

Insurance Terms

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Actuary - A specialist in the mathematics of insurance who calculates rates, reserves, etc.

Adjuster - An individual representing the insurance company and acting for the company in working on agreements as to the amount of a loss and the liability of the company in same.

Agent - individual who sells and services insurance policies in either of two classifications:

Independent agent represents at least two insurance companies and (at least in theory) services clients by searching the market for the most advantageous price for the most coverage. The agent's commission is a percentage of each premium paid and includes a fee for servicing the insured's policy.

Direct writer represents only one company and sells only its policies. This agent is paid on a commission basis in much the same manner as the independent agent.

Aggregate Limit - Usually refers to Liability Insurance and indicates the amount of coverage that the insured has under the contract for a specific period of time, usually the contract period, no later how many separate accidents may occur.

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Broker - Insurance salesperson who searches the marketplace in the interest of clients, not insurance companies.

Broker-Agent - Independent insurance salesperson who represents particular insurers but may also function as a broker by searching the entire insurance market to place an applicant's coverage to maximize protection and minimize cost. This person is licensed as an agent and broker.

CCCCC

Capitalization, or Leverage - measures the exposure of a company's surplus to various operating and financial practices. A highly leveraged, or poorly capitalized, company can show a high return on surplus, but may be exposed to a high risk of instability.

Casualty - Liability or loss resulting from an accident.

Casualty Insurance - That type of insurance that is primarily concerned with losses caused by injuries to persons and legal liability imposed upon the insured for such injury or for damage to property of others. It also includes such diverse forms as Plate Glass, insurance against crime, such as robbery, burglary and forgery, Boiler and Machinery insurance and Aviation insurance. Many casualty companies also write surety business.

Chartered Property and Casualty Underwriter (CPCU) - Professional designation earned after the successful completion of 10 national examinations given by the American Institute for Property

and Liability Underwriters. Covers such areas of expertise as insurance, risk management, economics, finance, management, accounting, and law. Three years of work experience are also required in the insurance business or a related area

Claim - The demand for benefits as provided by the policy.

Claims Made Form –An insurance policy that covers claims made (reported or files) during the year the policy is in force for any covered incidents that occur that year or during any previous period during which the insured was covered under a claims-made contract.

Classification – The system of establishing classes of business of rating purposes.

Class Rate – Rates for classes of business broad dispersion of risks and low hazard.

Commercial General Liability – A standardized insurance policy issued to business organization to protect them against liability claims for bodily injury and property damage arising out of premises, operations, products and completed operations; and advertising and personal injury liability. The commercial general liability policy was introduced in 1986 and replaced the comprehensive general liability policy.

Conditional Reserves - This item represents the aggregate of various reserves that, for technical reasons, are treated by companies as liabilities. Such reserves, which are similar to free resources or surplus, include unauthorized reinsurance, excess of statutory loss reserves over statement reserves, dividends to policyholders undeclared and other similar reserves established voluntarily or in compliance with statutory regulations.

Coverage - Protection under an insurance policy. In property insurance, coverage lists perils insured against, properties covered, locations covered, individuals insured, and the limits of indemnification. In life insurance, living and death benefits.

Current Liquidity (IRIS) - This ratio measures the proportion of liabilities covered by unencumbered cash and unaffiliated investments. If this ratio is less than 100, the company's solvency is dependent on the collectibility or marketability of premium balances and investments in affiliates. This ratio assumes the collectibility of all amounts recoverable from reinsurers on paid and unpaid losses and unearned premiums.

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Direct Premiums Written - This item represents the aggregate amount of recorded originated premiums, other than reinsurance, written during the year whether collected or not at the close of the year (plus retrospective audit premium collections), after deducting all return premiums.

Dividend - In a stock or nonparticipating insurance company it is the division of the profits among the stockholders of the company. A refund of part of the premium on a participating life insurance policy. It is a share of the surplus earned apportioned for distribution and reflects the difference between the premium charged and the actual experience.

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Earned Premium - That portion of a premium for which the policy protection has already been given during the now-expired portion of the policy term

Employers Liability Insurance - Coverage against common law liability of an employer for

accidents to employees, as distinguished from liability imposed by a workers' compensation law.

Error and Omission Insurance – An insurance for that protects the insured against liability for committing an error or omission in performance of professional duties. Generally, such policies are designed to cover financial losses rather than liability for bodily injury and property damage.

Exclusion – A provision of an insurance policy or bond referring to hazards, circumstances, or property not covered by the policy.

Extended reporting period (ERP) – A designated period of time after a claims-made policy has expired during which a claim may be reported and coverage triggered as if the claim had been made during the policy period.

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Flat Rate-

First Dollar Defense Coverage – A coverage feature of some liability policies in which the deductible does not apply to defense costs, even if not payment are made in conjunction with a claim. Thus, if an insurer were to expend \$10,000 on defense of a claim and nothing for indemnity, the insured would not be required to pay any out-of-pocket expenses for defense.

Form – A document prepared in a prescribed arrangement of words and layout. Policies are typically referred to a forms in the insurance industry.

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Gross Receipts – The total anticipated revenues for a company. The gross receipts are used to calculate insurance premiums.

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Hazard - Circumstance that increases the likelihood or probable severity of a loss. For example, the storing of explosives in a home basement is a hazard that increases the probability of an explosion.

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Independent Insurance Agents of America (IIAA) - Membership is made up of agents of fire and casualty insurers who operate as a part of the American Agency System. Numerous state associations are affiliated with the IIAA

Income Taxes - Incurred income taxes (including income taxes on capital gains) reported in each annual statement for that year

Insurance Adjuster - an individual who investigates losses and determines the amount of the loss and the insurance company's liability. Independent insurance adjusters are hired by insurance companies on an "as needed" basis and may work for several insurance companies at the same time. Independent adjusters charge insurance companies both by the hour and by miles traveled. Public adjusters work for the insured in the settlement of claims and receive a percentage of the claim as their fee. A.M. Best's Directory of Recommended Insurance Attorneys and Adjusters lists

independent adjusters only.

Insurance Attorneys - an attorney who practices the law as it relates to insurance matters. Attorneys may be solo practitioners or work as part of a law firm. Insurance companies who retain attorneys to defend them against law suits may hire staff attorneys to work for them in-house or they may retain attorneys on an as-needed basis, A.M. Best's Directory of Recommended Attorneys and Adjusters lists insurance defense attorneys who concentrate their practice in insurance defense such as coverage issues, bad faith, malpractice, products liability, and workers' compensation.

Investment Income - Investment income refers to dividends and interest derived from any stocks or bonds owned by an insurance company. It also includes any profit made from the sale of any stocks or bonds but does not include the value of any stocks or bonds that the company currently owns.

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Joint Venture – A business relationship in which two or more persons combine their labor or property for a single undertaking and share profits and losses equally, or as otherwise agreed. General liability and professional liability policies normally do not cover liability arising from joint ventures unless they are scheduled on the policy

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Leverage, or Capitalization - measures the exposure of a company's surplus to various operating and financial practices. A highly leveraged, or poorly capitalized, company can show a high return on surplus, but may be exposed to a high risk of instability.

Liability - Broadly, any legally enforceable obligation. The term is most commonly used in a pecuniary sense.

Liability Insurance - Insurance that pays and renders service on behalf of an insured for loss arising out of his responsibility, due to negligence, to others imposed by law or assumed by contract.

Lloyd's - Generally refers to Lloyd's of London, England, an institution within which individual underwriters accept or reject the risks offered to them. The Lloyd's Corporation provides the support facility for their activities.

Loss Control - All methods of reducing the frequency and/or severity of losses including exposure avoidance, loss prevention, loss reduction, segregation of exposure units and non-insurance transfer of risk. A combination of risk control techniques with risk financing techniques forms the nucleus of a risk management program. The use of appropriate insurance, avoidance of risk, loss control, risk retention, self-insuring, and other techniques that minimize the risks of a business, individual, or organization.

Loss Ratio - The ratio of incurred losses and loss adjustment expenses to net premiums earned, expressed as a percent. This ratio measures the company's underlying profitability, or loss experience, on its total book of business.

Lloyds Organizations - These organizations are voluntary unincorporated associations of individuals. Each individual assumes a specified portion of the liability under each policy issued. The underwriters operate through a common attorney-in-fact appointed for this purpose by the underwriters. The laws of most states contain some provisions governing the formation and

operation of such organizations, but these laws do not generally provide as strict a supervision and control as the laws dealing with incorporated stock and mutual insurance companies.

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Mutual Insurance Companies - Companies with no capital stock, owned by policyholders. The earnings of the company over and above the payments of the losses and operating expenses and reserves are the property of the policyholders. There are two types of mutual insurance companies, the nonassessable charges a fixed premium and the policyholders cannot be assessed. Legal reserves and surplus are maintained to provide payment of all claims. Assessable mutuals are those companies that charge an initial fixed premium, and if that is not sufficient may assess the policyholders to meet losses in excess of the premiums that have been charged as well as provide statistical services.

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National Association of Insurance Commissioners (NAIC) - Association of state insurance commissioners whose purpose is to promote uniformity of insurance regulation, monitor insurance solvency and develop model laws for passage by state legislatures

Net Income - The total after-tax earnings generated from operations and realized capital gains as reported in the company's NAIC annual statement page 4, line 16.

Net Investment Income - This item represents Investment Income earned during the year less investment expenses and depreciation on real estate. Investment expenses are the expenses related to generating investment income and capital gains but exclude income taxes.

Net Premiums Earned - This item represents the adjustment of the net premiums written for the increase or decrease during the year of the liability of the company for unearned premiums. When an insurance company's business is increasing in amount from year to year, the earned premiums will usually be less than the written premiums. With the increased volume, the premiums are considered fully paid at the inception of the policy so that at the end of a calendar period, the company must set up premiums representing the unexpired terms of the policies. On a decreasing volume, the reverse is true.

Net Premiums Written - This item represents gross premium written, direct and reinsurance assumed, less reinsurance ceded.

Net Underwriting Income - Net premiums earned less incurred losses, loss adjustment expenses, underwriting expenses incurred, and dividends to policyholders.

Non-standard Auto (High Risk auto aka sub-standard auto) - Insurance for motorists who have poor driving records or have been canceled or refused insurance. The premium is much higher than standard auto due to the additional risks.

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Operating Cash Flow - This test measures the funds generated from insurance operations, which includes the change in cash and invested assets attributed to underwriting activities, net investment income and federal income taxes. This measure excludes stockholder dividends, capital contributions, unrealized capital gains/losses and various non-insurance related transactions with affiliates. This test measures a company's ability to meet current obligations through the internal generation of funds from insurance operations. Negative balances may

indicate unprofitable underwriting results or low yielding assets.

Operating Ratio (IRIS) - The operating ratio measures a company's overall operational profitability from underwriting and investment activities. This ratio does not reflect other operating income/expenses, capital gains or income taxes. An operating ratio of more than 100 indicates a company is able to generate profits from its underwriting and investment activities.

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Peril - Cause of a possible loss.

Policy - The written contract effecting insurance, or the certificate thereof, by whatever name called, and including all clause, riders, endorsements, and papers attached thereto and made a part thereof.

Premium - The payment or one of the regular periodical payments a policyholder is required to make for an insurance policy. The amount of money which the policyholder agrees to pay to the insurance company for the policy of insurance.

Premium earned - The amount of the premium that has been paid for in advance that has been "earned" by virtue of the fact that time has passed without claim. A three-year policy that has been paid in advance and is one year old would have only partly earned the premium.

Premium, unearned - That part of the premium applicable to the unexpired part of the policy period.

Pre-Tax Operating Income - Pre-tax operating earnings, before any capital gains, generated from underwriting, investment and other miscellaneous operating sources.

Pre-tax ROR (Return on Revenue) - pre-tax operating income divided by net premiums earned, expressed as a percent. This ratio measures a company's operating profitability.

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Reinsurance - An agreement between two or more insurance companies by which the risk of loss is proportioned. Thus the risk of loss is spread and a disproportionately large loss under a single policy does not fall on one company. Acceptance by an insurer, called a reinsurer, of all or part of the risk of loss of another insurer. A company issuing an automobile liability policy, with a limit of \$100,000. A fire insurance company which issues a large policy generally reinsures a portion of the risk with one or several other companies.

Risk Management - Management of the pure risks to which a company might be subject. It involves analyzing all exposures to the possibility of loss and determining how to handle these exposures through such practices as avoiding the risk, retaining the risk, reducing the risk, or transferring the risk, usually by insurance.

Risk Retention Groups - These entities, formed under the Liability Risk Retention Act of 1986, enable businesses or professionals with similar risks to band together to provide needed liability coverages for each other. Under statute, RRGs are precluded from writing certain coverages; most notably property lines and workers' compensation. RRGs predominately write medical malpractice, general liability, professional liability, products liability excess liability coverages. RRGs can be formed as a mutual or stock company, or a reciprocal.

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State of Domicile - The state in which the company is incorporated or chartered. The company is also licensed (admitted) under the state's insurance statutes for those lines of business for which it qualifies.

Subrogation - The right of the insurance company to recover from a third party the amount paid under the policy. For example, if damage is done to your automobile, protected by a collision insurance policy, the insurance company may collect, from the party whose automobile ran into your car, the amount of damages which was paid to you by the process of subrogation.

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Total Loss - A loss of sufficient size so that it can be said there is nothing left of value. The complete destruction of the property. The term is also used to mean a loss requiring the maximum amount a policy will pay.

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Underwrite - To determine whether an individual is insurable under the policy for which he has applied and at what premium rate.

Underwriter - The individual whose duty it is to determine the acceptability of insurance risks. A person whose duty it is to select risks for insurance and to determine in what amounts and on what terms the insurance company will accept the risks. Also, an insurer.

Underwriting - The process of selecting risks for insurance and determining in what amount and on what terms that insurance company will accept the risk.

Underwriting Guide - Underwriting guide, also call underwriting manual, underwriting guidelines, or manual of underwriting policy. Regardless of its name, the guide details the underwriting practices of the insurance company and provides specific guidance as to how underwriters should analyze all of the various types of applicants they might encounter.

Unearned Premiums - The calculated aggregate net amount, after deducting reinsurance credits, which an insurance company would be obliged to tender to its policyholders as return premiums for the unexpired terms, should it wish to cancel every policy in force