

# Insurance

## Glossary of General Insurance Terms

Use this glossary to become familiar with terms relating to insurance.

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**Actual Cash Value**

An amount equivalent to the fair market value of the stolen or damaged property immediately preceding the loss. For real property, this amount can be based on a determination of the fair market value of the property before and after the loss. For vehicles, this amount can be determined by local area private party sales and dealer quotations for comparable vehicles.

**Admitted Company**

An insurance company authorized to do business in California.

**Agent**

A licensed person or organization authorized to sell insurance by or on behalf of an insurance company.

**Automobile Insurance**

Coverage on the risks associated with driving or owning an automobile. It can include collision, liability, comprehensive, medical, and uninsured motorist coverages.

**Binder**

A temporary or preliminary agreement which provides coverage until a policy can be written or delivered.

**Broker**

A licensed person or organization paid by you to look for insurance on your behalf.

**Cancellation**

The termination of insurance coverage during the policy period. Flat cancellation is the cancellation of a policy as of its effective date, without any premium charge.

**Claim**

Notice to an insurer that under the terms of a policy, a loss maybe covered.

**Claimant**

The first or third party. That is any person who asserts right of recovery.

**Decline**

The company refuses to accept the request for insurance coverage.

**Deductible**

The amount of the loss which the insured is responsible to pay before benefits from the insurance company are payable. You may choose a higher deductible to lower your premium.

**Depreciation**

A decrease in value due to age, wear and tear, etc.

**Endorsement**

Amendment to the policy used to add or delete coverage. Also referred to as a "rider."

**Exclusion**

Certain causes and conditions, listed in the policy, which are not covered.

**Expiration Date**

The date on which the policy ends.

**Face Amount**

The dollar amount to be paid to the beneficiary when the insured dies. It does not include other amounts that may be paid from insurance purchased with dividends or any policy riders.

**Fire Insurance**

Coverage for loss of or damage to a building and/or contents due to fire.

**Grace Period**

A period (usually 31 days) after the premium due date, during which an overdue premium may be paid without penalty. The policy remains in force throughout this period.

**Guaranteed Insurability**

An option that permits the policy holder to buy additional stated amounts of life insurance at stated times in the future without evidence of insurability.

**Health Insurance**

A policy that will pay specifies sums for medical expenses or treatments. Health policies can offer many options and vary in their approaches to coverage.

**Homeowner Insurance**

An elective combination of coverages for the risks of owning a home. Can include losses due to fire, burglary, vandalism, earthquake, and other perils.

**Incontestable Clause**

A policy provision in which the company agrees not to contest the validity of the contract after it has been in force for a certain period of time, usually two years.

**Insured**

The policyholder - the person(s) protected in case of a loss or claim.

**Insurer**

The insurance company.

**Life Insurance**

A policy that will pay a specified sum to beneficiaries upon the death of the insured.

**Limit**

Maximum amount a policy will pay either overall or under a particular coverage.

**Loan Value**

The amount which can be borrowed at a specified rate of interest from the issuing company by the policyholder, using the value of the policy as collateral. In the event the policyholder dies with the debt partially or fully unpaid, then the amount borrowed plus any interest is deducted from the amount payable.

**Material Misrepresentation**

The policyholder / applicant makes a false statement of any material (important) fact on his/her application. For instance, the policyholder provides false information regarding the location where the vehicle is garaged.

**Misquote**

An incorrect estimate of the insurance premium.

**Peril**

The cause of a possible loss. For example, fire, theft, or hail.

**Policy**

The written contract of insurance.

**Policy Limit**

The maximum amount a policy will pay, either overall or under a particular coverage.

**Premium**

The amount of money an insurance company charges for insurance coverage.

**Premium Financing**

A policyholder contracts with a lender to pay the insurance premium on his/her behalf. The policyholder agrees to repay the lender for the cost of the premium, plus interest and fees.

## **Pro-Rata Cancellation**

When the policy is terminated midterm by the insurance company, the earned premium is calculated only for the period coverage was provided. For example: an annual policy with premium of \$1,000 is cancelled after 40 days of coverage at the company's election. The earned premium would be calculated as follows:  $40/365 \text{ days} \times \$1,000 = .110 \times \$1,000 = \$110$ .

## **Quote**

An estimate of the cost of insurance, based on information supplied to the insurance company by the applicant.

## **Replacement Cost**

The cost to repair or replace an insured item. Some insurance only pays the actual cash or market value of the item at the time of the loss, not what it would cost to fix or replace it. If you have personal property replacement cost coverage, your insurance will pay the full cost to repair an item or buy a **new one once the repairs or purchases have been made.**

## **Replacement Value**

The full cost to repair or replace the damaged property with no deduction for depreciation, subject to policy limits and contract provisions.

## **Reinstatement**

The restoring of a lapsed policy to full force and effect. The reinstatement may be effective after the cancellation date, creating a lapse of coverage. Some companies require evidence of insurability and payment of past due premiums plus interest.

## **Rider**

Usually known as an endorsement, a rider is an amendment to the policy used to add or delete coverage.

## **Short-rate Cancellation**

When the policy is terminated prior to the expiration date at the policyholder's request. Earned premium charged would be more than the pro-rata earned premium. Generally, the return premium would be approximately 90 percent of the pro-rata return premium. However, the company may also establish its own short-rate schedule.

## **Solicitor**

A licensed employee of a fire and casualty agent or broker who may act for the agent or broker in some circumstances.

## **Surcharge**

An extra charge applied by the insurer. For automobile insurance, a surcharge is usually for accidents or moving violations.

**Surrender**

To terminate or cancel a life insurance policy before the maturity date. In the case of a cash value policy, the policyholder may exercise one of the nonforfeiture options at the time of surrender.

**Underwriting**

The process of selecting applicants for insurance and classifying them according to their degrees of insurability so that the appropriate premium rates may be charged. The process includes rejection of unacceptable risks.

**Waiting Period**

A period of time set forth in a policy which must pass before some or all coverages begin.