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Risk Reference Resource

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ARM – Associate in Risk Management

ACRS- Accelerated Cost Recovery System; IRS table of depreciation

ADR- See *Alternative Dispute Resolution*

ALAE- See *Allocated loss adjustment expense*

AP- Accounts Payable

AR- Accounts Receivable

A/T Cost- After Tax Cost

Accident – An unplanned event, unexpected & undersigned, which occurs suddenly and at a definite place (occurrence).

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

Active Retention- Planned acceptance of losses by deductibles, deliberate non-insurance, and loss sensitive plans where some, but not all, risk is consciously retained rather than transferred.

Actual Cash Value (ACV) – An amount equivalent to the replacement cost of lost or damaged property at the time of the loss, less depreciation.

Actuary – A specialist trained in mathematics, statistics, and accounting who is responsible for rate, reserve & 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.

Additional Living Expenses Insurance – A contract to reimburse the insured for increased living costs when loss of property forces an insured to maintain temporary residence elsewhere.

Adhesion Contract- a contract (usually standardized) offering goods or services on a “take it” or “leave it” basis. Typically, the weaker party has no realistic choice as to its terms. The “doctrine of Adhesion” is a general legal rule that states any defect of ambiguity in the contract language should necessarily be construed against the drafting (stronger) party.

Adjuster – A representative of the insurer who seeks to determine the extent of the firms’ liability for loss when a claim is submitted.

Administrative Bond– A bond which is furnished by the executor or administrator of an estate. It guarantees that the estate will be settled in accordance with the terms of the will, or, if there is no will, in accordance with the law.

Admitted Assets- Assets whose value is included in the annual statement of an insurance company to the State Commissioner of Insurance

Admitted Company/Insurer- An insurance company authorized to do business in a state by the state’s insurance department. While the procedure may vary from state to state, approval is usually granted when an insurer presents financial information demonstrating its financial stability.

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.

Affiliated Companies – Insurers linked together through common stock ownership or through interlocking directorates.

After Charge – A charge sometimes included in fire rates for commercial buildings. It is usually added for conditions which can be corrected by the insured, such as failure to have the proper types of fire extinguishers.

Agency- An office where insurance is sold. It may be directed towards property and liability insurance or life and health insurance, or both. Also, it might be an independent organization or a company subsidiary group.

Agency Captive- Captives owned by insurance agencies, formed to insure the risks of the agency’s clients or to participate with the insurance company in providing coverage for a difficult risk.

Agent- Person or organization who solicits, negotiates, or instigates insurance contracts on behalf of an insurer. Agents can be independent businessmen/businesswomen or employees of the company.

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.

Agreed Amount Clause – Under this clause, the insured and the insurer agree that the amount of insurance carried will automatically satisfy the coinsurance clause. The effect is to eliminate the necessity of determining whether or not the amount carried is equal to the stated percentage of the actual cash value indicated in the coinsurance clause.

Agreed Value – An agreement made between the insurer & insured at policy inception confirming that both parties concur that the limit of insurance set forth in the schedule of property is that item's value, and that agreed upon value is the amount that will be paid by the insurer in the event of a total loss.

Aleatory Contract- a contract in which a promise by one party is conditioned on the happening of a fortuitous event. Insurance contracts are almost always aleatory contracts.

Allocated Loss Adjustment Expense (ALAE)- Includes all expense directly assigned to or arising out of a particular claim; any expense assigned and recorded directly to a particular claim. Examples of ALAE include court fees and the expense of outside legal counsel. May also be noted as allocated loss expense.

All Risk Insurance – The term "All Risk Insurance" is used to mean insurance against loss of or damage to property arising from any fortuitous cause except those that are specifically excluded.

Alternative Dispute Resolution- Methods for resolving legal disputes other than full litigation through formal trial. Arbitration proceedings are the most commonly used ADR technique.

Alternative Risk Financing Facilities- Any risk financing mechanism that does not involved a commercial insurance company, e.g., captive insurers, risk retention group, pools, and individual self-insurance.

Amendment – A formal document which corrects or revises an insurance master policy.

Annuity- A stream of periodic payments made over a specified period of time.

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.

Apportionment – The method of dividing a loss among insurers in the same proportions as their participation when two or 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.

Appurtenant Structures - Buildings on the same premises as the main building under a Property Insurance policy.

A priori- proceeding from cause to effect.

Arbitration Clause – The provision in a Property Insurance contract which states that if the insurer and insured cannot agree on an appropriate claim settlement, each will appoint an appraiser, and these will select a neutral umpire.

Arson – The willful and deliberate burning of property.

Asset- Anything of commercial value, including real or personal, tangible or intangible property.

Assignment – Transfer by the policy owner of legal rights or interest in the policy contract to a third party. Most policies cannot be assigned without the written consent of the insurer.

Associated Captive- 1) Jointly owned by a number of companies involved in the same or similar industries. 2) A captive insurance company formed and owned by a trade or professional association.

Assumption of Risk – One of the common law defenses available to an individual. For instance, one person riding with another in an automobile has generally "assumed the risk" and, therefore, has no action against the driver of the vehicle should an accident occur. This is a common law concept and has been modified by recent case law and by statute in some jurisdictions.

Assured – Insured.

Attachment – A court order allowing one person to take something of value belonging to another into custody for a particular purpose. As an example, if an individual is at fault in an automobile accident, the insured person may get a court order attaching the first individual's automobile in settlement of the claim. The purpose of the attachments is to make sure something of value is available to settle the claim if the individual is held liable.

Attractive Nuisance – The law states that an individual owes no duty of care to someone trespassing upon that individual's property. This is an exception to that rule since it does state that a special duty of care is required of a person with respect to conditions which attract children.

Audit – A survey of the insured's payroll records to determine the premium that should be paid for the coverage furnished. Used in Workers Compensation and General Liability policies.

Automatic Treaty- A reinsurance treaty under which the ceding company must cede exposures of a defined class that the re-insurer must accept in accordance with the terms of the treaty.

Automobile Fleet – Refers to a number of automobiles under the same ownership. For insurance purposes a fleet usually consists of 5 or more self-propelled units and generally qualifies for certain premium reduction and rating plans.

Average Clause – A clause providing that similar items in one location or several locations which are insured by a policy shall be covered in the proportion that the value of each bears to the value of all. Previously known as the "Pro Rata Distribution Clause".

Average Rate – A rate for a policy established by multiplying the rate for each location by the value at that location and dividing the sum of the results by the total value.

Average Weekly Wage – A term generally used in Workers Compensation laws. It is the basis for determining weekly benefits under such laws.

Avoidance- A risk control technique whereby risk of loss is prevented in its entirety by not engaging in activities that present the risk.

-B-

BI – In relation to **liability** claims, BI refers to Bodily Injury liability which is a legal liability that may arise as a result of the injury or death of another person. In relation to **property**, BI refers to business interruption insurance, which is a time element coverage that pays for loss of earnings when operations are curtailed or suspended because of property loss due to an insured peril.

Bail Bond – (Surety) A form of bond given to guarantee that a person released from legal confinement will appear as required in court, or the penalty of the bond will be forfeited to the court. In insurance policies, bail bond fees are covered under an Automobile policy.

Bailee – A person or concern having possession of personal property entrusted to him by the owner. An example would be a laundry which has custody of customers' clothing for washing or dry cleaning. Bailees are required to exercise the same care with the property of others as they would with their own property.

Bailees Customer Insurance – (Inland Marine) Insurance purchased by a bailee to protect the personal property of his customers against loss caused by specific perils. An example would be a carpet cleaner who buys coverage to protect his customers against loss or damage to their carpets while in his care.

Bailees Liability Coverage – (Inland Marine) Coverage that meets the needs of a bailee's liability. His legal responsibility is to exercise care appropriate to the circumstances of the bailment. In addition, most bailees want to carry enough insurance to make good any loss to property in their custody whether or not they are legally liable.

Bailment – The personal property of one person being held by another with the intent of its being returned to the original owner. Cars in a garage for repairs would be an example of a bailment.

Bailor – A person who owns property which has been entrusted to another. The owner of fur coat who has entrusted it to a furrier for storage would be a bailor.

Ballast Value- In computing workers compensation experience modificaitn, a specific value taken from actuarial tables used to limit the effect of a single severe accident on the modification factor.

Basic Extended Reporting Period – An automatic "tail" for reporting claims after expiration of a "claims-made" liability policy. It is provided without charge and consists of two parts: a **mini-tail** covers claims made within 60 days after the end of the policy; a **midi-tail** covers claims made within five years after the end of the policy period arising out of occurrences reported not later than 60 days after the end of the policy.

Basic Premium- Usually a percentage of the standard premium. It is often determined by multiplying the standard premium by a basic premium factor. It provides for insurance carrier expenses including loss control and commission, profit, contingencies, and an adjustment for limiting the retro premium between the minimum and the maximum retrospective premiums.

Basic Premium Factor- In worker's compensation, based on the Table of Expense Ratios, the Table of Insurance Charges, and the individual loss limitation if selected.

Basic Rate- The manual rate that is adjusted to compensate for varying exposure to risk.

Bench Error – A term used in Products Insurance which describes a loss that occurs in the production process. For instance, if production workers mistakenly use the wrong ingredients in a chemical formula, a bench error has occurred. Bench errors are covered.

Benefit Level Adjustment Factor- Factors calculated for each state by the NCCI representing the impact of regulatory changes on workers' compensation costs. They are used to bring historical losses up to current benefit levels.

Bid Bond – (Surety) A bond filed with a bid for a construction or other project which guarantees that if the contractor has the low bid and is awarded the job, he will furnish the required Performance Bond.

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.
Blanket Bond – (Crime) A type of fidelity bond which covers losses caused by the dishonesty of all employees as opposed to bonds which specifically identify only certain employees to be covered.

Blanket Coverage – 1) In property insurance, a single limit of insurance that covers a number of items, such as one amount of insurance to cover two buildings and its contents. A blanket policy usually contains certain restrictions, which may be absent in "specific" or "itemized" policies, such as the use of a 90% coinsurance clause. 2) In the case of health insurance, a policy or contract covering an entire specified group of people (such as employees) against a listed set of hazards or perils (for example, for medical or dental protection).

Boiler and Machinery Insurance – Insurance against the sudden and accidental breakdown of boilers, machinery, and electrical equipment. Coverage is provided an (1) damage to the equipment, (2) expediting expenses, (3) property damage to the property of others, and (4) supplementary payments; and (5) automatic coverage is provided on additional objects. Coverage can be extended to cover consequential losses and loss from interruption of business.

Bond – (Surety) A three-party contract guaranteeing that if one person, the principal, fails to perform as specified or proves to be dishonest, the person to whom the duty is owed, the oblige, will be financially protected by the issuer of the bond, the surety.

Book Value- 1) The value of an organization's assets as carried on the balance sheet in accordance with Generally Accepted Accounting Principals (GAAP). 2) Historical cost less accumulated depreciation.

Bordereau – A written report of individual cessions, usually detailed to show such items as loss information related to a specific risk. Can be used as a form of reporting various claims to the insurer on an agreed upon time period throughout the policy term. Generally set up as a quarterly bordereau reporting period.

Boston Plan – This is a plan under which insurers agree that they will not reject property coverage on residential buildings in a slum area. Instead, they will accept the coverage until there has been an inspection and the owner has had an opportunity to correct any faults. Boston was the first city to originate such a plan, and many other cities have followed, including New York, Oakland, Cleveland, and Buffalo.

Breach- Failure to live up to the conditions or warranties contained in a contract.

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.

Broad Form – A term generally used to designate policies that provide insurance for multiple types of perils over and above the usual basic perils, or additional coverages beyond standard coverage(s).

Broker- A solicitor of insurance who does not represent insurance companies as does an agent, instead representing the insured.

Broker of Record – a broker who has been designated to handle certain insurance contracts for the policyholder

Builder's Risk Coverage Form – A commercial property coverage form specifically designed for buildings in the course of construction.

Building and Personal Property Coverage Form – A commercial property coverage form designed to insure most types of commercial property (buildings, or contents, or both). It is the most frequently used commercial property form, and has replaced the General Property Form, Special Building Form, Special Personal Property Form, and others.

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

Bumbershoot Policy – A Liability policy similar to the Umbrella policy which includes coverage related to Ocean Marine risks. In addition to General Liability coverage, Protection and Indemnity can be provided, as can Liability under the Longshoremen's and Harbor Workers' Act. Collision coverage can be provided and general average and salvage charges can be included. A shipyard would be interested in a Bumbershoot policy.

Burglary – (Crime) Breaking and entering into the premises of another with felonious intent, leaving visible signs of forcible entry or exit.

Business Automobile Policy – A policy which provides Liability and Physical Damage coverages on commercial vehicles. It replaces the Basic Auto policy and features the new "simplified wording" concept.

Business Income Coverage Form – A commercial property form providing coverage for "indirect losses" resulting from property damage, such as loss of business income and extra expenses incurred. It has replaced earlier Business Interruption and Extra Expense forms.

Business Interruption Insurance – A time element coverage that pays for loss of earnings when operations are curtailed or suspended because of property loss due to an insured peril.

Business Personal Property – Traditionally known as "contents", this term actually refers to furniture, fixtures, equipment, machinery, merchandise, materials, and all other personal property owned by the insured and used in the insured's business.

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

-C-

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

Captive- 1) Insurance company formed by a non-insurance entity and established for the primary purpose of insuring all or part of the risk of its owners. 2) Legal entity created for the purpose of insuring the loss exposures of their owner(s), reduce or stabilize costs, provide and arrange specific risk management services, and take advantage of certain tax situations. 3) A closely held insurance company whose insurance business is primarily supplied by and controlled by its owners, and in which the original insureds are the principal beneficiaries.

Captive Agent – One who sells insurance for only one company as opposed to an agent who represents several companies.

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 non-admitted insurer that has the right, under special circumstances, to reinsure with an admitted insurer.

Captive Pool- Groups of individually owned captives that combine to reinsure one another; risk swapping

Care, Custody and Control – Most Liability Insurance policies exclude coverage for damage to property in the care, custody, or control of the insured. In some cases this type of coverage is not available; in other cases it can be purchased through certain forms of Inland Marine Insurance, like Installation Floaters, and in some cases this exclusion can be made less restrictive by adding a Broad Form Property Damage Endorsement.

Cargo Insurance – A policy covering the cargo being transported by carrier.

Case Reserve- Amount the claims adjuster puts on an individual claim that has not yet been paid; there is no provision for development and IBNR (incurred but not reported); also know as claim reserve

Cash Flow- The cash account of a business; money available, even if not required, for current expenses; income and expenditures traceable (through a “cash flow statement” from their first appearance in an organization’s bank accounts through their final disposition.

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 Program- Any insurance rating program that allows the insured to hold and benefit from loss reserves until paid as claims, e.g., deferred premiums, self-insurance, and paid loss retros.

Casualty Actuarial Society (CAS)- a professional society for actuaries in areas of insurance work other than Life Insurance. This society grants the designation of Associate and Fellow of the Casualty Actuarial Society (ACAS and FCAS)

Casualty Insurance – That type of insurance that is primarily concerned with the legal liability for losses caused by injury to persons or damage to the property of others.

Caveat Emptor – Let the buyer beware.

Cede- When a company reinsures its liability with another. The original or primary insurer, insurance company that purchases reinsurance, is the "ceding company" that "cedes" business to the reinsurer; to transfer to a reinsurer all or part of the risk.

Ceding Company- The direct or primary insurer that contracts with a reinsurer to share all or a certain portion of its losses under insurance contracts it has issued in return for a stated premium.

Cession- The transaction that transfers liability from the ceding company to the reinsurer.

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 attorney's fees. It does not include the cost of the settlement or judgment of the claim itself.

Claimant – The person making a demand for payment benefits.

Claims-Made Coverage – A policy which provides liability coverage only if a written claim is made during the policy period or any applicable extended reporting period. For example, a claim made in the current year could be charged against the current policy even if the injury or loss occurred many years in the past. If the policy has a retroactive date, an occurrence prior to that date is not covered.

Claims Reserve – Amounts set aside by the insurer to meet costs of claims incurred but not yet finally settled. The reserve is the funds kept based on the estimate of what the claim will cost when finally settled.

Class Action Suit – A legal device allowing a group of individuals with a claim against a company or an individual to join together as plaintiffs in a single suit.

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.

Cleanup Fund – A commonly used term to designate policies whose express purpose is to pay final expenses of death.

Clear Space Clause – A clause requiring that insured property, such as stacks of lumber, be stored at some particular distance from each other or from other property.

Coinsurance Clause – A clause under which the insured shares in losses to the extent that he is underinsured at the time of loss. The insurer grants a reduced rate to the insured providing he carries insurance 80, 90, or 100% to value. If, at the time of loss, he carries less than required, he must share in his loss. For example, if an insured has a building worth $100,000 and carries an 80% coinsurance clause, it means that he agrees to carry at least $80,000 of insurance. If the insurance carried equaled $60,000, then any loss under the policy would be paid for on the basis of the comparison of $60,000 (amount carried) divided by $80,000 (amount agreed upon in advance) times the amount of the loss. Thus, the insured above would only receive 75% of a loss or $7,500 for a $10,000 loss.

Combined Ratio- A formulas used by insurance companies to relate premium income to claims, administration and dividend expenses.

Combined Single Limit – A single limit of protection for both Bodily Injury and/or Property Damage, contrasted with split limits, where specific limits apply to Bodily Injury and Property Damage separately.

Commercial Package Policy (CPP) – A commercial lines policy that contains more than one of the following coverage parts: Commercial Property, Commercial General Liability, Commercial Inland Marine, Commercial Crime, Boiler and Machinery Insurance, or Commercial Automobile Insurance.

Commission- A certain percentage of premium produced that is retained as compensation by insurance agents and brokers.

Common Law – The unwritten law developed primarily from judicial case decisions based on custom and precedent. It developed in England and constitutes the basis for the legal systems of most of the states in the United States.

Common Law Defenses – Pleas that can defeat an injured worker's suit for injuries against his employer in the absence of a Workers' Compensation law or Employers Liability legislation. The three defenses are contributory negligence, assumption of risk, and fellow servant rule.

Common Stock- A share or shares of ownership in a corporation with rights to vote on management and corporate policy but not preferred over other classes of stock in regard to the payment of dividends or distribution of assets. It is usually the only class of stock with voting rights.

Comparative Negligence – In some states the negligence of both parties to an accident is established in proportion to the degree of their contribution to the accident. Several states have comparative negligence laws, and each one varies somewhat from the others.

Compensatory Damages – Damages recoverable or awarded for injury or loss sustained. In addition to actual loss or injury, this term may include amounts for expenses, loss of time, bodily suffering and mental suffering, but does not include punitive damages.

Competency – This is one of the elements that must be present in order to have a legal contract. It relates to the fitness or ability of either of the parties to the contract.

Competitive State Fund – A fund established by a state to write Workers' Compensation Insurance in competition with private insurers.

Completed Operations Insurance – A form of insurance issued particularly to various types of contractors. It covers a contractor's liability for accidents arising out of jobs or operations that he has completed. (also referred to as Products- Completed Operations Insurance).

Completion Bond – This is a bond issued to a mortgagee. It guarantees that the construction for which the mortgagor ha borrowed money will be completed and will be able to serve as collateral for the mortgage upon completion.

Compromise and Release Agreement – A settlement practice under which an injured worker agrees to a compromised liability amount (usually a lump sum) in exchange for releasing the employer from further liability.

Compulsory Insurance – Any form of insurance required by law.

Computer Fraud – Fraudulent theft or transfer of money, securities or other property resulting from the use of any computerized equipment or systems.

Concealment – The failure to disclose a material fact.

Concurrent Causation – A term referring to tow or more perils acting concurrently (at the same time or in sequence) to cause a loss.

Conditions – These are provisions of an insurance policy which state either the rights and duties of the insured or the rights and duties of the insurer. Typical conditions have to do with such things as the insured's duties in the event of loss, cancellation provisions, and the right of the insurer to inspect the property.

Consequential Loss (or Damage) – (1) An indirect loss arising out of the policyholder's inability to use the property over a period of time, as opposed to a direct loss that happens almost instantaneously. Business Interruption, Extra Expense, Rents Insurance, and Leasehold Interest are the most common coverages included under the category of Consequential Loss coverages. (2) A loss not directly caused by a peril insured against, such as spoilage of frozen foods caused by fire damage to the refrigeration equipment.

Consignee – This is a person to whom materials or goods are delivered for resale. The consignee pays the owner after the goods have been sold.

Consortium – The companionship of a spouse. If a spouse is injured through the fault of another, part of the damages could include the value of the spouse's services or companionship which was lost due to the accident. This can also apply to children if a parent is injured.

Construction Bond – This bond protects the owner of a building or other structure under construction in case the contractor cannot complete the job. If he defaults, the insurer is obligated to see that the work is completed.

Construction Types-SEE ATTACHED

Constructive Performance – A situation in which an act has not been completed but conduct has gone so far as to show intent to complete the act.

Constructive Total Loss – A partial loss of sufficient degree to make the cost of repairing the damaged property more than the property is worth. For example, an old automobile might suffer damage which could be repaired, but the cost of repairs would be more than the actual cash value of the automobile.

Consumer Protection Act – A law passed by many states which protects a policyholder from the misconduct, misrepresentation, or "sharp" trade practices of insurers, brokers, and agents.

Contents Rate – The Fire Insurance rate on the contents of a building rather than on the building itself.

Contestable Clause – A provision in an insurance policy setting forth the conditions under which or the period of time during which the insurer may contest or void the policy. After that time has lapsed, normally 2 years, the policy cannot be contested.

Contract – (1) An agreement entered into by two or more persons under whom 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. (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 statements of the terms of the contract. (3) An agreement under which an agency or agent does business with an insurer.

Contract Bond – A guarantee of the faithful performance of a construction contract and the payment of all material and labor bills incidental thereto.

Contract Carrier – A transportation company that carries, for payment, the goods of certain customers only, as contrasted with a common carrier who carries goods for the public in general.

Contractual Liability- Liability of another party assumed under a contract or agreement, either expressed or implied, as opposed to liability incurred directly, as in tort.

Contractual Transfers- SEE ATTACHED

Contributory Negligence – If an injured party fail to exercise property care and in some way contributes to his injury, the doctrine of contributory negligence will probably negate or defeat his claim, even though the other party is also negligent.

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.

Cost-of-Living Rider - Designed to adjuster policy benefits in relation to the change in the economic climate. The majority of such riders are tied to changes in the consumer Price Index (CPI). The amount of insurance may be automatically increased, without evidence of insurability, at predetermined periods for a maximum amount.

Cost Allocation- Contribution of risk management costs from all sections of an organization or company. These sections include departments, locations, divisions, profit centers, etc.

Cost Allocation System- Process that identifies and attributes the cost of risk among the various sections of an organization or company.

Cost of Goods Sold- 1) Labor, material, and overhead expenses including inventory shrinkage; 2) the purchasing or production costs and expenses, both direct and indirect, of the merchandise sold during a certain period. These expenses include raw materials, direct and indirect labor costs, plant costs (such as depreciation), electricity, water, and shipping costs.

Cost of Risk- All components that are allocated to cover losses and expenses. Usually includes insurance premiums, retained losses, risk management department costs, and outside services (such as consultants). Can also include loss of productivity, cost of overtime, and opportunity costs.

Credibility- The relative confidence (statistical reliability) associated with a given body of data (e.g., loss experience for an individual division). Expressed as a number between zero and one (100%) with once representing “full credibility.”

Crime – A public wrong, a violation of criminal law. The state is the entity that brings charges against one who commits a crime, and the matter is adjudicated in a criminal court.

Cromie Rule – A method or guide used to apportion losses under policies which are nonconcurrent, that is, not identical as to coverage provided.

Cumulative Liability – The liability of a surety bonding company for the accumulation of loss under its own bond and under a bond which it replaced before a loss under the replaced bond was discovered.
Current Asset- Cash or other assets that are expected to be (or could be) converted into cash or consumed within twelve months or within an organization’s normal operating cycle. Current assets include marketable securities, notes receivable, accounts receivable, inventory and prepaid items.

Current Liability- Liabilities that must be satisfied within the next twelve months. Current liabilities include trade accounts payable, taxes, wage accruals, current installments on long-term debt, and notes payable.

-D-

DDM- Dividend discount model; a Common Stock valuation method

DFL- Degree of Financial Leverage

DOL- Degree of Operating Leverage

Damages – The amount required to pay for a loss.

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.

Debris Removal Clause – A provision that may be included in a Property policy contract to provide the insured with indemnification for expenditures incurred in the removal of debris produced by the occurrence of an insured peril. Ordinarily a Property policy covers only the direct damage caused by an insured peril.

Declaration – A term used in insurance to denote that portion of the contract which states the name and address of the insured, the property insured, its location and description, the policy period, the amount of insurance coverage, applicable premiums, and supplemental representations by the insured.
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.

"Deep Pockets" Liability – A term used to describe the legal doctrine of join-and-several liability, under which recovery can be sought from any of several co-defendants based on ability to pay, rather than the degree of negligence. Example: A and B are jointly liable for an injury; a was 90% negligent and B was 10% negligent, but A has no assets; the claimant is permitted to reach into the "deep pockets" of B for the full amount of the award against A and B.

Defalcation – Stealing of money.

Defamation – Any derogatory statement which is designed to injure a person's business or reputation. Defamation can be accomplished as libel or slander.

Defendant – The person being sued in a court action.

Degree of Care – A duty owed to others which depends on circumstances. Persons who invite others on their premises, those who invite children on their premises and those who sell what might be considered inherently dangerous products are all required to take different degrees of care to prevent harm to others.

Demolition Clause – A provision that excludes liability for costs incurred in demolishing undamaged property, often necessitated by building ordinances requiring that structures must be demolished after a certain degree of damage has been sustained.

Demolition Insurance – Insurance written to cover the cost of demolition excluded by a demolition clause. It may be endorsed to Property Insurance for an additional premium.

Deposition – A sworn statement of a witness or other party in a judicial proceeding.

Deposit 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; also know as provisional 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.

Detrimental reliance- also referred to as a “promissory estoppel.” That which arises when there is a promise which promisor should reasonably expect to induce action or forbearance (not acting) of a definite and substantial character on the part of the promise, and which does induce such action or forbearance, making such promise binding.

Development Factor- A factor designed to correct errors in estimating the reserves for known but unsettled losses and to make an allowance for incurred but not reported (IBNR) losses.

Difference in Conditions (DIC) – A separate contract that expands or supplements insurance on property written on a named perils basis so as to cover on an all-risk basis, subject to certain exclusions.

Direct Loss (or Damage) – A loss which is a direct consequence of a particular peril. Fire damage to a refrigerator would be a direct loss. Spoiling of food in the refrigerator as a result of the fire damage would be an indirect loss.
Directors and Officers Liability Insurance – Insurance that protects directors and officers from liability claims arising out of alleged errors in judgment, breaches of duty, and wrongful acts related to their organizational activities.

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.

Disappearing Deductible – A type of deductible that gradually disappears as the loss gets larger. If the deductible is $50, the insurer will pay 111% of that part of the loss which is in excess of $50. The deductible on losses between $50 and $500 is gradually reduced by this system, and if the loss reaches $500, the full amount is covered.

Discount Ratio (D-Ratio)- Factor used in the experience rating plan to separate the expected losses into primary and excess losses. A D-Ratio is the normal ratio of primary expected losses to the total expected losses, and varies by state and by classification code.

Discount Losses- Liability estimates that have been reduced to reflect the potential to earn investment on funds set aside to pay losses which have occurred but not yet been paid.

Discovery Period – The period of time allowed an insured who has cancelled a bond to discover and report to the previous surety a loss that occurred during the term of that bond. Losses so reported are paid by the original surety even thought another surety is on the risk at the time of the discovery. The usual discovery period is 1 year.

Double Indemnity – Payment of twice the basic benefit in the event of loss resulting from specified causes or under specified circumstances. For example, a Life Insurance contract may provide for twice the basic benefit if death is due to accident. Accident policies may provide double indemnity coverage for death due to an elevator accident.

Dram Shop Laws – Liquor liability laws are called dram shop laws. They provide that a person serving someone who is intoxicated or contributing to the intoxication of another person may be liable for injury or damage caused by the intoxicated person.

Dram Shop Liability Insurance – A form of insurance contract that protects the owners of an establishment in which alcoholic beverages are sold against liability arising out of accidents caused by intoxicated customers who have been served or sold the alcoholic beverages.

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.

Drive-Other-Car Endorsement (DOC) – A coverage that may be added to an Automobile policy affording auto coverage to the individuals named in the endorsement while they are driving cars not owned by the individuals and not named in the policy.

Dun and Bradstreet, Inc. (D&B) – A corporation which furnishes insurance companies with financial reports which assist them in the underwriting of prospective policyholders.

-E-

EBIT- Earnings before interest and taxes

Earned Premium – The amount of the premium that has been "used up" during the term of a policy. For example, if a 1-year policy has been in effect 6 months, half of the total premium has been earned.

Earnings Per Share- A corporation's net profit, minus preferred stock dividends, divided by common shared outstanding.

Earth Movement – A peril including landslide, mudflow, earth sinking, rising or shifting, and earthquake. Usually excluded on homeowners' and commercial property policies.

Easement – An interest in land owned by another that entitles its holder to specific uses.

Economic Value- Future income assigned to the property

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

Electronic Data Processing (EDP) – Specialized type of insurance designed to cover computer equipment, data systems, information storage media and expenses or income loss related to EDP losses.

Embezzlement – Fraudulent use of money or property which has been entrusted to one's care.

Employee Dishonesty – Any dishonest act of an employee which may contribute to a loss for the employer. Fidelity bonds are usually used to protect against such losses.

Employee Retirement Income Security Act (ERISA) – This act prescribes federal standards for funding, participation, vesting, termination, disclosure, fiduciary responsibility, and tax treatment of private pension plans.

Employers Liability Coverage – (Workers' Compensation) This is the coverage B of the standard Workers' Compensation policy. It provides coverage against the common law liability of an employer for injuries to employees as distinguished from the liability imposed by a Workers Compensation law. Employers Liability applies in situations where a worker does not come under these laws.

Employment Practices Liability Insurance (EPLI) – covers claims arising from wrongful acts in the workplace. The most frequent types of employment practices liability claims include wrongful termination, discrimination, and sexual harassment.

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

Errors and Omissions Insurance – (1) A form of insurance that indemnifies the insured for any loss sustained because of an error or oversight on his part. For instance, an insurance agency purchases this type of coverage to protect itself against losses from such things as filing to issue a policy. (2) A form of insurance which covers losses resulting from financial institutions failing to effect insurance coverage.

Estimated Premium- The amount of premium charged at the time a policy is issued. This amount may be subject to adjustment during the policy term in case of changes in coverage or additional underwriting information.

Estoppel – The legal principle whereby a person loses the right to deny that a certain condition exists by virtue of his having acted in such a way as to persuade others that the condition does exist. For example, if an insurer allows an insured to violate one of the conditions of the policy, he cannot at a later date void the policy because the condition was violated. The insurer has acted in such a way as to lead the insured to believe that the violation did not void the coverage.

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.

Excess Insurance – 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.

Excess Loss Premium- This expression is used in connection with retrospective rating plans for worker’s compensation. It is a premium which compensates the insurer for the fact that the insured has elected to limit the effects of any one large loss under the retrospective rating formula. For example, the insured might elect a loss limitation of $50,000, which would mean that would be the maximum amount of any one loss that would go into the retrospective calculation.

Excess Premium- A premium that is not a part of a loss sensitive rating formula. For example, in a retrospective rating plan, the non-subject or excess premium usually purchases the excess insurance (over the loss limits, not to be confused with insurance in excess of primary or SIR). The expression “non-subject” refers to the fact that the premium is a guaranteed cost and not adjustable based on losses. Excess premium is not subject to the retro formula.

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

Expected Losses- Loss projections ("Loss pics") based on probability distributions and statistics; frequently developed using actuarial techniques

Expected Loss Rate (ELR)- In computing workers compensation experience modification, the factor taken from actuarial tables used to calculate "total expected losses" for the specific classification

Expediting Expenses – Expenses incurred in order to speed up repair or replacement so as to reduce the amount of loss by a peril covered in a policy. Most commonly used in connection with Business Interruption and Boiler and Machinery Insurance. Expediting expenses are generally covered if they reduce the amount of the loss that the insurer would otherwise have to pay.

Expense Reserve – A liability for incurred but unpaid expenses.

Expenses – The cost of conducting an insurance operation aside from the amount paid for losses.

Expense Constant- An expense factor (usually a dollar amount) added to the premium charged for a class of policies, which would otherwise produce insufficient premium to cover the cost of issuing and servicing them.

Expense Ratio- A formula used by insurance companies to relate income to administrative expenses

Experience – (1) The loss record. It can be that of an insured, an agent, a territory, a type of insurance written, or any other category. (2) A statistical compilation relating losses to premiums.

Experience Modification – The increase or decrease in premiums resulting from the application of an experience rating plan, usually expressed as a percentage.

Experience Rating – A method of adjusting the premium for a risk based on past loss experience for that risk compared to loss experience for an average risk.

Expiration – The date indicated in an insurance contract as its termination date.

Expiration Notice – Notification to the insured of the impending termination of the insurance contract.

Exposure- Situation, practice or condition that might lead to a loss; an activity or resource (asset, people)

Extended Reporting Period (ERP) – A period allowing for making claims after expiration of a “claims-made” liability policy. Also known as “tail”.

Extra Expense – A form that provides reimbursement to the insured for the extra expenses reasonably incurred to continue the operation of a business when the described property has been damaged by a peril covered by the contract. This insurance is normally used by businesses where continuity of operation, regardless of cost, is a necessity as, for example, any business that would permanently lose customers if there were any suspension of operations.

-F-

FASB- Financial Accounting Standards Board

FG- Finished Goods

FIFO- First in, First out; an accounting methods used to value inventory where sales are considered to be made against the earliest-purchased merchandise or inventory. During times of increasing prices, the FIFO methods tends to overstate profits.

FOB – Free On Board. The term has special significance in Marine Insurance, where it is vital to determine when title passes from the seller to the buyer. If the materials are shipped FOB point of destination, the seller is liable for damage caused during the course of transportation. If the material is shipped FOB point of departure, then the buyer becomes liable for it.

Facultative- Reinsurance of individual risks by offer and acceptance wherein the reinsurer retains the “faculty” to accept or reject each risk offered.

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.

Fallen Building Clause – A provision in certain Property Insurance contracts which specifies that if a material part of an insured building collapses from causes other than fire or explosion, the fire coverage becomes void.

Farmers Comprehensive Personal Liability Policy – Covers farm hazards, such as damage caused by grazing animals.

Farm-owners- Ranch-owners Policy - A package policy providing Property coverage on farm dwelling buildings and contents, as well as barns, stables, and other farm outbuildings. Liability coverage is also included. It is similar to a Homeowners policy adapted to cover farm properties.

Fee Simple – Complete ownership of property with the unconditional right to dispose of it.

Fidelity Bond – A bond that will reimburse an employer, the insured, for loss due to the dishonest acts of a covered employee.

Fiduciary- A person or organization holding value of another in a position of trust.

Fiduciary Bond – A bond which guarantees the faithful performance of a fiduciary.

Financed Insurance – Payment of insurance premiums, in whole or in part, with funds derived from borrowing, usually from the case value of the policy. Also known as Minimum Deposit Insurance, the Bank Loan Plan, and the Chicago Plan.

Financed Premium – The payment of insurance premiums with funds borrowed outside the contract itself.
Financial Guarantee Bond – A guarantee that others will pay sums of money due. A Sales Tax Bond, for instance guarantees the state that the merchant will pay his sales taxes on time and in full.

Fire – Combustion which is rapid enough to produce a flame or glow. A fire, for purposes of Property Insurance, must be "hostile", which means it is not in a place in which it is intended to be. Fires in their proper contained area are called "friendly fires" and are not covered under most basic Property Insurance policies.

Fire Resistive Construction – A building which has exterior walls, floor, and roof constructed of masonry or other fire-resistive materials.

Fire Wall – A structure (wall) which is designed to seal off fires within a building.

Fireproof – A term used in describing building construction. It refers to buildings which are of such construction as to be practically undamageable by fire. However, the term is a misnomer, since no building is completely undamageable by fire, and it is gradually being replaced by the words "fire resistive."

"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.

Fixed Asset- A capital asset, especially a permanent or immovable one, required for use in the operations of a business.

Fixed Cost- Costs that do not vary with the level of output, especially fixed financial costs such as interest, lease payments, and sinking fund payments.

Fixture: Personal property that is attached to land or a building and that is regarded as an irremovable part of the real property, such as a fireplace built into a home. Historically, personal property becomes a fixture when it is physically fastened to or connected with the land or building. If personal property has been attached to the land or building and enhances only the chattel's utility, it is not a fixture. For example, if bricks are purposely stacked to form a wall, a fixture results. But if the bricks are merely stacked for convenience until used for some purpose, they do not form a fixture. Also termed, *permanent fixture; immovable fixture.*

"A fixture can best be defined as a thing which, although originally a movable chattel, is by reason of its annexation to, or association in use with land, regarded as a part of the land…The law of fixtures concerns those situations where the chattel annexed still retains a separate identity in spite of annexation, for example a furnace or a light fixture. Where the chattel annexed loses such identity, as in the case of nails, boards, etc. ,the problem becomes one of accession."

"Broadly, goods can be classified for the purposes into three categories: those that remain 'pure goods,' those so substantially integrated into real estate themselves, 'pure realty,' and those in the gray area that would pass in a deed to the real estate but that retain separate status as personal property. These last are fixtures."

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

Floater – A form of insurance that applies to moveable property, whatever its location, if it is within the territorial limits imposed by the contract. The coverage "floats" with the property.

Flood – A general and temporary condition of partial or complete inundation of normally dry land areas from (1) overflow of inland or tidal waters, (2) the unusual accumulation and runoff of surface waters from any source, or (3) abnormal, flood-related erosion and undermining of shorelines. Flood also means inundation from mud flows caused by accumulations of water on or under the ground, as long as the mud flow and not a landslide is the proximate cause of loss.

Following Form – A term for a form written exactly under the same terms and coverages as other insurance on the same property.

Force majeure- in the law of insurance, superior or irresistible force. Also common to construction contracts to protect parties in the event that a part of the contract cannot be performed due to causes that are outside the control of the parties and could not be avoided by the exercise of due care. Also referred to as "Act of God" or "Vis major."

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

Forgery – The false and fraudulent making or altering of a written instrument.

Form – An insurance document which, when attached to a policy, makes it complete.

Fortuitous Event- An event subject to chance without the implication of suddenness.

Foundering – This refers to a ship which is sinking.

Frame – A type of construction. A frame building is primarily made with wood frames and joists.

Fraud – Dishonesty.

Free Along Side (FAS) – A Marine shipping agreement which requires the seller to place the goods alongside a named vessel or a designated dock. The seller is responsible for insuring goods up to the time they are alongside.

Frequency and Severity-
Frequency: Number of times an incident occurs
Severity: Monetary impact of a loss

Fronting- The use of an insurer or reinsurer to issue "paper," i.e., an insurance policy, on behalf of a self-insured organization or captive insurer without the intention of bearing any of the risk.

Functional Replacement Cost – An endorsement available for property policies which provides for replacement of the operation or function portion of a building or property, even if the replacement is for a building of less size or the more modern equipment is of less value. To illustrate, an insured owns an aged, four-story building in which only two floors are currently used. The remaining floors have been closed and are unused. Should the building suffer a total loss, functional replacement cost would provide for the rebuild of the square footage of the 2 functional floors.

Funded Reserves- Setting aside sufficient sums of money to meet future liabilities.
Future Value- The value in the future of a payment or payments made in the present.

-G-

GIGO- Garbage in, garbage out

GNP- Gross National Product

Gambling- Chance of loss or gain where the probabilities (odds) favor a loss

Garage Keepers Legal Liability Insurance – An insurance contract that protects a garage keeper against liability for damage to vehicles in his care, custody, or control caused by specific perils.

Garage Liability Insurance – Insurance to protect garage owners or automobile dealers for liabilities arising out of their business operations.

General Liability Insurance – A form of insurance designed to protect owners and operators of businesses from a wide variety of liability exposures. These exposures could include liability arising out of accidents resulting from the premises or the operations of an insured, products sold by the insured, operations completed by the insured, and contractual liability.

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 (or Territorial) Limitation – A contractual provision which specifically names geographical areas outside of which the insurance is not effective.

Good Student Discount – A discount granted to students with high scholastic ratings. There is a proven relationship between good grades and safe driving.

Grace Period – A prescribed period, usually 30 to 31 days from the premium due date, during which an insurance contract is in force and the premium may be paid.

Gross Negligence – Willful and wanton negligence or misconduct.

Gross Premium – The net premium plus operating expenses, commissions and other expenses.

Group Captive- jointly owned by a number of non0related companies or organizations and designed to insure the risks of these different entities

Guaranteed Cost- Premiums charged on a prospective basis, but never on the basis of loss experience during the policy period.

Guarantor – One who guarantees or promises to back up another's actions or debts. It is a term used in surety bonds; usually the surety company is the guarantor.

Guardian – A person appointed by the court to take care of affairs of another.

-H-

HIPAA- health Insurance Portability and Accountability Act of 1996. This Act is meant to amend the Internal Revenue Code of 1986 to improve portability and continuity of health insurance coverage in the group and individual markets, to combat waste, fraud, and abuse in health insurance and health care delivery, to promote the use of medical savings accounts, to improve access to long-term care services and coverage, to simplify the administration of health insurance, and for other purpose.

HUD – United States Department of Housing and Urban Development.

Hail Insurance – Insurance against loss of crops caused by hail.

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.

Highly Protected Risk (HPR) – Refers to Property risks which meet the standards required for lower rates. Risks of this type are usually protected by sprinklers and have better-than-average construction and occupancy. The term is most often used in connection with the factory mutuals, Factory Insurance Association, and the improved risk mutuals.

Hired Auto – Automobiles leased, hired, rented or borrowed by the insured.

Historical Cost- The price paid to acquire the property

Hold Harmless Agreement – A contractual arrangement whereby one party assumes the liability inherent in a situation, thereby relieving the other party of responsibility. Such agreements are typically found in contracts like leases, sidetrack agreements, and easements. For example, a typical lease may provide that the lessee must “hold harmless” the lessor for any liability from accidents arising out of the premises. The effect of such an agreement is that the lessee must provide a defense for the lessor, and if any judgment is rendered against the lessor, the lessee would have to pay.

Hold Harmless Agreement-SEE ATTACHED

Homeowners Policy – A Property and Liability Insurance contract that provides insurance against any of the Property and Liability perils to which a homeowner or renter is exposed.

Hull Policy – A contract that provides indemnification for damage sustained to or loss of an insured vessel or airplane.

-I-

IOS- Investment Opportunity Act

IRR- Internal Rate of Return

IRS- Internal Revenue Service

ISO- Insurance Service Office

ITC- Investment Tax Credits

"If" Clauses – Clauses which terminate coverage "if" certain conditions are created or discovered. An example is the concealment or misrepresentation provision which states that if this is discovered, the coverage is void.

Implied Warranty – In certain cases the law says that one has given a warranty to another even though the warranty is not in writing. An example would be in sales: A seller implies that his product is fit for the purpose it purports to serve.

In Kind – An expression relating to the insurer's right in many Property contracts to replace damaged objects with new or equivalent (like, kind, quality) material, rather than to pay a cash benefit.

Inchmaree Clause – A provision which provides reimbursement to an insured in the event of a loss which is due to the negligence of the master or crew of a vessel.

Incident- Event that disrupts normal activities and may become a loss or claim; "a near miss" Lifecycle of an incident: pre-incident, incident, immediate post-incident, post-incident, rehabilitation (repair, recovery)

Incompetent – A person who cannot manage his or her own affairs. One who is legally declared insane would be an example of an incompetent.

Increased Cost of Construction Insurance – Insurance that covers the additional cost of reconstructing a damaged or destroyed building where ordinances require rebuilding with more expensive materials, services, or techniques.

Coverage A: Covers loss to the undamaged portion of the building that an ordinance or law does not permit to remain in use.

Coverage B: Covers cost to demolish the undamaged portion of the structure and remove the debris.

Coverage C: Covers the additional cost of reconstructing a damaged or destroyed building to be in conformity of local ordinances or laws.

Increased Hazard – Property Insurance policies provide that coverage shall be suspended when the hazard in a risk is increased beyond that contemplated when the insurance was written.

Increased Limit Factors- A Ratio applied to losses at one retention level (e.g., $1,000,000 per occurrence) to determine expected losses at another retention level (e.g., $5,000,000)

Incurred But Not Reported (IBNR)- Represents the liability for unpaid claims not reflected in the case reserve estimates for individual losses. The two components of this liability derive from additional development on known cases and the reporting of claims that have occurred but not yet been recorded as of the evaluation date.

Incurred Expense – Expenses not yet paid. Can also include paid expenses in some accounting system (reserves).

Incurred Loss Ratio – The percentage of losses incurred to premiums earned.

Incurred Losses- 1) The total amount of paid claims and loss reserves associated with a particular period of time, usually a policy year. Generally , incurred losses are the actual losses paid and outstanding, interest on judgments, expenses incurred in obtaining third-party recoveries, and allocated loss adjustment expenses for employers liability losses; 2) paid losses, case reserves, and IBNR reserves until ultimate incurred losses are reached, at which time there is no remaining IBNR.

Indemnify- To make compensation to an entity for incurred hurt, loss, or damage; restore to original position

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

Indemnity Bond – A bond that indemnifies an obligee against loss which may arise as the result of failure to perform on the part of the principal.

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 Contractor- An individual or entity that agrees to perform specific work for another but is not subject to direction or management by, nor is an employee of, the person who contracted for the services.

Index Bureau Experience – A measure of losses relating to claims reported through a claim office during a 12 month period.

Indexed Ultimate Total Loss- Incurred losses that have been developed (trended) and indexed (adjusted) for inflation

Indirect Loss (or Damage) – Loss resulting from a peril but not caused directly and immediately by that peril. For example: Loss of property due to fire is a direct loss, while the loss of rental income as the result of the fire would be an indirect loss. (Consequential Loss).

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.

Inflation Index Factor- A premium loading to provide for future increases in claims costs and loss payments resulting from inflation

Inherent Explosion – An explosion caused by some condition existing in and natural to an insured's premises. An example would be a dust explosion in a grain elevator.

Inherent Vice – A fault in property that leads to its self-destruction. Insurance contracts usually exclude such damage.

Inland Marine Insurance – A branch of the insurance business which developed from the insuring of shipments which did not involve ocean voyages. The Inland Marine forms borrowed their language from Fire, Ocean Marine, Theft and other contracts. Exposures eligible for this form of protection are described in the nationwide definition of Marine Insurance. Such diverse properties as bridges, tunnels, jewelry and furs can now be written under Inland Marine forms.

Innkeepers Legal Liability – coverage for motel and hotel operators, protecting them against the legal liability they have for the safekeeping of the property of guests. The policy usually has a limit per guest and an aggregate limit per policy year.

Inside Limits – Limits placed on hospital expense benefits which modify benefits from the overall maximums listed in the policy. An inside limit when applied to room and board, limits the benefit to not only a maximum amount payable, but also limits the number of days the benefit will be paid.

Insolvency Clause – A clause that holds that a reinsurer is liable for his share of a loss assumed under a treaty even though the primary insurer has become insolvent.
Insurable Interest – Any interest a person has in a possible subject or insurance, such as a care 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 Guarantee Act – The legislation enacted in many states providing for guaranty funds for the policyholders of insolvent insurers.

Insured – The party to an insurance arrangement whom the insurer agrees to indemnify for losses, provide benefits for, or render services to. This term is preferred to such terms as policyholder, policyowner, and assured.

Insurer- The insurance company that undertakes to indemnity for losses and perform other insurance-related operations

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.

Intentional Injury – An injury resulting from an act, the doer or which had as his intent to inflict injury. In general, intentional injuries inflicted on an insured are covered as long as they are not self-inflicted.

Invitee – One who has been either expressly or implicitly invited onto the premises of another. The most common example would be customers invited to a store to purchase goods or services.

-J-

Joint and Several Liability – A legal doctrine permitting recovery from any of several co-defendants based on ability to pay, rather than the degree of negligence.

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.

Joisted Masonry Construction – A building which has exterior walls constructed of masonry materials, such as adobe, brick, concrete, gypsum block, hollow concrete block, stone, tile, or other similar materials, and a roof and floor constructed of combustible materials. A floor which rests directly on the ground is an exception and may be disregarded.

Jones Act – The federal act which provides for the covering of ships' crews under Workers' Compensation plans.

Jumping Juvenile – A popular name for a Life Insurance contract written on the life of a child, usually in units of $1,000. When the child reaches a prescribed age, generally 21, the face of the policy is increased automatically without the imposition of either an additional premium charge or a medical examination. Hence the term "jumping" juvenile.

-K-

Keogh Act (HR-10) Plan – A plan under the Self-Employed individual's Tax Retirement Act which permits a self-employed individual to establish a formal retirement plan including himself and to obtain tax advantages similar to those available in qualified corporate pension plans.

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

Kinne Rule – A formula designed to handle adjustments of Property Insurance losses when the insurance policies are nonconcurrent.

-L-

LI- Life Insurance

LIFO- Last in, First out; an inventory accounting method by which sales are considered to be from among the latest merchandise or inventory purchased or produced. This method minimizes inventory profits and losses.

LTD- 1) Long-term debt; 2) Long-term disability

Lapse – 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."

Larceny – The unlawful taking of the personal property of another without his consent and with intent to deprive him of ownership or use thereof. It is a broader term than burglary or robbery, largely synonymous with theft.

Laser Beam Endorsement – An endorsement to a "claims made" liability form used to exclude specific accidents, products, work or locations. It earned its nickname because it allows an insurer to zero in with a sharp focus to exclude specific exposures.

Last Clear Chance – A doctrine that liability may attach to a person who, immediately before an accident, has a last clear chance to avoid it and did not.

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 if flipped, the closer it will come to actually reaching the underlying probability of 50% heads and 50% tails.

Layering- The building of an insurance contract by steps, utilizing the excess of loss approach, whereby one insurer writes in excess of lower limits accepted by other insurers.

Legal Hazard – An increase in the likelihood that a loss will occur because of court actions.

Legal Liability – Liability under the law as opposed to liability arising from contracts or agreements. In insurance, it is most often used to refer to the liability that an individual has if he or she should negligently injure another party. For example, an owner of an automobile may be held legally liable if he or she is negligent in the operation of the automobile and injures another person or damages another person's property as a result of that negligence.

Liability- A legally enforceable obligation

Liability Insurance – That insurance which pays and renders service on behalf of an insured for loss arising out of his or her responsibility to others imposed by law or assumed by contract.

Libel – A written statement about someone which is personally injurious to that individual. In maritime law it means legal action brought against the owner of another ship.

Life Expectancy – the average number of years remaining for a person of a given age to live as shown on the mortality or annuity table used as a reference.

Limit of Liability – The maximum amount for which an insurer is liable as set forth in the contract.

Liquidity- The ability of an organization or person to convert assets into cash quickly with little or no loss.

Livery Use – Use of a vehicle for hire to carry persons. Livery use is excluded in Automobile Insurance contracts unless coverage for it is stated in the policy.

Livestock Insurance – A name perils contract that provides a prescribed lump sum payment to an insured upon the death of any animal covered by the policy.

Livestock Transit Insurance – Insurance against accidents causing death or crippling on shipments of livestock while in transit by rail, truck, or other similar means of transportation.

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.

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 Assessment-A specially designed property coverage for condominium unit owners. This coverage provides protection for assessments made by the condominium association resulting from loss to the property. The policy is written to pay the assessment if the loss is caused by an insured peril.

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 Conversion Factor- A factor used in the retrospective rating formula that is esigned to cover claim adjustment expenses and the cost of the insurer’s (or TPA’s) claim services.

Loss Development- The difference between the original loss as originally reported to an insurer and its subsequent evaluation at a later date or at the time fo its final disposal.

Loss Development Factor- Ratios that are applied to a current valuation of losses to determine an estimate of ultimate incurred losses. It is assumed that current losses will be paid according to the same pattern as prior losses at similar states of development,. LDFs are frequently calculated separately for incurred losses, paid losses, and claims counts.

Loss Forecasting- Predicting future losses through an analysis of past losses. Past loss data must span a sufficient number of years (usually 5 or more) to achieve some degree of credibility.

Loss Limits or Limitations- A term used in workers compensation retrospective rating formulas. It is designed to limit the effect of catastrophic losses that would otherwise be considered in full in figuring the final retrospective premium.

Loss Rating- Rating techniques to establish the prospective rate to be applied to an exposure base

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- A listing of reported claims providing such information as the date of occurrence, type of claim, amount paid and amount reserved for each as of the report’s valuation date.

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, 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 Trending- Adjusting historical losses to account for inflationary trends so that the ultimate value is more current or meaningful. Loss trend factors are multiplied by actual historical losses to trend losses.

Losses Incurred- Total losses paid or unpaid that are sustained during a given period

Loss versus Claim-

Loss: a reduction in value
Claim: a demand or obligation for payment as a result of a loss

Lump sum – a method of settlement whereby the beneficiary receives the entire proceeds of a policy at once rather than in installments.

-M-

M/S- Marketable Securities

Maintenance Bond – A bond guaranteeing against defects in workmanship or materials for a stated time after the acceptance of completed work. 2 years is a common term for a construction bond.

Malicious Mischief – Similar to vandalism. Purposely damaging the rights or property of another.

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

Malpractice – Professional misconduct or lack of ordinary skill in the performance of a professional act which renders the practitioner liable to suit for damages.

Malpractice Insurance – Insurance on a professional practitioner that will (1) defend suits instituted against him for malpractice, and/or (2) pay any damages, subject to policy limits.

Manual Rates- Rates as promulgated by a rating bureau before application of any credits, discounts, surcharges, or deviations. Such rates are referred to as "manual rates" because they are published in a rating manual.

Manufacturers and Contractors Liability Insurance – A form of Premises and Operations Liability Insurance designed to cover manufacturing or contracting risks. The basis of premiums for this coverage is the payroll.

Manufacturers Selling Price Clause – Values unsold finished goods at the price at which they could have been sold at the time of a loss.

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.

Masonry Noncombustible Construction – A building which has exterior walls constructed of masonry materials, such as adobe, brick, concrete, gypsum block, hollow concrete block, stone, tile, or other similar materials, with floors and roof constructed of metal or other noncombustible materials.

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.

Material Fact – In insurance, it refers to a fact which is so important that the disclosure of it would change the decision of an insurance company, either with respect to writing coverage, settling a loss, or determining a premium. Usually, the misrepresentation of a material fact will void a policy.

Maximum Possible Loss- The worst possible loss that could occur

Maximum Retrospective Premium- A percentage of the standard premium determined by multiplying the maximum retrospective premium factor by the standard premium. It is the greatest amount of premium to be paid by the insured subject to the retrospective rating plan. It has the effect of placing a maximum dollar amount of the financial responsibility of the insured. Once the maximum retrospective premium has been paid, all additional losses are the responsibility of the insurer, subject to the limit of liability of the insurance policies. The excess loss premium may be included in the maximum or in addition ot the maximum, depending on the retro agreement.

Maximum Retrospective Premium Factor- Established by agreement between the insured and the insurance carrier. When multiplied by the standard premium, determines the maximum retro premium.

Medical Payments Insurance – A form of coverage, optional in Automobile and other Public Liability policies, that provides for the payment of medical and similar expenses without regard for liability.

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 past loss record.

Messenger Robbery Insurance – Coverage on money and other property in the possession of persons who are away from the premises. An example would be an employee taking a deposit to the bank.

Mini-Tail- Automatic 60 day extended reporting period allowing for the making of claims after expiration of a "claim made" liability policy.

Minimum Retrospective Premium- A percentage of the standard premium determined by multiplying the minimum retrospective premium factor by the standard premium. It is the least amount of premium to be paid by the insured subject to the retrospective rating plan.

Minimum Retrospective Premium Factor- Established by agreement between the insured and the insurance carrier. When multiplied by the standard premium, determines the minimum retro premium.

Misrepresentation – The use of oral or written statements that do not truly reflect the facts either by an insured on an application for insurance or by an insurer concerning the terms or benefits of an insurance policy.

Mitigation of damages- sometimes referred to as the Doctrine of Avoidable Consequences, "imposes on injured party the duty to exercise reasonable diligence and ordinary care in attempting to minimize damages after injury or loss.

Mobile Equipment – A term defined in General Liability policies as land vehicles, including machinery an apparatus attached thereto, whether or not self-propelled, and (1) not subject to motor vehicle registration, or (2) used exclusively on the insured's premises, or (3) designed principally for use off public roads, or (4) designed or maintained for the sole purpose of providing mobility for permanently attached equipment such as cranes, loaders, pumps, generators, or welding equipment.

Monoline Policy – Any insurance coverage written as a single line policy.

Monopolistic State Fund – Requires that all businesses buy Workers' Compensation Insurance from the State. Private insurers cannot compete in these states.

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.

Mortality Rate – The number of deaths in a group of people usually expressed as deaths per thousand. It can be the rate for the total population, called the crude mortality rat, or it can be refined by factors such as age groupings or causes of death.

Mysterious Disappearance – A disappearance of property that cannot be explained. Crime Insurance policies use this term to give very broad coverage as opposed to policies which narrow definitions to specific perils such as robbery and burglary.

-N-

NAIC- National Association of Insurance commissioners

NASD- National Association of Securities Dealers

N/P- Net Profit

Name Position Bond – A type of Fidelity Bond which covers losses caused by the dishonesty of only those employees holding positions specifically named in the bond.

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 council on Compensation Insurance (NCCI)- An association of insurers selling compensation coverage and operating as a rating organization. NCCI collects statistics, develops rates and policy forms, and makes state filing for its members. It is involved only with worker's comp, and does not operate in all states.

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 Income- The balance of funds remaining after all of an organization's expenses are subtracted from gross sales; the excess of revenues over expenses; profit. Net income is the amount that can be distributed to an organization's owners or be kept as retained earnings.

Net Worth- The total value of all assets minus liabilities

No-Fault Insurance – Many states have passed laws permitting the individual automobile accident victim to collect directly from his or her own insurance company for medical and hospital expenses regardless of who was at fault in the accident.

Non-admitted Asset- Assets of an insurer that are not permitted by the state insurance department or other regulatory authority to be taken into account in determining an insurer's financial condition. Non-admitted assets often include furniture, fixtures, agents' debit balances, and receivables.

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

Non-combustible Construction- Exterior walls, floor, and supports made of metal, asbestos, gypsum, or other noncombustible materials.

Non-insurance Risk Transfer- The transfer of risk from one party to another party other than an insurance company. This risk management technique usually involves risk transfers by way of hold harmless or indemnity provisions in contracts and is also called “contractual risk transfer.”

Non-ledger Assets- Assets that are due and payable but have not yet been entered into the balance sheet.
Non-owned Auto – Any autos not owned, leased, hired, or borrowed which are used in connection with the business.

Non-subject Premium- A premium that is not a part of a loss sensitive rating formula. For example, in a retrospective rating plan, the non-subject premium usually purchases the excess insurance (over the loss limits, not to be confused with insurance in excess of primary or SIR). The expression “non-subject” refers to the fact that the premium is a guaranteed cost and not adjustable based on losses. Non-subject premium is not subject to the retro formula.

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.

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.

-O-

Obligee – Broadly, anyone in whose favor an obligation runs. This term is used most frequently in surety bonds where it refers to the person, firm, or corporation protected by the bond. The obligee under a bond is similar to the insured under an insurance policy. In the case of a construction bond, the person for whom the building is being built is the obligee.

Obligor – Commonly called the principal. One bound by an obligation. In the case of a construction bond, the contractor is the principal.

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 Disease – Sickness or disease arising out of or in the course of employment. State compensation laws provide coverage for this type of loss.

Occupational Hazard – A condition in an occupation that increases the peril of accident, sickness, or death.

Occurrence – An event that results in an insured loss. 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 ration to the probably number of non-occurrences 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.

OH- Overhead fixed charges

On-demand Bond- An unconditional bond required of contractors/sellers by overseas buyers. Such bonds are required to support the contractor's/seller's tender or, after a contract becomes firm, as security against the value of advance payments under a contract, or to guarantee performance of the whole contract. Since these bonds are payable "on-demand," the contractor/seller runs the risk that the bonds may be invoked in circumstances where he or she is not in breach of the contract.

Ordinance or Law Coverage- Ordinance or Law Coverage provides three coverages for losses resulting from building ordinances or laws:

Coverage A: Covers loss to the undamaged portion of the building that an ordinance or law does not permit to remain in use.

Coverage B: Covers cost to demolish the undamaged portion of the structure and remove the debris.

Coverage C: Covers the additional cost of reconstructing a damaged or destroyed building to be in conformity of local ordinances or laws.

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.

Outage Insurance – A type of insurance which covers against loss of earning due to the failure of machinery to operate because of an insured peril causing damage to the premises. Similar to Extra Expense.

Outstanding Losses- Calculated by subtracting paid losses form incurred losses. Represents the remaining liability to be paid on a group of losses.

Owners and Contractors Protective Liability Policy – A policy which protects an insured against losses caused by the negligence of a contractor or subcontractor that he hires. Also sometimes referred to as Independent Contractors Insurance.

-P-

P&E- Profit & Earnings

PD- Physical damage

P/E- Price/earnings

PIE- Paid-in Excess

PS- Preferred Stock

PV- Present Value

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.

Paid Loss Retrospective Rating Plan- An insurance cash flow plan that allows the insured to hold loss reserves until they are paid out in claims.

Paid Losses- The amount actually paid in losses during a specified period of time, not including estimates of amounts (i.e., reserves) that will be paid in the future for losses occurring in the specified period.

Paid-in Capital- Capital acquired by a corporation from sources other than business operations. The common source is the sale of the corporation’s own common and preferred stock. The amount of paid-in capital becomes part of the stockholder’s equity shown in a balance sheet.

Pair and Set Clause – A clause which states that if a part of a pair or set is lost or damaged the measure of the loss shall be a reasonable and fair proportion of the total value of the set, giving consideration to the importance of the article. The insurer is under no obligation to pay for the total loss of a set when one part is lost, damaged, or destroyed.

Parole evidence- oral or verbal evidence. In contract law. Parole evidence related to the inadmissibility of oral representations that would alter or defeat the provisions of a written contract. Also referred to as “extraneous evidence.”

Parol Evidence Rule – This rule states that a written contract cannot be modified by a prior oral agreement. It is based on the concept that all prior agreements should be reduced to writing at the time a contract is drafted. Once written, a contract may be changed by later oral agreement, but cannot be challenged by prior oral agreements.

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

Party Wall – A common wall between two buildings.

Passive Retention- Unplanned acceptance of losses because of failure to identify risk, failure to act, or forgetting to act.

Payout Profile- A schedule illustrating the percentage of loss dollars actually paid in settlement of claims over time.

Peak Season Endorsement – An endorsement which provides increased amounts of coverage on inventories during peak seasons, beginning and ending on dates specified in the endorsement.

Penalty – The limit of an insurance company's liability under a Fidelity Bond.

Per Capita – Literally "by heads." Distribution among survivors by persons on a share-and-share-alike basis. The term is often used in beneficiary designations.

Per Diem Business Interruption – A type of Business Interruption policy which provides a stated amount to be paid for each day that the business is interrupted due to an insured peril.

Performance Bond – A bond which guarantees the faithful performance of a contract.

Peril – The cause of a possible loss.

-"Cause" or loss; an event which may be the cause of a loss

Permanent Partial Disability – A condition where the injured party's earning capacity is impaired for life, but he is able to work at reduced efficiency.

Permanent Total Disability – A condition where the injured party is not able to work at any gainful employment for the remaining lifetime.

Permit Bond – A bond which guarantees that a person who has been issued a permit will comply with the laws and ordinances regulating the privilege for which the permit was issued.

Personal Property – Any property of an insured other than real property. Homeowner policies protect the personal property of family members, and commercial forms are used to protect many types of business personal property.

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 Damage (PD) – A term indicating damage from such perils as collision, comprehensive, fire, and theft or any damage to the vehicle.

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. This term is associated with the insuring of cargo under an Inland Marine Insurance form.

Piracy – Unlawful seizure of a ship and/or its cargo on the high seas. Commonly covered by Ocean Marine contracts.

Plaintiff – The party who brings a legal action against another, (called the defendant).

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 Period – The period during which the policy contract affords protection.

Pollution Liability Extension Endorsement – An endorsement to general liability insurance which removes part of the pollution exclusion, creating liability coverage for pollution injury or damage.

Pool- 1) An organization of insurers or reinsurers through which particular types of risk are underwritten with premiums, losses, and expenses shared in agreed ratios. 2) A group of organizations (generally not large enough to self-insure individually) that form a shared risk pool.

Power Interruption Insurance – This coverage indemnifies the insured in the event of loss due to the interruption of power supplied by a public utility and caused by any of the perils insured against.

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.

Preexisting Condition – A physical condition that existed prior to the effective date of a policy.

Premises and Operations Liability Insurance – Liability coverage for exposures arising out of an insured's premises and business operations. One of the two major sublines of general liability.

Premium – the price of insurance protection for a specified risk for a specified period of time.

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 allows for the fact that larger premium policies do not require the same percentage of the premium for basic insurer expenses such as policy writing. The discount percentage increases with the size of the premium. This is not available in all states.

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 ten years. The present value of that money would be less than the total amount of the monthly payments for ten 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.

Primary Actual Losses- For computing workers compensation experience modification, for each loss equal to or less than $5,000, use the actual loss amount as primary loss value. Each loss over $5,000 is limited to a primary loss value of $5,000.

Principal- The entity whose performance is being guaranteed in suretyship.

Probable Maximum Loss- A maximum loss estimate developed for property insurance underwriters, which assume an impairment to one sprinkler system exists at the time of loss. A PML estimate may include other adverse conditions, such as a delayed fire alarm, insufficient water supply, or delayed firefighting response if such conditions seem reasonable.

Probate Bond – A bond required by a probate court to protect the administration of an estate or the assets of one person being cared for by another, such as assets in the hands of an executor or guardian. Probate bonds fall within the classification of fiduciary bonds.

Products and Completed Operations Insurance – A major general liability subline which provides coverage for an insured against claims arising out of products sold, manufactured, handled, or distributed, or operations which are complete. Claims are covered only after a product has been sold and possession relinquished, or operations have been completed or abandoned by the named insured. Manufacturers and contractors have a need for this coverage.

Promissory Estoppel- Also referred to as "Detrimental reliance." That which arises when there is a promise which promisor should be reasonably expected to induce action or forbearance (not acting) of a definite and substantial character on the part of the promise, and which does induce such action or forbearance, making such promise binding.

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.

Pro Rata- Proportionately

Proximate Cause – The effective cause of loss or damage. It is an unbroken chain of cause and effect between the occurrence of an insured peril and damage to property. For instance, fire is the proximate cause to damage done by the water used to extinguish it.

Public Adjuster – Similar to an independent adjuster, except that a public adjuster represents an insured on a fee basis in settlement claims.

Punitive Damages – Also known as Exemplary Damages. Damages awarded over and above compensatory damages to punish a negligent party because of wanton, reckless, or malicious acts or omissions. This serves to make an example of the wrongdoer. It is agreed that General Liability policies cover punitive damages when included with compensatory in a lump sum, but it is up to the courts to decide whether or not they are to be awarded. This is difficult for the courts, due to the fact that if the wrongdoer's insurance covers punitive damages, the punishment effect is lost.

Pure Risk- Uncertainty as to whether the destruction of an object will occur; a pure risk can only produce loss, should peril occur.

-Q-

Quota Share Reinsurance- A form of reinsurance whereby the reinsurer accepts a stated percentage of each exposure written by the ceding company on a defined class of business

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.

-R-

RAP- Regulatory Accounting Principles

RE- Retained Earnings

RIMS- Risk and Insurance Management Society

RM- Raw Materials

ROA- Return on Assets

ROE- Return on Equity

ROI- Return on Investment

Rain Insurance – A type of coverage which protects an insured against losses caused by cancellation of an outdoor event due to rain. The policy usually covers loss of income. The rain, hail, snow or sleet usually must exceed a certain amount and must occur during a stated period of time, either before or during the event.

Real Property – Land and most things attached to the land, such as buildings and vegetation.

Red Lining – Discriminating unfairly against a risk solely because of its location. An example would be refusing to insure a risk because the building is located in a depressed area or location. Sometimes these areas are referred to as blackout areas.

Rehabilitation Benefits – Physical and/or vocational rehabilitation benefits provided to an injured person following a work-related injury, and intended to restore the person to a point where gainful employment is possible.

Reimbursement – Payment of an amount of money upon the occurrence of a loss covered by the policy.

Reinstatement – (1) Restoration of a lapsed policy. (2) Restoration of the original amount of a type of policy that reduces the principal amount by the amount of claims.

Reinsurance – A type of insurance that involves acceptance by an insurer, called the reinsurer, of all or a part of the risk of loss covered by another insurer, called the ceding company. It is a way for an insurer to avoid having to pay for large or catastrophic losses.

Reinsurer- The insurer that accepts all or a portion of the liabilities of the ceding company

Reinsurance Ceded- The portion of the risk that the original insurer transfer to the reinsurer.

Release – (1) To give up, abandon, and discharge a claim or an enforceable right of one person against another. (2) The name of the instrument evidencing such an act. For example, if a claim representative obtains a release from a claimant, this means that the claimant has given up all further rights against the insurance company.

Removal – One of the three perils covered under the Standard Fire policy. It covers damage caused by the removal of property from the premises because of a fire.

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

Rent-a-captive- 1) Captive which uses the capital of third-party investors in lieu of capitol from the insured. 2) Licenses offshore insurers owned by an outside organization (e.g., a broker, reinsurer, insurance company, or other business enterprise). These facilities are available to other organizations for a fee.

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

Replacement Cost – The cost of replacing property without a reduction for depreciation. By this method of determining value, damages for a claim would be the amount needed to replace the property using new materials.

Res Ipsa Loquitur – Literally translated, this expression means “facts speak for themselves.” Under this doctrine, an individual is presumed to be negligent if the circumstances of injury are under his complete and exclusive control, and it can be shown that the injury or damage could only have occurred if the individual were negligent.

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.

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.

Residual Disability – That form of disability which becomes defined as partial disability immediately following a period of total disability after an insured has returned to work.

Residual Market Load (RML)- A separate charge for subsidy of the assigned risk market.

Respondeat Superior – Originally the law said that, under certain circumstances, a master was liable for the wrongful acts of his servant. In today's usage this expression refers to the fact that, under certain circumstances, a principal is responsible fro the wrongful acts of its agents or an employer for those of its employees. Under this doctrine, if an employee negligently injures a customer while in the course of his employment, the employer could be held liable.

Retirement Plans There are several retirement plans. They vary in how much money can be contributed, whether employees other than the owner may participate, what (if any) contributions the employer must make on behalf of employees, what deadlines there are for putting money into the plan, and how hard it is to operate the plan. Among the options are SIMPLE IRAs, SEP IRAs, profit-sharing plans, SIMPLE 401(k) plans, and single-participant 401(k) plans.

- ***SIMPLE IRA or Savings Incentive Match Plan for Employees***. This plan is ideal for employers with fewer than 100 employees. Here, the owner and any employees can save up to $10,500 a year, indexed for inflation, of their own money. If an employee is over 50, an additional "catch-up" amount of $2,500 is allowed. The employer must generally either contribute an additional 2% of each employee's compensation to the plan or match 100% of each employee's contribution up to 3%.
- ***SEP IRAs***. The Simplified Employee Pension IRA is significantly different from SIMPLE IRAs. The key difference is that the employer funds the SEP IRAs entirely. The employer is allowed to contribute an amount not to exceed the lesser of 25% of the employee's compensation, or $45,000 (indexed for inflation each year).
- ***Profit-Sharing Plans***. These plans are generally all employer-funded. Employer contributions are flexible and limited to an amount not to exceed the lesser of 25% of the employee's compensation, or $45,000 (indexed for inflation each year).
- ***SIMPLE 401(k)*****.** These plans share many similarities with SIMPLE IRAs. The same 100-employee limit applies, as does the $10,500 limit on employee contributions. The employer must match up to 3% of the employee's contribution, or make a non-elective contribution of 2% of compensation for each eligible employee.
- ***Single-Participant 401(k)*****.** These plans enable business owners without employees (other than a spouse) to take advantage of the higher limits that 401(k) plans allow. By using a single-participant 401(k) plan, a business owner can choose to save $15,500, plus an additional $5,000 for owners over 50 years of age. In addition, the business can make a tax-deductible employer contribution on the owner's behalf of up to 25% of compensation. The total contributions cannot exceed $45,000, indexed for inflation each year.

Retroactive Date – Date on a "claims made" liability policy which triggers the beginning period of insurance coverage. A retroactive date is not required. If one is shown on the policy, any claim made during the policy period will not be covered if the loss occurred before the retroactive date.

Risk – Uncertainty as to the outcome of an event when two or more possibilities exist.

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 reducing the risk, eliminating the risk, or transferring the risk, usually by insurance.

Retention- 1) Budgeted losses + tolerance corridor. 2) Assumption of risk of loss as through the use of non-insurance, self-insurance, or deductibles. This retention can be intentional (active retention) or, when exposures are not identified, unintentional (passive retention). 3) In reinsurance, the net amount of risk the ceding company or the reinsurer keeps for its own account or that of specified others' it may be expressed as a percentage, a specific dollar amount, or a combination of both.

Retention Level- The amount of loss that is self-insured. It is usually expressed on a per occurrence basis. It is sometimes referred to as the self-insured retention (SIR).

Retrospective Rating- A rating plan that adjusts the premium, subject to certain minimum and usually a maximum, to reflect the current loss experience of the inured. Retrospective rating combines actual losses with graded expenses to produce a premium which more accurately reflects the current experience of the insured. An adjustment is performed periodically following policy expiration to recognize the fluctuation in losses. A plan of this type can be used in carious types of insurance, especially Workers Compensation and Liability and is usually elected by only very large accounts. The retro agreement is generally and agreement that is separate form the insurance contract but is coordinated with the insurance contract.

Risk- Common definitions 1) Chance of loss 2) Uncertainty concerning loss. 3) A possibility of a variation of outcomes from a given set of circumstances. 4) The difference between expected losses and actual losses. Scientific definitions 1) Objective- the variation form the expected outcome over time. 2) Subjective- the uncertainty about the variation, the expected outcome, and timing.

Risk Bearing- Particular department of an organization or company bears 100% of the costs associated with the losses

Risk Control- The technique of minimizing the frequency or severity of losses with training, safety, and security measures.

Risk Financing- Most cost effective risk management techniques to assure post-loss financial resource availability. Risk financing programs can involve insurance rating plans, self-insurance programs, or captive insurers.

Risk Management- There are various definitions of risk management, but the basic theme is to protect the company's assets through identification and analysis of exposures, controlling the exposures, financing of losses with external and internal funds, and implementation and monitoring of the risk management process. Further, risk management should be practical and professional; be interdisciplinary and enterprise-wide; consider strategic, operational, and financial risks; utilize the five steps of the risk management process of identification, analysis, control, financing, and administration; and optimize risk to help an enterprise achieve its goals.

Risk Management Information System- An information system made up of various elements, which supports the user in identifying, measuring, and managing risk in their organization or in the organizations of others.

Risk Management Process- A system for treating pure risk: identification and analysis of exposures, selection of appropriate risk management techniques to handle exposures, implementation of chosen techniques, and monitoring the results.

Risk Profiling- Measurement of expected losses for a finite period of time based on historical data including but not limited to, total losses, number of losses, average loss size and timing of payment

Risk Purchasing Group- A group formed in compliance with the Risk Retention Act for the purpose of negotiating for and purchasing insurance from a commercial insurer.

Risk Quantification- Actual forecasting of loss frequency and severity to determine allocation decisions

Risk Retention- conscious acceptance of losses that the organization or company will bear

Risk Retention Group- A group self-insurance plan or group captive insurer operating under the Risk Retention Act of 1986. A risk retention group can cover the liability exposures, other than workers compensation exposures, of its owners.

Risk Sharing- Particular department of an organization or company shares the cost to pay another department's losses

Risk Volatility- Distance between an anticipated result (loss) and the standard deviation

Robbery – The felonious taking, either by force or fear of force, of the personal property of another.

Running Down Clause – This is an additional coverage which can be added to an Ocean Marine Hull policy to provide protection to the insured against liability for damage to another ship caused by collision.

Runoff – A termination provision in a reinsurance contract stipulating that the reinsurer shall remain liable for loss under each reinsured policy in force until its expiration date.

-S-

SCF- Statement of Cash Flows

SE- Stockholders Equity

SEC- Securities Exchange Commission

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.

Safe Burglary Insurance – A form of insurance against loss by forcible entry into a safe. Under this definition of burglary there must be visible signs of forced entry.

Safe Driver Plan – A system in which points are assigned for traffic violations and certain accidents, and each point adds a percentage surcharge to the rating factor. It is similar to merit rating.

Salvage – Property taken over by an insurer to reduce its loss.

Salvage Corps – An organization whose duties are limited to preventing further damage to property during or after a fire. They are established by Property Insurance companies.

Savings clause- a contract provision that rescues the balance of a contract if one or more parts are held to be invalid or unenforceable. Also referred to as “separability” clause or “severability” clause.

Schedule – A list of the items covered by an insurance policy with their descriptions and valuations.

Schedule Rating Plan – (1) Applying debits or credits within established ranges for various characteristics of a risk which are either below or above average according to an established schedule of items. (2) Under Liability and Automobile Insurance, the schedule rating plan has been designed to allow credits and debits for various good or bad features of a particular commercial risk. An example in automobile schedule rating would be allowing credits for driver training classes or fleet maintenance programs.

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.

Self-Funded Plan – Plan of insurance where an employer, which has fairly predictable claim costs, pays the claims rather than an insurance company.

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.

Several Liability- A legal doctrine holding that a defendant is liable only to the extent of his or her responsibility for the plaintiff's injury.

Severity- 1) The monetary or financial impact of losses 2) Average claim size

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

Sidetrack Agreement – Any agreement between a railroad and a customer who is served by a railroad sidetrack built on his premises. Among other things, it provides that the customer hold the railroad harmless for losses resulting from certain types of accidents.

Sine Qua Non Rule – This rule says that a person's conduct is not held to be the cause of a loss if the loss would have occurred anyway.

Single Limit – Any insurance coverage which is expressed as a single amount of insurance, or a single limit of liability.

Single Parent Captive- A wholly owned subsidiary which insures or reinsures all or part of its non-insurance parent

Sinkhole Collapse – The peril of a sudden sinking or collapse of land into underground empty spaces created by the action of water on limestone or similar rock formations. This peril is now covered by the latest commercial property forms. Other forms of earth movement continue to be excluded in most cases.

Sistership Exclusion – A Products Insurance Exclusion which denies coverage for the withdrawal and recall of products from the market.

Slander – A spoken statement about someone which is personally injurious to the individual.

Smoke Damage – Damage caused by the smoke from a fire in contrast to damage caused by the actual combustion.

Sonic Boom – Noise, pressure, and shock waves resulting from an aircraft or missile exceeding the speed of sound. At one time property damage caused by sonic boom was excluded under most property forms. Modern commercial property forms and homeowner policies now cover losses by sonic boom.

Special Multi-Peril (SMP) – A Business policy which combined into one contract the coverages normally purchased under several. Property and Liability coverages were mandatory; Crime and Boiler and Machinery were optional. Many other options and endorsements allowed the SMP to be tailor made for each policyholder. Largely replaced by new commercial forms.

Speculative Risk- Uncertainty about an even under consideration that could produce either a profit or loss; can produce either gain or loss

Sprinkler Leakage Legal Liability Insurance – Insurance which covers the legal liability of an insured who has a sprinkler leakage loss which damages the property of others, on a floor below or in adjoining premises, for instance.

Stacking of Limits – Applying the limits of more than one policy to an occurrence, loss or claim. In some cases, courts have required a stacking of limits when multiple policies, or multiple policy periods, cover an occurrence.

Standard Premium- 1) Calculated by using state rating classifications and rates and applying them to an insured's estimated exposures for the policy periods allowing for various adjustments. 2) For the purpose of retrospective rating plans, standard premium means the premium for the insured determined on the basis of authorized rates, any experience\e rating modification, loss constants where applicable, and minimum premiums. It specifically excludes premium discounts and expense constants.

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.

Statute of Fraud – a 1677 English law that has been adopted in modified form in virtually every state in the U.S. that holds no suit or action shall be maintained on certain classes of contracts or engagements unless there is a note or memorandum in writing, signed by the parties, describing the performance of obligations of the parties.

Statute of Limitations – The time limit set by law during which a person must bring legal action on a case.

Statutory Accounting Principles (SAP)- Those principles 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.

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.

Storekeepers Burglary and Robbery Insurance – A type of package crime policy designed for a storekeeper which provides coverage on 7 different crime hazards. A specific amount of coverage is purchased and the limits apply separately to each of the coverages. There is very little flexibility in that the insured must buy the package.

Storekeepers Liability Policy – A single limit package policy covering bodily injury and property damage liability claims in the operation of the storekeeper's business. It includes limited coverage on contractual and products liability.

Strict Liability – Usually used when referring to Products coverage. The liability that manufacturers and merchandisers may be subject to for defective products sold by them, regardless of fault or negligence. A claimant must prove that the product is defective and therefore unreasonably dangerous.

Strike-Through Clause – A clause providing that, in the event of the insolvency of a ceding insurer, the reinsurer continues to be liable for its share of losses, which will then be payable directly to the insured rather than to the liquidator of the insolvent ceding insurer.

Structured Settlement- A settlement wherein the plaintiff agrees to accept a stream of payments in lieu of a lump sum. Annuities are usually used as funding mechanisms.

Subject Premium- In conjunction with retrospective rating, the portion of the premium applied to the retro formula. It is generally used to help calculate the basic premium, both before and after audit calculations.

Subrogation – The right of one who has taken over another's loss to also take over his right to pursue remedies against a third party. It is never used in Life Insurance and seldom in Health.

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.

Subrogation Waiver – A waiver by the named insured giving up any right of recovery against another party. Normally an insurance policy requires that subrogation (recovery) rights be preserved. In commercial property insurance, a written waiver of subrogation rights is permitted if it is executed before the loss occurs.

Substantial performance- one party to a contract makes an honest endeavor in good faith to perform his/her part of the contract and the results of his/her endeavor are beneficial and retained by another party to the contract; the party receiving such benefit cannot avoid performance.

Sue and Waiver Clause – a provision permitting and requiring an insured to take all practical measures to protect any salvage, without prejudicing any right to claim against the insurer. The intent of this clause is to make sure the insured does not fail to use proper care to preserve the property. One effect of it is that in case of a total loss an insurer may pay the loss plus the cost of salvage.

Surety – One who guarantees the performance or faithfulness of another. A surety can be either a corporation or an individual, but it is usually an insurance company.

Surety Bond – A bond guaranteeing that a principal will carry out the obligation for which he is bonded. A surety bond is most often issued to a contractor, a person seeking a license or permit, or someone involved in a court case.

Surety Bond Guarantee Program – A federal Small Business Administration program for minority contractors. The SBA agrees to back the surety company in the event of loss under a construction bond.

Suretyship – The means by which one person or entity, the surety, guarantees another entity, the obligee that a third entity, the principal, will or will not do something. It differs from insurance by being a 3-party contract, but most sureties today are insurers.

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.

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.

-T-

TA- Total Assets

TD- Total Debt

TIE- Times Interest Earned

TWCC- Texas Workers' Compensation Commission

Tail – This term has been used to describe both the exposure that exists after expiration of a policy and the coverage that may be purchased to cover that exposure. On "occurrence" forms a claims tail may extend for years after policy expiration, and the losses may be covered. On "claims made" forms tail coverage may be purchased to extend the period for reporting covered claims beyond the policy period.

Tail Factor- When calculating loss development factors from historical data, at some point older data becomes unavailable or is no longer relevant due to changing circumstances. The tail factor is a loss development factor used to take losses form the oldest available valuation period to ultimate. It is generally based upon industry data or an extrapolation of less mature loss development factors.

Tax Multiplier- A factor applied in retrospective rating to an insurance premium to increase it to cover license, fees, assessments, and taxes which the insurance carrier must pay on the premium which it collects. It also includes a provision for subsidy of the assigned risk market.

Temporary Partial Disability – A condition where an injured party's capacity is impaired for a time, but he is able to continue working at reduced efficiency and is expected to fully recover.

Temporary Total Disability – A condition where an injured party is unable to work at all while he is recovering from injury, but he is expected to recover.

Tenants Improvements and Betterments – Property affixed to an owner's building by the lessee or tenant which may not be legally removed at the end of the rental period.

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.

Tertiary Beneficiary – A beneficiary designated as third in line to receive proceeds or benefits if the primary and secondary beneficiaries do not survive.

Testing Exclusion – In boiler and machinery insurance, a provision that excludes coverage for any object while it is being tested.

Theatrical Floater – An Inland Marine form used to cover theatrical properties, such as costumes and scenery.

Theft – The act of stealing. It includes such acts as larceny, burglary, and robbery.

Theory of Probability – The mathematical principle upon which insurance is based.

Third Party Administrator (TPA) – A firm which provides administrative services for employers and other associations having group insurance policies. The TPA in addition to being the liaison between the employer and the insurer is also involved with certifying eligibility, preparing reports required by the state and processing claims. TPA's are being used more and more with the increase in employer self-funded plans.

Threshold – Typically found in Automobile Insurance. The point at which a party may bring tort action against either the insurer or another party. Many policies prohibit tort action for pain and suffering unless the individual has incurred related medical bills in excess of $2,000, or has suffered disfigurement or death occurs.

Time Element Insurance – Insurance which covers expenses consequent to damage or destruction by an insured peril that continues over a period of time. The amount paid depends on the length of time during which the expenses accumulate. An example would be Business Interruption insurance, which pays for the loss of earnings during the time it takes to repair the property.

Time Limit on Certain Defenses – One of the uniform individual accident and sickness provisions required by state law to be included in every Individual Health Policy. It sets a limit on the number of years after a policy has been in force that an insurer can use as a defense against a claim the fact that a physical condition of the insured existed before the policy was issued, but was not declared at that time.

Tolerance Corridor- Marginal retention amount beyond budgeted retention that may also be actively retained

Tort – A private wrong, independent of contract and committed against an individual, which gives rise to a legal liability and is adjudicated in a civil court. A tort can be either intentional or unintentional, and it is mainly against liability for unintentional torts that one busy Liability Insurance.

Tort Feasor – A person who has committed a tort.

Total Incurred Losses- Incurred losses that have not been developed (trended) nore indexed for inflation

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.

Transit Policy – A policy which provides coverage for loss to property while it is being transported.

Transfer of Risk- A risk management technique whereby risk of loss is transferred to another party through a contract, e.g., a hold harmless agreement, or to a professional risk bearer, i.e., an insurance company.

Travel Accident Insurance – A form of Health Insurance limiting coverage to accidents occurring while the insured is traveling.

Treaty- A general reinsurance agreement that is obligatory between the ceding company and the reinsurer, containing the contractual terms applying to the reinsurance of some class or classes of business. This contracts with a reinsurance agreement covering an individual risk.

Trend Factor- used to adjust past loss experience to the cost levels that are expected during a projected time period.

Trespasser – An individual who goes onto another person's property without any legal right to do so. The only duty that the owner of the property owes a trespasser is not to intentionally harm or set a trap for him.

Trip Transit Insurance – A type of policy which provides coverage for goods in transit for a specified trip and by a specified mode of transportation.

Turnkey Insurance – Insurance coverage which includes General Liability for Contractors and Architects Errors and Omissions.

Twisting – the act of or attempt to induce a policy owner, by means of misrepresentation, to drop an existing policy and take another. Note that it is the misrepresentation that is illegal, not the replacement of one policy by another.

-U-

Uberimae Fidei – Latin for "utmost good faith". A basic principle of the insurance contract is that it is based on "utmost faith".

Ultimate Losses- Total losses that will have been paid when all claims have reached final settlement

Ultimate Total Loss- Incurred losses that have been developed (trended)

Umbrella Liability Policy – A coverage affording high limit coverage in excess of the limits of the primary policies as well as additional liability coverages. These additional coverages are usually subject to a substantial self-insured retention, or primary policy. The term "umbrella" is derived from the fact that it is a separate policy over and above any other basic Liability policies the insured may have.

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 Benefit – A benefit providing reimbursement of expenses up to a maximum but without any schedule of benefits as such.

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.

Unallocated Loss Adjustment Expense (ULAE)- Salaries, overhead, and other related adjustment costs not specifically allocated or charged to the expense incurred for a particular claim

Unearned Premium- The amount of premium remaining after deducting the earned premium from written premium; the portion of a premium representing the unexpired part of the policy period.

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

Underinsured Motorists Coverage – Coverage in an Automobile Insurance policy under which the insurer will pay damages up to specified limits for bodily injury damages, if the limits of liability under the liable motorist's policy are exhausted and he cannot pay the full amount for which he is liable.

Underlying – The amount of insurance or reinsurance on a risk that attaches before the next higher excess layer of insurance or reinsurance attaches.

Underwriter – A technician trained in evaluating risks and determining rates and coverages for them.

Unfunded Reserves- Not having sufficient sums of money or any sum of money to meet future liabilities.

Uninsured Motorists Coverage – Coverage in an Automobile Insurance policy under which the insurer will pay damages to the insured for which another motorist is liable if that motorist is unable to pay because he is uninsured. This coverage usually applies to Bodily Injury damages only. Injuries to the insured caused by a hit-and-run driver are also covered.

Unoccupied – Refers to property which may be furnished or have furnishings in it but is not occupied or being lived in. The Standard Fire policy prohibits unoccupancy beyond a specified period of time. This term is contrasted with vacant, which means that there is nothing within the building.

Use and Occupancy Insurance – A term that was once used to refer to the coverages later known as Business Interruption Insurance, and now called Business Income Coverage. In this sense it is obsolete. It is, however, still used to refer to such loss of earnings in Boiler and Machinery Insurance. It is also used in some contracts which promise to pay on a valued basis, or fixed amount, for each day the insured is deprived of the use or occupancy of described property because of damage caused by a peril insured against.

-V-

Vacant – A term used in Property Insurance to describe a building that has nothing in it. This goes one step beyond the description of unoccupied. The Standard Fire policy prohibits vacancy beyond a specified period of time.

Valuable Papers and Records – all-risk coverage for physical loss or damage to valuable papers and records of the insured. It includes practically all types of printed documents or records except money.

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

Valuation Date- the cut-off date for adjustments made to paid claims and reserve estimates in a loss report

Value Reporting Form – Commercial form designed for businesses that have fluctuating merchandise values during the year. As values are reported (monthly, quarterly or annually) the amount of insurance is adjusted. Reporting forms help eliminate problems of overinsurance and underinsurance, as well as the need to continually endorse a policy.

Vicarious Liability – The law states that under certain circumstances a person is liable for the acts of someone else. For example, in matters related to an automobile, a parent might be held responsible for the negligent acts of a child. In such a case the parent would be vicariously liable.

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

Void – A term used to describe a policy contract that is completely free of all legal effect.

Voyage Clause – A clause in Ocean Marine policies specifying the period of time of the number of trips that may be grouped together as one voyage.

-W-

WIP- Work-in-Progress

Waiting Period – The period of time between the beginning of a disability and the start of Disability Insurance benefits. Also called the elimination period.

Waiver – (1) A rider 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 affected by an agent, adjuster, company, employee, or company official, and it can be done either orally or in writing.

Warranty – A statement made on an application for most kinds of insurance that is warranted as true in all respects. If untrue in any respect, even though the untruth was not known to the applicant, the contract may be voided without regard to the materiality of the statement. By contrast, statements in Life and Health applications are not warranties except in cases of fraud, and the trend in more recent court decisions in other lines has tended to modify the doctrine of warranty to an application only when the statement is material to a risk or the circumstances of a loss.

Warsaw Convention – An international agreement setting limits of liability on international flights with respect to payments for bodily injury and death.

Watchman Warranty Clause – A provision often found in a Burglary or Fire policy providing for a reduced premium if there is a watchman on duty.

Wear and Tear Exclusion – An exclusion found in many Inland Marine policies. It excludes loss resulting from wear and tear, which means normal usage over a period of time which reduces the value of the property insured.

Wedding Presents Floater – A form which provides temporary coverage for wedding presents, usually starting shortly before the wedding and ending shortly thereafter.

Weighted Average Cost of Capital- After-tax cost to the firm of an average dollar of capital or long term funds. Capital consists of long term debt, preferred stock, common stock, and retained earnings (or old common stock)

Weighted Value- In workers compensation experience modification, a percentage value taken from the same actuarial tables used above to determine the percentage of excess losses to be used in the calculations

"While" Clauses – Clauses which suspend coverage "while" certain conditions exist, such as vacancy.

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

Work and Materials Clause – This is a provision found in many Property Insurance policies which states that the insured is allowed to have the typical types of work and materials for his business. The clause makes this clear so that the policy cannot be voided later because of the "increased hazard" provision of the Standard Fire policy.

Workers' Compensation – (1) A schedule of benefits payable to an employee by his employer without regard to liability, required by state law in the case of injury, disability, or death as the result of occupational hazards. (2) Insurance agreeing to pay Workers' Compensation law benefits on behalf of the insured employer.

Working Layer- An area of excess reinsurance in which loss frequency is expected

Wrap-Up – A package plan of a broad type, usually found only in large situations, which is coordinated in such a way as to be applicable to all Liability risks. An example would be a wrap-up policy covering all contractors working on a specific job.

Written Premium- The total premiums on all policies written by an insurer during a specidied period of time, regardless of what portions have been earned.

-X-

XCU – Explosion, Collapse, and Underground Damage. This term is used in Business Liability Insurance to indicate that certain types of construction work involve these hazards. Many Liability policies exclude them. They can be added by endorsement for an additional premium charge.

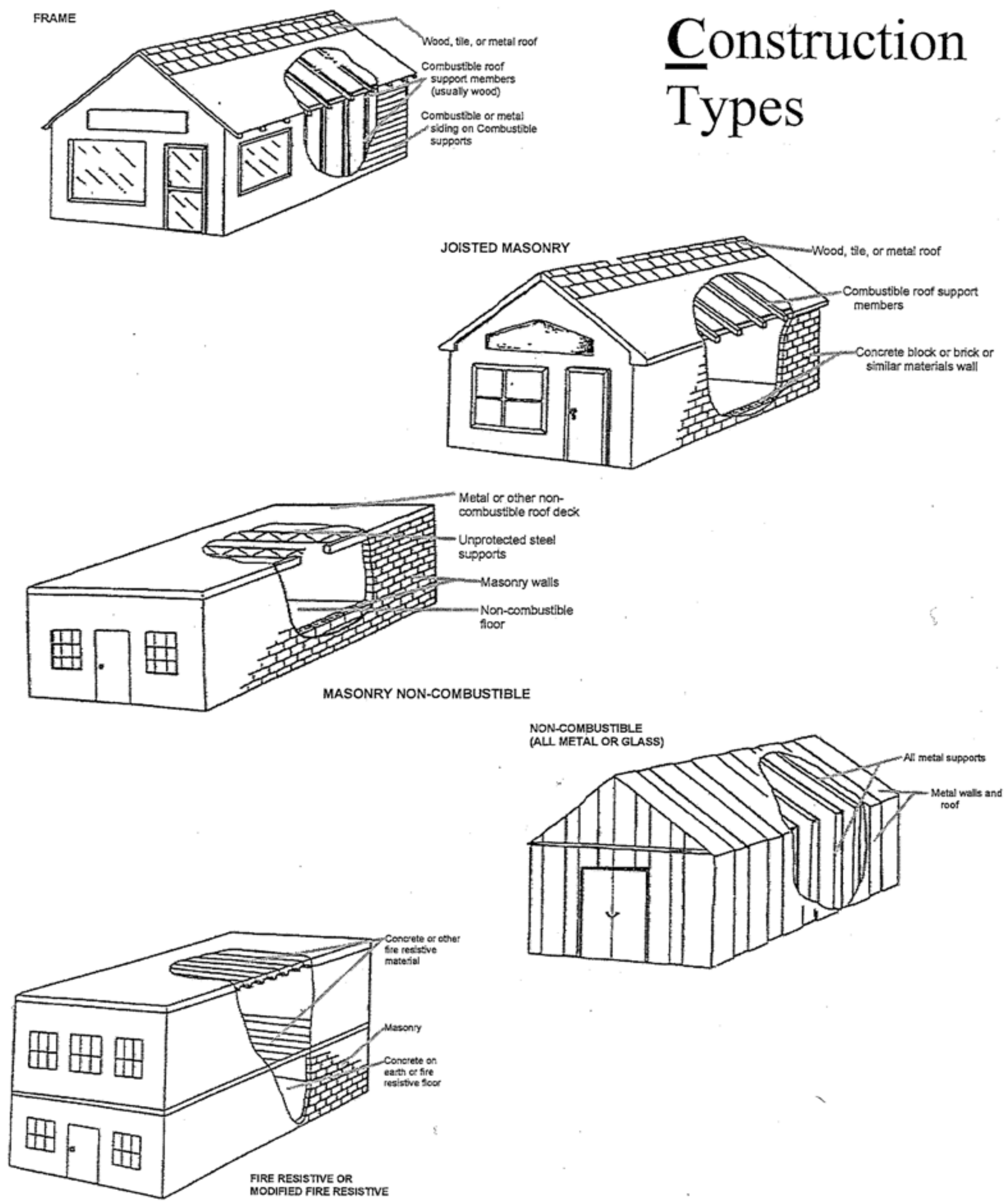
-Y-

YRT – Yearly Renewable Term. (1) Term Life Insurance that may be renewed annually without evidence of insurability until some stated age. (2) A form of Life, and sometimes Health, Reinsurance in which the reinsurer assumes only the mortality risk, which is usually calculated as the face amount of reinsurance minus the terminal reserve.

-Z-

REFERENCE TABLES

Construction Types



Contractual Transfers

	HH Agreements	Exculpatory Agreements	Waivers of Subrogation	Limit of Liability Clause
Definition	Affirmative assumption of the financial consequences for liabilities of another, via contract	Pre-event exoneration of the fault of one party that results in any loss or specified loss(es) to another	Pre-event relinquishment of the right of one or both parties' insurers to seek recovery from culpable party for loss payments made to insured	Pre-event limitation of the amount, type or method of calculation of damages available by one or both parties to an agreement
Tort	Does not absolve the indemnitee from its tort liability to a third party	Absolves the tort liability between one or both Parties to contract – does not apply to 3rd parties	Does not absolve tort liability of the parties, but prevents insurers from any recovery of loss payments based on such tort liabilities	Does not absolve the tort liability of one or both parties; however, it "caps" recovery amount of damages between the parties
Funding	Requires Indemnitor to be able to provide funding/financing of assumed liabilities	No affirmative obligation to provide funding except that which is required to absorb loss	Same as exculpatory, except the loss is absorbed by insurer under unsurance transfer	Requires funding or financing of amounts of payable for amount of damages as defined in contract
Anti-Indemnity Application	May be subject to anti-indemnity statutes	Not subject to most anti-indemnity laws	Not subject to anti-indemnity laws	Usually involves bills of lading, cargo, freight, or cartage
General Consideration	If too broad, may void entire indemnity obligation	May be construed as a waiver of subrogation if claim is brought by a parties' insurer	Typically, must be entered into prior to any loss payment by insurer to be binding on the insurer	May be the exclusive remedy of a party for any/all claims under contract without regard to amount of true loss

Hold Harmless Agreements (Three Classifications)

Limited- Indemnitor assumes responsibility for Indemnitee's liability for Indemnitor's own, sole negligence.

This classification applies to agreements requiring indemnification for occurrences arising out of the indemnitor's operations.

Example: Party A reaffirms responsibility for *his own negligent acts.* Party B is thus protected in cases where he is held vicariously responsible. Party B has acquired a *contractual* right to indemnity where the basic tort law of the jurisdiction may or may not entitle him to it absent contractual transfer.

Intermediate- *limited* + responsibility for indemnitee's liability for indemnitor's and indemnitee's joint negligence.

This classification applies to agreements requiring indemnficaiton for ALL occurrences arising out of the indemnitory's operations, excluding only the liability arising from indemnitee's sole negligence.

Example: Party A reaffirms responsibility for his own acts and agrees to assume full responsibility for *joint and/or concurrent negligence* of both parties. In many such contracts (especially construction contracts), Party A will agree to assume responsibility for all events *except* those resulting from the sole negligence of Party B or the negligence of another subcontractor or entity beyond indemnitor and indemnitee.

Broad- *limited + Intermediate* +Indemnitor agrees to be responsible for indemnitee's sole negligence. Can include negligence of other parties.

This classification applies to agreements requiring complete indemnification of the indemnitee for all occurrences without reference to negligence-can even include those situations arising from the sole negligence of another entity.

Example: Party A assumes responsibility for all liability without regard to fault of himself and/or Party B. Here Party A assumes not only the responsibility of his acts, plus any acts arising from joint and/'or concurrent negligence of Party A & Party B, NUT ALSO includes those situations that result from the sole negligence of Party B. This extreme variant may require Party A to assume responsibility for the negligent acts of some other entity, over whom Party A has no control, which results (or may result) in a claim being made on Party N.

Flood Zone Definitions

When inspecting the flood map panels a basic understanding of the flood zone definitions is helpful. Special flood hazard areas have a 1% or greater chance of being flooded in any given year. They are shown on the Flood Insurance Rate Maps with flood zone designations that begin with the letter A or V. Under the law, federally regulated lenders must require borrowers with buildings that are located in these zones to purchase and maintain flood insurance. Flood zone definitions include the following six (6) flood zone designations.

Some zones have multiple sub-designations, as follows:

- Zone "A" (and its sub-designations: AE, AH, AO and A1-A99)
  These are Special Flood Hazard Areas where flooding may be expected to occur at least once within a 100 (one-hundred) year period. All lenders must require borrowers to purchase and maintain flood insurance for Zone "A" properties.
- Zone "V" (and its sub-designations: VE and V1-V99)
  Coastal Flood Hazard Areas subject to both flooding and severe tidal conditions. Here again, flood insurance is mandatory.
- Zone "C" Areas of "minimal" flooding.
  This is the most desirable area, and requires no insurance.
- Zone "B"
  Areas where flooding is "anticipated" once in 500 (five-hundred) years or, if more frequently, only to minimal depths. Flood insurance is not mandatory in these areas, but is available.
- Zone "D"
  These are areas which have not been studied and therefore are non-participatory in the program.
- Zone "X"
  This is the newest designation, and may indicate either Zone "B" or Zone "C." The intent is to readily distinguish areas which typically do not require flood insurance from those which do, thereby minimizing confusion.

Flood Insurance Requirements No Longer Apply to Buildings Removed from Special Flood Hazard Areas

Special flood hazard areas, or the "100-Year Floodplains," are shown on the Flood Insurance Rate Maps with flood zone designations that begin with the letter A or V. Under the law, federally regulated lenders must require owners of buildings within these zones to purchase and maintain flood insurance. When FEMA revises these maps, the federal mandatory purchase requirement no longer applies to buildings that are removed from Zones A or V and placed in a Zone B, C, or X. (Note that a lender may still require a borrower to purchase flood insurance even if no longer required to do so by the Federal government.)