

**7<sup>th</sup> Edition**

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# Glossary of Insurance Terms



**KAPLAN** FINANCIAL  
EDUCATION

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## Before You Begin

Kaplan Financial Education's seventh edition of *The Glossary of Insurance Terms* is a completely new volume. It covers many areas of the insurance business and also includes a variety of noninsurance terms that are related to insurance in some manner. We hope this glossary will be a valuable addition to any business library and a helpful resource for anyone who needs to understand the meaning of terms and concepts generated by the ever-changing insurance industry. It is designed to be used not only by insurance professionals and commercial insurance buyers, but also by consumers who need to better understand their own insurance coverages.

The glossary is divided into sections, in alphabetical sequence. Abbreviations and acronyms (if any) appear at the beginning of each section, followed by an alphabetical presentation of terms. Each term is set in bold type. To help you gain a quick reference point, definitions are immediately followed by one or more abbreviations for general categories of insurance, set in parentheses. The abbreviations for the reference categories used in this glossary are as follows:

<i>AN</i>	=	<i>ANNUITIES</i>
<i>AU</i>	=	<i>AUTOMOBILE</i>
<i>AV</i>	=	<i>AVIATION</i>
<i>C</i>	=	<i>CRIME</i>
<i>EP</i>	=	<i>ESTATE PLANNING</i>
<i>G</i>	=	<i>GENERAL</i>
<i>H</i>	=	<i>HEALTH</i>
<i>IM</i>	=	<i>INLAND MARINE</i>
<i>LE</i>	=	<i>LEGAL</i>
<i>LA</i>	=	<i>LIABILITY</i>
<i>LI</i>	=	<i>LIFE</i>
<i>OM</i>	=	<i>OCEAN MARINE</i>
<i>PE</i>	=	<i>PENSION AND PROFIT SHARING</i>
<i>PR</i>	=	<i>PROPERTY</i>
<i>R</i>	=	<i>REINSURANCE</i>
<i>S</i>	=	<i>SURETY</i>
<i>WC</i>	=	<i>WORKERS' COMPENSATION</i>

Some terms are cross-referenced with other terms that appear in the glossary. In this case, the referenced terms are also set in bold type. Cross-referencing is used for terms that have the same or similar meanings, terms that differ from related terms, and terms that are opposites.

This new edition of the glossary includes hundreds of new and revised terms. Many of these items have been added because of the introduction of new policy forms and coverages, important legal developments, and the changing business environment.

Diligent efforts have been made by Kaplan Financial staff to provide you with an up-to-date and comprehensive glossary of insurance terms. However, this glossary is not put forth as the final authority on any given term, and we recognize that we may have overlooked a few items. Insurance terminology is subject to a never-ending developmental process, which means that definitions change with time and usage. New terms are developed with each passing year. For these reasons, we welcome and encourage constructive criticism about items in the glossary as well as suggestions about terms that should be included. Such information will be accumulated and taken into consideration in our preparation of future editions.

## About the Authors

The original *Glossary of Insurance Terms* was compiled by John S. Bickley, PhD, and the late Robert W. Osler. Both men served on operating committees of the Commission on Insurance Terminology (CIT), which worked to develop more precise insurance definitions during 1958–1971, and both sought to continue the efforts of the commission.

Thomas E. Green, CPCU, CLU, has done much of the editorial work on the glossary. Mr. Green has enjoyed a long and distinguished career in the insurance field. He graduated from the University of Wisconsin, where he majored in insurance. In 1950, he joined the Wausau Insurance Companies, where he has held various positions, including director of educational planning and services. Tom became a CPCU in 1964 and a CLU in 1968. In 1971, he was awarded the Associate in Management designation by the Insurance Institute of America. Over the years, Tom has been a member of the American Society for Training and Development, the Education Committee of the Alliance of American Insurers, and the Insurance Advisory Task Force of the NAIC Uniform Licensing Committee. He has served as president of the Northern Wisconsin Chapter Society of CPCU and as president of the Insurance Company Education Director Society (now called Society for Insurance Training and Education). Tom has also been a member of the Society of CPCU Curriculum Liaison Committee. He became national director of the Society of CPCU in 1984 and regional vice president in 1986.

Kaplan Financial has been producing and publishing specialized reference manuals and training and study materials for the insurance industry for more than 30 years. Members of its full-time editorial staff have diverse backgrounds in the insurance industry.



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# A

## ABBREVIATIONS AND ACRONYMS

**AAI.** *See* Alliance of American Insurers. **(G)**

**AAIS.** *See* American Association of Insurance Services. **(G)**

**ACAS.** Associate of the Casualty Actuarial Society. *See* Fellow of the Casualty Actuarial Society. **(LA)**

**AD&D.** *See* accidental death and dismemberment insurance. **(H, LI)**

**ADL.** *See* activities of daily living standards. **(H)**

**A&H, A&S.** Accident and health insurance, and accident and sickness insurance. Once commonly used as generic designations for the entire field now called health insurance. *See* health insurance. **(H)**

**AIA.** *See* American Insurance Association. **(G)**

**AIDS.** *See* acquired immunodeficiency syndrome. **(H, LI)**

**ARC.** *See* AIDS-related complex. **(H, LI)**

**ARIA.** *See* American Risk and Insurance Association. **(G)**

**ARM.** *See* Associate in Risk Management. **(G)**

**ASO.** *See* administrative services only. **(H, LI)**

## PRESENTATION OF TERMS

**A (or judgment) rates.** Rates that are not backed up by loss experience statistics. They are based on the judgment of the underwriter on an individual risk basis. **(G)**

**abandonment.** A relinquishing of ownership of lost or damaged property by the insured to the insurer so that a total loss may be claimed. Abandonment is prohibited in most other types of property insurance. **(OM)**

**abandonment clause.** A clause in fire insurance policies and other property forms that prohibits the insured from abandoning partially damaged property to the insurer to claim a total loss. **(PR)**

**absolute assignment.** Assignment by a policyowner of all control of and rights in the policy to a third party. **(G)**

**absolute beneficiary.** *See* irrevocable beneficiary. **(LI)**

**absolute liability.** A type of liability that arises from extremely dangerous operations. An example would be in the use of explosives. A contractor would almost certainly be liable for damages caused by vibrations of the earth following an explosive detonation. With absolute liability, it is usually not necessary for a claimant to establish that the operation is dangerous. *See also* strict liability. **(LA)**

**accelerated benefits.** Riders on life insurance policies that allow the life insurance policy's death benefits to be used to offset expenses incurred in a convalescent or nursing home facility. **(H, LI)**

**accelerated endowment.** A dividend option allowing dividend accumulations to be applied to convert a life insurance policy into an endowment or to shorten the endowment term. **(LI)**

**accelerated option.** A provision whereby an insured may use accumulated policy dividends and the cash value of a life insurance contract to pay up the policy or to mature it as an endowment. **(LI)**

**accelerative endowment.** An option to use life insurance policy dividends to mature a policy as an endowment before the regular maturity date. **(LI)**

**acceptance.** In insurance, acceptance occurs when an applicant for insurance receives the policy from the company and, in the case of general insurance, pays the premium. In life insurance, because the initial premium is almost always submitted with the application, issuance of the policy by the company constitutes acceptance. **(LE)**

**access.** The availability of medical care to a patient. This can be determined by such factors as location, transportation, and type of medical services in the area. **(H)**

**accident.** An unplanned event, unexpected and undesigned, that occurs suddenly and at a definite place. *See also* occurrence. **(G)**

**accident and health insurance (A&H).** An older name for health insurance. *See* health insurance. **(H)**

- accident and sickness insurance (A&S).** An older name for health insurance. *See* **health insurance.** **(H)**
- accident frequency.** The rate of the occurrence of accidents, often expressed in terms of the number of accidents over a period. It is one method used for measuring the effectiveness of loss prevention services. *See also* **accident severity.** **(G)**
- accident insurance.** A form of insurance against loss by accidental bodily injury to the insured. **(H)**
- accident prevention.** *See* **loss prevention service.** **(G)**
- accident severity.** A measure of the severity or seriousness of losses, rather than the number of losses. It is measured in terms of time lost from work rather than the number of individual accidents. It is another way of measuring the effectiveness of loss prevention services. *See also* **accident frequency.** **(G)**
- accident year experience.** Measures premiums and losses related to accidents that occurred during a 12-month period. **(G)**
- accidental bodily injury.** Traumatic damage to the body, of external origin, unexpected and undesigned by the injured person. *See also* **accidental means.** **(G)**
- accidental death and dismemberment.** A policy or a provision in a disability income policy that pays either a specified amount or a multiple of the weekly disability benefit if the insured dies, loses his sight, or loses two limbs as the result of an accident. A lesser amount is payable for the loss of one eye, arm, leg, hand, or foot. **(H)**
- accidental death benefit.** An extra benefit that generally equals the face of the contract or principal sum, payable in addition to other benefits in the event of death as the result of an accident. *See also* **double indemnity** and **multiple indemnity.** **(H, LI)**
- accidental death insurance.** A form that provides payment if the death of the insured results from an accident. It is often combined with dismemberment insurance in a form called accidental death and dismemberment. *See also* **accidental death and dismemberment.** **(H, LI)**
- accidental means.** Unexpected or undesigned cause of an accidental bodily injury. Under a definition of accidental means, the mishap itself must be accidental, not just the resulting injury. An example would be an individual chopping wood. If the axe slipped out of his hand and cut his foot, it would have been accidental means. However, if his finger got in the way of the axe, it would not have been. **(G)**

**accommodation line.** Business accepted from an agent or broker that would normally be rejected according to strict underwriting standards but that is accepted because of the overall profitability of the agent's or customer's other business. For example, an insurer might accept coverage on property that would not normally meet its underwriting standards if the other lines of insurance that it carries for the customer were profitable. **(G)**

**account current.** A monthly financial statement provided to an agent by an insurer showing premiums written, cancellations, endorsements, and commissions. **(G)**

**account premium modification plan.** A rating plan for fire, property damage, and time element coverages. The maximum credit or surcharge is 25%, and it is available to risks that develop a three-year premium of at least \$5,000. **(PR)**

**accounts receivable insurance.** Insurance against the loss that occurs when an insured is unable to collect outstanding accounts because of damage to or destruction of the accounts receivable records by a peril covered in the policy. **(PR)**

**accredited service.** All service, by an employee, recognized under a pension plan as being allowable or creditable in calculating the amount of benefits due. **(PE)**

**accrete.** A Medicare term that means the process of adding new members to a health plan. **(H)**

**accrued benefit.** The amount of retirement benefit accumulated on behalf of a participating employee. **(PE)**

**accrued liability.** The amount of money needed to offset the employee's accumulated benefits under a retirement plan. Accrued liability equals the difference between the present value of the future benefits and the present value of future contributions. **(PE)**

**accumulated actuarial benefit.** The sum of benefits assigned to credited service before a specified date and that is determined pursuant to the actuarial valuation method in use. **(PE)**

**accumulated earnings tax.** A tax penalty that is imposed on corporate earnings that are retained by the corporation for nonbusiness-related needs. **(G)**

**accumulated plan benefit.** The portion of a participant's retirement benefit that is attributable pursuant to the plan to the participant's period of credited service before a specified date. **(PE)**