

GLOSSARY OF INSURANCE TERMS ~ G ~ K

Gap Coverage: An amount of insurance purchased to satisfy the requirement of an excess carrier with respect to underlying insurance. For example, if an excess insurer requires the insured to carry \$500,000 of underlying coverage, but the primary insurer will write only \$300,000, \$200,000 is purchased to fill the gap. Also known as buffer layer.

General Agent: 1) An independent agent who represents one or more insurers with the authority to appoint subagents who report their business through the general agent, who receives an overriding commission for services provided. In some territories a general agent also sells insurance, while functioning in others solely as a manager. 2) A title used by some insurers for those agents receiving a higher commission rate than other agents (because of a higher volume of business placed with the insurer). Such a general agent normally has no additional authority or responsibility, and the title is used to designate the higher commission rate.

General Aggregate Limit: The sum or total amount that will be paid in any one policy period, regardless of how many claims, losses, suits, or insureds may be involved. Some policies allow the aggregate limit to be reinstated after it has been exhausted, by endorsement and for additional premium.

Group Accident And Health Insurance: Group insurance programs designed to offer affordable accident and/or health coverage to a natural group, such as employees of an employer or members of an association and their families. A single contract is provided for the entire group that outlines the standard benefits, terms and provisions that apply to all members of the group. Individual certificates are usually issued to the members to verify that they are covered.

Group Captive Insurance Company: A captive insurance company formed and owned by a group of somehow related companies, either affiliates or in a similar type of business. The sole purpose of the group captive is to provide insurance only to that group.

Group Disability Insurance: Group insurance programs designed to offer affordable disability coverage to a natural group, such as employees of an employer or members of an association and their families. A single contract is provided for the entire group that outlines the compensation benefits available should accident or illness occur to a member of the plan. Normally the compensation is a percent of the actual income of the member and is limited in the length of time that a member can collect those benefits. These limitations are designed to encourage recovery and return to work. Individual certificates are usually issued to the members to verify that they are covered.

Group Health Insurance: Group insurance programs designed to offer affordable health coverage to a natural group, such as employees of an employer or members of an association and their families. A single contract is provided for the entire group that outlines the standard benefits, terms and provisions that apply to all members of the group. Individual certificates are usually issued to the members to verify that they are covered.

Group Insurance: 1) Insuring a number of persons under a single master contract. The persons have a common sponsor, such as an employer, a union or an association. 2) "True" group insurance precludes individual underwriting by the insurer, requires the employer to insure all employees if the employer pays any portion of the premium, and allows employees the option of participating in any coverage for which the employees must pay.

Group Life Insurance: Group life insurance programs designed to offer affordable coverage to a natural group, such as employees of an employer or members of an association and their families. A single contract is provided for the entire group that outlines the standard benefits, terms and provisions that apply to all members of the group. Normally the life insurance benefits offered are based on the compensation earned by the individual member. Most of the group life insurance programs also offer the members the ability to convert to other permanent, whole or term life products upon termination of employment. Individual certificates are usually issued to the members to verify that they are covered.

Guaranteed Annuity Payments: A type of annuity that guarantees the continued payment of an annuity, even if the annuitant should die. At the death of the annuitant, payments are made either to a secondary annuitant or to the estate of the primary annuitant, should a secondary not be mentioned.

Guaranteed Insurability: Life and health insurance provisions that guarantee the insured the right and ability to increase or purchase additional coverage without proving insurability.

Guaranteed Issue: Group insurance programs designed to offer affordable health coverage to a natural group, such as employees of an employer or members of an association and their families. The difference between this and other group insurance is that no proof of insurability is required. It is guaranteed that all participants will be issued. A single contract is provided for the entire group that outlines the standard benefits, terms and provisions that apply to all members of the group. These benefits, however, may be tempered by the age and size of the group. Individual certificates are usually issued to the members to verify that they are covered.

Guaranty Fund: An amount of money assessed certain insurers in a given state to reimburse policyholders and claimants of an insolvent insurer in that state. The fund may be created before an insolvency occurs or afterward.

H

Hard Market: In the property and liability insurance business, underwriting philosophies fluctuate between periods called the hard market and the soft market. The hard market is the period during which underwriting standards are very tight and the rates are high. Normally the hard market closely follows a soft market period during which the underwriting standards had been soft and the price or rates are very low, resulting in substantial underwriting losses. The cycle swings back and forth between the two cycles and bounces between soft underwriting with low rates and heavy losses, to the hard market with subsequent tightening of standards and dramatic increases in price.

Hazard: A condition that may lead to a loss, such as oily rags leading to a fire.

Health Insurance: A broad term describing protection from loss due to illness or injury, resulting in loss of life, loss of earnings, or expenses incurred. Within the broad area of health insurance, there are several major coverages that focus on more specific needs, for example, accident insurance, disability income insurance, hospitalization insurance, and sickness insurance.

Health Maintenance Organization (HMO): An entity with four essential characteristics: 1) an organized system for providing health care in a geographic area, 2) delivering an agreed upon set of basic and supplemental health maintenance and treatment services 3) to a voluntarily enrolled group of persons 4) for which services the HMO is reimbursed through a predetermined and periodic prepayment made by or on behalf of each person or family unit enrolled in the HMO, without regard to the amounts of actual services provided.

Highly Protected Risk (HPR): A program for larger commercial properties meeting higher safety standards in order to obtain significantly lower premiums. Protection includes automatic sprinkler systems, better than average construction and occupancy

Homogeneous Exposure Unit: An insurance concept, in which the actuarial credibility of insurance ratemaking is based. Data and statistics of large numbers of similar or homogeneous exposure units, (the persons or properties exposed to insurance losses), with similar characteristics and thus similar exposure to loss, are used to determine the frequency and severity of loss to that exposure group per exposure unit. The homogeneous exposure units are placed into rating categories based on their similar characteristics, called classes.

Host Liquor Liability: A form of liquor liability directed at hosts of business or social functions where liquor or alcohol is served, with or without a charge. The basis for legal liability is a dram shop, liquor control or alcoholic beverage law. The laws vary by state, but most provide that the owner, operator or host serving or selling alcoholic beverages is liable for injury or damage caused by or to an intoxicated person if it can be established that the owner, operator or host caused or contributed to the intoxication of the person through the sale or serving of alcoholic beverages.

I

IBNR--incurred But Not Reported: The liability for future payments on losses that have already occurred but have not yet been reported to the insurer. This definition may be extended to include expected future development on claims already reported.

Impaired Property: Property is considered to be impaired when it has not been physically damaged, but either cannot be used for its intended purpose or has lost monetary value because it contains a defective product or the work performed on it is defective or inadequate, or because the insured has not fulfilled a contractual obligation.

Implied Authority: Specific authority is granted an agent or representative by contractual agreement. Other types of authority, not specifically mentioned by contract but assumed or implied by the nature of the relationship, are presumed to be given to an agent if that authority is necessary to perform the duties or responsibilities otherwise assigned to the agent or representative

Incontestable Clause: A clause in many life and health policies that sets a time period (two years is common) in the contract during which the insurer has to investigate and determine any grounds for voiding or contesting coverage because of facts or material provided by the insured in the application. Once the policy has been in effect past the stated period, the insurer no longer has the right to deny or contest any claim or loss, or void coverage based on the statements or material facts from the application

Increase In Hazard: The standard fire insurance policy is suspended from liability while the hazard in a risk has been increased beyond what was contemplated at the time the policy was written. For example, if a dwelling house, insured as such, should be occupied for manufacturing purposes without getting consent from the insurer for such increase in hazard, the company would not have to pay a loss as long as the manufacturing condition existed.

I Continued

Indemnify: To pay for loss suffered, or to reimburse

Indemnitor: In surety bonds, a person or company entering into a written agreement with a surety to hold that surety harmless from any loss or expense it may incur on a bond issued on behalf of another.

Indemnity: Indemnity is when the person or party suffering a loss is paid or reimbursed for that loss, the purpose being to restore that party to the condition that was present prior to the loss. In a life insurance contract, the payment made to a beneficiary is called indemnity.

Indemnity Agreement: A contract agreeing to restore an injured party to the condition that was present prior to the occurrence of injury or loss.

Individual Risk Premium Modification Rating Plan (IRPM): A program whereby equitable rates or premiums can be developed for large premium package risks by taking into consideration factors likely to affect future losses and expenses. Expense modification is based on the fact that handling costs for large risks may vary from the average. Risk modification recognizes special characteristics, other than those considered in the determination of the basic rate, which would improve the risk. This flexible rating approach, in effect for casualty insurance for many years was extended to the remaining property and liability lines in 1966.

Inflation Guard Endorsement: Language that may be added to a homeowners policy for an additional premium to extend the coverage by increasing the limits of liability quarterly (by 1%, 2%, or some fixed amount) to offset inflation.

Inherent Vice: The characteristics of any physical property which are expected to cause deterioration or damage to that property without outside help, e.g., milk sours eventually, and wooden houses depreciate over time. Excluded by most insurance policies

Inside Limits: Sub-limits set within some types of policies, those limit specified benefits or types of losses to less than the policy limit.

Insurable Interest: A potential for financial loss from a certain event that a person must have before acquiring insurance against that event. The event may be illustrated by the following: the destruction of property owned (in fire insurance), the incurring of legal liability for negligence in causing loss to others (in liability insurance), the compliance with law (in workers compensation insurance), the loss or impairment of human life value (in life insurance, disability insurance, and annuities), or expenses fortuitously incurred (in hospitalization insurance). In life insurance, the applicant of the policy must suffer a financial loss, or the loss of love and affection, by the death of the insured.

Insurance Retention Group (IRG): An insurance company organized by a group of businesses or institutions in the same line of business to provide liability insurance for the owners or organizers. As permitted by federal legislation passed in 1986, such a group is eligible to provide insurance for its members in any state after being licensed in any one state. Also known as risk retention group.

Insurance Wraps: A general contractor is typically the party responsible for providing primary insurance coverage on the contract. This coverage must include protection for the work done by and the exposures resulting from the use of subcontractors. This includes coverages such as general liability and workers compensation but may also include business auto exposures. In order to obtain the necessary coverage, insurers may have to develop special programs and manuscript or tailoring endorsements to clarify the extent of the protection and who/what it encompasses. It is sometimes referred to simply as a "wrap."

Insured: The person(s) or party(ies) protected by an insurance policy, synonymous with assured. Some property liability policies distinguish between the named insured and other insureds. (See Policyholder, and Named Insured.)

Insured Peril: Those causes of loss, such as fire, explosion, or accident that are covered by the insurance contract. In many standard property insurance policies, peril is now called cause of loss.

Insuring Agreement: The portion or section of an insurance policy that details what is covered by the contract for causes of loss or perils, subject to other provisions such as exclusions, limitations, and conditions.

Interline Endorsement: In standard commercial insurance, an interline endorsement is one that applies across the lines of insurance to all coverage parts. Most often these types of endorsements have to do with general items, such as cancellation or nonrenewal provisions or the effective time of the policy.

J

Jewelers Block Insurance: Broad policies insuring jewelers against all loss to their stock in trade. Generally considered to be a type of inland marine insurance.

Joint And Several Liability: This type of liability occurs when more than one party is involved in a contract and where both joint liability (that of all the parties to the contract) and several liability (that of each individual party to the contract) promise the action in the contract. If the terms of the contract are not fulfilled, the injured party has the ability to seek a legal remedy from all the parties involved (joint) or each individual party (several).

Joint And Survivor Annuity: A type of annuity that is most often written for a married couple. As long as both are alive, a period benefit payment is made. When one dies, the payment amount may change; however, payments still continue for the survivor

JUA--joint Underwriting Associations (plans): An association of insurance companies formed with statutory approval for the express purpose of providing certain insurance to the public. JUAs are usually formed because the voluntary market is unwilling to write coverage. Regulators usually allow JUAs to establish their own rates and policy forms. They may cease when the voluntary market becomes available for that line of business.

K

Key Employee Insurance: Insurance an employer buys on a key person within the organization to protect that employer from the financial impact that could result should that employee become ill, disabled, or die. This insurance may be life, health, or disability. Normally, the employee covered has special skills, training, management, or significant attributes that would cause the organization loss of income should that employee become unavailable and a replacement need to be hired or trained.

Kidnap/ransom Insurance: Originated as a policy for financial institutions, primarily banks, and tailored to meet the standard kidnap procedure, which is forcing the bank to withdraw the ransom money from its vaults and deliver it to a designated place before release of the banker or family. The recent rash of kidnappings on an international scale involving a variety of corporations has created a heavy demand for a broadened coverage. At this time there is a limited market, a disinclination to write in certain countries, and no standardization in rates. The insurance covers named employees for individual or aggregate amounts, with deductibles requiring the insured to participate in about 10% of any loss. Not an easy class to underwrite. Personal accident coverage for kidnap victims is sometimes available.