LIFE and HEALTH Basics II
CE Manual (12 hours)

This is another Bradley Enterprises’ “Classroom Proven” manual!

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Bradley Enterprises operates a training school for new insurance agents. We have a number of instructors with varying backgrounds from insurance agents, securities brokers and including one CPA. We have trained thousands of agents for banks, insurance and securities companies.

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Section 1: Life Foundations

Life Insurance contracts are “valued contracts” (pays a stated sum)

Vocabulary
- **Estoppel** (being prevented from asserting a right)
- **Parol evidence rule** (oral contracts are not enforceable unless they are written down).
- **Aleatory** (equal values are not given by both parties)
- **Contract adhesion** (the policy is developed by the insurance company and offered on a take it or leave it basis)
- **Contract of utmost good faith** (the insured depends on the insurance company to fulfill its side of the contract and the insurance company depends on the insured’s statement in the application)
- **Conditional** (all insurance policies list the circumstances under which a policy will be paid or not paid)
• **Unilateral Aspect of Insurance**: (Only the insurance company is bound to performance by the insurance contract. The insured may chose to pay the premiums or not at anytime.)
• **Waiver** (voluntarily giving up ones legal rights)
• **Voidable contracts** (life insurance contracts are voidable, for example: life insurance contracts may canceled due to non payment)

**Elements of valid, legally binding contract:**
- **Competent parties** (parties must be of legal age [15 or older in most states], not intoxicated/drugged and can not be nuts)
- **Legal purpose** (you can not enforce a contract for the sell of illegal drugs)
- **Offer and acceptance** (agreement)
- **Consideration** (monies)

**To purchase life insurance on an individual you must have:**
- An **Insurable Interest** (love and affection [be related by blood or law] or have a business interest). **AND**
- **Consent** (the person being insured must give his/her permission).

**When a person buys a life insurance policy**: they have created an immediate estate.

**Major Rights of Policy Ownership for Life Insurance include:**
- The right to transfer policy ownership
- Designation and change of the policy beneficiaries
- Define how the beneficiaries will be paid
- The right to cancel the policy and select a non forfeiture option
Life insurance is a property: (ownership may be given or assigned to another--- life insurance policies are not “personal contracts” or “personal agreements”—the policy owner has no bearing on the risk related to a given contract.)

Determining the right amount of insurance:

- **Human Life Value (HLV) Rule of Thumb** - Current age subtracted from retirement age) X current annual salary = HLV

  **Example:** 45 year old currently making $100,000 per year plans to retire at 65 --- HLV for him/her is 65 – 45 = 20 X $100,000 = $2,000,000

- **Dr. Solomon Heubner’s HLV method:**
  - (Current annual salary) – (personal living costs + taxes) = net annual salary
  - (Retirement age) – (current age) = Years to retirement
  - (Net annual salary) X (assumed annual growth rate) X (years to retirement) = HLV

- **Needs analysis** – considers various financial needs at death which include providing funds to address:
  - **Final expenses** (hospital, doctor bills, etc from final illness and burial expenses).
  - **Housing fund** (Home assurance - covers the unpaid debt for house or rental costs).
  - **Education fund** (covers all or part of the expenses for education of spouse and surviving children).
  - **Emergency fund** (a sum of money to be used for unexpected expenses).
  - **Continuing Monthly income** (income replacement for deceased spouse). Amount of monies needed varies depending on the following stages (or periods) of life:
    - **Family dependency period** – young children in the home.
• **Black out** (or pre-retirement) **period** – children have grown up and moved away.
• **Retirement income period** – you now have grandchildren and no job.

### Three kinds of life insurance coverage (overview):

- **Ordinary** *(Premiums - paid monthly, quarterly, semiannually, or annually through direct payment or bank draft.)* The three types follow:
  - **Permanent fixed** *(whole life, limited pay, single premium and miscellaneous cash building policies)*
  - **Permanent variable** *(variable universal life and variable life policies)*
  - **Temporary** *(term policies - Level term, Decreasing term and Increasing term)*

- **Industrial** *(Home Service Insurers or debit insurers):*
  - **Face amounts** - small such as $1000
  - **Premiums** - collected weekly on debit route *(agent pick up premium)*

- **Group Life** *(Premiums go up each year as face amount rises):*
  - **Type of Group Life Coverage** *(normally annually renewable term)*
  - **Contributory vs. Noncontributory**
    - **Contributory** – requires 75% of available employee participation *(employee pays part of costs)*
    - **Non Contributory** – requires 100% participation *(employee pays all costs)*

### Living benefits of life insurance:

- **Cash values** *(excess premium are invested in the insurance company plus interest).*
- **Retirement income** *(loans of cash values).*
• **Withdrawals** (pulling cash out of policy) In general, universal life and variable life policies allow withdrawals of cash values.

• **Dividends** (monies paid based on the insurance company’s successful investments).

• **Accelerated benefits** (monies advanced due to terminal illness or cognitive impairment, as previously covered)

• **Viatical Settlements** (monies paid by a company in the business of purchasing insurance policies from individuals that are terminally ill or have cognitive impairment and pays from 50% to 80% of the face value to policyowner, the company then pays for the remaining premiums of the policy until the individual dies, and collect the death benefit at death.)
Section 2: Life Insurance Policies

Permanent **fixed life insurance** – cash building policies – excess premiums are invested in the insurance company and have a minimum guaranteed rate of return (**General accounts** – general assets of the insurance company):

- **Whole life** *(straight whole life)* – level premiums and face values throughout life, at age 100 you are considered statistically dead, and the policy **endows** – *(endow is defined as the policy cash value equals the face value of the policy and the insurance company writes a check for the face amount to the customer, and cancels the policy)*

- **Limited pay whole life** – same as whole life policies except that they are paid up over a less number of years. *(Examples: 10 pay life [paid up over 10 years], 20 pay life [paid up over 20 years], and paid up at 65. Typically the shorter the period, the higher the premiums)*.
o **Single premium whole life** – same as whole policies except that they are paid up with one premium. *(Modified Endowment Contracts below)*

o **Miscellaneous cash building policies:**
  - **Modified Whole Life** – lower premiums during the first few years (typically 5), then premiums will be higher than that of a similar whole policy.
  - **Graded Premium Whole Life** – similar to modified whole life, reduced premium period is from 5 to 10 years and increases each year until leveling off.
  - **Minimum Deposit Whole Life** – builds cash values immediately upon payment, cash value is used to reduce future premiums.
  - **Indeterminate Premium Whole Life** – low initial premiums (typically fixed for first 3 years), cap on highest premium level, premiums can be adjusted within defined limits based on insurance company’s investment experience.
  - **Enhanced *(Economatic)* Whole Life** – mutual insurance companies issue the policy at a low premium and face value amount that diminishes after a few years, dividends are then used to purchase paid up additions to maintain the face amount reduction.
  - **Indexed Whole Life** – face amount will automatically increase as Consumer Price Index *(CPI)* increases. Policy premiums are priced based on one of two methods:
    1. **Rising premiums** - Policy owner assumes risk of increases in CPI and pays higher premiums – lower initial premiums as compared with method 2.
    2. **Level premiums** - Insurance company assumes risk – higher premiums initial premiums as compared to method 1, but premiums remain the same through out policy.

- **Endowment policies** *(10-Year Endowment, 20-Year Endowment, 25-Year Endowment, 30-Year Endowment, Endowment At Age 55, Endowment At Age 60, Endowment At Age 65, 20-Pay Endowment At Age 60, and 20-Pay Endowment At 65)* Provides life insurance production during the policy period, cash builds through the period and policy
is terminated at the end of the period and the insurance company writes a check for the face amount to the insured.

- **Family income policies** – a combination of whole life and decreasing term – may provide income *(if the insured dies during the defined monthly income policy period the policy will pay a monthly income benefit for the remainder of the income period).* Purchased in **income units** *(each income unit equals $1,000 of base whole life insurance and represents a payment of $10.00 per month during the income period.)* A death benefit is simply paid if insured outlived the **income period**.

- **Family maintenance policies** – a combination of whole life and level term – provides a monthly income upon the death of the insured and pays for a defined fixed period of time. The death benefit is normally paid upon the death of the insured (the start of the maintenance income period).

- **Family Plan policies** – insures all family members under one policy. Written on the life of an adult parent *(as permanent policy)* with spouse and all children *(includes both natural and adopted children within age limits – usually from 14 days old through age 21)* covered with either a level or decreasing term policy. Children may convert coverage without proof of insurability.

- **Multiple Protection Policies** – Pays double or triple the face value of the policy in death occurs during the specified period *(10, 15, or 20 years up to age 65)* combination of permanent and term insurance.

- **Joint Life and Joint Life Second to Die policies** – covers two or more lives and pays a single death benefit:
  - **Joint Life policies** *(first-to-die)* - pays the beneficiary when the first person dies and the policy ends.
  - **Joint Life Second to Die policies** *(survivorship life or second-to-die)* - pays nothing when the first person dies and pays the beneficiary when the second person dies and the policy ends.

- **Juvenile insurance** – one day old through age 15 *(normally).*
Jumping Juvenile policy is a special form of juvenile policy in which the face amount jumps 5 times at age 21, and yes the child still has to pay premiums. Sold in $1,000 units initially (1 to 15 units max.).

Modified Endowment Contracts (MECs) - Any life policy that is paid-in-full in less than 7 years is considered a MEC – in that the monies in the policy are treated like a qualified retirement plan and subject to the same tax treatment for early withdrawals. (If you would like more information search for Section 26, § 7702A. Modified endowment contract on the web)

Non traditional life policies (introduced in 1980’s)
- Interest-Sensitive Whole Life (also know as current-assumption whole life) similar to Indeterminate Premium whole life – has potential of higher interest rate returns.
- Adjustable Life (combination of term and permanent insurance) customer can adjust the level of coverage, the mix of coverage and premiums to meet their current needs within define limits stated in policy – proof of insurability required for increases in face value.
- Universal life (premiums and face amount may go up and down) customer can adjust level and premiums to meet current needs within define limits stated in policy – proof of insurability required for increases in face value. Two options for death benefit payout:
  - Death benefit = Face value (policy cash values + “corridor” insurance coverage = face value of policy)
  - Death benefit = (policy face value + cash values)
- Factors related to policy’s cash value include:
  - The face amount of the policy.
  - The duration and amount of the premium payments.
  - How long the policy has been in force.
Permanent variable life insurance – cash building policies – considered securities products – excess premiums are stored in a Separate account and invested in sub accounts without any guarantee (no guaranteed growth and no guarantee of return of monies invested). Two major types are:
  o Variable Life
  o Variable Universal Life

Note: Requires both a securities license (as a registered representative with National Association of Securities Dealers [NASD] as well as a life insurance license to sell fixed and variable products).

Life Insurance Settlement options (may be specified by the insured or may be selected by the beneficiary after death of the insured) the five settlement options are as follows:
  • Lump-sum – death benefit is paid in one payment to the beneficiary
  • Interest only – the death benefit is held on account with interest for a specified time with the beneficiary being systematically (monthly, quarterly, semiannually, or annually) paid the interest, then at the specified date the face amount of the policy is paid in full.
  • Fixed period – death benefit is held on account with interest and pays equal amounts of money over a period of time to the beneficiary until the proceeds are depleted.
  • Fixed amount - death benefit is held on account with interest and pays a specified amount of money over a period of time to the beneficiary until the proceeds are depleted.
  • Life income – the beneficiary receives agreed upon payments for the rest of their life. Life income for life insurance is the same as life income options for annuities; therefore this option is covered in detail under the annuity section.
Dividends – Two Types of Policies

- Participating policies – higher premium than non participating policies - purchased from **Mutual insurance companies** – owners of this type of policy are the owners of the company and *(if the company makes money)* share in the insurance company’s business success.

- or-

- Non participating policies – lower premiums than participating policies – purchased from **Stock insurance companies** - owners of this type of policy are *not paid any dividends.*

Dividend Options

- **Cash Out** *(dividends paid directly to the policy holder normally once a year).*
- **Reduced Premium Dividend** *(dividends used to reduce the next premium due).*
- **Accumulation at Interest** *(dividends left with company to gain interest).*
- **Paid-up Additions** *(dividends used to purchase additional paid-up insurance).*
- **One-Year Term Dividend** *(dividends used to purchase an additional one-year term policy).*

Temporary life insurance - Term policies:

- **Level term** *(examples: 10 year level term, 20 year level term, and 30 year level term)* – premiums are normally level through the period.
- **Decreasing term** *(examples: 10 year, 20 year, and 30 year decreasing term)* – premiums are level through the period. Primarily used to cover home mortgage debt. **Credit Life insurance** – used to cover a loan, beneficiary of this insurance
policy is the lender. The period for the decreasing term equals that of the debt.

- **Increasing term** (also called *Annually Renewable Term – ART and Yearly Renewable Term – YRT*) – premiums are level for one year and go up each year thereafter and the face amount may be increased annually – may be purchased as an individual policy, however it is normally sold as a **cost of living rider**.

Term policies can be **renewable** and **convertible** (without additional proof of insurability). Term policies always renewed at a higher premium. When term policies are converted they are converted to a cash building policy. Term policies are always purchased at the **original age** (the age you are at the time of purchase) and normally converted at the **attained age** (the age you are at the time of the conversion). The older you are, the more expensive the term monthly premiums. Typically, conversion is allowed through age 55 and renewal is available through age 65.

**Preliminary Term for Interim Coverage** – used to insure the customer during a period of customer requested delay of the issue date of a permanent policy and the start of the related permanent policy premiums.

**Level premium funding** (*term policy premiums are the result of averaging the total costs of insurance over the period of the policy. For example: 10 year level term – where premiums are “level” throughout the period, however the “actual cost of insurance” during this ten year period increases every year during the period do to the age of the individual increasing over time*)
Section 3: Life Riders

Riders (dependent “insurance policies” attached to a “parent policy”)

- **Guaranteed Insurability** (pre-qualifies the individual for additional insurance at specified intervals [such as every 3 years] between the ages of 25 and 40 for additional premium.)

- **Waiver of Premium** (pays the policy premium if the owner of the policy becomes totally disabled --- normally the coverage is through age 60 or 65).

- **Automatic Premium Loan** (pays for over-due premiums to prevent policy lapse using the policy cash values. Only rider that is “no cost” and can be added after policy inception.)

- **Payor** (if the policyowner dies or becomes totally disabled the rider pays the policy until covered youth reaches adulthood [actual age varies from company to company]).

- **Accidental Death Benefit** (pays an additional death benefit above the face amount of insurance policy).

- **Disability Income** (pays a monthly income if the owner of the policy becomes totally and permanently disabled).

- **Accidental Death and Dismemberment** (pays monies if insured dies from an accident or becomes dismembered).

- **Return of Premium** (refunds the cost of premiums at the end of the term policy [applies to Term policies only]).

- **Cost of Living** (COL) (allows the customer to purchase additional insurance based on the Consumer Price Index). The type of insurance is normally Increasing Term.

- **Other Insured Rider** (also called a Term Rider, Children’s Rider [in the case of covering only children], and Family Rider [in cases where the whole family is covered]) (is used to...
purchase additional term insurance on the insured or another insured [used with both term and permanent policies].
Section 4: Beneficiaries

Beneficiaries (who [or what] gets the money when the insured dies)
The levels in descending order and by “Order of Succession” of payment are:

- Primary (First Level).
- Secondary (Contingent) (receives the monies if “Primary” is predeceased [this is an example of “Order of Succession”]).
- Tertiary (Third Level) (receives the monies if “Primary and Secondary” are predeceased [this is also an example of “Order of Succession”]).

Beneficiaries may be:

- Natural Person(s) (humans)
  - Individuals
  - Groups of individuals (such “all my children,” this is called a “class designation”)
  - Minors (underage child, should add words to the effect of “hold on account with interest until [fill-in minor’s name] reaches [fill-in desired age]”)
- Non Natural Persons (legal entity, other than humans)
  - Businesses
  - Trusts
  - Charities
  - Estates
**Per Capita** *(monies are divided between all surviving beneficiaries equally).*

**Per Stirpes** *(monies are divided equally between all designated beneficiaries and/or their estates [if one or more of the beneficiaries is/are pre deceased]).*

**Two types of beneficiary classifications are:**
- **Revocable Beneficiary** *(may be changed at anytime or for any reason or no reason at all [normally most beneficiaries are revocable] by the owner of the policy).*
- **Irrevocable Beneficiary** *(may NOT be changed at anytime or for any reason without the permission of the designated beneficiary. In addition, nothing can be done to the policy that will reduce the face value of the policy [for example: loans or withdrawals]) without the permission of the designated beneficiary.*

**Uniform Simultaneous Death Act** *(if insured and primary beneficiary are killed in the same accident, it is always assumed that the Primary Beneficiary pre-deceased the insured… assuming there is not any proof otherwise).*

**Spendthrift Trust Clause** *(death benefit is held in trust for a specified length of time during which payments are made to the beneficiaries periodically.)*

**Facility-of-Payment Provision** *(primarily found in industrial policies) used to pay proceeds to someone other than the beneficiary. Some situations include:*
- The beneficiary being a minor
- The named beneficiary is deceased
• No claim is submitted within a specified time, or
• Costs were incurred by a third party regarding the finial expenses (*last hospital stay, doctors fees, and burial*)
Section 5: The Application

The Application (the statements on an application).
- The policy type
- Amount of insurance (also known as “face amount” or “death benefit”)
- Beneficiary - name and relationship
- Other insurance the proposed insured owns
- Additional insurance pending - Any other applications the applicant may have pending
- Other information - included in the application addresses hobbies, foreign travel, aviation and military service
- Medical history - applicant’s and immediate family members’ medical history as well
- Agent’s report – opportunity for agent to clarify anything identified during the application process.

Life Insurance Application Facts:
- Statements on the Application (are representations, not warranties of truth [a warranty is a statement that the applicant guarantees to be true]).
- Misrepresentation (a representation that turns out not to be true).
- Material information (information which the insurance company will use to base the issuing of the policy on).
- Fraud (misrepresentation of material information, fraud is always intentional).
• **Concealment** (not disclosing material information that could effect the issuing of a policy).

• **Backdating Applications** (applications may be backdated up to six months to obtain a lower premium – applicant must pay all back premiums).

**Application/policy changes:**

• **Changes to the Application** (changes may be made to the application by striking through the mistake and having the customer initial the change).

• **Changes to the Policy** (an agent can NEVER make changes to the policy).

**Back Dating Applications** *(saving age)*: Application may be backed dated up to six months to save age – premiums are age sensitive, saving a year in age lowers the resulting policy premiums *(assuming the applicant had a birthday within the last six months)* the agent must collect all back premiums plus one month advance premium to be submitted with the application.
Section 6: Underwriting

Underwriting - another name for risk selection (selection, classification and rating risks). Underwriters are concerned about Adverse Selection.

**Adverse Selection** *(underwriters do not want to issue policies to people who will soon make a claim)*. They evaluate the following:

- **Risk** *(chance or uncertainty of loss)*
- **Peril** *(cause of loss [car wreck, tornado, storm, etc.]*)
- **Hazard** *(anything that increases risk)*

**Risk – Two Types:**

- Insurance *can only be used* to cover **Pure Risk** *(in the case of L&H insurance that would be mortality or morbidity)*.
- Insurance *cannot be used* to cover **Speculative Risk** *(such as losses in the stock market)*.

**Hazard – Three Types:**

- **Physical hazard** *(past medical problems, blindness, deafness, and/or birth defects)*
- **Morale hazard** *(unintentional, careless or irresponsible behavior that results in a loss)*
- **Moral hazard** *(intentionally create a situation that would cause a loss)*
How Risk is managed:
  o By the insurer:
    • **Avoid** *(denying a policy)*
    • **Reduction/Control** *(rating a policy or adding exclusions to a policy)*
  o By the proposed insured:
    • **Retain risk** *(just not buying insurance)*
    • **Transfer risk** *(insured)* *(Insurance is a way of transferring risk)*

Elements of insurability
- **Chance**: Loss must occur through chance. *(events outside the persons control)*
- **Definite and Measurable**: Loss must be definite and measurable *(time, place, etc and difficult to falsify)*
- **Unexpected**: Risk must be unexpected *(not predictable)*
- **Large pool of potential insureds**: Must be a large number of persons with a similar potential loss available for insurance so that overall, losses become predicable.
- **Random lost**: Loss must not happen to a large number of insured at the same time *(losses have to be random)*
- **Catastrophic**: *(insuring many people over large areas, not large number of people in a small area for large size death benefits)*

Underwriters ask two basic questions which deal with:
- **Insurable Interest** – If the applicant and the insured are not the same person - *“Does an insurable interest exist?”*
- **Insurability** – *“Is the applicant insurable?”*

Risk Selection Process includes:
- **Field Underwriting** *(the agent is on the frontline of the underwriting process, what he/she sees while taking an*
application, this information is recorded, as necessary, on the Agent Report).

- **Required documentation** - Many states require the agent to deliver the following at the time of the solicitation:
  - A copy of the “Life Insurance Buyer’s Guide” and a Policy Summary – (“policy illustration”) which includes the agent’s name and address, the insurer, and specifics about the policy being proposed

- **The Application** (the statements on an application, see Section on Applications).

- **Medical Report** - most policies of any size require some form of physical exam – the larger the policy the more complex the physical exam – and may require a physician’s report on applicants’ medical history.

- **Special Questionnaires** – used to clarify and detail information about personal activities such as aviation (flying), vocation (work), avocations (hobbies), foreign residence, finances, and military service.

- **Personal Investigation** - normally a customer interview via phone is used for this type of investigation, however insurance companies may use private companies to perform more comprehensive investigations for larger policies resulting in Inspections Reports.

- **Medical Information Bureau (MIB)** - maintains applicants’ medical records… MIB organization is owned and operated for the benefit of insurance companies to prevent insurance fraud…records are available upon request to applicants’ physician.

- **Fair Credit Reporting Act of 1970** – (insurance companies are interested in applicants’ credit history due to moral fitness concerns) provides the applicant the right to question negative reports concerning their credit within a reasonable amount of time, normally 3 days.

**Factors in Computing Premiums** (actuaries [trained mathematicians] are responsible for establishing premium rates) The three primary factors used are:
• **Mortality** *(the frequency of death in various age groups).*

• **Investment Experience** *(interest)* *(how well of a return the company receives on its investments over time).*

• **Expense** *(salaries, rent, equipment maintenance, taxes, etc.*

  Expenses are also known as **loading**.

• **Net vs Gross Premium**:
  • **Net single premium** = *(mortality cost – interest).*
  • **Gross premium** = *(Net Premium + expenses)*

**Reserves vs. Cash Values**

• **Reserves** – amount of money the insurance company has on hand to cover future insurance claims.

• **Cash Values** – are a combination of excess premium and interest held on account for the each individual permanent policy holder.

**Other Factors in Establishing Premium:**

• **Age** *(the older you are the greater the mortality risk)*

• **Sex** *(women live about 5 to 6 years longer than men)*

• **Health** *(folks with poor health have a greater mortality risk)*

• **Occupation** *(vocation, such as high steel worker, Liberian, etc.) or Avocation *(hobbies)*

• **Habits** *(smoking, over eating, etc)*

**Premium Payment Modes** – the four total modes are:

• **Annually** *(lowest total annual cost due to company processing only one bill per year)*

• **Semiannually** *(next lowest total annual cost due to company processing two bills per year)*

• **Quarterly** *(next lowest total annual cost due to company processing four bills per year)*

• **Monthly** *(highest total annual cost due to company processing twelve bills per year)
Rating a policy - policies may be issued at one of the following ratings:

- **Preferred Risk** (this means the underwriter believes that the individual will live longer than a normal life expectancy)
- **Standard Risk** (this means the underwriter believes that the individual has a normal life expectancy.)
- **Substandard Risk** (this means the underwriter believes the individual has a shorter life expectancy than normal)

Methods of rating substandard risks:

- **Extra percentage tables** (also called Multiple Table Extra Premium - uses rate tables)
- **Extra premium** (also called flat extra premium):
  - **Temporary flat extra premium** (a fixed amount added to premiums for a specified number of years)
  - **Permanent flat extra premium** (a fixed amount added to premiums per year)
- **Rate-up in age** (rating the individual as if they were older than they currently are due to their poor health)

Alternate method of addressing substandard risk: **Lien system** (policy is issued at standard rates, however were they to die of a cause listed in the policy the face amount will be reduced as specified)
Section 7: Life Policy Structure Overview

Basic Policy Provisions
- **The entire contract Provision** - defines and establishes the legally enforceable document that is the entire contract.
- **Insuring clause** - defines the promise to pay the policy face amount upon the death of the insured.
- **Free-look provision** - defines the length of time the proposed insured can review the policy and decide to keep it or not, normally this is a 10 day period.
- **Consideration clause** - specifies the amount of the premium for this policy.
- **Grace period provision** - normal grace period is 30 days *(unless the insured is 64 or older; then the grace period is 51 days)*, at the end of the grace period the policy lapses unless there is a payment. Due to **non forfeiture options** and **extended term options** the cash value is used to purchase a term policy – the resulting term policy is the same face value as the permanent policy and is enforce as long cash values of the lapsed policy lasts. If the insured dies during this period the arrears premium will be deducted from the death benefit prior to payment.
- **Reinstatement provision** - normally you may reinstate a policy within the first 3 years *(this period could be as long as 7 years)* after termination, you will have to pay all back premiums with interest, provide proof of insurability, pay off any outstanding policy.
loans and you may not be able to reinstate any previously existing policy riders.

- **Policy loan provision** - loans reduce the payout of the life insurance policy by a like amount – they accrue interest – amount that can be borrowed is limited to percentage of available funds and interest rates are defined in the contract.

- **Incontestable clause** - normally 2 years during the life of the insured, after which the company is bound to pay the face value of the policy regardless of fraud, misstatement, or concealment. The *three exceptions* to this clause are:
  - **Impersonation** (*fraud*)
  - **No insurable interest** - insurable interest is defined as “love and affection” by bloodline (*relative* – *like son, daughter, etc.*) or by law [*spouse, adoption, business partner, etc.*])
  - **Intent to murder** - not a legal purpose

- **Assignment provision** – The two types of assignment are:
  - **Absolute** – permanently transfers ownership of policy - completely and irrevocably, for instance gifting the policy to an insured child at their adulthood.
  - **Collateral** – temporarily transfers ownership of policy, for example in the case of collateral for a loan.

- **Accelerated benefits provision** (*policy loan*) – provides up to 75% of the face value of the policy to individuals that are terminally ill or chronically ill – monies are advanced, in some cases less loan interest (*if any*), in either lump sum payment or monthly installments. Terminally ill and chronically ill are defined as:
  - **Terminally ill** - expected to die within two years as defined by a doctor, monies are received tax free.
  - **Chronically ill** – as certified by a doctor, if during the last 12 months the individual has:
    1. been unable to perform at least two “activities of daily living” (*ADLs*) for a minimum of 90 days during a 12 month period.
    2. a similar level of disability as defined by regulations
    3. cognitive impairment
In 2002, monies received above $210.00 per month (or $76,650 annually – monthly and annually levels are subject to adjustment for inflation.) will be taxed as ordinary income.

- **Misstatement of age or sex provision** – discovery during life results in the face amount of the policy being adjusted up or down; if discovered after death, prior to payment out of the death benefit the payment will be adjusted either up or down depending on the misstatement.
- **Automatic premium loan provision** – included in most policies *(may be as a policy rider)* - pays for over due premiums to prevent policy lapse using the policy cash values.
- **Beneficiary provision** – define who gets the money.
- **Settlement options** – defines how the policy will pay the death benefit to the beneficiaries.

**Policy Exclusions** – policies will not pay if death results from:
- **War**
- **Private aviation** *(older policies excluded death from both private and commercial aviation)*
- **Hazardous occupations or hobbies**
- **Commission of a felony**
- **Suicide** *(premiums will be refunded in this case)*

**Non Forfeiture Options**
- **Cash surrender** *(the “surrender value” of the permanent policy is cashed out and the policy is terminated at the request of the policyowner)*
- **Reduced paid-up** *(the cash values of the permanent policy are used to purchase a paid-up permanent policy, the resulting paid up policy with a lower face value than the original policy)*
- **Extended term** *(this is an automatic feature with permanent policies. At the time of policy laps the cash values are used to*
purchase a term policy [the face value of this term policy is the same as the original policy’s] and the resulting term policy will be enforce as long as the existing cash values last)

Policy issue and delivery sequence:
- Policy is issued and mailed to agent for delivery to customer
- Agent reviews policy and related paperwork
- Agent contacts customer and hand delivers policy
- Agent explains the policy and policy ratings (if any). The agent addresses any customer issues, obtains additional premium (in cases where policy is rated), and obtains signed deliver receipt.
- In Special Cases for large policies where the first month premium was not collected, the agent has the customer sign a “State of Insured’s Good Health” (this is a statement that the insured’s health has not changed since the time of the application of the policy) and collects the premium, and obtains signed delivery receipt.

Note: In some cases the policy is mailed to either the agent or the customer for “unconditional delivery” – in this case a policy delivered in this manor meets the legal requirements for “Constructive Delivery” and needs no further action to complete the delivery process.

Miscellaneous:
- **Condition Receipts** – Given at time of application. Two types:
  - **Insurability** – (normally used today) The proposed insured is covered once the first monthly premium and application is received by the agent with the following limitations:
    - No misstatement of material information on the application
    - The proposed insured passes the physical within a reasonable time frame.
    - Death, if it occurs, is not the result of suicide.
• Coverage is limited to face amount of policy or a maximum of $100,000 \textit{(whichever is less)} during the approval process. \textit{(actual maximum amount of coverage may vary from company to company and state to state)}

• Coverage will start on either the date of application or the date of passing the physical exam (if an exam is required – this may vary from company to company and state to state).

  o \textbf{Approval} - Coverage does not start until the policy is approved and delivered to the customer. \textit{(rarely used today)}

• \textbf{Binding Receipts} \textit{(temporary insurance agreements – coverage for a maximum of 60 days from date of application)} – proposed insured is covered from date of application and receipt of initial monthly premium or the date of passing the required medical exam \textit{(if an exam is required)} until the insurance company accepts or rejects the application. Providing that there has been:

  • No misstatement of material information on the application
  • The proposed insured passes the physical within a reasonable time frame.
  • Death, if it occurs, is not the result of suicide.
  • Coverage is limited to face amount of policy or a maximum of $100,000 \textit{(whichever is less)} during the approval process. \textit{(actual maximum amount of coverage may vary from company to company and state to state)}
Section 8: Annuities

Annuity - is a “tax advantaged” investment vehicle. Additional facts include:
- Investments grow tax deferred.
- Withdrawals are taxed at the ordinary income rate.
- Principle function is to liquidate an estate through series of periodic payments.
- Can be used to distribute monies resulting from winning lawsuits, lotteries, or other contests, these are referred to as **Structured Settlements**.
- Can be designated as either **Qualified** or **Nonqualified**
  - **Qualified Plans** - Investments qualify for a tax deduction in the current tax year and investments grow tax deferred – *meets or exceeds the federal government’s guidelines for qualified plans.*
  - **Nonqualified Plans** - Investments are not tax deductible and investments grow tax deferred – *does NOT meet the federal government’s guidelines for qualified plans*

**Annuity Types** (two basic types):
- **Fixed** - premiums are invested in the insurance company – interest is paid at a **fixed rate of return**.
- **Variable** - premiums are stored in a separate account and are invested in sub-accounts – return is based on market performance – has a **variable rate of return**.
Annuity variations:
- **Equity Indexed annuity** is a special case fixed product where growth is based on the stock market “index” performance. Other terms related to indexed annuities include:
  - **Participation rate** - % of index overall growth. i.e. \(150\% \text{ increase in the index} \times 80\% \text{ participation rate} = 120\% \text{ for the year.}
  - **Spread** – a normalizing factor – used to reduce growth per year (percentage or specific $ amount).
  - **Cap** – maximum percentage growth allowable (regardless of actual growth).
  - **Floor** – maximum percentage loss in a year, for instance index goes down 10%, annuity with a 2% floor will only drop by 2%.
  - **Ratcheting** – steps up annuity value while protecting that value from future loses.
  - **Point-to-point** – when the comparison of the current index value to previous years index values, for example: once a year or every month.

- **Retirement Income Annuity** – fixed or variable product - in addition to the standard annuity features this annuity has a term life policy associated with it to provide additional death benefits.

Annuity Terms:
- **Annuitant** – the person that owns the annuity
- **Accumulation Period** - the period of time that passes during which monies are deposited *(in one lump sum or a series of payments made over time)* prior to the “annuity period” – monies are accounted for during this period in “accumulation units”.
- **Annuity Period** - during this period the annuitant has given up all other rights to his/her monies and the annuitant has accepted a “settlement option” *(a settlement option is used for the systematic payment of monies)* – monies are accounted during this period in “annuity units”.
• Funding method:
  • **Deferred Annuity** – *(periodic payments)* monies are deposited in one lump sum or by a series of payments made over a period of time during the accumulation period and at some future date the annuity may go into the “annuity period”.
  • **Immediate Annuity** – *(single premium)* monies are deposited in one lump sum and goes into the “annuity period” instantly.
  • **Surrender charges** *(early withdrawal/sells charges/bail-out provision/nonforfeiture)* – annuities are long term investment vehicles, therefore insurance companies discourage withdrawals during the early years of the annuity *(typically during the first 7 to 10 years)*, however some companies allow an annual withdrawal of up to 10% of total premium without any insurance company imposed surrender charges.
• **Specific names of annuities:**
  • **Flexible-premium deferred annuity** *(FPDA’s)* – Periodic payments over time and the monies invested grow with interest over time.
  • **Single-premium immediate annuity** *(SPIA’s)* – One payment, a settlement option is selected and payments begin.
  • **Single-premium deferred annuity** *(SPDA’s)* – One payment and the monies invested grow with interest over time.
  • **Tax-sheltered annuity** *(TSAs)* or **Tax-deferred annuity** *(TDA’s)* – Used for teacher’s retirement programs, these are normally deferred annuities.
  • **Death Benefits** – vary by company and annuity purchased, but normally is the current amount of the annuity (or in some cases the “high water mark” [highest value the annuity ever obtained]) if death occurs during accumulation period.
Annuity Settlement Options (*income options)*:

- **Straight Life Income** (*Life Annuity or Straight Life Annuity*) - pays an income for the rest of the annuitant’s life and when the annuitant dies the insurance company keeps the remainder of the monies.

- **Cash Refund** (*Life Annuity with Refund*) - pays an income for the rest of the annuitant’s life and guarantees *as a minimum* a refund of the principal (*the initial amount of the monies in the annuity*) to either the annuitant or if the annuitant dies prior to receiving the full refund of the principal the reminder is paid to his/hers beneficiary in a lump sum payment.

- **Installment Refund** - pays an income for the rest of the annuitant’s life and guarantees *as a minimum* a refund of the principal to either the annuitant or if the annuitant dies prior to receiving the full refund of the principal the reminder is paid to his/hers beneficiary in installments *not lump sum*.

- **Life with Period Certain** - pays an income for the rest of the annuitant’s life and guarantees *as a minimum* the beneficiary will receive the remaining annuity payments for the period certain if the annuitant dies during the period certain. For example: *Life Annuity with 10 Year Period Certain* and *Life Annuity with 20 Year Period Certain*.

- **Period Certain** - pays a guaranteed level of income for a specified period of time to either the annuitant or if the annuitant dies during the period certain the remainder is paid to the beneficiary. For example: *10 Year Period Certain* or *20 Year Period Certain*.

- **Joint**
  - **Joint and Full Survivor** – starts with defined periodic level payments which continue through the life of the last annuitant.
  - **Joint and Two-Thirds** – starts at a defined level and payment level drops to two-third the original defined payment level at the death of the first annuitant, then continues paying at the new level through the life of the last annuitant.
  - **Joint and One-Half** - starts at a defined level and payment level drops to one-half the original defined payment level at the
death of the first annuitant, then continues paying at the new level through the life of the last annuitant.
Section 9: Business Usages of Life Insurance Products

Background

The Three Types of Businesses:
- **Sole Proprietorships** *(one person owning and operating a business).*
- **Partnership** *(two or more persons owning and operating a business).*
- **Corporations** *(are separate legal entities from the people who run the company, stockholders are the owners).*

How are life insurance products used in businesses?
- **As a funding medium** – used to assist the transfer of ownership at the death of a partner and to fund deferred compensations plans.
- **As a form of business interruption insurance** – used to indemnify the business from losses created by death or disability of key personal.
- **As funding vehicle for employee benefits** – used for covering death, health, disability and retirement needs.
Specific Business Usages for Life Insurance Products Include:

- **Buy-Sell Agreement** – a legal contract funded by an insurance policy (insurance policy proceeds can be used to fund the purchase of a deceased partner’s portion of the partnership/company from survivors) without this type of contract the partnership is automatically dissolved at the time of death of one of the partners.

- **Two types of partnership buy-sell plans:**
  - **Partnership Cross-Purchase Plan** – a partner buys an insurance policy on the other partner and the death benefits are used to buy out the deceased partner’s interest in the business, the monies from the policy is paid to the estate of the deceased partner as part of this partnership buyout agreement.
  - **Partnership Entity Plan** – The business itself pays for the policy, and is the beneficiary of the policy at the individual partner’s death. These proceeds are used to buyout the deceased partner’s interest in the business from his estate as part of this agreement. The deceased partner’s business interests are then divided between the surviving partners based on their percentage of ownership of the business. The premiums are not tax deductible to the business; however the policy proceeds are not taxed.

- **Closed Corporation Buy-Sell Plans**
  - **Closed Corporation Cross-Purchase (or Entity) -** Used to purchase the deceased stockholder’s share of the company from the deceased stockholder’s estate. Each stockholder purchases a life insurance policy on other stockholders and is the beneficiary of the policy. At the death of a stockholder the monies are used to purchase the deceased stockholder’s shares from their estate as defined in this agreement.
  - **Closed Corporation Stock Redemption Plan** - The business itself pays for the policy, and is the beneficiary of the policy at the individual stockholder’s death. These proceeds are used to buyout the deceased stockholder’s stock from his estate as part of
this agreement. The deceased stockholder’s stocks are then divided between the surviving stockholders based on their percentage of ownership of the business. The premiums are not tax deductible to the business; however the policy proceeds are not taxed.

- **Key Employee** (or **Key Executive**) - an individual that, if deceased, would adversely affect the company. *(An Insurance policy can be used to protect the company from this financial disaster by providing funds to be used to replace the individual at their death).* The premiums are not tax deductible to the business; however the policy proceeds are not taxed. Primary purposes of this insurance are:
  - **Business indemnification** – if the business were unable to meet customer deadlines due to the death of an executive.
  - **A reserve fund** – cash values (living benefit) of a policy may be used as an asset to the company
  - **Business Credit** – these policies protect the company’s credit during the time of loss of a key employee.
  - **Favorable tax treatment** – proceeds from policy are received tax free

- **Employee Benefits Plans** *(life insurance and annuities are used to invest a part of their salary as deferred compensation under IRS code Section 457).* Examples include:
  - **Split-Dollar Plans** – Life insurance partially paid for by the employer as part of a company’s benefits package.
  - **Deferred Compensation Plans** – where the employee postpones their raises or part of their salary increases to some future date at or near retirement *(funded by employee)*
  - **Salary Continuation Plans** – the salary of the employee is continued during retirement with this company funded plan.

- **Executive Bonus Plans** *(a life insurance and/or an annuity may be used to fund this plan).*
Group Qualified Plans

- **Employee Participation Standards**
  - Must be at least 21
  - Must have been employed for a minimum of one year

- **Coverage Requirements** – plan must be non-discriminatory *(plan must treat all employees the same)* the plan must pass IRS’ “coverage test” to verify meeting this requirement.

- **Funding Standards** – Employee and employer must contribute to the plan, the funds must be held by a third party and invested, and funding level must meet minimum federal guidelines setup to ensure contributions are sufficient to cover all plan costs of benefits payable during the year and administrative expenses.

- **Vesting:**
  - **Employee contributed monies** – the employee owns 100% of this money + accrued growth from day one – is 100% vested.
  - **Vesting Schedule** – Schedule defines the graduated percentage of employee ownership of the monies *(+ accrued growth, if any)* the company contributed to the plan for the employee. Two main types of vesting schedules: **Cliff** *(0% vested for first 4 years and 100% vested in fifth year)* and **Graded** *(0% vesting first and second year, 20% per year thereafter till seventh year reaches 100%)*.

- **Contributions** – vary depending on the type of plan:
  - **Defined Contribution Plans** – you know how much is being put in, but you do not how much will be available to be pulled out.
  - **Defined Benefit Plans** – you do not know how much is being put in, but you how much will be available to be pulled out. May use either of the following “funding vehicles”:
    - **Group Deferred Annuity** - employer owns the master contract and a certificate of participation is given to employee, specific amounts of deferred annuity are purchased each year to meet defined retirement goals.
• **Individual Deferred Annuity** - employee owns individual level premium annuity. Contract(s) are purchased once a year based on current salary level.
  o **Profit-Sharing Plans** – used to allow the employee to participate in company profits (*must have recurring and substantial contributions by the employer to meet federal guidelines.*)
  o **Stock Bonus Plans** – similar to profit-sharing plans, however employer contributions are not directly tied to profits.
  o **Pension Plans**
    • **Money Purchase Plans** – fixed employer contributions (a variation of a defined benefit plan); must meet three requirements:
      • Employee contributions must be allocated to participants based on defined formula.
      • Distributions are based on actual amounts credited to participants.
      • Plan assets/participants accounts are to be valued/adjusted once a year.
    • **Targeted Benefit Plan** - a cross between defined contribution plan and a defined benefit plan. Works like a Money Purchase except has a targeted benefit, may or may not reach target.

**Defined Contributions Plans**
• **401K, Cash or Deferred Arrangements** - employee’s tax deductible contributions are matched in part by the company.
• **403b Plans** – (*also known as Tax Deferred Annuities [TDA] and Tax Sheltered Annuities [TSA]*) used for teacher retirements plans.
• **457 Deferred Compensation Plans** – used for employees of non profit organizations, state and local governments. Life insurance and/or annuities may be used as investment vehicles.
• **Keogh Plans** *(HR-10s)* – ideal for the self-employed individual and small unincorporated businesses.

• **SEP’s** *(Simplified Employee Pensions)* - ideal for the self-employed individual and small unincorporated businesses.

• **SARSEP’s** *(Salary Reduction SEP Plans)* were ideal for the self-employed individual and small businesses – no new SARSEP’s are allowed after 1996 due to a change in the tax laws, however new participants may be added to existing plans.

• **IRAs** *(Individual Retirement Accounts)*. Contribution limits are 3000 per person per year, available to anyone up to age 70, available to non working spouses *(Spousal IRA’s)*, and depending on individual’s participation in other retirement plans, contributions may not be tax deductible.

• **SIMPLE** *(Savings Incentive Match Plan for Employees)* **Plans** *(may be structured as either a 401k or IRA)* – available to small business, tax-exempt and government entities, employing no more than 100 and making at least $5000 the previous year per participant.

• **Roth IRAs** - The exception to the rule!! Contributions are NOT tax deductible, after tax dollars contributions only – grows tax deferred, distributions are never taxed. Subject to early withdrawals penalties and has no minimum distribution requirement.

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**Tax Deferred Education Plans:**

  - **Coverdell Education Saving Accounts** – contributions of up to $2,000 of after taxed dollars per year, per child that is under the age of 18 - grows tax deferred, if used for qualified education expenses; no tax is paid on growth, however if used otherwise must pay taxes and a 10% penalty on growth. Full contributions are allowable for individual taxpayers with adjusted gross income of less than $95,000 or joint filers with a combined adjusted gross income of less than $190,000. Contributions are phased down as the taxpayer's gross income approaches the level of $110,000 for individuals and $220,000 for joint filers.
Notes:

- All IRA’s have “Required Minimum Distributions” (RMD) requirements when the owner reaches 70 ½ years old. (Does not apply to ROTH IRAs)
- All qualified retirement plans are subject to a 10% penalty on withdrawals prior to age 59 ½.
- All non qualified retirement plans are subject to a 10% penalty on the withdrawals prior to age 59 ½ of the growth accumulated in the plan, not the “cost basis” (after tax monies invested in the plan).

Note: Contributions, tax deductions, distributions limits, early withdrawal penalty exceptions and other plan requirements are beyond the scope of this manual, please see www.irs.gov for additional information!
Section 10: Group Life

Group Life Insurance – Lower cost life insurance than individual policies of same type.

Group Life Insurance – Eligibility Requirement:
- Actively at Work
- Length of Service - typically one year or more
- Salary Level
- Full-time/part-time
- Probationary Period - the time (usually 90 days) that must pass before your insurance goes into effect
- Eligibility Period - period of time that must pass until you are allowed to enroll in the non-medical plan, normally once a year during the “enrollment period” which normally last 30 days – used to avoid adverse selection.
- Convertible (group insurance may be converted to whole life without proof of insurability – however the premiums will be very high!! Dependents of deceased employees may also convert their group life policy as well).

Group Insurance Facts
- Application - information is provided by the company.
- Enrollment - employee fills out an enrollment card – not an application.
- Underwriting - is simplified – as long as the individual can work, adverse selection is minimized by the “flow of insureds” (organization turnover)
• **Master Policy** *(Master Contract)* - the company receives the master policy for the group life

• **Certificate of Coverage** - the employee receives a certificate, not a policy for group life coverage.

• **Beneficiaries** - anyone can be a beneficiary except the employer, no settlement options, “lump sum” only.

• **Contributory vs. Noncontributory** - Contributory plans are paid by employee – Noncontributory plans are paid by the employer. To avoid adverse selection 75% employee participation for Contributory Plans – 100% participation for Noncontributory.

• **Type of Coverage** - normally Annually Renewable Term (ART). In some cases the coverage may be permanent insurance instead term, for example:
  - Group ordinary,
  - Group paid-up, or
  - Group universal life.

• **Death benefit available** – predetermined on an individual employer basis according to one of the following set schedules:
  - **Earnings** – flat amount or percentage of salary or earnings
  - **Employment position** – set amount based on employee’s position
  - **Flat benefit** – set amount across all employees – normally a small amount

**Types of “Natural Groups”** *(group had to be formed for other reasons than just to get group insurance)*:

• **Employer Groups** - companies with 10 employees or more, if otherwise the company is a “baby group”.

• **Multiple Employer Trusts** *(MET’s)* used by small companies to obtain lower premiums on insurance – maybe self funded or traditional insurance programs. Self funded, administrated by either insurance companies or a third party administrator (TPA) or administrated by an insurance company.

• **Multiple Employer Welfare Associations** *(MEWA’s)* - used by labor unions to obtain lower premiums on insurance – normally self funded and tax exempt.
• Labor/trade Organizations - must have 25 or more members to obtain insurance.
• Debtor/Creditor Groups - car dealers, personal loans, etc. – insurance used to payoff a specific debt upon death – unique in that the coverage is normally decreasing term.
• Franchise Life (sometimes called “wholesale insurance”) – unique in that the group is formed under a “sponsor” and the members receive individual policies
• Fraternal organizations (insures their members)
• Blanket Life – used to insure exposed to a common hazard. Members are automatically covered, but only during the exposure to the hazard. For example:
  • Transit companies (airlines/trains/buses/etc. wishing to cover their passengers)
  • Learning institutes (universities/colleges/schools wishing to cover their facility, employees, and students)
  • Organizations (religious, recreational, or civic) covering individuals while engaged in sponsored activities.
  • Companies (Employees covered while engaged in specific hazards of their employment)
  • Sport teams (members covered during team events)
  • Volunteer fire departments (members covered for fire fighting actives)
  • Newspaper companies (covers their carriers during the execution of their job)
Section 11: How Is It Taxed?

Premiums are normally not tax deductible; however there are a few exceptions where premiums are tax deductible:

- Premiums paid by qualified chartable organizations.
- Premiums paid as result of a court order (for example: in the case of a divorce settlement where insurance is considered part of alimony)
- Premiums paid by a business for an insurance policy used as collateral for a debt.
- Group life premiums paid by an employer as part of their approved company benefit plan.

Death Benefits – normally never federally taxed, however:

- Tax deductible premiums - if the premiums for the policy were tax deductible the death benefit may be all or in part subject to taxes.
- Interest paid on death benefits held on account - the interest paid on proceeds which are left on account is subject to taxes. When proceeds are paid out over time the interest gained during the period is taxed using the “annuity rule” (under the “annuity rule” the portion of each payment that represents interest gained during the payout period is subject to taxes.)
Estates – death benefits paid to an estate become a part of the gross estate and are taxed as such.

Transfer for Value Rule – if cases where a policy was assigned to another for consideration (policy is sold), the insured dies, and the new policy owner is the beneficiary then the amount received above the cost (price plus any premiums paid into the policy) is taxable to the new owner/beneficiary. Exceptions to this rule concern the transfer for value to a partner, partnership, or corporation where the insured is a shareholder or corporate officer.

Cash Values

- Excess premiums - (the portion of premiums above the cost of insurance) grow tax deferred
- Loans against the cash value are “never taxed” as long as the policy stays in force for the life of the insured.
- Withdrawals:
  - For Life policies - are taxed using the FIFO (first in, first out) accounting principle which means that withdrawals are not taxed until the full “cost basis” (excess premiums) is depleted from the policy, after which withdrawals of the growth (interest accrued by policy) is taxed as “ordinary income.”
  - For Non Qualified Annuities – are taxed using the LIFO (last in, first out) accounting principle which means that withdrawals are taxed as “ordinary income” until the “cost basis” (after tax dollars invested) is reached, withdrawals of the “cost basis” is received tax free.
  - For Qualified Annuities - are taxed as “ordinary income” since the monies invested were never taxed.
- Annuity option (Income option) – Annuity systematic payouts are taxed based on the “Exclusion Ratio” – a percentage of each annuity payout is the annuitant’s “cost basis” and therefore is excluded from taxes, the reminder of each payout is subject to taxes at the annuitant’s “ordinary income” rate. The formula to calculate the “Exclusion Ratio” is as follows:
Investments in the Contract / Expected Return = Exclusion Ratio

- **Endowment policies proceeds**, at maturity, left on deposit with the insurance company will be partially taxable under the "**constructive receipt rule**" (A taxpayer is normally taxed on income only as it is received. However, if income was unreservedly subject to his or her demand and he or she could have received it, but chose not to do so, it is regarded as having been “constructively received” by him or her and is **taxable at that time**. For example, interest credited to a savings account is constructively received even if the taxpayer hasn't withdrawn it.) unless the policyowner exercises an “annuity option” within 60 day of policy’s maturity.

- **Tax shields** - anytime money moves there is a tax event. Tax shields are used to avoid taxes when money is moved from one vehicle to another. There are three types of tax shields:
  - **1035 exchanges** – used to move non qualified monies which are in a policy to another insurance product without taxation, for example: *moving monies in a Life contract to another life contract or moving monies in a life contract to an annuity*.

  **Exception:** Monies in annuities cannot be moved to a life insurance contract tax free.

  - **Rollovers** – used to move qualified monies from one investment product to different type, for example *moving monies from a 401k to IRA*.
  - **Transfers** – used to move qualified money from one investment vehicle to a similar investment vehicle, for example *moving monies from a 401k to another 401k*. 
Section 12: Health Foundations

Health insurance contracts are personal contracts (ownership can not be assigned to another.)

Health insurance contracts are “contracts of indemnity” (putting the customer back where they were financially before the loss, within the limits of the contract)

Other Names for Health Insurance are:
- Accident & Health
  - Or -
  - Accident & Sickness

Other Names for Disability Income Policies are:
- Loss of Income
  - Or -
  - Loss of Time

Health Insurance Consideration - Health Insurance “consideration” has “two parts:”
• **Money** *(the 1st premium).*
  -- And --
• **The Statements made on the application.**

**Types of Health Insurance Policies**
• **Non occupational** *(The policy doesn’t cover injuries on the job).*
• **Full coverage** *(The policy covers all injuries regardless of where they may occur).*

**Health Insurance terms:**
• **Accident** *(is an unforeseen or unintended event resulting in an injury).*
• **Reimbursement** *(Pays actual costs incurred)*
• **Indemnity** *(A policy that attempts to put you back into the same condition you were before the event; within the limits of the policy [tries to restore your income, medical costs, etc.]).*
• **Multiple Indemnity** *(covers more than one type of accident and pays a higher death benefit for certain types of accidents – subject to the limits of the policy).*

**Health insurance is available from:**
  o **Public/private insurance companies:**
    ▪ as individual policies, or
    ▪ as group policies
  o **Government entities:**
    ▪ **State** - for example Medicaid
    ▪ **Federal** – for example Medicare

**Types of Medical Insurance Companies**

• **Stock** *(company is owned by stock holders – stock is bought and sold on the open stock market).* Issue non participating policies *(policies are not paid dividends)*
• **Mutual** (company is owned by its policy holders – the owners receive dividends). Issue participating policies (policies are paid dividends)

• **Fraternal Benefit Societies** (are usually mutual insurance companies and have a mock form of government [lodge work] associated with them).

• **Cooperatives:**
  - **Consumer** (Where several consumers band together to get needed service – example: some HMOs) Can be **Self-Insured** (self funded, administrated by either insurance companies or a third party administrator [TPA] – sometimes use “minimum premium plans” [MPP] – MPPs have lower premiums than traditional insurance premiums)
  - **Producer** (Where providers band together to provide needed services – example: Blue Cross/Blue Shield and some HMOs) – See Health Service Providers.

**Health insurance providers** (commercial insurers) that specialize in one or more medical expense (reimbursement for loss) or disability income insurance can be either:
  - Life insurance companies
  - Casualty insurance companies

**Health Insurance has three categories:**
  - **Medical expense insurance** – reimburses insured for covered medical expenses. Types of plans may include: hospital care, surgical expense, physician expense, medical treatment and out patient care.
  - **Disability income insurance** – provides income for disabled individuals
  - **Accident and dismemberment insurance** (normally sold as part of a group insurance plan) – includes:
Accidental Death (pays the principal sum if death occurs within 90 days from an accident).

Accidental Dismemberment (covers the loss of a limb or sight, and pays a partial principal sum for loss of one limb or a full principal sum for loss of two or more limbs)

Health Insurance Assignment
- Absolute (transferring all of your rights to another).
- Collateral (transferring a portion of your rights to another – normally used for medical insurance claims).

Cause of Loss - acceptable causes can be either:
- Accidental Means (External, violent and accidental means) (more restrictive term)
  - Or –
- Accidental Results (Resulting in bodily injury) (less restrictive term)

Main Types of Health Related Risk
- Physical (smokes, history of ailments, etc.)
- Moral (uses drugs, has bad business associates, etc.)
- Occupation (vocation - a librarian’s job is less risky than a high steel workers job) “change of occupation provision” conditions are as follows:
  - Change to a less hazardous job (their rates may be lowered with excess premiums returned)
  - Change to a more hazardous job the benefits will be lowered and the premium will stay the same).

Other Types of Health Related Risk
- Age (older you are the higher the premiums – coverage is limited in some cases to age 60 or 65)
- Sex (men show a lower rate of disability than women at ages under 55)
• **Medical history** *(insured’s or family of the insured)*
• **Avocation** *(hobbies)* *(in this case dangerous hobbies such as sky diving or cave diving)*
• **Aids Risk** *(Acquired Immune Deficiency - AIDs):*
  - HIV/Aids *(also known as ARC [Aids Related Complex HIV-III] and HTLV-III [T cell Lymphomatic Virus]).*
  - **Insurance companies do not want to insure folks with HIV/Aids due to “adverse selection.”**

Who needs health insurance and which is the proper program? Some of the primary issues that must be determined in order to attempt to answer this question are:
  - **Is the policy for an individual or do they have a family or a business they wish to cover?**
  - **Is there a plan** *(individual, group or social)* **available to suit these needs?**
  - **What is the balance of premiums and deductibles that will best suit these needs?**

Group vs. Individual Policies
  - **Who is covered where:** More Americans are covered under group policies than individual policies.
  - **Cost comparison:** Group policy rates are lower than individual policy rates.
  - **Group policies are convertible to individual policies**

Premium Factors:
  - **Payments options** *(limited)* : monthly, quarterly, or monthly
  - **Premiums include:** interest, expenses, types of benefits, morbidity *(how soon you will die)*, and **contribution to RESERVES** *(two types)*:
    - *premium reserves* – Monies held by company to address future claims
    - *loss (or claims) reserves* – Monies held by company to address current, unpaid claims
Section 13:
Health Service Providers

Service Providers (also known as a Producer Corporative) (not insurance companies... have subscribers... not policy holders ... receive medical care services based on their premiums paid) - The three primary types of service providers are:

- **Blue Cross and Blue Shield** (voluntary not for profit, covers hospital, surgical expense and medical services – can be individual, family and/or group)
- **Managed Care** (can reduce overall medical care expenses – typical with Medical Care Organizations [MCO’s] – emphasizing disease prevention – typical with HMO’s, PPO’s and EPO’s)
  - **Policy Design** (effect the overall costs to both the insured and the insurer) The policy may contain one or all of the following:
    - **Deductible** (lower deductibles means higher premiums, higher deductibles means lower premiums)
    - **Coinsurance** (a means of sharing the costs between the insured and the insurer)
    - **Benefit period** (the shorter the benefit period, the lower the lower premiums – the longer the benefit period, the higher the premiums)
  - **Medical Cost Management** (requires some form of insurer’s approval - used to control claims expenses)
    - **Mandatory Second Opinions** (for non life threatening surgeries)
    - **Pre-certification Review** (pre approval prior to entering the hospital for non emergency,
generally must notify insurer within 24 hours for emergency hospitalization

- **Ambulatory Surgery** (outpatient surgery)
- **Case Management** (insurer review of claims in process in an effort to minimize overall costs)

- **Health Maintenance Organizations** (*HMO’s*) (Organized under The Health Maintenance Act of 1973 – provided some federal funding - not only finance health care services on a prepayment basis, but also deliver health care services as well)
  
  - Types of HMOs
    - Profit
    - Nonprofit
  
  - HMO Panels
    - **Open Panel** – Network of independent doctors who provide services.
    - **Closed Panel** – Services can be only provided by staff who works directly for HMO.
  
  - Characteristics of HMOs
    - **Provides Preventative Medicine** as well as other medical services.
    - **Access** (24-hr. access, open enrollment, and is Nondiscriminatory).
  
  - **Gatekeeper system** (members must submit medical procedures for prior approval).
  
- **Preferred Provider Organization** (*PPO’s*) (a group of physician, hospitals and clinics who have reduced fees for services performed – operate on a fee-for-service basis, not a prepaid basis).

- **Exclusive Provider Organization** (*EPO’s*) (similar to PPO’s)
Section 14:
Medical Expense Insurance

Medical Expense Insurance (provides financial protection against the cost of medical care for accidents and sickness)

Basic Medical Coverage:
• **Medical Expense** (sometimes called “first dollar insurance”) has no deductible; includes hospital expense, surgical expense and physicians’ expense
• **Hospital Expense Benefit** (Covers hospital costs (drugs, X-rays, anesthesia, lab fees, dressings, operating rooms and supplies) including room and board (a place to stay and food) up to specified policy limits).
• **Surgical Expense Benefit** (Covers the costs of surgery)
  Benefits may be paid based on:
  • **Surgical Schedule** (Pays for procedures based on the listed amounts in policy)
  • **Reasonable and Customary Approach** (Pays up to the stated amount listed in the policy based on fees that are typical in the geographic area)
  • **Relative Value Scale** (Pays based on an arbitrary point system defined in the policy. The system is based on assigning a maximum number of points to the most complex procedure covered with all other procedures being assigned a less number of relative points. (For instance, a triple by-pass being assigned 2000 points while stitching a cut being assigned only 3 points). Each point would be assigned an actual dollar value in the...
policy and used to calculate the amount paid for covered procedures.

- **Physicians’ (non-surgical) Expense** *(Pays for non-surgical expenses)*

- **Other Plans:**
  - **Nurses’ expense benefits** *(limited to private duty nursing (can be either registered or practical nurses))*
  - **Convalescent care facilities benefits** *(has a maximum daily benefit for confinement in a skilled nursing facility for recovery after hospital discharge)*

**Major Medical Expense Plans** *(also known as Major Medical – pickup coverage where Basic leaves off)* Coverage includes hospital room and board, hospital extras, nursing services *(including at home)*, blood, oxygen, prosthetics devices, surgery, doctor fees, ambulance fees, etc. May be purchased as either:

- **Supplementary Major Medical** Provides supplementary coverage in excess of basic coverages or provides monies after exceeding basic coverage limits.
- **Comprehensive Major Medical** Covers virtually all medical expenses under one policy

**Other Characters of Major Medical Policies:**

- **Deductibles**
  - **Flat Deductible** *(is a certain fixed dollar amount you pay out of pocket per year before benefits are payable).*
  - **Corridor Deductible** *(typical with supplementary major medical policies and works with basic medical policy. Typically the first expenses are paid by the basic policy until benefits are exhausted, then the corridor deductible occurs, and then the major medical benefits are payable.)*
  - **Integrated Deductible** *(An integrated deductible is used with supplementary major medical plans and is shared with the basic plan, only one deductible for both plans )* Can be either per year or per cause *(per cause being defined as per sickness or per accident)*
• **Co-insurance** *(is the certain percentage you pay of the cost for a given service).*

• **Stop-Loss Feature** *(also called Stop Loss Limit)* *(is the maximum amount you pay out of pocket before insurance policy starts paying 100%).*

• **Maximum Benefit** *(the gross exposure the insurance company has over your lifetime for the current policy).*

• **Inside Limits** *(is the most monies the insurance company’s will pay for a given covered item in a claim regardless of the actual cost of the item).*

• **Preexisting Condition Feature** *(conditions that exist prior to coverage are excluded from coverage for a period of time, normally 90 days)*

**Major Medical Coverage** *(Common Exclusions and Limitations):*

1. Pre-existing conditions
2. Accident or illness while under influence
3. Self-inflicted injuries or suicide
4. **Cosmetic surgery** *(exception: covers surgery required resulting from trauma related injuries or birth defects).*
5. **Act of war** *(Declared or Undeclared).*
6. Military duty
7. Dental
8. Private air travel
9. Vision
10. Injuries while committing a felony
11. Alcohol or drug abuse treatment
12. Care provided in government facilities
13. Organ transplant
14. Sexually transmitted diseases
15. Infertility services
16. Experimental procedure

**Major Medical Coverage Terms**

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• **First Dollar Coverage** *(medical expenses coverage that starts paying from the first dollar of expense related to a given sickness or illness).*

• **Ambulatory** *(the ability to move about on your own power).*
Section 15: Disability Income Insurance

Disability Income Insurance (insures an individual against an “Economic Death”) has:

• Benefits are determined in one of two ways:
  • Percentage of income (income prior to the disability)
    - Or –
  • A flat set amount (normally used for group policies)
• No cash value.
• The longer the benefit is paid, the higher the premium and
• The longer the elimination period, the lower the premium.
• Covers a person from disabilities resulting from sickness or illness
• Normally pays a monthly income

Total Disability
• Own Occupation (own occ) (unable to perform duties of your former occupation).
• Any Occupation (any occ) (unable to perform duties of any occupation – “any occ” is the more restrictive phrase).

Occupational vs. Non Occupational Disability (policies are available to cover one or the other or both).

Presumptive Disability: You are assumed disable if you have a:
• Loss of use of any 2 limbs.
• Loss of hearing and speech.
• Total and permanent Blindness.

Types of Disability Benefit Payment:
• Partial (the inability to work full time or the inability to perform one or more of their duties resulting in a decrease of income -- usually pays 50% of total benefit – normally paid during the period of time between the individual’s disability and their recovery).
• Flat Amount (pays a set amount state in the policy, usually 50% of full amount)
• Residual Amount (pays based on the percentage of income lost during the disability, does not require prior total disability).
• Reoccurring (a disability that, after recovery, recurs – must recur within period of time specified in the policy to be considered a continuation [reoccurrence] of previous disability - - payout varies).
• Delayed Disability (Disability is not apparent until sometime after the accident, this period of time [30 to 90 days] is normally specified in the policy – payout varies).
• Benefit Period (maximum period of time benefits will be paid)
• Non-disabling injury coverage (some medical coverage is included with many disability policies to cover injuries that do not result in disability)

Disability Insurance Terms:
• Probationary Period (The period of time that lapses before the insurance will cover a sickness [normally 15 to 30 days period], used to avoid adverse selection. Accidents are covered from day one)
• Elimination Period (The period of time that must pass after the occurrence of a sickness/accident before insurance benefits start paying. An elimination period is similar to a deductible in that it reduces the amount of the cost of insurance and cost of payouts by the insurance company)
Section 16: Disability Income Policy Riders

Disability Income Policy Riders

- **Waver of Premium Rider** *(rider coverage goes thru age 60 or 65 [depending on policy], rider is then dropped from policy resulting in a lower premium -- pays premium while totally disabled for more than period specified in policy, normally 3 to 6 months)*

- **Social Security Rider** *(sometimes called the social insurance substitute rider) (pays during the period between eligibility and when Social Security actually benefits start, will also pay the difference between actual Social Security benefits and rider benefits, if rider benefits are for a larger amount)*

- **Cost of Living Adjustment Rider** *(COLA) (benefits are readjusted on an annual basis to reflect changes, based on minimums stated in the policy, in the Consumer Price Index [CPI] -- either up or down [to prevent current benefits from decreasing, the policy holder may choose to pay higher future premiums])*

- **Guaranteed Insurability Rider** *(pre-qualifies the insured to purchase additional amounts of coverage at times specified in the policy, prior to a stated age and based on a “earning test” to prevent over insurance)*
Section 17: 
AD&D

Accidental Death and Dismemberment Insurance (AD&D) (primary form of pure accident coverage – may pay some medical benefits as defined in policy) The two ways that benefits are paid are:

- **Principal Sum** (death benefit)
- **Capital Sum** (loss of sight or dismemberment – based on a percentage of the Principal Sum as defined in the policy)

Evaluating the proposed insured - The four ways to classify an applicant are:

- **Preferred Risk** (results in policy being issued at lower rates than average risk)
- **Standard Risk** (results in policy issued at average rates and terms)
- **Substandard Risk** (results in policy being issued at a higher rate and more restrictive terms than average risk) Substandard risk are underwritten in one or more of the following ways:
  - Attaching an **exclusion** (or impairment) rider or waiver to the policy
  - Charging an **extra premium**
  - **“Limiting the type”** of policy
- **Uninsurable** (results in rejection of risk and policy is denied)

Health Insurance Premium Factors
- **Primary Premium Factors**
• **Morbidity** *(the average number of people that will die each based on statistics and how long they are disabled prior to their death)*

• **Interest** *(growth on the excess premiums the company receives)*

• **Expense** *(insurance company’s overhead – cost of doing business)*

• **Secondary Premium Factors**
  
  o **Benefits provided under the policy**
  
  o **Past claim experience** *(of the insurance company)*
  
  o **Age and sex of the insured** *(health claims tend to increase as the insured grows older. Disability insurance: women under age 55 have a higher frequency and longer duration of disabilities then their male counterparts – this disparity is not evident after age 55.)*
  
  o **Insured’s occupation and/or hobbies** *(policies for folks with dangerous jobs or hobbies are more expensive)*
Section 18: Specialty Health Insurance Policies

Specialty Health Insurance Policies:

- **Dental Care** - Scheduled vs. Comprehensive:
  - **Schedule** (A list of items that a given policy covers).
  - **Comprehensive** (Covers everything dental).
- **Orthodontic**
- **Long Term Care** (covers a broad range of medical, personal and environmental services required for the aged to maintain their independence) Levels of coverage include:
  - Institutional care
  - Home-based care and
  - Community care
- **Types of coverage**:
  - Skilled Nursing Service (24 hour continuous service)
  - Intermediate Nursing Care (less than 24 hours continuous service)
  - Custodial Care (assistance with daily living activities usually at adult day care centers)
  - Home Health Care (nursing, rehabilitative or physical therapy care or unskilled care including cooking and/or cleaning)
  - Adult Day Care (assistance with daily living activities usually at adult day care centers and including some social activities)
  - Respite Care (short term care to give family members a break from care giving activities)
• Continuing Care (Community Care) (provides care in a community setting allowing the person to engage in community activities as well as providing necessary support – both medically skilled and unskilled support)

• **Policy Limitations/Provisions/Exclusions**

  • **Benefit triggers:**
    - Diagnosis as chronically ill (defined as the inability to perform 2 or more “activities of daily living” [ADLs] – for instance: eating, continence, transferring, toileting, dressing, bathing, and mobility) or
    - Cognitive impairment (organic cognitive disorders, such as Alzheimer's, senile dementia, Parkinson's, etc.) (defined as the need for supervision to protect their health or safety)

  • **LTC services** includes: diagnostic, preventive, curing, treating, mitigating/rehabilitative services, maintenance or personal care services provided by a licensed health care practitioner

  • **Benefit Limits** (coverage varies between companies and normally runs from 2 to 6 years with some policies providing unlimited lifetime coverage)

  • **Age limits** (varies from company to company, in general policies may be purchased from age 50 through age 79 – companies may extend purchase age through age 89)

  • **Policy continuation** (LTC policies are Guaranteed Renewable)

  • **Probationary period** (0 to 365 days – the longer the period, the lower the premium)

  • **Exclusions** (drug/alcohol dependency, acts of war, self-inflicted injuries and non-organic mental conditions)

  • **Premiums** (vary from company-to-company based on coverage selected, probationary period chosen, length of coverage and riders selected.)
• **Taxation of LTC** (payouts are non-taxable up to IRS limits [in 2005 the limit was $240 a day or actual expenses, which ever is larger])

• **Limited Risk Policies** *(Supplemental policies, such as AFLAC)*:
  - **Dread Disease** *(cancer, etc.)*
  - **Travel/Accident**
  - **Hospital/Income Indemnity** *(provides monies for hospital confinement on a daily, weekly, or monthly basis within the limits of the policy)*
  - **Vision**
  - **Prescription Drugs Cards**

• **Special Risk Policies** *(unlike Limited Risk Policies which cover normal risk, Special Risk Policies covers unique risk, such as a dancer’s legs, life coverage for an astronaut/test pilot, etc)*
Section 19:
Group Health Insurance

Group Health plans *(includes medical insurance, disability income insurance, and accidental death and dismemberment insurance.)* These polices may be stand-a-lone or provided in any combination, but normally not included in a single policy.

Group Health Plans are Beneficial to Businesses
  • Employee retention and recruiting
    o Morale/productivity - Contributes to employee’s overall morale and productivity
    o Company image - Enhances competitive position of company related to hiring and retaining employees while enhancing the company’s image in the community.
    o Corporate Taxes - Provides the company a tax deduction related to the cost of the insurance plan.
    o Costs - Provides lower cost health insurance to the employee (may be either totally or partially paid by the company) this helps keep demands for wage increase down.
    o Cafeteria Plans (section 125 plans) - Empower the employee by allowing them to select the amount and the coverage type they want from a “menu” of choices such as traditional health insurance or HMO, dental plans, vision plans, disability plans, etc.
  • Business continuation plans
Business overhead expense insurance – designed to reimburse a business for overhead expenses in the event a business owner becomes disabled. Covers all types of overhead expenses, such as rent, utilities, telephones, leased equipment, salaries, etc. during the disability up to the maximum stated in the policy. However, does not address compensating the disabled owner/executive directly. Premiums are tax deductible; however benefits paid are taxable to the business.

Business health insurance – covers “lost of service” of a key employee if disabled, provides funds to hire and train a replacement – used to prevent the business from suffering from the resulting business interruption.

Disability buy-out agreement (similar to a buy-sell agreement) This type of disability income insurance has lengthy eliminations periods, often as long as two years and may provide either a lump sum payment or periodic payments. Used to buy-out a disabled partner’s or stockholder’s interest in a company in the case where they are no longer able to contribute to the business.

Types of “Natural Groups” (group had to be formed for other reasons than just to get group insurance):

- **Employer Groups** – Generally refers to companies with 10 employees or more, if otherwise the company is a “baby group”.
- **Multiple Employer Trusts (MET’s) used by small companies to obtain lower premiums on insurance – maybe self funded or traditional insurance programs. Self funded, administrated by either insurance companies or a third party administrator (TPA) or administrated by an insurance company.**
- **Multiple Employer Welfare Associations (MEWA’s) - used by labor unions to obtain lower premiums on insurance – normally self funded and tax exempt.**
- **Labor/trade Organizations/Associations** - must have 25 or more members to obtain insurance.
- **Debtor/Creditor Groups** - car dealers, personal loans, etc. – insurance used to pay debt.
- **Fraternal organizations** (insures their members)
Characteristics of Group Health Insurance

- **Eligibility Requirements**
  - Must be employed at least 3 months
  - Must be a full-time employee

- **Contributory vs. Noncontributory**
  - **Contributory** – requires 75% of available employee participation (employee pays part of costs)
  - **Non Contributory** – requires 100% participation (employee pays all costs)

- **Lower cost** health insurance than individual policies of same type.

- **Predetermined Benefits** (as negotiated with the employer for specified positions/salary levels)

- **Underwriting** (*simplified – similar to group life – evaluates the group as a whole, not as individuals*)

- **Conversion Privilege** (*group policy may be converted to an individual policy within the first 30 to 31 days*)

- **Preexisting Conditions** (*excluded for 12 months – 18 months for late enrollees – but can vary from state to state*)

Group Health Insurance Coverages (*basically the same as individual health insurance coverages*)

Group plans are unique in that they include the following issues:

- **Comprehensive Plans** - Participants are required to satisfy an initial deductible.

- **Supplemental Plans** - Participants are required to satisfy either a corridor or an integrated deductible.

- **Coordination of Benefits provision (COB)** – used to avoid duplication of benefit payments and over insurance. Defines the primary plan, anything not paid under the primary plan may then be submitted for payment under a secondary plan.

- **Maternity Benefits treatment** - unlike individual health plans which exclude maternity coverage, group plans covering 15 or more people are required under the Civil Rights Act of 1979 to cover maternity as if it were any other allowable medical expense.
Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)
- Allows you to extend your group insurance if you leave a job (does not apply if fired).
- Premiums will be much higher than regular group rates.
- Must enroll within the first 30 days, and you can extend your insurance for up to 18 months.
- You can convert your COBRA policy into a personal policy within the first 180 days of the policy.
- Surviving dependents may extend the coverage for up to 36 months

Group Disability Income Plans - unlike individual disability plans, Group Disability plan benefits are based on a percentage of the individual’s current earnings. Group Disability plans may also be purchased as either:
- Short-term Disability (benefit periods are typically 13 to 26 weeks) - or-
- Long-term Disability (benefit period is typically over 2 years and may extend through retirement age with benefits limited to 60% of insured’s annually income at time of the disability) Other factors include:
  - Short-term disability (if offered to the employee) benefits are typically exhausted prior to benefits being paid under the Long-term Disability policy.
  - Benefits typically paid under the “own occ” provision for the policy during the first one to two years and then switching to “any occ” provision for the duration of the disability.
  - Eligibility requirement must be employed for a minimum of 30 to 90 days to obtain coverage.
  - Benefits may be supplemental - benefits paid to the employee may be combined with other employer compensation so as not to exceed the 60% of annual salary limit for total benefits paid.
o **Group Disability policy may be Non Occupational** – work related employee disability may only be covered under Worker’s Compensation in this case.

**Group Accidental Death and Dismemberment (AD&D) Plans** - Group AD&D is normally offered in conjunction with a group life policy - pays the *principle sum* in the case of death and a *capital sum* in the case of dismemberment. Normally there are no conversion privileges with this type of policy. Coverages may include:
- Occupational and non occupational losses or
- Non occupational losses only

**Voluntary Group AD&D** *(this is an “employee-pay-all plan”)* 
Coverages include both occupational and non occupational losses.

**Miscellaneous Types of Group Health Plans** – The following are other types of group health plans:
- **Blanket Health Plans** *(sold to companies/schools and used to cover individuals that are exposed to a common risk, such as airline passengers, bus passengers, students, etc.)*
- **Franchise Health Plans** *(sometime referred to as “wholesale plans”) (have discounted rates – sold to organizations to cover their members)*
- **Credit Accident and Health Plans** *(plans provide monthly benefits equal to the loan payment for disabled lending customers)*
- **Medical Saving Accounts** *(MSA’s) (used by small businesses with less than 50 employees or for the self-employed to help pay for their health care. Used to cover large deductibles related to some health care policies. Monies contributed to the account are tax deductible, grow tax deferred and are never taxed when used for health care expenses. The total annual contribution to this account for individuals is limited to 65% of the deductible on the health care policy. The limit for families is 75% of the total annual deductible.)*
Section 20: Government Medical Programs

Medicare Insurance (coverage is either Primary Payor or Secondary Payor [for cases where covered sick/disabled individuals are also covered under group health care policy]) – federally funded/administrated program that provides hospital and medical expense insurance protection for individuals that are 65 years or older. Also covers individuals of any age that have chronic kidney disease or that are receiving Social Security benefits.

- Medicare Part A (Compulsory - Funded by Soc. Sec. payroll taxes) Features include:
  - Automatic enrollment (for people eligible for Social Security)
  - General coverage includes:
    - Home healthcare (Required skilled nursing care at home)
    - Hospice (end stage care)
    - Inpatient Hospital Care (semi private room, board, and nursing services) (up to 90 days of coverage on a per “benefit period” basis [defined as starting when the patient enters the hospital and ends after a minimum of 60 days passes after they have left the hospital], subject to an initial deductible and requires patient co-payments [the first 60 days are paid in full, partially pays for the following 30 day - patient must pay co-payment on a per day basis last...
30 days of the benefit period], may use “Lifetime Reserve”[ defined as 60 additional days of coverage, can be used to cover hospital stays exceeding a 90 day period] to cover stays longer than 90 days).

- **Skilled Nursing Facility Care**
  - *Prior hospitalization requirement* (at least 3 days prior to entering the nursing facility),
  - *100 days of nursing facility coverage* (the first 20 days are paid in full, partially pays the following 80 days [patient must pay co-payment on a per day basis] with no coverage thereafter.)

- **Psychiatric care** (on a limited basis)

- **Medicare Part B** *(Voluntary - Funded by general tax + individual’s monthly premiums).*
  - **Elective enrollment** *(includes annual deductible, and has a monthly premium)* Eligibility includes:
    - **Must be 65 years or older and eligible for Social Security.**
    - **Not eligible for Social Security but over 65 may pay a premium until eligible for Social Security.**
    - **Persons that have been entitled to receive Social Security for 24 months or longer.**
    - **Persons with in-stage renal disease (kidney failure).**
  - **Durable Medical Equipment** *(after deductible, pays 80% of required durable medical equipment, such as wheelchairs, crutches, etc. within Medicare’s standard reasonable charges).*
  - **General coverage includes:**
    - **Physicians and surgeons services (such as hospital, clinic, etc)***
    - **Medical and health services (such as x-rays, diagnostic lab test, ambulance services, medical***
supplies, medical equipment rental and physical and occupational therapy)

Medigap Policies:

- **Medicare + Choices** May be purchased in one of the following two ways:
  - **Medicare + Choices** (also known as Medicare Part C) - Private fee-for-service plan (PFFS).
    - Origination Fee
    - Has large deductibles
    - Private
    - HMO
    - PPO (Preferred Provider Organizations).
    - PSO (Provider-Sponsored Organizations).
  - **Medicare + Choices with Medical Saving Plan (MSA)** consist of two parts:
    - High deductible insurance and
    - A savings account (monies deposited are tax deductible, grow with interest, must be on deposit at least a year prior to use, monies may be used to buy Long Term Care insurance
  - **Medicare Supplemental Insurance** (coverage is the same no matter who the provider is – policies must meet NAIC guidelines for standardized coverages – what varies from company to company is the cost and the service).

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*Basic Benefits includes:
• Hospitalization - Part A coinsurance plus coverage for 365 additional days after Medicare benefits,
• Medical Expenses – Part B coinsurance (20% of Medicare-approved expenses, and
• Blood – First three pints of blood each year

**Medicaid** *(funded/administrated by the state - partially funded by the federal government) provides medical coverage for low income and needy persons regardless of age. Primarily covers low income individuals that are blind, disabled or under 21. Features include:

• **Deductibles**
• **Co-payments**
• **Funded** by state revenues (supplemented by the federal government funds at about a 50/50 ratio.)
• **Eligibility**
  • Low Income *(over 65)*
  • Low Income *(under 21)*
  • Blind/disabled
  • Families with dependants

**Workers’ Compensation Programs** *(may be provided by state programs, private insurers or self-insured) – (pays benefits to injured workers or death benefits to beneficiaries of workers killed on the job. In general provides:

• **Death benefits** *(Burial expenses and compensation to surviving dependents within limits of coverage)*
• **Employer liability** *(liable for work related disabilities, unnecessary to determine negligence or lack of due care)*
• **Employee entitlement** *(employee is entitled to benefits without the necessity to sue employer – employee that accepts benefits gives up right to sue employer)*
• **Benefit payments** *(weekly or monthly basis as opposed to lump sum)*
• **Funding** *(paid by employer only)*
• **Benefits schedule** *(based on salary and severity of disability)*
To cover workers in neighboring states companies must have Workers’ Compensation with “Extraterritorial Provision” - used to provide coverage for out-of-state job injuries).

Social Security (SS) – Enacted in 1935 in response to the Great Depression. The purpose was to provide a base floor of protection for all working Americans against the financial problems related to death, disability and aging. Funded by payroll taxes - provides retirement income for retired workers and disability income for those who have earned a certain minimum number of quarters of coverage under SS. SS is administrated by the federal government through the Social Security Administration (also know as OASDI – OASDI is the abbreviation for “Old age” [retirement], “Survivors” [death benefits] and “Disability Insurance” program.)

- Who is covered? Virtually all Americans who have been employed or self-employed. Exceptions are as follows:
  - Most federal employees (hired prior to 1984 who are covered by Civil Service or other similar pension plans).
  - Approximately 25% of state and local government employees who are covered by a state retirement program and elected not to participate in S.S.
  - Railroad workers covered under the Railroad Retirement System (a federal program)

- Covered vs. Eligible
  - Covered – means actively participating in the program through FICA (Federal Insurance Contributions Act) tax contributions.
  - Eligible – for benefits is based on the status of the worker, they may be fully or currently insured:
    - Fully insured individuals have accrued the necessary number of credits to qualify (normally 40 to be fully insured – a credit was earned in 2002 for on each $870 that FICA taxes was paid). Fully insured individuals are entitled to full retirement benefits and survivor benefits.
    - Currently insured individuals have earned a minimum of 6 credits within the last 13
quarter period ending with the quarter that the worker died thus entitling the survivors to limited benefits.

- **How are S. S. Benefits determined?** Workers that pay the maximum amount of FICA taxes over their lifetime will receive higher benefit levels than those that do not. Workers pay FICA taxes on their earnings up to the **taxable wage base**. The taxable wage base is subject to increases imposed by the federal government. Monies collected are used to fund SS and Medicare benefits.

- **Calculating Benefits** *(benefits are based on the workers Average Indexed Monthly Earnings [AIME].)* AIME takes into account inflation in the calculation of average monthly earning. The resulting figure is used to calculate the Primary Insurance Amount [PIA]. The PIA is the amount of monthly benefit a fully insured individual could expect to receive at age 65. Early retirement will result in reduced benefits paid out over the life time of the individual, for instance: retirement at 62 results in being paid a reduced monthly benefit of 80% of the PIA).

- **Types of SS benefits:**
  - **Death benefits** *(also know as survivor benefits)*
    - **Lump-Sum Death Benefits** *(maximum of $255)*
    - **Survivor’s Benefits**
  - **Surviving Spouse’s Benefits**
    - **Retirement** *(at age 65 is entitled to monthly benefits equal to deceased spouse’s full benefits or may receive reduced benefits if surviving spouse retires a an earlier age)*
    - **Dependent child under 16** *(entitled to receive a monthly income equal to 75% of deceased worker’s PIA at death until the child reaches 16 regardless of spouse’s age.)*
    - **Dependent disabled child under age 22** *(entitled to receive a monthly income equal to 75% of deceased worker’s PIA at death as long as the*}
child remains disabled and under the spouse’s care regardless of spouse’s age)

- **Child’s Benefits** (unmarried children under age 18 are entitled to benefits equal to 75% of the deceased worker’s PIA through age 18 [19 if still in school]. For disabled children under the age 22 these benefits continue through out their life.

- **Maximum Survivor Benefits** (SS has established a maximum level of benefits to be paid to a surviving family, total benefits paid to a family are subject to this maximum total monthly benefit)

  - **Retirement benefits**
    - **Retired Worker’s Benefit** (100% of PIA at full retirement age [FRA], which is 65 plus 6 months – reduced monthly benefits apply for retirement at an earlier age) (for individuals born after 1959 the FRA is 67)
    - **Spouse’s Benefit** (spouse of fully covered worker is eligible for 50% of the worker’s PIA at full retirement age [FRA], which is 65 plus 6 months – reduced monthly benefits apply for retirement at an earlier age. If there is a child under 16 [under 22 if disabled] the spouse is eligible to receive the spouse benefit regardless of their age.)
    - **Child’s Benefit** (Unmarried children under the age of 18 are entitled to receive 50% of retired worker’s retirement income. Disabled children under the age of 22 are entitled to receive this benefit for the rest of their life.
    - **Maximum Family Benefits** (SS has established a maximum level of benefits to be paid to a family, total benefits paid to a family are subject to this maximum total monthly benefit)
    - **Earnings Test** (SS will reduce retirement benefits if the individual continues to make an income after
reaching retirement age – the current formula for this calculation is beyond the scope of this text).

- **Disability Benefits** (disability is defined as a medically determined physical or mental impairment that can be expected to last at least 12 months or will result in the premature death of the individual. Benefits are subject to a waiting period of 5 consecutive months of disability. Benefits may be paid retroactively for as long as 12 months [exclusive of the waiting period] prior to the filing of the application for benefits.)
  - **Disabled Worker’s Benefit** (Monthly benefit equal to their PIA at time of the disability. If retired early this benefit will be reduced based on benefits already received.
  - **Spouse’s Benefit** (spouse of fully covered worker is eligible for 50% of the worker’s PIA at age 65 – reduced monthly benefits apply for retirement at an earlier age. If there is a child under 16 [under 22 if disabled] the spouse is eligible to receive the spouse benefit regardless of their age.)
  - **Child’s Benefit** (Unmarried children under the age of 18 are entitled to receive 50% of disabled worker’s PIA. Disabled children under the age of 22 are entitled to receive this benefit for the rest of their life.
  - **Maximum Disability Benefits** (SS has established a maximum level of benefits to be paid to a family, total benefits paid to a family are subject to this maximum total monthly benefit. In addition, the earning test applies and pertains individually to each family member)

- **Benefit Taxation** (Benefits in excess of established limits are taxable. The limits used are a step rate for single individuals and yet another for married couples filing jointly. Alas, these income levels are subject to change and are beyond the scope of this manual.)

**Miscellaneous:**
Tri-Care (Covers uniformed service personnel, military, doctors, etc.)
Section 21:

NAIC

National Association of Insurance Commissioners (NAIC) - has 4 broad objectives:

- To encourage uniformity in state insurance laws
- To assist in the administration of those laws and regulations by promoting efficiency
- To protect the interest of policyowners and consumers
- To preserve state regulation of the insurance business

Two notable policy provisions established and adopted by almost every state are:

- **Advertising Code** (provides a list of misleading words and phrases that are prohibited for use in advertising and requires full disclosure of policy renewal, cancellation and termination provisions. Also provides rules concerning)
- **Unfair Trade Practices Act** (gives chief financial officers the power to investigate insurance companies and producers, issue cease and desist orders along with penalties on violators when necessary.)

Model Health Insurance Policies provisions and options

- 12 NAIC mandatory policy provisions
  1. **Entire Contract**
     - *Nothing can be included in the contract by reference (this includes riders). Documents that are part of this contract must be attached as a part of the contract.*
     - *The policy is as it is written and the insurer can not make future changes that affect this policy in manner.*
2. **Time Limit on Certain Defenses** (policy is incontestable after it has been in force for the certain time, usually 2 years)

3. **Grace Period** (as stated in the policy, normal grace periods are: 7 days for weekly policies, 10 days for monthly policies and 31 days for other policies)

4. **Reinstatement** (if company does not require an application for reinstatement, reinstatement is automatic when the delinquent premiums are accepted by the company or an authorized agent. If the company requires an application for reinstatement, it may or may not approve the application, however if the company takes no action the reinstatement is automatic at the end of 45 days. Sickness is not covered until the policy has been in effect for a minimum of 10 days from reinstatement to avoid “adverse selection”.)

5. **Notice of Claim** (must provide notice of claim within 20 days from event)

6. **Claim Forms** (company is required to furnish the claims form to insured within 15 days from receiving notice of claim)

7. **Proof of Loss** (insured has 90 days to submit “Proof of Loss”)

8. **Time of payment of claims** (time frame ranges from 30 to 60 days) (for example, in Florida this time frame is 45 days)

9. **Payment of Claims** (covers the “how and who” will be paid the claim)

10. **Physical Exam and Autopsy** (entitles company, at its own expense, to make physical examinations of the insured at reasonable periods during claim, and/or conduct autopsy on deceased insured [as long as it is not forbidden by law])

11. **Legal Actions** (legal actions can not be pursued by insured/beneficiary within the first 60 days from “Proof of Loss” and prior to “time limit” defined in policy) (for example, in Florida the time frame is 5 years)

12. **Change of Beneficiary** (may be changed at any time, unless defined “irrevocably”)

• **11 NAIC mandatory policy Options:**
1. **Change of Occupation** (as occupation changes the insurance company may change [up or down] rates/payouts based on the risk associated with insured’s current occupation – changes may be made retroactively if discovered after disability begins)

2. **Misstatement of age** (allows insurer to adjust insurance/payout based on correct age of insured for cases where there was a misstatement of age on application)

3. **Other Insurance with This Insurer** (maximum benefit is the same regardless of the number of policies with same insurer)

4. **Insurance with Other Insurer** (over insurance – claim is prorated between the 2 companies – companies must refund excess premiums [if any] for any duplicated covered risks)

5. **Insurance with Other Insurers** (over insurance – claim is prorated between the 3 or more companies – companies must refund excess premiums [if any] for any duplicated covered risks)

6. **Relation of Earning to Insurance** (if sum of all benefits from all applicable disability policies exceeds the insured’s monthly earnings at time of disability [or average earnings over last 2 years] to prevent over insurance – claim is prorated between the indemnifying companies – companies must refund excess premiums [if any] for any duplicated covered risks – Total indemnities payable may not be reduced below either $200 or sum of total benefits, which ever is less)

7. **Unpaid Premiums** (if unpaid premiums exist prior to payout of claim, unpaid premiums will be deducted from the payout)

8. **Cancellation** (in general, requires a “45 days’ written notice”, in case of non payment – a “10 days’ written notice” [unless premiums are due monthly or more frequently], current claims are unaffected and if valid, must be paid. After the original term the policy may be canceled anytime [any unused premiums must be refunded])
9. **Conformity with State Statutes** *(any policy provision that conflicts with the State Law where insured purchased the policy are automatically amended to meet same)*

10. **Illegal Occupation** *(no coverage is provided while the insured is committing, or being connected with, a felony or participating in any illegal occupation.)*

11. **Intoxicants and Narcotics** *(injuries and/or sickness resulting from being Intoxicated and/or under the influence of illegal narcotics are not covered)*
"A" (or Judgment) Rates - Rates that are based on the judgment of the underwriter on an individual risk basis and not supported by loss experience.

Abandonment - A term that applies to property and signifies both a relinquishing of it and the letting go of all legal rights to it, as well, with the intent to claim a total loss. Abandonment of property to an insurance company is something insureds are expressly prohibited from doing in most property polices.

Abandonment Clause - A property policy provision that stipulates that the insurer need not accept any damaged property that the insured chooses to relinquish.

Absolute Assignment - Assignment by the policyowner of all control and rights to a third party.

Absolute Liability - The performance of an act so dangerous as to be sufficient to trigger liability regardless of the degree of negligence. Triggering explosives is often used as an example. Sending workers aloft for construction or repair at elevated heights is another. "Strict liability" is another term that is sometimes used.

Accident - An unforeseen, unintended, and unexpected event, which occurs suddenly and at a definite place. See Occurrence.

Accident Frequency - The rate of occurrence of accidents. Along with accident severity, it is taken into account in rate making.

Accident Severity - The measure of the seriousness of a claim, measured in, for example, dollars. Along with frequency, it is taken into account in rate making.
Glossary of Terms

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

**Accelerated Death Benefit** - Allows policyholders who are terminally ill to collect part of their death benefit while they are still alive.

**Accommodation Line** - Normally unacceptable risks that are written as an "accommodation" to an agent or broker who has an overall profitable relationship with the insurer. For example: a personal auto risk with a teenage driver of a sports car might be written if the other lines of insurance which it carries for the customer were profitable; or if the agency has had a good and profitable relationship with the insurer.

**Account Current** - A monthly statement provided by an insurer detailing an agent's premiums, commissions, cancellations, and endorsements.

**Account Selling** - Account selling is trying to handle all of a client's insurance needs, rather than providing for only a portion of those needs.

**Accounts Receivable Insurance** - Pays for the cost of reconstructing accounts receivable records that have been damaged or destroyed by a covered peril. Even more important, it covers any payments that cannot be collected because records cannot be reconstructed.

**Acquisition Cost** - The expense undertaken to acquire new business. The concept applies to both agents and companies. The largest portion of an insurer's acquisition cost is agent's or
Glossary of Terms

sales representative's commission or bonus.

**Act of God - Acts of Nature** - the term was once widely used to distinguish between man-made events, i.e., fire, collision, and nature's rampages in wind and flood.

**Active Malfunction** - In products insurance, a defect or malfunction in a product that damages the property of the user.

**Actual Cash Value (ACV)** - A method for placing value on property as of the time of its loss or damage. ACV may be determined as replacement cost, new, less depreciation. The market value of an item may be used to help determine actual cash value. Contrast with replacement cost.

**Actual Cash Value Appraisal** - An appraisal to determine the actual cash value of a building and related personal property.

**Actuary** - A person highly trained in mathematics and statistics who calculates rates and dividends, and provides other statistical information for an insurance company.

**AD&D** - Accidental Death and Dismemberment insurance.

**ADB** - Accidental Death Benefit.

**Additional Insured** - One who qualifies as "insured" under the terms of a policy even though not named as insured. Officers of a corporation may be included as insureds under the terms of a policy written in the name of the corporation.

**Additional Living Expense Insurance** - This coverage, found in homeowners forms, provides payment for extra expenses made necessary by the insured's inability to reside in the insured dwelling because of a covered loss -- for example, restaurant
meals and hotel bills. The amount payable is the difference between normal household expenses and the increase.

**Adhesion Contract** - A standardized set of agreements offered by one (usually the stronger) party to another on a "take it or leave it" basis. An insurance policy is an example of such a contract. The insurer offers a personal auto policy, for example, that an individual may "adhere to" (or not) but in any case the individual may not change any of its terms. Because it has the stronger position, the insurance company has the burden to spell out its terms precisely. Such contracts are interpreted strictly against the author of the contract. Not to be confused with aleatory contract.

**Adjuster** - A person who may act either on behalf of the insurance company or the insured in settling a claim. Employee adjusters work for an insurer; independent adjusters represent the insurance company on a fee basis; and public adjusters represent the insured on a fee basis.

**Admitted Assets** - The highly liquid assets of an insurer permitted by the state to be taken into account when reporting financial condition.

**Admitted Company** - An insurance company that is licensed (admitted) to conduct business within a given state.

**Admitted Market** - The range of insurance available through admitted companies.

**Advance Premium** - Also called "deposit premium," an advance premium is a down payment on what will be the final premium, in policies where the final premium is subject to audit.
Glossary of Terms

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

**Adverse Underwriting Decision** - Any decision made by an underwriter that is not favorable to the insured. Such decisions involve termination, declination, higher rates, or reduction in coverage. Another example is the placing of a risk in a residual market or with an unauthorized insurer.

**Advertising Injury** - Claim arising out of slander, libel, copyright infringement, or misappropriation of advertising ideas. Coverage is provided as part of coverage B of the commercial general liability policy.

**Affinity Marketing** - Targeting marketing efforts toward one group or category of client. Examples include: grocery stores; all the employees of one company; or employees in one industry. Group business is a type of affinity marketing.

**Age Limits** - The ages above or below which a company will not issue a given policy to a proposed insured.

**Agent** - An individual licensed by the state and appointed by a company to solicit and negotiate insurance contracts on its behalf.

**Agency Company** - An insurance company that produces business through an agency network. See direct writer.

**Agency Contract** - The legal agreement between an insurance agency and the insurer detailing the terms of representation.
Glossary of Terms

Agency Plant - The total force of agents representing an insurer.

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

Agent’s Appointment - The act by an insurer that grants an agent the authority to act as an agent for the insurer. In most states, agents must be licensed and appointed, prior to being allowed to sell insurance.

Agent’s Authority - The authority of an insurance agent to act on behalf of the insurer he or she represents. There are several types including: express authority (authority to act on specific instructions only); implied authority (actions taken in accordance with prevailing custom); or apparent authority (actions based on appearances created by the agent and acquiesced to by the principal).

Agents Errors and Omissions Insurance - Insurance obtained by the insurance agent to guard against loss caused by an unintentional failure to properly insure (or recommend insurance to) a client.

Agent’s License - A certificate of authority from the state that permits the agent to conduct business.

Aggregate Deductible - A deductible provision in some property insurance contracts where all covered losses during a year are figured together and an insurer pays only when the aggregate deductible amount is exceeded.
Glossary of Terms

Aggregate Excess Reinsurance - A type of excess reinsurance treaty that sometimes is called stop loss or excess of loss ratio reinsurance. The retention in this type of agreement is calculated based on all losses over the period of time that is stated in the treaty. The reinsurer is responsible for the amount of losses between the retention and the limit on the treaty.

Aggregate Limit - The maximum amount an insurer will pay under a policy in any one policy period.

Agreed Amount Clause - An agreement between underwriter and insured whereby, in exchange for the purchase of coverage in an amount specified by the underwriter, the insured is protected from a coinsurance penalty. Agreed value clause - Though rare, some policies cover for a value agreed upon at the time of writing; if the property is lost because of an insured peril, the amount stated in the policy will be paid. Fine arts insured under a personal articles floater or homeowners scheduled personal property endorsement are examples.

Aircraft Coverages - Though aircraft have long been an important element in the lives of most Americans, insurance of aircraft exposures has remained outside the mainstream of property and liability insurance markets. Aircraft hull and liability insurance is the counterpart of personal or commercial auto policies coverage. Aircraft products insurance is the counterpart of products liability coverage. Air cargo insurance is mirrored in motor truck cargo. Hangarkeepers liability is akin to garagekeepers coverage. As with any specialty line of insurance, the absence of standardized forms limits practice to specialists in the line.

Alcoholic Beverage Control (ABC) laws, see Dram shop laws.

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

**Alien Insurer** - An insurance company formed under the laws of a country other than the one it is doing business in.

**Alienated Premises** - Property that has been sold by an insured.

**All Risks** - A property policy expression now out of fashion. It was used to designate contracts that promised coverage against "all risks of direct physical loss" in contrast to forms that covered for specific, named perils. The word "all" came to be perceived as open to broader interpretation than insurers intended and it was dropped in favor of the promise to cover "risks of physical loss." See Named perils and also Open perils.

**Allied Lines** - Lines of insurance that cover for perils other than fire, that are usually sold with fire insurance, e.g., "fire and allied lines."

**Alternative Dispute Resolution (ADR)** - Methods other than lawsuits that are designed to resolve legal disputes. Examples are arbitration and mediation.

**Ambiguity** - A standard policy provision that proves to be ambiguous may be interpreted in the light most favorable to the insured.

**Amendment** - A form attached to the policy bearing the language necessary to change the terms of the policy to fit
special conditions. Amendments must be agreed to in writing by the policyholder and the company.

**American Agency System** - The system of selling insurance through agents who receive omissions in lieu of salary.

**American Association of Insurance Services (AAIS)** - An association of insurance companies providing filing and various technical services on behalf of its member companies.

**Americans with Disabilities Act (ADA)** - Passed by Congress in 1990, this act requires that "reasonable accommodation" be made in public accommodations, including the workplace, for those with physical or mental disability.

**American College, The** - An educational institute conferring the Chartered Life Underwriter (CLU) designation.

**American Lloyds** - Unincorporated associations of individual underwriters who assume specified portions of liability under each policy issued. There is no connection with Lloyd's of London.

**Anniversary Date** - The anniversary of the original date of issue of a policy as shown in the declarations.

**Annual Aggregate Deductible** - A deductible applied annually to the total amount paid in claims during a policy period. Claims are generally subject to a per-occurrence deductible; the aggregate is the limit beyond which no further deductibles are applied.

**Anti-Coercion Laws** - Usually contained in a section of the state code entitled "Unfair Trade Practices," these provisions define the use of coercion as an unfair practice and, hence, a violation
Anti-rebating Laws - Laws found in all but two states which prohibit an agent's refunding part of a commission to an applicant as an inducement for placing insurance through the agent.

Apparent Authority - The perceived ability of an agent to bind an insurance contract to an insurance company. If an agent or agency holds themselves out as representing a particular company it is reasonable for the public to assume that such authority is established contractually, even if it is not.

Apportionment - The method of dividing a loss between multiple insurers that cover the same loss.

Applicant - The individual named as submitting an application to the insurance company for a policy.

Application - A form on which the proposed insured states facts requested by the company and on the basis of which (together with other information, such as that received from medical examiners, attending physicians, hospitals, investigators, and the agent) the company decides whether or not to accept the risk, modify the coverage offered, or decline the application.

Appraisal - A determination of the value of property for the purposes of determining the proper amount of insurance to be bought or in adjusting a loss.

Appurtenant Structure - Another structure on the same premises as the principal structure. A detached garage on a dwelling premises is "appurtenant" to the dwelling. Older homeowners forms refer to the "other structures" protected under the HO Coverage B as "appurtenant structures."

Arbitration Clause - The clause in an insurance policy that
spells out how disagreements over a claim are settled.

**Arson** - The intentional setting afire of property.

**Assignment Clause** - Clause in the insurance policy that governs any transfer by the policyholder of his rights in the policy.

**Assigned Risk** - A risk not be generally acceptable to any insurance company but for which the law says that insurance must be acquired. Personal auto liability is one such necessary coverage. Insurance companies doing personal auto business in a state can be required to accept assignment of a portion of the state’s unacceptable drivers as insureds.

**Assigned Risk Plan**, see Auto insurance plan.

**Association Captive** - A captive insurer owned by the members of a sponsoring organization or group, such as a trade association.

**Assumed Liability** - Liability assumed under contract or agreement. More commonly known as contractual liability.

**Assured** - A party who is a potential beneficiary of an insurance contract. The synonym "insured" is more commonly used.

**Attained Age** - The age an insured has reached on a given date.

**Attorney-In-Fact** - An individual who is given authority to execute legal documents, including bonds; or the manager of a reciprocal exchange, which is an insurance arrangement whereby risk is transferred to other members. The attorney-in-fact need not be a lawyer.
Glossary of Terms

**Attractive Nuisance** - Condition that can attract and injure children. The occupants of land on which such a condition exists are liable for injuries to children. Examples of attractive nuisance: swimming pools; earth moving equipment; playground equipment.

**Audit** - Some policies (such as workers compensation) are written subject to an audit. Since workers compensation premium is based on the insured’s payroll, the insurer is entitled to audit the insured’s records at the end of the policy to verify that it has collected an adequate premium for the amount of payroll to which it was exposed.

**Authorized Company** - A company permitted to sell insurance within a state.

**Authorized Insurer** - An insurer granted permission by a state to sell specific lines of insurance within that state.

**Auto insurance plan** - Program set up by various states to ensure that everyone with a valid driver’s license will be able to purchase auto insurance. All auto insurers operating within a state are assigned insureds in proportion to the amount of auto premium written.

**Automobile Liability Insurance** - Insurance in which the insurer agrees to pay all sums for which the insured is legally obligated because of bodily injury or property damage arising from the ownership, maintenance, or use of an auto.

**Automobile Medical Payments** - Insurance applying to the medical, hospital, or funeral expenses of anyone injured while on or in an insured automobile. The coverage is not dependent on liability, being triggered simply by an accident. It may be included
Glossary of Terms

in either the Business Auto Policy or the Personal Auto Policy. See also Premises medical payments.

**Auto Physical Damage Insurance** - Insurance on the vehicle, itself. This usually is broken down into collision and other than collision coverages.

**Automobile Shared Market** - A program in which all automobile insurers in each state make coverage available to car owners who are unable to obtain auto insurance in the voluntary market.

**Aviation Clause/Rider** - Limits or excludes coverage when the insured is participating in specified types of air travel. Coverage is usually confined to regularly scheduled flights of commercial airlines.

**Bailee** - One who has is charged with the care of the property of another. For example, a garage is bailee of a customer’s ("bailor’s") car (the "bailment") and a jeweler is a bailee of customers’ jewelry while in for repair or appraisal.

**Bailees Customers’ Insurance** - Insurance designed to reimburse a bailee’s customers for loss without regard to liability.

**Bailees Floater** - An inland marine form that covers — on an open perils basis — a bailee’s interest in personal property of others.

**Bailees Liability Insurance** - Insurance covering damage negligently caused by a bailee or employee to goods left in their care.

**Bailment** - The act of delivering property in trust to another for a limited time and specific purpose.
Glossary of Terms

**Bailor** - The person delivering property to another in trust.

**Bankers Blanket Bond** - A bond designed to indemnify for loss of money, securities, etc., caused by: dishonesty of employees; robbery or theft from the premises; or robbery or theft while the insured property is in transit.

**Basic Causes of Loss** - The perils of fire, lightning, and removal of property from premises endangered by those perils as shown in the standard 1943 New York fire policy.

**Basic Named Perils** - Covered perils in a property insurance contract: fire, lightning, windstorm, civil commotion, smoke, hail, aircraft, vehicles, explosion and riot.

**Beach Plans** - Sometimes known as windstorm plans or pools, these are plans devised by coastal states to insure the windstorm exposure of coastal properties. The plans operate in a manner similar to a joint underwriting association, with participation by all insurers operating within a state.

**Bench Error** - A mistake in the production process of a product that causes a loss. Such losses are usually covered.

**Betterment** - A term used to express the difference in the value of property before loss and after restoration. If a 20-year roof is damaged by an insured peril and it has to be replaced in its 15th year and the restoration renews the 20-year life expectancy, the owner has obtained a 15-year betterment in the roof. Without replacement cost insurance on the roof, the owner is expected to reimburse the insurance company for the "betterment" entailed in the restoration. Also see Improvements and betterments.

**Beneficiary** - A person who may become eligible to receive, or
is receiving, benefits under a life insurance plan as a result of the insured's death.

**Beneficiary, Contingent** - A secondary beneficiary, designated to receive proceeds of a policy if the primary beneficiary does not survive the insured. Must be named in the beneficiary designation.

**Beneficiary, Irrevocable** - A named beneficiary whose status as beneficiary cannot be changed without his or her permission, except by his or her death.

**Beneficiary, Primary** - The person first designated to receive the proceeds of a policy. Must be named in the beneficiary designation.

**BI** - A shorthand expression for "bodily injury."

**Bid Bond** - Guarantees an owner, the "obligee," that the accepted contractor will actually undertake the work and that the contractor will furnish performance, payment, and, perhaps, maintenance bonds — or that the contractor will pay the owner the difference between the amount of the contractor’s accepted bid and the bid of another contractor who has to be called in to complete the project.

**Binder** - An insurer’s agreement, by way of an agent, to provide non-life insurance on the spot, pending issuance of the policy contract.

**Binding Authority** - The authority extended to an agent by an insurer to provide insurance, usually on a temporary basis, until a policy can be written.

**Blanket Bond** - An employee dishonesty or fidelity bond covering all persons of a group or class; as opposed to bonds
name specific individuals (name schedule) or positions (position schedule).

**Blanket Coverage** - A means of insuring various items of property under one limit of liability.

**Blanket Insurance** - Insurance covering multiple items of property as a group. Covered property may be at one location or several.

**Bobtailing** - A trucking term that means the driving of the tractor portion of a semi after the trailer has been delivered and removed. A special trucking endorsement, Truckers Insurance for Non-Trucking Use, may be necessary when bobtailing.

**Bodily Injury** - A term that refers to physical injury, sickness, or disease, or death resulting therefrom. In some jurisdictions "bodily injury" includes emotional injury.

**Bodily Injury Liability** - Legal obligation that flows from the injury or death of another person. This insurance is commonly limited to bodily injury liability derived by way of negligence, but coverage of liability by way of contract (holding another harmless) is also possible.

**Boiler & Machinery Insurance** - Fired vessels, steam generators, mechanical and or electrical objects and turbines, are all examples of "objects" that might be listed for coverage under a boiler and machinery policy. Coverage is for damage to covered property caused by an accident to an object identified in the policy’s schedule. Coverage includes extra expense, automatic 90-day coverage at new locations, defense against liability claims, and supplementary payments like those provided under public liability policies.
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**Bond** - A document for expressing surety. A bond engages three entities; the "surety" (bonding company) sells the bond to the "principal" for the purpose of paying the amount the principal will owe to the "obligee" upon failure of the "principal" to perform some act or provide some service under agreed terms.

**Bond, Fidelity** - A bond that guarantees the principals honesty.

**Bond, Surety** - A surety bond is the financial assumption of responsibility by one or more persons for fulfilling another’s obligations.

**Book of Business** - The accounts written by an agent or company. It can be expressed in a number of ways such as "total book" of business, "book of auto business," "homeowners business," etc.

**BOP (Business Owners Policy)**, see Business Owners Policy.

**Bordereau** - A written schedule of insureds, premiums, and losses submitted to reinsurers under certain types of reinsurance agreements.

**Boycott** - Another practice defined as "unfair" under most states’ codes. Such a practice which occurs when someone in the insurance business refuses to do business with someone else until that person complies with certain conditions or concessions.

**Broad Form Perils** - A property insurance designation for coverage that extends beyond the basic named perils.

**Broad Form Property Damage Endorsement** - A commercial general liability endorsement that removes the care, custody, or control exclusion relating to the property of others and replaces it...
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with a less stringent one.

**Broker** - One who represents the insured in arranging insurance. A broker may also serve as the agent of an insurance company. Typically, a broker does not have binding authority.

**Builders Risk Insurance** - A variation of property coverage specifically applicable to construction projects. It is commonly written in an amount to cover the value of the structure when completed. The premium charged takes into account that values at risk increase gradually over the term of the policy.

**Bumbershoot** - A form of coverage similar to an umbrella, having to do with ocean marine risks.

**Business Auto Policy (BAP)** - A standardized contract for writing liability and property coverage on commercial autos.

**Business Income Coverage** - Insurance protecting the income derived from an insured’s business activities when curtailed by a covered peril. Coverage includes reasonable extra expense the insured undertakes to expedite return to business operations.

**Business Income, Dependent Properties** - Covering loss to an insured when the operations of a key supplier, customer, or "leader property" on which the insured’s operations are dependent, is shut down by a covered peril. Also referred to as "contingent business income."

**Business Personal Property** - A term relating to "contents" of a commercial enterprise. It may include furniture, fixtures, machinery and equipment as well as stock, all other chattels owned by the insured, and even use interest in building improvements and betterments.
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Business Owners Policy (BOP) - A package of property and liability insurance for small and medium size businesses, the BOP owes its origin to the success of the homeowners policy.

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

Calendar Year Experience - Underwriting result based on earned premiums and booked incurred losses for the same calendar year reporting period, regardless of the dates of the loss events. Booked incurred losses include paid losses, beginning of year to end of year changes in case reserves, and IBNR.

Cancellation; Flat, Pro Rata, or Short Rate - In a flat cancellation the full premium is returned to the insured. A pro rata cancellation means the insurer has charged for the time the coverage was in force. Short rate cancellation entails a penalty in excess of pro rata for early termination.

- OR -

Termination of contract of insurance in force by voluntary act of the company or insured, effected in accordance with provisions in the contract or by mutual agreement.

Capacity - An insurer’s (or reinsurer’s) top limit on the amount of coverage it has available. The term may also refer to the total available in the respective insurance or reinsurance market.

Captive Agent - A representative of a single insurer. In the case of captive agents, the insurer owns and controls expiration dates and policy records. A captive agent is a member of what may be called an exclusive agency system.
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**Captive Insurer** - An enterprise with all the authority to perform as an insurance company, but is organized by a parent company for the express purpose of providing the parent company’s insurance.

**Care, Custody, or Control** - An expression common to liability insurance contracts. It refers to an exclusion in the policy eliminating coverage for damage to property of others that is in the insured’s "care, custody, or control." The insured has a bailee relationship to the property, in other words, making the insured liable for the care of the property beyond damage caused by negligence. A bailees floater is often used to cover the insured’s obligation for the care of such property.

**Cargo Insurance** - An inland marine or ocean marine policy covering cargo in the care, custody, or control of the carrier.

**Carrier** - An insurance company which "carries" the insurance. (The term "company" is preferred because of the possible confusion of "carrier" with transportation terminology.)

**Cash-Flow Underwriting** - Name given to an insurer’s practice of "nonselectively" writing business in order to generate greater amounts of cash for investment purposes.

**Cash Surrender Value** - That value in a policy which is the property of the policyowner, and which may be expected by him should he surrender the policy for cash.

**Casualty Insurance** - The type of insurance concerned with legal liability for losses caused by bodily injury to others or physical damage to property of others.
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**Catastrophe (Excess) Cover** - Another term for catastrophe reinsurance, wherein the ceding company is indemnified by the reinsurer after a specified loss amount is reached, for losses caused by catastrophes.

**Causes of Loss Forms** - The reference is commonly to property insurance contracts and the form in question details those perils to which the coverage will respond. Though any property insurance contract must name the perils it intends to cover, e.g., crop hail, earthquake, perils of transit, and so on, the most commonly used general forms are the basic and broad named perils forms and the special form. In contrast to the named perils forms, that list specific perils for coverage, the special form contract covers simply risk of direct physical loss, relying on exclusions to delimit and define the coverage.

**Cede** - The transfer of all or part of a risk written by an insurer to a reinsurer.

**Cedant** - A ceding insurer or reinsurer. Ceding means to contractually transfer a portion of a risk or risks to a reinsurer.

**Ceding Commission** - The cedant’s acquisition costs and overhead expenses, taxes, licenses and fees, plus a fee representing a share of expected profits, which often is expressed as a percentage of the gross reinsurance premium.

**CERCLA**, see Superfund.

**Certificate of Insurance** - A written description of insurance in effect as of the date and time of the certificate. The certificate does not ordinarily confer any rights on the holder, i.e., the issuing insurer does not promise to inform the holder of change in or cancellation of coverage.
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CGL (Commercial General Liability), see Commercial general liability.

CIC - Certified Insurance Counselor.

Clause - A term used to identify a particular part of a policy or endorsement.

CLU - A designation — Chartered Life Underwriter — conferred upon successful completers of a series of studies of life insurance and related disciplines designed by The American College.

Collateral Assignment - Assignment of a life or health insurance policy as security for a loan or debt, the creditor to receive the proceeds or values only to the extent of its interest.

Conditions - The part of an insurance contract setting out the responsibilities of both the insured and the company.

Consideration - The exchange of value on which a contract is based. In life and health insurance, the consideration from the applicant is the premium and the statements in the application.

Contingent Beneficiary - Person or persons named to receive benefits if the primary beneficiary is not alive.

Contract Of Insurance - A contract whereby a company agrees to indemnify an insured for losses, provide other benefits, or render services to, or on behalf of, an insured. (The contract of insurance is often called an "insurance policy," but "policy" is merely the evidence of the agreement.)

Convertible Term Insurance - A term policy which can be converted to a permanent type of coverage without proof of insurability.

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**CPCU** - A designation — Chartered Property Casualty Underwriter — conferred upon successful completion of a series of 10 exams on insurance and related disciplines designed by the American Institute of Chartered Property Casualty Underwriters.

**Civil Commotion** - One of the extended coverage perils, paired with the peril "riot," which refers to a less widespread or generalized event than "riot" might be thought to encompass.

**Claim Expense** - The expense of adjusting a claim, such as investigation and attorneys’ fees. It does not include the cost of the claim itself.

**Claims-Made Coverage** - A type of public liability insurance that responds only to claims for injury or damage that are brought (to the insurer) during the policy period (or during a designated extended reporting period beyond expiration). This development was in response to "long tail" claims, such as those related to asbestosis injury, carrying over many years and multiple layers of coverage limits. However, most public liability policies are written on an "occurrence" basis, covering injury or damage occurring during the policy period even if a claim is brought months or even years later.

**Clash Cover** - A type of catastrophe reinsurance for casualty insurance. The retention is equal to the highest limit of any one insurance policy covered by the agreement. Clash cover is written to cover all losses from one source, such as a construction site.

**Class Rates** - When property or people share a certain number of characteristics relevant to the cost of providing them with insurance (such as a male driver under the age of 25 without an accident) underwriters can develop insurance rates that reflect
the exposures represented by the "class" and offer insurance based on a class rate rather than by computing individual rates for each member.

**Clause** - A provision or condition affecting the terms of a contract. Coinsurance, cancellation, and subrogation clauses are typical insurance contract clauses.

**Clean-Up Costs** - Generally, those costs associated with the clean up of pollution.

**Close or Closely Held Corporation** - A corporation that is owned by a small number of individuals who are related. A close corporation fills its own vacancies.

**Coercion** - Another act defined by most states as an "unfair trade practice." This one occurs when someone in the insurance business uses physical or mental force to persuade another to transact insurance.

**Coinsurance Clause** - "Coinsurance" refers to the bargain between commercial property owners and the insurance industry. This clause in property policies encourages the property owner to gauge coverage needs by possible, not probable, maximum loss. With $1 million at risk but a probable maximum loss of $100,000, for example, the property owner would probably buy $100,000 insurance and bank on avoiding the larger disaster. The bargain offered by the insurance industry is a reduced rate per $100 of coverage if the owner agrees to buy coverage at a specified relation (80% commonly) to value (to possible maximum loss in other words). If the insured accepts the bargain but events prove the amount of insurance is inadequate to the stated coinsurance percentage, the insured becomes "coinsurer" in the same ratio as the amount of insurance bears to the amount that should have been carried.
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**Collapse** - A property insurance peril, subject to its own specific agreement in property policies, which otherwise insure on an open perils basis.

**Collision Damage Waiver** - When paired with an auto rental agreement, the rental car company agrees to waive the renter’s responsibility for any physical damage to the rental car in exchange for an additional payment. Sometimes called a "loss damage waiver."

**Collision Insurance** - A type of physical damage insurance available for automobiles. Coverage is triggered when damage is caused by striking against another object.

**Combined Ratio** - The sum of an insurance company’s loss ratio and expense ratio; used as an indicator of profitability for insurance companies.

**Combined Single Limit (CSL)** - Liability policies commonly offer separate limits that apply to bodily injury claims and to claims for property damage. "50/100/25" is shorthand under such a policy for $50,000 per person/$100,000 per accident for bodily injury claims and $25,000 for property damage. A combined single limits policy might cover for $100,000 per covered occurrence whether bodily injury or property damage, one person or many.

**Commercial Blanket Bond** - A bond that covers the named insured against employee dishonesty. A single coverage amount applies to any one loss, regardless of the number of employees involved.

**Commercial General Liability (CGL)** - The CGL policy is an ISO form, widely used to provide commercial enterprises with premises and operations liability coverage, products and
completed operations insurance and personal injury coverage. Premises medical payments coverage is often included as well.

Commercial Lines - A distinction marking property and liability coverage written for business or entrepreneurial interests as opposed to personal lines.

Commissioner of Insurance - The official in a state (or territory) responsible for administering insurance regulation; sometimes called the Superintendent or Director of Insurance.

Common Area - The part of a building or premises either owned by or used by all tenants or tenant-owners of the building (e.g. the swimming pool at a condominium).

Comparative Negligence - A variation of contributory negligence, in which the comparative degree of negligence for each party to an accident is taken into account when awarding damages.

Compensatory Damages - The award, usually monetary, that is intended to compensate the claimant for injury sustained.

Completed Operations Insurance, see Products and completed operations.

Completion Bond - A bond that guarantees a lending institution or other mortgagee that a building or other construction that they have lent money on will be completed on time so it can used as collateral on the loan.

Comprehensive Personal Liability Insurance - Provides individuals and family members with protection from legal liability for most accidents caused by them in their personal lives.
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Note: Any legal liability claims submitted while in the course of business activities are not covered.

**Comprehensive Physical Damage (Automobile)** - Traditional name for physical damage coverage for losses by fire, theft, vandalism, falling objects, and various other perils. On Personal Auto Policies, this is now called "other than collision" coverage. On commercial forms, it continues to be called "comprehensive" coverage.

**Concurrent Causation** - When two perils contribute concurrently to a property loss, one excluded and the other not, the effect of the exclusion tends to be voided in a policy covering on an open perils basis. A concurrent causation exclusion is found in current forms.

**Condition** - One of the obligations of either the insured or the insurer imposed in the insurance contract.

**Condominium** - Type of dwelling where the structure is owned jointly while spaces within the structure are owned individually. Special property and liability forms cover the interests of the condominium association and of unit owners.

**Condominium Association Coverage** - A policy that provides coverage for the building, elements of the building, and liability needs for those who collectively own a piece of property.

**Condominium Unit Owners Form** - A policy that provides coverage for the personal property, owned elements of a unit, and liability for the individual unit owner.

**Consequential Loss** - An indirect consequence of direct loss to property. Business income may be lost when a store burns down, or frozen goods may spoil when windstorm causes an
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interruption of power. Consequential or indirect loss is not generally insured by policies covering direct damage (i.e., by fire or wind as in these examples), but insurance is readily obtainable separately for most such consequential exposures — (business income coverage, most common.)

**Construction Bond** - A bond that guarantees the owner of a building under construction that it will be completed. If the contractor cannot finish the work, the insurer is obligated to see that the work is performed.

**Constructive Total Loss** - This condition is said to exist when the cost of repairs exceeds the actual cash value of damaged property.

**Contingent Business Income**, see Business income, dependent properties.

**Contingent Liability** - Liability imposed on a business entity (individual, partnership, or corporation) for acts of a third party for which the business entity is responsible.

**Contract of Adhesion**, see Adhesion contract.

**Contractors Equipment Floater** - Coverage designed for the special needs of contractors to insure their machinery and other equipment.

**Contractual Liability** - Liability that does not arise by way of negligence but by assumption under contract. For example, in certain leases, a tenant may assume a landlord’s liability to others for unsafe conditions on the premises. Some such assumptions are covered automatically under the Commercial General Liability form.
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**Contributory Negligence** - A defense to a negligence action in which it is asserted that the claimant failed to meet the standard required for his or her own protection, and that that failure contributed to the loss.

**Controlled Business** - The amount of insurance countersigned, issued or sold by a producer covering that producer's interests, immediate family, or employees. Many states limit the amount of controlled business that may be written, by placing a maximum percentage of all business that may be "controlled."

**Convention (or Statement) Blank** - The uniform annual financial statement that must be filed by all insurers, as prescribed by the National Association of Insurance Commissioners. The convention blank must be filed annually in an insurer's home state and every state in which it is licensed to do business.

**Corporation** - A business whose articles of incorporation have been approved in some state. For insurance purposes, the type of business structure helps to determine who is insured on the policy.

**Countersignature** - An authorized signature of agent or company representative on an insurance policy. Usually pertains to policies sold by an agent of the insurer located in another state.

**Court Bonds**, see Judicial bonds.

**Coverage Trigger** - In liability insurance, the "trigger" is the event that brings coverage into play. It may be either an occurrence of bodily injury or property damage; or, in a form with a claims-made trigger, the formal making of a claim.
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**Covered Loss** - An accident, including accidental damage by forces of nature, that brings a contract of insurance into play.

**Credit Card Forgery** - A criminal act involving the illegitimate use of credit cards to obtain goods or money. Limited coverage for such losses is automatically provided in most homeowners policies.

**Crime Insurance** - A broad category covering loss of property through criminal activity — from employee dishonesty to burglary and robbery, computer fraud, and forgery.

**Crop Insurance** - Insurance covering growing crops against hail, wind, and fire. Protection against a broader range of perils can often be arranged as well.

**Daily** - The document—now more commonly found in electronic than in paper form — that provides insurer and agent with a quick reference to all pertinent information relative to a contract of insurance: insured’s identification, location, coverage, term, premium, and so on. Sometimes referred to as a "daily report."

**Data Processing Insurance** - Coverage for electronic media, computers, and other electronic data processing equipment.

**Deadheading** - A trucking term that means the driving of a tractor-trailer that is empty, usually on the return trip from delivering goods. A special trucking endorsement, Truckers Insurance for Non-Trucking Use, may be necessary when deadheading.

**Death Benefit** - The policy proceeds to be paid upon the death of the insured.

**Death Claim** - A formal request for payment by the company occasioned by the death of the insured. Can be made through
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the agent, but may be made directly to the home office. Requires Proof of Death (usually a certified copy of death certificate and a claim form) and is made by beneficiary.

**Debris Removal Clause** - A consequential coverage commonly included in direct loss policies. For example, fire policies provide limited recovery for the insured’s cost of removing the debris after a covered fire. Not to be confused with removal.

**Declarations page** - That part of a property or liability insurance policy that discloses information pertinent to the coverage promised including names, addresses, limits, locations, term, premium, forms, and so on. The same information, perhaps in a shorthand version, is contained as well in the daily.

**Decreasing Term Insurance** - Term insurance under which the amount of coverage starts out at a certain face amount, and then gradually decreases until the expiration date of the policy.

**Decreasing Term Rider** - A rider providing decreasing term coverage added to a permanent insurance policy.

**Deductible** - The part of the loss that is to be borne by the insured.

**Demolition Insurance** - When a building is damaged beyond a certain point, say 50% destroyed, local building codes may direct that the structure be razed. Insurance to cover this exposure (and the lost value of the undamaged but newly razed part) can and clearly should be arranged whenever it exists. Increased cost of construction coverage to meet current building codes should be provided as well.

**Dependent Properties**; see Business Income, Dependent Properties.
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**Deposit Premium** - When the price of insurance is tied to fluctuating values or costs that cannot be known until the end of the policy period, inventory or payroll are two common examples, a deposit or provisional premium or estimated premium may be charged at the outset of a policy with final adjustment to come at the end of the term.

**Depositor’s Forgery Insurance** - Coverage against loss due to forged checks, notes, etc. Limited coverage is automatically included in homeowners contracts. Commercial establishments can purchase crime coverage with this feature.

**Depreciation** - As property ages and becomes worn it often loses value. That loss of value must be taken into account in any adjustment of property insurance that covers loss of actual cash value.

**Difference In Conditions (DIC)** - Property insurance obtained through the excess and surplus lines market to supplement and expand on the property coverage available through admitted markets. DIC has been called the "property umbrella" policy.

**Direct Damage** - Physical damage caused to property by a peril such as fire or lightning.

**Direct Loss** - The immediate consequence of the action of an insured peril. A fire-damaged structure is a "direct loss" by fire. In contrast, see Consequential loss.

**Direct Premiums** - Premiums collected from policyholders before premiums for reinsurance are paid.

**Direct Writer** - An insurer that sells coverage directly via its own employees. Contrast with independent agent.
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**Directors and Officers Liability Insurance** - A form of errors and omissions insurance covering the directors and officers of corporations against suits alleging they committed wrongful act(s).

**Discovery Period** - The period of time, commonly one year, after the termination of a surety bond during which covered loss may be discovered, reported, and covered.

**Dishonesty, Disappearance, and Destruction ("3-D") Policy** - The name once applied to a form used for comprehensive crime coverage. Now known as ISO Form C.

**Dismemberment** - Loss, or loss of use of specified members of the body, resulting from accidental bodily injury.

**Double Indemnity** - Payment of twice the basic benefit in event of loss resulting from accidents or under specified circumstances.

**Dram Shop Laws** - State laws pertaining to selling and serving alcoholic beverages and the public liability these activities may entail. Also called alcoholic beverage control (ABC) laws.

**Dram Shop Liability Insurance**, see Liquor Liability Insurance.

**Drive Other Car (DOC) Endorsement** - A business auto or garage policy endorsement providing coverage for named individuals while driving non-owned autos in situations unrelated to the business of the insured.

**Druggists Liability Insurance** - A form of professional liability insurance for druggists.

**Duty to Defend** - Part of the insuring agreement of many policies. The insurer has the duty to defend the insured in event
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of a covered loss.

**Dwelling Forms** - Forms for coverage of dwellings and personal property that are not eligible for homeowners coverage. Tenant occupied rental properties are commonly insured under these forms.

**e-Business** - The transaction of business by way of electronic media, such as telephones, fax machines, computers, and video-teleconferencing equipment. This generally is broader than e-commerce although some may view e-business and e-commerce as interchangeable terms.

**e-Commerce** - The buying and selling of goods by way of electronic media, such as telephones, fax machines, computers, and video-teleconferencing equipment.

**Earned Premium** - Portion of a premium for which the insurer has already provided protection.

**Earnings Insurance** - A simplified form of insurance covering business income loss, limited to a set percentage of the policy’s total amount for recovery of proved loss for each 30-day period.

**Earth Movement** - Subject to an exclusion in property policies, this peril includes earthquake, landslide, mudflow, etc.

**Effective Date** - The date shown in the declarations of a policy upon which coverage is to take effect.

**Endorsement** - A form attached to the policy bearing the language necessary to change the terms of the policy to fit special circumstances and generally attached at the request of the policyholder or to comply with statutory regulation.
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Endowment Policy - A permanent life policy for which premiums are paid for a limited number of years. If the insured is alive at the end of this premium-paying period, he receives the face amount of the policy then or at a later date. If the insured dies before maturity of the policy, the beneficiary receives the proceeds. These policies are usually not offered today.

Employee Dishonesty Coverage - Insurance protecting employers from loss due to theft by their employees.

Employers Liability Insurance - A feature of standard workers compensation policies, this coverage applies to liability that may be imposed on an employer outside the provisions of a workers compensation law.

Employers Non-Ownership Liability - Employers who buy commercial auto coverage on a basis other than "any auto" have this exposure whenever an employee uses his or her own auto on the employer’s behalf.

Employment Practices Liability Insurance - Coverage against allegations of illegal or discriminatory hiring and firing practices, sexual harassment of employees, and so on.

Endorsement - An amendment to a policy form.

Enterprise-Wide Risk Management - An effort to categorize, measure, and treat all types of risk that may adversely affect a business. It includes both traditional hazard risks and other business risks, such as risks posed by competitors, by economic developments, and natural conditions the business cannot control, and by general operations.

Environmental Impairment Liability Insurance, see Pollution Liability Insurance.
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**Equipment Floater**, see Floater.

**ERISA** - An acronym standing for the 1974 Employee Retirement Income Security Act which regulates certain employee benefit plans.

**Errors and Omissions Coverage** - A type of professional liability insurance, protecting the insured against claims alleging bodily injury or property damage caused by the professional or technical incompetence of the insured.

**Estate** - Assets of an individual comprising total worth. Includes life insurance in force.

**Estimated Premium**, see Deposit Premium.

**Estate** - Assets of an individual comprising total worth. Includes life insurance in force.

**Estate Plan** - The manner in which property will be disposed of at death.

**Estoppel** - The legal doctrine that a party may be precluded from denying that certain rights exist if, by behavior or implication that such rights did, in fact, exist, another party has acted upon this information to his or her detriment.

**Exclusions** - Stated exceptions to prior provisions in a policy. Common exclusions would be death through flying in a private airplane, riot, or state of war.

**Executor** - A person named in a will to settle an estate.
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**Exgratia Payment** - A payment by an insurer to an insured for which there is no contractual liability. Such payments are sometimes made as a goodwill gesture if there is the possibility of a misunderstanding or a mistake.

**Examination Under Oath** - Found in the conditions section of many insurance policies, the insurer’s right to examine an insured under oath following a loss.

**Excess Insurance** - Coverage that applies on top of underlying insurance that is primary, i.e., that pays until its coverage limit is exhausted at which point the excess coverage takes over.

**Excess or Surplus Lines Market** - The range of insurance available through non-admitted insurers, i.e., insurance companies that are not licensed in a particular state or territory. Specific provisions of state or territorial law control placements.

**Exclusive Agency System**, see Captive Agent.

**Expense Ratio** - The dollar amount that represents acquisition and service costs, expressed as a percentage of written premium.

**Experience** - A record of losses.

**Experience Modification** - The raising or lowering of premiums under terms of an experience-rating plan.

**Experience Rating** - A method of rating that uses past experience to establish current rates.

**Explosion** - An extended coverage peril and currently a covered peril in nearly every policy of property insurance. The peril remains distinct from steam boiler explosion, which is covered by
boiler & machinery insurance.

**Extended Coverage** - An early and indivisible "package" of property insurance perils said to have been devised to make possible the spread of windstorm insurance beyond the highly exposed coastal and plains states. For those whose exposure to windstorm was less, "extended coverage" also encompassed smoke damage, hail, riot and civil commotion, aircraft and vehicle damage, and explosion insurance. Included here for historic purposes only since the term, "extended coverage," is no longer in general use.

**Extended Non-Owner Liability** - A personal auto policy endorsement that provides broader liability coverage for specifically named individuals. When attached, it covers: (1) non-owned autos furnished for the regular use of an insured; (2) use of vehicles to carry persons or property for a fee; and (3) broader coverage for business use of vehicles.

**Extended Period of Indemnity** - A time for recovery of proved business income loss after physical property is restored and business reopened. The 30-day extension included in many business income forms may be extended by endorsement.

**Extended Recovery Period**, see Extended Period of Indemnity.

**Extended Reporting Period**, see Claims-Made Coverage.

**Extra Expense Insurance** - Depending on an insured’s requirements, this coverage may be purchased as a supplement to business income insurance, applying to expediting expenses that aid in quickly restoring the insured’s operations after a covered loss; or it can be the primary coverage sustaining the extra cost of continuing doing business for those insureds who
would find it extremely damaging to fail to meet customer commitments, e.g., newspapers, dairies, etc.

**Face Amount** - The amount indicated on the face of the policy that will be paid at death or when the policy matures.

**Factory Mutual** - A mutual insurance company insuring only properties that meet high underwriting standards. The typical risk is fire-resistive construction with a central station alarm.

**Facultative Reinsurance** - A separate reinsurance agreement that is negotiated for a particular risk or insurance policy.

**Fair Credit Reporting Act** - Public Law 91-508 requires that an insurer tell an applicant if a consumer report may be requested. The applicant must also be told the scope of the possible investigation. Should the application be declined because of information contained in that report, the applicant must be given the name and address of the reporting agency. The insurer may not reveal the contents of the report. Only the agency that compiled the report may release its contents.

**FAIR Plan** - An acronym for Fair Access to Insurance Requirements, these plans have been established in many states to make fire and extended coverage (and homeowners in some states) available in areas otherwise not addressed by the voluntary market.

**Fair Rental Value** - An amount payable to an insured homeowner for loss of rental income due to damage that makes the premises uninhabitable.

**Farmowners-Ranchowners Policy** - A "homeowners" type package policy adapted to include farm and ranch exposures.
Glossary of Terms

**FEMA** - Federal Emergency Management Agency. This agency administers the National Flood Insurance Program.

**Fidelity Bond**, see Employee Dishonesty Coverage.

**Fiduciary** - A generic term for persons or legal entities such as executors, trustees, and guardians appointed by the court, under a will, or by a trust to manage, control, or dispose of the property of others.

**Fiduciary Bonds**, see Judicial Bonds.

**Fiduciary Liability Insurance** - This insurance covers claims arising from: (1) a breach of the responsibilities or duties imposed on a benefit plan administrator; or (2) a negligent act, error, or omission of the administrator.

**File and Use Rating Laws** - State laws that permit the use of new rates by an insurance company without first obtaining the approval of that state’s insurance department.

**Financial Responsibility Clause** - The clause in an auto policy stating that, when the policy is certified as future proof of financial responsibility, then the policy will comply with the financial responsibility laws to the extent required.

**Financial Responsibility Law** - When applied to automobile operations, this term signifies the minimum statutory limits of an operators responsibility for bodily injury and property damage caused by negligent operation of the vehicle.

**Fine Arts Floater**, see Floater.

**Fire** - Combustion evidenced by a flame or glow. Insurance distinguishes between a "hostile" fire (one out of bounds) and
"friendly" fire (such as that contained within the firebox of a stove).

**Fire Department Service Charge** - A fee that may be imposed by a fire department for responding to a call. Most fire coverage agreements include indemnification provisions for such eventualities.

**Fire Legal Liability** - Public liability policies routinely exclude coverage for damage to property in an insured’s care, custody, or control. This leaves a big gap in a tenant’s coverage, a gap partially filled by an exception in the commercial general liability policy that restores limited coverage for fire damage to the landlord’s building. Perhaps the best benefit of the exception is to call attention to the exposure so arrangements can be made for broader coverage at appropriate limits.

**Fire Mark** - An insignia, attached to the outside of a house, that represented the insurer of the house.

**First Named Insured** - An insurance policy may have more than one party named as insured. In such cases, the first named insured attends to policy "housekeeping," i.e., pays premiums, initiates (or receive notice of) cancellation, or calls for interim changes in the contract. This is spelled out in commercial policies in the "common policy conditions."

**Fixtures** - Generally, something tangible that is fixed or attached, as to a building, so that it becomes an appendage or structural part.

**Flat Cancellation**, see Cancellation.

**Fleet Policy** - Written for a risk that has five or more vehicles.
Glossary of Terms

**Flesch Test** - A method to determine the degree of ease or difficulty for reading material. It counts not only the number of words in a sentence, but also the number of syllables in each word. Some states require that insurance contracts be written so that they have a certain readability level (often, 8th grade).

**Floater** - An inland marine form covering movable property wherever located within territorial limits.

**Flood** - A general and temporary condition of partial or complete inundation of dry land caused by the overflow of the natural boundaries of a body of water or the unusual and rapid accumulation of surface water runoff. Some insurance policies that include flood as a covered peril only insure against damage caused by overflow of the natural boundaries of a body of water, but other policies also may insure against surface water losses.

**Flood Insurance** - Flood insurance, like earthquake coverage, is usually only of interest to those relatively few whose property is exposed. Consequently, losses among this small group will be high and premiums can be prohibitive. However, in 1968 the Federal government stepped in to help property owners in designated "flood plains" with the National Flood Insurance Act of 1968. Coverage is not only available, but may even be required to obtain financing for exposed properties.

**Flood Insurance Rate Map (FIRM)** - Provided by FEMA (Federal Emergency Management Agency), this map delineates base flood elevations and flood risk zones, and is used for rating purposes for flood insurance.

**Forgery or Alteration Coverage** - This type of insurance covers loss sustained through forgery or alteration of outgoing negotiable instruments made or drawn by the insured; drawn on the insured’s account(s); or made or drawn by someone acting
as the insured's agent. This includes loss caused by any of the following: (1) Checks or drafts made or drawn in the insured's name, payable to a fictitious entity; (2) Checks or drafts, including payroll checks, executed through forged endorsements; and (3) Alteration of the amount of a check or draft.

**Form** - The central document or documents of an insurance contract. Forms may be altered by endorsement.

**Fraud** - The intentional perversion of the truth in order to mislead someone into parting with something of value.

**Friendly Fire**, See Fire.

**Fronting** - The practice, in reinsurance, of the ceding company retaining only a small portion of a risk and ceding the remainder to a reinsurer.

**Functional Replacement Cost** - The cost to repair or replace damaged property with materials that are functionally the equivalent of the damaged or destroyed property. For example: replacing a solid mahogany banister with a pine banister.

**Fur Floater**, see Floater.

**Furriers Customers Insurance**, see Bailees floater.

**Gap Coverage** - Insurance for a lessee designed to cover the difference in selling price between a vehicle's actual cash value, and the payout left on a lease.

**Garage Policy** - One of the early package policies, it is written for automobile dealers and may include liability insurance for garage operations, automobile operations,
Glossary of Terms

physical damage coverage on garage owned autos, bailees coverage on customers cars, and auto and premises medical payments coverage.

**Garagekeepers Liability** - A bailee coverage applying to automobiles. Commonly included in garage policies, it may be written to provide coverage for limited perils or for comprehensive physical damage, with or without collision damage coverage. Coverage may be expressed as covering the legal liability of the garagekeeper or amended to cover on a direct basis, as primary insurance or excess.

**General Liability Insurance**, see Commercial general liability.

**Glass Insurance** - Commercial property form that covers plate glass, glass signs, lettering, etc.

**Grace Period** - A period of time (commonly 31 days) after premium-due date during which a policy remains in force without penalty even though the premium due has not been paid.

**Gross Earnings Coverage** - An outdated term for business income coverage.

**Guarantee Funds** - State mandated funds collected from licensed insurers and maintained as backup protection for policyholders of bankrupt insurers.

**Guaranteed Insurability Rider** - A rider that provides that the insured can purchase more insurance at specified ages or events without proof of insurability.

**Guiding Principles** - Suggested procedures for establishing primacy of coverage in situations involving loss under a variety of coverage forms and, perhaps, more than one interested party.
Glossary of Terms

Last promulgated in the 1960s, the spirit of the principles survives because insurers apparently find that the prescribed procedures commonly lead to equitable settlements for all parties.

**Hangarkeepers Legal Liability** - A bailee coverage for those charged with the care of aircraft owned by their customers.

**Hard Market** - A condition of the insurance marketplace in which insurance is difficult to obtain, and relatively expensive.

**Hazard** - Generally, a condition that increases the possibility of loss.

**Hazardous Waste** - Term generally used to refer to pollutants or contaminant's which result from industrial processing and must be disposed.

**Highly Protected Risk (HPR)** - A building meeting certain standards of fire protection, which is therefore eligible for a reduced rate.

**Hired Auto** - A non-owned auto that may be borrowed as well as rented or leased by the insured. Personal auto policy insureds are covered automatically for hired autos, but business auto policy insureds may not be.

**Hold Harmless Agreement** - A contractual assumption by one party of the liability exposure of another. Lease agreements, for example, commonly require the tenant to hold the landlord harmless for bodily injury or property damage experienced by others on the premises.

**Hole-In-One Insurance** - Coverage designed for amateur golf tournaments in which there is a substantial cash prize for anyone
making a hole-in-one.

**Holistic risk management** - See Enterprise-wide risk management.

**Homeowners Insurance** - An early and hugely successful example of "packaged" property and liability insurance. A mid-twentieth century insurance development was introduction of the so-called "multi-line era" in which insurers became empowered to write both property and liability forms of insurance, making way for the first packaging of these coverages within a single policy.

**Host Liquor Liability** - Part of the CGL, this covers the incidental serving of alcohol by an insured who is not in the business of serving alcohol.

**Hostile Fire**, see Fire.

**HPR** - See Highly protected risk.

**Housekeeping** - A generalized term that refers to the overall care, cleanliness, and maintenance of an insured’s property.

**Hull Insurance** - Ocean marine insurance covering physical damage to the ship or vessel insured. Usually, written on an "all-risks" basis.

**Impaired Property** - A liability exclusion relating to the insured’s faulty products or work that results in an "impairment" to the property to which it is attached assuming the insured can salvage the situation by replacing the property or redoing the work.
Improvements and Betterments - Anything that adds to the value of property. Commonly used to describe a tenant’s use interest in fixtures added to the landlord’s building. May also refer to permanent changes made by a condominium unit-owner to his/her unit, such as the addition of new kitchen cabinets.

Incontestable Clause - A clause in an insurance policy typically providing that (except for fraud) after the policy has been in force for a given length of time the company shall not be able to contest it. Other policies usually use a variation of the clause entitled "Time Limit on Certain Defenses."

Increased Cost of Construction - A damaged building may have to be upgraded to be repaired under building codes in force at the time of reconstruction. Building owners in such situations need guidance in buying insurance to cover this added exposure.

Incurred Losses - The value of claim payments plus reserves.

Indemnity - A fundamental concept governing insurance: compensation for loss or injury sustained.

Independent Adjuster - An individual or member of a firm who contracts with insurers to investigate claims and suggest appropriate settlements. Contrast with Public adjuster.

Independent Agent - A "retailer" of insurance who, by contractual arrangement with a number of insurance companies, sells and services property and liability insurance. The independent agent "owns" the policy information and expiration dates of his client’s coverage and thus controls renewals and their placement.
Glossary of Terms

**Independent Insurance Agents of America (IIAA)** - An association of insurance agents who are independent contractors, and represent one or more insurers. Sometimes referred to as the "Big I."

**Indirect Damage** - Sometimes referred to as indirect loss, this is loss resulting from a peril, but not directly caused by that peril. An example is fire damaging a freezer (direct damage), with resultant food spoilage (indirect damage).

**Inflation Guard Endorsement** - An endorsement attached to an insurance policy whereby the limits of liability on a piece of property are increased on a regular basis by a certain percentage in order to offset increasing building costs associated with inflation.

**Inherent Vice** - A flaw in an item of property that will, in time, reveal itself and show the property as damaged. Property insurance does not normally cover such damage.

**Inland Marine Insurance** - Property insurance signaling broad coverage of properties exposed to the transportation peril and those subject to being used or kept at a location other than the insured’s customary premises. Eligible property is identified in the Nationwide Definition of Marine Insurance.

**Innkeepers Legal Liability** - A bailee coverage purchased by innkeepers to cover the property of their guests.

**Insolvency Fund** - See Guarantee Funds.

**Inspection** - Independent checking on facts about an applicant or claimant, usually by a commercial inspection agency.
Glossary of Terms

Insurability - That condition of the proposed insured as to age, occupation, physical condition, medical history, moral fitness, financial condition and residence which makes him an acceptable risk to an insurance company.

Inspection Report - A report prepared for an insurer by an outside organization. It provides information about an applicant’s or insured’s physical, financial, and moral attributes.

Insurable Interest - The potential for financial loss associated with damage or destruction of property. The proposed policy owner cannot buy the insurance unless the death or disability of the insured would result in a significant emotional or financial loss to the proposed owner.

Insurable Risk - The exposure to significant, measurable accidental loss from identifiable perils. The exposure, while not catastrophic, must be shared by a sufficient number of potential insureds so that the cost of loss for one can be measured and affordably shared throughout the market.

Insurance - A mechanism whereby risk of financial loss is transferred from an individual, company, organization, or other entity to an insurance company.

- or -

A contract or device for the transfer of the risks of individual entities to a company, which agrees, for a consideration, to indemnify or pay a specified amount for losses suffered by the insured.

Insurance Age - An age upon which current premium rates may be established. The most common variations seen are based on age at last birthday, age next birthday, or age at nearest birthday.
Glossary of Terms

**Insurance Department** - A governmental agency in each state charged with administration of the insurance laws including licensing of agents and companies and regulation and examination of them. In some jurisdictions, a division of some other state department or bureau.

**Insurance Contract** - A legal document defining circumstances under which the insurer will pay, and the amount to be paid. Also see Insurance policy.

**Insurance Commissioner** - Common title for the head of a State Department of Insurance. (In some states called "Superintendent" or "Director".)

**Insurance Exchange** - See Reciprocal Exchange.

**Insurance Institute for Highway Safety** - A not-for-profit research organization, well known for its auto "crash tests."

**Insurance Policy** - The document containing the contract between the insured and the insurer which defines the rights and duties of the contracting parties.

- Or -

The entire written contract of insurance, usually including the application.

**Insurance Premium** - A sum of money which, when paid to the insurance company, puts into or maintains in force an insurance contract. It reimburses the company for the risk assumed.
Glossary of Terms

Insurance Risk - The chance of occurrence of an event; in some usage, refers to the insured person.

Insured - The party to an insurance arrangement to whom, or on behalf of whom, the company agrees to indemnify for losses, provide benefits, or render service. It is preferred to such terms as "policyholder," who may not be the insured.

Insurer - The party to an insurance arrangement who undertakes to indemnify for losses, provide other pecuniary benefits, or render service. It is desirable to use the word "insurer" in preference to carrier or company since it is a functional word and insurer is generally used in statutory law.

Insuring Clause - The clause in a policy that specifies in brief the contract's intent and the parties thereto.

Insurance Services Office (ISO) - An organization providing statistical information, actuarial analysis, policy language, and related services for the insurance industry.

Insurance to Value - The concept of purchasing sufficient insurance coverage so as to closely approximate the value of the property being insured.

Insured - The party or parties whose interests are covered in a non-life insurance contract. The less common term Assured is sometimes used synonymously.

Insuring Agreement - In an insurance contract, the insurer’s promise to pay.

Integrated Risk Financing - A type of risk financing designed to provide integrated protection against catastrophic losses. It may incorporate both traditional and non-traditional types of exposures, or it may include only traditional property and
casualty risks.

**Interline Endorsements** - Commercial endorsements that apply, or could apply, to more than one coverage as part of a package policy.

**Jacket** - The cover of an insurance policy; it usually contains the name of the insurer, its address, etc.

**Jettison** - Act of throwing overboard part of a vessel's cargo or hull in hopes of saving a ship from sinking.

**Jewelers block insurance** - A policy especially designed for jewelers, it offers a combination of coverages protecting against risks of physical loss to property at the jeweler's premises, property in transit, or customers' property in the insured's care.

**Jewelry Floater**, see Floater.

**Joint Life Policy** - A policy that insures the lives of two or more people, paying the face amount upon the first death of the persons covered.

**Joint and Several Liability** - A legal doctrine whereby a creditor or claimant may demand payment or sue one or more of the parties separately, or all of them together.

**Joint Underwriting Association (JUA)** - These are insurance pools representing all insurers in a state. A few "servicing carriers" act on behalf of all the insurers, issuing policies, receiving fees, and handling claims. They are reimbursed for losses, and receive fees from the JUA to cover operating costs.
Glossary of Terms

**Joint Venture** - A venture in which two businesses join together to share risk or expertise on a specific project or group of projects.

**Jones Act** - The Federal act through which maritime workers are provided workers compensation coverage (which ordinarily responds to the mandates of particular states).

**Judicial Bonds** - Two types of bonds available to guarantee faithful performance of court appointed duties. Fiduciary bonds guarantee the faithful performance of persons entrusted by the courts in the management, conservation, and disposition of property. Litigation bonds (or "court bonds") are required in court actions. Bail bonds and appeals bonds are litigation bonds; where the bond amount is forfeited if the bonded person disappears or the appeal is lost.

**Jumbo Risk** - A policy of insurance written with exceptionally high limits

**Juvenile Insurance** - Life insurance written on the life of one not yet considered an adult for life insurance purposes.

**Keeton-O’Connell**, see No fault Auto Insurance.

**Key Employee Insurance** - Life insurance written on the life of an organization’s officer or other key employee, the loss of whom would cause the organization financial hardship.

**Kidnap-Ransom Insurance** - A specialty coverage offered in the surplus and excess lines markets that responds to ransom demands for recovery of kidnap victims.

**Lapse** - Termination of a policy because of failure to pay the premium.
Lapsed Policy - A policy for which the policyholder has failed to timely pay enough premium to keep it in force beyond the grace period.

Larceny - The unlawful taking of personal property of another.

Latent Defect - A hidden flaw that will, in time, cause property damage that is uninsurable. Such damage is uninsurable because the element of chance is no longer present.

Law of Large Numbers - An underlying principle of insurance; the larger the number of participants in a given arrangement, the more accurate the rate is to the exposure.

Leased Worker - A worker leased from another organization on a long-term basis.

Leasehold Interest Insurance - The insurable interest is that of a tenant who has some years remaining under a favorable lease that is subject to termination upon significant damage to the leased property.

Legal Liability - Liability imposed by law; this includes liability based on negligence, strict liability, or contractual liability.

Level Premium - An insurance premium which remains constant during the entire policy period.

Level Premium Term Insurance - Insurance for which the amount of premium remains constant during the policy period.

Legal Reserve - The amount an insurer is required to hold as a reserve, using the mortality table and a maximum assumed interest rate prescribed by state law.
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Level Term Insurance - The amount of insurance protection in the term policy remains constant during the policy period.

Level Term Rider - A level amount of term insurance added to a permanent insurance policy.

License – Agent - A state license which enables an insurance agent to do business in that state. Renewable periodically.

Libel - Written defamation of another’s reputation.

Liberalization Clause - A feature of property policies that promises that any future change in the company’s form that would broaden coverage with no change in premium will automatically apply under the policy currently in force.

License and Permit Bonds - Suretyship guaranteeing that the principal will abide by the rules and obligations imposed by licensing laws or ordinances. For example, an electrician may have to post such a bond guaranteeing compliance with building codes before being licensed by a municipality.

Life Expectancy - Average number of years of life remaining for persons at any given age.

Life Insurance - Insurance paying a specified amount on the death of the insured, to his estate or to a named beneficiary.

Limited Partnership - A form of partnership that consists of one or more general partners, who actively engage in the business, and one of more special partners, who are not liable for the debts of the partnership beyond their initial financial contribution. Commercial insurance policies usually differentiate in the "Who Is Insured" section between corporations, partnerships, and other business models. Therefore, the type of model being insured is important.
Liquor liability insurance - Liability coverage for owners and operators of establishments selling or serving alcoholic beverages. Litigation bonds, see Judicial bonds.

Livery Use - An exclusion in automobile liability policies applying to the use of autos to carry persons for hire as in a taxi service. A share-the-ride car pool is not "livery use."

Livestock Insurance - Life insurance on livestock covering death by named perils.

Lloyd’s of London - An association of individuals, called "names," or groups of individuals who write insurance for their own accounts. Lloyd's had its beginning in 17th century London in Edward Lloyd’s coffee house.

Loading and Unloading Exclusion - A feature of commercial general liability (CGL) policies intended to separate that coverage from the automobile exposure. The CGL coverage ends at the point where an item is picked up for loading onto an auto and resumes at the point where the item is deposited upon unloading.

Loan Value - That amount of cash value in a policy which may be borrowed by the owner.

Longshore and Harbor Worker’s Act - A Federal law that specifies compensation amounts for injured longshore and harbor workers. Formerly referred to as the Longshoremen’s and Harbor Workers Act.

Loss - An unintentional decline or disappearance in value arising from an event.
Glossary of Terms

**Loss Adjustment Expenses** - Payments by an insurer for the investigation and settling of claims. They include the cost of defending a lawsuit in court. Loss assessment coverage - Insurance responding to property or liability loss of a property owners association that are not covered by the associations master policy.

**Loss Control** - Actions to reduce the frequency or severity of losses. Installing locks, burglar or fire alarms and sprinkler systems are loss control techniques.

**Loss Costs** - Loss data that has been modified by insurance advisory organizations by necessary loss development, trending, and credibility processes in order to arrive at the statistical cost of losses to be used in establishing a premium rate.

**Loss Development** - An actuarial method to detect and correct for consistent errors in estimating the amount of future loss payments or the procedure for adjusting incurred losses to reflect their future development and ultimate value. Loss development factors are developed actuarially and applied to current losses in order to predict what the ultimate cost of losses will be when the claims are closed.

**Loss Expectancy** - The underwriter’s calculation of probable maximum loss.

**Loss Experience** - What the loss history has been on a particular line or book of business.

**Loss Exposure** - A set of circumstances presenting the possibility of loss, whether or not the loss actually occurs.

**Loss Frequency** - How often a loss occurs over a given space of time.
Loss Limit - Commonly used in financial institution bonds, a loss limit is the aggregate amount that will be paid out under the coverage during the policy term. Loss limits also may be used when insuring large property risks where the exposures are spread out geographically. In this type of situation, it is unlikely that all property would be damaged by a single occurrence. Therefore, the amount of insurance may be set at a "loss limit" per each covered occurrence.

Loss of Use Insurance - See Additional Living Expense Insurance.

Loss Payable Clause - A property policy provision that, at the request of the named insured, stipulates that claims tied to losses of certain property will be paid to both the named insured and the party named in the subject clause.

Loss Prevention - Refers to engineering or inspection activities carried out to prevent losses in the workplace.

Loss Ratio - The ratio of incurred losses including loss adjustment expenses to earned premiums.

Loss Payout Pattern - Losses often are paid over a period of years, especially in casualty lines of insurance. The payout pattern illustrates the way that claims are paid out from the time they are filed until they are closed.

Loss Trending - A method to modify developed losses for changes that will occur in the future. Trend factors are used by rate makers to adjust past losses to more accurately reflect the loss experience expected to develop while the rates are being used.
Glossary of Terms

Loss Triangle - Used to show how losses develop, a loss triangle is a chart that lists losses by line and by year. It shows the value of each set of annual losses at the end of subsequent 12-month periods.

Lost Policy Release - A means whereby an insured may cancel a policy by signing a statement to the effect that, since his or her policy has been lost, he cannot return it to the insurer to effect cancellation, but still wishes to cancel the policy.

Lump Sum - Proceeds of a policy taken all at once. A single amount.

MCS-90 - This is the "Endorsement for Motor Carrier Policies of Insurance for Public Liability under Sections 29 and 30 of the Motor Carrier Act of 1980." The endorsement assures that the trucker is using insurance to comply with the financial responsibility requirements of the act.

Maintenance Bond - Guarantees that faulty work or defective materials charged to the bond principals will be corrected or replaced. A maintenance bond may be included among the terms of a performance bond.

Malicious Mischief, see Vandalism.

Malpractice, see Professional Liability.

Managing General Agent (MGA) - An agent standing between an insurer and other agents. The MGA sells to retail agents, who then sell to the consumer. MGAs often are said to have the "pen" because they are given the authority to accept, underwrite, and price submissions received from retail agents.
Glossary of Terms

Manufacturers and Contractors Liability (M&C) - The premises and operations liability exposures of manufacturers and contractors covering third parties for bodily injury or property damage negligently inflicted in the course of daily activities.

Manufacturers Output Policy (MOP) - Policy originally designed to cover property of a manufacturer being processed at another company; it covers personal property away from the premises on an open perils basis.

Manufacturers Selling Price Clause - Clause stating that finished goods are valued for insurance purposes at their selling price rather than their cost of manufacture.

Manuscript Policy - An insurance policy covering property or liability exposures (or both) that is uniquely assembled from standard or specially created forms to suit the needs of an insured.

Marine Insurance - Insurance primarily concerned with transportation exposures and property that is commonly moved around from place to place. In America, the field is divided between Inland marine and Ocean marine.

Maritime Coverage - Crew members of vessels are subject to Admiralty Law and may sue their employers for work-related injuries because state workers compensation laws do not apply to them. Therefore, special coverage must be purchased for this exposure.

Market Value - The price at which insured property could have been sold just prior to its loss or damage. Along with "cost new minus use depreciation," market value is but another gauge used to determine the loss settlement to which an insured is entitled. The insured may choose the gauge that produces the most
favorable outcome.

**Market Value Appraisal** - An appraisal to determine the market value of a building and related personal property.

**McCarran-Ferguson Act** - Passed by Congress in 1945, this act states that regulation and taxation of insurance by the states is in the public interest, and that congressional silence should not be construed as a barrier to state regulation.

**Medical Malpractice** - Type of insurance protecting physicians, surgeons, nurses, and other medical practitioners against claims alleging failure to perform.

**Medical Payments Insurance** - A coverage found in auto and liability policies that pays medical expenses to injured persons without regard to liability.

**Merit Rating** - A form of auto rating in which an insured’s past experience as well as anticipated experience is taken into account when arriving at a rate.

**MIB (Medical Information Bureau)** - An organization serving as a clearinghouse of medical information on impaired risks reported to it by companies who are members of the service and reported by the organization to member companies as a source of underwriting information on applicants.

**Minimum Premium** - An insurer’s lowest charge for an insurance policy.

**Misrepresentation** - Generally, misstatement of facts made on an application for insurance. May also be misstatement of coverage made by an agent to an insured.
The use of written or oral statements falsely representing the terms, benefits, or privileges of a policy, or the health or condition of the proposed insured.

**Misstatement Of Age Clause** - Provides that if misstatement of age is discovered after the policy's issued, the company can, if the insured is currently alive, adjust the premium amount on future premiums and request payment of any additional premium the policyowner should have paid; or if the insured has died, adjust the face amount of the policy to fit the premium that was paid at the correct age before paying the claim.

**Mobile Equipment** - Included for coverage under the commercial general liability form, this term relates to land vehicles used in ways that take them out of an explicit "automobile liability" exposure (e.g., vehicles used only on the insured premises, to carry certain permanently attached equipment, that are not required to be registered, or are designed for solely for off-road use).

**Model Bill** - A bill drawn up for insurance regulatory purposes by the National Association of Insurance Commissioners, with the recommendation that it be implemented by the states.

**Monoline Policy** - An insurance policy covering one subject of insurance, as opposed to a combination or multiline policy.

**Monopolistic State Fund** - Five states have their own system for providing reparations to injured employees eligible under the state’s workers compensation act. Private insurance companies may not compete. The states are North Dakota, Ohio, Washington, West Virginia, and Wyoming.
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**Moral Hazard** - As "physical hazard" relates to susceptibility to fire or wind, the term "moral hazard" relates to susceptibility to loss through moral lapse of the owner (e.g., "Burn the house down and collect from the insurance company before losing it in a foreclosure to the finance company.").

**Morale Hazard** - The term "morale hazard" addresses the issue of an apathetic insured (e.g., "It’s insured, let it burn.")

**Mortality** - The average number of people who die each year, providing one's chance or risk of dying at any given age.

**Mortality Table** - A statistical table showing the number of deaths for all ages from 0 to 100.

**Mortgage Holders Clause** - A standard property policy provision that creates elements of a separate contract between a mortgage company and an insurance company. Any loss to building or structures will be paid to the mortgage company and insured jointly and any act of the insured voiding coverage will not affect the mortgage holder without it first being given an opportunity to comply with the insurer’s needs.

**Motor Carrier Act of 1980** - A federal law that de-regulated the United States trucking industry and transferred the enforcement of financial responsibility requirements for truckers to the Bureau of Motor Carrier Safety, U.S. Department of Transportation. Insurance is one method of complying with the financial responsibility requirements.

**Motor Truck Cargo Policy** - Two forms of inland marine coverage are associated with this title, one for carriers and one for owners. As a carrier, the insured is protected for legal liability relating to property of others in the course of transport. As an owner, the insured is protected for in-transit damage to its own
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property.

**Motor Vehicle Record (MVR)** - An official record of a driver’s accidents and traffic violations kept by the licensing state(s). Often used to determine eligibility and/or premiums for auto insurance.

**Multi-Line Era** - During the first half of the twentieth century, insurers were licensed to write property insurance or liability insurance but not both. Two insurers were needed to write automobile liability and physical damage insurance, for example, in a contrivance called a "combination policy." Not long after World War II, states began licensing insurers to write both forms of insurance introducing what was then called the "multi-line era."

**Mutual Insurance Company** - A cooperative insurance company organized and owned by its insureds.

**Mysterious Disappearance** - A named peril in some forms. Either theft or unexplained disappearance of covered property from a known location may activate coverage.

**NAIC (National Association of Insurance Commissioners)** - An association of state insurance commissioners, active in discussions of regulatory problems and in the formation and recommendation of uniform practices and legislation.

**Named Insured** - The party or parties specifically named as insured in the insurance contract. Others may have claim on the coverage of a policy by way of internal provisions, but any such right is by way of the agreement between the named insured and the insurance company.
Glossary of Terms

**Named Non-Owner Policy** - Issued to someone who does not own an automobile, but who drives borrowed or rented autos.

**Named Perils** - A formal and specific listing of perils covered in a policy providing property insurance. A policy covering for damage by fire is said to cover for "the named peril" of fire.

**National Association of Insurance Commissioners (NAIC)** - An association of insurance commissioners and superintendents formed to share information and develop common laws and procedures for insurance regulatory purposes.

**National Association of Insurance Women (NAIW)** - An association of women (and men) in the insurance industry who have achieved the designation of Certified Professional Insurance Woman (CPIW) or CPIM.

**National Association of Professional Surplus Lines Offices (NAPSLO)** - Trade association of and providing services to surplus and excess lines agents and brokers.

**National Council on Compensation Insurance (NCCI)** - National association that collects, tabulates, and provides data used in formulating rates for workers compensation insurance.

**National Flood Insurance Program (NFIP)** - A federal program through which persons with property located in predefined flood plains can obtain flood coverage. See Flood insurance.

**Nationwide Definition of Marine Insurance** - A document published by the National Association of Insurance Commissioners that was rooted in an older (1933) definition of "...Insuring Powers of Marine and Transportation Underwriters". In general,
the "definition" specifies property that may be insured under marine contracts such as property in inland transport and property regularly or routinely in transit, e.g., contractors equipment.

**Negligence** - Action or failure to act that is outside the realm of what would be considered appropriate by ordinary, reasonably prudent persons.

**Net Loss** - The amount of a loss, after deductions for salvage, other insurance, and any subrogation that an insurer is responsible for.

**Net Premium** - Premium less expense, such as commission.

**New York Standard Fire Policy** - Once the benchmark of property policies, it was adopted for use in all but a handful of states. The familiar provisions of its 165-Numbered-Lines, e.g., cancellation, mortgagee, appraisal clauses, etc., survive in Insurance Service Office property policies as well as in independently produced forms.

**No Benefit To Bailee** - A clause in inland marine forms that prevents a person in the possession of property of others from benefiting from any insurance the owner has on the property.

**No-Fault Auto Insurance** - A few states have laws that partially exempt drivers from legal liability for auto accidents. In these "no fault" states car owners buy insurance to protect themselves and their passengers from the economic and medical effects of auto accidents in addition to liability insurance at whatever limit the statute decrees. Professors Robert Keeton and Jeffrey O'Connell gave the "no fault" notion impetus with the 1967 publication of their study "After Cars Crash."
Glossary of Terms

**NOC** - Underwriter’s shorthand derived from general liability and workers compensation rating tables that stands for "not otherwise classified" meaning no more specific classification is available — as in "Clerical Office Employees NOC."

**Nonadmitted Insurers**, see Excess or Surplus Lines Market.

**Non-Owned Auto** - This term signifies an auto that is neither owned, hired, nor borrowed by the insured under a commercial auto policy. Employees’ cars used in company business are commonly classified this way. The employer’s auto liability cover for use of non-owned autos is covered by entry of symbol 1 ("any auto") or symbol 9 ("non-owned autos") on the declarations page.

**Nonresident Agent** - An agent who does not reside in the state in which he or she is licensed.

**Nose Coverage** - This is the opposite of Tail coverage, although it fulfills the same need. Nose coverage most commonly provides prior acts coverage for insureds who are moving from a claims-made coverage form to an occurrence coverage form. It is provided by the replacement policy.

**Notice of Loss** - Notice the insured provides to the insurer that a loss has occurred.

**Nuclear Energy Insurance Pools** - Any of the insurance pools designed to pro-vide property and/or liability coverage for organizations that handle substantial quantities of nuclear material.

**Nuisance Value** - The amount for which an insurance company will settle a claim - not because it is a valid claim but, because the company considers.
Glossary of Terms

Object, see Boiler & Machinery Insurance.

Obligee - A term used in surety bonds to refer to the individual or firm that is to benefit from the bonds protection. A performance bond, for example, provides the obligee property owner with recourse if the bonded contractor, the principal, fails to perform.

Obligor - A term used in surety bonds to refer to the individual or firm bound by an obligation. Also known as the "principal."

Occupancy - In general, a condition affecting the desirability of property policies.

Occupational Safety and Health Act (OSHA) - Passed in 1970, this law promulgated strict work-safety regulations, and set up the mechanism to enforce these rules through fines for violations, and closure of unsafe plants.

Occurrence - In general, an event that triggers coverage under any policy. Specifically, an event that triggers coverage under an occurrence-based liability policy. Such a policy covers injury or damage that occurs during the policy period even if claim is brought months or even years after the policy has expired - see Claims-made for the alternate arrangement. Also see Accident.

Ocean Marine - Insurance coverage for vessels and property in ocean shipping. "River marine" is the term referring coverage for inland shipments on water. "Motor truck cargo" refers to coverage for property transported over highways.

Off Premises Cover - Commercial property policies commonly establish a small coverage limit that applies to property temporarily away from the insured’s place of business.
Glossary of Terms

**Omnibus Clause** - An agreement in most automobile liability policies and some others that extends the definition to include to others without the needing to name them. An example would be a policy that covers the named insured and "those residing with him."

**Open Perils** - Property coverage that applies to risks of loss on a general basis, in contrast with policies that cover for specifically identified perils — see Named perils. The old term for open perils was "all risks."

**Open Rating** - A state rating system that allows the insurer to use rates without prior approval. Also referred to as "open competition."

**Operating Ratio** - The sum of the combined ratio plus investment income.

**Ordinance or Law Coverage** - This insurance responds to property loss or damage necessitating repair, demolition, or rebuilding in accordance with current building codes.

**Ordinary Payroll** - Payroll allotted to employees whose services could be curtailed in event of a long-term shutdown of a business without a harmful effect on reopening. This figure is important in calculating business income insurance exposures.

**Other than Collision Insurance (Automobile)**, see Comprehensive Physical Damage (Automobile).

**Other Insurance** - When two or more policies cover the same interests for the same exposures, each policy is said to represent "other insurance" to the other. Most insurance policies contain clauses that specify how or if claims will be paid if other insurance exists for the same exposures.
Glossary of Terms

**Outer Continental Shelf Lands Act** - This act makes the Longshore and Harbor Workers Compensation Act apply to work involving the development of the natural resources of the outer continental shelf. A special endorsement, the Outer Continental Shelf Lands Act Coverage Endorsement, amends workers compensation policies to provide coverage for this exposure.

**Owners and Contractors Protective (OCP) Liability Coverage Form** - Provides coverage for the liability of an owner of land on which a building is being constructed for the acts of the contractor handling the construction. Owners, Landlords, and Tenants legal liability (OL&T), see Premises and operations liability.

**Ownership of Expirations** - Refers to the ability of an independent agent to place a risk with any of the companies that he or she represents. Unless that customer goes to another agent, the current agent "owns" the policy and the right to place it as he/she sees fit.

**Package Policy** - Any combination of insuring agreements that combines property and casualty coverages. Homeowners, business owners, and garage policies are examples.

**Paid Losses** - The losses that have been paid for a claim.

**Pair and Set Clause** - Clause that stipulates that partial loss to a pair or set of items will be valued in terms of the lost item, not on the basis of reduced value of the pair or set.

**Partial Loss** - A property loss that is less than a total loss. See Constructive Total Loss.
Glossary of Terms

**Partnership** - A business model in which two or more individuals join together to conduct business and share profit and losses. Commercial insurance policies usually differentiate in the "Who Is Insured" section between corporations, partnerships, and other business models. Therefore, the type of model being insured is important.

**Pay-at-the-Pump** - A device for making sure all motorists are insured; the theory being that premiums for basic liability coverage could be collected through "taxes" at the gasoline pump in a relatively painless manner, thus eliminating the uninsured motorist.

**Payment Bond** - Sometimes also called a "labor and materials bond," this bond guarantees that bills owed by the contractor will be paid as they come due. The agreement may be incorporated into the performance bond.

**PD** - A shorthand expression for "property damage."

**Peak Season Endorsement** - Instead of buying insurance amounts reflecting values at the height of inventory, some enterprises are able to forecast times when values will be at their peak and use this endorsement to increase the amount of insurance during that specific interval.

"Pen," The, see Managing General Agent (MGA).

**Per Occurrence/Per Loss Excess Reinsurance Treaty** - An agreement under which losses above a certain dollar amount are ceded to the reinsurer, who is responsible for all losses from any one exposure above this amount up to the reinsurance limit. The retention is expressed as an amount incurred per occurrence. An occurrence may be one hurricane, one flood, or one accident that results in injuries to multiple people.
Glossary of Terms

**Per Risk Excess Reinsurance Treaty** - Similar to a per occurrence/per loss excess treaty except in the matter of the retention. The retention applies separately to each subject of insurance.

**Performance Bond** - A bond that guarantees the property owner (the "obligee") that the contractor with the winning bid on a job will perform as promised and on time.

**Peril** - A potential cause of loss.

**Perils of the Sea** - Somewhat akin to open perils on land, the term refers to any potential cause of loss derived from shipment on a seagoing vessel.

**Period of Restoration** - The period of time following a loss that is necessary to restore a business or organization to a pre-loss condition.

**Personal Articles Floater** - Before the advent of packaged forms and broad coverages, households commonly had fire insurance on dwelling and personal property with the possible addition of extended coverage. The personal articles floater is an inland marine form that was used by the affluent for scheduling open perils coverage for various articles and classes of valuable personal property. A homeowners endorsement accomplishes the same thing today and the personal articles floater is no longer widely written.

**Personal Auto Policy** - The form currently promulgated by Insurance Services Office (ISO) for coverage of personal auto liability and physical damage exposures.
Glossary of Terms

Personal Injury - Distinguished from "bodily injury," this term relates to injury inflicted by way of false arrest, invasion of privacy, malicious prosecution, and so on. It is written as Coverage B of the commercial general liability forms and as homeowners Coverage E.

Personal Injury Protection (PIP) - The section of an auto policy in a no-fault state that responds to physical injury, loss of income, etc., of the insured regardless of fault.

Personal Liability Insurance - Insurance for individuals or members of a household offering protection against claims by third parties (outsiders) alleging bodily injury or property damage due to negligence. See also Premises medical payments.

Personal Lines - Insurance covering the liability and property damage exposures of private individuals and their households. Contrast with Commercial lines.

Personal Property - Term used in insurance to distinguish chattels from real property.

Physical Hazard - A hazard that arises from the material, structural, or operational features of the risk itself apart from the persons owning or managing it.

Physicians and Surgeons Professional Liability Insurance, see Professional Liability.

Plate Glass Coverage - Provides "special" protection, except for the perils of war, nuclear reaction, and fire. (Fire is covered under the building policy.) This coverage is for full replacement cost and covers the expense of repairing frames, installing temporary plates, or boarding up openings.
Glossary of Terms

**Policy** - The contract effecting insurance, or the certificate thereof, by whatever name called, and including all clauses, riders, endorsements, and papers attached thereto and made a part thereof.

**Policy Loan** - A loan taken by the policyholder from the company using the insurance cash value as collateral.

**Policyowner** - The person who has the right to exercise the rights and privileges in the policy contract. Such person may or may not be the Insured, depending on policy ownership and assignment, if any.

**Policy Year** - Unique to the insurance business, this is a means of cost accumulation in which the aggregate transactions of all policies becoming effective in a given year determine the financial performance of those policies. Policyholder, see Insured.

**Policyholders’ Surplus** - The amount of money available to an insurer to meet its obligations to its policyholders, after subtracting liabilities.

**Pollution Liability Insurance** - Coverage for bodily injury or property damage caused by a "pollution incident." Insurance Services Office has two forms, one limited to on-site clean up of pollution spills.

**Pool** - An organization in which insurers cover certain types of risks as a group and share premiums, expenses and losses. Pools are often used to underwrite larger risks.

**Portfolio** - All of an insurer’s in-force policies and outstanding losses, respecting described segments of its business.
Glossary of Terms

**Power-of-Attorney** - Commonly used in bonding, this document conveys authority for the individual(s) named on it to execute bonds and other legal documents.

**Premises** - Generally, a piece of land with a building or buildings upon it.

**Premises and Operations Liability** - Once known as owners, landlords, and tenants legal liability, or as manufacturers and contractors liability, depending on the business’s activity, the term refers to the liability exposure of business entities to third parties (customers, guests, and passers by) who may become injured or have property damaged through the negligent acts of the business persons, their agents, or employees. Coverage of this exposure is by way of the commercial general liability policy. Contrast with Products and completed operations liability.

**Premises and Operations Medical Payments** - Bodily injury rather than liability is the trigger for this coverage. Sometimes referred to as "customer good will insurance," it is a relatively inexpensive addition to the commercial general liability policy and an automatic feature of personal liability protection. Since it responds to injury of customers or guests without regard to fault, it is sometimes effective in heading off a potentially much more serious liability claim against the owner or tenant of the business premises or private residence.

**Premium** - Term for the amount of money the insured pays the insurer to purchase insurance.

**Premium Mode** - The premium paying frequency selected by the policyowner; that is, monthly, quarterly, semiannual, or annual (or any other mode acceptable to the company).
Glossary of Terms

**Pressure Vessel** - In boiler and machinery insurance, a type of container designed to hold liquids or gasses under pressure. Types are categorized as fired (such as a boiler) and unfired (such as an oxygen or hydrogen tank).

**Price-Anderson Act of 1957** - Federal law that requires evidence of financial responsibility for all privately owned nuclear reactors, spent fuel reprocessing plants, and for fuel fabrication plants licensed to process five or more kilograms of plutonium.

**Primary Insurance** - The first policy or coverage to apply. Contrast with Excess Insurance.

**Principal** - Used in suretyship, it refers to the individual whose performance is guaranteed.

**Prior Approval** - Indicates that an insurer must have rate or form changes formally approved by the state insurance department before it can use them.

**Private Passenger Automobile** - A four wheeled motor vehicle, subject to state registration laws, designed to carry passengers (such as a car, station wagon, SUV, or van) on public roads.

**Pro Rata Cancellation**, see Cancellation.

**Producer** - A term identifying the insurance agent, field rep, or other employee who sells insurance.

**Product Recall Insurance** - Coverage for the costs of recalling a product known, or suspected to be, defective.

**Products and Completed Operations Liability** - The liability exposure of the manufacturer whose malfunctioning products may cause injury or property damage or of the contractor whose
failed structures or projects may do the same. Coverage of the exposure is a feature of the commercial general liability policy. The insurance does not in any way constitute a guarantee of either the insured’s product or work. Contrast with Premesis and operations liability.

**Professional Insurance Agents (PIA)** - Trade association of insurance agents.

**Professional Liability** - A form of errors and omissions insurance, (sometimes called "malpractice" coverage for errors alleged against those in the healing and legal professions). Arbitrarily it seems, "errors and omissions" is the term applied most often to insurance covering liability for mistakes in matters affecting property, i.e., coverage for "Insurance Agents E&O," "Architects E&O" while "professional liability" is used in reference to coverages such as "Druggists Professional Liability," "Physicians and Surgeons Professional Liability," and "Lawyers Professional Liability."

**Promulgate** - To develop, file, publish, and put into effect insurance rates or forms. Proof of loss - Following a loss, a formal statement given by an insured to the insurer that includes details of the loss such as the original cost of damaged or destroyed property.

**Proof Of Death** - A usual requirement before paying a death claim is that a formal proof of death be submitted to the company.

**Proposed Insured** - The person on whose life the policy will be underwritten.

**Pro-Rata or Proportional Reinsurance** - A certain portion of every risk is ceded under a proportional agreement. The insurer and reinsurer agree to share a portion of all insurance, premium,
Glossary of Terms

and losses in the same amount. The insurer is paid a commission for ceding the risk portion and premium to the reinsurer.

**Prospect** - A potential buyer of an insurance policy or program.

**Protection and Indemnity (P&I) insurance** - The nautical equivalent of bodily injury and property damage liability.

**Proximate Cause** - That event which, in an unbroken sequence, results in direct physical loss under an insurance policy. For example, wind is the proximate cause of loss when a windstorm blows out a window that in turn topples a lit candle that sets fire to a structure and burns it down.

**Public Adjuster** - An individual or member of a firm who contracts with private parties to aid with the preparation of loss statements and presentation to insurers. Contrast with Independent adjuster.

**Public Liability Insurance** - General term for any liability coverage for claims brought against the insured by a third party or member of the public.


**Punitive Damages** - An award for damages above and beyond the requirements for compensating third parties for injury or damage. As the word implies the award is meant to punish the offender. Most states and territories permit punitive damages awards to be covered by liability insurance.

**Pure Risk** - The only consideration is the possibility of loss or no loss, but not making a profit. Contrast with Speculative risk.
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**Quota Share Reinsurance** - A type of pro-rata or proportional reinsurance agreement under which the insurer and reinsurer agree to share a pre-determined portion of all insurance, premium, and losses. The primary insurer’s retention in a quota share agreement is expressed as a percentage of the amount insured.

**Railroad Protective Liability** - Liability coverage designed to protect a railroad from liability claims arising out of the operations of others on or adjacent to railroad property.

**Rain Insurance** - A weather coverage that indemnifies a promoter or organizer against loss of income because of the cancellation of an outdoor event due to rainfall that exceeds a specified amount during a specified time period.

**Rate Filing** - Documentation filed by an insurer with the state requesting a change in the existing rates.

**Rating Bureau** - A private organization that classifies and promulgates manual rates (or loss costs).

**Real Property** - Land, buildings, and other structures (such as a swimming pool or tool shed).

**Rebate** - In insurance, a portion of an agent’s commission returned to a customer as an inducement to place the insurance through the agent. This practice is illegal in all but two states as against public policy.

**Reciprocal Exchange** - A type of insurance managed by an attorney-in-fact in which members pay premiums, and share in losses equally. Membership is required for insurance.
Glossary of Terms

**Redlining** - Unfair discrimination based not on the risks characteristics but on its location. The term is commonly associated with an insurer’s refusal to consider insuring any home or business within a specific area marked by a line drawn on a map.

**Reinsurance** - The business of insuring insurance companies. By "ceding" a portion of its business to a reinsurance company, an insurer spreads the risk of exposure to catastrophic loss.

**Reinstatement Clause** - Provides the conditions under which a lapsed policy may be reinstated.

**Reinsurer**, see Reinsurance.

**Removal** - "Removal" was a provision of the New York Standard Fire Policy in which the insurer agreed to cover the cost of removing covered property from the path of a fire. Presently, property policies express the agreement in terms of "preservation of property" from imminent danger of damage from any covered peril. Not to be confused with Debris removal.

**Renewal** - The extension of the term of coverage of an expired policy, commonly by replacement with another policy effective on the date of expiration of the previous policy.

**Rent-a-Captive** - A specialized form of captive insurance company operation designed for businesses that do not want to own a captive but want to obtain some of the advantages offered by captives. A rent-a-captive is formed by a group of investors and operated as an income-producing business. Insureds who wish to participate "rent" space in the captive instead of setting up and capitalizing their own captive insurance company.
Rent Insurance - A form of business interruption insurance for a landlord. It protects building owners against loss of income when the building cannot be rented because of damage from any of the insured perils. It provides income while an insured’s building is untenantable.

Rental Value Insurance - Refers to protection of either a landlord’s rental income or an owner occupant’s economic stake in use of the subject structure. Either interested party can obtain coverage by way of an Insurance Services Office business income form.

Renters Insurance - Term for insurance for the non-owner occupant of a dwelling or apartment.

Replacement Cost, see Actual Cash Value.

Replacement Cost Appraisal - An appraisal that determines the amount required to replace an existing structure and related personal property.

Replacement Cost Insurance - Covers property — both building and contents — on the basis of full replacement cost without deduction for depreciation on any loss sustained, subject to the terms of the co-insurance clause.

Reporting Form - A device for insuring values subject to extensive fluctuation that keeps the premium in line with the actual exposure. A maximum limit is set at policy inception and the insured is charged a "deposit premium." Actual values are then reported, usually on a monthly basis, and earned premium is figured on the basis of those reports and laid off against the deposit premium.
Glossary of Terms

Reservation of Rights - An arrangement in which an insurer agrees to proceed with the defense of a case without commitment to provide coverage, in the event that the facts disclosed during the trial reveal that the occurrence is not covered.

Reserves or Reserved Losses - The value of losses that have been estimated and set up for future payment.

Resident Agent - A licensed agent who resides in and is licensed in the state in which business is being written.

Residual Markets - Insurance markets established outside the normal insurance marketing channels to cover unusually large or poor risks. Such markets include assigned risk plans, aircraft pools, nuclear pools, and certain government insurance programs.

Respondent Superior - A legal term referring to the fact that, under specific circumstances, an employer (or principal) is legally liable for the actions of his or her employees while in the course of their employment.

Retention - Usually used in reinsurance, this is the amount of liability retained by an insurer, and not ceded to a reinsurer.

Retroactive Date - The date that defines the extent of coverage in time under claims-made liability policies. Claims resulting from occurrences prior to the policy's stated retroactive date are excluded.

Retrocessionnaire - A reinsurer that contractually accepts a portion of the cedant's reinsurance risk. The transfer is called a retrocession. Retrospective rating - A rating arrangement in which the final premium for insurance coverage is not
determined until all claims are closed. The final premium is determined by the insured’s actual loss experience during the policy period.

**Rider** - Another term for an endorsement attached to a policy that modifies the coverage.

- or -

A contract modification attached to a policy that changes the conditions of the policy by expanding or decreasing its benefits or excluding certain conditions from coverage.

**Riot** - One of the extended coverage perils, related to, but broader than, civil commotion.

**Risk** - Risk is uncertainty concerning loss. Sometimes also used to refer to a piece of business or a submission to an insurer.

**Risk and Insurance Management Society, Inc. (RIMS)** - Trade association of risk managers and insurance buyers.

**Risk Management** - The process of handling pure risk by way of reduction, elimination, or transfer of risk, with the latter commonly achieved through insurance.

**Risk Manager** - The individual in an organization responsible for evaluation of the organization’s exposures, and controlling these exposures through such means as avoidance or transference, as to an insurance company.

**Risk Retention Group** - An insurance company chartered under the laws of a state or other U.S. jurisdiction, composed of members whose business activities are similar, and controlled by its members.
Glossary of Terms

Rolling Store - A vehicle out of which goods are sold. An example would be a mobile snack bar at a construction site. Insurance policies may contain wording that may restrict or define available coverage for this type of operation.

Safe Driver Plan - Merit rating of automobile insurance. In most states drivers are charged with "points" for (moving) traffic violations and auto accidents. These points translate to surcharges on the drivers’ insurance rates.

Salvage - When an insurer makes a payment for lost or damaged property, the insurer is entitled to the salvage of that property.

Schedule - List of items on a policy declaration, sometimes also showing descriptions and values.

Seasonal Risk - A risk that is present only during certain parts of the year. For example: seasonal dwellings such as cottages used for vacations.

Self-Insurance - An insurance-like strategy for handling one’s own exposures to loss supported by the financial wherewithal to meet expected losses. Not to be confused with a decision to forego insurance.

Self-Insured Retention (SIR) - That portion of pure risk an insured undertakes to handle on his or her own. A deductible is a form of self-insured retention.

Selling Price Clause - Applicable to the value of goods which have been damaged or destroyed by an insured peril. This clause insures the profit that would have been earned if the goods had been sold. It sets the insurable value of the property
that has been sold, but not delivered, at the amount at which it was sold, less any charges not incurred.

**Settlement Option** - A method of receiving life insurance proceeds other than in a lump sum.

**Severability** - A provision that insurance applies separately to each insured under the policy.

**Shock Loss** - Name given to any large loss that impacts an otherwise profitable book of business.

**Short Rate Cancellation**, see Cancellation.

**Short Tail** - Additional coverage that may be purchased under a claims-made policy that responds to losses that may have occurred during a policy period, but are not reported until after the end of the policy period. Usually available for no longer than a year.

**Sidetrack Agreement** - The contract between a business and a railroad wherein a railroad builds a track onto the business’s property to facilitate shipping, and the business agrees to release the railroad from liability.

**Sine Qua Non Rule** - A legal rule stating that a person’s conduct cannot be held to be the cause of a loss if the loss would have occurred anyway.

**Single Interest Policy** - A policy that insures the interest of only one party in property where there are a number of parties having an insurable interest.
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Sinkhole Peril - Risk of loss by collapse of a "sinkhole." This is now covered as a basic cause of loss in commercial property policies.

Sistership Exclusion - An exclusion in products insurance that eliminates coverage for the withdrawal or recall of products.

Sliding Scale Dividend Plan - Often used with workers compensation insurance, dividend plans are established as a means of returning a portion of the premium to the policyholder if losses are better than expected and the insurance company board of directors declares a dividend. In a sliding scale plan, the amount of the potential dividend slides up or down according to the loss experience. Dividends cannot be guaranteed; they are paid upon declaration by the insurer’s board of directors.

Slip - At Lloyd’s of London, a document that identifies which syndicates are participating on a risk and for what percentage.

Smoke Damage - An Extended Coverage Peril.

Society of Chartered Property & Casualty Underwriters - Professional society of those having attained the CPCU designation. (See CPCU.)

Soft Costs and Rents - Related to builders risk insurance, these are the necessary expenses that are incurred because a building project is delayed as the result of a covered property loss. Included are expenses such as increases in architectural fees, loss of rents because the project completion date is later than planned, increased interest expense, etc.

Soft Market - A term given to a condition in which insurance is relatively inexpensive and easy to obtain.
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**Solicitor** - An employee of an insurance agent or agency who is empowered to sell insurance on behalf of a licensed agent, generally using only those insurers that the agency represents. A solicitor usually does not have binding authority, and the business that is generated by a solicitor usually is owned by the agent, not the solicitor.

**Solvency** - Insurers must have sufficient assets (capital, surplus, reserves) in order to satisfy statutory financial requirements (investments, annual reports, examinations) and to meet liabilities.

**Special Agent** - An insurer’s representative in a territory. He or she serves as a liaison between the insurer and the agent. The special agent is responsible for the volume and quality of the business written in that territory. Some states require a special license of special agents. Special form - In contrast to the named perils forms in property insurance, those forms that list specific perils for coverage, the special form contract covers simply risk of direct physical loss, relying on exclusions to limit and define the protection intended. See Open Perils.

**Specific Excess Reinsurance** - Another term for per occurrence/per loss excess reinsurance.

**Specific Insurance** - An insurance policy that covers only property specifically described in the policy, as opposed to blanket insurance, which usually covers all property at specified locations.

**Specimen Policy Form** - Specimen policy forms often are requested when non-standard coverage forms are being used. The specimen form may be reviewed to determine the actual policy provisions before coverage is bound.
Glossary of Terms

**Speculative Risk** - Risk which entails a chance of gain as well as a chance of loss. Contrast with Pure risk.

**Split Limits** - As in auto insurance, where rather than one liability amount applying on a per-accident basis, separate amounts apply to bodily injury and property damage liability.

**Sprinkler Leakage Insurance** - Insurance that covers damage due to the accidental discharge from an automatic sprinkler system.

**Stacking of Limits** - The application of the limits of one or more insurance policies to a claim or loss.


**Standard Risk** - A person entitled to life insurance protection without extra rating or special restrictions.

**Stated Amount** - Amends the valuation clause on a policy to include an amount that is "stated" as the value of the item(s) being insured. Usually, these policies pay the lesser of the ACV of the damaged property, the cost of repairing or replacing the property, or the stated amount.

**Statutory Accounting Principles (SAP)** - Statutorily mandated accounting principles and practices that must be followed when an insurance company submits its annual financial statement to the department of insurance. In contrast to Generally Accepted Accounting Principles (GAAP) which are followed by most other businesses.

**Steam Boiler Explosion**, see Boiler & Machinery Insurance.
Glossary of Terms

**Stop Loss** - A provision in an insurance policy that cuts off an insurer's losses at a given point. In effect, a stop loss agreement guarantees the loss ratio of the insurer.

**Strict Liability** - Liability ascribed to a manufacturer or seller of a defective or dangerous product regardless of any fault or negligence.

**Subrogation** - The right of one party who has paid for the loss of a second party to obtain recompense from the third party who is responsible for the loss. For example, an insurance company becomes "subrogated" to the rights of its insured to the extent of the insurer’s payment for collision damage caused by the negligence of the other driver.

**Subsidence** - A form of earth movement, excluded in most property policies.

**Substandard Risk** - A risk falling outside normal underwriting standards. If written at all, it is usually with a substantial premium surcharge.

**Sue and Labor Clause** - A marine insurance clause comparable to removal in property insurance.

**Suicide Clause** - States that if the insured commits suicide within a specified period of time, the policy will be voided. Paid premiums are usually refunded. The time limit is generally one or two years.

**Superintendent of Insurance** - In some states the Commissioner of Insurance is known as the Superintendent.

**Supplemental Extended Reporting Period** - An optional reporting period that allows coverage for liability claims made
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after the policy period.

Surety, see Bond.

Surety Association of America (SAA) - A voluntary, non-profit, unincorporated association that is licensed as a rating or advisory organization for surety and fidelity insurance in all states, D.C., and Puerto Rico. The SAA handles statistical information, filings, publications, and surety and fidelity bonds.

Surface Water - Commonly known as water on the surface of the ground usually created by rain or snow, which is of a casual or vagrant character, following no definite course and having no substantial or permanent existence. Some insurance policy may include surface water as a covered peril but exclude "flood" when defined as the overflowing of water from its natural boundaries, such as a lake or river.

Surplus - The amount by which an insurer’s assets exceed its liabilities.

Surplus Lines, see Excess & Surplus Lines Market.

Surplus Share Reinsurance - A type of pro-rata or proportional reinsurance agreement under which the insurer and reinsurer agree to share a pre-determined portion of all insurance, premium, and losses. The primary insurer’s retention in a surplus share agreement is stated as a dollar amount of the amount insured.

Syndicate - An association of insurers that work together to insure an especially large or hazardous risk. Also see Pool.

TPA (Third party administrator). A TPA is a contractor that adjusts and ad-ministers insurance claims.
Glossary of Terms

**Tail Coverage** - Coverage for claims made after a claims-made liability policy has terminated; the extended reporting or discovery period. See Nose Coverage.

**Temporary Worker** - An employee hired on a short term, often seasonal, basis.

**Tenants Improvements and Betterments**, see Improvements and Betterments.

**Term Insurance** - Life insurance which normally does not have cash accumulation and is issued to remain in force for a specified period of time, following which it is subject to renewal, convertibility, or termination as per policy provisions.

**Third Party** - An outsider; a business or personal invitee or a party with absolutely no connection to an insured who may become a claimant under a form of public liability coverage because of injury or property damage alleged to have been caused by the negligence of the insured.

**Threshold Level** - The point at which an injured person may bring tort action under a modified No-Fault Auto Plan. Many no-fault plans only allow tort action for pain and suffering after medical bills exceed some figure, like $1,000; or if disfigurement or death occurs.

**Tight Market**, see Hard Market.

**Time Element Coverage** - Insurance in which the element of time has heavy bearing on the extent of loss. Business income insurance covers loss of income for the unknown duration of the insured’s business interruption.
Glossary of Terms

**Title Insurance** - Insurance that indemnifies the owner of real estate in the event that someone challenges his or her ownership of property, due to the discovery faults in the title.

**Tort** - A wrong for which a civil (as opposed to criminal) action can be brought. Many tort claims arise from negligence.

**Trailer Interchange Agreement** - An arrangement among truckers whereby trailers may be moved along by the tractors of one or more parties to the agreement.

**Transfer of Risk** - A basic underlying principle of insurance, whereby the risk of financial loss is transferred from one party to another.

**Treaty Reinsurance** - An agreement in which the ceding company agrees in advance to cede certain classes of business or types of insurance to a reinsurance company. The reinsurer agrees to accept all risks or losses that fall within the terms of the agreement.

**Twisting** - The practice of inducing by misrepresentation, or inaccurate or in-complete comparison, a policyholder in one company to lapse, forfeit or surrender his insurance for the purpose of taking out a policy in another company.

**Umbrella Liability** - A liability contract with high limits covering over top of primary liability coverages and, subject to a self-insured retention (deductible), covering exposures otherwise uninsured.

**Underground Storage Tank (UST)** - Tanks sunk in the ground that are used to store or dispose of gasoline or other fuels, hazardous chemicals, or other pollutants or contaminant’s.
Glossary of Terms

**Underinsured Motorists Coverage** - Coverage for the insured and passengers whenever the at-fault driver in an accident has auto liability insurance with lesser limits than the insured’s. This coverage lies atop "uninsured motorists coverage" or atop the at-fault driver’s low limit automobile liability insurance and provides the insured and passengers with protection equal (usually) to the insured’s own automobile liability cover.

**Underlying Insurance Policy** - The policy providing initial coverage for a claim until its limit of liability is reached and an umbrella or excess policy’s coverage is triggered.

**Underlying Limits** - The limits of liability of the policy(ies) underlying an umbrella or excess policy.

**Underwriter** - One who researches and then accepts, rejects, or limits prospective risks for an insurance company.

**Underwriters Laboratories, Inc. (UL)** - Originally begun as a cooperative of western fire insurers to test materials, the UL is now an independent organization testing virtually every fabricated device and material. Items are permitted to bear the UL seal of approval only after they have passed stringent testing for safety.

**Underwriting** - The process of evaluating a risk for the purpose of deciding whether to issue insurance coverage.

**Unearned Premium** - That portion of an insurance premium that would have to be returned to the insured if the policy were cancelled.

**Unilateral Contract** - A contract such as an insurance policy in which only one party to the contract, the insurer, makes any
Glossary of Terms

enforceable promise. The insured does not make a promise but pays a premium, which constitutes his part of the consideration.

**Uninsurable Risk** - An uninsurable risk is one that is literally uninsurable because loss is certain rather than possible.

**Uninsured Motorists Coverage** - Coverage for the insured and passengers whenever the at-fault driver in an accident has no auto liability insurance. Coverage is usually to the extent of limits required by state auto financial responsibility laws.

**United States Longshore and Harbor Workers Compensation Act (USL&H)** - A compulsory law administered by the Department of Labor that covers injuries to employees on vessels or drydocks.

**Unsatisfied Judgment Fund (UJF)** - In some states a person who is injured in an automobile accident and who cannot collect from the person responsible, may collect from a special fund (UJF).

**Vacant Property** - Once defined as devoid of occupants or contents, a stricter definition is being applied as more and more communities find older buildings of three and four stories that are only one quarter occupied. Property policies impose limitations on coverage of "vacant" buildings so the (changing) definition of vacant property is quite important.

**Valuable Papers Coverage** - Provides "all risk" coverage on "valuable papers," such as: written, printed, or otherwise inscribed documents and records, including books, maps, films, drawings, abstracts, deeds, mortgages, and manuscripts. It covers the cost of research to reconstruct damaged records, as well as the cost of new paper and transcription.
Glossary of Terms

Valuation - To estimate the value of a piece of property usually by considering its replacement cost or its actual cash value. Factored into the estimate is any depreciation or wear and tear.

Valued policy, see Agreed amount clause.

Valued Policy Law - Law that exists in some states which applies primarily to buildings. The laws differ but, in general, they state that in case of a total loss the amount of insurance is the agreed amount of loss.

Vandalism and Malicious Mischief - Once treated as a separate peril to be added to a property policy or not, current property forms routinely include the protection.

Verbal Threshold - Term in no-fault auto insurance, applicable in some states, which states that victims are allowed to sue in tort only if their injuries meet certain verbal descriptions of the types of injuries that render one eligible to recover for pain and suffering.

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

Vicarious Liability - The condition arising where one person is responsible for the actions of another, as a parent is often held responsible for the vandalism damage a minor child does to a school.

Waiver of Subrogation - An insurer has the right of subrogation; however, it may waive that right through this method.
Glossary of Terms

**Wear and Tear Exclusion** - A common heading for an "all risks" exclusion relating to a group of events that do not represent risk at all. Property will become worn out and torn; it will rust, settle, become rotted, infested, marred, scratched, etc. It is easy to distinguish however between the marring that occurs over time (excluded) and marring that occurs when a concrete block is dropped onto a fine wooden table.

**Whole Dollar Premium** - The practice of many insurers to round premiums to the nearest dollar, rather than carrying them out to the nearest cent. An amount of 51 cents or more is usually rounded up to the next dollar, and any cents amount less than that is dropped.

**Workers Compensation Insurance** - Coverage that conforms to the workers compensation laws of the states in which it written. See also Employers liability insurance.

**Wrap Up** - A liability coverage specialty focused on contracting risks, attempting to manage in a single contract the broad interplay of exposures and interests among owners, general contractors, and subcontractors.

**XCU** - Short for explosion, collapse, and underground, this acronym is used to denote that certain construction projects carry this hazard.

**Y2K** - An abbreviation for Year 2000. The Y2K problem resulted from the use of two-digit year fields in computer software codes and silicon chip technology. Because of this, the software or chip cannot recognize "00" as the year 2000 instead of 1900 or doesn’t recognize it at all.
Glossary of Terms

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