

Glossary of Insurance Terms

ABCDEFGHIJKLMNOPQRSTUVWXYZ

A

Actual cash value: Insurance under which the policyholder receives an amount equal to the replacement value of damaged property minus depreciation.

Actuary: An insurance professional who specializes in statistical information.

Adjuster: A person employed by a property/casualty insurer to evaluate losses and settle policyholder claims.

Admitted company: An insurance company licensed and authorized to do business in a particular state.

Agent: Two types of agents sell Insurance. Independent agents are self-employed business people who typically represent two or more insurance companies and are paid on a commission basis.

An agency company is a company that markets products via independent agents.

Exclusive agents represent only one insurance company. They may be salaried employees or work on a commission basis.

Airplane insurance: Commercial airlines carry a combination of property insurance on airplanes and liability insurance for negligent acts and/or omissions by the airline that result in bodily injury or property damage to passengers, and to individuals who are not passengers.

Allied lines: Property insurance that is usually bought in conjunction with a fire insurance policy.

Appraisal: A survey to determine a property's insurable value, or the amount of loss.

Arson: The deliberate setting of a fire.

Assets: The property owned by an insurance company, including stocks, bonds and real estate.

Assigned risk plans: All 50 states and the District of Columbia have facilities in which drivers can obtain

auto insurance, if they are unable to buy in the regular or "voluntary" market.

Auto insurance: Protection for the owner of a car.

Auto insurance premium discounts: Many insurance companies also give premium discounts to drivers who:

- Have a good driving record
- Have taken driver education courses
- Are between the ages of 50 and 74
- Car pool
- Insure several cars on one policy
- Buy homeowners or renters insurance from the same company
- Install anti-theft devices in their cars
- Drive cars with safety features like automatic seat belts and air bags

Auto policy: It can (but doesn't have to) include coverage for up to six different risks, each of which is priced separately. They are: Bodily injury liability, Medical, Property damage, Collision, Comprehensive and Uninsured motorists.

Auto premium: Insurers base their auto premiums (which must be approved by the Department of Insurance), the price charged for coverage, on historical loss experience for similar risks.

B

Balance sheet: The balance sheet lists the insurance company's assets.

Beach and windstorm plans: Like the FAIR Plans, which provide basic property insurance coverage, these are state-sponsored insurance pools that sell property for the peril of windstorm to people unable to buy it in the voluntary market because of their exposure to risk.

Blanket coverage: Insurance coverage for more than one item of property at a single location, or two or more items of property in different locations.

Broker: An intermediary between a customer and an insurance company who represents the insurance

buyer.

Burglary and theft insurance: Insurance for loss of property due to burglary, robbery or larceny.

Business insurance: See Commercial lines

Business interruption insurance: Coverage that reimburses a business owner for lost profits and continuing fixed expenses during that time that his or her business must stay closed as a result of a named peril.

C

Captives: Insurers that are created and wholly owned by one or more non-insurers, for the primary purpose of providing their owners with coverage.

Casualty insurance: See Property/Casualty insurance

Catastrophe: To insurers, a catastrophe is a single incident, or series of related incidents, causing insured property losses totaling more than \$25 million.

Catastrophe policies: Insurance that provides coverage for floods, earthquakes, hurricanes, etc.

Catastrophe/earthquake: Traditionally, about 25-30 percent of California homeowners have earthquake insurance. Today, only about 17 percent of homeowners in the state are insured.

Catastrophe/floods: Homeowners policies cover damage from windstorms, including wind-driven rain, but insurance for flooding damage from rising water must be covered by a separate policy.

Catastrophe/hailstorms: Homeowners and auto insurance policies both cover damages by hailstorm, a major risk in the Mountain and Midwest states.

Catastrophe/hurricanes: A hurricane is a windstorm with 75 or more mile-per-hour winds. Windstorm damage is covered in standard homeowners policies. But consumers that live in areas vulnerable to hurricane damage may have to buy separate coverage.

Catastrophe/nuclear accidents: Business, homeowners and auto insurance policies exclude damage caused by nuclear contamination. But consumers are covered for this risk through insurance carried by operators of nuclear power plants and other commercial nuclear facilities throughout the United States.

Catastrophe/riot and civil commotion: Damages resulting from riot and civil commotion are covered under comprehensive auto, homeowners multiperil and commercial multiperil policies.

Catastrophe/tornadoes: Tornadoes are windstorms with speeds up to 300 miles per hour. Tornado season typically runs from April to July, but they may strike at any time and anywhere.

Catastrophe/volcanic eruption: Since 1980, volcanic eruption has been added to standard policies as a covered peril.

Claims, filing: Taking the right steps after an insured loss can speed up the process of settling a claim. To find out more about what to do, ask IINC for a brochure on Settling Claims after a Disaster.

Collision insurance: An optional auto insurance coverage which pays for damage to the policyholder's car caused by collision.

Commercial General Liability Insurance (CGL): A broad commercial policy covering all the liability exposures of a business that are not specifically excluded.

Commercial lines: Insurance products that are designed for and bought by businesses, as opposed to personal lines products, which are sold to individuals.

Commission: The fee paid to the insurance salesperson, as a percentage of the policy premium.

Contingent liability: The liability of individuals, corporations or partnerships, for accidents caused by persons (other than employees) for whose acts or omissions the individuals, corporations or partnerships are legally responsible.

Coverage: Another word for insurance, i.e., how much coverage a person has is the amount of insurance he or she carries.

Credit insurance: Coverage that pays off an outstanding loan in the event of the policyholder's death and/or makes loan payments if the policyholder is disabled.

Crop-hail insurance: Protection against damage to growing crops as a result of hail or certain other named perils.

D

Declaration: The part of a property or liability insurance policy that states the name and address of the

policyholder, the property insured, its location and description, the policy period, the amount of insurance, applicable premiums, and supplemental information provided by the insured.

Deductible: The amount of loss paid by the policyholder. It is a specified amount the insured must pay, or a specified amount of time that must elapse before the insurance policy starts paying benefits.

Direct premiums: Property/casualty premiums collected by the insurer from policyholder's, before reinsurance is ceded to, or accepted from, another company.

Direct writers: Insurance companies that sell directly to the public via their own employees or by exclusive agents.

Directors and officers liability: Covers directors and officers of a company for negligent acts or omissions or misleading statements that result in successful libel suits against the company.

E

Earned premium: The portion of premium that applies to the expired part of the policy period.

Earthquake coverage: See Catastrophe/earthquakes

Economic loss: The total financial loss resulting from a death or disability of a wage earner, or from destruction of property.

Endorsements: A written form attached to an insurance policy that alters the policy's coverage, terms or conditions.

Errors and omissions coverage: A professional liability policy covering the policyholder for negligent acts and or/omissions that may harm his or her clients.

Expense ratio: The percentage of each premium dollar the insurer spends on expenses Æ overhead, marketing, and commissions.

F

Fair Plans: These plans are insurance pools that sell property insurance to people who can't buy it in the volunteer marketplace because of their high exposure to risks over which they may have no control.

Federal Flood Insurance: See Catastrophe/floods

Federal Insurance Administration (FIA): The government agency in charge of administering the Federal Flood Insurance Program and the Federal Crime Insurance Program.

Fire insurance: Coverage protecting property against losses caused by fire and lightning.

Floater: Property insurance for items that are moved from location to location, covering losses wherever they occur.

Flood Insurance: See Catastrophe/floods

Fraud: See Insurance fraud

G

General liability insurance: See Commercial lines

Glass insurance: Coverage for glass breakage caused by all risks, subject to exclusions of war and fire.

Guaranteed replacement cost insurance: Insurance that pays the full costs of replacing damaged property, without a deduction for depreciation, and without a dollar limit.

H

Homeowners mutiperil insurance: A package policy, providing both property and personal liability insurance. The typical policy covers the house, garage, and other structures on the property, as well as personal property inside the house, against a wide variety of perils, including but not limited to fire, windstorm, riot or civil commotion, theft and vandalism, and accidental water damage from a plumbing, heating or air conditioning system or domestic appliance. The number of perils covered depends on the scope of the policy.

Homeowners policy rates: The cost of homeowners insurance depends on the location, age and construction of the house, and what it would cost to replace. The quality of local fire and police protection is an important determinant of rates.

Hurricane: See Catastrophe/hurricanes

I

Inflation guard clause or endorsement: An addition to a homeowners insurance policy that automatically adjusts the dwelling limit when the policy is renewed, to reflect current construction costs in the area.

Insolvency: Deciding whether an insurer is insolvent, i.e., unable to pay its debts, is far from simple, partly because the insurance company solvency standards vary from state to state, and partly because the adequacy of reserves to pay future claims is a matter of opinion.

Insurable risk: Risks for which it is relatively easy to get insurance.

Insurance: A system to make financial loss more affordable by transferring it from individuals to large groups.

Insurance fraud: 1) Intentional lying or concealment by policyholders to obtain payment of an insurance claim that would otherwise not be paid. 2) Lying or misrepresentation by insurance company managers, employees, agents and brokers for their personal enrichment.

Insurance pool: A group of insurance companies that pledge assets to enable them together to provide an amount of insurance substantially more than can be provided by individual companies.

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

Insured: The policyholder is the insured.

K

Kidnap/ransom insurance: Coverage up to specific limits for ransom demanded by kidnappers for the release of an individual held against his/her will.

L

Liability insurance: Insurance for money the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person and covered in the policy.

Loss: A reduction in the quantity or value of a property.

M

Marine insurance: Coverage for goods in transit, and for the vehicles that transport them, on waterways, over land and in the air.

Medical payments insurance: A coverage, available in various liability insurance policies, in which the insurer agrees to reimburse the insured and others, with regard for the insured's liability, for medical and funeral expenses incurred as the result of bodily injury or death by accident under specified conditions.

Multiperil policy: A package policy that provides coverage against several different perils.

N

Named perils: Perils specified in a policy as those against which the policyholder is insured.

National flood insurance program: See Catastrophe/floods

No-fault: No fault is a system in which each driver's auto insurance coverage pays for his or her own injuries, no matter who caused the accident.

O

Ocean marine insurance: Coverage on all types of vessels for property damage to the vessel and cargo, and liabilities connected with them.

P

Peril: A specific risk covered by an insurance policy, such as fire, windstorm, or theft.

Personal article floater: A policy or an addition to a policy, used to cover personal valuables, such as furs, computers and jewelry.

Personal lines: Insurance products that are designed for and bought by individuals.

Policy: A contract for insurance between the insurance company and the policyholder.

Premium: The price of an insurance policy.

R

Rate: The cost of a unit of insurance.

Reinsurance: A reinsurer assumes part of a risk originally taken by the insurer, which is called the primary company.

Renters insurance: A policy covering the policyholders belongings against perils including theft, windstorm, hail, explosion, fire, riot/civil commotion, vandalism, volcanic eruption and accidental discharge of stem from a heating system.

Replacement cost insurance (contents): Insurance that pays the amount needed to replace the damaged personal possession with items of like kind and quality, without depreciation.

Replacement cost insurance (dwelling): Insurance that pays the amount needed to replace the damaged property, without deducting for depreciation, but is limited to the amount listed on the declarations page of the insurance policy.

Rider: See Endorsement

S

Self insurance: Assuming risk for oneself without the benefit of an insurance company taking it for you.

Structured settlements: An agreement to pay a certain amount of money in periodic payments instead of a single lump sum payment.

Subrogation: When an insurance company, after paying a loss, seeks to recover the money from the other party who is legally liable.

T

Tort: A wrongful act, resulting in injury or damage, on which a civil action can be based.

U

Umbrella coverage: Coverage for losses above the policy limits of a sublevel policy.

V

Volcanic coverage: Covers damage caused by volcanic eruption (covered by most homeowners policies).

Vandalism: Deliberate destruction of property.

W

Workers compensation: Insurance that pays for medical and physical rehabilitation of injured workers and covers their lost wages while off the job.