

GLOSSARY OF INSURANCE TERMS ~ T ~ Z

T

Tail Coverage: Insurance coverage available to provide protection for tail exposures. The present occurrence version of the commercial general liability (CGL) form already provides protection for losses that occurred during the policy period, regardless of when they are reported or claims made. The claims-made version of the CGL must be endorsed to provide coverage for claims that are not made during the policy period.

Temporary Disability Benefits: State employer liability laws that mandate the minimum benefit that must be offered to temporarily injured, sick or disabled employees not otherwise covered by workers compensation laws.

Temporary Worker: A person furnished to an employer to substitute for a permanent employee on leave or to meet a seasonal or short-term workload condition. This does not include leased workers

Ten-day Examination Period: In health insurance, a notice on the first page of a policy that the policyholder has 10 days in which to examine the policy and return it for full refund of premium if not satisfied. Often known as the "ten-day free look," the provision is now required in many states.

Tenants Policy: A form of homeowners policy sold to persons who rent their living quarters or who are co-op apartment owners.

Term Policy: A policy written for longer than one year. If for less than a year, it is a short-term policy

Territorial Rating: When an insurer develops insurance classifications and rates based on the physical, environmental, political, and overall loss potential of geographic locations.

Theft: A broad term meaning the wrongful taking of the property of another.

Third-party Insurance: Protection against liability to a third party. The first two parties are the insured and the insurer.

Time Element Insurance: A coverage which pays for loss of earnings or income when business operations are interrupted, curtailed or suspended due to property loss as a result of an insured cause of loss. Also covered are loss of rents and rental value. The current commercial time element coverage forms are business income and extra expense. Extra expense covers costs incurred to continue operations at another location.

Title Insurance: Protection that indemnifies the purchaser of real estate against loss occasioned from defects in the legal title. A title insurance policy extends for the lifetime of the insured while owning the insured property. Largely written by insurers specializing in this class alone.

Total Disability: Inability to perform any functions of any occupation, caused by a covered illness or injury.

Total Loss: 1) Loss of all the insured property. 2) Under a given policy, a loss involving the maximum amount for which that policy is liable.

Town Class Or Town Grading: A 10-category ranking or schedule of public fire protection of cities and towns established in 1916. The grading is currently maintained by the Insurance Services Office for use in making fire insurance rates and to encourage local governments to maintain better fire fighting equipment and personnel. A city or town is ranked in one of the categories by receiving deficiency points for failing to meet established standards under each of these major headings: water supply, fire department, fire service communications, fire safety control, climate, and divergence between fire department and water supply. Town Class 1 is the best class (a city or town having fewer than 501 points), and Town Class 10 is the worst (more than 4,500 points).

Transfer Of Risk: When the hazards of, exposures, or financial responsibility for loss is transferred or shifted from the risk to another entity. Various types of risk transfer or risk management methods are available and may include insurance policies, hold harmless and other contractual agreements, leasing mechanisms, or other alternative financing.

Transportation Insurance: Insurance on merchandise and/or cargo while it is being moved and is subject to loss or damage during transportation. This insurance may also protect while in a warehouse. Coverage is also available for property serving as either an instrument of transportation or of communication, such as bridges, tunnels and television transmission towers. The writing of this type of protection is usually within the province of marine or inland marine underwriters.

T Continued

Twenty-four Hour Coverage: An emerging theory aimed at providing medical and health insurance protection in one format for both work-related and non-work-related coverage. In theory, this would eliminate the need for workers compensation coverage and would evolve the current traditional medical or health insurance program into 24-hour or around-the-clock protection, and would possibly set the venue for national health insurance coverage.

Twisting: When an agent or broker uses misrepresentation to convince an insured to change insurance providers by canceling an existing policy in order to purchase a new one. The agent or broker may benefit from this via higher commissions; bonuses or incentives with the new carrier while the insured may suffer coverage gaps or inconsistencies and short-rate cancellation charges. This is considered to be an unfair trade practice.

U

Ultimate Mortality Table: A type of mortality table or listing of data showing the death rates of persons of each sex at each age used, which is used in life insurance to calculate the premiums charged. This particular type of table has been manipulated to correct or compensate for any possible adverse selection by eliminating the use of incredible or undeveloped data.

Ultimate Net Loss: In liability insurance, the amount an insured is obligated to pay because of settlement or adjudication.

Umbrella Liability Insurance: A form of liability insurance protecting policyholders for claims in excess of the limits of their primary automobile, general liability and workers compensation policies, and for some (few) claims excluded by their primary policies which are subject to a deductible, which may range from \$250 for a personal umbrella to a minimum of \$10,000 for a commercial umbrella.

Umpire: 1) A person selected by two appraisers to help settle disputes in property insurance claims. The disputing company and claimant choose the appraisers, and a decision of any two of the three is binding. For example, if a company and claimant fail to agree on actual cash value of property destroyed or the amount of the loss, many policies provide that these are determined by appraisal. 2) A similar person in an arbitration proceeding under a reinsurance contract.

Unallocated Benefit: When referring to unallocated benefits in a health insurance policy, they are those benefits that are not scheduled or limited by individual types of expenses. All reasonable expenses are covered up to a specified amount.

Unauthorized Insurance: Insurance written by an insurer not licensed by the country or state in which the risk is located.

Unbundled Services: A range of services related to insurance that some insurers or their subsidiaries offer their policyholders but that can be separated (or unbundled) from the insurance transaction. Examples: management services for captives, pools and self-insurers, claim services, actuarial services and statistical information, and loss control services.

Underinsured Motorists Coverage: Coverage an insured may purchase to protect his or her own self from damage or injury caused by a negligent party who does not have adequate limits of insurance to cover the loss.

Underlying Insurance Policy: The basic or primary layer of coverage, the initial policy that will respond to the covered loss. Only when the limits of the underlying policy have been exhausted, will the other respective layers of insurance respond, as with the case of an excess or umbrella policy in liability insurance.

Underlying Limits: 1) In the case of liability excess or umbrella policies, it refers to the limits of the primary (underlying) policy below the excess or umbrella policy which will respond first to loss. Many excess or umbrella policies have established minimum limits for underlying policies. Should the underlying policy not meet the minimum limit requirements, the excess or umbrella will not be offered. 2) With respect to reinsurance, it is the amount that must be exhausted on the underlying coverages or policies before the reinsurance coverage will go into effect.

Underwriting: The process of selecting, classifying, evaluating, rating, and assuming risks.

Underwriting Capacity: This is the maximum amount of financial risk an insurer or a reinsurer is willing to assume in the event of a single loss or for a given period of time. With respect to the insurance industry, underwriting capacity may not necessarily be at the discretion of the insurance company but may be influenced or controlled by the regulations that apply to the insurance industry based on the capacity of the insurance company.

Underwriting Cycle: The capacity, degree of underwriting, and availability of insurance is said to progress in cycles of hard market and soft market. The soft market period is the portion of the cycle in which capacity is high, underwriting is loose or not as strict, and coverage is readily available at affordable, competitive and even artificially low prices. The hard or tight market is the opposite.

U Continued

Underwriting Margin: A computation used predominantly by property and casualty insurers to determine the amount of underwriting loss or gain--based on 100% being the break-even point. Any time the total loss ratio and expense ratio versus the amount of premium written is less than 100%, it is indicative of an underwriting profit. If over 100%, it shows an underwriting loss. For example, an insurer with an expense ratio of 32% and a loss ratio of 66% or a total underwriting expense of 98% shows a 2% underwriting profit.

Underwriting Profit Or Loss: 1) Money earned or 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.

Unearned Premium: The portion of the premium representing the unexpired portion of the policy term.

Unfair Claims Practice: Illegal and intentional claims handling practices used by insurers in order to avoid a claim, reduce the amount of a claim, or delay payment of a claim for an unreasonable period of time. Insureds have recourse through their state insurance departments in addition to legal action, should this occur

Unilateral Contract: A unilateral contract is one where one party draws the entire context and content of the contract. The second party has only the option to accept or not accept the contract as written. The insurance policy is considered to be this type of contract. Any unclearness or ambiguity in such contracts is construed to be the fault of the party drawing the contract; and, therefore, legal interpretations of such will go against the drawer of the contract (the insurer) and in favor of the other party (the insured).

Uninsured Motorists Coverage: Under an auto policy, protection for the insured against bodily injury or property damage (in some states) caused by the negligence of an uninsured or underinsured motorist.

Universal Life Insurance: A combination of monthly term life insurance plus possible savings in an arrangement that provides limited flexibility as to death benefits and premium payment

Usual, Customary And Reasonable Fees: A term used in health and dental insurance programs to designate what the insurer has determined to be the fair and reasonable cost of a given service in the territory in which the insured is located.

V

Vacancy Or Unoccupancy Permit: An endorsement added to a property policy by the insurer that permits or agrees to continue coverage on a building that has been vacant or unoccupied for more than the limitation period specified in the policy.

Valued Policy: A policy in which the company agrees that the property insured is worth the amount of insurance and, therefore, in the event of total loss, pays the face value of the policy without need for proof of the value at that time

Valued Policy Law: In certain states, a law that requires that in the event a building be totally destroyed by fire, the company insuring it must pay the face amount of its policy irrespective of the actual value of the building destroyed.

Variable Annuity: A type of annuity where payout or benefits are not a fixed amount, but rather are variable depending on the investment earnings accumulated. The insured is allowed the investment option and/or the stock portfolio desired.

Variable Life Insurance: A type of life insurance where payout or benefits are not a fixed amount, but rather are variable depending on the investment earnings accumulated. The insured is allowed the investment option and/or the stock portfolio desired. The cash surrender value or benefits are tied directly to the income earned by the investments.

Variable Premium Life Insurance: Life insurance programs most commonly found in universal life, in which the premium due is variable. The variation in premium will depend on the investment earnings from earned dividends that may be reinvested and used to pay premiums.

Verbal Threshold: No-fault automobile laws are applicable in some states. In a portion of the states with no-fault laws, when the injuries of the victim meet or exceed specifically described criteria, the victim is compensated under the no-fault system but is also allowed the option to take legal action against the negligent tortfeasor under the tort system for injury and loss such as pain, suffering and, where allowed, punitive damages. The specifically described criterions, or verbal description of injuries are called the verbal threshold.

V Continued

Viatical: From the Latin word "viaticum" which loosely translated means provisions for a journey; viatical is often used in reference to the sale of the rights to a life insurance policy. Recently, it is used in reference to obtaining or selling the rights to insurance benefits (either in whole or in part) to provide for the needs of terminally ill insureds such as those with cancer or AIDS.

Viatical Settlement: When part or all of the proceeds from a life insurance policy are provided or paid out to an insured that is terminally ill.

Vicarious: When one party is held responsible for the actions or conduct of another party based solely on the relationship of the two parties.

Voidable: A policy contract that can be made void at the option of one or more of the parties to it. An example would be a property insurance policy that is voidable by the insurer if the insured commits certain acts.

Voluntary Compensation Coverage: Protection that an employer may purchase to cover employees not otherwise included in the scope of workers compensation laws.

Voluntary Market: The segment of the insurance market where insureds are able to obtain the desired or necessary coverages from available insurance carriers voluntarily, without state or governmental intervention in forcing placement either with a private carrier or a state-mandated plan.

W

Waiting Period: 1) in health insurance, the duration of time between the start of a disability and the start of benefits, as provided in the policy. Also known as elimination period. 2) In some business interruption insurance policies, a deductible clause.

Waiver: 1) in property-liability insurance, the intentional relinquishment of a known right. To illustrate, an insurance policy may set forth certain conditions with which a policyholder must comply under penalty of voiding the insurance, e.g., maintain a watchperson on the premises or keep a sprinkler system in working condition. The company may voluntarily give up this right to void the policy. Such a waiver may be conveyed by implication or by direct statement. Estoppel is a term sometimes used interchangeably with waiver in the law of insurance. 2) A waiver-of-premium provision in a life or health insurance policy that the policy will be kept in force by the insurer without payment of further premiums if the insured becomes permanently and totally disabled as defined in the policy.

Waiver Of Subrogation: A condition of an insurance policy which states that the coverage will not be prejudiced if the insured has waived in writing prior to a loss any rights of recovery from a party responsible for the loss.

Warranty: A statement by the insured about the literal truth on which the insurance contract depends. Warranties may relate to matters existing at or before the issuance of the policy (affirmative warranties) or may be undertakings by the insured that something be done or omitted after the policy takes effect and during its continuance (promissory warranties). Many states have restricted by statute the common law rule that "any breach of warranty avoids an insurance policy"; for example, under the New York law, a breach of warranty to avoid the policy must have "materially increased the risk of loss, damage or injury within the coverage of the contract."

Watercraft Exclusion: exclusion in most standard personal and commercial liability coverages regarding watercraft. Often excluded is liability from the ownership, use, maintenance, rental, or loan of watercraft.

Whole Life Insurance: A common type of life insurance coverage providing a face value death benefit for the entire or whole life of the insured, unless the insured should cancel or not pay premiums.

Without Prejudice: An action taken during claims negotiations designated as "without prejudice" is intended to be without detriment to the existing rights of the parties.

Workers Compensation Insurance: Protection which provides benefits to employees for any injury or contracted disease arising out of and in the course of employment. All states have laws that require such protection for workers and prescribe the length and amount of such benefits provided.

W Continued

Worldwide Coverage: Endorsements or policy provisions that broaden the coverage territory to worldwide, thus giving the insured the applicable insurance protection anywhere in the world.

Wrap: A general contractor is typically the party responsible for providing primary insurance coverage on the contract. This coverage must include protection for the work done by and the exposures resulting from the use of subcontractors. This includes coverages such as general liability and workers compensation but may also include business auto exposures. In order to obtain the necessary coverage, insurers may have to develop special programs and manuscript or tailoring endorsements to clarify the extent of the protection and who/what it encompasses. It is sometimes referred to simply as a "wrap."

Written Premiums: The premiums on all the policies, which a company has issued in a period of time, as opposed to, earned premium.

Y

Yacht Insurance: A marine insurance designed to provide property damage or hull coverage for yachts, cabin cruisers, and sailing vessels. Some will also cover small inboard motors and other personal vessels.

Z

Zone Rating: In commercial automobile insurance, those risks that have a radius of operation of over 300 miles, and fall into the long-haul category, are rated on the zone they travel in using the city of origin and the city of destination to determine the zone category.

Zone System: A system developed by the NAIC (National Association of Insurance Commissioners) to be used to exam the solvency of insurers. The examination is conducted every three years by teams of examiners. Geographical zones form these teams. Results of NAIC exams are usually accepted by states where insurers are licensed, so that each state does not have to conduct its own exams.