Specialist Certification in Insurance Law and Professional Liability

Insurance Contracts and Policies

Insurance Contracts and Policies Glossary

1. Adhesion Contract
An adhesion contract is a type of contract where one party has significantly more bargaining power than the other, resulting in a take-it-or-leave-it situation for the weaker party. Insurance policies are often considered adhesion contracts because the insured party usually has limited ability to negotiate the terms and conditions.

2. Agent
An insurance agent is a licensed professional who sells insurance policies on behalf of an insurance company. Agents may work for a single insurance carrier (captive agent) or represent multiple companies (independent agent).

3. Beneficiary
A beneficiary is the person or entity designated to receive the proceeds of an insurance policy upon the death of the insured. Beneficiaries can be individuals, organizations, or trusts.

4. Binder
A binder is a temporary insurance contract that provides coverage until a formal policy is issued. Binders are often used in situations where immediate coverage is needed, such as when buying a new car.

5. Business Interruption Insurance
Business interruption insurance is a type of coverage that compensates a business for lost income and expenses resulting from a covered peril, such as a fire or natural disaster. This coverage helps businesses stay afloat during the downtime caused by an insured event.

6. Claims Adjuster
A claims adjuster is an insurance professional responsible for investigating and evaluating insurance claims to determine the extent of coverage and the amount of compensation owed to the policyholder. Adjusters may work for the insurance company or be independent contractors.

7. Coinsurance
Coinsurance is a clause in an insurance policy that requires the policyholder to carry a specified percentage of the property's value to receive full coverage. Failure to meet the coinsurance requirement can result in a penalty or reduced claim payout.

8. Deductible
A deductible is the amount of money the policyholder must pay out of pocket before the insurance company will start covering expenses. Deductibles are common in property and casualty insurance policies.

9. Exclusion
An exclusion is a provision in an insurance policy that specifies what is not covered by the policy. Exclusions can vary depending on the type of insurance and are important to review to understand the limitations of coverage.

10. Floater Policy
A floater policy is an insurance policy that covers movable property, such as jewelry or fine art, regardless of its location. Floater policies provide broader coverage than standard homeowners or renters insurance.

11. Grace Period
A grace period is a specified period after the due date of an insurance premium during which the policyholder can make payment without penalty. If the premium is not paid by the end of the grace period, the policy may lapse.

12. Indemnity
Indemnity is the principle in insurance that the insured should be restored to the same financial position they were in before a covered loss occurred. Insurance policies are designed to indemnify the policyholder, not provide a windfall.

13. Jurisdiction Clause
A jurisdiction clause is a provision in an insurance policy that specifies the legal jurisdiction in which any disputes arising from the policy will be resolved. This clause helps determine which court will have authority over the case.

14. Key Person Insurance
Key person insurance is a type of policy that compensates a business for financial losses resulting from the death or disability of a key employee. The policy helps the business survive the loss of a key individual.

15. Limit of Liability
The limit of liability is the maximum amount that an insurance company will pay for a covered loss under a policy. Policyholders can choose their limits of liability based on their needs and budget.

16. Misrepresentation
Misrepresentation occurs when a policyholder provides false or misleading information to the insurance company, either intentionally or unintentionally. Misrepresentation can void the policy or result in denial of a claim.

17. Named Perils
Named perils are specific risks or events that are covered by an insurance policy. Policies that cover only named perils are more limited in scope than all-risk policies, which cover any risks not specifically excluded.

18. Occurrence Policy
An occurrence policy is an insurance policy that covers claims arising from events that occur during the policy period, regardless of when the claim is filed. Occurrence policies provide long-term coverage for risks that may not be discovered immediately.

19. Premium
A premium is the amount of money paid by the policyholder to the insurance company in exchange for coverage. Premiums can be paid in a lump sum or through periodic payments, such as monthly or annually.

20. Quitclaim
A quitclaim is a document that releases one party's interest in a property or asset to another party. In insurance, a quitclaim may be used to transfer ownership of a policy from one person to another.

21. Reinsurance
Reinsurance is a practice in which insurance companies transfer a portion of their risk to another insurer in exchange for a premium. Reinsurance helps primary insurers manage their exposure to large losses.

22. Subrogation
Subrogation is the legal right of an insurance company to pursue a claim against a third party that caused a loss to the insured. Subrogation allows the insurer to recover the amount paid to the policyholder.

23. Term Life Insurance
Term life insurance is a type of policy that provides coverage for a specified period, such as 10, 20, or 30 years. If the insured dies during the term, the policy pays out a death benefit to the beneficiary.

24. Underwriting
Underwriting is the process by which insurance companies evaluate the risk of insuring a potential policyholder and determine the terms and conditions of coverage. Underwriters assess the likelihood of a claim based on various factors.

25. Valued Policy
A valued policy is an insurance policy that pays a predetermined amount in the event of a covered loss, regardless of the actual value of the property. Valued policies are often used for unique or irreplaceable items.

26. Waiver
A waiver is a voluntary relinquishment of a right or privilege. In insurance, a waiver may be used to release the insurer from certain obligations or limitations under the policy.

27. XOL (Excess of Loss)
XOL, or excess of loss reinsurance, is a type of reinsurance that provides coverage for losses exceeding a specified threshold. XOL reinsurance helps insurers protect against catastrophic losses.

28. Yield Curve Risk
Yield curve risk is the risk that changes in the shape or slope of the yield curve will affect the value of fixed-income securities in an insurance company's investment portfolio. Yield curve risk can impact the insurer's profitability and solvency.

29. Zero Depreciation
Zero depreciation, also known as bumper-to-bumper insurance, is a type of coverage that provides full

reimbursement for the cost of repairing or replacing damaged parts of a vehicle without factoring in depreciation. Zero depreciation policies are popular for new cars.

30. Actuarial Value
Actuarial value is a measure of the financial protection provided by an insurance policy based on the expected value of claims paid out over time. Actuarial value helps insurers set premiums and reserves to ensure the financial stability of the company.

31. Bad Faith Insurance
Bad faith insurance refers to the intentional or reckless failure of an insurance company to fulfill its obligations to the policyholder. Bad faith practices can include denying legitimate claims, delaying payments, or misleading policyholders about coverage.

32. Captive Insurance Company
A captive insurance company is a subsidiary established by a parent company to provide insurance coverage exclusively to the parent and its affiliates. Captive insurers can customize policies to meet the specific needs of the parent company.

33. Declarations Page
The declarations page is the first page of an insurance policy that provides key information about the policy, including the insured parties, coverage limits, deductibles, and premium amounts. Policyholders should review the declarations page carefully to ensure accuracy.

34. Endorsement
An endorsement is a document attached to an insurance policy that modifies the terms and conditions of coverage. Endorsements can add or remove coverage, change limits, or clarify policy language to better meet the policyholder's needs.

35. Facultative Reinsurance
Facultative reinsurance is a type of reinsurance in which the reinsurer evaluates each risk individually and has the option to accept or reject each risk presented by the primary insurer. Facultative reinsurance is used for high-risk or unique exposures.

36. Guaranteed Issue Insurance
Guaranteed issue insurance is a type of policy that is available to applicants without the need for a medical exam or health questionnaire. Guaranteed issue policies are typically more expensive than traditional policies but offer coverage to those with preexisting conditions.

37. Hard Market
A hard market is a period in the insurance industry characterized by high premiums, reduced capacity, and stricter underwriting standards. Hard markets are often driven by an increase in claims, catastrophic events, or changes in regulations.

38. Incontestability Clause
An incontestability clause is a provision in an insurance policy that limits the insurer's ability to challenge

the validity of the policy after a certain period, usually two years. The clause protects policyholders from having their coverage denied due to innocent mistakes or omissions.

39. Joint and Several Liability
Joint and several liability is a legal principle that holds multiple parties responsible for a single loss or injury, allowing the injured party to collect damages from any or all of the liable parties. In insurance, joint and several liability may apply to multiple policyholders on a shared policy.

40. Loss Ratio
The loss ratio is a key performance indicator in the insurance industry that measures the ratio of claims paid out to premiums collected. A high loss ratio indicates that an insurer is paying out more in claims than it is taking in premiums, which can impact profitability.

41. Moral Hazard
Moral hazard is the risk that a policyholder may intentionally cause or exaggerate a loss to benefit from an insurance claim. Insurance companies use underwriting practices and risk management strategies to mitigate moral hazard.

42. Non-Renewal
Non-renewal is the decision by an insurance company not to extend a policy beyond its expiration date. Non-renewal may be based on changes in risk, claims history, or other factors that make insuring the policyholder unprofitable or too risky.

43. Occurrence-Based Coverage
Occurrence-based coverage is a type of insurance policy that covers claims for losses that occur during the policy period, regardless of when the claim is reported. Occurrence-based policies provide long-term protection for potential liabilities that may take years to surface.

44. Peril
A peril is a specific risk or cause of loss covered by an insurance policy. Common perils include fire, theft, windstorm, and liability claims. Insurers assess the likelihood and severity of perils to determine premiums and coverage options.

45. Quota Share Reinsurance
Quota share reinsurance is a type of reinsurance agreement in which the primary insurer cedes a fixed percentage of each policy to the reinsurer. Quota share reinsurance helps spread risk and reduce the insurer's exposure to catastrophic losses.

46. Reinstatement
Reinstatement is the process of restoring an insurance policy that has lapsed due to nonpayment of premiums. Policyholders may be required to pay past due premiums, fees, and provide evidence of insurability to reinstate coverage.

47. Sublimit
A sublimit is a provision in an insurance policy that caps the maximum amount of coverage available for a

specific type of loss or category of property. Sublimits are common in commercial policies to manage risk exposure for high-value assets.

48. Term Conversion
Term conversion is the process of converting a term life insurance policy into a permanent life insurance policy without the need for a medical exam or evidence of insurability. Term conversion allows policyholders to maintain coverage after the initial term expires.

49. Umbrella Policy
An umbrella policy is a type of liability insurance that provides additional coverage above and beyond the limits of primary policies, such as auto and homeowners insurance. Umbrella policies offer broader protection against catastrophic losses and lawsuits.

50. Variable Life Insurance
Variable life insurance is a type of permanent life insurance that allows policyholders to allocate premiums to investment accounts, such as stocks, bonds, or mutual funds. The cash value of variable life policies fluctuates based on the performance of the underlying investments.

51. Waiting Period
A waiting period is a specified period of time that must pass before coverage takes effect for certain types of claims, such as disability or long-term care insurance. Waiting periods help insurers manage risk and prevent fraudulent claims.

52. Excess and Surplus Lines Insurance
Excess and surplus lines insurance, also known as E&S insurance, provides coverage for risks that are too high or unique for standard insurance carriers to underwrite. E&S insurers specialize in providing coverage for hard-to-place risks.

53. Workers' Compensation Insurance
Workers' compensation insurance is a type of coverage that provides benefits to employees who are injured or become ill on the job. Workers' comp insurance covers medical expenses, lost wages, and rehabilitation costs for injured workers.

54. Loss Adjustment Expense
Loss adjustment expenses, or LAE, are the costs associated with investigating, evaluating, and settling insurance claims. LAE includes expenses such as adjuster fees, legal costs, and administrative expenses incurred during the claims process.

55. Salvage and Subrogation Recovery
Salvage and subrogation recovery are methods used by insurance companies to recoup costs associated with paying out claims. Salvage involves recovering value from damaged property, while subrogation allows insurers to pursue third parties responsible for a loss.

56. Agent of Record
An agent of record is the licensed insurance agent or broker designated by the policyholder to manage

their insurance needs and represent them to the insurance company. The agent of record is responsible for servicing the policy and handling claims on behalf of the insured.

57. Average Clause
An average clause is a provision in an insurance policy that reduces the amount of a claim payout if the policyholder is underinsured relative to the value of the property. The average clause helps discourage policyholders from underestimating the value of their assets.

58. Combined Ratio
The combined ratio is a financial metric used by insurance companies to evaluate their underwriting performance and profitability. The combined ratio measures the sum of the loss ratio and expense ratio, with a ratio below 100 indicating profitability.

59. Direct Writer
A direct writer is an insurance company that sells policies directly to consumers without using agents or brokers. Direct writers may offer lower premiums and faster service by eliminating the middleman in the insurance sales process.

60. Errors and Omissions Insurance
Errors and omissions insurance, also known as E&O insurance, provides coverage for claims alleging professional negligence or mistakes that result in financial harm to a client. E&O insurance is common for professionals such as attorneys, accountants, and consultants.

61. Fiduciary Liability Insurance
Fiduciary liability insurance protects individuals and organizations that serve as fiduciaries, such as trustees, administrators, or plan sponsors, from claims alleging breaches of fiduciary duty. Fiduciary liability insurance covers legal defense costs and settlements related to fiduciary claims.

62. Hold Harmless Clause
A hold harmless clause is a provision in a contract or insurance policy that protects one party from liability for damages or losses arising from the actions of another party. Hold harmless clauses are common in construction contracts and indemnity agreements.

63. Insurable Interest
Insurable interest is a legal requirement in insurance that the policyholder must have a financial stake in the insured property or person to benefit from the coverage. Insurable interest helps prevent insurance contracts from becoming gambling agreements.

64. Liability Insurance
Liability insurance provides coverage for claims alleging bodily injury or property damage caused by the policyholder's negligence. Liability insurance protects individuals and businesses from financial losses resulting from lawsuits and legal claims.

65. Occurrence Policy
An occurrence policy is an insurance policy that covers claims arising from events that occur during the

policy period, regardless of when the claim is filed. Occurrence policies provide long-term coverage for risks that may not be discovered immediately.

66. Professional Liability Insurance
Professional liability insurance, also known as errors and omissions insurance, provides coverage for claims alleging professional negligence or mistakes that result in financial harm to a client. Professional liability insurance is common for professionals such as attorneys, accountants, and consultants.

67. Reinstatement Clause
A reinstatement clause is a provision in an insurance policy that allows the policyholder to reinstate coverage after a lapse by paying past due premiums and providing evidence of insurability. Reinstatement clauses help policyholders maintain continuous coverage.

68. Surety Bond
A surety bond is a contract between three parties: the principal (the party performing the obligation), the obligee (the party receiving the benefit of the bond), and the surety (the party providing the financial guarantee). Surety bonds ensure that the principal fulfills their obligations to the obligee.

69. Underinsured Motorist Coverage
Underinsured motorist coverage is a type of auto insurance that provides coverage for bodily injury and property damage caused by a driver who has insufficient insurance to cover the full cost of the damages. Underinsured motorist coverage helps protect policyholders from financial losses in accidents with underinsured drivers.

70. Waiver of Subrogation
A waiver of subrogation is a provision in an insurance policy that prevents the insurer from pursuing subrogation rights against a third party responsible for a loss. Waivers of subrogation are common in contracts to protect contractors, landlords, and other parties from liability claims.

71. Accelerated Death Benefit
An accelerated death benefit is a provision in a life insurance policy that allows the insured to receive a portion of the death benefit before death if diagnosed with a terminal illness. Accelerated death benefits help policyholders cover medical expenses and other costs while alive.

72. Binder Letter
A binder letter is a temporary insurance contract that provides coverage until a formal policy is issued. Binder letters are often used in situations where immediate coverage is needed, such as when buying a new car or home.

73. Certificate of Insurance
A certificate of insurance is a document issued by an insurance company that provides