NorthAmerican TRAINING GROUP

Insurance Terminology

First Edition, 2005

Dictionary of Insurance Terms

-A-

- **Absolute Liability:** Liability for damages even though fault or negligence cannot be proven.
- **Accident:** An event or occurrence which is unforeseen and unintended.
- **Act of God:** A flood, earthquake or other non preventable accident resulting from natural causes that occur without any human intervention.
- **Activities of Daily Living:** A list of activities, normally including mobility, dressing, bathing, toileting, transferring, and eating which are used to assess degree of impairment and determine eligibility for some types of insurance benefits.
- **Actual Cash Value (ACV):** 1) The cost of replacing or restoring property at prices prevailing at the time and place of the loss, less depreciation, however caused; 2) replacement cost minus depreciation.
- **Additional insured:** A person, company or entity protected by an insurance policy in addition to the insured.
- **Adjuster:** A person who investigates and settles losses for an insurance carrier.
- **Adjusting:** The process of investigating and settling losses with or by an insurance carrier.
- **Amendment:** A formal document changing the provisions of an insurance policy signed jointly by the insurance company officer and the policy holder or his authorized representative.
- **Application:** A signed statement of facts made by a person applying for insurance and then used by the insurance company to decide whether or not to issue a policy. The application becomes part of the insurance contract when the policy is issued.
- **Arbitration:** Arbitration: A form of alternative dispute resolution where an unbiased person or panel renders an opinion as to responsibility for or extent of a loss.
- **Arson:** The willful and malicious burning of, or attempt to burn, any structure or other property, often with criminal or fraudulent intent.
- **Assets:** All funds, property, goods, securities, rights of action, or resources of any kind owned by someone.
- **Assignment:** The legal transfer of one person's interest in an insurance policy to another person.
- **Automobile Insurance Plan:** One of several types of "shared market" mechanisms where persons who are unable to obtain such insurance in the voluntary market are assigned to a particular company, usually at a higher rate than the voluntary market. Formerly called "Assigned Risk."
- **Automobile Liability Insurance:** Protection for the insured against financial loss because of legal liability for car-related injuries to others or damage to their property.
- **Automobile Physical Damage Insurance:** Coverage to pay for damage to or loss of an insured automobile resulting from collision, fire, theft, or other perils.

Dictionary of Insurance Terms

-B-

- **Benefits:** The amount payable by the insurance company to a claimant, assignee or beneficiary under each coverage.
- **Binder:** A written or oral contract issued temporarily to place insurance in force when it is not possible to issue a new policy or endorse the existing policy immediately. A binder is subject to the premium and all the terms of the policy to be issued.
- **Binding Receipt:** A receipt given for a premium payment accompanying the application for insurance. If the policy is approved, this binds the company to make the policy effective from the date of the receipt.
- **Blanket Medical Expense:** A provision which entitles the insured person to collect up to a maximum established in the policy for all hospital and medical expenses incurred, without any limitations on individual types of medical expenses.
- **Boat Owners Package Policy:** A special package policy for boat owners that combines physical damage insurance, medical expense insurance, liability insurance, and other coverage's in one contract.
- **Boiler and Machinery Insurance:** Coverage for loss arising out of the operation of pressure, mechanical, and electrical equipment. It covers loss of the boiler and machinery itself, damage to other property, and business interruption losses.
- **Bond:** A certificate issued by a government or corporation as evidence of a debt. The issuer of the bond promises to pay the bondholder a specified amount of interest for a specified period and to repay the loan on the expiration (maturity) date.
- **Book of Business:** the number, size and type of accounts (policyholders) that an agent "owns."
- **Broker:** A marketing specialist who represents buyers of property and liability insurance and who deals with either agents or companies in arranging for the coverage required by the customer.
- **Burglary:** Breaking and entering into another person's property with felonious intent.
- **Burglary and Theft Insurance:** Coverage against property losses due to burglary, robbery, or larceny.
- **Business Insurance:** A policy which primarily provides coverage of benefits to a business as contrasted to an individual. It is issued to indemnify a business for the loss of services of a key employee or a partner who becomes disabled.
- **Business Interruption Insurance:** Protection for a business owner against losses resulting from a temporary shutdown because of fire or other insured peril. The insurance provides reimbursement for lost net profits and necessary continuing expenses.

Dictionary of Insurance Terms

-C-

- **Cancellation:** The discontinuance of an insurance policy before its normal expiration date, either by the insured or the company.
- **Captive Insurance Company:** A company owned solely or in large part by one or more non- insurance entities for the primary purpose of providing insurance coverage to the owner or owners.
- **Captive Insurer:** Insurance companies established and owned by a parent firm in order to insure its loss exposures while reducing premium costs, providing easier access to a re-insurer, and perhaps easing tax burdens. **Cargo Insurance:** Type of ocean marine insurance that protects the shipper of the goods against financial loss if the goods are damaged or lost.
- **Casualty Insurance:** Insurance concerned with the insider's legal liability for injuries to others or damage to other persons' property; also encompasses such forms of insurance as plate glass, burglary, robbery and workers' compensation.
- **Catastrophe:** Event which causes a loss of extraordinary magnitude, such as a hurricane or tornado.
- **Causes-of-loss Form:** Form added to commercial property insurance policy that indicates the causes of loss that are covered. There are four causes-of-loss forms: basic, broad, special, and earthquake.
- **Certificate of Insurance:** A statement of coverage issued to an individual insured under a group insurance contract, outlining the insurance benefits and principal provisions applicable to the member.
- **Chartered Property and Casualty Underwriter (CPCU):** Professional who has attained a high degree of technical competency in property and liability insurance and has passed ten professional examinations administered by the American Institute for Property and Liability Underwriters.
- **Choice no-fault:** Allows auto insureds the choice of remaining under the tort system or choosing no-fault at a reduced premium.
- **Claim:** A request for payment of a loss which may come under the terms of an insurance contract.
- **Claims Adjustor:** Person who settles claims: an agent, company adjustor, independent adjustor, adjustment bureau, or public adjustor.
- **Coinsurance:** 1) A provision under which an insured who carries less than the stipulated percentage of insurance to value, will receive a loss payment that is limited to the same ratio which the amount of insurance bears to the amount required; 2) a policy provision frequently found in medical insurance, by which the insured person and the insurer share the covered losses under a policy in a specified ratio, i.e., 80 percent by the insurer and 20 percent by the insured.
- **Collision Insurance:** Protection against loss resulting from any damage to the policyholder's car caused by collision with another vehicle or object, or by upset of the insured car, whether it was the insured's fault or not.

- **Combined Ratio:** Basically, a measure of the relationship between dollars spent for claims and expenses and premium dollars taken in; more specifically, the sum of the ratio of losses incurred to premiums earned and the ratio of commissions and expenses incurred to premiums written. A ratio above 100 means that for every premium dollar taken in, more than a dollar went for losses, expenses, and commissions.
- **Commercial General Liability Policy (CGL):** A broad commercial policy that covers all liability exposures of a business that are not specifically excluded. Coverage includes product liability, completed operations, premises and operations, and independent contractors. Commercial liability policy drafted by the Insurance Services Office containing two coverage forms, an occurrence form and a claims-made form.
- **Commercial Lines:** Insurance for businesses, organizations, institutions, governmental agencies, and other commercial establishments.
- **Community Property:** A special ownership form requiring that one half of all property earned by a husband or wife during marriage belongs to each. Community property laws do not generally apply to property acquired by gift, by will, or by descent.
- **Comparative Negligence:** Under this concept a plaintiff (the person bringing suit) may recover damages even though guilty of some negligence. His or her recovery, however, is reduced by the amount or percent of that negligence.
- **Completed Operations:** Liability arising out of faulty work performed away from the premises after the work or operations are completed. Applicable to contractors, plumbers, electricians, repair shops, and similar firms.
- **Comprehensive Automobile Insurance:** Protection against loss resulting from damage to the insured auto, other than loss by collision or upset.
- Comprehensive
- **Comprehensive Personal Liability Insurance:** Protection against loss arising out of legal liability to pay money for damage or injury to others for which the insured is responsible. It does not include automobile or business operation liabilities.
- **Compulsory Auto Liability Insurance:** Insurance laws in some states required motorists to carry at least certain minimum auto coverage’s. This is called "compulsory" insurance.
- **Compulsory Insurance Law:** Law protecting accident victims against irresponsible motorists by requiring owners and operators of automobiles to carry certain amounts of liability insurance in order to license the vehicle and drive legally within the state.
- **Concealment:** Deliberate failure of an applicant for insurance to reveal a material fact to the insurer.
- **Concurrent Causation:** Legal doctrine that states when a property loss is due to two causes, one that is excluded and one that is covered, the policy provides coverage.
- **Conditions:** Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.

- **Consideration:** One of the elements for a binding contract. Consideration is acceptance by the insurance company of the payment of the premium and the statement made by the prospective policyholder in the application.
- **Consequential Loss:** Financial loss occurring as the consequence of some other loss. Often called an indirect loss.
- **Contingent Liability:** Liability arising out of work done by independent contractors for a firm. A firm may be liable for the work done by an independent contractor if the activity is illegal, the situation does not permit delegation of authority, or the work is inherently dangerous.
- **Contract:** A binding agreement between two or more parties for the doing or not doing of certain things. A contract of insurance is embodied in a written document called the policy.
- **Contributory Negligence:** Negligence of the damaged person that helped to cause the accident. Some states bar recovery to the plaintiff if the plaintiff was contributory negligent to any extent. Others apply comparative negligence.
- **Coverage:** The scope of protection provided under a contract of insurance; any of several risks covered by a policy.
- **Covered:** A person covered by a pension plan is one who has fulfilled the eligibility requirements in the plan, for whom benefits have accrued, or are accruing, or who is receiving benefits under the plan.
- **Credit Insurance:** A guarantee to manufacturers, wholesalers, and service organizations that they will be paid for goods shipped or services rendered. Applies to that part of working capital which is represented by accounts receivable.
- **Crop-hail Insurance:** Protection against damage to growing crops as a result of hail or certain other named perils.
- **CSR:** Customer service representatives support the work of insurance agents with a variety of tasks that must be done within a company or agency to deliver services to and handle requests from clients.

Dictionary of Insurance Terms

-D-

- **Declination:** The insurer's refusal to insure an individual after careful evaluation of the application for insurance and any other pertinent factors.
- **Deductible:** An amount which a policyholder agrees to pay, per claim or per accident, toward the total amount of an insured loss.
- **Dependent Benefits:** Social Security benefits available to the spouse or children of a Social Security beneficiary.
- **Depreciation:** A decrease in the value of property over a period of time due to wear and tear or obsolescence. Depreciation is used to determine the actual cash value of property at time of loss. (See Actual Cash Value)
- **Direct Loss:** Financial loss that results directly from an insured peril.
- **Disability:** a physical or a mental impairment that substantially limits one or more major life activities of an individual. It may be partial or total. (See Partial Disability; Total Disability.)
- **Disability Benefit:** Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.
- **Disability Income Insurance:** A form of health insurance that provides periodic payments to replace income when an insured person is unable to work as a result of illness, injury, or disease.
- **Dismemberment:** Loss of body members (limbs), or use thereof, or loss of sight due to injury.
- **Dividend:** A return of part of the premium on participating insurance to reflect he difference between the premium charged and the combination of actual mortality, expense and investment experience. Such premiums are calculated to provide some margin over the anticipated cost of the insurance protection.
- **Dollar Threshold:** In no-fault auto insurance states with the dollar threshold, it prevents individuals from suing in tort to recover for pain and suffering unless their medical expenses exceed a certain dollar amount.
- **Dramshop Law:** Law that imputes negligence to the owner of a business that sells liquor in the case that an intoxicated customer causes injury or property damage to another person. Usually excluded from general liability policies.
- **Dwelling Property 1:** Property insurance policy that insures the dwelling at actual cash value, other structures, personal property, fair rental value, and certain other coverage’s. Covers a limited number of perils.
- **Dwelling Property 2**: Property insurance policy that insures the dwelling and other structures at replacement cost. It adds additional coverage’s and has a greater list of covered perils than the Dwelling Property 1 policy.

- **Dwelling Property 3:** Property insurance policy that covers the dwelling and other structures against direct physical loss from any peril except for those perils otherwise excluded. However, personal property is covered on a named-perils basis.

Dictionary of Insurance Terms

-E-

- **Earned Income:** Employment income derived from salary, wages, commissions, or fees.
- **Effective Date:** The date on which the insurance under a policy begins.
- **Elements of a Negligent Act:** Four elements an injured person must show to prove negligence: existence of a legal duty to use reasonable care, failure to perform that duty, damages or injury to the claimant, and proximate cause relationship between the negligent act and the infliction of damages.
- **Embezzlement:** Fraudulent use or taking of another's property or money which has been entrusted to one's care.
- **Endorsements:** An additional piece of paper, not a part of the original contract, which cites certain terms and which, when attached to the original contract, becomes a legal part of that contract. An amendment of the policy usually by means of a rubber stamp or rider.
- **Errors and Omissions Insurance:** Liability insurance policy that provides protection against loss incurred by a client because of some negligent act, error, or omission by the insured.
- **Estoppels:** Legal doctrines that prevent a person from denying the truth of a previous representation of fact, especially when such representation has been relied on by the one to whom the statement was made.
- **Excess and Surplus Insurance:** (1) Insurance to cover losses above a certain amount, with losses below that amount usually covered by a regular policy. (2) Insurance to cover an unusual or one-time risk, e.g., damage to a musician's hands or the multiple perils of a convention, for which coverage is unavailable in the normal market. (See also "Umbrella liability" and "surplus lines.")
- **Exclusions:** Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments.
- **Exclusive Remedy Doctrine:** Doctrine in workers compensation insurance which states that workers compensation benefits should be the exclusive or sole source of recovery for workers who have a job related accident or disease; doctrine has been eroded by legal decisions.
- **Experience Modification Factor:** Used in workers compensation rating to reflect the degree to which a particular employer has experience that is better or worse that expected for that industry. Weighted by employer's credibility factor.
- **Experience Rating:** The process of determining the premium rate for a group risk, wholly or partially on the basis of that group's experience.

- **Exposure Unit:** Unit of measurement used in insurance pricing.
- **Extended Non-owned Coverage:** Endorsement that can be added to an automobile liability insurance policy that covers the insured while driving any non owned automobile on a regular basis.
- **Extortion:** Surrender of property away from the premises as a result of a threat to do bodily harm to the named insured, relative, or invitee who is being held captive.

Dictionary of Insurance Terms

-F-

- **Fair Rental Value:** Amount payable to an insured homeowner for loss of rental income due to damage that makes the premises uninhabitable.
- **Fidelity Bond:** A form of protection which reimburses an employer for losses caused by dishonest or fraudulent acts of employees.
- **Fiduciary:** A person who holds something in trust for another.
- **Fire Insurance:** Coverage for losses caused by fire and lightning, plus resultant damage caused by smoke and water.
- **Fire Legal Liability:** Liability of a firm or person for fire damage caused by negligence of and damage to property of others. **First party claim:** a demand made by a policyholder reporting an insured event directly to his company.
- **First Party Coverage:** An insurance coverage under which the policyholder collects compensation for losses from the insured's own insurer rather than from the insurer of the person who caused the accident.
- **Floaters:** Insurance policies that cover property that can be moved from one location to another for both transportation perils and perils affecting property at a fixed location.
- **Flood Insurance:** Coverage against loss resulting from the flood peril, widely available at low cost under a program developed by the private industry and the federal government.
- **Functional Capacity Evaluation (FCE)** is a compilation information that 1. objectively assists in measuring functional abilities and consistency of efforts, 2. provides further data for the determination of permanent work capacity and 3. helps to promote safe work parameters.
- **Future Increase Option:** A provision found in some policies that allows the insured to purchase additional disability income insurance at specified future dates regardless of the insured's physical condition.

Dictionary of Insurance Terms

-G-

- **General Liability Insurance:** Coverage that pertains, for the most part, to claims arising out of the insured's liability for injuries or damage caused by ownership of property, manufacturing operations, contracting operations, sale or distribution of products, and the operation of machinery, as well as professional services.
- **Glass Insurance:** Protection for loss of or damage to glass and its appurtenances.
- **Grace Period:** A specified period after a premium payment is due, in which the policyholder may make such payment, and during which the protection of the policy continues.
- **Gross Negligence:** the intentional failure to perform a manifest duty in reckless disregard of the consequences as affecting the life or property of another
- **Group Insurance:** Insurance written on a number of people under a single master policy, issued to their employer or to an association with which they are affiliated.
- **Guaranty Fund:** A fund, derived from assessments against solvent insurance companies, to absorb losses of claimants against insolvent insurance companies.

Dictionary of Insurance Terms

-H-

- **Hazard:** Condition that creates or increases the chance of loss.
- **Health Maintenance Organization (HMO):** An organization that provides a wide range of comprehensive health care services for a specified group at a fixed periodic payment. The HMO can be sponsored by the government, medical schools, hospitals, employers, labor unions, consumer groups, insurance companies, and hospital medical plans.
- **High Risk Automobile Insurer:** Company that specializes in insuring motorists who have poor driving records or have been canceled or refused insurance.
- **Hold Harmless Clause:** Clause written into a contract by which one party agrees to release another party from all legal liability, such as a retailer who agrees to release the manufacturer from legal liability if the product injures someone.
- **Homeowners Policy:** A package of insurance providing home owners with a broad range of property and liability coverage's.
- **Hurricane:** A tropical storm marked by extremely low barometric pressure and circular winds with a velocity of 75 miles an hour or more.

Dictionary of Insurance Terms

-I-

- **Imputed Negligence:** Case in which responsibility for damage can be transferred from the negligent party to another person, such as an employer.
- **Indemnification:** Compensation to the victim of a loss, in whole or in part, by payment, repair, or replacement.
- **Indemnity:** Legal principle that specifies an insured should not collect more than the actual cash value of a loss but should be restored to approximately the same financial position as existed before the loss.
- **Independent Adjustor:** Claims adjustor who offers his or her services to insurance companies and is compensated by a fee.
- **Independent Agent:** an independent business person who usually represents two or more insurance companies in a sales and service capacity and who is paid on a commission basis.
- **Independent Medical Examination (IME):** A medical examination used to determine whether an injured party claiming injuries is actually injured or to the extent they claim. Independent medical examiners are registered medical practitioners who provide impartial medical assessments of an injured worker to assist decisions about: accepting a claim, ongoing liability and the worker's level of fitness for work.
- **Inland Marine Insurance:** A broad form of insurance, generally covering articles in transit as well as bridges, tunnels and other means of transportation and communication. Besides goods in transit (generally excepting trans-ocean), it includes numerous "floater" policies, such as those covering personal effects, personal property, jewelry, furs, fine arts, and other items.

- **Inspection Report:** A report (usually written) of an investigation of an applicant, conducted by an independent agency that specializes in insurance investigations. The report covers such matters as occupation, financial status, health history, and moral problems.
- **Insurability:** Acceptability to the company of an applicant for insurance.
- **Insurable Risk:** The conditions that make a risk insurable are (a) the peril insured against must produce a definite loss not under the control of the insured, (b) there must be a large number of homogeneous exposures subject to the same perils, (c) the loss must be calculable and the cost of insuring it must be economically feasible, (d) the peril must be unlikely to affect all insureds simultaneously, and (e) the loss produced by a risk must be definite and have a potential to be financially serious.
- **Insurance:** A system under which individuals, businesses, and other organizations or entities, in exchange for payment of a sum of money (a premium), are guaranteed compensation for losses resulting from certain perils under specified conditions.

- **Insurance Company:** An organization chartered to operate as an insurer. Any corporation primarily engaged in the business of furnishing insurance protection to the public.
- **Insurance Guaranty Funds:** State Funds that provide for the payment of unpaid claims of insolvent insurers.
- **Insurance Services Offices (ISO):** Major rating organization in property and liability insurance that drafts policy forms for personal and commercial lines of insurance and provides rate data on loss costs for property and liability insurance lines.
- **Insured:** A person or organization covered by an insurance policy, including the "named insured" and any other parties for whom protection is provided under the policy terms.
- **Insurer:** The party to the insurance contract who promises to pay losses or benefits. Also, any corporation engaged primarily in the business of furnishing insurance to the public.

Dictionary of Insurance Terms

-J-

- **Joint-and-Several Liability:** A legal principle that permits the injured party in a tort action to recover the entire amount of compensation due for injuries from any tort-feasor who is able to pay, regardless of the degree of that party's negligence.
- **Joint Tenants:** A form of joint property ownership with right of survivorship, i.e., in which the survivors automatically own the share of a deceased co-owner.
- **Joint Underwriting Association:** One of several types of "shared market" mechanisms used to make automobile insurance available to persons who are unable to obtain such insurance in the regular market. JUAs also have been created in some states to help alleviate availability problems in the fields of medical malpractice and commercial insurance.
- **Joint Underwriting Association:** A device used to provide insurance to those who cannot obtain insurance in the voluntary market. Certain companies (called carriers) issue policies at one rate level and handle claims, but the ultimate costs are borne by all companies writing insurance in that state.
- **Judicial Bond:** Type of surety bond used for court proceedings and guaranteeing that the party bonded will fulfill certain obligations specified by law, for example, fiduciary responsibilities.

Dictionary of Insurance Terms

-L-

- **Lapse:** The termination or discontinuance of an insurance policy due to non-payment of a premium.
- **Lapsed Policy:** A policy terminated for non-payment of premiums. The term is sometimes limited to a termination occurring before the policy has a cash or other surrender value.
- **Larceny-theft:** The unlawful taking, carrying, leading or riding away of another person's property.
- **Last Clear Chance Rule:** Statutory modification of the contributory negligence law allowing the claimant endangered by his or her own negligence to recover damages from a defendant if the defendant has a last clear chance to avoid the accident but fails to do so.
- **Liability:** Any legally enforceable obligation.
- **Liability Insurance:** Insurance covering the policyholder's legal liability resulting from injuries to other persons or damage to their property. Provides protection for the insured against loss arising out of legal liability to third parties.
- **Liability Limits:** The stipulated sum or sums beyond which an insurance company is not liable to protect the insured.
- **Liability Without Fault:** Principle on which workers compensation is based, holding the employer absolutely liable for occupational injuries or disease suffered by workers, regardless of who is at fault.
- **Lifetime Disability Benefit:** A benefit to help replace income lost by an insured person as long as he/she is totally disabled, even for a lifetime. Disability income payable for the life of the insured as long as he is totally disabled.
- **Liquidation:** Dissolving a company by selling its assets for cash.
- **Long-Term Disability Income Insurance:** Insurance issued to an employer (group) or individual to provide a reasonable replacement of a portion of an employee's earned income lost through serious and prolonged illness or injury during the normal work career. (See also Integration.)
- **Loss:** The happening of the event for which insurance pays.
- **Loss Ratio:** The percent which losses bear to premiums for a given period. The ratio of claims to premiums. It may be calculated in several different ways, using paid premiums or earned premiums, and using paid claims with or without changes in claim reserves and with or without changes in active life reserves.
- **Loss Reserve:** The amount set up as the estimated cost of a claim. (See IBNR Reserve)

Dictionary of Insurance Terms

-M-

- **Malingering:** The practice of feigning illness or inability to work in order to collect insurance benefits.
- **Malpractice:** Improper care or treatment by a physician, hospital, or other provider of health care.
- **Malpractice Insurance:** Coverage for a professional practitioner, such as a doctor or a lawyer, against liability claims resulting from alleged malpractice in the performance of professional services.
- **Managed Care:** Health care systems that integrate the financing and delivery of appropriate health care services to covered individuals by arrangements with selected providers to furnish a comprehensive set of health care services, explicit standards for selection of health care providers, formal programs for ongoing quality assurance and utilization review, and significant financial incentives for members to use providers and procedures associated with the plan.
- **Market Price (or Market Value):** The price at which a item can be bought or sold at any particular time.
- **Material Damage:** Insurance against damage to a vehicle itself. It includes automobile comprehensive, collision, fire and theft. Material damage and physical damage are terms that often are used inter- changeably.
- **Maximum Medical Improvement (MMI)** Maximum Medical Improvement (MMI) is a treatment plateau in each person's healing process. It can mean that the patient has fully recovered from the injury or that the patient's medical condition has stabilized to the point that no major medical or emotional change can be expected in the injured workers' condition. This occurs despite continuing medical treatment or rehabilitative programs the injured worker partakes in.
- **Medical Payments Insurance:** A coverage, available in various liability insurance policies, in which their insurer agrees to reimburse the insured and others, without regard for the insured's liability, for medical or funeral expenses incurred as the result of bodily injury or death by accident under specified conditions.
- **Misrepresentation:** A false, incorrect, improper, or incomplete statement of a material fact, made in the application or claim process.
- **Mutual Insurance Company:** An insurance company in which the ownership and control is vested in the policyholders and a portion of surplus earnings may return to policyholders in the form of dividends. No capital stock exists.

Dictionary of Insurance Terms

-N-

- **Named Perils:** Coverage in a property policy that provides protection against loss from only the perils specifically listed in the policy rather than protection from physical loss. Examples of named perils are fire, windstorm, theft, smoke, etc.
- **National Association of Insurance Commissioners (NAIC):** The association of insurance commissioners of various states formed to promote national uniformity in the regulation of insurance.
- **Negligence:** Failure to use the care that a reasonable and prudent person would have used under the same or similar circumstances.
- **No-Fault:** A type of auto insurance mechanism whereby the right to sue another party for damages caused by negligence is limited and, in exchange, expanded first party benefits are offered.
- **No-fault Automobile Insurance:** A form of insurance by which a person's financial losses resulting from an automobile accident are paid by his or her own insurer regardless of who was at fault.
- **Non-disabling Injury:** An injury which may require medical care, but does not result in loss of working time or income.

Dictionary of Insurance Terms

-O-

- **Occupational Hazards:** Occupations which expose the insured to greater than normal physical danger by the very nature of the work in which the insured is engaged, and the varying periods of absence from the occupation, due to the disability, that can be expected.
- **Occurrence:** An accident, including continuous or repeated exposure to substantially the same general, harmful conditions, that results in bodily injury or property damage during the period of an insurance policy.
- **Occurrence policy:** A liability insurance policy that covers claims arising out of occurrences that take place during the policy period, regardless of when the claim is filed.
- **Overhead Insurance:** A type of short-term disability income contract that reimburses the insured person for specified, fixed monthly expenses, normal and customary in the operation and conduct of his/her business or office.

Dictionary of Insurance Terms

-P-

- **Partial Disability:** The result of an illness or injury which prevents an insured from performing one or more of the functions of his/her regular job. A benefit sometimes found in disability income policies providing for the payment of reduced monthly income in the event the insured cannot work full time and/or is prevented from performing one or more important daily duties pertaining to his occupation.
- **Peril:** The cause of a possible loss, such as fire, windstorm, theft, explosion, or riot.
- **Persistency:** A term used to refer to the length of time insurance remains continuously in force.
- **Personal Articles Floater:** A form of coverage designed to meet the needs for insurance on property of a moveable nature. The coverage usually protects against all physical loss, subject to special exclusions and conditions. Examples of property covered include jewelry, furs, silverware, and fine arts.
- **Personal Injury Protection (PIP):** First-party no-fault coverage in which an insurer pays, within the specified limits, the wage loss, medical, hospital and funeral expenses of the insured.
- **Personal Lines:** Those types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organizations.
- **Personal representative:** A person appointed through the will of a deceased or by a court to settle the estate of one who dies.
- **Physical Damage:** Damage to or loss of the auto resulting from collision, fire, theft or other perils.
- **Policy:** The printed legal document stating the terms of the insurance contract that is issued to the policyholder by the company. A contract of insurance. The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance; also called the policy contract or the contract.
- **Policy Term:** That period for which an insurance policy provides coverage.
- **Policyholder:** The person who owns a life insurance policy. This is usually the insured person, but it may also be a relative of the insured, a partnership or a corporation. A person who pays a premium to an insurance company in exchange for the insurance protection provided by a policy of insurance.
- **Premium:** The sum paid by a policyholder to keep an insurance policy in force.
- **Primary Insurance:** Insurance that pays compensation for a loss ahead of any other insurance coverage’s the policyholder may have.
- **Probate:** The court supervised process of validating or establishing a distribution for assets of a deceased including the payment of outstanding obligations.
- **Probationary Period:** A period from the policy date to a specified time, usually 15 to 30 days, during which no sickness coverage is effective. It is designed to eliminate a sickness actually contracted before the policy went into effect.

- **Product Liability:** legal liability incurred by a manufacturer, merchant, or distributor because of injury or damage resulting from the use of its product.
- **Product Liability Insurance:** Protection against financial loss arising out of the legal liability incurred by a manufacturer, merchant, or distributor because of injury or damage resulting from the use of a covered product.
- **Proof of Loss:** Documentation presented to the insurance company by the insured in support of a claim so that the insurer can determine its liability under the policy. Documentary evidence required by an insurer to prove a valid claim exists. It usually consists of a claim form completed by the insured and the insured's attending physician. For medical expense insurance itemized bills must also be included.
- **Property Damage Coverage:** An agreement by an insurance carrier to protect an insured against legal liability for damage by an insured automobile to the property of another.
- **Property Insurance:** Insurance providing financial protection against the loss of, or damage to, real and personal property caused by such perils as fire, theft, windstorm, hail, explosion, riot, aircraft, motor vehicles, vandalism, malicious mischief, riot and civil commotion, and smoke.
- **Proximate Cause:** The dominating cause of loss or damage; an unbroken chain of events between the occurrence and damage.
- **Punitive Damages:** a court awarded amount that exceeds the economic losses and general damages of a defendant and is intended solely to punish the plaintiff

Dictionary of Insurance Terms

-Q-

- **Qualification Period:** The period during which the insured must be totally disabled before becoming eligible for residual disability benefits.

Dictionary of Insurance Terms

-R-

- **Rate:** The pricing factor upon which the insurance buyer's premium is based.
- **Rated Policy:** Sometimes called an "extra risk" policy, an insurance policy issued at a higher-than-standard premium rate to cover the extra risk where, for example, an insured has impaired health or a hazardous occupation.
- **Regulation:** Supervision of business practices by a governmental entity.
- **Rehabilitation:** (1) Restoration of a totally disabled person to a meaningful occupation, (2) a provision in some long- term disability policies that provides for continuation of benefits or other financial assistance while a totally disabled insured is retraining or attempting to resume productive employment.
- **Reimbursement:** The payment of the expenses actually incurred as a result of an accident or sickness, but not to exceed any amount specified in the policy.
- **Reinstatement:** The resumption of coverage under a policy which has lapsed.
- **Reinsurance**: Assumption by one insurance company of all or part of a risk undertaken by another insurance company**.** The acceptance by one or more insurers, called re-insurers, of a portion of the risk underwritten by another insurer who has contracted for the entire coverage. The purchase of insurance by an insurance company from another insurance company (re-insurer) to provide it protection against large losses on cases it has already insured.
- **Renewal:** Continuance of coverage under a policy beyond its original term by the insurer's acceptance of the premium for a new policy term.
- **Renter's Policy:** A package type of insurance that includes coverage similar to a homeowner’s policy to cover the personal property of a renter or tenant in a building.
- **Replacement:** The substitution of health insurance coverage from one policy contract to another.
- **Replacement Cost:** The cost to repair or replace property at construction costs prevailing at time of loss; the cost to repair or rebuild property without considering depreciation. **(**See Actual Cash Value)
- **Representation:** Statements made by an applicant in the application, which he represents as being substantially true to the best of his knowledge and belief, but which are not warranted as exact in every detail.
- **Rescission:** Termination of an insurance contract by the insurer on the grounds of material misstatement on the application for insurance. The action of rescission must take place within the contestable period or Time Limit on Certain Defenses but takes effect as of the date of issue of the policy, thus voiding the contract from its inception.
- **Reservation of Rights:** An arrangement whereby an insurer defends a case without commitment to provide coverage in the event that the facts disclosed during the trial reveal that the occurrence is not covered.
- **Reserve:** **(1)** an amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund.

- **Revocable Trust: A trust that can be terminated or revoked by its creator.**
- **Rider:** (1) A document which amends the policy or certificate. It may increase or decrease benefits, waive the condition of coverage or in any other way amend the original contract. (2) A special policy provision or group of provisions that may be added to a policy to expand or limit the benefits otherwise payable. (3) A document that modifies the policy. It may increase or decrease benefits, waive a condition or coverage, or in any other way amend the original contract.
- **Right of Survivorship:** at the death of one co-owner of property, that person's interest in the property automatically passes to the surviving joint tenant or tenants.
- **Risk:** The chance of loss. Also used to refer to the insured or to property covered by a policy. (2) Any chance of loss. (3) A term used to refer to a person or the peril insured.
- **Risk Classification:** The process by which a company decides how its premium rates for life insurance should differ according to the risk characteristics of individuals insured (e.g., age, occupation, sex, state of health) and then applies the resulting rules to individual applications. (See: Underwriting)
- **Robbery:** The taking of property from a person by force or threat of violence.

Dictionary of Insurance Terms

-S-

- **Salvage:** Recovery made by an insurance company by the sale of property which has been taken over from the insured as a part of loss settlement.
- **Self-Insurance:**(1) A program for providing group insurance with benefits financed entirely through the internal means of the policyholder, in place of purchasing coverage from commercial carriers. (2) A form of risk financing through which a firm assumes all or a part of its own losses.
- **Settlement Options:** The several ways, other than immediate payment in cash, which a policyholder or beneficiary may choose to have policy benefits paid.
- **Short-Term Disability Income Insurance:** The provision to pay benefits to a covered disabled person as long as he/she remains disabled up to a specified period not exceeding two years.
- **Special Risk Insurance:** Coverage for risks or hazards of a special or unusual nature.
- **Spouse's Benefit:** Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death.
- **State Fund:** A fund set up by a state government to provide a specific line or lines of insurance. Some state permit private insurers to compete with the state fund.
- **State Insurance Department:** A department of a state government whose duty is to regulate the business of insurance and give the public information on insurance.
- **Strict Liability:** Liability for damages even though fault or negligence cannot be proven.
- **Subrogation:** Process by which one insurance company seeks reimbursement from another company or person for a claim it has already paid.
- **Substandard Insurance:** Insurance issued with an extra premium or special restriction to those persons who do not qualify for insurance at standard rates.
- **Substandard Risk:** An individual, who, because of health history or physical limitations, does not measure up to the qualification of a standard risk.
- **Surplus Lines:** (1) A risk or a part of a risk for which there is no normal insurance market available. (2) Insurance written by non-admitted insurance companies.

Dictionary of Insurance Terms

-T-

- **Temporary Total Disability (TTD):** This benefit is payable when the injured worker is unable to work during a period when he/she is under active medical care and has not yet reached what is called "maximum medical improvement" (MMI). By virtue of simple common sense, once "maximum medical improvement" has been reached the condition can no longer be categorized as temporary.
- **Temporary Partial Disability (TPD):** An employee may be eligible for temporary partial disability when he or she is able to do some work but is still recuperating from the effects of the injury, and is, thus, temporarily limited in the amount or type of work which can be performed compared to the pre-injury work.
- **Tenants in common:** A form of joint property ownership in which the owners may have unequal shares and which does not involve a right of survivorship.
- **Third Party:** The claimant under a liability policy. So called because the person making the claim is not one of the two parties, insured and insurer, to the insurance contract.
- **Third party claim:** a demand made by a person against a policyholder of another company and any payment that will be made by that company.
- **Threshold (No-Fault):** The point, measured in money, time or other ways, beyond which tort liability can be established. Until that point is reached, reparations must be paid within the provisions of the no-fault plan, with no recourse to the courts.
- **Time Limit:** The period of time during which a notice of claim or proof of loss must be filed.
- **Tort:** A civil wrong, other than a breach of contract, for which a court of law will afford legal relief, i.e. harming another by an act of negligence in driving an auto.
- **Total Disability:** An illness or injury which prevents an insured person from continuously performing every duty pertaining to his/her occupation or engaging in any other type of work. (This wording varies among insurance companies.)
- **Travel Accident Policy:** A limited contract covering only accidents while an insured person is traveling, usually on a commercial carrier.
- **Turnover Rate:** The rate at which employees terminate covered service other than by death or retirement. Expected future turnover can be taken into account in translating contributions into benefits.
- **Twisting:** The practice of inducing by misrepresentation, or inaccurate or incomplete comparison, a policyholder in one company to lapse, forfeit or surrender his insurance for the purpose of taking out a policy in another company.

Dictionary of Insurance Terms

-U-

- **Umbrella Liability:** Insures losses in excess of amounts covered by other liability insurance policies; also protects the insured in many situations not covered by the usual liability polices.
- **Underwriter:** (1) a company that receives the premiums and accepts responsibility for the fulfillment of the policy contract; (2) the company employee who decides whether or not the company should assume a particular risk; (3) the agent who sells the policy.
- **Underwriting:** The process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept the risk.
- **Uninsured/Underinsured Motorist Coverage:** A form of insurance that pays the policy holder and passengers in his/her car for bodily injury caused by the owner or operator of an uninsured or inadequately insured automobile.

Dictionary of Insurance Terms

-V-

- **Verbal Threshold:** In no-fault auto insurance states with a verbal threshold, victims are allowed to sue in tort only if their injuries meet certain verbal descriptions of the types of injuries that render one eligible to recover for pain and suffering.
- **Viatical Settlement:** Payment of a portion of the proceeds from life insurance to an insured who is terminally ill.

Dictionary of Insurance Terms

-W-

- **Waiver:** An agreement attached to a policy which exempts from coverage certain disabilities or injuries that otherwise would be covered by the policy.
- **Workers Compensation:** A system established under state law that provides payments, without regard to fault, to employees injured in the course and scope of their employment.
- **Workers' Compensation Insurance:** Insurance against liability imposed on certain employers to pay benefits and furnish care to employees injured, and to pay benefits to dependents of employees killed in the course of or arising out of their employment.