the listing under this name.

National Association of Insurance Brokers, Inc.

(NAIB). A voluntary association of insurance brokers which exists to exchange information and make recommendations to state legislatures.

National Association of Insurance Commissioners (NAIC).

Originally National Convention of Insurance Commissioners. An association of state insurance commissioners formed for the purpose of exchanging information and of developing uniformity in the regulatory practices of the several states through drafting model legislation and regulations. The NAIC has no official power to enforce compliance with its recommendations.

National Association of Mutual Insurance Companies (NAMIC).



Glossary of General Insurance Terms

A voluntary intercompany organization of Mutual Property and Liability insurers formed for the exchange of information and discussion.

National Association of Securities Dealers (NASD).

A voluntary association of brokers and securities dealers handling over-the-counter securities. It serves a quasi-official function in the regulation of licensing and also acts as a bureau which formulates rates, rating plans and policy wording for about half of the states. Many other states subscribe to the various services it provides. It is supported by the insurance companies which belong to it.

National Auto Theft Bureau.

An organization engaged in the prevention and reduction of motor vehicle fire and theft losses.

National Convention of Insurance Commissioners.

See National Association of Insurance Commissioners.

National Insurance Association, Inc.

An intercompany association of insurers formed to exchange information and ideas on common problems unique to the black community.

National Safety Council.

A nonprofit organization chartered by Congress in 1913. It is made up of approximately 12,000 industry members nationwide. The purpose of the council is the dissemination of safety education material.

Natural Death.

Death by means other than accident or homicide.

Negligence.

Failure to use that degree of care which an ordinary person of reasonable prudence would use under the given or similar circumstances. A person may be negligent by acts of omission or commission or both.

Net Interest Earned.

The average interest earned by an insurer on its investments after investment expense but before federal income taxes.

Net Loss.

The amount of loss sustained by an insurer after giving effect to all applicable reinsurance, salvage, and subrogation recoveries.

Net Premium.

(1) The amount of premium minus the agent's commission. (2) The premium necessary to cover only anticipated losses, before loading to cover other expenses. (3) The original premium minus dividends paid or anticipated in participating Life Insurance when the insured elects to use his dividends toward payment of the premiums. Contrast with Gross Premium.

Net Retained Line.

See Net Line.

Net Retention.

The amount of insurance that a ceding company keeps for its own account and does not reinsure.

New For Old.

Replacing old damaged parts or equipment with new ones rather than repairing them.

Nonadmitted Assets.

Assets that do not qualify under state law for insurance statement purposes. Examples would be furniture, fixtures, agents' debit balances, and accounts receivable which are over ninety days old.

Nonadmitted Insurer.

An insurer not licensed to do business in the jurisdiction in question. Same as Unauthorized Insurer and Unlicensed Insurer.

Nonassessable Policy.

A policy for which the policy owner pays a set premium. No additional premiums or amounts can be assessed. These are issued primarily by stock insurers, but can also be issued by mutual insurers who qualify to do so by meeting certain standards under state laws.



Glossary of General Insurance Terms

Nonassignable.

A policy that the owner cannot assign to a third party. Most policies are nonassignable unless approval is given by the insurer.

Noninsurable Risk.

A risk that cannot be measured actuarially or in which the chance of loss is so high that insurance cannot be written against it.

Noninsurance.

Making no financial preparation for meeting losses.

Nonparticipating (Non-Par).

Insurance contracts on which no policy dividends are paid because there is no contractual provision for the policy owner to participate in the surplus. Contrast with Participating.

Nonrenewal.

Termination of insurance coverage at an expiration date or anniversary date. This action may be taken by an insurer who refuses to renew, or by an insured who rejects a renewal offer.

Nonresident Agent.

An agent licensed in a state in which he does not live.

Notice of Cancellation.

Written notice by an insurer of intent to cancel insurance, or written notice by an insured requesting cancellation.

Notice of Loss.

Notice to an insurer that a loss has occurred. Notice of loss is a condition of most policies, and it is frequently required within a given time and in a particular manner.

Nonvalued Policy.

A policy that is not valued; that is, when the policy is written, the amount to be paid in the event of a loss is not stated. Most property policies are nonvalued.

Not Taken.

Policies applied for and issued but rejected by the proposed owner and not paid for.

Notice To Company.

Written notice to an insurer of the occurrence of an event which a claim is to be based.

Nuisance Value.

An amount that an insurance company will pay to settle a claim not because it is a valid claim but because the company considers it worth that amount to dispose of it.

OAA.

Old Age Assistance, a form of public assistance. See Public Assistance.

OASDHI.

See Old Age, Survivors, Disability, and Health Insurance.

OSHA.

See Occupational Safety and Health Act.

Occupational Accident.

An accident arising out of or occurring in the course of one's employment and caused by hazards inherent in or related to it.

Occupational Safety and Health Act (OSHA).

A federal statute which establishes safety and health standards on a nationwide basis. The act is enforced by Labor Department safety inspectors and also provides for the recordkeeping of statistics relevant to work injuries and illnesses.



Glossary of General Insurance Terms

Occurrence.

An event that results in an insured loss. In some lines of insurance, such as Liability, it is distinguished from accident in that the loss does not have to be sudden and fortuitous and can result from continuous or repeated exposure which results in bodily injury or property damage neither expected nor intended by the insured.

Odds.

The probable frequency of incidence of a given occurrence in a statistical sample. It is expressed as a ratio to the probable number of nonoccurrences or as a decimal fraction of the total occurrences. For example, a probability of .25 equals odds of three to one against. A probability of .75 equals odds of three to one for. See also Probability, Law of Large Numbers, and Degree of Risk.

Offer.

The terms of a contract proposed by one party to another. In Property and Casualty Insurance, submitting an application to the company is usually considered an offer. In Life Insurance, the application plus the initial premium constitutes an offer.

Old Age, Survivors, Disability, and Health Insurance.

The system of social insurance benefits for the aged, surviving dependents, and disabled workers set up by the Social Security Act of 1935, plus amendments and additions. See also Social Insurance and Social Security.

Omnibus Clause.

An agreement in most Automobile Liability policies and some others that, by its definition of insured, extends the protection of the policy to others within the definition without the necessity of specifically naming them in the policy. An example would be a policy which covers the named insured and "those residing with him."

Open Rating.

A system whereby a state allows an insurer to use rates without prior approval.

Other Insurance Clause.

A provision found in almost every insurance policy except Life and sometimes Health stating what is to be done in case any other contract of insurance embraces the same property and/or hazards. See also Nonduplication of Benefits and Apportionment.

Outstanding Premiums.

Premiums due but not yet collected.

Overinsured.

A term used to describe the condition that exists when an insured has purchased coverage for more than the actual cash value or replacement cost of a subject of insurance. It is also used to describe a situation where so much insurance is in force as to constitute a moral or morale hazard, such as having so much Disability Income Insurance in force that it becomes profitable to be disabled.

Overlapping Insurance.

Coverage from two or more policies or insurers which duplicates coverage of certain risks. See also Concurrent Insurance.

Overline.

(1) The amount of insurance or reinsurance exceeding an insurer's or reinsurer's normal capacity inclusive of automatic reinsurance facilities. (2) A commitment by an insurer or reinsurer above and beyond normal facilities or capacities.

Overriding Commission.

(1) A commission which an agent or broker may receive on any business sold in his exclusive territory by subagents. Also sometimes called "overwriting" or "overriding." (2) An allowance paid to a ceding company over and above the acquisition cost to allow for overhead expenses, often including a margin for profit.



Glossary of General Insurance Terms

Ownership of Expirations.

An agreement by an insurer that certain information regarding the details of a policy, usually a Property or Liability form, will be revealed to no agent or broker other than the originating agent.

PIA.

Professional Insurance Agents. An association of independent agents involved in educational programs, consumer efforts, and government and industry affairs pertaining to the insurance industry.

Package Policy.

Any insurance policy including two or more lines or types of coverages in the same contract. Personal and commercial package policies are very common today. In fact, most policies sold are package policies.

Paid-For.

Insurance on which the premium has been paid.

Paid-In Capital.

The amount paid for the stock sold by a corporation.

Paid-In Surplus.

Surplus paid in by stockholders, as contrasted with surplus earned through the operations of a business.

Paid Losses.

The amount actually paid in losses during a specified period of time, not including estimates of amounts that will be paid in the future for losses that occurred then.

Par.

Abbreviation for participating. See Participating.

Paramedic.

(1) A person having professional training in some area of medical care but who is not a doctor. (2) An adjective used to denote training or treatment by paramedical personnel.

Parent Company.

The senior company in a group or fleet of insurers. See also Fleet of Companies.

Partial Disability.

See Permanent Partial Disability and Temporary Partial Disability. (G,WC,H)

Partial Loss.

A loss covered by an insurance policy which does not completely destroy or render worthless the insured property.

Participating (Par).

(1) Insurance that pays policy dividends. In other words, it entitles a policy owner to participate in allocations of the insurer's surplus. In Life Insurance there are several options available for the use of such dividends. (2) Insurance that contributes proportionately with other insurance on the same risk.

Partnership Entity.

The partnership considered as an entity and not in terms of its individual part-owners.

Party Wall.

A common wall between two buildings.

Paul Versus Virginia.

The 1869 United States Supreme Court decision holding that insurance is not commerce and, hence, not subject to regulation by the federal government. This was the ruling decision with respect to insurance regulation until the SEUA case in 1944 which reversed that decision but which was later modified by Public Law 15. See also Southeastern Underwriters Association and Public Law 15.

Payee.

The person receiving money.

Period.



Glossary of General Insurance Terms

See Term.

Persistency.

The tendency or likelihood of insurance business not lapsing or being replaced by another insurer's product; an important underwriting factor.

Personal Assets.

Wealth and things of value accumulated and owned by an individual. These would include real estate, cash, investments and other items of value.

Personal Lines.

This term is used to refer to insurance for individuals and families, such as private passenger automobile insurance and homeowner policies. Contrast with Business Insurance and Commercial Lines.

Personal Property of Others.

Property, other than real property, which is not owned by an insured. Liability forms have traditionally excluded coverage for property of others in an insured's care, custody or control. Modern homeowner forms and commercial property forms provide some coverage for property of others.

Physical Hazard.

Any hazard arising from the material, structural, or operational features of the risk itself apart from the persons owning or managing it.

Pilferage.

Petty theft, particularly theft of articles in less than package lots. This term is associated with the insuring of cargo under an Inland Marine Insurance form.

Plain Language Laws.

Mandatory state law that requires policies to be written in everyday language so that they are easily understood. Technical terms with their technical meanings are used only where required by law or substitution would be misleading. (G,LE)

Policy.

The written statement of a contract effecting insurance, or certificates thereof, by whatever name called, and including all clauses, riders, endorsements, and papers attached thereto and made a part thereof.

Policy Anniversary.

The anniversary of the date of issue of a policy as shown in the policy declarations.

Policy Conditions.

See Conditions.

Policy Date.

See Effective Date.

Policy Dividend.

The return of a portion of the premium paid on a participating policy. It represents the difference between the gross premium charged and the actual cost assessed against the policy by actuarial formula.

Policy Owner.

(1) The person who has ownership rights in an insurance policy and who may or may not be either the policyholder or the insured. (2) Often used loosely to refer to the policyholder and/or the insured. See also Insured.

Policy Period (or Term).

The period during which the policy contract affords protection, e.g., six months or one or three years.

Policy Term.

See Policy Period.

Policy Year.

The period between policy anniversary dates.

Policy Year Experience.



Glossary of General Insurance Terms

The measure of premiums and losses for each 12-month period a policy is in force. Losses occurring during this 12-month period are assigned to the period regardless of when they are actually paid.

Policyholder.

(1) The person in actual possession of an insurance policy. (2) Often used loosely to refer to the policy owner and/or insured. See also Insured.

Policyholder's Surplus.

The amount over and above liabilities available for an insurer to meet future obligations to its policyholders. In the case of a mutual insurer, it is the whole equity section of the balance sheet. In the case of a stock insurer, the equity section is divided into two parts, stockholder's surplus and policyholder's surplus.

Policywriting Agent.

An agent who has the authority to prepare and effect an insurer's policy.

Pool (Association or Syndicate).

An organization of insurers or reinsurers through which particular types of risks are written with the premiums, losses, and expenses shared in agreed amounts among the insurers belonging to the pool. A pool is often the entity to write large values, such as those on commercial aircraft.

Portfolio.

All of the insurer's in-force policies and outstanding losses, respecting described segments of its business. Also, the total securities owned by an insurer.

Power of Agency.

See Agent's Authority.

Power of Attorney.

(1) The authority given to one person or corporation to act for and obligate another to the extent set forth in the agreement creating the power. (2) The authority given to the chief administrator of a reciprocal insurance exchange, who is called an attorney in fact, by each subscriber. See also Attorney in Fact and Reciprocal Insurance Exchange.

Precertification Authorization.

A cost containment technique which requires physicians to submit a treatment plan and an estimated bill prior to providing treatment. This allows the insurer to evaluate the appropriateness of the procedures, and lets the insured and physician know in advance which procedures are covered and at what rate benefits will be paid.

Preemptive Right.

A current stockholder's right to maintain his or her proportionate ownership in a corporation through the exercising of this right to purchase new issues of stock before the public.

Preferred Risk.

Any risk considered to be better than the standard risk on which the premium rate was calculated.

Prelicensing Education Requirement.

Statutory requirement of many states that an applicant for an insurance license must complete a specified education program before being eligible for the license.

Preliminary Term.

The period of a short-term insurance issued to cover a risk to a date which the policy owner wishes to establish as the anniversary date for future premiums.

Premises.

The particular location of property or a portion thereof as designated in a policy.

Premium.

The price of insurance protection for a specified risk for a specified period of time.

Premium Advance.



Glossary of General Insurance Terms

See Deposit Premium

Premium Deposit.

See Deposit Premium.

Premium Discount.

(1) A discount allowed on premiums paid in advance of one year, which is based on projected interest to be earned. (2) A discount allowed on certain Workers Compensation and Comprehensive Liability policies to allow for the fact that larger premium policies do not require the same percentage of the premium for basic insurer expenses such as policywriting. The discount percentage increases with the size of the premium. This is not available in all states.

Premium, Earned.

See Earned Premium.

Premium Notice.

A form notice from an insurer or agency to a policy owner that a premium will be due on a given date.

Premium, Pure.

See Pure Premium.

Premium Rate.

The price per unit of insurance. An example would be a Property Insurance rate of 10 cents per \$100 of the value of the property to be insured.

Premium Receipt.

The receipt given a policy owner for the payment of a premium.

Premium Return.

See Return Premium.

Premium, Unearned.

See Unearned Premium.

Premiums Written.

See Written Premiums.

Prepayment of Premiums.

Payment by an insured of future premiums through paying the present (discount) value of future premiums or having interest paid on his deposit by the insurer.

Present Value.

The amount of money that future amounts receivable are currently worth. For example, a Life Insurance policy may provide for payments to be made monthly for 10 years. The present value of that money would be less than the total amount of the monthly payments for 10 years because of the amount of interest that a present lump sum could earn during the term that the payments otherwise would have been made.

Presumption of Agency.

A legally binding agency relationship when, in fact, no formal agency agreement is in effect. If an insurer acts to give the appearance of agency, perhaps by furnishing letterhead and applications before a person has been licensed and appointed, an agency relationship exists under the law and the insurer may be legally bound by the acts of a person acting as agent.

Pretext Interview.

An interview in which the party gathering information refuses to reveal their identity, pretends to be someone else, misrepresents the true purpose of the interview, or pretends to represent someone who is not in fact represented. In most cases, federal and state laws prohibit pretext interviews in connection with insurance-related consumer reporting. They are permitted only in connection with investigations into suspected material misrepresentation, fraud, or criminal activity.

Primary Coverage.



Glossary of General Insurance Terms

Insurance coverage which covers from the first dollar, perhaps after a deductible, as distinguished from excess coverage which pays only after some primary coverage has been exhausted. Contrast with Excess Insurance.

Prior Approval Rating Forms.

A term used to indicate that an insurer must have rate changes formally approved by the state insurance department before it can use them.

Pro Rata.

(1) Distribution of the amount of insurance under one policy among several objects or places covered in proportion to their value or the amounts shown. (2) Distribution of liability among several insurers having policies on a risk, usually in the proportion that the amount of coverage in each policy bears to the total amount of coverage in all policies.

Pro Rata Cancellation.

The termination of an insurance contract or bond with the premium charge being adjusted in proportion to the exact time the protection has been in force. Contrast with Short Rate Cancellation.

Pro Rata Rate.

A rate charged for a period of coverage shorter than the normal period. An example, if an insured had coverage for only one quarter of a year, his premium would be only one quarter of the annual premium.

Probability.

The likelihood or relative frequency of an event expressed in a number between zero and one. The throw of a die is an example. The probability of throwing five is found by dividing the number of faces that have a five (1) by the total number of faces (6). That is a probability of one-sixth or one divided by six, which is .17. See also Degree of Risk, Law of Large Numbers, and Odds.

Producer.

A term applied to an agent, solicitor or other person who sells insurance.

Professional Corporation.

An artificial person or entity, governed by charter, engaged in a business which provides a professional service to the public such as medicine or law.

Professional Insurance Agents Association.

A trade association of mutual insurance agents.

Professional Partnership.

An association of two or more individuals who operate and manage a business which provides a professional service to the public such as medicine or law.

Profit Commission.

See Contingent Commission.

Prohibited List.

A list of types of business or types of risks that an insurance company will not insure. Also called the "undesirable list," the "do not solicit list," and other designations.

Promulgate.

(1) To develop, publish and put into effect insurance rates or forms. (2) To make public, by publishing or announcing, the fact that a statute or rule of court is a legal order or direction enforceable by law, and violation of such is punishable as provided by law. (G,LE)

Proof of Loss.

A formal statement made by a policy owner to an insurer regarding a loss. It is intended to give information to the insurer to enable it to determine the extent of its liability.

Prospect.

The term commonly used to refer to a potential buyer of insurance.

Prospecting.



Glossary of General Insurance Terms

The act of looking for prospects, i.e., potential insurance buyers.

Prospective Rating.

A method used in arriving at the rate and premium for a specified future period, based in whole or in part on the loss experience of a prior specified period. See Experience Rating.

Prospective Rating Plan.

A plan which uses a formula for determining premiums for a specified period on the basis, in whole or in part, of the loss experience of the previous period.

Protection.

(1) A term used interchangeably with "coverage" to denote insurance provided under the terms of a policy. (2) The fire-fighting facilities in the area in which a risk is located.

Provisional Premium.

See Deposit Premium.

Provisional Rate.

Tentative rates, premiums or commissions that are subject to subsequent adjustment. See Commission and Premium.

Provisions.

Statements contained in an insurance policy which explain the benefits, conditions and other features of the insurance contract.

Public Adjuster.

An insurance adjuster who represents an insured on a fee basis in claims settlement. Contrast with Independent Adjuster.

Public Assistance.

The federal and state system for providing welfare payments to the aged, blind, and disabled and to families with dependent children. See also Social Insurance.

Public Law 15.

A Congressional Act of 1945 exempting insurance from federal anti-trust laws to the extent that it is regulated properly by states. This law was passed after the reversal of the Paul versus Virginia case by the SEUA decision.

"Pup" Company.

An expression for smaller companies owned by a large company.

Pure Premium.

A term used in insurance rate making. It refers to that portion of the total premium which is needed to pay expected losses. It does not take into account money needed for other company expenses.

Pure Risk.

Uncertainty as to whether a loss will occur. Under a pure risk situation, there is no possibility for gain. Contrast with Speculative Risk.

Pyramiding.

(1) A term sometimes applied to an alleged practice of some consumer credit organization under which lenders add new credit insurance coverage for consolidation loans without canceling the old, thus producing a situation of overinsurance for the amount of the loan outstanding. (2) The term also applies to Liability Insurance where the limits of liability in several policies may apply, and, in effect, "pyramid" into higher amounts of insurance being available than was originally intended.

Quasi-Insurance Institutions.

A term sometimes applied to government institutions created to carry out social insurance arrangements that have some, but not all, the characteristics of insurers. An example is the United States Department of Health, Education, and Welfare.



Glossary of General Insurance Terms

Quick Assets.

Assets that are quickly convertible into cash.

Quid Pro Quo.

Latin for "this for that," or "one thing for another." In insurance it could refer to the consideration in an insurance contract which calls for the exchange of values by both parties to the contract in order for it to be a valid contract. See also Consideration.

RIMS.

See Risk and Insurance Management Society, Inc.

Rate.

The cost of a given unit of insurance. For example, in Ordinary Life Insurance, it is the price of \$1,000 of the face amount. In Disability Income Insurance, it is usually the price per \$10 or per \$100 of monthly benefits. In Property Insurance, it is the rate per \$100 of value to be insured. The premium, then, is the rate multiplied by the number of units of insurance purchased.

Rate Card.

A pocket size card issued by an insurer giving rates for various coverages. It is carried by an agent or sales representative for quotation purposes.

Rate Discrimination.

The use of different rates for insureds or risks of the same class and characteristics. Rate discrimination is prohibited by all state insurance laws.

Rate Manual.

A manual containing rates for various coverages, information and instructions for field underwriting, insurer's rules for the guidance of agents, and, in the case of Life Insurance rate manuals, cash amount forfeiture values and dividend scales (if any).

Rate of Natural Increase (Or Decrease).

The birth rate minus the death rate. If there were no migration, this would equal the rate of population increase (or decrease).

Rating Bureau.

A private organization that classifies and promulgates manual rates and in some cases compiles data and measures the hazards of individual risks in terms of rates in geographic areas, the latter being true especially in connection with Property Insurance.

Rating Class.

The rate class into which a risk has been placed. See also Class.

Rating, Experience.

See Experience Rating.

Rating, Merit.

See Merit Rating.

Rebate.

A portion of the agent's commission returned to an insured or anything else of value given an insured as an inducement to buy. The payment of policy dividends, retroactive rate adjustments, and reduced premiums that reflect the savings of direct payment to an agent or home office are not usually considered to be rebates. In most cases rebates are illegal, both for the agent or insurer to give a rebate and for an insured to receive one.

Reciprocal Insurance Exchange.

An unincorporated group of individuals, called subscribers, who mutually insure one another, each separately assuming his share of each risk. Its chief administrator is an attorney in fact.



Glossary of General Insurance Terms

Renewal.

The reestablishment of the in-force status of a policy, the term of which has expired or will expire unless it is renewed.

Renewal Certificate.

A short form certificate which is used to renew a policy. It refers to the original policy, keeping all of its provisions, but does not restate all of its insuring agreements, exclusions, and conditions.

Renewal Commission.

A commission paid on premiums subsequent to the first-year commission.

Renewals.

(1) The premiums paid for renewed policies. (2) The commissions paid on renewal premiums.

Replacement.

A new policy written to take the place of one currently in force.

Representative.

An agent or sales representative.

Rescission.

(1) Repudiation of a contract. A party whose consent to a contract was induced by fraud, misrepresentation or duress may repudiate it. A contract may also be repudiated for failure to perform a duty. (2) The termination of an insurance contract by the insurer when material misrepresentation has occurred. (G,LE)***

Reserve.

(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.

Reserve, Unearned Premium.

See Unearned Premium Reserve.

Resident Agent.

An agent domiciled in the state in which he writes insurance.

Residual Markets.

Various insurance markets outside of the normal agency-company marketing system. Residual markets include government insurance programs, specialty pools (aviation risks and nuclear risks), and shared market mechanisms (assigned risk plans).

Retail Credit Company.

The former name of Equifax, a credit reporting organization. See Equifax.

Retention of Risk.

Assuming all or part of a risk instead of purchasing insurance or otherwise transferring the risk. One of the four major risk management techniques. See Risk Management.

Retrospective Premium.

The final premium in a retrospective rating plan. See Retrospective Rating.

Retrospective Rating.

A plan for which the final premium is not determined until the end of the coverage period and is based on the insured's own loss experience for that same period. It is subject to a maximum and minimum. A plan of this type can be used in various types of insurance, especially Workers Compensation and Liability, and is usually elected by only very large insureds. See also Basic Premium.

Return Commission.

A commission which is paid back by the agent if a policy is cancelled before its normal expiration date. This situation arises because the commission was based on the full annual premium, and if the policy is cancelled before it is earned, a pro rata portion of the commission must be returned.



Glossary of General Insurance Terms

Return Premium.

A portion of the premium returned to a policy owner as a result of cancellation, rate adjustment, or a calculation that an advance premium was in excess of the actual premium. See also Pro Rate and Short Rate.

Revival.

See Reinstatement.

Rider.

An attachment to a policy that modifies its conditions by expanding or restricting benefits or excluding certain conditions from coverage. See Waiver and Endorsement.

Risk.

(1) Uncertainty as to the outcome of an event when two or more possibilities exist. See also Pure Risk and Speculative Risk. (2) A person or thing insured. Contrast with Hazard and Peril.

Risk and Insurance Management Society, Inc.

(RIMS) An association of risk managers and insurance buyers, organized for educational purposes to promote the risk management concept. RIMS attempts to foster closer relationships among buyers, to make the insurance needs of businesses known, and to promote better relations among all interested parties within the insurance industry.

Risk, Degree of. .

See Degree of Risk

Risk Management.

Management of the pure risks to which a company might be subject. It involves analyzing all exposures to the possibility of loss and determining how to handle these exposures through such practices as avoiding the risk, reducing the risk, retaining the risk, or transferring the risk, usually by insurance.

Risk Retention Groups.

Liability insurance companies owned by their policyholders. Membership is limited to people in the same business or activity which exposes them to similar liability risks. The purpose is to assume and spread liability exposure to group members and to provide an alternative risk financing mechanism for liability.

SA.

See Society of Actuaries.

SAA.

See Surety Association of America.

SAP.

See Statutory Accounting Principles.

SBA.

Small Business Administration.

SEC Liability.

The Federal Securities Act of 1933 and the Federal Securities Exchange Act of 1934 place very stringent obligations on those offering stock issues to the public to disclose full information on the offering. If misrepresentations, intended or not, are made, liability can attach to them.

SEUA.

See Southeastern Underwriters Association.

SIR.

See Self-Insured Retention.

Safety Responsibility Law.

See Financial Responsibility Law.

Salvage.

Property taken over by an insurer to reduce its loss.



Glossary of General Insurance Terms

Schedule P Reserve.

(1) A reserve required in Automobile Liability, other Liability, and Workers Compensation by the NAIC Convention Blank. (2) A formula set up for the calculation of such reserves.

Seasonal Risk.

A risk which is present only during certain parts of the year. Examples might be manufacturing concerns such as canners who have operations only during the summer and seasonal dwellings such as cottages used for vacations.

Securities.

Evidences of a debt or of ownership, as stocks, bonds, and checks.

Securities Act of 1933.

A federal law which requires full and fair disclosure and the use of a prospectus in the sale of securities.

Securities Exchange Act of 1934.

A federal law which requires the registration of companies and agents with the federal government if they are selling securities.

Selection.

The choosing by an underwriter of risks acceptable to an insurer.

Selection of Risk.

See Selection.

Self-Insurance.

Making financial preparations to meet pure risks by appropriating sufficient funds in advance to meet estimated losses, including enough to cover possible losses in excess of those estimated. Few organizations are large or dispersed enough to make this a sound alternative to insurance.

Self-Insured Retention (SIR).

That portion of a risk or potential loss assumed by an insured. It may be in the form of a deductible, self-insurance, or no insurance.

Settlement.

Usually, a policy benefit or claim payment. It connotes an agreement between both parties to the policy contract as to the amount and method of payment.

Sherman Antitrust Act.

An antitrust law from which insurance is exempted to the extent that it is regulated by state law.

Shock Loss.

A catastrophic loss so large that it has a material effect on the underwriting results of a company.

Short Rate Cancellation.

A cancellation procedure in which the premium returned to the insured is not in direct proportion to the number of days remaining in the policy period. In effect, the insured has paid more for each day of coverage than if the policy had remained in force for the full term. Contrast with Pro Rata Cancellation.

Short Rate Premium.

The premium required for issuing a policy for a period less than its normal term.

Short-Term Policy.

A policy written for a period of less time than is normal for that type of policy.

Simple Probability.

See Probability.

Single Limit.

Any insurance coverage which is expressed as a single amount of insurance, or a single limit of liability. Contrast with Split Limit.

Slip.

A paper submitted by a broker to the underwriters at Lloyd's of London which identifies syndicates accepting the risk and notes the extent of their participation.



Glossary of General Insurance Terms

Social Insurance.

Compulsory insurance legislated to provide minimum economic security for large groups of people, particularly those with low incomes. It is primarily concerned with the costs and loss of income resulting from sickness, accidental injury, old age, unemployment, and the premature death of the head of a family. See also Legislated Coverages and Social Security.

Social Security.

(1) The programs provided under the United States Social Security Act of 1935, plus amendments and additions thereto. It is now called Old Age, Survivors, Disability, and Health Insurance. (2) Any government program which provides economic security for portions of the public, e.g., Social Insurance, Public Assistance, Family Allowances, and Grants-in-Aid.

Society of Chartered Property and Casualty Underwriters.

The society of people who have been awarded the CPCU (Chartered Property and Casualty Underwriter) designation. Its primary purpose is the continuing education of its members. It also encourages insurance research.

Society of Insurance Research.

An organization which encourages insurance research and promotes the exchange of ideas and methods of research.

Sole Proprietorship.

A business enterprise owned by one person who is its manager and employee.

Solicitor.

An individual appointed and authorized by an agent to solicit and receive applications for insurance as his representative. Solicitors are not usually given the power to bind coverage but are required to be licensed.

Solvency.

With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.

Southeastern Underwriters Association (SEUA).

A Property Insurance rating organization which was the defendant in the 1944 United States Supreme Court decision declaring insurance to be commerce and thus subject to regulation by federal law. This pronouncement was later modified by Public Law 15. See also Public Law 15.

Special Agent.

An insurer's representative in a territory. He services the insurer's agents and in is responsible for the volume and quality of the business written in that territory. In the Property and Liability fields this person is a special agent or marketing representative, and in the Life field he is known as a sales representative.

Speculative Risk.

Uncertainty as to whether a gain or loss will occur. An example would be a business enterprise where there is a chance that the business will make money or lose it. Speculative risks are not normally insurable. Contrast with Pure Risk.

Split Limit.

Any insurance coverage which is expressed in different amounts for different types of losses. For example, automobile liability of 50/100/50 means bodily injury limits of \$50,000 per person, \$100,000 per accident, and a property damage limit of \$50,000 per accident. Contrast with Single Limit.

Stamping Bureau.

See Audit Bureau.

Standard Industry Code (SIC).

This is a coding system which assigns separate codes for different types of industries.

Standard Limit.

See Basic Limit.



Glossary of General Insurance Terms

Standard Policy.

(1) Coverage which has identical provisions regardless of the issuing insurer. Many common policies are standardized. (2) Insurance issued to a standard risk.

State Agent.

An outmoded term meaning an agent who has an exclusive territory of one or more states. Also, an obsolete term for special agent. See Special Agent.

State Associations of Insurance Agents.

Each state may have one or more associations of insurance agents. These organizations are made up of individual agents who have joined forces to discuss common problems and promote the American agency system.

State Fund.

A fund set up by a state government to finance a mandatory insurance system, such as Workers Compensation, nonoccupational disability benefits, or, in Wisconsin, state-offered Life Insurance. Such a fund may be monopolistic, i.e., purchasers of the type of insurance required must place it in the state fund; or it may be competitive, i.e., an alternative to private insurance if the purchaser desires to use it.

Statement Blank.

See Convention Blank.

Statutory.

Required by or having to do with law or statute.

Statutory Accounting Principals (SAP).

Those principals required by statute which must be followed by an insurance company when submitting its financial statement to the state insurance department. Such principles differ from generally accepted accounting principles (GAAP) in some important respects. For one thing SAP requires that expenses must be recorded immediately and cannot be deferred to track with premiums as they are earned and taken into revenue.

Statutory Earnings (or Losses).

Earnings or losses shown on the NAIC convention blank, in contrast to earnings or losses that would be shown if generally accepted accounting procedure statements were used.

Statutory Reserve.

A reserve, either specific or general, required by law.

Stock Insurer.

An incorporated insurer with capital contributed by stockholders, to whom the earnings are distributed as dividends on their shares. Contrast with Mutual Insurer.

Stock Option Plan.

Surviving stockholders have the option to purchase or not purchase the shares of a deceased stockholder.

Stock Purchase Agreement.

A formal buy-sell agreement whereby each stockholder is bound by the agreement to purchase the shares of a deceased stockholder and the heirs are obligated to sell.

Stock Redemption Agreement.

A formal buy-sell agreement whereby the corporation is bound by the agreement to purchase the shares of a deceased stockholder and the heirs are obligated to sell.

Stop Loss.

Any provision in a policy designed to cut off an insurer's losses at a given point. In effect, a stop loss agreement guarantees the loss ratio of the insurer.

Sub-Agents.

Agents reporting to other agents or agents, and not directly to the company.



Glossary of General Insurance Terms

Subchapter S Corporation.

A corporate form of business in which all profits and losses are shared by the stockholders and thus the corporation is taxed on an individual basis as opposed to corporate taxation.

Sublimit.

Any limit of insurance which exists within another limit. For example, special classes of property may be subject to a specified dollar limit per occurrence, even though the policy has a higher overall limit; a health insurance policy may limit certain benefits to fixed dollar amounts or maximum amounts per day, even though the overall coverage limit is higher.

Submitted Business.

Applications for insurance submitted to an insurer but not yet acted upon by it.

Subrogation Clause.

A clause giving an insurer the right to pursue any course of action, in its own name or the name of a policy owner, against a third party who is liable for a loss which has been paid by the insurer. One of its purposes is to make sure that an insured does not make any profit from his insurance. This clause prevents him from collecting from both his insurer and a third party. It is never part of a Life Insurance policy.

Subrogation Release.

A release taken by an insurer upon indemnifying an insured. It contains a provision specifying that the insurer will be subrogated to the rights of recovery that the insured has against any person responsible for the loss.

Subscription Policy.

A policy to which two or more insurers may subscribe, indicating in the policy the share of the risk to be borne by each insurer.

Substandard Risk.

A risk not measuring up to underwriting standards. It may still be written but usually at a surcharged premium.

Superintendent of Insurance.

The title of the head of a state or provincial insurance department used in some jurisdictions. In most states the title "commissioner" is used.

Surplus.

The amount by which assets exceed liabilities.

Surplus Lines.

A risk or a part of a risk for which there is no market available through the original broker or agent in its jurisdiction. Therefore, it is placed with nonadmitted insurers on an unregulated basis, in accordance with the surplus or excess lines provisions of the state law.

Surplus to Policyholders.

See Policyholder's Surplus.

Syndicate.

A group of insurers or underwriters who join to insure property that may be of such total value or high hazard that it can be covered more safely or efficiently on a cooperative basis. See also Pool.

TDB.

See Temporary Disability Benefits.

Tabular.

Of or pertaining to a table. Tabular cost is the cost of mortality, morbidity, or other claims, according to the valuation tables and assumptions used by the insurer.

Tabular Plan.

A retrospective rating plan, which uses tables to furnish the various values for the rating formula.



Glossary of General Insurance Terms

Target Risk.

(1) Certain high-value bridges, tunnels, and fine art collections that are excluded from an automatic reinsurance contract to permit specific handling of the capacity problem and to release the reinsurer from the potential heavy accumulation of liability on any one risk. (2) A large, hazardous risk on which insurance is difficult to place. (3) A large, attractive risk that is considered a target for competing insurance companies.

Tariff Rate.

A rate established by a rating organization, which comes from the tables, schedules and rules found in the tariff of rates.

Temporary Agent.

A person who is licensed to act as an agent for a brief period of time (usually 90 days) without taking a written examination. Temporary licenses are commonly granted to allow someone to continue the business of an agent who has died, become disabled, or entered active military service.

Term.

The period of time for which a policy or bond is issued.

Term Rule.

The provision in a rating manual which states the periods for which coverages run, and discounts, if any, which apply to the rates or premiums of policies issued for more than one year.

Termination.

The time the coverage under an insurance policy ends, either because its term has expired or because it has been cancelled by either party.

Territorial Limitation.

See Geographical Limitation.

Theory of Probability.

The mathematical principle upon which insurance is based. See also Degree of Risk, Law of Large Numbers, Odds, and Probability.

Third Party Beneficiary.

A person who is not a party to a contract but who has legally enforceable rights under the contract. It might be a Life Insurance beneficiary, or a mortgagee.

Tickler.

A reminder system used to call an individual's attention to actions that must be taken at a future point in time.

Time Limits.

The limits of time within which notice of a claim and proof of a loss must be submitted.

Title Insurance.

Insurance which indemnifies the owner of real estate in the event that his clear ownership of property is challenged by the discovery of faults in the title that was passed to him.

Total Loss.

A loss of sufficient size so that it can be said there is nothing left of value. The complete destruction of the property. The term is also used to mean a loss requiring the maximum amount a policy will pay.

Transacting Insurance.

The solicitation, inducement, and preliminary negotiations effecting a contract of insurance and the subsequent carrying on of business pertaining to it. The exact definition will vary somewhat according to the state laws regulating insurance.

Transfer of Risk.

Shifting all or part of a risk to another party. Insurance is the most common method of risk transfer, but other devices, such as hold harmless agreements, also transfer risk. One of the four major risk management techniques. See Risk Management.



Glossary of General Insurance Terms

Traumatic Injury.

An injury to a person's physical body caused by an outside source, as distinct from physical disability caused by sickness or disease.

Trustee.

A person appointed to manage the property of another.

UAB.

Underwriters Adjustment Bureau.

UAC.

Underwriters Adjusting Company.

UL.

See Underwriters Laboratories, Inc.

Ultimate Net Loss.

The total sum that the insured or any company as its insurer, or both, become legally obligated to pay either through adjudication or compromise, including among others, legal, medical, and investigative costs.

Umpire.

For Property coverage, if a company and a claimant fail to agree on the amount of loss, each may appoint an appraiser, and these in turn select an umpire. A decision by any two of the three is binding.

Unallocated Claim (or Loss) Expense.

Expenses of loss adjustment that cannot be charged specifically to any claim. Examples would be Claim Department salaries and office overhead.

Unauthorized Insurer.

See Nonadmitted Insurer.

Underinsurance.

A condition in which not enough insurance is carried to cover the insurable value.

Underwriter.

A technician trained in evaluating risks and determining rates and coverages for them. The term derives from the practice at Lloyd's of each person willing to accept a portion of the risk writing his name under the description of the risk.

Underwriters Laboratories, Inc. (UL).

A testing laboratory for manufactured items to determine their safety propensities.

Underwriting.

The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.

Underwriting Profit (or Loss).

(1) The profit or loss realized from insurance operations, as contrasted with that realized from investments. (2) The excess of premiums over losses and expenses (profit) or the excesses of losses over premiums (loss).

Unearned Premium.

That portion of the written premium applicable to the unexpired or unused part of the period for which the premium has been paid. Thus, in the case of an annual premium, at the end of the first month of the premium period eleven-twelfths of the premium is unearned.

Unearned Premium Reserve.

The amount shown in the insurance company's balance sheet which represents the approximate total of the premiums which have not yet been earned as of a specific point in time. See also Unearned Premium.



Glossary of General Insurance Terms

Unemployment Insurance.

Insurance against loss of income due to unemployment. It is funded by payroll taxes and subject to control by both the federal and state governments. Individuals who are willing and able to work qualify for this insurance by working at a job in an eligible classification, earning a minimum amount of money, and being subject to involuntary unemployment.

Uniform Forms.

The wording on many policy documents has been agreed upon by most companies and standardized. They are printed and distributed by rating bureaus and by certain well-known establishments and are called standard or uniform forms.

Unilateral Contract.

A contract such as an insurance policy in which only one part to the contract, the insurer, makes any enforceable promise. The insured does not make a promise but pays a premium, which constitutes his part of the consideration.

United States Aircraft Insurance Group.

A group of insurers providing facilities for all forms of Aviation Insurance.

Unlevel Commission System.

A system of commissions under which the first year commission is a higher percentage of the premium than are renewal commissions.

Unreported Claims.

A reserve, based on estimates, to set up claims that have occurred but have not yet been reported to the insurer as of the time when either the policy has expired or the insurer is preparing its annual statement. See also IBNR.

Valuation.

Estimation of the value of an item, usually by appraisal.

Valuation Clause.

A clause stating the value of items for insurance purposes, making it a valued policy.

Valuation Reserve.

A reserve against the contingency that the valuation of assets, particularly investments, may be higher than what can be actually realized or that a liability may turn out to be greater than the valuation placed on it.

Valued.

Relating to an agreement by an insurer to pay a specified amount of money to or on behalf of the insured upon occurrence of a defined loss.

Vendee.

A person who purchases property.

Vendor.

A person who sells property.

Vested Commissions.

Commissions on renewal business which are paid to the agent whether or not he or she still works for the insurance company with which the business is placed.

Vis Major.

An accident for which no one is responsible, an act of God.

Voidable.

A policy contract that can be made void at the option of one or more of the parties to it. An example would be a Property Insurance policy which is voidable by the insurer if the insured commits certain acts.



Glossary of General Insurance Terms

Voluntary Reserve.

An allocation of surplus not required by law. Such reserves are often accumulated by insurers in order to strengthen their financial structure.

Waiver.

(1) A rider waiving (excluding) liability for a stated cause of injury or sickness. (2) A provision or rider agreeing to waive premium payments during a period of disability of the insured. (3) The act of giving up or surrendering a right or privilege that is known to exist. In Property and Liability fields, it may be effected by an agent, adjuster, company, employee, or company official, and it can be done either orally or in writing. (G,LE)***

Waiver of Restoration Premium.

(1) An agreement or decision to forego any premium for reinstatement of the face amount of coverage under an insurance policy after it has been reduced by the amount of a loss payment. (2) A provision, especially in bonds, for automatic restoration of the full amount of protection without cost to the insured.

War Risk Insurance.

Insurance covering damage caused by war. Most often written by Ocean Marine Insurance companies covering vessels.

Welfare.

See Public Assistance.

Whole Dollar Premium.

In many insurance contracts today, the premiums are rounded to the nearest dollar, rather than carrying them out to the nearest cent. An amount of 51 cents or more is usually rounded up to the next dollar, and any cents amount less than that is dropped.

Will Ride.

Coverage that remains in effect regardless of the geographical location in which a loss occurs.

Willful Injury.

See Intentional Injury.

Written Premiums.

The total premiums on all policies written by an insurer during a specified period of time, regardless of what portions have been earned. Contrast with Earned Premium.

X Table.

A designation sometimes used to refer to an experimental table or a draft of a table that has not developed to a point of satisfaction or for actual use in rating.

Zone System.

A system developed by the NAIC for the triennial examination of insurers. Under the system, teams of examiners are formed from the staffs of several states in each of the geographical zones. The results of their examinations are then accepted by all states in which an insurer is licensed, without the necessity of each state having to conduct its own examinations.