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Property Insurance Definitions

Adhesion - An insurance contract is a “take-it-or-leave-it” contract. The insurer makes up and forms the contract issued to an insured, and the insured must adhere to those terms. Any ambiguities in an insurance contract will be settled in favor of the insured. ***An insurance contract is a contract of adhesion.***

Accident - An unintended, unforeseen, and unexpected event, which takes place at a ***specific time and location***, which causes bodily injury or property damage.

Actual Cash Value (ACV) - The sum of money required to pay for damages or lost property, computed on the basis of replacement value (at the time of the loss), ***less its depreciation***.

Admitted Insurer - An insurance company authorized and licensed to transact business in a specified State.

Agent – A licensed producer who **represents the insurance company**, but **serves the public’s best interest**.

Alien Insurer - An insurance company that is incorporated outside of the United States.

Assignment - The transfer of ownership rights of an insurance contract from one person to another person.

Authorized Insurer - Often referred to as an “admitted” insurer which is licensed to transact insurance in a specific State.

Appurtenant Structures (a.k.a. Coverage B...Other Structures) - A structure pertaining or belonging to the insured structure, such as a tool shed.

Bailee - A person or concern having possession of property committed in trust from the owner.

Bailee’s Customers’ Policy - A policy providing coverage for loss of or damage to property of bailee’s customers, payable to customers, regardless of whether the bailee is at fault or not for the loss.

Binder (Binding Receipt) - An acknowledgment from the agent that insurance coverage is in force whether or not the premium has yet been paid or the policy issued.

Bodily Injury Liability - The liability which may arise from injury or death of another person.

Bond (3-party contract) - An obligation of the ***surety company*** (a.k.a. guarantor) to protect another (a.k.a. ***obligee***) against financial loss caused by the acts of another (a.k.a. ***principal or obligor***).

Broker - A licensed producer who represents an insured in the solicitation, negotiation, or procurement of contracts of insurance, and who may render services incidental to those functions. A broker must be bonded with a \$2,500 bond OR 5% of the premiums brokered in the previous calendar year, whichever is greater, not to exceed \$100,000, in favor of the people of the State of Washington.

Burglary - Breaking and entering into the premises of another, with felonious intent and with **visible signs of forced entry or exit**.

Business Income Coverage Form (a time element coverage, a.k.a. consequential loss) - A commercial property form providing coverage for **indirect losses** resulting from property damage, such as loss of business income and extra expenses incurred. Business income coverage is a “time element” coverage, since time is a factor (“element”) in determining the extent of the loss.

Cancellation - Termination of a contract of insurance by the insurance company or insured, effected in accordance with provisions in the contract or by mutual agreement. This is **termination of a contract before the renewal date**. It **usually requires a premium refund**.

Casualty Insurance (a.k.a. Liability) - 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 the property of others.

Causes of Loss Forms - Commercial property forms stating the perils insured against, additional coverage provided, and exclusions that apply. Causes of Loss Forms include Basic, Broad, Special, and Earthquake.

Certificate of Authority - A document issued by the Office of the Insurance Commissioner giving the authority to transact insurance business in a specified state. Once an insurer is “authorized” to do business in a state, they are referred to as “admitted” in that specific state.

Certificate of Insurance - A legal document that specifies that an insurance policy has been issued. Examples of a Certificate of Insurance: your auto insurance card or your group insurance card.

Coinsurance - A provision in insurance that says the insured agrees to insure to a certain value (such as 80%, 90%, or 100%). If there is a loss and the insured has breached this agreement, only a proportional share of the loss will be paid.

Commercial General Liability (CGL) Coverage Part - General liability coverage which may be written as a monoline policy or part of a commercial package. The coverage forms include Occurrence or Claims-Made.

Commercial Package Policy (CPP) - A commercial policy that contains more than one of the following seven coverage parts: Commercial Property, Commercial General Liability, Marine, Equipment Breakdown Coverage, Crime, Commercial Automobile, and Farm Insurance.

Common Policy Conditions - Under the latest commercial lines program, a form including common conditions which apply to all coverage parts attached to a commercial policy.

Common Policy Declarations - A common declarations page is part of every commercial policy. It shows information applicable to the entire policy (policy number, insurer, insured, total premium, forms attached, etc.).

Conditions Section - Policy conditions set the rules of conduct, duties, and obligations for the parties of an insurance contract. A number of common insurance conditions describe such things as the policy territory, obligation of the insured following a loss, how insurance claims are settled and handled, and each party's right to cancel the policy. Depending on the type of policy, conditions may be found in a "Conditions" Section or scattered throughout the policy.

Concealment - Deliberate failure to reveal facts. If deemed to be material, it would affect the validity of a policy of insurance. *The withholding of facts.*

Consideration is an element of an insurance contract. Consideration by an insured is the payment of the premium and statements made by the prospective insured in the application. *It is the insurer's promise to pay for certain losses and is the warranty in an insurance policy.*

Declarations (a.k.a. Dec. Page) - A term used in insurance for the portion of the contract which contains information such as the name and address of the insured, the property insured, its location and description, the policy period, the amount of insurance coverage, and applicable premiums.

Defamation - An unfair business and trade practice in which one person or company makes false or inaccurate statements about another party with the intent of injuring the reputation of that party.

Direct Loss - A loss caused by a peril such as a house fire and the resulting damage such as water damage caused from putting out the fire.

Domestic Insurer- An insurance company that conducts business transactions in the state where they are incorporated. Examples of Washington State's domestic companies are PEMCO and Safeco.

Earned Premium - That portion of a premium for which the policy protection has already been given during the now-expired portion of the policy term. *The premium the insurance company has "earned" the right to keep. Unearned premiums* belong to the named insured.

Earth Movement - A peril including landslide, mudflow, earth sinking, rising, or shifting, and **earthquake**. *Usually excluded on property policies.*

Endorsement - Provision added to a policy which broadens or restricts coverage; may also be in the form of a rider. Not valid unless signed by an executive officer of the company and attached to the policy.

Exclusions - Perils, conditions or property listed in the policy which are not covered and for which no benefits are payable.

Expiration - The date specified in the policy as the date that coverage ends or terminates.

Extended Coverage Endorsement (EC) - A specific endorsement attached to Fire Policies, usually providing coverage for **R**iot, **E**xplosion, **V**ehicular & **V**olcano damage, **C**ivil commotion **S**moke, **H**ail, **A**ircraft, and **W**indstorm (**acronym = R.E.V. C. S.H.A.W.**)

Fair Credit Reporting Act - Federal law requiring an individual to be informed if he or she is being investigated by an inspection company. This law requires that the consumer must be notified that a credit report will be sought and told how it will be used. The consumer must be told how to obtain a copy of the report.

- ✓ Information on the credit report can be disputed, and if **the reporting agency** cannot prove the disputed information is accurate, the information must be removed from the person's file **within 30 days**.

Fiduciary - A person who is held in a position of trust for another has fiduciary responsibility to that person. A producer has fiduciary responsibilities to his clients from whom he collects premiums.

Fire - Combustion sufficient to produce a spark, flame, or glow, and which is hostile, i.e., not in the place where it is intended to be, as in a furnace. **Only hostile fire losses are covered by insurance.**

Foreign Insurer - An insurance company doing business in a specific State, but is incorporated in another State.

Fraud - An intentional misrepresentation or deceit with the intent to induce another to part with something of value. For example, filing a false claim. Generally, a lie on an application is considered a misrepresentation but NOT fraud.

Hazard - Anything that **increases the chance of a loss**, such as an old roof, bald tires, being overweight, or smoking.

Indirect Loss - An indirect loss (a.k.a. **consequential loss**) is a loss which is a result of a direct loss. Indirect losses involve **money**, whether from **loss of income, loss of business, or expenses for lodging and meals after a house fire**.

Insurable Interest - Any interest in a subject of insurance or any legal relation to it of such a nature that a certain happening might cause monetary loss to the insured. **Insurable Interest must exist at the time of the loss.**

Insurability - The acceptance or qualifying of an application by the insurance company to issue a policy.

Insurance - A formal social device for reducing risk by transferring the risks of several individual entities to an insurer. The insurer agrees, for a consideration, to assume to a specified extent, the losses suffered by the insured.

Insured - (**Named Insured vs. Insured**) - **An insured is anyone who may be covered by the insurance.** The **named insured** is the person, persons or business **actually named** as the named insured in the policy declarations. **A named insured is responsible for meeting the conditions of the policy.** Some commercial policies use the term **first named insured** since there could be many named insureds.

Insurer (Insurance Company) - An entity that pays for the financial losses of another due to sickness or accidents.

Insuring Clause (Agreement) - The clause in a policy that specifies in brief the contract's intent. It **states the terms under which the policy will pay**. This is **also known as the heart of the contract**.

Misrepresentation (*a lie*) - The use of **written or oral statements** by the insured or insurance company on or at the **time of application**, misrepresenting the risks, terms, coverage, benefits, privileges, or estimated future dividends of any policy.

Moral Hazard - A condition of morals or habits that increases the probability of a loss from a peril. **Dishonesty**. Examples of poor moral risks include: intentionally setting a fire in order to collect the insurance, filing a false claim, having excessive speeding tickets, or having a poor credit report.

Morale Hazard - An attitude that increases the probability of loss from a peril. The attitude of, "it's insured, so why worry about it," is an example of a morale hazard.

Mutual Insurer - An insurance company that has no capital stock, but is owned by the policy owners. Mutual companies sell participating policies because they share in the profits with the policy owners by paying dividends.

National Association of Insurance Commissioners (NAIC) - An association of state Insurance Commissioners, active in discussions of regulatory problems and in the formation and recommendation of uniform practices and legislation. **Oldest association of state officials**.

Negligence - The most common way that an insured becomes liable for a third party's bodily injury. Failure to use that **degree of care** which an ordinary person of reasonable prudence would use under the given circumstances.

Nonadmitted Insurer - An insurance company who does not have a certificate of authority to transact insurance business in a specific state. Often referred to as an "Unauthorized" company.

Nonrenewal - Termination of insurance coverage at an expiration date or anniversary date. This action may be taken by an insurer who refuses to renew, or by an insured who rejects a renewal offer.

Offer and Acceptance - The offer may be made by the applicant by signing the application, paying the first premium and, if necessary, submitting to a physical examination. Policy issuance, as applied for, constitutes acceptance by the company.

Package Policy - Any insurance policy including two or more lines or types of coverages in the same contract.

Participating "Par" Policies - Mutual Insurance Companies "participate" with their profits by paying dividends (profits) to the policy owners.

Peril - The **cause of a loss**; the event insured against. Some perils are insured against in property policies (such as fire and lightning), and some perils are NOT insured against in property policies (such as earthquake and flood).

Personal Injury (P.I.), a.k.a. Third Party Coverage, pays for injury other than bodily injury arising out of false arrest or detention, malicious prosecution, wrongful entry or eviction, libel or slander, or violation of a person's right to privacy. *A liability coverage.*

Personal Injury Protection (P.I.P), a.k.a. First Party Coverage, pays for bodily injury, lost wages and lost services of family members injured in an insured's auto, *regardless of who is at fault*. The First Party is...

1. The named insured or any family member residing in the named insured's household who is injured while occupying a motor vehicle or a trailer which is designed for use on public roads, and members of the household who are injured if struck as a pedestrian by a motor vehicle or a trailer used for public roads.
2. Anyone who is injured while occupying a covered auto. Occupying means in, on, getting into, or out of.

Personal Property - Any property of an insured other than real property. Homeowner policies protect the personal property of family members, and commercial forms are used to protect business personal property.

Policy - An instrument, including all endorsements and attached papers, constituting the *entire insurance contract*. The written contract effecting insurance and including all clauses, riders, endorsements, and papers attached thereto and made a part thereof.

Proof of Loss - *A formal statement made by the insured to the insurance company regarding a loss*. The purpose of the proof of loss is to place before the company sufficient information concerning the loss to enable it to determine its liability under the policy or bond.

Pro Rata Cancellation - The termination of an insurance contract or bond where the premium charge is adjusted in proportion to the exact time the protection has been in force.
A cancellation with *NO SERVICE FEE*.

Pro Rata Liability Clause - Provides that losses will be paid in the proportion that the amount of the policy bears to the entire amount of insurance on all policies covering the loss. This provides for insurance companies to appropriately share in the loss when more than one policy exists, yet prevents the insured from collecting in total from several insurance companies and making a profit.

Proximate Cause - The effective cause of loss or damage; *an unbroken chain of cause and effect* between the occurrence of an insured peril or a negligent act, and the resulting injury or damage to property.

Rebating - Giving any valuable consideration such as a rebate, discount, or reduction of premium to induce a person to buy insurance. *Guaranteeing to pay future dividends* is an example of rebating. In the State of Washington, it is *illegal to rebate premiums*.

Replacement Cost - The cost of replacing property, with like kind quality property, at the time of the loss, and no more than the policy limit, *without deduction for depreciation*.

Reporting Form - Fire or other direct damage insurance written under a form of policy that covers fluctuating values of stocks of merchandise, furniture, fixtures, improvements and betterments, by means of periodical reports submitted to the insurance company by the insured, with an annual adjustment of premium on the average value.

Representations - On an **application**, *facts (written or verbal) that the applicant represents as true and accurate to the best of his or her knowledge and belief.*

Risk - The uncertainty of loss. The purpose of insurance is to deal with the transfer of risk from the insured to the insurer. Without risk, there is no need for insurance. Only pure risk is insurable. *Pure risk* means that only a chance of loss is present and no chance of gain.

Robbery - The felonious taking, *either by force or by fear of force*, of the personal property of another, commonly known as a hold-up.

Scheduled Personal Property Endorsement (Stated Value Coverage) - Provides Special Form coverage for valuable items such as furs, jewelry (the most common), cameras, silverware, etc. Items are generally listed by description and value, with no deductible. The coverage picks up the peril of mysterious disappearance. *The items must be insured for their full value.*

Short Rate - Regarding cancellation, the term short rate cancellation is used to describe the procedure in which the premium returned to the insured **is not** in direct proportion to the number of days remaining in the policy period. In effect, the insured pays more for each day of coverage than if the policy had remained in force for the full term.

Special Coverage Form - Any of the commercial or personal lines property forms which provide coverage on a risks of direct physical loss type basis. *These forms provide the broadest coverage and do not list covered perils, but do include a list of exclusions.*

Speculative Risk - Gain or a loss. Value of a home or stock going up or down in value is known as a speculative risk. This type of risk is NOT insurable. Only pure risk is insurable.

Stock Company - A company owned by stock holders. Profits or dividends are paid to the stock holders (NOT the policy owners).

Subrogation - The legal process by which an insurance company seeks from a third party who may have caused the loss, recovery of the amount paid to the insured. *The condition most closely related to indemnification.*

Surplus Lines - Coverage procured in an unlicensed insurance company by a Surplus Lines Broker because of its unavailability in the state where the insured lives.

Temporary License - A person who is licensed to act as a producer for a brief period of time (180 days in Washington) without taking a written examination. A temporary license is commonly granted to allow someone to continue the business of a producer who has died or becomes disabled. The individual must be a legal representative of the producer, such as, spouse, relative, attorney, employee, etc.

Theft - Any loss of property by stealing, *including both robbery and burglary.*

TRIA - Terrorism Risk Insurance Act - requires insurance companies to offer terrorism insurance to their commercial policyholders. The TRIA directs the *Secretary of the Treasury* to administer a program for sharing terrorism losses.

To determine if an act is an “act of terrorism” and covered under the TRIA, it must be agreed upon by these three individuals:

1. **Secretary of the Treasury**
2. **Secretary of State**
3. **Attorney General**

Twisting – When a person tries to **misrepresent or mislead by comparison**, or tries to induce, or tend to induce any insured to lapse, terminate, forfeit, surrender, retain, or convert any insurance policy. **Violation is considered Twisting.**

Underwriting - Process through which an insurer determines whether, and on what basis, an insurance application will be accepted.

Unilateral Contract - A contract characteristic that obligates only one party to a contract. The policy owner is not required to pay premiums and can cancel the policy whenever they want to. However, if the premium is paid, the insurer is required to pay death proceeds should the insured die.

Warranties - **Written statements in the contract** (policy) **guaranteed** to be true; that is, they are exact in every detail. This is opposed to representations which are statements on an application believed to be true at that time. Warranties are expressed **in writing**.

Watercraft - Bodily Injury (Section II Liability coverage) in a homeowners policy will extend coverage for usage of owned or rented boats which meet the definition of a “watercraft.”

- **Watercraft** in a homeowners policy means an *inboard or inboard-outboard motor-powered boat owned by or rented to the insured that has 50 horsepower or less; sailing vessels of 25 feet or less; and any boat powered by an outboard motor of 25 horsepower or less.*