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Glossary

Accelerated Benefits - Riders attached to life insurance policies that allow death benefits to be used to cover nursing or convalescent home expenses.

Accidental Death Benefits - A policy rider that states that the cause of death will be analyzed to determine if it complies with the policy description of accidental death.

Accidental Death Insurance - An insurance policy that provides payment if the insured's death is the result of an accident.

Accumulation Period - The time before an annuitant's retirement during which the annuitant is making payments or investments in an annuity.

Actual Cash Value (ACV) - The required amount to pay damages or for property loss. This amount is calculated based on the property's current replacement value minus depreciation.

Adhesion - A contract offered on a "take-it-or leave-it" basis by an insurer, in which the insured's only option is to either accept or reject the contract. Any ambiguities in the contract will be settled in favor of the insured.

Adjustable Life - Life insurance that permits changes in the face amount, premium amount, period of protection, and the duration of the premium payment period.

Admitted (Authorized) Insurer - An insurance company authorized and licensed to transact business in a particular state.

Adverse Selection - The tendency of risks with higher probability of loss to purchase and maintain insurance more often than the risks who present lower probability.

Agency - An insurance sales office or company.

Agent - An individual who is licensed to sell, negotiate, or effect insurance contracts on behalf of the insurer.

Agent Appointment - The authorization of an agent to act for or represent an insurer

Agent's Authority - Special powers granted to an agent by his or her agency contract.

Aleatory - A contract in which participating parties exchange unequal amounts. Insurance contracts are aleatory in that the amount the insured will pay in premiums is unequal to the amount the insurer will pay in the event of a loss.

Alien Insurer - An insurance company that is incorporated outside the United States.

Annual Statement - A detailed financial report that an insurance company must submit every year to the insurance department of state(s) in which it conducts business.

Annuity - A contract that provides income for a specified period of years, or for life.

Apparent Authority - The appearance or the assumption of authority based on the actions, words, or deeds of the principal or because of circumstances the principal created.

Applicant - A person making application for, or offering himself, herself or another to be insured under an insurance contract.

Application - A document that provides information for underwriting purposes. After the policy is issued, any unanswered questions are considered waived by the insurer.

Assignment - The transfer of ownership rights of a life insurance policy from one person to another.

Attained Age - The age of the insured at a determined date.

Attending Physician's Statement (APS) - A statement usually obtained from the applicant's doctor.

Authorized (Admitted) Insurer - An insurance company authorized and licensed to transact business in a particular state.

Avoidance - A method of dealing with risk by deliberately keeping away from it (e.g. if a person wanted to avoid the risk of being killed in an airplane crash, he or she might choose to never fly in a plane).

Basic Illustration - A ledger or proposal used in the sale of a life insurance policy that shows both guaranteed and nonguaranteed elements.

Beneficiary - The person who receives the proceeds from the policy when the insured dies.

Birthday Rule - The method of determining primary coverage for a dependent child, under which the plan of the parent whose birthday occurs first in the calendar year is designated as primary.

Broker - An individual who represents an insured in the process of purchasing and negotiating a contract of insurance.

Buy-Sell Agreement - A legal contract that determines what will be done with a business in the event that an owner dies or becomes disabled.

Buyer's Guide - A booklet that describes insurance policies and concepts, and provides general information to help an applicant make an informed decision.

Cash Value - The amount to which a policyowner is entitled if the policy is surrendered before maturity.

Certificate - A statement or booklet that confirms that a policy has been written and that describes the coverage in general.

Certificate of Authority - A document that authorizes a company to start conducting business and specifies the kind(s) of insurance a company can transact. It is illegal for an insurance company to transact insurance without this certificate.

Certificate of Insurance - A legal document that indicates that an insurance policy has been issued, and that states both the amounts and types of insurance provided.

Claim - A request for payment of the benefits provided by an insurance contract.

Coercion - An unfair trade practice in which an agent uses physical or mental force with the intent of inducing an applicant to purchase insurance.

Coinsurance Clause - A provision that states that the insurer and the insured will share the losses covered by the policy in a proportion agreed upon in advance.

Commingling - A practice in which a person in a fiduciary capacity illegally mixes his/her personal funds with funds he/she is holding in trust.

Commission - The payment made by insurers to agents or brokers for the sale and service of policies.

Commissioner - The chief executive and administrative officer of a state insurance department (in some states, known as Director or Superintendent).

Concealment - The withholding of known facts that, if material, can void a contract.

Conditional Contract - A type of an agreement in which both parties must perform certain duties and follow rules of conduct to make the contract enforceable.

Consideration - The binding force in a contract that requires something of value to be exchanged for the transfer of risk. The consideration on the part of the insured is the representations made in the application and the payment of premium; the consideration on the part of the insurer is the promise to pay in the event of loss.

Consumer Report - A written and /or oral statement regarding a consumer's credit, character, reputation, or habits collected by a reporting agency from employment records, credit reports, and other public sources.

Contract - An agreement between two or more parties enforceable by law.

Contributory - A group insurance plan that requires the employees to pay part of the premium.

Controlled Business - An entity that obtains and possesses a license solely for the purpose of writing business on the owner, immediate family, relatives, employer or employees.

Convertible - A policy that may be exchanged for another type of policy by contractual provision, at the option of the policyowner, and without evidence of insurability (i.e. term life changed to a form of permanent life).

Countersignature - The act of signing an insurance policy by a licensed resident agent.

Coverage - The inclusion of causes of loss (perils) which are covered within a scope of a policy.

Credit Life Insurance - A special type of coverage written to pay off the balance of a loan in the event of the death of the debtor.

Death Benefit - The amount payable upon the death of the person whose life is insured.

Decreasing Term - A type of life insurance that features a level premium and a death benefit that decreases each year over the duration of the policy.

Defamation - An unfair trade practice in which one agent or insurer makes an injurious statement about another with the intent of harming the person's or company's reputation.

Dependent - A person who relies on another for support and maintenance.

Director - The chief executive and administrative officer of the Insurance Department (in some states, known as Commissioner or Superintendent).

Disclosure - An act of identifying the name of the producer, representative or firm, limited insurance representative, or temporary insurance producer on any policy solicitation.

Domestic Insurer - An insurance company that conducts business in the state of incorporation.

Domicile of Insurer - Insurer's location of incorporation and the legal ability to write business in a state.

Earned Premium - The amount of the premium for which the policy protection has been given.

Effective Date - The date when an insurance policy begins (also known as the inception date).

Employee Retirement Income Security Act (ERISA) - The act that stipulates federal standards for private pension plans.

Endorsement - A form changing the provisions of and attached to a life insurance policy (also known as a rider).

Endow - To reach the maturity date or time at which the face amount equals cash values.

Estoppel - A legal impediment to denying a fact or restoring a right that has been previously waived.

Excess Insurance - Insurance that pays over and above or in addition to basic policy limits.

Exclusions - Causes of loss, exposures, conditions, etc. listed in the policy for which the benefits will not be paid.

Expiration - The date specified in the policy as the date of termination.

Express Authority - The authority granted to an agent by means of the agent's written contract.

Extension of Benefits - A provision that allows coverage to continue beyond the policy's expiration date for employees who are not actively at work due to disability or who have dependents hospitalized on that date. This coverage continues only until the employee returns to work or the dependent leaves the hospital.

Face - The first page of a policy.

Fair Credit Reporting Act - A federal law that established procedures consumer-reporting agencies must follow in order to ensure that records are confidential, accurate, relevant and properly used.

Fiduciary - An agent/broker who handles insurer's funds in a trust capacity.

Fixed Annuity - An annuity that offers fixed payments and guarantees a minimum rate of interest to be credited to the purchase payment or payments.

Flexible Premium - A policy feature that allows the policyholder to vary premium payments in the amount and/or timing.

Foreign Insurer - An insurance company that is incorporated in another state.

Fraternal Benefit Societies - Life or health insurance companies formed to provide insurance for members of an affiliated lodge, religious organization, or fraternal organization with a representative form of government.

Fraud - Intentional misrepresentation or deceit with the intent to induce a person to part with something of value.

Free Look - A period of time, usually required by law, during which a policyowner may inspect a newly issued individual life or health insurance policy for a stated number of days and surrender it in exchange for a full refund of premium if not satisfied for any reason.

Grace Period - Period of time after the premium due date during which premiums may still be paid, and the policy and its riders remain in force.

Group Life - Life insurance provided for members of a group.

Hazard - A circumstance that increases the likelihood of a loss.

Hazard, Moral - The effect of a person's reputation, character, living habits, etc. on his/her insurability.

Hazard, Morale - The effect a person's indifference concerning loss has on the risk to be insured.

Hazard, Physical - A type of hazard that arises from the physical characteristics of an individual, such as a physical disability due to either current circumstance or a condition present at birth.

Implied Authority - Authority that is not expressed or written into the contract, but which the agent is assumed to have in order to transact the business of insurance for the principal.

Indemnify - To restore the insured to the same condition as prior to loss with no intent of loss or gain.

Insolvent organization - A member organization which is unable to pay its contractual obligations and is placed under a final order of liquidation or rehabilitation by a court of competent jurisdiction.

Insurability - The acceptability of an applicant who meets an insurance company's underwriting requirements for insurance.

Insurable Interest - A financial interest in the life of another person; a possibility of losing something of value if the insured should die. In life insurance, insurable interest must exist at the time of policy application or policy issue.

Insurance - A contract whereby one party (insurer) agrees to indemnify or guarantee another party (insured) against a loss by a specified future contingency or peril in return for payment of a premium.

Insured - The person or organization that is protected by insurance; the party is to be indemnified.

Insurer - An entity that indemnifies against losses, provides benefits, or renders services (also known as "company" or "insurance company").

Insuring Clause - A general statement that identifies the basic agreement between the insurance company and the insured, usually located on the first page of the policy.

Intentional Injury - An act that is intended to cause injury. Self-inflicted injuries are not covered under accident insurance; intentional injuries inflicted on the insured by another are covered.

Investigative Consumer Reports - A report similar to consumer report, but one that also provides information on the consumer's character, reputation and habits.

Issue Age - The individual's age when a policy is issued.

Joint Life - A single policy that is designed to insure two or more lives.

Juvenile Life - Any life insurance written on the life of a minor.

Lapse - Termination of a policy because the premium has not been paid by the end of the grace period.

Law of Large Numbers - A principle stating that the larger the number of similar exposure units considered, the more closely the losses reported will equal the underlying probability of loss.

Level Premium - A policy premium that remains the same over the period of time premiums are paid.

Life Expectancy - Average number of years remaining for a person of a given age to live, as shown on the mortality table.

Life Settlement - An arrangement that allows the policyowner sell their existing life insurance policy to a third party for compensation.

Limited-Pay Whole Life - A variation of whole life insurance that charges a level annual premium and provides a level, guaranteed death benefit to the insured's age 100 and will endow for the face amount if the insured lives to age 100. Limited-pay life is designed so that the premiums for coverage will be completely paid-up well before age 100.

Liquidation - Selling assets as a method of raising capital.

Living Benefits Rider - A rider attached to a life insurance policy that provides LTC benefits or benefits for the terminally ill by using available life insurance benefits.

Lloyd's Associations - Organizations that provide support facilities for underwriters or groups of individuals that accept insurance risk.

Loan Value - The amount of money an insured can borrow using the cash value of his/her life insurance policy as collateral.

Loss - The reduction, decrease, or disappearance of value of the person or property insured in a policy, by a peril insured against.

Lump Sum - Settlement method that pays the beneficiary the entire proceeds of a life insurance policy in one payment rather than in installments.

Market Value Adjusted Annuity - a single-premium deferred annuity that allows a contract owner to lock in a guaranteed interest rate over a specified maturity period.

Maturity Date -The date when the face amount of the life insurance becomes payable.

Medical Information Bureau (MIB) - An information database that stores the health histories of individuals who have applied for insurance in the past. Most insurance companies subscribe to this database for underwriting purposes.

Misrepresentation - A false statement or lie that can render the contract void.

Mode of Payment - The method of premium payment, whether annually, semiannually, quarterly, or monthly.

Mortality Table - A table showing the probability of death at specified ages.

Mutual Companies - Insurance organizations that have no capital stock, but are owned by the policyholders.

Nonadmitted (Nonauthorized) - An insurance company that has not applied for, or has applied and been denied a Certificate of Authority and may not transact insurance in a particular state.

Nonauthorized (Nonadmitted) - An insurance company that has not applied for, or has applied and been denied a Certificate of Authority and may not transact insurance in a particular state.

Noncancellable - An insurance contract that the insured has a right to continue in force by payment of premiums that remain the same for a substantial period of time.

Nonforfeiture Values - Those guaranteed values in a life insurance policy that cannot be taken from the insured, even if he or she ceases to pay premiums.

Nonmedical - A life or health insurance policy that is underwritten based on the insured's statement of health rather than a medical examination.

Nonparticipating Policies (Non-par) - Insurance that does not pay dividends.

Nonqualified Plan - A type of benefit plan that may discriminate, is not required to be filed with the IRS, and does not provide a current tax deduction for contributions.

Nonrenewal - A termination of a policy by an insurer on the anniversary or renewal date.

Nonresident Agent - An agent licensed in a state in which he or she is not a resident.

Option - A choice of ways of receiving policy dividends, nonforfeiture values, death benefits, or cash values.

Overinsurance - An excessive amount of insurance that would result in overpayment to the insured in the event of a loss.

Paid-Up Insurance - A policy on which all premiums have been paid but which has not matured due either to death or endowment.

Participating Policies (Par) - Insurance that pays dividends to policyholders.

Payor Benefit - A rider found in juvenile policies which waives the premiums if the person paying them (often the parent) is disabled or dies while the child is still a minor.

Peril - The cause of a possible loss.

Permanent Life Insurance - A general term used to refer to various forms of whole life insurance policies that remain in effect to age 100 so long as the premium is paid.

Persistency - The tendency or likelihood of insurance policies not lapsing or being replaced with insurance from another insurer.

Personal Contract - An agreement between an insurance company and an individual that states that insurance policies cover the individual's insurable interest.

Physical Exam and Autopsy - A provision that allows an insurer, at its own expense, to have an insured physically examined when a claim is pending or to have an autopsy performed where not prohibited by law.

Policy Loan - A nonforfeiture value in which an insurer loans a part or all of the cash value of the policy assigned as security for the loan to the policyowner.

Policyholder - The person who has possession of the policy, usually the insured.

Policyowner - The person who is entitled to exercise the rights and privileges in the policy. This person may or may not be the insured.

Preferred Risk - An insurance classification for applicants who have a lower expectation of incurring loss, and who, therefore, are covered at a reduced rate.

Premium - A periodic payment to the insurance company to keep the policy in force.

Primary Beneficiary - The person who is named as first to receive benefits from a policy.

Primary Policy - A basic, fundamental insurance policy which pays first with respect to other outstanding policies.

Principal Amount - The full face value of a policy.

Private Insurance - Insurance furnished by nongovernmental insuring organizations.

Proceeds - The amount payable by the insurance company, usually in at the insured's death or when the policy matures.

Producer - Insurance agent or broker.

Pure Protection - Insurance whereby premiums are paid for protection in the event of death or disability, not for cash value accumulation.

Qualified Plan - A retirement plan that meets the IRS guidelines for receiving favorable tax treatment.

Rate Service Organization - An organization that is formed by, or on behalf of, a group of insurers to develop rates for those insurers, and to file the rates with the insurance department on behalf of its members. They may also act as a collection point for actuarial data.

Rebating - Any inducement offered in the sale of insurance products that is not specified in the policy.

Reciprocal Exchange - An unincorporated group of individuals who mutually insure one another, each separately assuming a share of each risk.

Reciprocity - A situation in which two parties provide the same help or advantages to each other (for example, Producer A living in State A can transact business as a nonresident in State B if State B's resident producers can transact business in State A).

Reduction - Lessening the possibility or severity of a loss.

Reinsurance - A form of insurance whereby one insurance company (the reinsurer) in consideration of a premium paid to it, agrees to indemnify another insurance company (the ceding company) for part or all of its liabilities from insurance policies it has issued.

Renewability Clause - A clause that defines the insurance company's and the insured's right to cancel or renew coverage.

Renewable Term - Insurance which can, at the election of the policyowner, be renewed at the end of a term without evidence of insurability.

Representations - Statements made by the applicant on the insurance application that are believed to be true, but are not guaranteed to be true.

Rescission - The termination of an insurance contract due either to material misrepresentation by the insured or by fraud, misrepresentation, or duress on the part of the agent/insurer.

Retention - A method of dealing with risk by intentionally or unintentionally keeping a portion of it for the insured's account; the amount of responsibility assumed but not reinsured by the insurance company.

Rider - Any supplemental agreement attached to and made a part of the policy indicating the policy expansion by additional coverage, or a waiver of a coverage or condition.

Risk - Uncertainty as to the outcome of an event when two or more possibilities exist.

Risk, Pure - The uncertainty or chance of a loss occurring in a situation that can only result in a loss or no change.

Risk Retention Group - A liability insurance company owned by its members, which are exposed to similar liability risks by virtue of being in the same business or industry.

Risk, Speculative - The uncertainty or chance of a loss occurring in a situation that involves the opportunity for either loss or gain.

Risk, Standard - An applicant or insured who is considered to have an average probability of a loss based on health, vocation and lifestyle.

Risk, Substandard - An applicant or insured who has a higher than normal probability of loss, and who may be subject to an increased premium.

Rollover - Withdrawing the money from a qualified plan and placing it into another qualified plan.

Secondary Beneficiary - The person who is named to receive benefits upon the death of the insured if the (primary) first-named beneficiary is no longer alive or does not collect all the benefits due to his/her own death.

Settlement Options - Choices available to the insured/owner for distribution of insurance proceeds.

Sharing - A method of dealing with risk for a group of individual persons or businesses with the same or similar exposure to loss who share the losses that occur within that group.

Single Premium Whole Life (SPWL) - A life insurance policy designed to provide a level death benefit to the insured's age 100 for a one-time, lump sum payment.

Speculative Risk - An uncertainty or chance of a loss occurring in a situation that involved the opportunity for either loss or gain.

Spendthrift Clause - A clause that prevents the debtors of a beneficiary from collecting the benefits before he/she receives them.

Standard Provisions - Requirements approved by state law that must appear in all insurance policies.

Standard Risk - An applicant or insured who is considered to have an average probability of a loss based on health, vocation and lifestyle.

Stock Companies - Companies owned by the stockholders whose investments provide the capital necessary to establish and operate the insurance company.

Straight Life - A basic policy that charges a level annual premium for the lifetime of the insured and provides a level, guaranteed death benefit.

Substandard Risk - An applicant or insured who has a higher than normal probability of loss, and who may be subject to an increased premium.

Superintendent - The head of the state department of insurance or financial services (in some states, known as Commissioner or Director).

Surrender - An act of giving up a life policy, in which the insurer will pay the insured the cash value the policy has built up.

Term Insurance - Insurance that provides protection for a specific period of time.

Terminally Ill - A person who is expected to die within a short period of time due to a specific illness or sickness.

Total Disability - A condition which does not allow a person to perform the duties of any occupation for payment as a result of injury or sickness.

Transfer - A basic principle of insurance under which the risk of financial loss is assigned to another party.

Twisting - A form of misrepresentation in which an agent persuades an insured/owner to cancel, lapse, or switch policies, even when it's to the insured's disadvantage.

Underwriter - A person who evaluates and classifies risks to accept or reject them on behalf of the insurer.

Underwriting - The process of reviewing, accepting or rejecting applications for insurance.

Unearned Premium - The portion of premium for which policy protection has not yet been given.

Unilateral Contract - A contract that legally binds only one party to contractual obligations after the premium is paid.

Universal Life - A combination of Annual Renewable Term and a cash account invested in the general fund of the insurance company.

Utmost Good Faith - The fair and equal bargaining by both parties in forming the contract, where the applicant must make full disclosure of risk to the company, and the insurance company must be fair in underwriting the risk.

Waiting Period - Time between the beginning of a disability and the start of disability insurance benefits.

Waiver - The voluntary abandonment of a known or legal right or advantage.

Waiver of Cost - A disability rider, found in Universal Life Insurance, that waives the cost of the insurance but does not waive the cost of premiums necessary to accumulate cash values.

Waiver of Premium - Continuation of life insurance coverage if the insured becomes totally disabled and is unable to pay the premiums.

Warranty - A material stipulation in the policy that if breached may void coverage.

Whole Life Insurance - Insurance that is kept in force for a person's entire life and pays a benefit upon the person's death, whenever that may be.