



**Glossary of Risk Management
And Insurance Terms**

Glossary of Terms

~ A ~

Act of God—A natural event which causes property damage such as a hurricane, earthquake, or flood.

Actual cash value—The value of property as determined by its fair and reasonable value and what it would bring if sold in an arm's length transaction between a willing buyer and willing seller.

Additional insured—A person or entity not specifically named as an insured in an insurance policy but who is nevertheless provided coverage because he, she, or it is within a covered class or group.

Admitted carrier—An insurance company that is licensed to do business in a given state, usually by that state's insurance commissioner.

Aggregate corridor—A provision in an insurance policy that requires an insured to pay losses above the deductible or self-insured retention for a single claim. Once the corridor amount has been paid for the policy period, then the insured's maximum loss for a single claim drops to the deductible or self-insured retention.

Aggregate limits—The maximum amount an insurance company will pay in a policy period regardless of the number of claims.

AGRIP—The Association of Governmental Risk and Insurance Pools, a national service organization for governmental pools.

All-risk insurance—Insurance that covers losses from many—but not all—risks except those risks that are specifically excluded.

A. M. Best Company—A company which rates insurance companies for size and financial strength. This rating is often called an insurer's "Best rating."

Auto physical damage coverage—Insurance coverage for losses to one's own vehicles.

~ B ~

Binder—A written commitment by an insurance company to provide coverage prior to the delivery of the insurance policy.

Bodily injury coverage—Insurance coverage for bodily injury to third persons.

Boiler and machinery coverage—Insurance coverage for an insured's own machinery and equipment.

Boiler and machinery insurance—First-party insurance that covers losses cause by the breakdown of machinery.

Bond—A back-up assurance by an insurance or bonding company that a person or entity will undertake some specific project or activity or refrain from some specific activity.

Book value—A method to value property based upon its cost less depreciation.

Broker—A person or company not affiliated with a specific insurance company that secures insurance coverage for its clients or performs other insurance-related tasks for its clients.

Builder's risk insurance—Insurance coverage for a specific building during its construction.

Captive insurance company—An insurance company created to provide coverage to those who formed and own it. Example: See GEM

Certificate of insurance—A written document from an insurance company that certain insurance coverage exists.

CGL coverage—Commercial general liability coverage. A broad form of liability coverage for claims of third parties.

Claims-made insurance policy—A third-party liability insurance policy that requires, as a condition of coverage, that a claim for a loss be reported to the insurance company during the policy period or shortly thereafter.

Coinurance—A policy provision that obligates the insured to bear some given percentage of a loss to the property insured.

Compensatory damages—A measure of damages which includes compensation for property damage and bodily injury together with losses for expenses, time loss, and pain and suffering.

Comparative negligence—In an event where there are multiple parties at fault, the degree or amount of negligence, usually expressed as a percentage, which is assigned to each party by the trial judge or jury.

Contractual liability coverage—Coverage for liabilities assumed by contract.

Coverage territory—The geographical area in which insurance coverage is provided.

Crime coverage—First-party insurance coverage for misappropriation of funds by an insured employer's own employees.

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Declarations page—That part of an insurance policy, often the first page, which contains a synopsis of the coverage provided including the name of the insured and insurer, the dates coverage begins and ends, the limits of coverage and deductible, and type of coverage afforded. Often called the “dec. page.”

Deductible—The amount of a loss that an insured is required to pay before the insurer’s obligation to pay begins.

Defense obligation—The obligation of an insurer in a third-party liability policy to pay the legal expenses and other costs of the insured in defending a claim or suit.

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Endorsement—An amendment or addition to an insurance policy that modifies the terms and conditions set forth in the main part of the policy.

Errors and omissions coverage—Insurance coverage for claims of third party claimants for losses caused by one’s errors or omissions. Often called “E&O coverage.”

Excess coverage—Insurance coverage above the layer of coverage provided by a primary layer of coverage. Excess coverage does not necessarily follow the form of the primary policy.

Exclusions—Types of losses identified in an insurance policy as not covered.

Exposure—Activity that exposes a person or entity to a loss.

Extended reporting period—In a claims-made insurance policy, a provision that allows coverage for claims even if they are not reported to the insurer prior to the end of the policy period.

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Fiduciary liability coverage—Liability coverage for losses caused by a breach of one’s fiduciary duty.

First dollar coverage—Insurance coverage for a loss without a deductible or self-insured retention.

First-party insurance coverage—Insurance which covers losses to the insured’s own property.

Following form insurance policy—An insurance policy that adopts the same terms and conditions of coverage of the policy which is below it at lower coverage limits.

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GEM (Government Entities Mutual, Inc.)—A captive insurance company in which the Pool is a founding member which provides one layer of coverage in the Pool's liability insurance program.

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Hold harmless agreement—An agreement where one party agrees to be responsible for some loss thereby limiting or preventing the exposure of another party for that loss.

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IBNR (Incurred but not reported)—An actuarial term whereby a loss value is assigned to unknown and unreported events based upon the probability that such events have occurred.

Indemnity obligation—In a third-party liability policy, the obligation of the insurer to pay the losses sustained by the claimant.

Inland marine insurance—First-party property coverage for scheduled machinery and equipment usually not licensed.

Inverse Condemnation—The taking of property by a governmental entity having the power of eminent domain without compensation having first been paid.

ISO—The Insurance Services Office, an organization which provides a variety of services to those insurance companies that are members.

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Joint and several liability—In a situation where more than one person or entity is legally responsible for the harm to another, damages for the full amount of the loss may be collected from any one of them at the option of claimant.

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Liability insurance—Insurance that protects one from damages caused to a third party.

Limits—The maximum amount that an insurance policy will pay.

Lloyd's of London—A multi-faceted conglomeration of companies, syndicates, and individuals based in London, England which provide insurance for risks with high monetary exposures or for risks difficult to insure from other sources.

London market—The market for insurance provided by Lloyd's of London.

Loss—The consequence of an event in which some damage is sustained.

Loss control—Action and activities undertaken to reduce the chance of loss.

Loss ratio—The proportion of incurred losses to earned premiums.

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Malpractice insurance—Insurance which protects professional persons from harm caused to third persons from professional activities which fall short of standards for the profession.

Manuscript policy—An insurance policy which is custom-taylored for a single insured.

Member contributions—Amounts paid by members of a pool for the protection provided by that pool.

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Named insured—In an insurance policy, those people, companies, or other entities who are specifically named as insureds.

Named-peril insurance coverage—Insurance coverage that covers only those losses from those perils specified in the policy.

National Public Entity Excess Program (NPX)—An organization of which the Pool is a member through which the Pool obtains access to certain markets for excess liability coverage.

Negligence—Failure to exercise the standard of care that a reasonable person would exercise in the same circumstances.

Nose coverage—In a claims-made liability policy, coverage for events that occurred prior to the inception of the policy.

Notice of occurrence—Notice by an insured to the insurer that an event or loss has occurred for which the policy may provide coverage.

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Occurrence coverage—Insurance coverage which covers losses or occurrence which occur during the policy period. A claim for a loss need not be reported during the policy period.

On the risk—When an insurance carrier has provided coverage to an insured for some type of loss and would be obliged to respond to a loss in the event it occurs.

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Per occurrence limits—The maximum amount that an insurance policy will pay for any single occurrence regardless of the number of claimants.

Personal injury coverage—Liability coverage for specified offenses such as libel, slander, false arrest, malicious prosecution, or violation of right of privacy. This is not the same as coverage for bodily injury.

Personal property—Tangible property which is not real property.

Policy—The contract between an insured and insurer which sets forth the terms and conditions of coverage.

Pollution coverage—Coverage for harm caused by pollution to the environment.

Pool—A cooperative organization between two or more entities to share the exposure to risks.

Primary insurance or coverage—The first layer of insurance coverage.

Prior acts coverage—In a policy which provides claims-made liability coverage, coverage for events which occurred prior to the inception of the policy.

Professional liability coverage—Coverage for losses from professional activities which fall below the standards of the profession.

Property insurance—Insurance which covers losses to one's own property or property in one's custody and control.

Proximate cause—A cause that is legally sufficient to result in liability.

PEPIP (Public Entities Property Insurance Program)—A London-based program through which WSTIP and some other public-entity pools obtain excess property insurance.

Public officials liability coverage (POL coverage)—Coverage for public officials for losses to third persons as a consequence of the performance of an official's job.

Punitive damages—Damages awarded in a civil case not intended to make the injured party whole but to punish the wrongdoer so that the wrongful activity stops.

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Rate—The cost of a discrete unit of insurance such as, for example, the cost for each thousand dollars of insured property.

Real property—Land and those man-made things attached to it such as buildings.

Reinsurance—Insurance purchased by a pool or insurance company to buy-down or transfer the risk of loss to other insurance companies upon a policy issued by the pool or insurance company.

Replacement cost—The evaluation of a loss based upon the cost to replace the damaged item.

Reserves—Following an evaluation of a loss by those handling a claim, an amount of money set aside by an insurance company or pool to cover the eventual payment of the loss and the costs of evaluating and defending it.

Retention—The amount of loss exposure assumed or retained by an entity before that monetary level is reached at which insurance kicks in.

Retroactive date—In a claims-made liability policy a date which precedes inception of the policy for the current year which provides carryover coverage from previous policy years.

Retrospective rating—An insurance pricing technique where final premiums for a policy are not determined until the end of the policy period and following an audit of the exposures insured in the policy.

Rider—An attachment or endorsement to an insurance policy, sometimes issued after inception of the policy, which modifies the policy terms or conditions.

Risk financing—The various ways that one pays for the losses caused by the exposure to risk.

Riskmaster—A software program used by the Pool to track events, claims, and losses.

Runoff—The process by which an insurance company winds-up its affairs by ceasing to write new insurance policies while continuing to process and pay existing claims.

Self-insurance—The payment and control of losses through one's own resources rather than shifting those losses to some other entity such as, for example, by the purchase of insurance.

Self-insured retention (SIR)—The amount of loss exposure assumed or retained by an entity before the monetary level is reached at which insurance kicks in.

Service providers—Those people, companies, and organizations of a member of the Pool which provide goods or services to the member which may, under certain conditions, be named as additional insureds so that they are covered by the policies issued to the member by the Pool.

Severall liability—In a situation where more than one person or entity are legally responsible for the harm to another, damages for each portion of the loss may be collected only from that person or entity responsible for that part of the loss.

Sovereign immunity—A legal doctrine where the government is not liable for the harm that it causes even though a private party would be liable in the same circumstances.

Strict liability—Liability without fault.

Stop loss—A provision in an insurance policy which cuts off an insured's responsibility for losses above some predetermined monetary level.

Structured settlement—The settlement of a claim for something other than a lump sum payment in order to provide an income stream to the injured party, usually through the purchase of an annuity.

Subrogation—The right of one, often an insurer or pool, who has paid a claim to an injured party to seek recovery from the person or entity that caused the injury in the first place.

Surety bond—A bond where the surety that issues the bond assures the performance of some act or undertaking by person or entity that purchased the bond.

Surplus-lines insurance—An insurance policy issued by a carrier not licensed to do business in a given state, usually for risks or for insureds that cannot obtain coverage from admitted carriers.

Syndicate—A group of insurance companies that join together in order to spread hard-to-insure or high value risks among themselves.

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Tail coverage—In a claims-made liability policy, coverage for events not reported to the insurer before the end of the policy.

Third-party insurance coverage—Liability coverage which protects the insured from claims of third parties who are not parties to the insurance contract.

Tort—A civil wrong for which the injured party can recover damages.

Tortfeasor—One who commits a tort.

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UIM coverage—Coverage for losses caused by underinsured or uninsured motor vehicle operators.

Umbrella insurance coverage—Insurance coverage which follows a policy with lower limits and which usually provides coverage broader than the policy which precedes it.

Underwriter—A person employed by an insurance company or pool to evaluate and rate risks in order to determine if the company or pool is willing to insure the risk and, if so, for what premium.

UST coverage—Coverage for environment harm caused by leaking underground storage tanks.

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Vicarious liability—The liability of one for the acts or omissions of another, e.g. an employer is often vicariously liable for the acts of an employee.

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Waiver—The intentional relinquishment of a known right.

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