Glossary of Insurance Terms:

(obtained from website: http://www.iii.org/individuals/glossary/alfa.L/)

ACTUAL CASH VALUE
A form of insurance that pays damages equal to the replacement value of damaged property minus depreciation.

ACTUARY
An insurance professional skilled in the analysis, evaluation and management of statistical information. Evaluates insurance firms' reserves, determines rates and rating methods, and determines other business and financial risks.

ADJUSTER
An individual employed by a property/casualty insurer to evaluate losses and settle policyholder claims. These adjusters differ from public adjusters, who negotiate with insurers on behalf of policyholders, and receive a portion of a claims settlement. Independent adjusters are independent contractors who adjust claims for different insurance companies.

ADVERSE SELECTION
The tendency of those exposed to a higher risk to seek more insurance coverage than those at a lower risk. Insurers react either by charging higher premiums or not insuring at all, as in the case of floods. (Flood insurance is provided by the federal government but sold mostly through the private market.) In the case of natural disasters, such as earthquakes, adverse selection concentrates risk instead of spreading it. Insurance works best when risk is shared among large numbers of policyholders.

AGENCY COMPANIES
Companies that market and sell products via independent agents.

AGENT
Insurance is sold by two types of agents: independent agents, who are self-employed, represent several insurance companies and are paid on commission; and exclusive or captive agents, who represent only one insurance company and are either salaried or work on commission. Insurance companies that use exclusive or captive agents are called direct writers.

ALEATORY CONTRACT*
A contract in which one party provides something of value to another party in exchange for a conditional promise, which is a promise that the other party will perform a stated act upon the occurrence of an uncertain event. Insurance contracts are aleatory because the policyowner pays premiums to the insurer, and in return the insurer promises to pay benefits if the event insured against occurs. Contrast with commutative contract.

APPORTIONMENT
The dividing of a loss proportionately among two or more insurers that cover the same loss.

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

ARBITRATION
Procedure in which an insurance company and the insured or a vendor agree to settle a claim dispute by accepting a decision made by a third party.

ASSIGNMENT*
An agreement under which one party—the assignor—transfers some or all of his ownership rights in a particular property, such as a life insurance policy or an annuity contract, to another party—the assignee.

BENEFICIARY*
The person or legal entity the owner of an insurance policy names to receive the policy benefit if the event insured against occurs.

BINDER
Temporary authorization of coverage issued prior to the actual insurance policy.

BLANKET INSURANCE
Coverage for more than one type of property at one location or one type of property at more than one location. Example: chain store

BODILY INJURY LIABILITY COVERAGE
Portion of an auto insurance policy that covers injuries the policyholder causes to someone else.

BROKER
An intermediary between a customer and an insurance company. Brokers typically search the market for coverage appropriate to their clients. They work on commission and usually sell commercial, not personal, insurance. In life insurance, agents must be licensed as securities brokers/dealers to sell variable annuities, which are similar to stock market-based investments.

BUSINESS INCOME AND EXTRA EXPENSE INSURANCE (also known as BUSINESS INTERRUPTION INSURANCE)
Commercial coverage that reimburses a business owner for lost profits and continuing fixed expenses during the time that a business must stay closed while the premises are being restored because of physical damage from a covered peril, such as a fire. It also may cover financial losses that may occur if civil authorities limit access to an area after a disaster and their actions prevent customers from reaching the business premises. Depending on the policy, civil authorities coverage may start after a waiting period and last for two or more weeks.

CAPTIVE AGENT
A person who represents only one insurance company and is restricted by agreement from submitting business to any other company, unless it is first rejected by the agent's captive company. (Exclusive agent)

CLAIMS MADE POLICY
A form of insurance that pays claims presented to the insurer during the term of the policy or within a specific term after its expiration. It limits liability insurers' exposure to unknown future liabilities. (See Occurrence policy)

CONTINGENT LIABILITY
Liability of individuals, corporations, or partnerships for accidents caused by people other than employees for whose acts or omissions the corporations or partnerships are responsible.

DECLARATION
Part of a property or liability insurance policy that states the name and address of policyholder, property insured, its location and description, the policy period, premiums and supplemental information. Referred to as the "dec page."

DEDUCTIBLE
The amount of loss paid by the policyholder. Either a specified dollar amount, a percentage of the claim amount, or a specified amount of time that must elapse before benefits are paid. The bigger the deductible, the lower the premium charged for the same coverage.

DIFFERENCE IN CONDITIONS
Policy designed to fill in gaps in a business's commercial property insurance coverage. There is no standard policy. Policies are specifically tailored to the policyholder's needs.

ENDORSEMENT
A written form attached to an insurance policy that alters the policy's coverage, terms, or conditions. Sometimes called a rider.

ENVIRONMENTAL IMPAIRMENT LIABILITY COVERAGE
A form of insurance designed to cover losses and liabilities arising from damage to property caused by pollution.

EXCLUSION
A provision in an insurance policy that eliminates coverage for certain risks, people, property classes, or locations.

EXCEPTION
An exception to an exclusion restores coverage taken away under the exclusion.

EXPERIENCE
Record of losses.

EXPOSURE
Possibility of loss.

EXTENDED COVERAGE
An endorsement added to an insurance policy, or clause within a policy, that provides additional coverage for risks other than those in a basic policy.

GRACE PERIOD*
(1) For insurance premium payments, a specified length of time following a premium due date within which the renewal premium may be paid without penalty. The length of the grace period is specified in a grace period provision that is found in a life insurance, health insurance, or annuity policy. (2) For purchases made on credit, a period of time between the date of a purchase and the date the lender begins to charge interest during which no interest accrues.

INCURRED BUT NOT REPORTED LOSSES / IBNR
Losses that are not filed with the insurer or reinsurer until years after the policy is sold. Some liability claims may be filed long after the event that caused the injury to occur. Asbestos-related diseases, for example, do not show up until decades after the exposure. IBNR also refers to estimates made about claims already reported but where the full extent of the injury is not yet known, such as a workers compensation claim where the degree to which work-related injuries prevents a worker from earning what he or she earned before the injury unfolds over time. Insurance companies regularly adjust reserves for such losses as new information becomes available.

INCURRED LOSSES
Losses occurring within a fixed period, whether or not adjusted or paid during the same period.

INDEMNIFY
Provide financial compensation for losses.

INDEPENDENT AGENT
Agent who is self-employed, is paid on commission, and represents several insurance companies. (See Captive agent)

INSURABLE INTEREST*
In insurance, a person exhibits an insurable interest in a potential loss if that person will suffer a genuine economic loss if the event insured against occurs. Without the presence of insurable interest, an insurance contract is not formed for a lawful purpose and, thus, is not a valid contract.

INSURABLE RISK

Risks for which it is relatively easy to get insurance and that meet certain criteria. These include being definable, accidental in nature, and part of a group of similar risks large enough to make losses predictable. The insurance company also must be able to come up with a reasonable price for the insurance.

INSURANCE
A system to make large financial losses more affordable by pooling the risks of many individuals and business entities and transferring them to an insurance company or other large group in return for a premium.

INSURANCE POOL
A group of insurance companies that pool assets, enabling them to provide an amount of insurance substantially more than can be provided by individual companies to ensure large risks such as nuclear power stations. Pools may be formed voluntarily or mandated by the state to cover risks that can't obtain coverage in the voluntary market such as coastal properties subject to hurricanes. (See Beach and windstorm plans; Fair access to insurance requirements plans / FAIR plans; Joint underwriting association / JUA)

INSURANCE REGULATORY INFORMATION SYSTEM / IRIS
Uses financial ratios to measure insurers' financial strength. Developed by the National Association of Insurance Commissioners. Each individual state insurance department chooses how to use IRIS.

LAPSE*
The termination of an insurance policy because a renewal premium is not paid by the end of the grace period.

LIABILITY INSURANCE
Insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person.

LIMITS
Maximum amount of insurance that can be paid for a covered loss.

LINE
Type or kind of insurance, such as personal lines.

LOSS
A reduction in the quality or value of a property, or a legal liability.

LOSS ADJUSTMENT EXPENSES
The sum insurers pay for investigating and settling insurance claims, including the cost of defending a lawsuit in court.

LOSS COSTS

The portion of an insurance rate used to cover claims and the costs of adjusting claims. Insurance companies typically determine their rates by estimating their future loss costs and adding a provision for expenses, profit, and contingencies.

LOSS OF USE
A provision in homeowners and renters insurance policies that reimburses policyholders for any extra living expenses due to having to live elsewhere while their home is being restored following a disaster.

LOSS RATIO
Percentage of each premium dollar an insurer spends on claims.

LOSS RESERVES
The company's best estimate of what it will pay for claims, which is periodically readjusted. They represent a liability on the insurer's balance sheet.

NOTICE OF LOSS
A written notice required by insurance companies immediately after an accident or other loss. Part of the standard provisions defining a policyholder's responsibilities after a loss.

OCCURRENCE
A liability coverage concept applicable to bodily injury and property damage which is defined as an accident. An accident is unintentional, unexpected, or a chance occurrence or event. The occurrence or accident refers to the liability producing act, not the resulting injury or damage. An occurrence may include continuous or repeated exposure to substantially the same harmful conditions which result during a policy period. Under most state laws, if the act was intentional then the occurrence is not covered.

OCCURRENCE POLICY
Insurance that pays claims arising out of incidents that occur during the policy term, even if they are filed many years later. (See Claims-made policy)

POLICY
A written contract for insurance between an insurance company and policyholder stating details of coverage.

POLLUTION INSURANCE
Policies that cover property loss and liability arising from pollution-related damages, for sites that have been inspected and found uncontaminated. It is usually written on a claims-made basis so policies pay only claims presented during the term of the policy or within a specified time frame after the policy expires. (See Claims-made policy)

PRE-EXISTING CONDITION*
A condition which first appeared or manifested itself within a specified period before the policy was issued and that was not disclosed on the application for insurance.

PREMISES
The particular location of the property or a portion of it as designated in an insurance policy.

PREMIUM
The price of an insurance policy, typically charged annually or semiannually. (See Direct premiums; Earned premium; Unearned premium)

RATE
The cost of a unit of insurance, usually per $1,000. Rates are based on historical loss experience for similar risks and may be regulated by state insurance offices.

REDLINING
Literally means to draw a red line on a map around areas to receive special treatment. Refusal to issue insurance based solely on where applicants live is illegal in all states. Denial of insurance must be risk-based.

SCHEDULE
A list of individual items or groups of items that are covered under one policy or a listing of specific benefits, charges, credits, assets or other defined items.

SELF-INSURANCE
The concept of assuming a financial risk oneself, instead of paying an insurance company to take it on. Every policyholder is a self-insurer in terms of paying a deductible and co-payments. Large firms often self-insure frequent, small losses such as damage to their fleet of vehicles or minor workplace injuries. However, to protect injured employees state laws set out requirements for the assumption of workers compensation programs. Self-insurance also refers to employers who assume all or part of the responsibility for paying the health insurance claims of their employees. Firms that self insure for health claims are exempt from state insurance laws mandating the illnesses that group health insurers must cover.

SUBROGATION
The legal process by which an insurance company, after paying a loss, seeks to recover the amount of the loss from another party who is legally liable for it.

SUPERFUND
A federal law enacted in 1980 to initiate cleanup of the nation's abandoned hazardous waste dump sites and to respond to accidents that release hazardous substances into the environment. The law is officially called the Comprehensive Environmental Response, Compensation, and Liability Act.

SUPPLEMENTAL COVERAGE*
An amount of coverage that adds to the amount of coverage specified in a basic insurance policy.

SURPLUS LINES

Property/casualty insurance coverage that isn't available from insurers licensed in the state, called admitted companies, and must be purchased from a non-admitted carrier. Examples include risks of an unusual nature that require greater flexibility in policy terms and conditions than exist in standard forms or where the highest rates allowed by state regulators are considered inadequate by admitted companies. Laws governing surplus lines vary by state.

THIRD-PARTY COVERAGE
Liability coverage purchased by the policyholder as a protection against possible lawsuits filed by a third party. The insured and the insurer are the first and second parties to the insurance contract.

TRANSPARENCY
A term used to explain the way information on financial matters, such as financial reports and actions of companies or markets, are communicated so that they are easily understood and frank.

UNDERWRITING
Examining, accepting, or rejecting insurance risks and classifying the ones that are accepted, in order to charge appropriate premiums for them.

** Not an inclusive list of insurance terms, but commons terms which may be used by your broker/agent when discussing your application for insurance or policy.