

**Table of Contents**

A ..... 1  
B ..... 2  
C ..... 3  
D ..... 5  
E ..... 5  
F ..... 6  
G ..... 7  
H ..... 7  
I-K ..... 7  
L ..... 8  
M ..... 8  
N ..... 9  
O ..... 10  
P-Q ..... 10  
R ..... 12  
S ..... 12  
T ..... 13  
U-V ..... 13  
W-Z ..... 14

***General Insurance Definitions***

**Adhesion** - An insurance contract is a "take-it-or-leave-it" contract. The insurer makes up and forms the contract issued to an insured, and the insured must adhere to those terms. Any ambiguities in an insurance contract will be settled in favor of the insured. ***An insurance contract is a contract of adhesion.***

**Accident** - An ***unintended, unforeseen and unexpected event***, that takes place at a specific time and location, that causes bodily injury or property damage.

**Actual Cash Value (ACV)** - The sum of money required to pay for damages or lost property, computed on the basis of replacement value (at the time of the loss) ***less its depreciation.***

**Admitted Insurer** - An insurance company authorized and licensed to transact business in a specified State.

**Agent** – A licensed producer who solicits insurance or aids in placing risks, delivering policies or collecting premiums on behalf of an insurance company. **Agents effectuate insurance.**

- **Insurance Producer** means a person required to be licensed under the laws of this state to **sell, solicit** or **negotiate** insurance. The term insurance producer does not include title insurance agents or surplus lines brokers.

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

**Application** - A form on which the prospective insured states facts requested by the insurance company and on the basis of which (together with any information from other sources) the insurance company decides whether or not to accept the risk, modify the coverage offered, or decline the risk.

- Before an insurance policy can be issued, the prospective insured must apply to the insurance company. The producer and the applicant fill out an application form that is then forwarded to the insurance company. **The application is the insured's offer. An offer is one of the necessary elements of a contract.**

**Assignment** - The transfer of ownership rights of an insurance contract from one person to another person. In property and casualty insurance, only the insurance company has the right to assign a policy to another named insured.

**Authorized Insurer** - Often referred to as an "admitted" insurer which is licensed to transact insurance in a specific State.

**Bailee** - A person or business having care, custody and control of the property of others.

**Basic Extended Reporting Period** - An automatic tail for reporting claims after expiration of a claims-made liability policy. It is provided without charge and consists of two parts: a mini-tail covers claims made within 60 days after the end of the policy; a midi-tail covers claims made within five years after the end of the policy period arising out of occurrences reported not later than 60 days after the end of the policy.

**Binder (Binding Receipt)** - A binder is an acknowledgment (usually from the agent) that insurance applied for is in force whether or not the premium has yet been paid or the policy issued (a.k.a. Temporary Insuring Agreement....in effect, until the policy is issued). Guaranteed Coverage!

**Bodily Injury Liability** - The liability which may arise from injury or death of another person.

**Bond** - An obligation of the surety company (a.k.a. the Guarantor) to protect a person/company (a.k.a. Obligee) against financial loss caused by the acts of another (a.k.a. Principal or Obligor).

**Broker** – A licensed producer who represents an insured in the solicitation, negotiation or procurement of contracts of insurance on behalf of the consumer. A broker must be bonded with a \$2,500 bond OR a bond in the amount of 5% of the premiums brokered in the previous calendar year, whichever is greater, not to exceed \$100,000.

**Burglary** - Theft of insured property by breaking and entering into the premises of another. There must be *visible signs of forced entry or exit of the premises for burglary*.

**Cancellation** - Termination by the insurance company or insured before the anniversary or renewal date, of a contract of insurance which is in force. *Usually requires a return of premium.*

**Casualty Insurance** - The type of insurance that is primarily concerned with losses caused by injuries to persons and legal liability imposed upon the insured for such injuries or for damage to property of others. It also includes insurance against crimes such as Robbery, Burglary and Forgery; Aviation; and Auto insurance.

**Causes of Loss Forms** - Commercial property forms which state the perils insured against, additional coverages provided, and exclusions that apply. There are four Causes of Loss Forms: Basic, Broad, Special, and Earthquake.

**Certificate of Authority** - A document issued by the Office of the Insurance Commissioner giving the authority to transact insurance business in a specified state. Once an insurer is "authorized" to do business in a state, they are referred to as "admitted" in that specific state.

**Certificate of Insurance** - A legal document that specifies that an insurance policy has been issued. Examples of a Certificate of Insurance: your auto insurance card or your group insurance card.

**Civil Law** deals with disputes between individuals. In criminal law, the government prosecutes an individual in the interest of society for violating laws written to protect the public. Criminal and dishonest acts of an insured are NOT covered under insurance policies.

**Claims-Made Coverage** - A policy providing liability coverage only if a written claim is made during the policy period or any applicable extended reporting period. For example, a claim made in the current year could be charged against the current policy even if the injury or loss occurred many years in the past. *If the policy has a retroactive date, an occurrence prior to that date is not covered.* Contrast this with Occurrence Coverage.

**Coinsurance** - A provision that says the insured agrees to insure to a certain value (such as 80%). If there is a loss and the insured has breached this agreement, only a proportional share of the loss will be paid (IS insured for, over SHOULD BE insured for, times the loss.)

**Collision Coverage** - The upset of your covered auto or a non-owned auto or its impact with another vehicle or object.

**Commercial General Liability (CGL) Coverage Part** - General liability coverage which may be written as a monoline policy or as part of a commercial package. The latest coverage forms include Occurrence or Claims-Made.

**Commercial Package Policy (CPP)** - A commercial lines policy that contains more than one of the following seven coverage parts: Property, General Liability, Inland Marine, Crime, Equipment Breakdown, Commercial Automobile, and Farm.

**Common Policy Declarations** - A common declarations page is part of every commercial policy. It shows information applicable to the entire policy (policy number, insurer, insured, total premium, interline endorsements, coverage parts, forms attached, etc.).

**Compensatory Damage** (a.k.a. Actual Damage) is a term which encompasses specific and general damages. Compensatory damages are intended to compensate (pay or indemnify) someone for both the tangible and intangible elements of a loss. *Includes compensation for pain and suffering.*

**Completed Operations Liability Insurance** - Liability insurance coverage for bodily injury and property damage arising out of the completed operations of a business.

**Concealment** - Deliberate *failure to reveal facts*. If found to be material in nature, a concealment would affect the validity of a policy of insurance. This is opposed to a misrepresentation, which is a LIE.

**Conditional Contract** refers to the fact that insurance contracts are conditional. That is, the insurance company is obligated to pay a claim based on the condition that premiums were paid and a proof of loss was submitted to the insurance company.

**Conditions of a policy** set the rules of conduct, duties and obligations for the parties of an insurance contract. A number of common insurance conditions describe such things as the policy territory, obligation of the insured following a loss, how claims are settled and handled when insurance is involved, and each party's right to cancel the policy. Depending on the type of policy, conditions may be found in a "Conditions" section or scattered throughout the policy.

**Consideration** (*Something of Value* exchanged by two parties) - is an element of an insurance contract. Consideration is the payment of the premium and statements made by the prospective insured in the application. *It is the insurance company's promise to pay for losses.*

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

**Contract of Adhesion** means that since *the insurer prepares the provisions of the contract* and the policyholder simply **adheres** (or agrees) to them, a court will rule in favor of the **insured** if there is any ambiguity in the contract terms. The contract is issued as a take it or leave it proposition. The insured must accept it as is.

**Coverage Trigger** - A mechanism that determines whether a policy covers a particular claim for loss. For example, the difference between the coverage triggers of liability occurrence forms and claims made forms is that loss must occur during the policy period in the first case and the claim must be made during the policy period in the second case.

**Custodian** - In crime insurance, a custodian is the insured or a regular employee or partner of the insured, **who has care or control of property within the premises**. This definition does not include a watchperson or janitor.

**Defamation** - An unfair business and trade practice in which one person or company makes false or inaccurate statements about another party with the intent of injuring the reputation of that party.

**Directors and Officers** (D & O) of corporations need liability coverage insurance because they can be sued as individuals by the stockholders. The coverage is necessary because general liability coverage of the business will **not** cover their personal liability and personal liability will **not** cover their exposure related to business activity.

**Declarations ("Dec Page")** - A term used in insurance for the portion of the contract which contains information such as the name and address of the insured, the property insured, its location and description, the policy period, the amount of insurance coverage, applicable premiums, and supplemental representations by the insured.

**Degree of Care** – is the care that must be exercised to keep others from harm or injury.

**Domestic Insurer** - An insurance company that conducts business transactions in the state where they are incorporated. Examples of Washington State's domestic companies are Pemco and Safeco.

**Drive Other Car (DOC)** - This endorsement protects the insured when a negligent act results in ***bodily injury or property damage to a third party while the insured is driving a nonowned car***.

**Earned Premium** - That portion of a premium for which the policy protection has already been given during the now-expired portion of the policy term. The premium the insurance company has **earned** the right to keep.

**Employment Practices Liability Insurance (EPLI)** is a relatively new form of liability insurance. It provides protection for an employer against claims made by employees, former employees, or potential employees. It covers discrimination (age, sex, race, disability, etc.), wrongful termination of employment, sexual harassment, and other employment-related allegations. It covers the company, including its Directors and Officers.

**Endorsement** - A provision added to a policy which broadens or restricts coverage. This may also be in the form of a rider. It is not valid unless signed by an executive officer of the company and attached to and made part of the policy.

**Exclusions** - Perils, conditions or property listed in the policy which are not covered and for which no benefits are payable.

**Exclusive Remedy** - Workers' Compensation statutes limit a worker's remedies for work-related injuries to a workers' comp claim against the employer. ***The worker's sole remedy against the employer will be through the Workers' Compensation system.*** Thus, workers' compensation coverage is referred to as the "**exclusive remedy**" available to an injured worker.

**Expiration** - The date specified in the policy as the date that coverage ends or terminates.

**Extended Reporting Period (ERP)** - A period allowing for making claims after expiration of a claims-made liability policy. Also known as a tail.

**Extra Expense Coverage Form** - A commercial property form designed to cover extra expenses incurred by **a business that remains in operation** following a property loss.

**Fair Credit Reporting Act** - Federal law requiring an individual to be informed if he or she is being investigated by an inspection company. This law requires that the consumer must be notified that a credit report will be sought and told how it will be used. The consumer must be told how to obtain a copy of the report.

- ✓ Information on the credit report can be disputed, and if **the reporting agency** cannot prove the disputed information is accurate, the information must be removed from the person's file **within 30 days**.

**Fidelity Bond** - Will reimburse an employer for loss sustained by the employer (Obligee) by reason of any dishonest act of an employee (Principal) covered up to the amount of the bond.

**Fiduciary** - A person who occupies a position of special trust and confidence (for example, in handling or supervising the affairs or funds of another). ***A producer has fiduciary responsibilities to his clients from whom he collects premiums.***

**Financial Responsibility Liability Law** - A Washington State law requiring motorists to furnish evidence of ability to pay liability damages to a third party, either before or after an accident. In the State of Washington, there are three ways to prove financial responsibility: bond, cash or insurance (of 25/50/10) in the amount of \$60,000.

**First Named Insured** - Some commercial policies use the term *first named insured*. In the commercial field, it is possible to have many named insureds on the same policy. By making the "first named insured" and the insurer the primary parties responsible for carrying out contractual duties, the process of meeting policy obligations has been simplified.

**Foreign Insurer** - An insurance company doing business in a specific State, but is incorporated in another State.

**Forgery** - The process of making, adapting, or imitating objects or documents, with the intent to deceive. A forgery is essentially concerned with a produced or altered object. ***Forgery is one of the techniques of fraud, including identity theft.***

**Fraud** - An intentional misrepresentation or deceit with the intent to induce another to part with something of value. For example, filing a false claim. Generally, a lie on an application is considered a misrepresentation but NOT fraud.

**Garagekeepers Liability Policy (Form)** – When added to the Garage Form Auto Coverage, this covers losses **to automobiles in the insured's care, custody and control.**

**General Aggregate Limit** - A Commercial General Liability limit that applies to all damages paid for bodily injury, property damage, personal injury, advertising injury, and medical expenses, except damages included in the products-completed operations hazard. Products Coverage has its own aggregate.

**General Damages** - A broader term that may include a number of intangible elements which cannot be specifically measured in terms of dollar amounts, ***such things as pain and suffering*** for bodily injury.

**Hazard** - Anything that increases the chance of a loss, such as an old roof, bald tires, being overweight, smoking, etc.

**Insurable Interest** - Any interest in a subject of insurance or any legal relation to it of such a nature that a certain happening *might cause monetary loss* to the insured. ***Must be proven at the time of the loss*** in Property and Casualty insurance contracts.

**Insurance** - A formal social device for reducing risk by *transferring the risks* of several individual entities to an insurer. The insurer agrees, for a consideration, to assume the losses suffered by the insured. **Transferring the financial impact of a loss from the insured to the insurance company.**

**Insured** - (**Named Insured vs. Insured**) ..... *An insured is anyone who may be covered by the insurance.* The **named insured** is the person, persons or business **actually named** as the named insured in the policy declarations. *A named insured is responsible for meeting the conditions of the policy.* Some commercial policies use the term **first named insured** since there could be many named insureds. For example, a commercial cancellation notice would be sent to the first named insured instead of all of the named insureds.

**Insurer** (Insurance Company) - An entity that pays for the financial losses of another due to sickness or accidents.

**Insuring Clause (Agreement)** - The clause in a policy that specifies in brief the contract's intent. **States the terms under which the policy will pay.**

**Law of Large Numbers** - The law of large numbers says that the more examples used to develop any statistic, the more reliable the statistics will be.

**Legal Object** - In order for a contract to be legal, it must be for legal purposes only. This is why **insurance contracts do not cover intentional or criminal acts of the insured**, why there must be insurable interest, and why stolen property cannot be insured.

**Liability Insurance (a.k.a. Casualty Insurance)** - The insurance that pays and renders service on behalf of an insured for loss arising out of his responsibility, or due to negligence, to others imposed by law or assumed by contract.

**Malpractice** - A medical practitioner, a doctor or a dentist is liable for damages or injuries caused by his/her errors and omissions. Such liability for medical professions can be covered by malpractice insurance. **Professional Liability Insurance.**

**Market Value** - A concept which does not usually apply to insurance settlements. *Market value means the selling value of the property.* The market value on real property would not be a good indicator of the insurable value for fire insurance. However, auto insurance must pay the market value of a car which is totaled or stolen.

**Maxi-Tail (ERP)** - Unlimited extended reporting period allows for claims to be paid after expiration of a claims-made liability policy. Requires additional premium from the insured.



**Midi-Tail** - Automatic and free **five-year extended reporting period** allowing for the making of claims after expiration of a claims-made liability policy, but only applies to claims arising from occurrences which were reported no later than 60 days after the end of the policy. See Extended Reporting Period (ERP).

**Mini-Tail** - Automatic and free **60-day extended reporting period** allowing for the making of claims after expiration of a claims-made liability policy. See Extended Reporting Period (ERP).

**Misrepresentation** - The use of written or oral statements of the insured or insurance company misrepresenting the risks, terms, coverages, benefits, privileges, or estimated future dividends of any policy. This is ***known as a LIE***.

**Moral Hazard** - A condition of morals or habits that increases the probability of a loss from a peril. Several speeding tickets will be considered a poor moral risk for the insurance company. It also includes the dishonest acts of an insured.

**Morale Hazard** - An attitude that increases the probability of loss from a peril. The attitude of, "it's insured, so why worry?," is an example of a morale hazard.

**Mutual Insurer** - An insurance company that has no capital stock, but is owned by the policy owners. Mutual companies sell participating policies because they share in the profits with the policy owners by paying dividends.

**Mysterious Disappearance** - Means that insured property was lost but ***there is no likelihood that the property was stolen***. Mysterious Disappearance is **NOT** an insured peril.

**National Association of Insurance Commissioners (NAIC)** - An association of state Insurance Commissioners, active in discussions of regulatory problems and in the formation and recommendations of uniform practices and legislation.

**Negligence** - Failure to use that ***degree of care*** which an ordinary person of reasonable prudence would use under the given circumstances. Negligence may be constituted by acts of either omission or commission or both.

**Nonadmitted Insurer** - An insurance company who does not have a certificate of authority to transact insurance business in a specific State. Often referred to as an "Unauthorized" company.

**Nonrenewal** - ***Termination of insurance coverage at an expiration or anniversary date***. This action may be taken by an insurance company or by an insured who rejects the renewal offer.

**Obligee (the one protected by the bond)** - Broadly, anyone in whose favor an obligation runs. This term is used most frequently in surety bonds, where it refers to the person, firm or corporation protected by the bond.

**Occurrence** - An accident, including continuous or repeated exposure to the same harmful conditions, which results in bodily injury or property damage, **which is not expected, intended or foreseen by the insured.**

**Occurrence Coverage** - A policy providing liability coverage for injury or loss that occurs during the policy period, regardless of when the claim is made. For example, a claim which is made in the current policy year could be charged against a prior policy period, or may not be covered, if it arises from an occurrence prior to the effective date.

**Offer and Acceptance** - The offer may be made by the applicant by signing the application, paying the first premium and, if necessary, submitting to a physical examination. Policy issuance, as applied for, constitutes acceptance by the company.

**Package Policy** - Any insurance policy including two or more lines or types of coverages in the same contract.

**Participating "Par" Policies** - Mutual Insurance Companies "participate" with their profits by paying dividends (profits) to the policy owners.

**Peril** - The cause of a possible loss; the event insured against.

**Personal Injury (PI)** - Injury other than bodily injury arising out of false arrest or detention, malicious prosecution, wrongful entry or eviction, libel or slander, or violation of a person's right to privacy.

**Personal Injury Protection (PIP)** - The formal name usually given to no-fault ***Automobile Insurance*** coverages. PIP includes benefits for medical expenses, loss of work income, essential services and funeral expenses. PIP is required to be offered in Washington.

**Premium** - The payment or consideration that the insured makes to the insurance company for insurance coverage.

**Principal (a.k.a. Obligor)** - A person or organization whose obligations are guaranteed by a bond. *The one from whom the obligee is protected.*

**Privacy Protection (Gramm Leach Bliley Act, GLBA)** - Regulates financial institutions such as banking, insurance, stocks, bonds, financial services and investing. Information that many consider private, such as bank balances, insurance transactions and account numbers, are often bought and sold by banks, insurance companies and other financial institutions. This law provides ***Privacy Protection*** against the sale of your private financial information.

***(Insurance) Producer*** means a **person** required to be licensed under the laws of this state to ***sell, solicit or negotiate*** insurance. The term, insurance producer, does not include title insurance agents or surplus lines brokers.

**Products Liability Insurance** - Provides protection against claims arising out of the use, handling or consumption of a product. ***The product does not have to be made or sold by the insured for the insured to be held liable.***

**Professional Liability Insurance** - Liability insurance to indemnify professionals, doctors, lawyers, architects, etc., for loss or expense resulting from claims on account of bodily injuries because of any malpractice, error, or mistake committed or alleged to have been committed by the insured in his profession. Usually a Claims-Made form.

**Proof of Loss** - A formal statement made by the insured to the insurance company regarding a loss. The purpose of the proof of loss is to place before the company sufficient information concerning the loss to enable it to determine its liability under the policy or bond.

**Pro-Rata Cancellation** - The termination of an insurance contract or bond, with the premium charge being adjusted in proportion to the exact time the protection has been in force. ***No service fee may be charged for cancellation of the contract.***

**Pro-Rata Liability Clause** - Provides that losses will be paid in the proportion that the amount of the policy bears to the entire amount of insurance on all policies covering the loss. This provides for insurance companies to appropriately share in the loss when more than one policy exists, yet prevents the insured from collecting in total from several insurance companies, thereby making a profit.

**Proximate Cause** - The effective cause of loss or damage; an unbroken chain of cause and effect between the occurrence of an insured peril or a negligent act, and the resultant injury or damage to property.

**Punitive Damages** - a form of punishment intended to serve as an example to others and to create disincentives that discourage certain behavior. Punitive damages are awarded in cases involving ***gross negligence*** or conduct which exposes the public to extreme hazards.

**Rebating** - *Returning premium, giving a discount, or paying the insured's premium. In the State of Washington, it is illegal to rebate premiums.*

**Representations** - On an application, facts that the applicant *represents as true* and accurate to the best of his or her knowledge and belief. In contrast to warranty (see Warranty).

**Retroactive Date** - Date on a claims made liability policy which triggers the beginning period of insurance coverage. A retroactive date is not required. If one is shown on the policy, any claim made during the policy period will not be covered if the loss occurred before the retroactive date.

**Risk** = *A chance of loss; the person/thing to insure.* Only **pure risk** is insurable.

**Robbery** - The taking, either *by force or by fear of force*, of the personal property of another.

**Self-Insured Retention** - If an umbrella policy provides coverage for circumstances that are excluded by an underlying policy, the insured pays a selected **retention limit, which acts like a deductible, and the insurance company pays the loss over that amount.**

**Short Rate** - The term short rate refund in insurance and bonding is used to describe the charge required (*a.k.a. service fee*) when a contract is canceled by the named insured before the end of the policy period or term of the bond.

**Specific Damages** - If someone destroys your property or causes bodily injury which results in medical expenses, ***specific losses*** have occurred (the value of the property or the amount of the medical bills).

**Speculative Risk** - Gain or a loss. Value of a home or stock going up or down in value is known as a speculative risk. This type of risk is NOT insurable. Only pure risk is insurable.

**Stock Company** - A company owned by stock holders. Profits or dividends are paid to the stock holders (NOT the policy owners).

**Subrogation** - The ***legal process*** by which an insurance company seeks from a third party who may have caused the loss, ***recovery of the amount paid to the insured.***

**Supplemental Extended Reporting Period** - An optional maxi-tail or full-tail which extends for an unlimited period of time after expiration of a claims-made liability policy, and covers claims made after the policy period.

**Surety** – This is a term loosely used to describe the business of Bonds. Suretyship is an arrangement whereby one party becomes answerable to a third party for the acts or neglect of a second party. The party in a Suretyship arrangement who holds himself responsible to one person for the acts of another (customarily an insurance company) is the Surety.

**Surety Bond** - A bond in which the surety agrees to answer to the obligee for the non-performance of the principal (also known as the obligor).

**Surplus Lines** - Coverage procured from an out of state insurance company because the coverage is unavailable in the state where the insured lives. This coverage must be purchased through a Surplus Lines Broker.

**Temporary Agent** - A person who is licensed to act as an agent for a brief period of time (no more than 180 days in Washington State) without taking a written examination. Temporary licenses are commonly granted to allow someone to continue the business of an agent (to legally represent that agent) who has died or becomes disabled.

**Temporary Substitute** - A *temporary substitute* is any auto or trailer used by the insured in place of a covered vehicle or trailer which is out of use due to service, repair, breakdown, loss, or destruction.

**Terrorism Risk Insurance Act** /(TRIA) - Requires insurance companies to offer terrorism insurance to their commercial policyholders. The TRIA directs the **Secretary of Treasury to administer a program for sharing terrorism losses.**

- The TRIA has expanded their definition of "terrorism" to be any act that is certified by the **Secretary of the Treasury, Secretary of State and the Attorney General of the United States** to be an act of terrorism.

**Theft** - Any loss of property by stealing, including both robbery and burglary. Theft does not include employee dishonesty or mysterious disappearance (a disappearance of property that cannot be explained).

**Twisting** - Inducing or seeking to induce a policy owner, by misrepresentation, to terminate an existing policy in order to take a new policy.

**Umbrella Liability Policy** - A liability policy designed to provide liability protection above and beyond that provided by standard liability contracts.

**Underwriting** - Process through which an insurer determines whether, and on what basis, an insurance application will be accepted.

**Unilateral Contract** - One party is required to perform under the contract. The insurer cannot demand that the **insured** make the premium payments, but if the premiums are paid, the **insurer** is obligated to pay.

**Warranty** - A statement made on an application for insurance that is warranted (guaranteed in the contract) to be true; that is, it is exact in every detail, as opposed to a representation. **Warranties are expressed in the contract (in writing).**

**Workers' Compensation** - Benefits paid workers for injury, disability or disease contracted in the course of their employment. Washington is a compulsory and monopolistic state. This means that benefits must be provided for employees and it can only be purchased through the State's Department of Labor and Industries.