

## GLOSSARY OF INSURANCE TERMS ~ D ~ F

### D

**Data Processing Equipment Insurance:** Most often, an inland marine coverage form, for "all-risk" protection on equipment, software, extra expenses incurred as a result of the failure of such equipment caused by an insured loss, and loss of earnings. Also known as an "EDP" policy. May be extended to cover liability claims alleging errors and omissions by data processing companies. This coverage is known as data processors errors and omissions insurance.

**Debit Insurance:** Insurance (usually life insurance) written in small amounts, the premium for which is payable in frequent installments (usually weekly or monthly) and collected by an agent known as a debit agent. The payment frequency and collection facilities were designed decades ago to accommodate workers at industrial factories who were paid weekly. Also called industrial insurance.

**Debris Removal Clause:** A property insurance provision that provides coverage for the cost of clean up and debris removal after a covered cause of loss has occurred, such as clean up after a fire or windstorm.

**Declaration Or Declaration Page:** 1) With respect to property and liability insurance, the portion of the insurance policy itself, used to detail the name and address of the insured, the locations covered, the policy period, limits of insurance, endorsements attached and premiums for coverage. Commercial policies also contain such items as the type of entity and type of operation of the insured. 2) A statement made to the company or to its agents by a policyholder, upon which the company may rely in undertaking the insurance.

**Decreasing Term Life Insurance:** A life insurance policy in which the death benefit starts out at the full stated amount but which declines on a set scale throughout the life of the policy, reaching zero at the end of the policy term.

**Defined Benefit Plan:** A basic form of pension plan that requires contributions from both an employer and employee. In this plan, the amount of the benefit is known while the amount of the contributions needed to fund the plan varies.

**Deposit Premium:** A tentative charge made at the beginning of certain policies and reinsurance agreements, to be adjusted when the actual earned charge has been later determined. Also known as initial premium

**Direct Damage:** Causes of loss that produce direct and straightforward property damage (without interruption in time or deviation in space) from the cause of the event to the damaged property.

**Direct Writer:** A company that sells insurance to the public either through employees licensed as agents or through licensed agents, compensated on a commission basis, who represent only one company; but not through independent agents representing more than one company.

**Directors And Officers Liability Insurance:** Protects officers and directors of a corporation against damages from claims resulting from negligent or wrongful acts in the course of their duties. Also covers the corporation (and even the officers and directors in some cases) for expenses incurred in defending lawsuits arising from alleged wrongful acts of officers or directors. These policies always require the insured to retain part of the risk uninsured.

**Disability Insurance:** A form of health insurance coverage that provides benefits in the form of income (usually weekly or monthly) to employees disabled by sickness or accident not related to employment. An extension of workers compensation acts in New York, New Jersey, California, Hawaii, Puerto Rico, and Rhode Island.

**Discovery Period:** A period of time, after cancellation of an insurance contract or bond, during which the insured can discover whether there would have been a recoverable loss if the contract had remained in force. The period varies considerably and, in the case of certain bonds, could be indefinite by statutory requirements.

**Domestic Company:** An insurance company incorporated or organized under state law is a domestic insurer in that particular state.

**Drive - other - car Coverage:** A provision in an automobile policy designed to protect the policyholder (and insureds other than the policyholder) when driving cars other than the one described in the policy.

**Duty To Defend:** A provision in commercial and personal liability insurance policies where the insurer has the right and duty to defend lawsuits against the insured, even when those suits are considered false, groundless, or fraudulent.

**Dwelling Policy Or Dwelling Fire Policy:** A property policy available for owners of dwellings. Usually used for those dwelling risks that are not eligible for the homeowners' package policies. There are three groupings of covered causes of loss available. Form 1 provides protection for basic causes of loss. Form 2 provides broad and Form 3 provides special perils coverage. Personal liability protection may be available as an endorsement to the dwelling policy but is not automatic

## E

**Earned Premium:** The portion of the policy premium allocated to the expired or used portion of the policy term. This also includes any short-rate charge made on policy cancellation.

**Earth Movement Exclusion:** A provision to exclude coverage for loss caused by settlement of earth, creep or slide of soil, or other instability of the earth.

**Effective Date:** The day upon which a policy first becomes eligible to pay covered losses.

**Employers Liability Insurance:** Coverage against the common law liability of an employer for injuries sustained by employees, as distinguished from liability imposed by a workers compensation law.

**Employment-related Practices Liability (ERPL) Or Employment Practices Liability Insurance (EPLI):** Impetus for this coverage started with public interest in the allegations made by Anita Hill during the confirmation hearings of Supreme Court Justice Clarence Thomas. Changes in federal and state laws, such as the Americans with Disabilities Act and the Civil Rights Act of 1991, resulted in increased consumer awareness of sexual harassment and discrimination in the workplace. Coverage is available for legal costs to defend claims involving sexual harassment, wrongful termination and discrimination including legal liability for such acts. The coverage is known by various titles. Employment-related practices liability, management risk protection, employers E&O and Americans with Disabilities Act insurance is basically the same coverage. Most policies provide limits ranging from as low as \$25,000 per claim up to \$1 million. Policies may cover employees as additional insureds.

**Endorsement:** A document with language attached to and becoming part of a basic policy for the purpose of modifying the policy, either at inception or mid-term. The term endorsement is usually associated with property and casualty policies while the term rider is normally used with life, accident and health contracts.

**Ensuing Losses:** In commercial property insurance contracts, ensuing losses are further or additional direct damage losses that have been initiated by the original direct damage cause of loss. Different from consequential losses that are indirect property losses such as time element (loss of business income or extra expense) losses.

**Errors And Omissions Insurance:** 1) A form of professional liability insurance which provides coverage for mistakes made by a person or persons in a profession not involved with the human body, such as lawyers, architects, engineers, or for mistakes made in a service business, such as insurance, real estate, and others. 2) A form of coverage for financial institutions protecting against loss to lending institutions which fail to effect insurance coverage.

**Excess Insurance:** An amount of protection that bears all or a portion of a loss after the loss exceeds an agreed amount. This amount may or may not be insured elsewhere by the company issuing the policy. Excess policies are not subject to the basic principle of contribution with non-excess policies, although they may contribute or share the loss with other excess policies.

**Excess Of Loss Reinsurance:** A company wishing to protect itself in the event its net loss for a given year rises above a certain percentage may purchase reinsurance that pays in excess of that figure up to a higher agreed percentage, beyond which the company is once more liable.

**Expense Constant:** A flat premium charge made on small workers compensation policies based upon the fact that the expense factor on such risks is inadequate to cover the cost of issuing and handling the policy

**Exposure:** 1) Synonymous with risk: chance of loss by fire, radiation, accident, etc. 2) The danger of loss (particularly by fire) arising from what happens to another risk close by. 3) The sum total of values which, if damaged or destroyed, would cause loss under a policy, 4) A measure of the rating units or premium basis of a risk, e.g., payroll or number of automobiles. 5) A unit of loss potential (e.g., a life, a house, an automobile, a ship, a package in shipment, an acre of growing crops, a plate glass window, a fur coat), in which case the term "exposure unit" is used.

**Extended Period Of Indemnity:** This endorsement option is available only for business income insurance coverage and may be purchased to provide additional income protection while a risk gets back on its feet and re-establishes a customer base, after that risk had been closed by a covered loss and after it had resumed operations but was still not making the income it had prior to the direct physical loss.

**Extended Reporting Period (ERP):** In "claims-made" liability policies, only those claims that occur after the retroactive date and are reported or filed against the insured during the policy period are covered by the policy. The ERP, or tail, is an endorsement available to extend the reporting period for the filing of a claim to give additional time in order to be considered covered

**Extra Expense Insurance:** Reimbursement for additional expenses incurred because of an insured loss. Written either as a separate policy or as an endorsement.

## F

**Face Amount:** As used in life insurance, the amount stated on the first page of the policy that will be paid at maturity, upon death of the insured or expiration of the endowment period. Riders or dividends may provide additional benefits. Also known as face value.

**Facultative Reinsurance:** Reinsurance effected item-by-item and accepted or declined by the reinsuring company after scrutiny, as opposed to reinsurance affected by treaty. The word facultative connotes that both the primary insurer and the reinsurer have the faculty or option of accepting or rejecting the individual submission, as distinguished from the pre-set obligation to cede and accept already agreed upon by the parties in treaty reinsurance.

**Facultative Treaty:** A contract between a ceding company and a reinsurer with regard to the handling of the placement of individual risk. In a facultative treaty there is no automatic requirement to cede by the ceding company, nor is there a requirement to accept a risk by the reinsurer. Each may be negotiated individually.

**Fair Plan:** A program to provide "fair access to insurance requirements" for property owners who experience difficulty in buying insurance on property located in blighted or deteriorating urban areas. Basically the plan assures a property owner of physical inspection of property, and a promise to provide fire and allied lines insurance if the property is adequately maintained and if recommended improvements necessary to make the property insurable have been made. Many of these plans have been extended to cover statewide in those states adopting them.

**Faulty Workmanship Exclusion:** Most liability policies contain this property damage exclusion for products-completed operations losses, although it is now more often referred to as the work performed exclusion. The intent of this exclusion is to make sure that insureds are maintaining acceptable standards of performance and are not using the insurance contract to recover for poor training or poor business practices by the insured. Coverage does not exist for property losses to work performed or as a result of the work performed by the insured.

**Federal Crime Insurance Program:** Administered by the Federal Insurance Administration to provide limited burglary and robbery coverage for property owners who experience difficulty in buying insurance on property located in blighted or deteriorating urban areas.

**Fiduciary:** A person who occupies a position of trust, especially one who manages the affairs of another. For example, the guardian of a minor is a fiduciary.

**Fiduciary Liability Insurance:** Protection for those who administer pension and welfare funds, profit sharing and other employee benefit programs against loss for errors and omissions by the administrator. The Employee Retirement Income Security Act (ERISA) of 1974 created the need for this coverage. Also known as pension trust liability insurance.

**Financial Responsibility Law:** A statute (in force in most states) that requires a motorist to provide evidence of the ability to pay for negligence in causing losses to others from the operation of a motor vehicle. Typically, the evidence furnished is an insurance policy, although most states also permit a bond or cash deposit to be used in lieu of a policy.

**Fire:** Combustion manifested in light, flame and heat for useful purposes (known as friendly fire), or for destructive purposes (called hostile fire). Insurance covers loss only from the latter.

**Fire Insurance:** 1) Covers losses caused by fire, lightning and removal of insured property from the premises to avoid further loss. All resultant damage such as that done by water and smoke is also covered. Usually supplemented by extended coverage. Currently, this insurance is referred to as property insurance. 2) A type or line of insurance, as opposed to marine, casualty or fidelity bonding. The term fire insurance is now referred to as property insurance when denoting a line of insurance

**Fire Protection Class:** A 10-category ranking or schedule of public fire protection of cities and towns established in 1916. The grading is currently maintained by the Insurance Services Office for use in making fire insurance rates and to encourage local governments to maintain better fire fighting equipment and personnel. A city or town is ranked in one of the categories by receiving deficiency points for failing to meet established standards under each of these major headings: water supply, fire department, fire service communications, fire safety control, climate, and divergence between fire department and water supply. Fire Protection Class 1 is the best class (a city or town having fewer than 501 points), and Fire Protection Class 10 is the worst (more than 4,500 points). Also known as Town Class or Town Grading.

**First Named Insured:** The party named first in the Declarations of an insurance policy. The first named insured has become significant in commercial insurance because the terms and conditions of the policy itself detail that many of the duties and obligations to the contract must be performed by, or are the responsibility of, the first named insured versus any or all named insureds. Additionally, the insurer has obligations, such as proper notice of cancellation or nonrenewal and return premium refund, which need go only to the first named insured.

## F Continued

**Fixed Amount Option:** A life insurance option that allows the beneficiary to select to receive the proceeds in monthly installments of fixed amounts instead of a lump sum. The remaining principal will continue to earn interest until such time as the payouts exhaust both the principal and the interest earned.

**Fixed Annuity:** A life insurance annuity providing guaranteed or fixed benefit payments for the term of the annuity.

**Fixed Benefit:** A life insurance benefit or annuity benefit paid on a regular basis that does not vary

**Flat Cancellation:** The cancellation of a policy as of the time it attached, with the entire premium refunded to the policyholder

**Flood Insurance:** Coverage against damage done by the rising or overflowing of bodies of water

**Flood Insurance Rate Map:** A map published by the Federal Insurance Administration to plot the layout of communities in flood prone areas, based upon comprehensive study and used as the actuarial basis for the promulgation of flood rates. Once a community has been charted and the map completed, that community becomes eligible for the National Flood Insurance Program.

**Floor Plan Insurance:** Coverage acquired by the financier, whether finance company or bank, to protect either its interest alone or its joint interest with the merchant, in which a special form is used. Merchants of high valued articles, such as automobiles and expensive household equipment such as refrigerators, often borrow money from finance companies or banks on the collateral of their stock of specifically identified property "on the floor" for sale.

**Following Form Excess Liability Insurance:** An excess liability policy that extends an additional limit of insurance above the primary policy and providing exactly the same coverage as the underlying primary liability policy.

**Following Form Excess Property Insurance:** An excess property policy that extends an additional limit of insurance above the primary policy and providing exactly the same coverage as the underlying primary property policy.

**Form:** A document providing the specifics of the insurance issued, either separate unto itself or attached to other descriptive language.

**Fortuitous Cause:** An accidental and unexpected cause of loss. A happening by chance.

**Free Along Side (FAS):** A marine insurance term indicating that, when goods are shipped FAS, the shipper agrees to assume all costs and liabilities for loss until the goods are safely on the pier or dock alongside the vessel.

**Free Of Capture And Seizure (FC&S):** A clause which exempts the marine insurance company from paying losses caused by capture or seizure by enemies of a country.

**Free Of Particular Average (FPA):** A clause which exempts the company insuring cargo from partial losses, usually limited to apply only if the amount is less than an agreed sum, or if some other described condition exists.

**Free On Board (FOB):** When goods are shipped FOB, the shipper is responsible only until the goods have been placed on board the vessel, freight car, truck, or other means of transport. After that the risk belongs to the consignee.

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