



Glossary of Insurance Terms

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| Actuary | A professional trained in the mathematics of insurance and risk management, including the calculations of premiums, policy reserves and other values. |
| Agent | The insurance company representative who sells policies on behalf of the insurer. An independent agent represents more than one company; a captive agent represents only one company. |
| Applicant | Prospective policyholder; completes and signs the insurance application. |
| Assets | The items on a balance sheet showing the value of property owned. |
| Assuming Company | An insurance company that accepts the risk transferred from another insurance company in a reinsurance transaction. |
| Billing Clerk | Person responsible for revenue billing. |
| Broker | Represents the interests of the insured in searching for insurance coverage at the lowest cost and highest benefit to the insured. The broker may also be an agent of the insurer for purposes of policy collection and delivery of the policy. |
| Catastrophic Event | An event that causes loss to many people at once. Also called catastrophe, several examples are tornados, hurricanes and plane crashes. |
| Cede | To transfer to a reinsurer all or part of the insurance or reinsurance written by a ceding company. |
| Ceding Company | The company that transfers its risk to a reinsurer. Also called the Cedant. |
| Claim Adjuster | The person who investigates insurance claims for losses and recommends an effective settlement. |
| Claim Service Representative | Also called CSR; they are responsible for clerical completion of all claim files. |
| Clause | A section of an insurance policy dealing with various coverages, exclusions, duties of the insured, locations covered and conditions that terminate coverage. |
| Combined Ratio | The sum of the loss ratio and the expense ratio. |
| Commercial Lines | Insurance for businesses, professionals and commercial establishments. |
| Compulsory | Mandatory or enforced. |
| Contract | Legally binding agreement between two parties who wish to exchange some sort of consideration (anything of value, e.g. money or goods). |
| Coverage | The insurance afforded under a contract of insurance. |
| Declaration | Part of the insurance policy that identifies the named insured, policy period and limit of insurance. |
| Deductible | The amount of money the policyholder must pay on a loss. |
| Direct Loss | A loss which is a direct consequence of a peril. |
| Disability Insurance | Covers wage loss for the disabled person. |
| Earned Premiums | The portion of the premium for which protection has been provided. If an insured has an annual premium and makes monthly payments, each month the insurer earns 1/12 th of the premium. |
| Endorsement | A written agreement attached to the insurance policy which alters the provisions of the contract. |
| Exclusion | A provision in the insurance policy that indicates what is denied coverage. |
| Expense Ratio | The ratio of all operating expenses divided by the premiums written. |
| Exposure to Loss | The policyholder's possibility of loss. |

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| Fire Insurance | The foundation of today's property insurance. Covers loss to property caused by a fire or lightning. |
| Flood Insurance | Insurance to reimburse property owners from loss due to the peril of flood. |
| Fortuitous Losses | Unintentional loss occurring by accident or chance. |
| Frequency of Loss | Refers to the actual numbers or times the same or similar loss occurs. |
| Frequency-Severity Matrix | Matrix used to determine which type of risk treatment is appropriate for a risk. |
| General Liability | Insurance to protect an owner or operator of a business from a wide range of liability exposures. |
| Hazard | A condition that creates or increases the chance or severity of a loss due to a peril. |
| Homeowners Policy | Insurance against property and liability perils to which a homeowner or renter is exposed. |
| IBNR | Incurred but not reported losses. This is for losses which have occurred during a stated period, usually a calendar year, but have not yet been reported to the insurer. |
| Indemnification | Insurance principle which states that the insured, after a loss, should be restored in whole or in part by payment, repair or replacement by the insurer. |
| Independent Adjuster | An adjuster hired by the insurer to investigate and settle claims on behalf of the insurance company. |
| Indirect Loss | A loss resulting from a peril but not caused directly by that peril. |
| Insurance | Economic device whereby the individual or business pays a cost (premium) in exchange for protection against financial loss. The agreement is a contract also known as an insurance policy. |
| Insured | The policyholder protected in case of a loss or claim. |
| Insurer | The party who pays for losses in an insurance arrangement. |
| Law of Large Numbers | States that the larger the number of risks or exposures, the more closely the actual loss experience will approach the expected loss experience. |
| Legal Hazard | Characteristics of the legal system that increase the frequency or severity of losses. |
| Legislated | Determined by law. |
| Liability | The obligation of financial responsibility that may arise by negligence, contract or tort committed. |
| Liability Insurance | Protects the policyholder against a suit or claim for another's bodily injury and property damage. |
| Loss | An undesired and unplanned reduction of financial value. |
| Loss Control | The process of identifying and acting upon situations which may lead to losses. |
| Loss Ratio | A formula used by insurers to relate loss expenses to earned premiums. |
| Loss Reserve | Money set aside to pay losses. |
| Marine Insurance | Covers loss or damage to ships, cargo or injuries to ship crew members. |
| Moral Hazard | Dishonesty or character defects that increase the chance of loss. |
| Morale Hazard | Carelessness or indifference to a loss because of the existence of insurance. |
| Negligence | Failure to use that degree of care which an ordinary person of reasonable prudence would use to protect others from harm. |
| P&C | Property and Casualty Insurance. |
| Peril | A cause of loss. |
| Physical Hazard | A physical condition that increases the chance of loss. |
| Policy | The written insurance contract that may include all clauses, riders and endorsements. |
| Policy Service Representative | Also called PSR; they are responsible for premium rating and issuing policy files. |

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| Policyholder | The insured protected in case of a loss or claim. |
| Pooling | The method by which each member of an insurance pool shares in every risk written by other pool members. |
| Premium | The price of insurance protection, paid by the policyholder to the insurer. |
| Premium Auditor | Person that reviews charges to ensure that the premium paid is fair for the coverage furnished. |
| Private Insurance | Voluntary programs that are available from the government or private firms. |
| Proximate Cause | The immediate or actual cause of loss or damage. |
| Public Adjuster | Hired by the insured, an adjuster who operates independently from insurance companies to investigate and settle claims. |
| Re-Inspector | Person who double-checks the work of the original adjuster. |
| Reserves | The funds an insurance company sets aside to pay for reported but outstanding claims. |
| Rider | An endorsement to an insurance policy that modifies its clauses and provisions, including or excluding certain conditions from coverage. |
| Risk | The uncertainty concerning the occurrence of a financial loss. |
| Risk Avoidance | Avoiding the risk altogether. |
| Risk Control | Techniques used to control the frequency and magnitude of losses. |
| Risk Control Consultant | A person with expertise in risk management techniques that reduce the frequency and severity of losses. |
| Risk Management | The identification of loss exposures and treatments for those exposures. |
| Risk Retention | Retaining or bearing the risk. |
| Risk Transfer | Transferring the financial consequences of a loss to another party, such as an insurance company. |
| Severity of Loss | Refers to the size or cost of the loss to the organization. |
| Tort | An injury or wrong committed against an individual. |
| Umbrella Policy | Insurance policy over and above a basic liability policy. |
| Underwriter | The professional responsible to assess the merits of each risk and decide a suitable premium for accepting all or part of the risk. |
| Underwriting | The process of scrutinizing a risk to determine whether or not to insure that risk. |
| Underwriting Assistant | Assists the underwriter. Also called underwriting technician or underwriting associate. |
| Waiver | Relinquishment of a legal right to act. |
| Workers' Compensation | Benefits paid to an employee as a result of occupational injury. |
| Written Premiums | The total premiums on all policies written by an insurer during a specified period of time, regardless of what portions have been earned. |

Sources:

BISYS Education Services. (2000), *Glossary of Insurance Terms, Sixth Edition*, Atlanta, GA. Rubin, Harvey W. (2000), *Dictionary of Insurance Terms, Fourth Edition*, Barron's Education Series, Inc., Hauppauge, NY.