

Jargon Buster

The insurance industry uses quite a number of technical terms, usually for reasons of precise meaning, which are not necessarily easily understood by the layman. This section clarifies what the key words and phrases that you'll find in insurance documents mean.

Glossary of Insurance Terms

ADDENDUM

A document setting out agreed alterations to an insurance contract. (See also endorsement).

ADDITIONAL PREMIUM

A further premium payable by the insured as a result of policy amendment, that may have increased the risk or changed the policy conditions or sum insured.

ADJUSTER

One who investigates and assesses claims on behalf of insurers (claims adjuster or loss adjuster).

ADVANCE PROFITS INSURANCE

Business interruption insurance of the expected profits of a new enterprise or an extension to an existing business.

AGGREGATE LIMIT OF INDEMNITY

The maximum amount an insurer will pay under a policy in respect of all accumulated claims arising within a specified period of insurance.

ALL RISKS

Term used to describe insurance against loss of or damage to property arising from any fortuitous cause except those that are specifically excluded.

ASSURANCE

A term interchangeable with insurance but generally used in connection with life cover as assurance implies the certainty of an event and insurance the probability.

AVERAGE

A clause in insurance policies whereby, in the event of under-insurance, the claim paid out by the insurer is restricted to the same proportion of the loss as the sum insured under the policy bears to the total value of the insured item.

CANCELLATION

Termination of a policy before it is due to expire. There may be a cancellation clause in a policy setting out the condition under which the policy may be cancelled by notice. The period of notice could be anything from 48 hours to 3 months. In most cases this will result in a return premium being paid by the insurer to the insured.

CLAIMS

Injury or loss to the insured arising so as to cause liability to the insurer under a policy it has issued.

COMMON LAW

The common law consists of the ancient customs and usages of the land, which have been recognised by the courts and given the force of law. It is in itself a complex system of law, both civil and criminal, although it is greatly modified and extended by

statute law and equity. It is unwritten, and has come down in the recorded judgements of judges who for hundreds of years have interpreted it.

COMMUNITY COMPANY

An insurance company whose head office is in a member State of the European Economic Community.

CONCEALMENT

Deliberate suppression by a proposer for insurance of a material fact relating to the risk, usually making the contract null and void.

CONSEQUENTIAL LOSS

Insurance of loss following direct damage e.g. loss of profits; loss of use insurance.

COVER NOTE

A document issued to the insured confirming details of the insurance cover placed. Some cover notes are a legal requirement, e.g. motor.

DEDUCTIBLE

The specified amount a loss must exceed before a claim is payable. Only the amount which is in excess of the deductible is recoverable.

DEFERRED PREMIUM

The part of a premium which, following agreement with underwriters, is payable by instalments, usually quarterly or half yearly.

EMPLOYERS LIABILITY INSURANCE

Insurance by employers in respect of their liability to employees for injury or disease arising out of and in the course of their employment. With some exemptions this insurance is compulsory in Great Britain, and can only be provided by an authorised insurer.

ENDORSEMENT

Documentary evidence of a change in the wording of or cover offered by an existing policy or qualification of wording if the policy is written on restricted terms. (See also Addendum).

EXCESS

The first portion of a loss or claim which is borne by the insured. An excess can be either voluntary to obtain premium benefit or imposed for underwriting reasons.

EXCLUSION

A provision in a policy that excludes the insurer's liability in certain circumstances or for specified types of loss.

EX-GRATIA PAYMENT

A payment made by an insurer to a policyholder where there is no legal liability so to pay.

FIRST LOSS INSURANCE

Insurance where the sum insured is accepted to be less than the value of the property but the insurer undertakes to pay claims up to the sum insured, without application of average.

GROSS PREMIUM

A term normally applied to gross written premiums before deduction of brokerage and discounts.

HAZARD

A physical or moral feature that introduces or increases the risk.

INCEPTION DATE

The date from which, under the terms of a policy, an insurer is deemed to be at risk.

INCREASE IN COST OF WORKING

Under a business interruption policy some cover is provided for additional expenditure incurred by the insured solely for the purpose of reducing the shortage in production following an insured event.

INDEMNITY

A principle whereby the insurer seeks to place the insured in the same position after a loss as he occupied immediately before the loss (as far as possible).

INDEMNITY PERIOD

Under a business interruption insurance the period during which cover is provided for disruption to the business following the occurrence of an insured peril.

INSURABLE INTEREST

For a contract of insurance to be valid the policyholder must have an interest in the insured item that is recognised at law whereby he benefits from its safety, well being or freedom from liability and would be prejudiced by its damage or the existence of liability. This is called the insurable interest and must exist at the time the policy is taken out and at the time of the loss.

INSURABLE VALUE

The value of the insurable interest which the insured has in the insured occurrence or event. It is the amount to be paid out by the insurer (assuming full insurance) in the event of total loss or destruction of the item insured.

INSURANCE BROKER/INTERMEDIARY

An insurance intermediary who advises his clients and arranges their insurances. Although he acts as the agent of his client, he is normally remunerated by a commission (brokerage) from the insurer. An insurance broker is a full-time specialist with professional skills in handling insurance business. Since January 2005 intermediaries and brokers must be registered with, and regulated by the Financial Conduct Authority.

FINANCIAL OMBUDSMAN SERVICE

A bureau established by major insurance companies to oversee the interests of policyholders whose complaints remain unsolved through normal company channels of communication. The service is available to all those holding personal cover with the insurers who have joined the scheme. The decision of the Ombudsman is binding on the insurer, although the insured may appeal to the court if he so wishes.

INSURANCE PREMIUM TAX

The Finance Act 1994 introduced this new tax on most general insurance risks located in the UK.

INSURED

The person whose property is insured or in whose favour the policy is issued.

INSURER

An insurance company or Lloyd's underwriter who, in return for a consideration (a premium), agrees to make good in a manner laid down in the policy any loss or damage suffered by the person paying the premium as a result of some accident or occurrence.

LAPSE

The non-renewal of a policy for any reason.

LATENT DISEASE

An illness which lies dormant for some years before manifesting itself.

LIMIT

The insurer's maximum liability under an insurance, which may be expressed 'per accident', 'per event', 'per occurrence', 'per annum', etc

LLOYD'S (OF LONDON)

A Society, incorporated under Act of Parliament of 1871 and known as the Corporation of Lloyd's, which provides the premises a wide variety of services, administrative staff and other facilities to enable the Lloyds market to carry on insurance business efficiently.

LLOYD'S BROKER

A broker approved by the Council of Lloyd's and thereby entitled to enter the underwriting room at Lloyd's and place business direct with underwriters. Lloyd's brokers must meet the Council of Lloyd's stringent requirements as to integrity and financial stability. They have to file annually with the Council of Lloyd's a special accountant's report concerning their financial position.

LOSS

Another term for a claim.

LOSS ADJUSTER

Independent qualified loss adjusters are used by Insurers for their experience and expertise necessary to carry out detailed and in some instances prolonged investigations of complex and large losses. Although the adjuster's fees are invariably paid by the insurers he is an impartial professional person and makes his judgement on the amount to be paid in settlement solely on the basis of established market practice. It is his task to negotiate a settlement which is within the terms of the policy and equitable to both insured and insurer. Should he himself not be an expert in a particular discipline which is necessary or desirable to pursue his negotiations, he will consult or employ such an expert.

LOSS ASSESSOR:

1. In motor insurance, an engineer.
2. In other classes a person who, in return for a fee (usually a percentage of the amount claimed), acts for the claimant in negotiating the claim.

MATERIAL DAMAGE WARRANTY

A warranty in a business interruption insurance policy stipulating that for the interruption insurance to become effective there must be a policy in force in respect of the material damage and a claim paid or admitted thereunder for such damage caused by an insured peril.

MATERIAL FACT

Any fact which would influence the insurer in accepting or declining a risk or in fixing the premium or terms and conditions of the contract is material and must be disclosed by a proposer, or by the insurer to the insured.

NAME

Another term for an underwriting member of Lloyd's.

NEGLIGENCE

Perhaps the most common form of tort. In *Blyth v Birmingham Waterworks Co.* (1856) it was defined as 'the omission to do something which a reasonable man guided by those considerations which ordinarily regulate the conduct of human affairs would do, or doing something which a prudent and reasonable man would not do'. Gives rise to civil liability.

NET PREMIUMS

Term variously used to mean gross premiums net of reinsurance premiums payable, or commission, brokerage, taxes, or any combination of these.

NEW FOR OLD

Where insurers agree to pay the cost of property lost or destroyed without deduction for depreciation.

NO CLAIMS BONUS (OR DISCOUNT)

A rebate of premium given to an insured person by an insurer where no claims have been made by that insured. Very common in motor insurance.

NON-DISCLOSURE

The failure by the insured or his broker to disclose a material fact or circumstance to the underwriter before acceptance of the risk.

PASSENGER LIABILITY

The liability of a carrier to passengers.

PERIL

A contingency, of fortuitous happening, which may be covered or excluded by a policy of insurance.

PERIOD OF RISK

The period during which the insurer can incur liability under the terms of the policy.

PERMANENT HEALTH INSURANCE

Term used to describe contracts of insurance providing continuing benefits in the event of prolonged illness or disability.

PERSONAL ACCIDENT AND SICKNESS INSURANCE

Insurance for fixed benefits in the event of death or loss of limbs or sight by accident and/or disablement by accident or sickness. Accident and sickness may be insured together or separately.

POLICY

A document detailing the terms and conditions applicable to an insurance contract and constituting legal evidence of the agreement to insure. It is issued by an insurer or his representative for the first period of risk. On renewal a new policy may well not be issued although the same conditions would apply, and the current wording would be evidence by the renewal receipt.

POLICY HOLDER

The person in whose name the policy is issued. (See also insured and assured).

PREMIUM

The consideration paid for a contract of insurance.

PRE - EXISTING MEDICAL CONDITIONS

You should tell your broker or insurer about any illness you are currently suffering

from, or have already had, even in the past. . These are known as pre existing medical conditions. For Private Medical Insurance, you will not normally be covered for these conditions, but for Travel Insurance, the Insurer may be able to offer cover, sometimes for a higher premium.

PRODUCTS LIABILITY INSURANCE

These policies cover the insured's legal liability for bodily injury to persons, or loss of or damage to property caused by defects in goods (including containers) sold, supplied, erected, installed, repaired, treated, manufactured, and/or tested by the insured.

PROFESSIONAL INDEMNITY INSURANCE

This policy protects a professional man against his legal liability towards third parties for injury, loss, or damage, arising from his own professional negligence or that of his employees.

PROPOSAL FORM

A form sent by an insurer to a person requiring insurance so as to obtain sufficient information to allow the insurer to decide whether or not to accept a risk and what conditions to apply if it is accepted.

QUOTE

A statement by an insurer of the premium he will require for a particular insurance.

REINSTATEMENT

Making good. Where insured property is damaged, it is usual for settlement to be effected through the payment of a sum of money, but a policy may give either the insured or insurer the option to restore or rebuild instead.

RENEWAL

The process of continuing an insurance from one period of risk to a succeeding one.

RISK

The peril insured against or an individual exposure.

RISK MANAGEMENT

The identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.

SALVAGE

A recovery of all or part of the value of an insured item on which a claim has been paid. The insurer will normally dispose of the item and apply the proceeds to reduce the cost of the claim.

SCHEDULE

The part of a policy containing information peculiar to that particular risk. The greater part of a policy is likely to be identical for all risks within a class of business covered by the same insurer.

STATEMENT OF FACT

An alternative to a completed proposal form. A statement provided by the insurer clarifying the basis on which insurance is accepted and what conditions apply.

STATUTE LAW

Presently the most important source of law is statute law, otherwise known as Acts of Parliament; which may create entirely new law, over-rule, modify, or extend existing principles of common law and equity, and repeal or modify existing Statute law.

SUBJECT TO SURVEY

Phrase used by an insurer to signify provisional acceptance of an insurance pending inspection by a surveyor whose report is necessary to determine the rate and conditions applicable.

SUM INSURED

The maximum amount payable in the event of a claim under contract of insurance.

THIRD PARTY

A person claiming against an insured. In insurance terminology the first party is the insurer and the second party is the insured.

THIRD PARTY LIABILITY

Liability of the insured to persons who are not parties to the contract of insurance and are not employees of the insured.

UNDERLYING INSURANCE

The primary insurance as distinct from excess insurance.

UNDERWRITER

A person who accepts business on behalf of an insurer. (See also Lloyd's underwriter).

UTMOST GOOD FAITH

Insurance contracts are contracts of utmost good faith (*uberrima fides*), which means that both parties to the contract have a duty to disclose, clearly and accurately, all material facts relating to the proposed insurance. Any breach of this duty by the proposer may entitle the insurer to repudiate liability.

WARRANTY

A very strict condition in a policy imposed by an insurer. A breach entitles the insurer to deny liability.

WEAR AND TEAR

This is the amount deducted from claims payments to allow for any depreciation in the property insured which is caused by its usage.