

P&C Insurance Terms and Related Concepts

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Risk Management	<p>S. Share-Sharing the burden of loss or gain of the risk</p> <p>T. Transfer- Transfer the risk to another party</p> <p>A. Avoidance- Not performing an activity with a risk</p> <p>R. Retain- Accept the loss/benefit of the risk</p> <p>R. Reduction-Reduce the severity of the loss</p>
Particular Risk	<p>Exposure to loss from a situation associated with specific individual events</p> <p>ex: car theft</p> <p>Insurable</p>
Pure Risk	<p>Situation where there is a chance of either loss or no loss, but no chance of gain</p> <p>ex: fire damage</p> <p>Insurable</p>
Static Risk	<p>Exposure to losses caused by the irregular action of nature and/or the mistakes and misdeeds of human beings.</p> <p>ex: hurricanes</p> <p>Insurable.</p>
Dynamic Risk	<p>Exposure to loss from changes in the environment</p> <p>ex: fashion trends</p> <p>Not Insurable</p>
Fundamental Risk	<p>Exposure to loss from a situation affecting a large group of people or firms, and caused by natural or social event</p> <p>ex: earthquake, unemployment</p> <p>Usually not be insurable.</p>

Speculative Risk	A situation in which either profit or loss exist ex: Investing Usually not insurable
Insurance	Risk-transfer that provides compensation for the loss or damage caused by events beyond the control of the insured party for a fee
Insurable Interest	Policy holder must stand to suffer a direct financial loss if the event (against which the insurance cover was bought) does occur
Insurable Risk	A risk that substantially meets the following requirements: (1) the amount of loss must create economic hardship, (2) the loss must be of an accidental nature, (3) future loss must be calculable, (4) the loss must be definite, and (5) the risk cannot be excessively catastrophic
Peril	Elements that exposes a person or property to the risk of damage, injury, or loss
Open Peril	Policy that covers loss or property damage caused by any peril except those specifically excluded.
Named Peril	Policy that covers only losses which result from causes explicitly listed in the policy
Hazard	A circumstance that increases or creates the likelihood of a loss.
Physical Hazard	Any hazard arising from the material, structural, or operational features of the risk itself apart from the persons owning or managing it. (cracked sidewalk)
Moral Hazard	Morals and habits of an individual, that increase the chance of loss (faking accidents, inflating claim amounts)

Morale Hazard	An increase in the hazard presented by a risk, arising from the insured's indifference to loss because of the existence of insurance. (leaving car keys in unlocked car)
Operations Hazard	Hazard occurring away from insured's principle place of business while operations are being performed ex: Building a deck
Premises Hazard	Hazard occurring on insured's principle place of business: 1) Premises designated on Declarations page 2) Premises alienated by insured 3) Newly acquired property if insurer is notified with 30 days of acquisition 4) Ways immediately adjoining the premises
Indirect Loss	A loss that is a result of a covered peril but is not caused directly and immediately by that peril ex: living expenses for house fire
Direct Loss	A loss that is a direct consequence of a particular peril ex: house fire
Proximate Cause	An unbroken chain of events that causes a loss. An event that, in a natural and continuous sequence, produces a loss. ex: a fire followed by smoke and water damage, the entire loss is considered to have been caused by the peril of fire.
Deductible	The amount of loss policyholder must pay before the insurance coverage begins
Indemnity	Insured will only be restored to the approximate financial condition that existed prior tho the loss, no better or no worse
Actual Cash Value	The cost of replacement minus depreciation

Replacement Cost	The current market cost of replacement without depreciation
Limits of Liability	<p>The maximum amount of financial responsibility the insurer will assume to protect insured, as established in the policy</p> <p>Limits are stated in 3 diff. ways:</p> <p>A-Aggregate Limit (100K/occurrence/300K aggregate all claims)</p> <p>S-Single Limit (ex: 100K per claim)</p> <p>S- Split Limits (ex: 100/300/50 per claim)</p>
Coinsurance clause	In commercial property insurance, the policy holder must carry coverage generally equal to at least 80% of the property's value. If less is carried a reduction in claim payment will apply to partial losses.
Coinsurance Formula	<p>Step 1: Determine insurance required</p> <p>Step2: Do they carry at least this amount?</p> <p>Step 3: If no</p> <p>(Amount carried/Amount should have carried) x Amount of Loss= Amount Paid on Claim - Deductible</p> <p>Ex: A building with a value of \$1,000,000 and a policy with an 80% coinsurance clause must be insured for at least \$800,000. Insured purchases \$600,000 policy with a \$5000 deductible. A fire causing \$200,000 in damage occurs</p> $600,000/800,000 = 75\% \text{ (is less than 80\%)}$ $75\% \times 200,000 = 150,000$ $150,000 - 5000 = 145,000$
Pair and Set Clause	<p>Insurer is not liable for the entire value of a set when only part of it is damaged or lost.</p> <p>Insurer may:</p> <ol style="list-style-type: none"> 1) Repair, replace, or restore the set OR 2) Pay the difference between ACV of set before and after the loss

Extended Coverage	An endorsement that provides protection against types of loss that may not be covered under a basic property insurance policy. For an additional premium
Additional Coverage	Used in Personal Line Policies, additional amounts of insurance coverage. No Endorsements required No additional premium is required
Extended Coverage Perils	W-Windstorm C-Civil Commotion S-Smoke H-Hail A-Aircraft V-Vehicles V-Volcanic Eruption E-Explosion R-Riot
Broad Perils	B-Burglary Damage I-Ice and Snow Weight G-Glass Breakage A-Accidental Discharge or overflow of water or steam F-Falling Objects F-Freezing Pipes E-Electrical Damage C-Collapse T-Tearing Apart, Cracking, Burning or Bulging
Extensions of Coverage	Found mostly in commercial lines policies, offers additional extensions of coverage on covered property. No Endorsements required No additional premium is required
Accident	A sudden and unexpected event resulting in financial loss
Occurrence	An accident, or continuous or repeated exposure to an event that results in loss
Vacancy	No occupants, No personal property
Unoccupancy	No Occupants, Yes personal property

Right of Salvage	After paying insured for his total loss of property, insurer can recover the damaged property & sell it to reduce the insurer's financial loss
Abandonment	Insured cannot abandon the property to the insurance company in exchange for the full-insured value
Liability	An obligation that legally binds an individual or company to settle a debt. When one is liable for a debt, they are responsible for paying the debt or settling a wrongful act they may have committed
Total Loss	A loss that exists when the cost to repair equals or exceeds the value
Negligence	Failure to take reasonable precautions to protect others from the risk of harm. Civil wrong (Tort)
Tort	Civil wrong that violates the rights of others
Establish Negligence	Usually for Factors 1) Legal duty is owed 2) Breach of legal duty owed 3) Proximate cause 4) Damages
Compensatory Damages	Damages awarded in a civil suit that are intended to restore the plaintiff to the same condition prior to the incident 1) Special damages (economic losses) Payment for direct and specific expenses involved in loss (ex: medical expenses) 2) General damages (non economic losses) Payment for pain & suffering, disfigurement
Punitive Damages	Money damages that may be awarded to a plaintiff to punish the defendant and deter future similar conduct.

Defense Against Negligence	Contributory Comparative Assumption of Risk Intervening Cause Statute of Limitations
Absolute Liability	Liability for an act that causes harm without regard to fault or negligence due to participation in especially hazardous activities. Also called strict liability
Vicarious Liability	Legal responsibility placed on one person for the negligent acts of another.
Theft	Personal lines: any act of stealing Commercial lines: unlawful taking of money, securities or other property to the deprivation of the insured
Burglary	Safe Burglary: covers taking or attempting to take covered property from a locked safe or vault by unlawful entry, WITH visible evidence of forcible entry. Premise Burglary: Requires signs of forcible entry or exit. Also includes a watchman who is forced to open locked premises
Robbery	Stealing by force or threatening of force
Mysterious Disappearance	The disappearance of property without any possibility of determining the cause of the disappearance.
Binders	Temporary insurance contract providing coverage until a permanent policy is issued.

Pro rata liability

A clause designed to prevent the insured from collecting more than the actual extent of loss by allowing each policy to pay its share of a loss in the proportion that the coverage of that policy relates to the total of all insurance on the risk. The clause reinforces indemnity.

Example: Company A issues a \$750,000 liability policy, and Company B issues a \$250,000 liability policy for a total of \$1,000,000 on a given risk. In the event of a \$300,000 liability loss, Company A would pay \$225,000 and Company B would pay \$75,000.

Waiver

Voluntary or intentional relinquishment of a known right.
Expressed-Purposely gives up a known right under the contract
Implied- Usually caused by neglect on the part of agent/adjuster

Estoppel

If someone intentionally or unintentionally creates the impression that a certain fact exist, and an innocent party relies on that impression and is damaged as a result, the guilty party may be legally prohibited from asserting that the fact doesn't exist

Valued Policy

A policy where the insurer agrees, in advance, that the coverage limit applicable to the item will be considered its value in the event of a covered loss

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.

Proof of Loss

Signed and sworn statement of the insured in regard to the loss for which a claim has been filed.
Must be submitted within 60 days of reported loss

Controlled Line	Written using a standardized form that is filed with ISO for uniform use
Uncontrolled Line	Written by individual companies using their own form and varying it for individual risk
Value Basis	Full policy amount is paid in the event of a total loss
Unvalued Basis	Settlement determined after loss
Agreed value Basis	The amount of coverage is agreed to by the insured and the insurer
Valuation	The provision in a policy that defines the basis for establishing the amount to be paid in the event of a loss.
Blanket Coverage	One limit for a combination of buildings and/or personal property
Specific Coverage	1 Premise per policy, building and contents are scheduled
Contributory Negligence	If individual contributes to loss, another cant be held liable
Comparative Negligence	Negligence of each party is compared, damages are reduced to only the extent of the injured party's negligence
Assumption of Risk	Person knowingly exposes themselves to danger or injury
Intervening Cause	A cause of injury that occurs after the negligent act of another and that could not have been expected to occur.