

## GLOSSARY OF INSURANCE TERMS ~ A

**Absolute Liability:** Liability that exists and is imposed upon a party, even though that party committed no negligence or fault. Absolute liability is most often imposed when the circumstances of the operation, product, or activity are considered highly hazardous or dangerous.

**Accident:** An event or occurrence that is unintended, unforeseen, and unexpected; something which could not be considered as a foreseeable occurrence and consequence of an undertaking; a casualty or mishap.

**Accident Frequency:** The determination of how often the rate or frequency of accidents occurs at a particular operation, site, location, or to the insured as a whole for a specified period of time for the exposure units involved. These ratios and calculations are used to determine and verify the projected claims and loss exposure a risk may experience in order to price and set rates, claims services, and loss control services needed. Use of accident frequency ratios over a period of time for a specified risk also may be used to determine if loss trends are improving and if the loss control services are effective.

**Accident Prevention:** All the ways and means used to avoid the occurrence of an accident or to reduce its consequences if it does occur, such as the control of personal performance, machine performance, and physical environment, including the training needed to reduce the number of accidents and cost of accidental injuries. Accident prevention is one of the less publicized functions of risk managers and insurers, many of which improve safety in industry, the home, and on the roads through safety engineering and research. Also called loss prevention, safety engineering, accident control, or loss prevention.

**Accident Report:** Either the report that is used to document the time, cause, results, injuries, parties, and other pertinent facts of an accident for insurance purposes or a similar type of report prepared by law enforcement persons as a result of an accident

**Accidental Death And Dismemberment Insurance (AD&D):** A specific type of life insurance policy that pays benefits in the case of the death or dismemberment of the insured from accidental causes. If dismemberment occurs, benefits are paid on a periodic basis, such as weekly, bi-weekly or monthly for the injury; and the amount of payment of the benefits is based on the type and severity of the dismemberment.

**Account Executive:** A person whose duty is to specifically service an account or group of accounts for an agency or brokerage firm.

**Accounts Receivable Insurance:** Coverage that protects businesses against their inability to collect their accounts receivable because of the loss of supporting records that have been destroyed by a covered cause of loss. Also covered are the extra collection expenses that are incurred because of such loss or damage and other reasonable expenses incurred to re-establish records of accounts receivable after loss or damage.

**ACORD Forms:** Standard application forms, used nationwide, for gathering the necessary data needed to rate, classify and underwrite requested insurance coverages. These forms come under the auspices of the nonprofit ACORD Insurance Association

**Actual Cash Value:** The basis of loss settlement in property insurance policies, which takes into consideration factors such as replacement value less depreciation, market value, rental value, the use of the building, the area in which it is located, obsolescence, assessed valuation, and any other factor that would have an effect upon the value. A working rule-of-thumb definition, however, is "replacement cost new at the time of loss, less depreciation." (See Replacement Cost Insurance.)

**Actual Total Loss:** When insured property is so badly damaged by a covered cause of loss that it is not repairable or recoverable or when there is so little remaining of the salvageable or repairable nature that it no longer has any value, it is considered an actual total loss. This usually signifies the maximum settlement possible under the terms of the policy.

**Actuarial Report:** A report outlining current conditions or future requirements of an insurer, self-insured or pension fund necessary to meet its obligations. The report is prepared and signed by an actuary.

**Actuary:** A social mathematician who uses mathematical skills to define, analyze and solve complex business and social problems involving insurance and employee benefit programs. The work of actuaries involves the various contingencies that face human beings: birth, marriage, sickness, accident, loss of property, legal liability, retirement, and death, and the financial effects which these and other contingencies have on various insurance and benefit programs. Many of these programs involve long-range financial obligations, for which actuarial forecasts are fundamental in maintaining a sound financial basis: ratemaking, premium and loss reserving, investment valuation, pension benefits, and insurance statistics, among others.

**Add-ons:** Additional coverages that have been added to a basic policy to enhance the coverage. While some add-ons are pertinent, viable expansions of coverage, others can be fads that are sometimes unnecessary or frivolous.

**Additional Death Benefit:** Life insurance benefits offered should death occur during a specific time period or as a result of specific causes.

**Additional Extended Coverage:** Additional causes of loss added to property policies which include items such as vandalism and malicious mischief, water from ruptured plumbing and heating systems, glass breakage, ice, snow, and freezing, and falling trees and collapses. This coverage is rarely used and has been replaced by the broad or special cause of loss forms as they relate to property insurance.

**Additional Named Insured:** A party, other than the first named insured, that has been shown as an insured in the policy Declarations or in an addendum to the policy Declarations or by endorsement once the policy has been issued. This party has the status of named insured.

**Additional Premium:** When a policy has been issued subject to rate, subject to audit, subject to inspection, is assessable, or when the policy is endorsed, the additional premium is the extra amount due, over and above the initial premium stated in the Declarations, because of the increased exposures, higher rates, retrospective rate calculations, additional coverage, or premium audit.

**Adhesion Contract:** A type of contract in which the standard provisions offered are not subject to negotiation, but are on a "take it or leave it" basis. Most insurance policies are contracts of adhesion since the terms and conditions of the contract are drawn or written by the insurer with no input from the insured that must adhere to the terms and conditions as set forth, and who has little recourse to negotiate for better benefits or terms. If there is any ambiguity when a contract of adhesion has been written, court decisions and rulings will be in favor of the party who did not have control of the wording of the provisions; in this case the insured.

**Adjacent:** One building is adjacent to another if it is very close to another building although not actually touching it, with no intervening building.

**Adjoining:** When a building is so located that it touches another building

**Adjustable Policy:** A policy in which the exposure basis is a variable (such as sales or payroll), which can be determined only at the end of the policy term.

**Adjustable Premium:** Policies issued by an insurer that do not guarantee the premium upon renewal. At each subsequent renewal the policy may be re-rated and bear premiums that may or may not be substantially different than the previous period premium.

**Adjuster:** One who determines the amount of loss suffered. A "company" adjuster represents the company. A "public" adjuster represents the policyholder. Either may hire an "independent" adjuster.

**Adjustment:** The process of handling and settling claims by determining the amount of a loss and agreeing on the amount requested by a policyholder or claimant because of a loss or damages suffered. Also referred to as claims adjustment.

**Adjustment Income:** A life insurance benefit that provides the beneficiary with income often used during the interim period while other living finances are arranged, hence, the term adjustment income.

**Admiralty:** A term used to encompass anything to do with maritime operations.

**Admiralty Courts:** Section of the federal or national court system that deals with matters pertaining to vessels, crew, and their cargoes navigating on interstate or international waters. Maritime procedures, precedents and rules are different in admiralty courts than in other courts.

**Admiralty Liability:** The liability posed by the combination of both common and statutory law, as it relates to maritime operations and activities.

**Admiralty Proceeding:** A legal proceeding relating specifically to maritime law (including ocean marine insurance issues) and handled in a maritime court.

**Admitted Company:** A foreign or alien insurance company which has been licensed by the insurance department of the state in question and which, thereby, is authorized to conduct business within that state to the extent licensed. Also called an admitted market or admitted insurer.

**Admitted Liability:** An aviation specific coverage for passengers or guests aboard aircraft, which precludes the need for those guests or passengers to prove the liability of the insured owner or operator of the aircraft in order to recover for damages suffered in an accident. This coverage is normally written with a maximum limit per seat, and the passenger or guest can recover up to that amount.

**Advance Premium:** A provisional or deposit premium charged at the start of a policy term, with the final premium determined after the policy has expired.

**Adverse Selection:** The insuring of one or more risks with a higher chance of loss than that contemplated by the applicable insurance rate. The selection of such risks is adverse because the rate is inadequate. Also called anti-selection.

**Advertising Injury:** Damages or injury sustained by a claimant in the course of the advertising activities of the insured that included such injury as libel, slander, violation of the right to privacy, misappropriation of advertising ideas, or the infringement of copyright.

**Advisory Organization:** One of the three basic forms of insurance organizations: rating bureaus, advisory organizations, and trade associations. Rating bureaus make and file rates; loss costs, rating plans, schedules, manuals and forms for members, subscribers and service purchasers who choose to use them. Advisory organizations perform advisory functions for insurers relative to these rating bureau activities and, like rating bureaus, are licensed by state insurance departments and subject to examination and other regulation. Trade associations are cooperative organizations to protect the business interests of their member insurers, producers, adjusters, attorneys, or other groups. Either a rating bureau or an advisory association can function as a statistical organization, and the function of advisory organizations and trade associations can overlap. Distinctions in functions can best be appreciated by understanding that, historically, rating and advisory organizations were licensed and regulated under state rating laws because of the public interest in the cooperative activities of insurers, relative to pricing and the need for regulation, in order to replace application of antitrust laws. (See Rating Bureau, and Trade Association.)

**Affiliated Company:** A company that is operated independently from other related companies but has some type of common ownership with those companies, such as the same set or sub-set of owners or stockholders

**Affirmative Warranty:** An acknowledgment or affirmation by the insured as to the credibility or verification of certain facts or conditions pertinent to the issuance of the policy.

**Age Adjustment Clause:** With respect to a life insurance policy, it is the provision that allows the insurer to adjust the death benefit payment if the age of the insured was misrepresented, and if that misrepresentation has been proved.

**Agency:** A business office whose function is the sales of insurance and insurance products. An agency may be owned or run by a general agent, manager, independent agent, or company manager. The principal is responsible for the statements and actions of agents performing within the scope of authorization specified in the agency agreement. (See Captive Agent, General Agent, and Independent Agent.)

**Agency Contract:** The legal contract drawn to establish the terms and conditions used as the basis of the relationship between an insurance company and its agency force.

**Agency-Company Organization For Research And Development (ACORD) :** A nonprofit insurance facility dedicated to serving the independent agency system in the USA by developing and maintaining standard application forms, providing electronic data interchange standards and other support of agency automation. ACORD is located in Pearl River, NY

**Agent:** One who has the authority to act for another. In insurance language, an agent is the person who sells insurance by contacting the policyholder. By contract and by law, the agent is endowed with many of the powers of the company itself. There are various types of agents, based upon the contractual relationship with the insurer they represent. (See Independent Agent, Exclusive Agent, and Broker.)

**Agent Of Record:** The agent who has been recognized by the insured or customer as his or her authorized representative for handling the specified insurance transactions.

**Aggregate Benefits:** The maximum amount an insured is able to collect under a single policy regardless of the number of claims, injuries, accidents, or number of insureds.

**Aggregate Excess Insurance:** Coverage developed for operations that prefer to self-insure a portion of their losses, capping at a specified amount. When the accumulation of losses exceeds the threshold amount during any annual period, this type of insurance covers the remainder of losses up to the policy limit.

**Agreed Amount:** The amount of coverage that the insurer and insured have mutually agreed to be the value of the property at the time the insurance is purchased.

**Air Cargo Liability Insurance:** Coverage for the legal liability of an air carrier for loss or damage to cargo while in its care, custody or control.

**Air Passenger Insurance:** Life insurance purchased at airports by passengers on scheduled airlines. The face value of the policy is paid to the beneficiary in the event of death on that particular flight. Also called air travel insurance.

**Aircraft Hull Insurance:** Covers any loss arising out of physical damage to the aircraft itself in flight, on the ground, or both.

**Aircraft Insurance:** A type of package policy for aircraft which combines both the property insurance for the hull and coverage for bodily injury and property damage liability arising out of the ownership or use of the insured aircraft.

**Aircraft Liability Insurance:** Covers the insured for both bodily injury and property damage liability arising out of the ownership or use of the insured aircraft.

**Aircraft Passenger Liability Insurance:** Covers the liability resulting from bodily injury and sickness or disease suffered by any passenger arising out of the ownership or use of the insured aircraft.

**Aleatory Contract:** A contract in which the consideration or monetary value between the parties to the contract is not equal. In the case of insurance contracts, the insured or policyholder pays a premium and may collect nothing from the insurer if no loss occurs. On the other hand, if a loss does occur, the insured or policyholder may collect considerably more than the amount of the premium.

**Alien Company:** An insurance company that is domiciled or incorporated in a country outside the United States, but which conducts either insurance or reinsurance operations in the U.S

**Alienated Premises Exclusion:** An exclusion designed to eliminate coverage for property damage liability to premises alienated or sold by the insured.

**Alienation Clause:** A policy clause that details the terms, conditions, or requirements that will apply should property that is the subject of the insurance be sold and title transferred during the policy term. Two of the most common examples are the alienation clause in a mortgage insurance policy that requires the balance of a loan be paid should the property be sold, or a property insurance policy that clarifies that the insurance coverage cannot be assigned or transferred to the new owners when the property is sold.

**All-lines Insurer:** Insurers offering property, liability, life, and health coverages. Governmental and business constraints prevent an insurer from literally providing every single possible line of insurance.

**All-risk Policy:** A policy that covers loss caused by any cause of loss which is not excluded, as contrasted to "named peril" policies that protect against certain perils named in the policies. Usual to certain types of property and marine insurance contracts, the term "all risk" frequently appears in quotes, since such coverage includes "almost" all risks (i.e., all but those excluded).

**Allied Lines:** Those coverages that are frequently written with fire insurance (e.g., sprinkler leakage, earthquake and water damage).

**Amount Subject:** Also known as maximum possible loss (MPL). The largest percentage of the insured property that could possibly be destroyed by the insured perils. Normally this amount would be all the property within the four walls of a structure plus loss to adjacent property due to its proximity. An amount subject or MPL estimate is invariably the ultimate in pessimism, but it is a most important concept in underwriting large risks in order to compute rates and to understand the need for capacity, as well as to appreciate all exposures. Maximum foreseeable loss (MFL) is used periodically and has substantially the same meaning.

**Ancillary Benefits:** Benefits in a health insurance policy that are available to pay for unscheduled service and miscellaneous charges such as medication, bandages, etc.

**Animal Mortality Insurance:** A type of animal life insurance that provides benefits for the death of the specified animal for any cause unless otherwise excluded. Coverage is normally very broad and the exclusions few, if any at all.

**Anniversary Date:** The anniversary date of policy inception as listed in the policy Declarations, and each subsequent expiration and renewal.

**Annual Aggregate Deductible:** The total amount an insured is responsible to retain for the sum of all losses up to a specified deductible during an annual policy period. Once the annual aggregate deductible has been reached by the accumulation of payment by the insured, the insurer responds to the remaining claims up to the policy limits.

**Annual Renewal Agreement:** Certain policy forms contain a clause whereby the company agrees to renew the policy for a certain number of times at some specified rate.

**Annualization:** A provision in multi-year policies giving the insurer the option to re-rate the policy on each subsequent renewal or anniversary date, using the rates in effect as of the anniversary date.

**Annuitant:** The owner or beneficiary of an annuity.

**Annuity Certain:** An annuity that guarantees to pay income for a specified period of time, whether or not the annuitant is still alive.

**Annuity Due:** An annuity in which the income benefits are paid at the start of the annuity period instead of the end.

**Annuity Period:** With respect to the scheduled payments of income for an annuity, this is the amount of time between each payment.

**Annuity Table:** The mortality table used to set rates for annuity policies.

**Annuity With Period Certain:** An annuity that pays income benefits for the life of the insured, but with an additional built-in guarantee committing the payment of income benefits for a minimum number of years, whether or not the insured survives for that minimum number of years.

**Application:** In all types of insurance requiring it, a written statement by a prospective policyholder that gives the information the company relies upon when underwriting, rating, and issuing the insurance. In England this is called a proposal.

**Apportionment:** The process that determines how much each policy on a risk must pay when there is more than one policy involved in a loss. Apportionment refers directly to the proportioning or splitting of the loss amount.

**Appraisal:** Valuation of property.

**Appurtenant Structures:** Other structures or real property of lesser value that are located on the same premises as the main building insured under a property insurance policy. Common examples are small metal service buildings or storage sheds.

**Arbitration Clause:** Language in most policies of insurance providing that, in the event the company and the claimant are unable to agree on the amount due after loss, the matter shall be submitted to disinterested parties for solution. One party is appointed by the insured, one by the company, and the two appointed arbitrators then pick a third, the "umpire."

**Assessable Policies:** A type of insurance that may require the policyholder to contribute in the event the insurer becomes unable to pay its losses. Confined to certain mutual companies. Also known as assessable insurance.

**Assessment:** The charge levied by an insurer writing an assessable policy (as sold by some mutual insurers), in addition to the policy premium, in the event the insurer becomes unable to pay its total losses.

**Assessment Mutual:** A mutual insurance company that has the option or right to assess or charge policyholders additional premiums when losses or expenses have increased beyond the predictions set at policy inception.

**Assets:** All the property and resources of a business.

**Assigned Risk Plan:** An association of insurers in a given state in which automobile risks unable to get insurance in the voluntary market are shared among subscribing insurers in proportion to the amount of automobile liability insurance each insurer writes in that state. All companies writing these classes are required to participate in this activity, currently administered by the Automobile Insurance Plans Service Office, headquartered at Johnston, RI. Also known as automobile insurance plans, these plans sometimes take the form of joint underwriting associations.

**Assignment:** Transferring property rights to another. Insurance policies may thus be assigned or transferred to another, but usually this requires the consent of the insurer.

**Assignment Of Benefits:** A health insurance benefit payment option where an insured may assign policy benefits directly to the health provider. The provider is paid directly, less any deductible. Any balance is paid by the insured.

**Assumed Liability:** Contractual liability that arises from an agreement between people, as opposed to liability that arises from common or statute law.

**Assumption Of Risk:** A common law defense used by employers in which an employee assumes the risks for the hazards normally associated with a type of employment when that employee accepts employment. This defense is not available with workers compensation laws.

**Attachment:** An attachment is a rider, endorsement, or any other modification made to a policy that in some way changes, broadens, restricts, or clarifies the basic coverage provided.

**Attachment Point:** The limit or amount at which reinsurance attaches or comes into play. The ceding company retains the limit or amount below that point.

**Attestation Clause:** The clause in a policy that identifies the required signature of an officer of the insurer authorizing the coverage.

**Attorney-in-fact:** One who has been given specific authority to act for another in certain clearly defined matters. Often used in insurance to refer to the person or entity operating a "reciprocal exchange" or "inter-insurance exchange."

**Attractive Nuisance:** A condition that, although normally harmless, may nevertheless attract those (usually children) who do not understand its uses and may cause injury. Although it may be proper to maintain such condition, the owner is nevertheless required to take such means as may be necessary to prevent its causing injury to innocent people, e.g., an empty swimming pool, an unattended tractor, or an upended ladder.

**Audit Provision:** A policy condition or provision that details the right of the insurer to examine or audit the records of the insured at any time during the term of the insurance policy issued or for up to three years after the expiration of that policy, to determine the actual exposure that insured places on the insurer.

**Authorized Company Or Insurer:** An insurer licensed by the state insurance department to write certain types of insurance in that state. A synonym for licensed or admitted company.

**Automatic Cover:** Policy protection applied simultaneously with the acquisition of new property similar to that already covered by the policy. Certain policies provide that they will assume liability for property other than that covered at the commencement of the contract if and when the policyholder acquires ownership or in the event of some similar happening that the policy describes.

**Automatic Reinstatement:** After a loss has been paid or the damaged property restored, most policies provide that the amount of insurance will automatically return to its original amount. Some policies are reduced by the amount of loss paid but can be reinstated for additional premium.

**Automobile Liability Insurance:** Protection for loss incurred through legal liability for bodily injury and damage to property of others caused by accidents arising out of ownership, maintenance, or use of an automobile.

**Automobile Medical Payments Insurance:** An optional coverage under an automobile liability policy which pays the medical expenses of the policyholder and any of the passengers injured by the insured automobile, irrespective of who was responsible for the accident. This was originally called "basic medical payments." In addition, it pays the medical expenses of the policyholder and members of the immediate family injured while passengers in any other automobile or when struck by an automobile. In some no-fault states, medical payments insurance has been replaced by personal injury protection (PIP); in other states, it may supplement no-fault insurance. (See Personal Injury Protection (PIP).)

**Average Rate:** Since rates generally apply to individual items (e.g., a building or specific contents), when two or more such items are combined in a single "blanket" amount of insurance, the value of each item is multiplied by its own rate. The sum of the premiums thus determined is divided by the total amount of insurance on all the items to produce an average rate for all the insured property.

**Avoidance Of Risk:** One of the tools of the risk management process, where steps are taken by an insured to remove a process, cause of loss or hazard and thus avoid the chance of loss. Steps include changing processes or even ending a specific exposure, if necessary.