|  |  |  |
| --- | --- | --- |
| **Term**  **insured** | **Definition**   |  | | --- | | **"a person, a business, or an organization whose property, life, or legal liability is covered by an insurance policy"** | |
|  | |
| **Term**   |  | | --- | | **insurer** | | **Definition**   |  | | --- | | **an insurance company** | |
|  | |
| **Term**   |  | | --- | | **covered loss** | | **Definition**   |  | | --- | | **the events for which insurance pays** | |
|  | |
| **Term**   |  | | --- | | **loss exposure (exposure)** | | **Definition**   |  | | --- | | **any condition or situation that presents the possibility of a loss** | |
|  | |
| **Term**   |  | | --- | | **law of large numbers** | | **Definition**   |  | | --- | | **"a mathematical principle stating that as the number of similar but independent exposure units increases, the relative accuracy of predictions about future outcomes (losses) based on these exposure units also increases"** | |
|  | |
| **Term**   |  | | --- | | **exposure unit** | | **Definition**   |  | | --- | | **"a measure of loss potential and used in pricing insurance, i.e., in homeowners insurance, each home insured is an exposure unit"** | |
|  | |
| **Term**   |  | | --- | | **property loss exposure** | | **Definition**   |  | | --- | | **any condition or situation that presents the possibility that a property loss will happen** | |
|  | |
| **Term**   |  | | --- | | **real property** | | **Definition**   |  | | --- | | **consists of land as well as buildings and other structures attached to the**  **land or embedded in it** | |
|  | |
| **Term**   |  | | --- | | **personal property** | | **Definition**   |  | | --- | | **consists of all tangible or intangible property that is not real property** | |
|  | |
| **Term**   |  | | --- | | **net income** | | **Definition**   |  | | --- | | **income (or revenue) minus expenses during a given period** | |
|  | |
| **Term**   |  | | --- | | **liability loss exposure** | | **Definition**   |  | | --- | | **any condition or situation that presents the possibility that a liability**  **loss will happen** | |
|  | |
| **Term**   |  | | --- | | **liability loss** | | **Definition**   |  | | --- | | **a claim for monetary damages because of injury to another party of**  **damage to another party's property** | |
|  | |
| **Term**   |  | | --- | | **human loss exposure (personal loss exposure)** | | **Definition**   |  | | --- | | **"any condition or situation that presents the possibility of a financial loss**  **to an individual or a family by such causes as death, sickness, injury, or unemployment"** | |
|  | |
| **Term**   |  | | --- | | **personnel loss exposure** | | **Definition**   |  | | --- | | **"the possibility of a financial loss to a business because of the death, disability, retirement, or resignation of key employees"** | |
|  | |
| **Term**   |  | | --- | | **indemnify** | | **Definition**   |  | | --- | | **to restore a party who has had a covered loss to the same financial**  **position that party held before the loss occurred** | |
|  | |
| **Term**   |  | | --- | | **fire and allied lines insurance** | | **Definition**   |  | | --- | | **covers direct damage to or loss of insured property** | |
|  | |
| **Term**   |  | | --- | | **business income insurance** | | **Definition**   |  | | --- | | **covers the loss of net income or additional expenses incurred by a**  **business as the result of a covered loss to its property** | |
|  | |
| **Term**   |  | | --- | | **crime insurance** | | **Definition**   |  | | --- | | **"protects the insured against loss to covered property from various causes**  **of loss such as burglary, robbery, theft, and employee dishonesty"** | |
|  | |
| **Term**   |  | | --- | | **ocean marine insurance** | | **Definition**   |  | | --- | | **includes hull insurance (which covers ships) and cargo insurance (which covers the goods transported by ships)** | |
|  | |
| **Term**   |  | | --- | | **inland marine insurance** | | **Definition**   |  | | --- | | **"covers miscellaneous types of property, such as movable property,**  **goods in domestic transit, and property used in transportation and communication"** | |
|  | |
| **Term**   |  | | --- | | **auto physical damage insurance** | | **Definition**   |  | | --- | | **covers loss of or damage to specified vehicles owned by the insured and sometimes covers vehicles borrowed or rented by the insured** | |
|  | |
| **Term**   |  | | --- | | **auto liability insurance** | | **Definition**   |  | | --- | | **covers an insured's liability for bodily injury to others and damage to the property of others resulting from automobile accidents** | |
|  | |
| **Term**   |  | | --- | | **commercial general liability insurance** | | **Definition**   |  | | --- | | **"covers businesses for their liability for bodily injury and property**  **damage; it can also include liability coverage for various other offenses**  **that might give rise to claims, such as libel, slander, false arrest, and advertising injury"** | |
|  | |
| **Term**   |  | | --- | | **personal liability insurance** | | **Definition**   |  | | --- | | **provides liability coverage to individuals and families for bodily injury and property damage arising from the insured's personal premises or activities** | |
|  | |
| **Term**   |  | | --- | | **professional liability insurance** | | **Definition**   |  | | --- | | **"protects physicians, accountants, architects, engineers, attorneys,**  **insurance agents and brokers, and other professionals against liability**  **arising out of their professional acts or omissions"** | |
|  | |
| **Term**   |  | | --- | | **whole life insurance** | | **Definition**   |  | | --- | | **provides life-time protection (to age 100); policies accrue cash value and have premiums that remain unchanged during the insured's lifetime** | |
|  | |
| **Term**   |  | | --- | | **cash value (of life insurance)** | | **Definition**   |  | | --- | | **"a savings fund that accumulates in a whole life insurance policy and that the policyholder can access in several ways, including borrowing,**  **purchasing paid-up life insurance, and surrendering the policy in**  **exchange for the cash value"** | |
|  | |
| **Term**   |  | | --- | | **term insurance** | | **Definition**   |  | | --- | | **a type of life insurance that provides temporary protection (for a certain period) with no cash value** | |
|  | |
| **Term**   |  | | --- | | **universal life insurance** | | **Definition**   |  | | --- | | **"combines life insurance protection with savings; the policy is a flexible-premium policy that separates the protection, savings, and expense components"** | |
|  | |
| **Term**   |  | | --- | | **medical insurance** | | **Definition**   |  | | --- | | **"covers the cost of medical care, including doctors' bills, hospital charges (including room and board), laboratory charges, and related expenses"** | |
|  | |
| **Term**   |  | | --- | | **disability income insurance** | | **Definition**   |  | | --- | | **a type of health insurance that provides periodic income payments to an insured who is unable to work because of sickness or injury** | |
|  | |
| **Term**   |  | | --- | | **stock insurance company** | | **Definition**   |  | | --- | | **an insurer that is owned by its stockholders and formed as a corporation**  **for the purpose of earning a profit for these stockholders** | |
|  | |
| **Term**   |  | | --- | | **mutual insurance company** | | **Definition**   |  | | --- | | **an insurer that is owned by its policyholders and formed as a corporation**  **for the purpose of providing insurance to its policyholder-owners** | |
|  | |
| **Term**   |  | | --- | | **demutualization** | | **Definition**   |  | | --- | | **"the process by which a mutual insurer, which is owned by its**  **policyholders, becomes a stock company, which is then owned by its stockholders"** | |
|  | |
| **Term**   |  | | --- | | **reciprocal insurance exchange (interinsurance exchange)** | | **Definition**   |  | | --- | | **an unincorporated association formed to provide insurance coverage**  **to its members; one of the distinguishing features of a reciprocal is**  **that the subscribers empower an attorney-in-fact to manage it** | |
|  | |
| **Term**   |  | | --- | | **subscriber** | | **Definition**   |  | | --- | | **"also known as members, these are the policyholders of a reciprocal insurance exchange who agree to insure each other"** | |
|  | |
| **Term**   |  | | --- | | **attorney-in-fact** | | **Definition**   |  | | --- | | **the contractually authorized manager of a reciprocal insurance exchange who administers its affairs and carries out its insurance transactions** | |
|  | |
| **Term**   |  | | --- | | **captive (insurance company)** | | **Definition**   |  | | --- | | **"an insurer that is formed as a subsidiary of its parent company, organization, or group, for the purpose of writing all or part of the**  **insurance on the parent company or companies"** | |
|  | |
| **Term**   |  | | --- | | **reinsurance** | | **Definition**   |  | | --- | | **a type of insurance in which one insurer transfers some of all of the loss exposures from policies written for its insureds to another insurer** | |
|  | |
| **Term**   |  | | --- | | **primary insurer** | | **Definition**   |  | | --- | | **the insurance company that transfers its loss exposures to another insurer in a contractual reinsurance arrangement** | |
|  | |
| **Term**   |  | | --- | | **reinsurer** | | **Definition**   |  | | --- | | **the insurance company that accepts the loss exposures of the primary insurer** | |
|  | |
| **Term**   |  | | --- | | **monopolistic state fund** | | **Definition**   |  | | --- | | **a state workers compensation insurance plan that is the only source of workers compensation insurance allowed in that state** | |
|  | |
| **Term**   |  | | --- | | **competitive state fund** | | **Definition**   |  | | --- | | **a state workers compensation insurance plan that competes with private insurers to provide workers compensation insurance** | |
|  | |
| **Term**   |  | | --- | | **residual market plan (shared market plan)** | | **Definition**   |  | | --- | | **a program that makes insurance available to those who cannot obtain coverage because private insurers will not voluntarily provide such**  **coverage for various reasons** | |
|  | |
| **Term**   |  | | --- | | **guaranty fund** | | **Definition**   |  | | --- | | **a state fund that provides a system to pay the claims of insolvent insurers; the money comes from assessments collected from all insurers licensed in the state** | |
|  | |
| **Term**   |  | | --- | | **National Association of Insurance Commissioners (NAIC)** | | **Definition**   |  | | --- | | **"an association consisting of the commissioners of the insurance departments of each state, the District of Columbia, and US territories and possessions; it coordinates insurance regulation activities among the**  **various insurance departments"** | |
|  | |
| **Term**   |  | | --- | | **model law** | | **Definition**   |  | | --- | | **"a document drafted by the NAIC, in a style similar to a state statute, that reflects the NAIC's proposed solution to a given problem and provides a common basis to the states for drafting laws that affect the insurance industry"** | |
|  | |
| **Term**   |  | | --- | | **ratemaking** | | **Definition**   |  | | --- | | **the process insurers used to calculate the rates that determine the**  **premium for insurance coverage** | |
|  | |
| **Term**   |  | | --- | | **rate** | | **Definition**   |  | | --- | | **the price of insurance for each unit of exposure; it's multiplied by the number of exposure units to arrive at a premium** | |
|  | |
| **Term**   |  | | --- | | **premium** | | **Definition**   |  | | --- | | **a periodic payment by an insured to an insurance company in exchange**  **to insurance coverage** | |
|  | |
| **Term**   |  | | --- | | **actuary** | | **Definition**   |  | | --- | | **a person who uses complex mathematical methods and technology to analyze loss data and other statistics and to develop systems for**  **determining insurance rates** | |
|  | |
| **Term**   |  | | --- | | **actuarial equity** | | **Definition**   |  | | --- | | **a ratemaking concept through which actuaries base rates on actuarially calculated loss experience and place insureds with similar characteristics**  **in the same rating class** | |
|  | |
| **Term**   |  | | --- | | **social equity** | | **Definition**   |  | | --- | | **a rating concept that considers rates to be unfairly discriminatory if they penalize an insured for characteristics (such as age or gender) that are beyond the insured's control** | |
|  | |
| **Term**   |  | | --- | | **unfair discrimination** | | **Definition**   |  | | --- | | **involves applying different standards or methods of treatment to**  **insureds who have the same basic characteristics and loss potential** | |
|  | |
| **Term**   |  | | --- | | **prior-approval law** | | **Definition**   |  | | --- | | **rates must be approved by the state insurance department before**  **they can be used** | |
|  | |
| **Term**   |  | | --- | | **flex rating law** | | **Definition**   |  | | --- | | **prior approval is required only if the new rates are a specified percentage above or below previously filed rates** | |
|  | |
| **Term**   |  | | --- | | **file-and-use law** | | **Definition**   |  | | --- | | **rates must be filed by do not have to be approved before use** | |
|  | |
| **Term**   |  | | --- | | **use-and-file law** | | **Definition**   |  | | --- | | **rates must be filed within a specified period after they are first used**  **in the state** | |
|  | |
| **Term**   |  | | --- | | **open competition** | | **Definition**   |  | | --- | | **(also called no-file) rates do not have to be filed with the state** | |
|  | |
| **Term**   |  | | --- | | **state-mandated rate** | | **Definition**   |  | | --- | | **state-specified rates must be used by all insurers of a particular type of insurance in the state** | |
|  | |
| **Term**   |  | | --- | | **solvency** | | **Definition**   |  | | --- | | **"the ability of an insurance company to meet its financial obligations**  **as they become due, even those resulting from insured losses that**  **might be claimed several years in the future"** | |
|  | |
| **Term**   |  | | --- | | **solvency surveillance** | | **Definition**   |  | | --- | | **"the process, conducted by state insurance regulators, of verifying the solvency of insurance companies and determining whether the financial condition of insurers enables them to meet their obligations and to**  **remain in business in the long term"** | |
|  | |
| **Term**   |  | | --- | | **Insurance Regulatory Information System (IRIS)** | | **Definition**   |  | | --- | | **begun in the early 1970s as the Early Warning System; it is an analytical system designed by the NAIC to monitor an insurer's overall financial condition** | |
|  | |
| **Term**   |  | | --- | | **licensed (admitted) insurer** | | **Definition**   |  | | --- | | **is authorized by the state insurance department to transact business**  **within that state** | |
|  | |
| **Term**   |  | | --- | | **domestic insurer** | | **Definition**   |  | | --- | | **is incorporated in the same state in which it is transacting business** | |
|  | |
| **Term**   |  | | --- | | **foreign insurer** | | **Definition**   |  | | --- | | **licensed to operated in a state but is incorporated in another state** | |
|  | |
| **Term**   |  | | --- | | **alien insurer** | | **Definition**   |  | | --- | | **is licensed in a US state but incorporated in another country** | |
|  | |
| **Term**   |  | | --- | | **market conduct regulation** | | **Definition**   |  | | --- | | **"consists of state laws that regulate the practices of insurers in regard to four areas of operation: sales and advertising, underwriting, ratemaking,**  **and claim handling"** | |
|  | |
| **Term**   |  | | --- | | **standard market** | | **Definition**   |  | | --- | | **refers collectively to insurers who voluntarily offer insurance coverage at rates designed for customers with average or better-than-average loss exposures** | |
|  | |
| **Term**   |  | | --- | | **excess and surplus lines (E&S insurance)** | | **Definition**   |  | | --- | | **"consists of insurance coverages, usually unavailable in the standard**  **market, that are written by unlicensed insurers"** | |
|  | |
| **Term**   |  | | --- | | **nonadmitted (unlicensed) insurer** | | **Definition**   |  | | --- | | **insurers that are not licensed in many of the states in which they operate and that write E&S insurance coverage** | |
|  | |
| **Term**   |  | | --- | | **written premium** | | **Definition**   |  | | --- | | **premiums on policies put into effect during a given period** | |
|  | |
| **Term**   |  | | --- | | **earned premium** | | **Definition**   |  | | --- | | **the portion of the written premium that applies to the part of the policy period that has already occurred** | |
|  | |
| **Term**   |  | | --- | | **unearned premium** | | **Definition**   |  | | --- | | **the portion of the written premium that applies to the part of the policy period that has not yet occurred** | |
|  | |
| **Term**   |  | | --- | | **paid loss** | | **Definition**   |  | | --- | | **claim payment that an insurer has made** | |
|  | |
| **Term**   |  | | --- | | **incurred loss** | | **Definition**   |  | | --- | | **the sum of paid losses and changes in loss reserves** | |
|  | |
| **Term**   |  | | --- | | **loss reserve** | | **Definition**   |  | | --- | | **amounts designated by insurance companies to pay claims for losses that have already occurred but are not yet settled; it is the insurer's best**  **estimate of the total amount that it will pay in the future for a loss**  **that has already occurred** | |
|  | |
| **Term**   |  | | --- | | **net underwriting gain or loss** | | **Definition**   |  | | --- | | **earned premiums minus losses and underwriting expenses for a specific period** | |
|  | |
| **Term**   |  | | --- | | **overall gain or loss from operations** | | **Definition**   |  | | --- | | **net underwriting gain or loss plus net investment gain results (or minus investment loss results)** | |
|  | |
| **Term**   |  | | --- | | **asset (in financial statements)** | | **Definition**   |  | | --- | | **property (both tangible and intangible) owned by an entity (the insurance company)** | |
|  | |
| **Term**   |  | | --- | | **admitted asset** | | **Definition**   |  | | --- | | **"types of property, such as cash and stocks, that regulators allow**  **insurers to show as assets on their financial statements; such assets are easily convertible to cash at or near the property's market value"** | |
|  | |
| **Term**   |  | | --- | | **nonadmitted asset** | | **Definition**   |  | | --- | | **"types of property, such as office furniture and equipment, that insurance regulators do not allow insurers to show as assets on financial statements because these assets cannot readily be converted to cash at or near their market value"** | |
|  | |
| **Term**   |  | | --- | | **liabilities (in financial statements)** | | **Definition**   |  | | --- | | **"financial obligations, or debts, owed by a company to another entity, usually the policyholder in the case of an insurance company"** | |
|  | |
| **Term**   |  | | --- | | **unearned premium reserve** | | **Definition**   |  | | --- | | **the total of an insurer's unearned premiums on all policies at a particular time** | |
|  | |
| **Term**   |  | | --- | | **policyholders' surplus** | | **Definition**   |  | | --- | | **equal to total admitted assets minus total liabilities** | |
|  | |
| **Term**   |  | | --- | | **balance sheet** | | **Definition**   |  | | --- | | **"a type of financial statement that shows a company's financial position at a particular point in time and includes the company's admitted assets, liabilities and policyholders' surplus"** | |
|  | |
| **Term**   |  | | --- | | **income statement** | | **Definition**   |  | | --- | | **"a type of financial statement that shows a company's revenues,**  **expenses, and net income for a particular period, usually one year"** | |
|  | |
| **Term**   |  | | --- | | **loss ratio** | | **Definition**   |  | | --- | | **calculated by dividing an insurer's incurred losses (including loss expenses) for a given period by its earned premiums for the same period** | |
|  | |
| **Term**   |  | | --- | | **expense ratio** | | **Definition**   |  | | --- | | **calculated by dividing an insurer's incurred underwriting expenses for a given period by its written premiums for the same period** | |
|  | |
| **Term**   |  | | --- | | **combined ratio** | | **Definition**   |  | | --- | | **the sum of the loss ratio and the expense ratio** | |
|  | |
| **Term**   |  | | --- | | **investment income ratio** | | **Definition**   |  | | --- | | **calculated by dividing net investment income by earning premiums for a particular period** | |
|  | |
| **Term**   |  | | --- | | **overall operating ratio** | | **Definition**   |  | | --- | | **calculated by subtracting the investment income ratio from the combined ratio** | |
|  | |
| **Term**   |  | | --- | | **capacity ratio or premium-to-surplus ratio** | | **Definition**   |  | | --- | | **calculated by dividing written premiums**  **by policyholders' surplus** | |
|  | |
| **Term**   |  | | --- | | **marketing** | | **Definition**   |  | | --- | | **"the process of identifying customers and**  **their needs and then creating, pricing,**  **promoting, selling, and distributing**  **products or services to meet those**  **needs"** | |
|  | |
| **Term**   |  | | --- | | **producer** | | **Definition**   |  | | --- | | **any person who sells insurance products for an insurance company or companies** | |
|  | |
| **Term**   |  | | --- | | **agency** | | **Definition**   |  | | --- | | **"a legal relationship that is formed when one party, the principal,**  **authorizes another party, the agent, to act as a legal representative**  **of the principal"** | |
|  | |
| **Term**   |  | | --- | | **principal** | | **Definition**   |  | | --- | | **the party that authorizes the agent to act on its behalf in an agency relationship** | |
|  | |
| **Term**   |  | | --- | | **agent** | | **Definition**   |  | | --- | | **the party that is authorized by the principal to act on the principal's**  **behalf in an agency relationship** | |
|  | |
| **Term**   |  | | --- | | **insurance agent** | | **Definition**   |  | | --- | | **legal representatives of the insurance company for which they have contractual agreements to sell insurance** | |
|  | |
| **Term**   |  | | --- | | **agency contract (agency agreement)** | | **Definition**   |  | | --- | | **"a written agreement between an insurance company and an agent that specifies, among other things, the scope of the agent's authority to**  **conduct business for the insurer"** | |
|  | |
| **Term**   |  | | --- | | **errors and omissions (E&O)** | | **Definition**   |  | | --- | | **negligent acts committed by a person in the conduct of the insurance business that give rise to legal liability for damages; these claims can also arise from a failure to act that creates legal liability** | |
|  | |
| **Term**   |  | | --- | | **express authority** | | **Definition**   |  | | --- | | **authority that the principal specifically grants to the agent** | |
|  | |
| **Term**   |  | | --- | | **binding authority** | | **Definition**   |  | | --- | | **"usually granted in the agency contract, this is the authority of an**  **insurance agent to effect coverage on behalf of an particular insurer"** | |
|  | |
| **Term**   |  | | --- | | **binder** | | **Definition**   |  | | --- | | **a temporary contract of insurance that can be either written or oral** | |
|  | |
| **Term**   |  | | --- | | **implied authority** | | **Definition**   |  | | --- | | **"authority that arises from actions of the agent that are in accord with accepted custom and are considered to be within the scope of authority granted by the principal, even though such authority is not expressly**  **granted orally or in an agency contract"** | |
|  | |
| **Term**   |  | | --- | | **apparent authority** | | **Definition**   |  | | --- | | **authority based on a third party's reasonable belief that an agent has authority to act on behalf of the principal** | |
|  | |
| **Term**   |  | | --- | | **independent agency** | | **Definition**   |  | | --- | | **"an independent firm that sells insurance, usually as a representative of several unrelated insurance companies"** | |
|  | |
| **Term**   |  | | --- | | **independent agent** | | **Definition**   |  | | --- | | **a producer who works for an independent agency** | |
|  | |
| **Term**   |  | | --- | | **agency expiration list** | | **Definition**   |  | | --- | | **the record of an insurance agency's present policyholders and the**  **dates their policies expire** | |
|  | |
| **Term**   |  | | --- | | **(insurance) broker** | | **Definition**   |  | | --- | | **an independent business owner or firm that sells insurance by**  **representing customers rather than insurers** | |
|  | |
| **Term**   |  | | --- | | **managing general agency (MGA)** | | **Definition**   |  | | --- | | **an independent business organization that appoints and supervises independent agents for insurance companies that use the independent agency system; it functions almost as a branch office for one or more insurance companies** | |
|  | |
| **Term**   |  | | --- | | **exclusive agent** | | **Definition**   |  | | --- | | **an agent that has a contract to sell insurance exclusively for one**  **insurance company (or a group of related companies)** | |
|  | |
| **Term**   |  | | --- | | **direct writing system** | | **Definition**   |  | | --- | | **uses sales representatives who are employees of an insurance company** | |
|  | |
| **Term**   |  | | --- | | **direct writer** | | **Definition**   |  | | --- | | **uses the direct writing system to market insurance** | |
|  | |
| **Term**   |  | | --- | | **direct response system** | | **Definition**   |  | | --- | | **"includes any insurance marketing system that does not depend**  **primarily on individual producers to locate customers and sell**  **insurance but relies primarily on mail, phone, and/or internet sales"** | |
|  | |
| **Term**   |  | | --- | | **mixed marketing system** | | **Definition**   |  | | --- | | **refers to the use by an insurer of more than one marketing system** | |
|  | |
| **Term**   |  | | --- | | **(sales) commission** | | **Definition**   |  | | --- | | **a percentage of the premium that the insurer pays to the agency or**  **producer for new policies sold or existing policies renewed** | |
|  | |
| **Term**   |  | | --- | | **contingent commission** | | **Definition**   |  | | --- | | **"a commission that an insurer pays, usually annually, to an independent agency and that is based on the premium volume and profitability level of the agency's business with that insurer"** | |
|  | |
| **Term**   |  | | --- | | **marketing representative** | | **Definition**   |  | | --- | | **"insurance company employees whose role is to visit agents representing the insurer, to develop and maintain sound working relationships**  **with those agents, and to motivate the agents to produce a satisfactory volume of profitable business for the insurer"** | |
|  | |
| **Term**   |  | | --- | | **production underwriter** | | **Definition**   |  | | --- | | **insurance company employees who work in an insurer's office in an underwriting position but who also travel to visit and maintain rapport**  **with agents and sometimes clients** | |
|  | |
| **Term**   |  | | --- | | **unfair trade practices laws** | | **Definition**   |  | | --- | | **state laws that specify certain prohibited business practices** | |
|  | |
| **Term**   |  | | --- | | **rebating** | | **Definition**   |  | | --- | | **"offering anything of value, other than the insurance itself, to an**  **applicant as an inducement to buy or maintain insurance"** | |
|  | |
| **Term**   |  | | --- | | **underwriting** | | **Definition**   |  | | --- | | **"the process of selecting insureds, pricing coverage, determining**  **insurance policy terms and conditions, and then monitoring the underwriting decisions made"** | |
|  | |
| **Term**   |  | | --- | | **underwriter** | | **Definition**   |  | | --- | | **"an insurance company employee who evaluates applicants for insurance, selects those that are acceptable to the insurer, prices coverage, and determines policy terms an conditions"** | |
|  | |
| **Term**   |  | | --- | | **adverse selection** | | **Definition**   |  | | --- | | **a situation that occurs because people with the greatest probability of**  **loss are the ones most likely to purchase insurance; it normally occurs**  **if the premium is low relative to the loss exposure** | |
|  | |
| **Term**   |  | | --- | | **capacity** | | **Definition**   |  | | --- | | **"refers to the amount of business an insurer is able to write, usually**  **based on a comparison of the insurer's written premiums to the size of**  **its policyholders' surplus; an insurer must have adequate policyholders' surplus to be able to increase the volume of insurance it writes"** | |
|  | |
| **Term**   |  | | --- | | **commensurate with the exposure** | | **Definition**   |  | | --- | | **a relationship between the premium and the exposure where the size of**  **the premium is appropriate for the exposure assumed by the insurer** | |
|  | |
| **Term**   |  | | --- | | **class rate or manual rate** | | **Definition**   |  | | --- | | **"rates that apply to all insureds in the same rating category, or rating**  **class; insureds with similar loss exposures are grouped into rating classes"** | |
|  | |
| **Term**   |  | | --- | | **merit rating plan** | | **Definition**   |  | | --- | | **rating plans that modify class rates to reflect loss characteristics of a particular insured** | |
|  | |
| **Term**   |  | | --- | | **individual rate or specific rate** | | **Definition**   |  | | --- | | **used to assign a specific insurance rate that reflects the unique characteristics of an insured or the insured's property** | |
|  | |
| **Term**   |  | | --- | | **judgment rate** | | **Definition**   |  | | --- | | **a type of individual rate used to develop a premium for a unique**  **exposure for which there is no established rate; the underwriter relies heavily on his experience** | |
|  | |
| **Term**   |  | | --- | | **standard form** | | **Definition**   |  | | --- | | **"insurance forms that contain standardized policy wording; they are developed by insurance advisory organizations, although some insurers develop their own"** | |
|  | |
| **Term**   |  | | --- | | **book of business (portfolio)** | | **Definition**   |  | | --- | | **"a group of policies with a common characteristic, such as territory or**  **type of coverage; it can also refer to all policies written by a particular insurer or agency"** | |
|  | |
| **Term**   |  | | --- | | **treaty reinsurance** | | **Definition**   |  | | --- | | **an arrangement whereby a reinsurer agrees to reinsure automatically a portion of all eligible insurance of the primary insurer** | |
|  | |
| **Term**   |  | | --- | | **facultative reinsurance** | | **Definition**   |  | | --- | | **involves a separate transaction for each reinsured policy; each policy is evaluated individually** | |
|  | |
| **Term**   |  | | --- | | **underwriting authority** | | **Definition**   |  | | --- | | **the limit on decisions that an underwriter can make without receiving approval from someone at a higher level** | |
|  | |
| **Term**   |  | | --- | | **decentralized** | | **Definition**   |  | | --- | | **"activities are moved away from a central location; processes and**  **decision-making authority are moved geographically closer to the**  **insured, usually to a field office"** | |
|  | |
| **Term**   |  | | --- | | **centralized** | | **Definition**   |  | | --- | | **activities are in a central location; many decisions are made in the home office** | |
|  | |
| **Term**   |  | | --- | | **underwriting audit** | | **Definition**   |  | | --- | | **a process in which members of the home office underwriting department examine files to see whether underwriters are following underwriting guidelines** | |
|  | |
| **Term**   |  | | --- | | **expert system (knowledge based system)** | | **Definition**   |  | | --- | | **"computer software programs that supplement the underwriting**  **decision-making process; it asks for information necessary to make an underwriting decision, ensuring that no necessary information is overlooked"** | |
|  | |
| **Term**   |  | | --- | | **hazard** | | **Definition**   |  | | --- | | **conditions that increase the chance of a loss occurring** | |
|  | |
| **Term**   |  | | --- | | **physical hazard** | | **Definition**   |  | | --- | | **"tangible characteristics of property, persons, or operations that tend to increase the probably frequency or severity of loss"** | |
|  | |
| **Term**   |  | | --- | | **moral hazard** | | **Definition**   |  | | --- | | **dishonest tendencies in the character of the insured (or applicant) that increase the probability of a loss occurring** | |
|  | |
| **Term**   |  | | --- | | **morale hazard (attitudinal hazard)** | | **Definition**   |  | | --- | | **"involve carelessness about, or indifference to, potential loss on the**  **part of an insured or applicant"** | |
|  | |
| **Term**   |  | | --- | | **legal hazard** | | **Definition**   |  | | --- | | **characteristic of the legal/regulatory environment that affect an insurer's ability to collect a premium commensurate with the exposure to loss** | |
|  | |
| **Term**   |  | | --- | | **claim** | | **Definition**   |  | | --- | | **a demand by a person or business seeking to recover from an insurance company for a loss that might be covered by an insurance policy** | |
|  | |
| **Term**   |  | | --- | | **claim representative (adjuster)** | | **Definition**   |  | | --- | | **"a person responsible for investigating, evaluating and settling claims"** | |
|  | |
| **Term**   |  | | --- | | **claimant** | | **Definition**   |  | | --- | | **anyone who submits a claim to an insurance company; can be a first**  **party or a third party** | |
|  | |
| **Term**   |  | | --- | | **reservation of rights letter** | | **Definition**   |  | | --- | | **a notice sent by the insurer to an insured advising that the insurer is proceeding with investigation of a claim but that the insurer retains**  **the right to deny coverage later** | |
|  | |
| **Term**   |  | | --- | | **staff claim representative** | | **Definition**   |  | | --- | | **an insurance company employee who performs some or all of the**  **insurer's claim handling activities** | |
|  | |
| **Term**   |  | | --- | | **inside claim representative** | | **Definition**   |  | | --- | | **"an insurance company employee who handles claims that can be**  **settled, usually by telephone or letter, from inside the insurer's office"** | |
|  | |
| **Term**   |  | | --- | | **outside claim representative (field claim representative)** | | **Definition**   |  | | --- | | **an insurance company employee who handles claims that cannot**  **be handled easily by phone or mail** | |
|  | |
| **Term**   |  | | --- | | **independent adjuster** | | **Definition**   |  | | --- | | **independent claim representatives who offer claim handling services to insurance companies for a fee** | |
|  | |
| **Term**   |  | | --- | | **draft authority** | | **Definition**   |  | | --- | | **authority expressly given to an agent by an insurer to settle and pay**  **certain types of claims by writing a claim draft up to a specified limit** | |
|  | |
| **Term**   |  | | --- | | **public adjuster** | | **Definition**   |  | | --- | | **a person hired by an insured to represent the insured in handling a claim** | |
|  | |
| **Term**   |  | | --- | | **self-insurance plan** | | **Definition**   |  | | --- | | **"an arrangement in which an organization pays for its losses with its own resources rather than purchasing insurance, however, the organization**  **may choose to buy insurance for losses exceeding a certain limit"** | |
|  | |
| **Term**   |  | | --- | | **third-party administrator (TPA)** | | **Definition**   |  | | --- | | **business firms that contract to provide administrative services to other businesses (often contracted by business with self-insurance plans)** | |
|  | |
| **Term**   |  | | --- | | **insurable interest** | | **Definition**   |  | | --- | | **exists if a person or other entity has any right to or interest in the property such that a loss to that property would cause a direct monetary loss**  **to that person or entity** | |
|  | |
| **Term**   |  | | --- | | **actual cash value (ACV)** | | **Definition**   |  | | --- | | **the replacement cost of property minus depreciation** | |
|  | |
| **Term**   |  | | --- | | **replacement cost** | | **Definition**   |  | | --- | | **the cost to repair or replace property using new materials of like kind and quality with no deduction for depreciation** | |
|  | |
| **Term**   |  | | --- | | **depreciation** | | **Definition**   |  | | --- | | **an allowance for physical wear and tear or technological or economic obsolescence** | |
|  | |
| **Term**   |  | | --- | | **agreed value** | | **Definition**   |  | | --- | | **"a method of valuing property in which the insurer and the insured agree**  **on the value of the property at the time the policy is written, and that amount is stated in the policy declarations and is the amount the insurer**  **will pay in the event of a total loss to the property"** | |
|  | |
| **Term**   |  | | --- | | **subrogation** | | **Definition**   |  | | --- | | **the insurer's right to recover payment from a negligent third party** | |
|  | |
| **Term**   |  | | --- | | **salvage rights** | | **Definition**   |  | | --- | | **the rights of the insurer to recover and sell or otherwise dispose of**  **insured property on which the insurer has paid a total loss or a**  **constructive total loss** | |
|  | |
| **Term**   |  | | --- | | **constructive total loss** | | **Definition**   |  | | --- | | **exists when a vehicle (or other property) cannot be repaired for less**  **than its actual cash value minus the anticipated salvage value** | |
|  | |
| **Term**   |  | | --- | | **damages** | | **Definition**   |  | | --- | | **refer to a monetary award that one party is required to pay to another who has suffered loss or injury for which the first party is legally responsible** | |
|  | |
| **Term**   |  | | --- | | **compensatory damages** | | **Definition**   |  | | --- | | **"damages, which include both special and general damages, that are intended to compensate a victim for harm actually suffered"** | |
|  | |
| **Term**   |  | | --- | | **special damages** | | **Definition**   |  | | --- | | **"compensatory damages allowed for specific, out-of-pocket expenses, such as doctor and hospital bills"** | |
|  | |
| **Term**   |  | | --- | | **general damages** | | **Definition**   |  | | --- | | **"compensatory damages awarded for losses, such as pain and suffering, that do not have a specific economic value"** | |
|  | |
| **Term**   |  | | --- | | **punitive damages** | | **Definition**   |  | | --- | | **"damages awarded by a court to punish wrong-doers who, through malicious or outrageous actions, cause injury or damage to others"** | |
|  | |
| **Term**   |  | | --- | | **unfair claim practices laws** | | **Definition**   |  | | --- | | **state laws that specify claim practices that are illegal** | |
|  | |
| **Term**   |  | | --- | | **contract** | | **Definition**   |  | | --- | | **a complete written contract of insurance** | |
|  | |
| **Term**   |  | | --- | | **policy** | | **Definition**   |  | | --- | | **a legally enforceable agreement between two or more parties** | |
|  | |
| **Term**   |  | | --- | | **agreement** | | **Definition**   |  | | --- | | **offer and acceptance** | |
|  | |
| **Term**   |  | | --- | | **consideration** | | **Definition**   |  | | --- | | **an exchange of something of value that is required in any valid contract** | |
|  | |
| **Term**   |  | | --- | | **conditional contract** | | **Definition**   |  | | --- | | **a contract in which one or more parties must perform only under certain conditions** | |
|  | |
| **Term**   |  | | --- | | **utmost good faith** | | **Definition**   |  | | --- | | **an obligation to act in complete honesty** | |
|  | |
| **Term**   |  | | --- | | **concealment** | | **Definition**   |  | | --- | | **an intentional failure to disclose a material fact** | |
|  | |
| **Term**   |  | | --- | | **material fact** | | **Definition**   |  | | --- | | **any information that would affect the insurer's underwriting decision to provide or maintain insurance or that would affect a claim settlement** | |
|  | |
| **Term**   |  | | --- | | **misrepresentation** | | **Definition**   |  | | --- | | **a false statement of a material fact** | |
|  | |
| **Term**   |  | | --- | | **contract of adhesion** | | **Definition**   |  | | --- | | **a contract in which one party (the insured) must adhere to the agreement as written by the other party (the insurer)** | |
|  | |
| **Term**   |  | | --- | | **contract of indemnity** | | **Definition**   |  | | --- | | **"the insurer agrees, in the event of a covered loss, to pay an amount directly related to the amount of the loss"** | |
|  | |
| **Term**   |  | | --- | | **principle of indemnity** | | **Definition**   |  | | --- | | **states that the insured should not be better off financially after a loss than before** | |
|  | |
| **Term**   |  | | --- | | **valued policy** | | **Definition**   |  | | --- | | **"a policy in which the insurer pays a stated amount in the event of a specified loss, regardless of the actual value of the loss"** | |
|  | |
| **Term**   |  | | --- | | **"declarations page (declarations, dec)"** | | **Definition**   |  | | --- | | **an information page that provides specific details about the insured and the subject of the insurance** | |
|  | |
| **Term**   |  | | --- | | **insuring agreement** | | **Definition**   |  | | --- | | **"a statement that the insurer will, under certain circumstances, make a payment or provide a service"** | |
|  | |
| **Term**   |  | | --- | | **exclusion** | | **Definition**   |  | | --- | | **policy provisions that eliminate coverage for specified exposures** | |
|  | |
| **Term**   |  | | --- | | **manuscript policy** | | **Definition**   |  | | --- | | **an insurance policy that is specifically drafted according to terms negotiated between a specific insured (or group of insureds) and an insurer** | |
|  | |
| **Term**   |  | | --- | | **self-contained policy** | | **Definition**   |  | | --- | | **a single document that contains all the agreements between the insurer and the insured and that forms a complete policy by itself** | |
|  | |
| **Term**   |  | | --- | | **endorsement** | | **Definition**   |  | | --- | | **a document that amends an insurance policy in some way** | |
|  | |
| **Term**   |  | | --- | | **modular policy** | | **Definition**   |  | | --- | | **"consists of several different documents, non of which by itself forms a complete contract"** | |
|  | |
| **Term**   |  | | --- | | **cancellation** | | **Definition**   |  | | --- | | **"refers to the termination of a policy, by either the insurer or the insured, during the policy period"** | |
|  | |
| **Term**   |  | | --- | | **pro rata refund** | | **Definition**   |  | | --- | | **the unused premium (based on the portion of the premium for the number of days remaining in the policy) returned to the insured when a policy is canceled** | |
|  | |
| **Term**   |  | | --- | | **short rate refund** | | **Definition**   |  | | --- | | **"sometimes used when the insured cancels midterm, this is a return of premium less than the pro rata refund would be"** | |
|  | |
| **Term**   |  | | --- | | **liberalization clause** | | **Definition**   |  | | --- | | **"a policy condition that provides that if a policy form is broadened at not additional premium, the broadened coverage automatically applies to all existing policies of the same type"** | |
|  | |
| **Term**   |  | | --- | | **assignment** | | **Definition**   |  | | --- | | **the transfer of rights or interest in a policy to another party by the insured** | |
|  | |
| **Term**   |  | | --- | | **money** | | **Definition**   |  | | --- | | **"currency, coins and bank notes; can also include traveler's checks, credit card slips and money orders held for sale in some cases"** | |
|  | |
| **Term**   |  | | --- | | **securities** | | **Definition**   |  | | --- | | **"written instruments representing either money or other property (i.e., stocks and bonds)"** | |
|  | |
| **Term**   |  | | --- | | **auto (automobile)** | | **Definition**   |  | | --- | | **"a broad term that includes cars, trucks, buses and other motorized vehicles designed for use on public roads"** | |
|  | |
| **Term**   |  | | --- | | **mobile equipment** | | **Definition**   |  | | --- | | **includes many types of land vehicles -- usually designed for use principally off public roads -- including equipment attached to them (this is specifically defined in most commercial insurance policies)** | |
|  | |
| **Term**   |  | | --- | | **recreational vehicles** | | **Definition**   |  | | --- | | **vehicles used for sports and recreational activities** | |
|  | |
| **Term**   |  | | --- | | **cause of loss (peril)** | | **Definition**   |  | | --- | | **the actual means by which property is damaged or destroyed** | |
|  | |
| **Term**   |  | | --- | | **named perils** | | **Definition**   |  | | --- | | **listed and described in the policy; represent the only covered causes of loss** | |
|  | |
| **Term**   |  | | --- | | **open perils (special form coverage) (all-risks)** | | **Definition**   |  | | --- | | **provides coverage for 'risk of direct loss' to property; any direct loss to property is covered unless the cause of loss is specifically excluded in the policy** | |
|  | |
| **Term**   |  | | --- | | **mortgagee (mortgage holder)** | | **Definition**   |  | | --- | | **"a lender that loans money on a home, building or other real property"** | |
|  | |
| **Term**   |  | | --- | | **mortgagor** | | **Definition**   |  | | --- | | **the person or organization that borrows money from a mortgagee to finance the purchase of real property** | |
|  | |
| **Term**   |  | | --- | | **bailee** | | **Definition**   |  | | --- | | **a person or business that holds the property of others for some specific purpose** | |
|  | |
| **Term**   |  | | --- | | **property insurance** | | **Definition**   |  | | --- | | **"any type of insurance that indemnifies an insured who suffers a financial loss because property has been lost, stolen, damaged or destroyed"** | |
|  | |
| **Term**   |  | | --- | | **floater** | | **Definition**   |  | | --- | | **policies that are designed to cover property that moves from location to location** | |
|  | |
| **Term**   |  | | --- | | **friendly fire** | | **Definition**   |  | | --- | | **"a fire that stays in its intended place (i.e., a fireplace)"** | |
|  | |
| **Term**   |  | | --- | | **hostile fire** | | **Definition**   |  | | --- | | **a fire that leaves its intended place** | |
|  | |
| **Term**   |  | | --- | | **proximate cause** | | **Definition**   |  | | --- | | **the event that sets in motion an uninterrupted chain of events contributing to the loss** | |
|  | |
| **Term**   |  | | --- | | **vehicle damage (peril)** | | **Definition**   |  | | --- | | **damage done by a motor vehicle to some other kind of property** | |
|  | |
| **Term**   |  | | --- | | **vandalism** | | **Definition**   |  | | --- | | **willful and malicious damage to or destruction of property** | |
|  | |
| **Term**   |  | | --- | | **sprinkler leakage** | | **Definition**   |  | | --- | | **the accidental leakage or discharge of water or other substance from an automatic sprinkler system** | |
|  | |
| **Term**   |  | | --- | | **sinkhole collapse** | | **Definition**   |  | | --- | | **a cause of loss involving damage by the sudden sinking or collapse of land into underground empty spaces created by the action of water on limestone or dolomite** | |
|  | |
| **Term**   |  | | --- | | **mine subsidence** | | **Definition**   |  | | --- | | **"a cause of loss involving the sinking of ground surface when underground open spaces, resulting from the extraction of coal or other minerals, are gradually filled in by rock and earth from above"** | |
|  | |
| **Term**   |  | | --- | | **volcanic action** | | **Definition**   |  | | --- | | **"a cause of loss by lava flow, ash, dust, particulate matter, airborne volcanic blast, or airborne shock waves resulting from a volcanic eruption"** | |
|  | |
| **Term**   |  | | --- | | **burglary** | | **Definition**   |  | | --- | | **the taking of property from inside a building by someone who unlawfully enters or exits the building** | |
|  | |
| **Term**   |  | | --- | | **robbery** | | **Definition**   |  | | --- | | **the taking of property from a person by someone who has caused or threatened to cause the person harm** | |
|  | |
| **Term**   |  | | --- | | **theft** | | **Definition**   |  | | --- | | **a broad term that means any act of stealing; theft includes burglary and robbery** | |
|  | |
| **Term**   |  | | --- | | **collision** | | **Definition**   |  | | --- | | **covers damage to an insured motor vehicle caused by its impact with another vehicle or object or by its upset or overturn** | |
|  | |
| **Term**   |  | | --- | | **other than collision (comprehensive)** | | **Definition**   |  | | --- | | **"covers losses to a covered auto by fire, theft, vandalism, falling objects, flood and various other perils"** | |
|  | |
| **Term**   |  | | --- | | **specified causes of loss** | | **Definition**   |  | | --- | | **"a less expensive alternative to comprehensive coverage in commercial auto policies; it is a named perils coverage that covers loss to a covered vehicle caused by fire, lightning, theft, windstorm, hail, earthquake, flood, vandalism and other specifically listed perils"** | |
|  | |
| **Term**   |  | | --- | | **direct loss** | | **Definition**   |  | | --- | | **a reduction in the value of property that results directly and often immediately from damage to that property** | |
|  | |
| **Term**   |  | | --- | | **time element loss (indirect loss)** | | **Definition**   |  | | --- | | **includes loss of income or extra expenses resulting from direct loss to property** | |
|  | |
| **Term**   |  | | --- | | **extra expenses** | | **Definition**   |  | | --- | | **expenses that reduce the length of a business interruption or enable a business to continue some operations when the property has been damaged by a covered cause of loss** | |
|  | |
| **Term**   |  | | --- | | **additional living expense** | | **Definition**   |  | | --- | | **a coverage in homeowners policies that indemnifies the insured for the additional expenses that are incurred following a covered property loss so that the household can maintain its normal standard of living while the dwelling is uninhabitable** | |
|  | |
| **Term**   |  | | --- | | **named insured** | | **Definition**   |  | | --- | | **the policyholder whose name(s) appear on the declarations page of an insurance policy** | |
|  | |
| **Term**   |  | | --- | | **first named insured** | | **Definition**   |  | | --- | | **"the person or organization whose name appears first as the named insured on a commercial insurance policy and who, depending on the policy conditions, might be the one responsible for paying premiums and the one who has the right to receive any return premiums, to cancel the policy, and to receive the notice of cancellation or nonrenewal"** | |
|  | |
| **Term**   |  | | --- | | **mortgage clause (mortgage holders clause)** | | **Definition**   |  | | --- | | **"protects the insurable interest of the mortgagee by giving it certain rights, such as the right to be named on claim drafts for losses to insured property and the right to be notified of policy cancellation"** | |
|  | |
| **Term**   |  | | --- | | **loss payee** | | **Definition**   |  | | --- | | **"a lender, named on an insurance policy, who has loaned money on personal property, such as a car"** | |
|  | |
| **Term**   |  | | --- | | **loss payable clause** | | **Definition**   |  | | --- | | **"provides that a loss will be paid to both the insured and the loss payee as their interests appear and gives the loss payee certain rights; however, not as many rights are extended to the lender as the mortgage clause extends"** | |
|  | |
| **Term**   |  | | --- | | **deductible** | | **Definition**   |  | | --- | | **a portion of a covered loss that is not paid by the insurer; it is subtracted from the amount the insurer would otherwise be obligated to pay the insured** | |
|  | |
| **Term**   |  | | --- | | **insurance-to-value provisions** | | **Definition**   |  | | --- | | **"provisions in property insurance policies that encourage insureds to purchase an amount of insurance that is equal to, or close to, the value of the covered property"** | |
|  | |
| **Term**   |  | | --- | | **coinsurance** | | **Definition**   |  | | --- | | **"an insurance-to-value provision in many property insurance policies; if the property is underinsured, this provision reduces the amount than an insurer will pay for a covered loss"** | |
|  | |
| **Term**   |  | | --- | | **legal liability** | | **Definition**   |  | | --- | | **means that a person or organization is legally responsible for injury or damage suffered by another person or organization** | |
|  | |
| **Term**   |  | | --- | | **constitutional law** | | **Definition**   |  | | --- | | **consists of the Constitution itself and all the decisions of the Supreme Court that involve the Constitution** | |
|  | |
| **Term**   |  | | --- | | **statutory law** | | **Definition**   |  | | --- | | **"consists of the formal laws, or statutes, enacted by federal, state, or local legislative bodies"** | |
|  | |
| **Term**   |  | | --- | | **common law (case law)** | | **Definition**   |  | | --- | | **consists of a body of principles and rules established over time by courts on a case-by-case basis** | |
|  | |
| **Term**   |  | | --- | | **criminal law** | | **Definition**   |  | | --- | | **the category of law that applies to wrongful acts that society deems so harmful to the public welfare that government takes the responsibility for prosecuting and punishing the wrongdoers** | |
|  | |
| **Term**   |  | | --- | | **civil law** | | **Definition**   |  | | --- | | **the category of law that deals with the rights and responsibilities of citizens with respect to one another; applies to legal matters not governed by criminal law** | |
|  | |
| **Term**   |  | | --- | | **contract law** | | **Definition**   |  | | --- | | **the branch of civil law that deals with contracts and settles contract disputes** | |
|  | |
| **Term**   |  | | --- | | **tort** | | **Definition**   |  | | --- | | **"a wrongful act, other than a crime or breach of contract, committed by one party against another"** | |
|  | |
| **Term**   |  | | --- | | **tort law** | | **Definition**   |  | | --- | | **the branch of civil law that deals with civil wrongs other than breaches of contract** | |
|  | |
| **Term**   |  | | --- | | **negligence** | | **Definition**   |  | | --- | | **failure to act in a manner that is reasonably prudent; occurs when a person or organization fails to exercise the appropriate degree of care under given circumstances** | |
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| **Term**   |  | | --- | | **tortfeasor** | | **Definition**   |  | | --- | | **"a person, a business, or another party who has committed a tort"** | |
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| **Term**   |  | | --- | | **vicarious liability** | | **Definition**   |  | | --- | | **legal responsibility that occurs when one party is held liable for the actions of another party** | |
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| **Term**   |  | | --- | | **intentional tort** | | **Definition**   |  | | --- | | **a deliberate act (other than a breach of contract) that causes harm to another person** | |
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| **Term**   |  | | --- | | **assault** | | **Definition**   |  | | --- | | **the intentional threat of bodily harm** | |
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| **Term**   |  | | --- | | **battery** | | **Definition**   |  | | --- | | **the unlawful physical contact with another person** | |
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| **Term**   |  | | --- | | **libel** | | **Definition**   |  | | --- | | **a written or printed untrue statement that damages a person's reputation** | |
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| **Term**   |  | | --- | | **slander** | | **Definition**   |  | | --- | | **an oral untrue statement that damages a person's reputation** | |
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| **Term**   |  | | --- | | **false arrest** | | **Definition**   |  | | --- | | **an unlawful physical restraint of another's freedom** | |
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| **Term**   |  | | --- | | **invasion of privacy** | | **Definition**   |  | | --- | | **an encroachment on another person's right to be left alone** | |
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| **Term**   |  | | --- | | **absolute liability (strict liability)** | | **Definition**   |  | | --- | | **"a legal liability that arises from inherently dangerous activities or dangerously defective products that result in injury or harm to another, regardless of how much care was used in the activity; does not require proof of negligence"** | |
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| **Term**   |  | | --- | | **hold harmless agreement** | | **Definition**   |  | | --- | | **a contractual provision that obligates one party to assume the legal liability of another party** | |
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| **Term**   |  | | --- | | **warranty** | | **Definition**   |  | | --- | | **"a promise, either written or implied, such as a promise by a seller to a buyer that a product is fit for a particular purpose"** | |
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| **Term**   |  | | --- | | **statutory liability** | | **Definition**   |  | | --- | | **legal liability imposed by a specific statute or law** | |
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| **Term**   |  | | --- | | **compensatory damages** | | **Definition**   |  | | --- | | **damages intended to compensate a victim for harm actually suffered; include special (specific out-of-pocket) and general (losses w/o specific economic value) damages** | |
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| **Term**   |  | | --- | | **liability insurance** | | **Definition**   |  | | --- | | **covers losses resulting from bodily injury to others or damage to the property of others for which the insured is legally liable and to which the coverage applies** | |
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| **Term**   |  | | --- | | **bodily injury** | | **Definition**   |  | | --- | | **"any physical injury to a person, including sickness, disease and death"** | |
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| **Term**   |  | | --- | | **property damage** | | **Definition**   |  | | --- | | **"physical injury to, destruction of, or loss of use of tangible property"** | |
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| **Term**   |  | | --- | | **personal injury (as used in insurance policies)** | | **Definition**   |  | | --- | | **"injury, other than bodily injury, arising from intentional torts such as libel, slander, or invasion of privacy"** | |
|  | |
| **Term**   |  | | --- | | **litigation expenses** | | **Definition**   |  | | --- | | **"the expenses incurred for legal defense, such as attorneys' fees, expert witness fees, and the cost of legal research"** | |
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| **Term**   |  | | --- | | **supplementary payments** | | **Definition**   |  | | --- | | **"amounts the insurer agrees to pay (in addition to the liability limits) for items such as premiums on bail bonds and appeal bonds, loss of the insured's earnings because of attendance at trials, and other reasonable expenses incurred by the insured at the insurer's request"** | |
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| **Term**   |  | | --- | | **prejudgment interest** | | **Definition**   |  | | --- | | **interest that might accrue on damages before a judgment has been rendered** | |
|  | |
| **Term**   |  | | --- | | **postjudgment interest** | | **Definition**   |  | | --- | | **interest that might accrue on damages after a judgment has been entered in a court and before the money is paid** | |
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| **Term**   |  | | --- | | **medical payments coverage** | | **Definition**   |  | | --- | | **"pays necessary medical expenses incurred within a specified period by a claimant (and in certain policies, by an insured) for a covered injury, regardless of whether the insured was at fault"** | |
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| **Term**   |  | | --- | | **occurrence basis coverage** | | **Definition**   |  | | --- | | **"covers liability claims that occur during the policy period, regardless of when the claim is submitted to the insurer"** | |
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| **Term**   |  | | --- | | **claims-made coverage** | | **Definition**   |  | | --- | | **covers liability claims that are made (submitted) during the policy period for covered events that occur on or after the retroactive date and before the end of the policy period** | |
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| **Term**   |  | | --- | | **retroactive date** | | **Definition**   |  | | --- | | **the date on or after which injury or damage must occur in order to be covered under a claims-made policy** | |
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| **Term**   |  | | --- | | **each person limit** | | **Definition**   |  | | --- | | **the maximum amount an insurer will pay for injury to any one person for a covered loss** | |
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| **Term**   |  | | --- | | **each occurrence limit** | | **Definition**   |  | | --- | | **"the maximum amount an insurer will pay for all covered losses from a single occurrence, regardless of the number of persons injured or the number of parties claiming property damage"** | |
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| **Term**   |  | | --- | | **aggregate limit** | | **Definition**   |  | | --- | | **the maximum amount an insurer will pay for all covered losses during the covered policy period** | |
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| **Term**   |  | | --- | | **split limits** | | **Definition**   |  | | --- | | **separate limits that an insurer will pay for bodily injury and for property damage** | |
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| **Term**   |  | | --- | | **single limit** | | **Definition**   |  | | --- | | **the maximum amount and insurer will pay fro the insured's liability for both bodily injury and property damage that arise from a single occurrence** | |
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| **Term**   |  | | --- | | **risk management** | | **Definition**   |  | | --- | | **"the process of making and implementing decisions to deal with loss exposures; involves identifying loss exposures and then applying various techniques to eliminate, control, finance or transfer those exposures"** | |
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| **Term**   |  | | --- | | **loss exposure survey** | | **Definition**   |  | | --- | | **a risk management tool in the form of a checklist of questionnaire listing potential loss exposures that a household or an organization might face** | |
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| **Term**   |  | | --- | | **flowchart** | | **Definition**   |  | | --- | | **a diagram that depicts the flow of a particular operation or set of related operations within an organization** | |
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| **Term**   |  | | --- | | **loss frequency** | | **Definition**   |  | | --- | | **a term used to indicate how often losses occur or are expected to occur; it is used to predict the likelihood of similar losses in the future** | |
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| **Term**   |  | | --- | | **loss severity** | | **Definition**   |  | | --- | | **refers to the dollar amount of damage that results or might result from loss exposures; used to predict how costly future losses are likely to be** | |
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| **Term**   |  | | --- | | **avoidance** | | **Definition**   |  | | --- | | **a risk management technique that eliminates a loss exposure and reduces the chance of loss to zero** | |
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| **Term**   |  | | --- | | **loss control** | | **Definition**   |  | | --- | | **a risk management technique that attempts to decrease the frequency or severity of losses; includes loss prevention and loss reduction** | |
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| **Term**   |  | | --- | | **loss prevention** | | **Definition**   |  | | --- | | **seeks to lower the frequency of losses; to decrease the number of losses** | |
|  | |
| **Term**   |  | | --- | | **loss reduction** | | **Definition**   |  | | --- | | **seeks to lower the severity of losses that do occur; to decrease the dollar amount of losses** | |
|  | |
| **Term**   |  | | --- | | **retention** | | **Definition**   |  | | --- | | **a risk management technique that involves retaining all or part of a particular loss exposure** | |
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| **Term**   |  | | --- | | **noninsurance transfer** | | **Definition**   |  | | --- | | **a risk management technique in which one party transfers the potential financial consequences of a particular loss exposure to another party that is not an insurance company** | |
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