Hanson & Ryan’s Glossary

Accidental Death Benefit - In a life insurance policy, benefit in addition to the death benefit paid to the beneficiary, should death occur due to an accident. There can be certain exclusions as well as time and age limits.

Actual Cash Value - Cost of replacing damaged or destroyed property with comparable new property, minus depreciation and obsolescence. For example, a 10-year-old sofa will not be replaced at current full value because of a decade of depreciation.

Adjuster - A representative of the insurer who seeks to determine the extent of the insurer's liability for loss when a claim is submitted.

Agent -individual who sells and services insurance policies in either of two classifications:

1. Independent agent represents at least two insurance companies and (at least in theory) services clients by searching the market for the most advantageous price for the most coverage. The agent's commission is a percentage of each premium paid and includes a fee for servicing the insured's policy.
2. Direct or career agent represents only one company and sells only its policies. This agent is paid on a commission basis in much the same manner as the independent agent.

Aggregate Limit - Usually refers to liability insurance and indicates the amount of coverage that the insured has under the contract for a specific period of time, usually the contract period, no matter how many separate accidents might occur.

Annuity - An agreement by an insurer to make periodic payments that continue during the survival of the annuitant(s) or for a specified period.

Assets - Assets refer to "all the available properties of every kind or possession of an insurance company that might be used to pay its debts." There are three classifications of assets: invested assets, all other assets, and total admitted assets. Invested assets refer to things such as bonds, stocks, cash and income-producing real estate. All other assets refer to nonincome producing possessions such as the building the company occupies, office furniture, and debts owed, usually in the form of deferred and unpaid premiums. Total admitted assets refer to everything a company owns. All other plus invested assets equals total admitted assets. By law, some states don't permit insurance companies to claim certain goods and possessions, such as deferred and unpaid premiums, in the all other assets category, declaring them "nonadmissable."

Automobile Liability Insurance - Coverage if an insured is legally liable for bodily injury or property damage caused by an automobile.

Benefit Period - In health insurance, the number of days for which benefits are paid to the named insured and his or her dependents. For example, the number of days that benefits are calculated for a calendar year consist of the days beginning on Jan. 1 and ending on Dec. 31 of each year.

Casualty - Liability or loss resulting from an accident.

Casualty Insurance - That type of insurance that is primarily concerned with losses caused by injuries to persons and legal liability imposed upon the insured for such injury or for damage to property of others. It also includes such diverse forms as plate glass, insurance against crime, such as robbery, burglary and forgery, boiler and machinery insurance and Aviation insurance. Many casualty companies also write surety business.

Claim - A demand made by the insured, or the insured's beneficiary, for payment of the benefits as provided by the policy.

Coinsurance - In property insurance, requires the policyholder to carry insurance equal to a specified percentage of the value of property to receive full payment on a loss. For health insurance, it is a percentage of each claim above the deductible paid by the policyholder. For a 20% health insurance coinsurance clause, the policyholder pays for the deductible plus 20% of his covered losses. After paying 80% of losses up to a specified ceiling, the insurer starts paying 100% of losses.

Collision Insurance - Covers physical damage to the insured's automobile (other than that covered under comprehensive insurance) resulting from contact with another inanimate object.

Commercial Lines - Refers to insurance for businesses, professionals and commercial establishments.

Commission - Fee paid to an agent or insurance salesperson as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.

Comprehensive Insurance - Auto insurance coverage providing protection in the event of physical damage (other than collision) or theft of the insured car. For example, fire damage or a cracked windshield would be covered under the comprehensive section.

Concurrent Periods - In hospital income protection, when a patient is confined to a hospital due to more than one injury and/or illness at the same time, benefits are paid as if the total disability resulted from only one cause.

Coverage - The scope of protection provided under an insurance policy. In property insurance, coverage lists perils insured against, properties covered, locations covered, individuals insured, and the limits of indemnification. In life insurance, living and death benefits are listed.

Convertible - Term life insurance coverage that can be converted into permanent insurance regardless of an insured's physical condition and without a medical examination. The individual cannot be denied coverage or charged an additional premium for any health problems.

Copayment - A predetermined, flat fee an individual pays for health-care services, in addition to what insurance covers. For example, some HMOs require a $10 copayment for each office visit, regardless of the type or level of services provided during the visit. Copayments are not usually specified by percentages.

Coverage Area - The geographic region covered by travel insurance.

Death Benefit - The limit of insurance or the amount of benefit that will be paid in the event of the death of a covered person.

Deductible - Amount of loss that the insured pays before the insurance kicks in.

Direct Writer - An insurer whose distribution mechanism is either the direct selling system or the exclusive agency system.

Dividend - The return of part of the policy's premium for a policy issued on a participating basis by either a mutual or stock insurer. A portion of the surplus paid to the stockholders of a corporation.

Earned Premium - The amount of the premium that has been paid for in advance that has been "earned" by virtue of the fact that time has passed without claim. A three-year policy that has been paid in advance and is one year old would have only partly earned the premium.

Elimination Period - The time which must pass after filing a claim before policyholder can collect insurance benefits. Also known as "waiting period."

Employers Liability Insurance - Coverage against common law liability of an employer for accidents to employees, as distinguished from liability imposed by a workers' compensation law.

Exclusions - Items or conditions that are not covered by the general insurance contract.

Extended Replacement Cost - This option extends replacement cost loss settlement to personal property and to outdoor antennas, carpeting, domestic appliances, cloth awnings, and outdoor equipment, subject to limitations on certain kinds of personal property; includes inflation protection coverage.

Floater - A separate policy available to cover the value of goods beyond the coverage of a standard renters insurance policy including movable property such as jewelry or sports equipment.

Future Purchase Option - Life and health insurance provisions that guarantee the insured the right to buy additional coverage without proving insurability. Also known as "guaranteed insurability option."

General Liability Insurance -Insurance designed to protect business owners and operators from a wide variety of liability exposures. Exposures could include liability arising from accidents resulting from the insured's premises or operations, products sold by the insured, operations completed by the insured, and contractual liability.

Grace Period - The length of time (usually 31 days) after a premium is due and unpaid during which the policy, including all riders, remains in force. If a premium is paid during the grace period, the premium is considered to have been paid on time. In Universal Life policies, it typically provides for coverage to remain in force for 60 days following the date cash value becomes insufficient to support the payment of monthly insurance costs.

Guaranteed Renewable - A policy provision in many products which guarantees the policyowner the right to renew coverage at every policy anniversary date. The company does not have the right to cancel coverage except for nonpayment of premiums by the policyowner; however, the company can raise rates if they choose.

Hazard - A circumstance that increases the likelihood or probable severity of a loss. For example, the storing of explosives in a home basement is a hazard that increases the probability of an explosion.

Health Maintenance Organization (HMO) - Prepaid group health insurance plan that entitles members to services of participating physicians, hospitals and clinics. Emphasis is on preventative medicine, and members must use contracted health-care providers.

Health Reimbursement Arrangement - Owners of high-deductible health plans who are not qualified for a health savings account can use an HRA.

Health Savings Account - Plan that allows you to contribute pre-tax money to be used for qualified medical expenses. HSAs, which are portable, must be linked to a high-deductible health insurance policy.

Hurricane Deductible - Amount you must pay out-of-pocket before hurricane insurance will kick in. Many insurers in hurricane-prone states are selling homeowners insurance policies with percentage deductibles for storm damage, instead of the traditional dollar deductibles used for claims such as fire and theft. Percentage deductibles vary from one percent of a home's insured value to 15 percent, depending on many factors that differ by state and insurer.

Impaired Insurer - An insurer which is in financial difficulty to the point where its ability to meet financial obligations or regulatory requirements is in question.

Indemnity - Restoration to the victim of a loss by payment, repair or replacement.

Independent Insurance Agents & Brokers of America (IIABA) - Formerly the Independent Insurance Agents of America (IIAA), this is a member organization of independent agents and brokers monitoring and affecting industry issues. Numerous state associations are affiliated with the IIABA.

Insurable Interest - Interest in property such that loss or destruction of the property could cause a financial loss.

Insurance Adjuster - A representative of the insurer who seeks to determine the extent of the insurer's liability for loss when a claim is submitted. Independent insurance adjusters are hired by insurance companies on an "as needed" basis and might work for several insurance companies at the same time. Independent adjusters charge insurance companies both by the hour and by miles traveled. Public adjusters work for the insured in the settlement of claims and receive a percentage of the claim as their fee. A.M. Best's Directory of Recommended Insurance Attorneys and Adjusters lists independent adjusters only.

Insurance Attorneys - An attorney who practices the law as it relates to insurance matters. Attorneys might be solo practitioners or work as part of a law firm. Insurance companies who retain attorneys to defend them against law suits might hire staff attorneys to work for them in-house or they might retain attorneys on an as-needed basis. A.M. Best's Directory of Recommended Attorneys and Adjusters lists insurance defense attorneys who concentrate their practice in insurance defense such as coverage issues, bad faith, malpractice, products liability, and workers' compensation.

Insurance Regulatory Information System (IRIS) - Introduced by the National Association of Insurance Commissioners in 1974 to identify insurance companies that might require further regulatory review.

Laddering - Purchasing bond investments that mature at different time intervals.

Lapse Ratio - The ratio of the number of life insurance policies that lapsed within a given period to the number in force at the beginning of that period.

Least Expensive Alternative Treatment - The amount an insurance company will pay based on its determination of cost for a particular procedure.

Leverage or Capitalization - Measures the exposure of a company's surplus to various operating and financial practices. A highly leveraged, or poorly capitalized, company can show a high return on surplus, but might be exposed to a high risk of instability.

Liability - Broadly, any legally enforceable obligation. The term is most commonly used in a pecuniary sense.

Liability Insurance - Insurance that pays and renders service on behalf of an insured for loss arising out of his responsibility, due to negligence, to others imposed by law or assumed by contract.

Licensed - Indicates the company is incorporated (or chartered) in another state but is a licensed (admitted) insurer for this state to write specific lines of business for which it qualifies.

Lifetime Reserve Days - Sixty additional days Medicare pays for when you are hospitalized for more than 90 days in a benefit period. These days can only be used once during your lifetime. For each lifetime reserve day, Medicare pays all covered costs except for a daily coinsurance amount.

Liquidity - Liquidity is the ability of an individual or business to quickly convert assets into cash without incurring a considerable loss. There are two kinds of liquidity: quick and current. Quick liquidity refers to funds--cash, short-term investments, and government bonds--and possessions which can immediately be converted into cash in the case of an emergency. Current liquidity refers to current liquidity plus possessions such as real estate which cannot be immediately liquidated, but eventually can be sold and converted into cash. Quick liquidity is a subset of current liquidity. This reflects the financial stability of a company and thus their rating.

Living Benefits - This feature allows you, under certain circumstances, to receive the proceeds of your life insurance policy before you die. Such circumstances include terminal or catastrophic illness, the need for long-term care, or confinement to a nursing home. Also known as "accelerated death benefits."

Loss Adjustment Expenses - Expenses incurred to investigate and settle losses.

Loss Control - All methods taken to reduce the frequency and/or severity of losses including exposure avoidance, loss prevention, loss reduction, segregation of exposure units and noninsurance transfer of risk. A combination of risk control techniques with risk financing techniques forms the nucleus of a risk management program. The use of appropriate insurance, avoidance of risk, loss control, risk retention, self insuring, and other techniques that minimize the risks of a business, individual, or organization.

Loss Reserve - The estimated liability, as it would appear in an insurer's financial statement, for unpaid insurance claims or losses that have occurred as of a given evaluation date. Usually includes losses incurred but not reported (IBNR), losses due but not yet paid, and amounts not yet due. For individual claims, the loss reserve is the estimate of what will ultimately be paid out on that claim.

Losses Incurred (Pure Losses) - Net paid losses during the current year plus the change in loss reserves since the prior year end.

Medical Loss Ratio - Total health benefits divided by total premium.

Member Month - Total number of health plan participants who are members for each month.

Mortality and Expense Risk Fees - A charge that covers such annuity contract guarantees as death benefits.

Mortgage Insurance Policy - In life and health insurance, a policy covering a mortgagor with benefits intended to pay off the balance due on a mortgage upon the insured's death, or to meet the payments due on a mortgage in case of the insured's death or disability.

Mutual Insurance Companies - Companies with no capital stock, and owned by policyholders. The earnings of the company--over and above the payments of the losses, operating expenses and reserves--are the property of the policyholders. There are two types of mutual insurance companies. A nonassessable mutual charges a fixed premium and the policyholders cannot be assessed further. Legal reserves and surplus are maintained to provide payment of all claims. Assessable mutuals are companies that charge an initial fixed premium and, if that isn't sufficient, might assess policyholders to meet losses in excess of the premiums that have been charged.

Named Perils - Perils specifically covered on insured property.

National Association of Insurance Commissioners (NAIC) - Association of state insurance commissioners whose purpose is to promote uniformity of insurance regulation, monitor insurance solvency and develop model laws for passage by state legislatures.

Nonstandard Auto (High Risk Auto or Substandard Auto) - Insurance for motorists who have poor driving records or have been canceled or refused insurance. The premium is much higher than standard auto due to the additional risks.

Non-Recourse Mortgage - A home loan in which the borrower can never owe more than the home's value at the time the loan is repaid.

Noncancellable - Contract terms, including costs that can never be changed.

Occurrence - An event that results in an insured loss. In some lines of business, such as liability, an occurrence is distinguished from accident in that the loss doesn't have to be sudden and fortuitous and can result from continuous or repeated exposure which results in bodily injury or property damage neither expected not intended by the insured.

Out-of-Pocket Limit - A predetermined amount of money that an individual must pay before insurance will pay 100% for an individual's health-care expenses.

Own Occupation - Insurance contract provision that allows policyholders to collect benefits if they can no longer work in their own occupation.

Peril - The cause of a possible loss.

Personal Injury Protection - Pays basic expenses for an insured and his or her family in states with no-fault auto insurance. No-fault laws generally require drivers to carry both liability insurance and personal injury protection coverage to pay for basic needs of the insured, such as medical expenses, in the event of an accident.

Personal Lines - Insurance for individuals and families, such as private-passenger auto and homeowners insurance.

Point-of-Service Plan - Health insurance policy that allows the employee to choose between in-network and out-of-network care each time medical treatment is needed.

Policy - The written contract effecting insurance, or the certificate thereof, by whatever name called, and including all clause, riders, endorsements, and papers attached thereto and made a part thereof.

Pre-Existing Condition - A coverage limitation included in many health policies which states that certain physical or mental conditions, either previously diagnosed or which would normally be expected to require treatment prior to issue, will not be covered under the new policy for a specified period of time.

Preferred Auto - Auto coverage for drivers who have never had an accident and operates vehicles according to law. Drivers are not a risk for any insurance company that writes auto insurance, and no insurance company would be afraid to take them on as risk.

Preferred Provider Organization - Network of medical providers who charge on a fee-for-service basis, but are paid on a negotiated, discounted fee schedule.

Premium - The price of insurance protection for a specified risk for a specified period of time.

Premium Unearned - That part of the premium applicable to the unexpired part of the policy period.

Private-Passenger Auto Insurance Policyholder Risk Profile - This refers to the risk profile of auto insurance policyholders and can be divided into three categories: standard, nonstandard and preferred. In the eyes of an insurance company, it is the type of business (or the quality of driver) that the company has chosen to taken on.

Qualified High-Deductible Health Plan - A health plan with lower premiums that covers health-care expenses only after the insured has paid each year a large amount out of pocket or from another source. To qualify as a health plan coupled with a Health Savings Account, the Internal Revenue Code requires the deductible to be at least $1,000 for an individual and $2,000 for a family. High-deductible plans are also known as catastrophic plans.

Qualified Versus Non-Qualified Policies - Qualified plans are those employee benefit plans that meet Internal Revenue Service requirements as stated in IRS Code Section 401a. When a plan is approved, contributions made by the employer are tax deductible expenses.

Qualifying Event - An occurrence that triggers an insured's protection.

Reciprocal Insurance Exchange - An unincorporated groups of individuals, firms or corporations, commonly termed subscribers, who mutually insure one another, each separately assuming his or her share of each risk. Its chief administrator is an attorney-in-fact.

Re-Entry - Re-entry, which is the allowance for level-premium term policyowners to qualify for another level-premium period, generally with new evidence of insurability.

Reinsurance - In effect, insurance that an insurance company buys for its own protection. The risk of loss is spread so a disproportionately large loss under a single policy doesn't fall on one company. Reinsurance enables an insurance company to expand its capacity; stabilize its underwriting results; finance its expanding volume; secure catastrophe protection against shock losses; withdraw from a line of business or a geographical area within a specified time period.

Renewal - The automatic re-establishment of in-force status effected by the payment of another premium.

Replacement Cost - The dollar amount needed to replace damaged personal property or dwelling property without deducting for depreciation but limited by the maximum dollar amount shown on the declarations page of the policy.

Reserve - An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. A reserve is usually treated as a liability.

Residual Benefit - In disability insurance, a benefit paid when you suffer a loss of income due to a covered disability or if loss of income persists. This benefit is based on a formula specified in your policy and it is generally a percentage of the full benefit. It may be paid up to the maximum benefit period.

Risk Class - Risk class, in insurance underwriting, is a grouping of insureds with a similar level of risk. Typical underwriting classifications are preferred, standard and substandard, smoking and nonsmoking, male and female.

Risk Management - Management of the pure risks to which a company might be subject. It involves analyzing all exposures to the possibility of loss and determining how to handle these exposures through practices such as avoiding the risk, retaining the risk, reducing the risk, or transferring the risk, usually by insurance.

Risk Retention Groups - Liability insurance companies owned by their policyholders. Membership is limited to people in the same business or activity, which exposes them to similar liability risks. The purpose is to assume and spread liability exposure to group members and to provide an alternative risk financing mechanism for liability. These entities are formed under the Liability Risk Retention Act of 1986. Under law, risk retention groups are precluded from writing certain coverages, most notably property lines and workers' compensation. They predominately write medical malpractice, general liability, professional liability, products liability and excess liability coverages. They can be formed as a mutual or stock company, or a reciprocal.

Secondary Market - The secondary market is populated by buyers willing to pay what they determine to be fair market value.

Standard Auto - Auto insurance for average drivers with relatively few accidents during lifetime.

State of Domicile - The state in which the company is incorporated or chartered. The company also is licensed (admitted) under the state's insurance statutes for those lines of business for which it qualifies.

Statutory Reserve - A reserve, either specific or general, required by law.

Stock Insurance Company - An incorporated insurer with capital contributed by stockholders, to whom earnings are distributed as dividends on their shares.

Stop Loss - Any provision in a policy designed to cut off an insurer's losses at a given point.

Subrogation - The right of an insurer who has taken over another's loss also to take over the other person's right to pursue remedies against a third party.

Surplus - The amount by which assets exceed liabilities.

Surrender Charge - Fee charged to a policyholder when a life insurance policy or annuity is surrendered for its cash value. This fee reflects expenses the insurance company incurs by placing the policy on its books, and subsequent administrative expenses.

Surrender Period - A set amount of time during which you have to keep the majority of your money in an annuity contract. Most surrender periods last from five to 10 years. Most contracts will allow you to take out at least 10% a year of the accumulated value of the account, even during the surrender period. If you take out more than that 10%, you will have to pay a surrender charge on the amount that you have withdrawn above that 10%.

Term Life Insurance - Life insurance that provides protection for a specified period of time. Common policy periods are one year, five years, 10 years or until the insured reaches age 65 or 70. The policy doesn't build up any of the nonforfeiture values associated with whole life policies.

Tort - A private wrong, independent of contract and committed against an individual, which gives rise to a legal liability and is adjudicated in a civil court. A tort can be either intentional or unintentional, and liability insurance is mainly purchased to cover unintentional torts.

Total Loss - A loss of sufficient size that it can be said no value is left. The complete destruction of the property. The term also is used to mean a loss requiring the maximum amount a policy will pay.

Umbrella Policy - Coverage for losses above the limit of an underlying policy or policies such as homeowners and auto insurance. While it applies to losses over the dollar amount in the underlying policies, terms of coverage are sometimes broader than those of underlying policies.

Underwriter - The individual trained in evaluating risks and determining rates and coverages for them. Also, an insurer.

Underwriting - The process of selecting risks for insurance and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.

Underwriting Guide - Details the underwriting practices of an insurance company and provides specific guidance as to how underwriters should analyze all of the various types of applicants they might encounter. Also called an underwriting manual, underwriting guidelines, or manual of underwriting policy.

Unearned Premiums - That part of the premium applicable to the unexpired part of the policy period.

Uninsured Motorist Coverage - Endorsement to a personal automobile policy that covers an insured collision with a driver who does not have liability insurance.

Universal Life Insurance - A combination flexible premium, adjustable life insurance policy.

Usual, Customary and Reasonable Fees - An amount customarily charged for or covered for similar services and supplies which are medically necessary, recommended by a doctor or required for treatment.

Utilization - How much a covered group uses a particular health plan or program.

Valuation - A calculation of the policy reserve in life insurance. Also, a mathematical analysis of the financial condition of a pension plan.

Valuation Reserve - A reserve against the contingency that the valuation of assets, particularly investments, might be higher than what can be actually realized or that a liability may turn out to be greater than the valuation placed on it.

Variable Annuitization - The act of converting a variable annuity from the accumulation phase to the payout phase.

Variable Life Insurance - A form of life insurance whose face value fluctuates depending upon the value of the dollar, securities or other equity products supporting the policy at the time payment is due.

Variable Universal Life Insurance - A combination of the features of variable life insurance and universal life insurance under the same contract. Benefits are variable based on the value of underlying equity investments, and premiums and benefits are adjustable at the option of the policyholder.

Viator - The terminally ill person who sells his or her life insurance policy.

Waiting Period - See "elimination period."

Waiver of Premium - A provision in some insurance contracts which enables an insurance company to waive the collection of premiums while keeping the policy in force if the policyholder becomes unable to work because of an accident or injury. The waiver of premium for disability remains in effect as long as the insured is disabled.

Whole Life Insurance - Life insurance which might be kept in force for a person's whole life and which pays a benefit upon the person's death, whenever that might be.