GLOSSARY OF INSURANCE TERMS ~ L ~ N

L

Lapse: The termination of a policy for nonpayment of premium, used commonly in life insurance. If the insurance contract becomes void for other reasons, it is also said to have lapsed.

Laser Beam Endorsements: A type of endorsement that may be attached to the claims-made version of the commercial general liability policy (CGL) for the purpose of excluding specific accidents, products, work or locations.

Law Of Large Numbers: A mathematical concept that postulates that the more times an event is repeated (in insurance, the larger the number of homogeneous exposure units), the more predictable the outcome becomes. In a classic example, the more times one flips a coin, the more likely that the results will be 50% heads, 50% tails.

Layering: purchasing policies to cover limits in layers often protects Risks that have high limits or high exposure to loss. The first layer of coverage is called the primary layer and responds first to loss. When that limit has been exhausted, the second and subsequent layers respond. Because of the structure of layering, the second layer and above are normally much less expensive than the primary and, therefore, this method of protection can be cost effective.

Level Death Benefit Option: A life insurance policy that allows an option in which the beneficiary may choose either to receive the face amount of the policy at the time of death of the insured, or a preset percentage of the total value, whichever is greater.

Level Premium Life Insurance: A life insurance policy where the premium remains the same throughout the term of the policy. Although the premium is unchanged, it is proportionately higher than actually needed by the insurer in the early years to offset the fact that the premium becomes lower than needed by the insurer in the later years.

Liability: 1) an obligation imposed by law or equity. 2) Money owed or expected to be owed. In an insurance company financial statement, the two columns it contains are its "assets" (or the amounts it owns) and the "liabilities" (or the amount it owes or expects to owe). Liabilities generally are defined by state statute or insurance department regulation for use in the annual statement of an insurer.

Liberalization Clause Or Provision: A provision in some standard property and casualty insurance policies that states that should the insurer, within a specified period of time such as 45 days of issue or renewal, begin offering a broadened version of the current policy and there is no premium charge for the increased coverage, then that increased coverage will apply to the current policy.

Lien holder: The person or entity that possesses a legal claim on the property of another. In insurance, it generally refers to a lender on real or personal property.

Liquidity: The ability of an entity, insurer or insured to convert assets into cash. With reference to an insurer, the intent is to have the funds quickly available to pay claims. When the reference is to the insured, it is used in the underwriting analysis as one of the factors used to determine the financial stability of the account.

Liquor Liability Insurance: Coverage where the basis for legal liability is a dram shop, liquor control, or alcoholic beverage law. The laws vary, but most provide that the owner of an establishment that serves alcoholic beverages is liable for injury or damage caused by an intoxicated person if it can be established that the liquor licensee caused or contributed to the intoxication of the person.

Livery: A motor vehicle used for the transport of persons or goods for hire. Also known as public livery conveyance

Livestock Mortality Insurance: Policies designed for farm or ranch operations to protect the insured against losses resulting from the death of livestock from specified causes of loss. Normally these causes of loss are fire, lightning, accident, acts of God, and acts of persons other than the owner or employees, and necessary destruction for humane purposes.

Lockbox Plan: A plan or arrangement between either an insurer or agent and a bank to use the bank as the premium collection facility. Insureds send payments to a post office box or bank lockbox controlled by the bank. The bank processes the payment directly to the proper account, for a service fee. Using this method speeds up the entire collection process, freeing up the accounting staff of the agent or insurer, and making premium funds available more quickly to earn investment income.

L Continued

Long-tail: A colloquialism referring to the lengthy period of time between the occurrence of an event giving rise to a third-party claim and the claim itself. While this lengthy period is common to all kinds of third-party claims, as opposed to direct damage claims, it is most pronounced in professional liability insurance written on an "occurrence" basis, as opposed to a "claims-made" basis

Long-term Disability Insurance: A disability insurance designed to offer income payments for long-term injuries, illnesses or disabilities. Long-term is often considered over 90 days

Loss: 1) the amount the insurer is required to pay because of a happening against which it has insured. 2) A happening that causes the company to pay. For example, any reduction in quantity, quality or value of insured property resulting from a covered cause of loss. 3) The overall financial result of some operation, as opposed to "profit." 4) The amount suffered by a person or property, with or without insurance.

Loss Assessment Coverage: specially designed property coverage for condominium unit owners. This coverage provides protection for assessments made by the condominium association resulting from loss to the property. The policy is written to pay the assessment if the loss is caused by an insured peril.

Loss Constant: Used primarily in workers compensation insurance, a flat charge added to the premium of small risks to offset the higher loss ratios produced by such risks. Also used in some states in fire insurance premiums for low-valued dwelling risks to offset the higher loss ratios they produce.

Loss Control: The steps and processes made by a risk to reduce eliminate or control the frequency of loss from occurring and the severity of the loss once it has occurred.

Loss Expectancy: Based on past experience, data, and statistics, an estimate is generated to predict the probable occurrence(s) of loss for a given period for either a specific insured or class of business.

Loss Experience: The loss history for an account, a line of business, a book of business, or some other defining category. Loss experience may include the date of loss, type of loss, amount of loss, whether the loss is open or closed, and a summary of the details of the loss.

Loss Of Use Insurance: Insurance that compensates the policyholder for the inability to use property destroyed or damaged by an insured peril. For example, if a car is stolen, loss of use insurance will pay or contribute to the cost of hiring a substitute car.

Loss Payable Clause: A condition in a policy whereby the company may be directed by the policyholder to pay any loss due the policyholder to some other party designated in the policy. Usually the payment is made by check or draft payable to both the insured and the designated payee.

Loss Prevention Services: Loss control, inspection and safety engineering services offered by an insurer in an attempt to prevent losses from occurring. Loss prevention work applies to property, liability, automobile, workers compensation, and most other P&C insurance. It is also known as safety engineering or accident prevention.

Loss Ratio: Losses incurred expressed as a percentage of premiums, most commonly earned premiums, although written premiums are sometimes used.

Loss Reserve: An estimate of the amount an insurer expects to pay for reported and estimated claims. May include amounts for loss adjustment expenses. (See IBNR--Incurred But Not Reported, Reserve, and Incurred Losses.)

Lost Policy Release (LPR): An agreement signed by the policyholder relieving the insurer from liability under an insurance contract that has been lost, misplaced or is otherwise unavailable. The lost policy release form is used to fulfill the requirement that a policy be returned when the insured requests that coverage be canceled.

Lump Sum Or Lump Sum Distribution: One method of payment of benefits, most often occurring in life insurance, where the beneficiary receives the entire face value or payout of the policy at once, rather than in installments, monthly income, or various other options.

M

Machinery Breakdown Insurance: Protection against loss from disruption of boilers and machinery by an insured cause of loss, consisting of loss to the boiler and machinery itself, damage to other property, business interruption losses, or all three. Also known as breakdown insurance.

Major Medical Insurance: A policy designed to reimburse the insured for excess medical expenses in and out of the hospital. The policy usually includes a deductible, a coinsurance clause and an aggregate limit.

Malicious Mischief: Intentional and willful vandalism and destruction of property. In most property policies, it is linked with the vandalism cause of loss.

Malpractice: Improper actions or failure to exercise proper skill by a professional or others involved with the care of the human body, such as a physician, dentist, blood bank, etc. Malpractice insurance is a form of liability coverage against such mistakes.

Managed Care: A type of insurance protection or plan associated with health and workers compensation programs, which manage the services provided to an insured or member by placing limits on the number and type of services covered. Included are limits on such items as the number and type of treatments offered, which doctors, hospitals, clinics and other service providers an insured or member can use. Should the insured or member use services or providers not covered by the plan, that insured or member must bear a larger portion of the fee--if not the entire fee. The concept of managed care is that cost reductions are realized if the participating service providers are under specially negotiated contracts and that waste and redundancy can be reduced if the overall services covered are carefully monitored.

Manufacturers Selling Price Clause: A property insurance coverage designed to provide the insured manufacturer with a valuation option to insure the goods manufactured at the price the manufacturer would have received for delivery of the finished goods to a customer. This valuation option includes sales costs, commissions and profits the insured would have earned if the goods were sold at the going price.

Marine Definition: The 1953 NAIC recommendations, since adopted by most states, of those subjects which should be considered as marine insurance for regulatory purposes: insurance covering domestic shipments being transported or subject to transportation, insurance on instrumentalities of transportation and communication, and property floaters covering property being transported or subject to being transported. While the definition does not differentiate between ocean and inland marine insurance, its scope is primarily inland.

Maximum Foreseeable Loss (MFL): The anticipated maximum property fire loss that could result, given unusual or the worst circumstances with respect to the non-functioning of protective features (e.g., firewalls, sprinklers, and a responsive fire department, among others), as opposed to probable maximum loss (PML), which is a similar valuation, but which is made under the assumption that such protective features function normally.

Maximum Period Of Indemnity: An option available to the business income coverage form, where the coinsurance requirements are removed and replaced with coverage for the actual loss sustained during the first 120 days of loss, not to exceed the stated limit of liability.

McCarran-Ferguson Act: Enacted on March 9, 1945, a law by which Congress granted authority to the states to continue to tax and regulate the business of insurance (after the insurance business had been held by the Supreme Court to be commerce in a landmark case in 1944, and, therefore, subject to federal regulation whenever subject to interstate regulation). The act provided further that the anti-trust laws should not apply to the extent the business of insurance is regulated by the states, except for coercion, intimidation and boycott. Also known as Public Law 15 (79th Congress, 1945. McCarran-Ferguson Regulation Act: 15 U.S.C. 1011-15).

Medical Payments Insurance: Protection to pay the cost of medical care to an injured party regardless of whether the policyholder is liable. Written in conjunction with general and personal liability policies. A similar coverage, automobile medical payments insurance, is available in automobile liability policies.

Medical Review Panels: Medical advisory panels that are established by individual states to review and affirm the validity of medical malpractice claims prior to the filing of such actions.

Medigap: A type of health insurance supplement offered by private insurers, designed to bridge the gap caused by the expenses and services not covered by Medicare and other federal programs.

M Continued

Mini-tail: A claims-made policy provision that allows additional time to the insured for the reporting of claims, should the claims-made policy be replaced with an occurrence policy or another claims-made policy with a different retroactive date. Usually, the period of time available is limited; up to 60 days after policy expiration is common. There is often no charge for this coverage, but it must be requested within a given period of time.

Minimum Premium: The lowest flat or earned policy charge for which a policy will be issued or for which coverage will be provided.

Monoline Policy: A policy that covers only one line of insurance.

Monopolistic State Fund: A state-controlled workers compensation plan that writes insurance on such risks within the state and prohibits private insurers from doing so.

Moral Hazard: A condition or characteristic by which an insured intends to profit from an insured loss.

Morale Hazard: The condition that exists when an insured becomes lax in matters of safety and fire prevention because insurance is in force to pay for a loss that may occur.

Morbidity Rate: Rates that have been developed based on the accumulation of statistics and data and that are used to show the percentage or ratio of how often certain types of sickness or illness occur within a given period of time to the classification or a specific group of insureds.

Morbidity Table: A listing of data showing the accident or sickness rates of persons of each sex at each age.

Mortality Rate: Rates that have been developed based on the accumulation of statistics and data and that are used to show the percentage or ratio of how death will occur within a given period of time to the classification or a specific group of insureds.

Mortality Table: A listing of data showing the death rates of persons of each sex at each age.

Mortgage Insurance: A life, credit life, or disability insurance policy designed to pay off the balance due or make the monthly payments on a mortgage, if the insured should be injured, become ill, or die.

Mysterious Disappearance: The vanishing of insured property in an unexplained manner. Previously there were disputes under theft policies as to whether property mysteriously lost had or had not been stolen. To avoid contention, insurers stated in such policies that mysterious disappearance was presumed to be due to theft. Mere disappearance of property, such as an article dropped from a boat, is not covered, since the disappearance is not mysterious.

N

Named Insured: The person designated in the policy as the insured, as opposed to someone who may have an interest in a policy but who is not shown by name.

Named Perils Policy: One which specifies the exact causes of loss for which the insurer will pay, as contrasted with a policy which insures against "all risks" and then lists only exclusions, modifications, and conditions.

National Association Of Insurance Commissioners (NAIC): A voluntary organization of state officials including commissioners, superintendents and directors, having authority to regulate insurance. NAIC provides its members with many services including research studies that often lead to model bills. These model bills are recommended to states as uniform laws and regulations as appropriate. Also provided are valuations of securities held by insurance companies, and the NAIC Insurance Regulatory Information System--formerly called the Early Warning System. Required by the NAIC from all licensed insurance companies are annual statements.

National Council On Compensation Insurance: An association of insurance companies providing workers compensation insurance. Its main functions are rate making, collecting related statistics, and developing rating plans relative to compensation insurance. Operates through administrative bureaus located in many states. Headquarters: New York, NY.

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Negligence: The failure to exercise the care that an ordinary prudent person would exercise: either doing that which a prudent person would not do, or failing to do that which a prudent person would do.

Net Amount At Risk: In life insurance, the net amount at risk is the difference between the limit of insurance or face amount of the policy and the reserve or cash value that has accumulated.

Net Loss: The actual net or final total amount of the loss experienced, calculated by adding the sum of all the amounts paid and subtracting reinsurance, salvage, and other recoveries, such as subrogation.

Net Underwriting Loss: 1) Money lost by an insurer in its underwriting operations, as distinguished from money earned or lost in the investment of assets. 2) Earned premiums less losses, loss adjustment expenses incurred and other underwriting expenses incurred, usually determined monthly for managerial purposes that show a loss.

Net Underwriting Profit: 1) Money earned by an insurer in its underwriting operations, as distinguished from money earned or lost in the investment of assets. 2) Earned premiums less losses, loss adjustment expenses incurred and other underwriting expenses incurred, usually determined monthly for managerial purposes, that show a profit

Non-cancelable Or Non-cancelable/guaranteed Renewable Policy : A provision in some policies (crop-hail insurance and ocean marine insurance) that neither policyholder nor insurer may terminate the contract during its term nor make changes or amendments to the provisions of the policy while it is in force.

Non-waiver Agreement: A signed agreement in which the insured stipulates that the continuance of a loss adjustment process by the insurer shall not be construed as an admission of liability by the insurer. Used when there are substantial questions as to the amount of the claim or whether the policy affords coverage at all.

Nonadmitted Insurance: Protection written by an insurer on a risk located in a state in which the insurer is not licensed. Such an insurer is referred to as a nonadmitted insurer.

Nonadmitted Insurer: If an insurer is not licensed to write insurance in a specific state, then the insurer is a nonadmitted insurer for that state.

Nonforfeiture Benefit: The provision in some life insurance contracts that specifies the benefits that cannot be forfeited even if premium payments are not made. These types of benefits may include the paid-up insurance value, the loan value, or the cash surrender value.

Nonforfeiture Value: A benefit to a life insurance policyholder which provides the amount of money (cash surrender value), the amount of extended term insurance, or the amount of paid-up insurance available from a life insurance policy to its owner when terminated by that person before the policy matures.

Nonrenewal: When an insurer chooses not to offer renewal coverage on a policy for cause such as higher than expected hazards or losses, lack of compliance with safety recommendations, or because the insurer is withdrawing for a territory or from offering a type of coverage. When an insurer nonrenews coverage, it must be done within the applicable state law as far as the reasons permitted, type of notice that is sent to the insured and the amount of time the insurer must give the insured prior to policy expiration.