

Glossary of Common Risk Management Terms

ACORD. Acronym for Agent-Company Organization for Research and Development, an insurance industry organization that drafts and disseminates standardized insurance forms to the property and casualty insurance industry.

Actual cash value (ACV). A valuation method where the value is set at the cost of repairing or replacing the damaged property with property of like kind and quality in the same physical condition. (Replacement cost less depreciation)

Additional insured. An additional insured is a party, who due to contractual or other obligations, is endorsed as an insured onto the "named insured's" insurance policy. Typically, an additional insured is insured by the named insured's policy to the extent that claims arising from or related to the contractual or other obligations delineated in the endorsement to the named insured's insurance policy are covered. Verification is by certificates of insurance with an additional insured endorsement attached.

Adjuster. A person who settles insurance claims. An adjuster may be an insurance company employee or an independent adjuster.

Adjustment. The settlement of a claim.

Agent's authority. The authority placed in an agent by the insurance company; the extent to which the agent may act on behalf of the company. This authority is defined by a contract between the agent and the company.

"All risk". A term commonly used to describe broad forms of property coverage. It is misleading because no property policy truly provides an all-risk coverage. A policy will invariably contain some exclusions.

Appraisal. An estimate of value, loss, or damage.

Assured. The insured; the one for whom insurance is written.

Binder. An agreement, usually written, whereby one party agrees to insure another party pending receipt of a final action upon the application.

Boiler & machinery insurance. Coverage for the failure of boilers, machinery and electrical equipment and can be extended to include consequential and business interruption losses..

Bond. A three-party agreement in which a party called the "surety" obligates itself to a second party – called the "obligee" – to answer for the default, acts or omissions of a third party, called the "principal." A bond can guarantee the performance of the principal under a contract with the obligee, or a bond can protect against the dishonesty of employees (fidelity bond).

Broker. An entity that represents the consumer in negotiating, servicing or effecting insurance policies with insurers.

Builders risk insurance. A property insurance policy that provides direct damage coverage on buildings or structures while they are under construction including fixtures, machinery and equipment used to service the building and materials and supplies used in the construction.

Business interruption. Insurance covering the loss of earnings resulting from the destruction of property; called use and occupancy insurance.

Cancellation. The termination of an insurance contract by either the insurance company or the insured.

Carrier. An insurance company.

Casualty. An accident, occurrence, or event or the person to whom it happens; the general term applied to insurance coverages for an accident, occurrence, or event. Casualty includes liability and workers' compensation.

Certificate of Insurance. A form that delineates the coverage in effect, dates of inception and expiration, limits, and insurance companies for the stated party. The "COI" form, typically a standard ACORD form, is typically signed and dated by an agent of the insurance company(ies) listed on the form. Contrary to some opinions, COI's convey little or no legal rights to their bearers. A COI is only a "point-in-time" certification by the signatory that the stated coverage was in effect on the date signed.

Claim. A demand by the insured or another party for payment for a loss under an insurance contract/policy, or self-insurance.

Coinsurance. Two or more entities providing insurance protection and sharing in losses.

Combined ratio. A formula used by insurance companies to relate income to claims, administration and dividend expenses. Formula: Combined Ratio= Loss Ratio + Expense Ratio + Dividend Ratio. A ratio of .96 means 4 cents in underwriting profit.

Commercial general liability form (CGL). An insurance policy form introduced in 1986 to replace the comprehensive general liability policy.

Comparative negligence. The apportionment of damages when both the plaintiff and defendant are at fault. Recovery is based on the degree of each party's negligence

Compensation. Wages, salaries, awards, fees or commissions; any return in payment for a financial loss.

Consequential damage. Damage to or destruction of property from a peril that is not the immediate cause of loss.

Contributory negligence. Claimant responsibility for one's own injury or damage which can be a bar to damage recovery.

Coverage. The insurance protection provided by the policy.

Crime coverages. A term which can apply to insurance for losses involving the taking of money, securities and other property by an individual. Included are employee dishonesty, forgery, theft, robbery, burglary, and fraud insurance coverages.

Declarations. That part of an insurance policy containing the information about the applicant listed on the insurance application.

Deductible. An amount the insured is responsible for before insurance benefits are paid.

Defense clause. A liability insurance policy provision that the insurer will have the right and duty to defend any suit against the insured, even if the suit is false or fraudulent.

Discovery. A legal term for the right of a party to litigation to determine information of consequence by questioning and/or review of documents in the other party's possession.

Effective date. The date a policy is put in force; the inception date.

Endorsement. A written amendment affecting the declaration, insuring agreements, exclusions, or conditions of an insurance policy; a rider.

Examiner. An individual who reviews, evaluates and processes claims.

Excess liability insurance. Insurance coverage that is written in excess of primary insurance or self-insured retention to increase the limits of coverage.

Exclusion. That which is expressly eliminated from the coverage under an insurance policy.

Expense ratio. A formula used by insurance companies to relate income to administrative expenses. Expenses (excluding losses, loss adjusting expenses and policy holder dividends)/Earned premiums.

Expiration date. The date an insurance policy terminates.

Exposure. Person or property, to which an injury or damage will cause an economic loss.

Group insurance. Insurance covering a group of employees.

Hazards. A condition that creates or increases the probability of a loss.

Health insurance. Commonly called accident and health insurance, protection against financial loss from a personal accident or illness.

Hold harmless agreement. A provision in contracts which provide that one party to the contract will assume whatever liability arises under or because of the contract for the other.

Hull policy. An aviation contract that indemnifies the insured for damages to or loss of the hull of an aircraft.

Incurred loss. A loss that, while not yet fully paid, has been sustained and for which reserves have been established to pay in the future.

Incurred but not reported (IBNR). A term used to refer to losses occurring over a specified period that have not been reported to the insurer.

Indemnity. Insurance protection that will place the insured in the same financial position as before a loss was sustained.

Inspection. An examination by those having authority. An insurance company usually reserves the right to inspect any property it insures.

Insurance. Protection against loss. The insured sacrifices a small certain loss (the premium) for protection against a large uncertain loss (e.g., an accident, fire or death). The insurance company assumes the risk by employing the law of large numbers and the principle of risk spreading.

Insured. The entity whose life or property is protected by the insurance. The one for whom insurance is written.

Lapse. To fail to continue an insurance policy; to cease to provide insurance protection.

Large loss principle. A loss that would exceed an entity's ability to absorb (finance) the loss. Such losses are generally transferred by obtaining insurance coverage.

Liability. Being bound by law and justice to do something that may be enforced by the courts.

Limits. The value or amount of a policy; the greatest amount that can be collected under the policy.

Loss. In insurance, the amount the insurer is required to pay because of the insured's loss.

Loss Control. Involves both loss prevention and loss reduction. Taking action to reduce the frequency of loss occurrences and to minimize the (severity) financial impact of a loss.

Multi-peril insurance. An insurance policy that provides coverage against many perils. Sometimes called a package policy.

Named insured. A named insured is a party who is a primary insured on a "named insured's" insurance policy. The named insured is the party who is covered by the insuring agreement of the policy and who is bound by the terms and conditions of the policy, including premium payment. For ease of administration, many insurance companies designate a "first named insured" on a policy as the default point-of-contact and decision-making authority between the insurance company and the policyholder(s).

Occurrence. An event or a continuance of a repeated exposure to conditions that results in injury.

Peril. Anything that may cause a loss.

Permanent partial disability (PPD). A disability which prevents individuals for the remainder of their lives from performing one or more functions of their occupation but does not impair their capability of performing less demanding work.

Permanent total disability (PTD). A disability which prevents individuals for the remainder of their lives from performing any duty pertaining to their occupation and does not allow them to perform any other employment.

Policy. A legal contract of insurance.

Policyholder. The owner of the policy; the one who purchases the policy and pays the premiums.

Policy period. The term for which insurance remains in force, sometimes definite, sometimes not.

Premium. The cost of an insurance policy; the charge the policyholder pays for the insurance protection.

Preferred Provider Organization (PPO). A comprehensive network of hospitals, physicians, dentists, clinics, etc. to provide medical services on a contractual, predetermined fee basis in a health or workers compensation plan, providing significant discounts on medical treatment.

Present value. The amount that if invested today at a reasonably likely rate of return would equal some future payment.

Property. The thing owned; real property is real estate and things attached to it; anything else is personal property.

Property damage. Physical damage to property.

Rate. Cost per unit of insurance.

Reinstate. To restore coverage after it has been canceled or suspended.

Reinsurance. "Insurance of insurance." Insurance placed by an underwriter in another company to reduce the amount of the risk his or her company has assumed. Reinsurance insures the insurance company. The reinsure has no duty to cover the underlying policyholders.

Renew. To continue; to replace, as with a new policy.

Rider. An endorsement.

Self-insurance. An alternative to the purchase of insurance whereby, an organization maintains a reserve fund for self-protection against a loss. The most primitive form of self-insurance is no insurance (i.e., "unfunded self-insurance").

Self-insured retention (SIR). The portion of a risk or potential loss assumed by an entity. The SIR differs from a deductible as the insured performs all the functions normally undertaken by an insurance company within the SIR limits. This includes complying with all applicable state and federal laws and regulations.

Spread of risk. A principle of insurance which states that insurers need to accept homogeneous exposure units spread over a wide geographic area with the certain knowledge that only a given number of risks will result in claims or losses.

Surety. A guarantee that a person, normally called the principal, will perform according to a statute or a contract. Surety offers protection to a third party, normally called an obligee.

Surplus lines. Insurance coverage for which there is no readily available admitted insurance carrier.

Temporary partial disability (TPD). A work related injury that allows the injured employee to work at a reduced capacity with the expectation of full recovery.

Temporary total disability (TTD). A work-related injury rendering an employee unable to work during the recovery period with the anticipated full return to the previous work position.

Third Party Administrator (TPA). A claims administrator or insurance company that investigates, negotiates and pays claims on behalf of a self-insured organization

Tail. Liability that exists after the expiration of a policy and/or claims that are not yet known

Tail coverage. Coverage that can be purchased after the expiration of a claims-made liability policy which extends for a period of time the right to report events that occurred before the policy was terminated.

Umbrella liability insurance. A special liability policy serving three main functions: a. provides high excess coverage over a primary or underlying policy; b. provides broader coverage than the primary liability policy, usually excess of a self-insured retention; and c. provides a drop down feature which automatically replaces coverage provided by underlying policies when they are reduced or exhausted by loss.

Underwriter. The insurance company; a party assuming risk; the person performing the underwriting function.

Vacant. A building in which no people have been living or working and no contents have been stored for at least 60 or 90 days. A fire policy prohibits coverage for a vacancy after a certain amount of time

Void. Of no force; null.

XCU. General liability policy classifications for operations particularly exposed to Explosion (X), Collapse (C), and underground (U) hazards

Your work. A term used in simplified language liability policies which means work or operations performed by, or on behalf, of the insured including materials, parts, or equipment furnished in connection with such work.

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Compiled by and for members of the Kansas Chapter PRIMA as a aid in educating those not familiar with the most frequently used terminology by risk management.

This glossary is not intended to be a comprehensive listing of terms.