A Comprehensive Guide to Purchasing Insurance

CNA

Asking the right questions…

Getting the right answers…

Table of Contents

Know your risks

A well-designed business insurance program is essential when it comes to protecting your business from the many risks you face every day. It can provide you with an invaluable financial shield from losses, but only if you know what type of insurance to buy, how much to buy and who to buy it from.

In other words, there's only one way to make a wise choice when it comes to purchasing insurance—make sure you know what questions to ask.

This guide is designed to provide a clear, concise and simple explanation of basic insurance principles. It presents a practical overview for buying insurance, including these critical considerations:

- How to prepare yourself for the insurance marketplace
- How to choose an insurance company
- How to choose an insurance agency

In addition, this guide features some other useful insurance-related information, including:

- Basic cost management practices
- Quotation review checklist
- Coverage checklist

Remember that this guide is only intended for use as a reference tool. Be sure to consult your agent or broker for a more detailed explanation of how the information presented here applies to your business.

How to prepare yourself for evaluating the insurance marketplace

Information is the key to finding the best agent, company and policy for your business, and much of that information will come from you. Before you meet with an agent or broker to discuss insurance, you'll need to compile the following information:

- Current business insurance policies
- Updated payroll and sales records
- Current profit and loss statement
- Loss information from the current year and three prior years
- Your OSHA log, if available
- Current schedule of vehicles/MVRs
- Safety programs/procedures and safety meeting records

- Your company's promotional literature
- Current contracts; legal agreements
- Inventory of Products and Services

Once your papers are in order, it's time to assess how much of the risk you should retain. Insurance allows you to transfer the risk of financial uncertainty to an insurance company for a known premium. So first you want to calculate how much of that financial uncertainty you're willing to take on, and how much risk you want the company to assume.

The risk you retain is the deductible; the risk the company assumes is the limit of liability over and above the deductible. Generally, the premium you pay will depend on the deductible, or risk, you're willing to assume if a loss occurs. By choosing a higher deductible you retain more risk, but pay a lower premium. On the other hand, the lower you set your deductible, the higher your premium will be.

When premiums are high or coverage is difficult to obtain, you may want to choose a higher deductible and directly pay for smaller losses. The premium savings you'll realize may allow you to purchase other essential coverages. This strategy makes the most of your insurance dollar, providing you with maximum protection against losses that can result in bankruptcy, debt financing or the postponement of future business plans.

If you take this approach, make sure you build the average annual cost of smaller losses into your budgeting process. Once you've determined how much risk you're willing and able to retain and how much risk you want the insurance company to assume, you're ready to begin your search for an insurance agent.

How to choose an insurance agency

You have two types of agencies to choose from—exclusive agencies, known as direct writers, and independent agencies. A direct writer only sells the policies for the insurance company it represents, whereas an independent agent represents many companies.

But how do you know which agency to select? You'll need to do some homework and answer the following questions:

- How are you treated when you call the agency? Is the agency courteous and responsive? Does it quickly follow up on your requests for information, or do you have to prompt it?
- What steps does the agency take to deliver insurance quotes in a timely manner? What does the agency do to help ensure efficient claim handling?

- Is the agency new on the scene? How experienced are the agents who'll be handling your account? How long have they been at that agency? Has the agent ever worked with companies like yours before? Is the agent familiar with your exposures and unique insurance needs?
- Who are some of the insurance companies the agency represents?
- What are the financial ratings of the companies they represent?
- Does the agency protect itself from errors and omissions with liability coverage? And whom do they buy their insurance from?
- Is the agency willing to provide references for you to call on?
- Does the agency specialize in your industry? Do they understand your business and its unique requirements?

How to choose an insurance company

Once you've selected the agency that's right for you, it's time to consider which insurance company can provide the best protection for your business. Whatever you do, resist the temptation to buy a policy without fully considering the company behind the policy.

Just as important, don't buy a policy simply because it's the least expensive one available.

Unfortunately, it's easy to fall victim to these temptations.

Don't lose sight of what matters most

There are so many policies, coverage options and differences in premiums that it's easy to lose sight of what's probably the most important factor of all—the financial strength of the insurance company.

Why is this consideration so important? Because it just doesn't make good business sense to buy "protection" from a company that doesn't have the financial reserves to pay your claims. After all, you buy insurance to cover your risks, not to create new ones.

Too many consumers make the mistake of thinking insurance companies are immune from financial difficulties. In fact, insurers can and do fail.

It's obviously important for an insurance company to charge enough to cover its losses. Inadequate rates may eventually mean inadequate protection. Sure, everyone wants to pay the least and get the most, but the company behind the least expensive policy might not be as reliable as you'd like.

None of this means you shouldn't compare prices—just don't confuse price with value.

Evaluate financial strength

Whichever insurance company you select, it's a good idea to evaluate its financial strength. An independent agent will gladly assist you in the assessment process. Here are some key points to consider:

Best ratings

A.M. Best Company, the leading industry analyst, rates most insurers on a scale from the highest rating, "A+" down to "C-." These ratings reflect a wide range of factors linked to financial strength. A. M. Best also publishes detailed reports on the current financial health of most insurers.

Performance ratios

A.M. Best Company ratings reflect a variety of financial performance factors, but one deserves particular attention. The premium-to-surplus ratio reflects the ability of the company to pay potential claims. Ratios of 3-to-1 or lower generally indicate an insurer has adequate resources to meet all obligations.

Insurance department reports

State insurance departments conduct periodic examinations of every insurance company based in their state. In some states, the department will send you a copy of a company examination upon request. You might consider checking with the insurance department for any consumer complaints filed against the company.

For a publicly held company, you also could review the audit opinion in its 10-K filing. While a clean audit opinion is no guarantee of financial strength, a qualified opinion certainly warrants further investigation.

Make sure the company provides expert claims service

You want a company to respond promptly and efficiently to a potential claim. Moreover, consider how much experience the company has in handling claims for businesses in your industry.

Compare risk control services

Some companies provide a broad range of risk control and risk management services to help you avoid claims or lower your costs if you have a claim. Other companies provide little or no help.

Make sure your insurance company offers the availability of professional risk control experts to help control your exposures and reduce the severity of losses. A comprehensive program would also include in-house reviews of your risk control efforts, seminars, newsletters, and more.

Ask if the company offers a safety group dividend plan

One way to benefit from your risk control efforts is to enroll in a safety group dividend plan. * Here's generally how the plans work.

The insurance company offers you an opportunity to voluntarily pool your premium on an annual basis with a group of risks engaged in a business much like yours. If the group keeps its losses low, plan participants can receive back a portion of their premiums in the form of a dividend check.

* Dividends, available in most states, typically are not guaranteed and often must be declared by the insurance companies Board of Directors.

Check to see if your association helped develop an insurance program

A good insurer will welcome your trade association's participation in the development of its programs, policies and procedures.

After surveying the insurance market, your association may choose to endorse or sponsor a property-casualty business insurance program from a specific company. Under this arrangement, the association and insurance company combine their collective expertise to develop a customized program that can provide the best possible coverages and limits.

Implement basic cost management practices

There are a number of basic steps you can take in many areas to help reduce the cost of your insurance premiums. The list that follows includes only a few things you can do. Consult with your agent and risk control representative to find out more about how to contain insurance costs.

General considerations

- Raise your deductibles
- Establish a safety program
- Adhere to professional risk control recommendations

- Timely notice of loss
- Policy limits of liability are adequate to protect assets

Property protection

- Keep your workplace clean and orderly
- Carefully store all combustible products/equipment
- Be sure all fire extinguishers are accessible and in good condition
- Establish emergency procedures and conduct employee drills
- Install a sprinkler system at your workplace
- Regularly inspect existing sprinkler systems

Automobile protection

- Review the motor vehicle reports of your drivers at hire and at least on an annual basis thereafter
- Establish fleet safety and fleet maintenance programs

Workers' Compensation

- Certificate of Insurance program for all subcontractors
- Keep accurate records of payroll divisions
- Maintain an accurate OSHA log
- Carefully review, and track the progress of, workers' compensation claims
- Implement an occupational injury management program which helps bring injured employees back to some form of constructive employment as soon as possible
- Employee management and training, and safety programs

Injury management

- Ensure that initial treatment is provided
- Notify the Claims Department
- Provide information to the treating physician
- Contact the employee
- Follow up with the physician
- Maintain contact with the employee, physician and claims
- Establish an injury management record

General Liability

- Employee management, training and safety programs
- Certificate of Insurance program for all subcontractors

- Annual review of contractual obligations and hold harmless and indemnification agreements
- Premises accessible to customers and members of the public and well maintained, free of obstructions and hazards. Customers and members of the public are restricted from work areas

Review quotation checklist

Before you buy an insurance policy, you should obtain a comprehensive quote from the insurance company. When you review the quote, ask the following questions:

- Have the payrolls been correctly separated? Is the premium based on accurate payroll estimates?
- Is the automobile schedule accurate?
- Does it include all the coverages you identified?
- If you need umbrella coverage, is the policy going to include it?
- If you need product liability coverage, is the policy going to include it?
- Is the property policy going to be written on an “all-risk” or named peril basis?
- Is the liability policy going to be written on an occurrence or a claims-made basis?
- Are the policy limits high enough? Are they higher than you need?
- Are you going to receive actual cash value or replacement cost for losses?
- Does it include recommendations tailored to meet your needs, or is the agent trying to get by with a generic insurance package?

Review coverage checklist

The following checklist will help you determine your coverage needs:

Insurance considerations	Type of insurance	Comments
Be sure to anticipate your full exposure to loss—the risks you need to insure and the hazards you need to insure against. Here are just a few:	Ask your agent about the coverages found below, which can help protect you against the many business hazards you face:	Keep the following in mind as you look for a business insurance program designed to meet your needs:
Building or leasehold improvements	Property insurance	“All risk” or named perils. Make sure you insure the proper value so you avoid possible coinsurance penalties. Can be written on replacement cost basis or actual cash value.
Business personal property and inventory	Property insurance	“All-risk” or named perils. Can be written on replacement cost basis or actual cash value.
Business equipment	Inland-Marine-Scheduled property floater	"All-risk” coverage at any location including while-in-transit. . Coverage should be extended to cover leased equipment.
Loss of use of the premises	Business income	Provides coverage for lost rents or income as the

		result of damage by an insured peril, or extra expense of occupying other quarters.
Steam boiler, pressure vessel, air conditioning unit, air compressor and other identified equipment	Boiler & machinery	Limits should be adequate to protect against all perils.
Loss of data programs and systems	Inland Marine-Electronic data processing equipment coverage	Covers expenses involved in repairing programs, data, etc.
Crime	Money & securities	This coverage applies to loss of money, securities or other negotiable instruments from burglary, robbery or theft. (Loss of other business property and inventory is covered under "All risk" forms of property and IM insurance)
Burglary	Property	
Forgery	Crime	Covers forged checks and intake of counterfeit money
Employee dishonesty	Fidelity bond	Covers loss of money and property caused by employee dishonesty. May be written on a “blanket” basis covering all employees or on a scheduled basis naming specific employees or positions.
Automobiles	Business automobile	A variety of coverages are written on the same policy including liability, uninsured/underinsured motorist, no-fault (in applicable states), medical payments, non-owned liability, rental reimbursement, comprehensive and collision and hired coverage. Try to coordinate your auto liability and umbrella liability limits.
Injury to employees	Workers’ compensation and employer’s liability	Statutory requirements vary in each state.
Premises & Operations claims	Commercial general liability (CGL)	Provides liability coverage for claims against the insured for damages arising from his or her business premises or operations.
Accounts receivable records	Inland Marine-Accounts receivable	Coverage protects you from direct loss resulting from the liability to collect money due from customers because of destruction or damage to your accounts receivable records.
Loss or damage to records	Inland Marine-Valuable papers and records	Pays for reconstruction of vital records. Coverage is “all risk.
Product liability	CGL-Product liability	Covers liability for damages caused by an accident and arising out of goods or products manufactured, sold, handled, or distributed by the insured or others trading under his or her name. The accident must have occurred after possession of goods has been relinquished to others, and away from premises owned, rented or controlled by the insured.
Liability for damage to reputation or public embarrassment of employees or others	CGL-Personal injury liability	Includes coverage for libel, slander, malicious persecution, invasion of privacy, wrongful eviction, etc.
Fire damage to rental premises	CGL-Fire legal liability	Protects an insured if sued by a landlord for negligence in causing fire damage to a rented building.
Alcoholic beverages	CGL-Host liquor liability	Provides protection for claims resulting from serving alcoholic beverages at sponsored gatherings for those not in the business of manufacturing, distribution or selling of alcoholic beverages.
Loss of revenues and profit from business shutdown	Business interruption	Coverage available under several options. Continues business income if a fire or other insured peril forces you to close.
Cost of continuing business after destruction of premises or equipment	Extra expense	Pays extra expenses for temporary premises and equipment replacement.
Advertising activities	CGL-Advertising injury liability	Covers claims for libel, slander, violation of a person’s right of privacy, copyright infringement, etc. resulting from the policyholder’s advertising activities.

Liability of administrators of employee benefit plans under ERISA	Fiduciary liability	Protects administrators of employee pension and other benefit plans for fiduciary responsibilities.
Liability for properly advising employees of their rights	Employee benefits liability	Protects employer against improper advice concerning benefits and termination options.
Inventory being transported and inventory at job sites	Inland marine (transit) installation floater	Must be specifically described.
Exterior glass	Plate glass	"All-risk" coverage not normally provided on other policies insuring buildings or leasehold improvement.
Exterior signs	Sign coverage	Requires specific description of signs to be covered. Coverage is "All-risk."
Contracts	CGL-Contractual liability	Covers liability of others assumed under contract (hold-harmless and purchase order agreements).
Damage to buildings and business property due to flood	Flood	Written with large deductible. Deductible may be covered by U.S. Government Flood Insurance Program (through licensed insurance agents).
Catastrophic liability	Umbrella	Provides excess coverage over and above primary limits on your comprehensive general liability policy, auto liability policy and other scheduled primary coverages.

Make an informed decision

Insurance provides essential protection against unexpected financial loss—protection that can mean the difference between survival and failure in the face of catastrophe. Since your financial health can depend on your insurance, it's important to consider as many factors as possible to make an informed insurance-buying decision.

Glossary of insurance terms

A

Actual cash value: The present-day value of property measured in cash, arrived at by taking the replacement cost and deducting for depreciation brought about by physical wear and tear and obsolescence.

Actuary: A person concerned with the application of probability and statistical theories to the practical problems of insurance and related fields. Actuarial responsibilities extend to the calculation of premiums, evaluation of various reserves, forecasting of financial results on both a long-range and a short-range basis.

Additional insured: A person, other than the one in whose name an insurance policy is written, who is protected against loss by terms of the policy.

Agent: A representative of the insurer in negotiating, servicing or effecting insurance contracts.

Aggregate: The maximum limit of liability payable by an insurance carrier on behalf of a policyholder during any given policy period.

Allied lines: Types of insurance associated with property insurance, which may include earthquake, sprinkler leakage, and income and extra expense coverage.

All risk insurance: The name given to a policy which covers against the loss caused by all perils except those that are specifically excluded by the terms of the policy.

Application: A form or document used by a person seeking insurance to provide information about their operations, and to indicate type and amount of coverage desired.

Appraisal: An estimate of quantity, quality, or value. The term also refers to the report setting forth the estimate and conclusion of value.

Arbitration: If a dispute arises between the insured and the company in regard to the amount of the loss, someone approved by both parties can be appointed to consider the facts and render a judgment. The arbitrator's decision is binding and final on both parties.

Attractive nuisance: A dangerous place, condition or object, which is particularly attractive to children. In these cases the courts have frequently held that where "attractiveness" exists, the owner is under a duty to take steps to prevent injury to those that may be attracted and the owner may be held liable for failure to do so.

Audit: A survey of the policyholder's records to determine the actual exposures for which premium should be paid to the insurance company.

Aviation insurance: Contractual protection against losses connected with airline accidents on domestic scheduled airplanes.

B

Benefits: The sum of money provided in an insurance policy to be paid for certain types of loss under the terms of an insurance policy.

Binder: A temporary insurance contract pending the execution of the policy contract. It should contain a definite time limit, should be in writing, and clearly designate the company in which the risk is bound, the amount and the perils insured against, as well as the type of insurance.

Blanket coverage: Coverage under a single limit for two or more items, (e.g. building and/or contents) two or more locations, or a combination of items and/or locations.

Bodily injury liability: Insurance protection against loss arising out of the liability imposed upon the insured by law for damages because of bodily injury, sickness or disease sustained by any person or persons other than employees.

Broker: An insurance broker ordinarily is a solicitor of insurance who does not represent insurance companies in a capacity as agent but places orders for coverage with companies designated by the insured or with companies of his own choosing. The term “broker” frequently is used incorrectly to designate an agent of more than one insurance company.

Burglary: Breaking and entering into premises of another, with felonious intent, and with visible signs of forced entry. Most insurance policies specifically define burglary under their own terms, so it is wise to make sure the term “burglary” in your policy provides the coverage you need.

C

Carrier: The insurance company that provides or “carries” the insurance.

Casualty insurance: The coverage of loss or liability arising from an accident or mishap excluding certain types of loss which by law or custom are considered as falling exclusively within the scope of other types of insurance such as fire or marine. It includes, but is not limited to, employees’ liability insurance, workers compensation insurance, public liability insurance, automobile liability insurance, plate glass insurance, burglary and theft insurance; also personal liability insurance, forgery, power plant and aviation insurance.

Catastrophe: A sudden and severe calamity or disaster. An event which causes a loss of an extraordinarily large amount of money.

Certificate of insurance: Document used to provide evidence of coverage to an interested third party.

Chartered Property and Casualty Underwriter (C.P.C.U.): A designation conferred by the American Institute of Property and Liability Underwriters to one who has completed a course of instruction and passed a series of examinations.

Claim: A demand for payment under an insurance contract or bond. The estimated or actual amount of a loss.

Claim severity: The average cost of each claim.

Classification: The underwriting or rating group into which a particular risk must be placed, as determined by the risk's type of business, location and other factors. Classifying persons, property or operations as a basis for tabulating statistical experience and determining premium rates.

Coinsurance: An arrangement by which the insured, in consideration of a reduced rate agrees to carry an amount of insurance equal to a percentage of the total value of the property insured.

Commercial lines: The various kinds of insurance written for businesses.

Commercial multiple-line policy: A package policy featuring a broad range of property and liability coverages designed for businesses.

Comparative negligence: A rule used in negligence cases in some states that provides for computing both the plaintiffs and the defendant's negligence, with the plaintiffs damages being reduced by a percentage representing the degree of his or her contributing fault. If the plaintiff's negligence is found to be greater than the defendant's, the plaintiff will receive nothing and will be subject to a counter claim by the defendant.

Competitive state fund: A state fund writing insurance in competition with private insurers.

Compulsory auto liability insurance: A state law requiring motorists to obtain minimum auto liability coverages for bodily injury and property damages.

Concealment: The withholding of material facts regarding the nature of an insurance risk or loss. Withholding essential information from the insurer in negotiating an insurance contract or in making a claim.

Consequential loss: A loss not directly caused by damage to property but which arises as a result of such damage (i.e., loss of rent).

Contract: An agreement entered into by two or more parties by the terms of which one or more of the parties, for a consideration, undertakes to do or to refrain from doing some act or acts in accordance with the wishes of the other party or parties. A contract to be valid and binding must be entered into by competent parties, be bound by a consideration, possess mutuality, represent an actual meeting of minds, and cover a legal and moral act.

Contributory negligence: The lack of care on the part of the individual, which helped cause the accident.

Coverage: A guarantee against specific losses provided under the terms of an insurance policy. It is used interchangeably with the words “insurance” or “protection” and also may refer to the amount of protection afforded under an insurance policy or to the insurance contract itself.

D

Declarations: That part of an insurance contract which contains information regarding the insurance risk on the basis of which the policy is issued. A statement by the applicant for insurance, usually relative to underwriting information.

Deductible: The amount of a loss, which the insured has to pay.

Depreciation: Loss in value. The difference between the replacement cost new and present value.

Direct writer: An insurance company which sells its policies through salaried employees or agents who represent it exclusively, rather than through independent local agents or insurance brokers. The insurer that contracts with the insured as distinguished from the reinsurer.

Dividend: A share of the earned surplus apportioned for distribution and reflective of the difference between the premium charged and the actual loss experience. In a mutual or participating company, it is the return to the policyholder out of the earnings of the company. In a stock or nonparticipating insurance company, it is the division of the profits among the stockholders of the company. A refund of part of the premium on a participating life insurance policy.

E

Earned premium: That part of an insurance premium which pays for the protection the insurance company has already given on a policy.

Employer’s liability insurance: Protects an employer against the claims for damages, which arise out of the injuries to employees in the course of their work. Employer’s liability insurance provides protection in cases not covered by workers’ compensation insurance.

Endorsement: A provision added to a policy, to effect a change or alteration of terms or conditions; must be signed by an executive of the company and attached to and made part of the policy to be valid.

Exclusion: A provision of part of the insurance contract limiting the scope of the coverage. The causes and conditions listed in the policy, which are not covered.

Exposure: This term may refer to the state of being subject to the possibility of loss or the extent of risk as measured by payroll, receipts, area or other standards.

F

FAIR plan: A government insurance cooperative program that makes various forms of property insurance readily available to persons who have difficulty obtaining this protection.

Fidelity bond: A form of insurance, which protects the covered employer against loss due to the dishonesty of his employees. A bond that reimburses an employer named in the bond for the amount lost due to any covered act of dishonesty by an employee. Blanket fidelity bonds embrace groups of employees.

Fiduciary: A person who occupies a position of special trust and confidence, especially handling or supervising the financial affairs or funds of another.

Financial responsibility law: A statute requiring motorists to furnish evidence of ability to pay damages, either before or after an accident.

Fire insurance: Contract prescribed by each state subject to modification by endorsements insuring against direct loss from fire, lightning and other defined causes.

Fleet policy: An insurance contract covering a number of vehicles with a single owner.

Floater policy: A policy under the terms of which protection follows movable property, covering it wherever it may be (e.g., a policy on tourist's baggage).

Flood insurance: Contract of protection for damage caused by overflowing or rising water.

G

Grace period: A period of time, usually thirty-one days following the premium due date, during which a premium may be paid. The policy remains in force throughout this period.

H

Hazard: A specific situation that introduces or increases the probability of the occurrence of a loss arising from a peril, or that may influence the extent of a loss.

I

Incurred losses: Losses occurring within a fixed period, whether adjusted and paid or not.

Insured: An individual or business organization protected in case of loss of property or life under the terms of an insurance policy.

J

Joint Underwriting Association (JUA): A system used to provide insurance to individuals or businesses that fail to secure coverage in the voluntary market. Although only certain companies issue policies at one rate level and handle claims for those insured, all of the companies providing insurance in that state must bear the ultimate costs.

L

Liability limits: The sum or sums beyond which a liability insurance company does not protect the insured on a particular policy. The majority of policies covering liability for bodily injury have two limits: a limit of liability to any one person; and another limit, usually higher, for any single accident where more than one person is involved.

Litigation: The act of carrying on a lawsuit.

Loss: The basis for a claim of indemnity or damages under the terms of an insurance policy. Any diminution of quantity, quality or value of property.

Loss ratio: The percentage of losses to premiums.

M

Malicious mischief: Injury to the rights or property of another with a wicked or perverse intent.

Multi-peril policy: Contrary to what the name might imply, the term "multi-peril policy" does not mean a policy insuring against two or more perils. Instead, it is a policy that combines fire and casualty and marine coverages in a single contract such as the homeowner’s policy.

Multiple-line policy: A package that combines traditional property and liability insurance lines coverages.
Mutual insurance companies: Companies with no capital stock, owned by policyholders. The earnings of the company over and above the payments of the losses and operating expenses and reserves are the property of the policyholders.

N

Named perils: Named perils or hazards, policies name the specific perils or hazards the policy insures against. All risk policies do not name the perils specifically.

Negligence: Failure to do what a reasonably prudent individual would ordinarily do under the circumstances of a particular case, or doing what a prudent person would not have done. Negligence may be caused by acts of omission, commission or both.

No-fault automobile insurance: A form of insurance by which an insurance company pays for a policyholder’s financial loss resulting from an automobile accident without concern for who was at fault.

Notice of loss: The conditions of the insurance policy require that any person sustaining a loss against the property insured by the policy shall forthwith (immediately) give notice to the company of such loss. This notice must precede recovery, unless waived by the insurer. The notice is required in writing, although many companies accept a notice by telephone.

O

Occurrence: A continued or repeated exposure to conditions, which results in a loss. Also, a policy clause stipulating all damages that arise out of the same general conditions are considered as arising from one occurrence.

P

Package policies: Combination policies wherein several coverages are included in one contract.

Peril: Cause of a possible loss, such as fire, theft, explosion, etc.

Policyholder: The individual or firm in whose name an insurance policy is written. Synonymous with insured.

Pool: A group of insurance companies that have joined together for the purpose of sharing certain risks on an agreed-upon basis.

Premises: A particular location or portion thereof as stated by the policy contract.

Proximate cause: The primary cause of an event, which in a natural and continuous sequence, unbroken by any new cause, produced that event, and without which that event would not have happened. For example, water sprayed from the hose of a fire fighter may damage a house, but the primary or proximate cause, of course, was the fire itself.

R

Rate: The cost of insurance per unit used as a means or base for the determination of premiums.

Rating bureau: An organization that performs insurance-related services for its members, most notably, rate making based on statistical data.

Rating territory: In some property and casualty lines rating territory refers to a geographical grouping within which insureds tend to share an exposure to similar risks. This practice helps establish rates for the territory.

Reinsurance: Acceptance by an insurer called a reinsurer, of all or part of the risk of loss of another insurer. Thus, the risk of loss is spread and a disproportionately large loss under a single policy does not fall on one company.

Rents or rental value insurance: Protection against the loss of rents resulting from an insured peril.

Replacement cost property insurance: Insurance providing the amount payable to the insured as the replacement cost of the property new, rather than the depreciated value applied to the building structures or contents.

Reserve: Funds which are set aside by an insurance company for the purpose of meeting obligations as they become due. A liability set up by an insurer for a particular purpose.

Retrospective rating: A technique which permits adjustments of the final premium for a risk based on the loss experience of the insured during the period of protection between maximum and minimum limits.

Rider: A document or form containing special provisions that are not contained in the policy contract. Such forms are to be added or attached to the policy.

Risk: A person or thing insured.

Risk Control service: An inspection or engineering service designed to help reduce a policyholder's exposure to loss.

Risk management: The practice of analyzing all noncompetitive (non-production) exposure to risk of loss (loss by fortuitous or accidental means) and taking steps to minimize those potential or real losses to levels acceptable to the organization.

S

Salvage: Damaged property taken by an insurer after it has paid the claim in order to minimize its losses.

Schedule: An enumeration of various properties covered by a policy. A system for computing rates.

Self-insurance: An individual or firm's systematic provision of a fund to provide for all or part of its losses.

Short rate cancellation: The termination of an insurance policy or bond before its expiration either by the insured or the company. The notice necessary before such cancellation becomes effective is almost always stated in the insurance contract.

Standard provisions: Those clauses that certain state codes prescribe as being inserted in contracts of insurance; Contract provisions in general used by insurers, adopted by a group of insurers, approved by a state insurance department, or required by statute, either literally, in substance, or in a form more favorable to the insured.

Stock company: A company owned by a number of investors or stockholders.

Subrogation: The right of the insurance company to recover from a third party the amount paid under the policy.

Surety bond: An instrument providing for monetary compensation should there be a failure to perform any specific acts within a stated period.

Suretyship: All forms of obligations to pay the debt or default of another. The function of being a surety.

Surplus line: Business which would otherwise be subject to regulation as to rates or coverage, placed in non-admitted markets on an unregulated basis in accordance with the Surplus or Excess Line provisions of state insurance laws.

Syndicate: Group of companies or other underwriters who join together to insure a certain property which may be of such value, or of such high hazard, or so expensive to underwrite that it can be done more efficiently on a cooperative basis.

T

Theft insurance: Protection for the loss of property due to stealing, including the crimes of burglary, robbery, and larceny.

Tort: A legal wrong committed on a person or property apart from a responsibility in a contract.

U

Underwriter: The individual whose duty it is to determine the acceptability of insurance risks; a person whose duty it is to select risks and determine the amounts and terms by which the insurance company will accept the risks.

Underwriting profit: The profit or loss an insurance company experiences after deducting incurred losses and business expenses from earned premiums. This amount excludes investment income and is determined before the provision of federal income tax.