Advanced Certificate in Art Valuation and Appraisal

Insurance and Risk Management

Insurance and Risk Management Glossary

A

1. Actuary: An actuary is a professional who assesses and manages the financial risks involved in insurance, investments, pensions, and other areas. Actuaries use mathematics, statistics, and financial theory to analyze the financial consequences of risk.

2. Adverse Selection: Adverse selection occurs when individuals with a higher risk of loss are more likely to purchase insurance than those with a lower risk. This can lead to higher premiums and financial losses for insurance companies.

B

3. Beneficiary: A beneficiary is the person or entity designated to receive the benefits of an insurance policy in the event of a claim. This could be a family member, business partner, or organization.

4. Bond: A bond is a type of insurance contract that guarantees the performance of a specific obligation. Bonds are often used in construction projects to protect against financial losses if the contractor fails to complete the work.

C

5. Claim: A claim is a request made by the policyholder to the insurance company for compensation or coverage for a loss or damage covered by the insurance policy. The insurance company evaluates the claim and determines the amount of compensation.

6. Coinsurance: Coinsurance is the percentage of costs that the policyholder must pay after meeting the deductible. For example, if the coinsurance is 20%, the insurance company will pay 80% of the covered expenses, and the policyholder will pay the remaining 20%.

D

7. Deductible: A deductible is the amount of money that the policyholder must pay out of pocket before the insurance company begins to cover the costs. Deductibles can vary depending on the type of insurance policy.

8. Depreciation: Depreciation is the decrease in the value of an asset over time due to wear and tear, age, or obsolescence. Insurance companies take depreciation into account when determining the value of a claim.

E

9. Exclusion: An exclusion is a specific condition or circumstance that is not covered by an insurance policy. Policyholders should carefully review the exclusions in their policy to understand what is not covered.

10. Excess: Excess is the amount that the policyholder must pay towards a claim before the insurance company provides coverage. Excess amounts can be fixed or calculated as a percentage of the claim.

F

11. Fiduciary: A fiduciary is a person or entity that is entrusted to act in the best interest of another party. Insurance agents and brokers have a fiduciary duty to their clients to provide accurate information and advice.

12. Fire Insurance: Fire insurance is a type of property insurance that covers damage or loss caused by fire. It is essential for homeowners, renters, and businesses to protect their property against fire risks.

G

13. Grace Period: A grace period is the additional time provided by the insurance company for the policyholder to pay the premium after the due date without a penalty. Policyholders should make payments during the grace period to avoid a lapse in coverage.

14. Guaranteed Replacement Cost: Guaranteed replacement cost is a type of coverage that pays for the full cost of repairing or replacing damaged property, regardless of the actual cash value. This provides additional protection in case of inflation or increased construction costs.

H

15. Health Insurance: Health insurance is a type of coverage that pays for medical expenses incurred by the policyholder. Health insurance can cover doctor visits, hospital stays, prescription medications, and other healthcare services.

16. Homeowners Insurance: Homeowners insurance is a type of property insurance that protects against damage to the home and personal property. It also provides liability coverage in case someone is injured on the property.

I

17. Indemnity: Indemnity is the principle that insurance policies should restore the insured to the same financial position they were in before a covered loss occurred. Insurance companies provide indemnity by compensating policyholders for their losses.

18. Insurable Interest: Insurable interest is the financial stake that a policyholder has in the property or person being insured. To purchase insurance, the policyholder must demonstrate a legitimate interest in protecting against a potential loss.

J

19. Jewelry Insurance: Jewelry insurance is a type of coverage that provides protection for valuable jewelry against theft, loss, or damage. Policyholders can add a jewelry rider to their homeowners or renters insurance policy for additional coverage.

20. Jurisdiction: Jurisdiction refers to the legal authority or control that a court or regulatory body has over a particular case or issue. Insurance regulations vary by jurisdiction, so it is essential to understand the laws in your area.

K

21. Key Person Insurance: Key person insurance is a type of coverage that protects a business against financial losses resulting from the death or disability of a key employee. The policy provides funds to cover operating expenses and recruit a replacement.

22. Knowledge Transfer: Knowledge transfer is the process of sharing information, skills, and expertise within an organization to ensure continuity and efficiency. Insurance companies use knowledge transfer to train new employees and pass on industry best practices.

L

23. Lapse: A lapse occurs when the policyholder fails to pay the premium on time, resulting in the termination of the insurance policy. Policyholders should avoid lapses to maintain continuous coverage and avoid gaps in protection.

24. Liability Insurance: Liability insurance is a type of coverage that protects the insured against claims for bodily injury or property damage caused by their actions. It is essential for individuals and businesses to have liability insurance to protect against lawsuits.

M

25. Market Value: Market value is the price that a buyer would pay for a property on the open market. Insurance companies use market value to determine the amount of coverage needed to replace or repair the property.

26. Medicare: Medicare is a federal health insurance program in the United States that provides coverage for individuals aged 65 and older, as well as younger people with certain disabilities. Medicare has different parts that cover hospital stays, medical services, and prescription drugs.

N

27. Named Peril: Named peril is a type of insurance policy that covers only the specific risks or perils listed in the policy. Common named perils include fire, theft, vandalism, and windstorm.

28. Non-Renewal: Non-renewal is the decision by the insurance company not to renew a policy at the end of the term. Non-renewal can occur due to changes in risk factors, claims history, or other underwriting considerations.

O

29. Occurrence: An occurrence is an event or incident that triggers coverage under an insurance policy. The policy language defines what constitutes an occurrence and outlines the conditions for filing a claim.

30. Overinsurance: Overinsurance occurs when the policyholder has purchased more coverage than necessary for their needs. Overinsurance can lead to higher premiums and wasted resources.

P

31. Policyholder: A policyholder is the person or entity that owns an insurance policy and is entitled to the benefits and coverage provided by the policy. Policyholders pay premiums to the insurance company in exchange for protection against specific risks.

32. Property Insurance: Property insurance is a type of coverage that protects against damage to buildings, personal belongings, and other assets. Property insurance can cover losses due to fire, theft, vandalism, natural disasters, and other risks.

Q

33. Quantitative Analysis: Quantitative analysis is a method of evaluating risks and opportunities using numerical data and statistical models. Insurance companies use quantitative analysis to assess the likelihood and impact of potential losses.

34. Quota Share Reinsurance: Quota share reinsurance is a type of reinsurance in which the insurer cedes a fixed percentage of each policy to a reinsurer. Quota share reinsurance helps insurers reduce their exposure to large losses.

R

35. Reinsurance: Reinsurance is a process by which insurance companies transfer a portion of their risk to other insurers called reinsurers. Reinsurance helps insurers manage their exposure to large losses and maintain financial stability.

36. Risk Management: Risk management is the process of identifying, assessing, and mitigating risks to minimize the impact of potential losses. Insurance companies use risk management strategies to protect their assets and ensure long-term financial stability.

S

37. Subrogation: Subrogation is the legal right of an insurance company to recover the amount it paid for a claim from a third party who is responsible for the loss. Subrogation helps insurance companies reduce their losses and recover funds.

38. Self-Insurance: Self-insurance is a risk management strategy in which a business or individual sets aside funds to cover potential losses instead of purchasing insurance. Self-insurance can be cost-effective for

managing low-frequency, high-severity risks.

T

39. Term Life Insurance: Term life insurance is a type of coverage that provides protection for a specific period, such as 10, 20, or 30 years. If the policyholder dies during the term, the insurance company pays a death benefit to the beneficiaries.

40. Underwriter: An underwriter is a professional who evaluates insurance applications, assesses risks, and determines the terms and conditions of coverage. Underwriters use actuarial data and underwriting guidelines to price policies accurately.

U

41. Uninsurable Risk: An uninsurable risk is a risk that insurance companies are unwilling to cover due to its high likelihood of occurrence or catastrophic potential. Examples of uninsurable risks include war, nuclear events, and intentional acts.

42. Umbrella Insurance: Umbrella insurance is a type of liability coverage that provides additional protection beyond the limits of primary insurance policies. Umbrella insurance can cover costs that exceed the limits of homeowners, auto, or commercial liability policies.

V

43. Valuation: Valuation is the process of determining the monetary value of an asset, property, or business. Insurance companies use valuation to assess the replacement cost of property and calculate the appropriate coverage limits.

44. Vandalism: Vandalism is the intentional destruction or damage of property by individuals. Property insurance policies typically cover vandalism as a named peril and provide compensation for repairs or replacements.

W

45. Waiver: A waiver is a voluntary relinquishment of a right or claim. In insurance, a waiver may be used to exclude coverage for specific risks or conditions. Policyholders should review waivers carefully to understand their implications.

46. Workers' Compensation: Workers' compensation is a type of insurance that provides benefits to employees who are injured or become ill while performing their job duties. Employers are required to carry workers' compensation insurance to protect their employees and comply with state laws.

X

47. XOL Reinsurance: Excess of Loss (XOL) reinsurance is a type of reinsurance in which the reinsurer pays a portion of the losses that exceed a specified threshold. XOL reinsurance helps insurers protect against

catastrophic losses and manage their risk exposure.

48. X-factor: The X-factor is a variable or unknown factor that can impact the outcome of a risk event. Insurance companies use actuarial models and historical data to account for X-factors in their risk assessments.

Y

49. Yield Curve Risk: Yield curve risk is the risk that changes in interest rates will impact the value of fixed-income securities held by insurance companies. Yield curve risk can affect the profitability and solvency of insurers' investment portfolios.

50. Yearly Renewable Term: Yearly renewable term is a type of life insurance policy that provides coverage for one year and can be renewed annually. Premiums may increase each year as the policyholder ages, reflecting the higher risk of mortality.

Z

51. Zombie Insurance: Zombie insurance refers to policies that remain in force even though the insured asset no longer exists or the policyholder has passed away. Insurance companies may offer options to cancel zombie policies and refund premiums to the beneficiaries.