Texas Adjuster License Curriculum Self Study Supplement – 10 Hours

Instructions

Please read this curriculum as part of your course of study. You are required to sign the attached affidavit that this has been completed and have the affidavit notarized. Within the online portion of your course you will complete over 800 quiz questions to test your mastery of the subject matter. Expect to find chapter assessments and final exam questions relate to this self study content, especially the terms and definitions on the Glossary.

Texas Consumer Bill of Rights

The Texas Department of Insurance is diligent in protecting the rights of consumers and Texas citizens. This is especially true in regard to proper conduct in investigation and settling claims. We are assigning the Texas Consumer Bill of Rights for Homeowner and Auto Insurance.

If you have not done so already we recommend you familiarize yourself with the website of the Texas Department of Insurance and the section of the website that deals with Consumer Protection. http://www.tdi.texas.gov/consumer/index.html

Consumer Bill of Rights

Homeowners, Dwelling and Renters Insurance

AVISO: Este documento es un resumen de sus derechos como asegurado. Usted tiene el derecho a llamar a su compañía y pedir una copia de estos derechos en español.

What is the Bill of Rights?

This Bill of Rights is a summary of your rights and does not become a part of your policy. The Texas Department of Insurance (TDI) adopted the Bill of Rights and requires insurance companies to provide you a copy when they issue your policy.

Texas law gives you certain rights regarding your homeowners, dwelling and renters insurance. This Bill of Rights identifies your rights specified by rule or by state statute, but it does not include all your rights. Also, some exceptions to the rights are not listed here. If your agent, company, or adjuster tells you that one of these rights does not apply to you, contact TDI Consumer Protection at 1-800-252-3439 (463-6515 in Austin) (1111A), P.O. Box 149091, Austin, TX 78714-9091. For a list of the specific law(s) and/or
rule(s) summarized in each item of this Bill of Rights, or if you have questions or comments contact the Office of Public Insurance Counsel at 333 Guadalupe, Suite 3-120, Austin, TX 78701 (512-322-4143) or http://www.opic.state.tx.us.

This Bill of Rights does not address your responsibilities. Your responsibilities concerning your insurance can be found in your policy. Failure to meet your obligations may affect your rights.

Getting information from the Department of Insurance and Your Insurance Company

1. **INFORMATION FROM TDI.** You have the right to call TDI free of charge at 1-800-252-3439 or 463-6515 in Austin to learn more about:
   - your rights as an insurance consumer;
   - the license status of an insurance company or agent;
   - the financial condition of an insurance company;
   - the complaint ratio and type of consumer complaints filed against an insurance company;
   - use of credit information by insurance companies, including which insurance companies use it and access to each company’s credit scoring model;
   - an insurance company’s rates filed with the state;
   - an insurance company’s underwriting guidelines (subject to exemptions in the Public Information Act, also known as the Open Records Act);
   - the Texas FAIR Plan, designed to help consumers who have been denied coverage by at least two insurance companies;
   - Helpinsure.com, a service to help Texans shop for homeowners insurance;
   - the Market Assistance Program (MAP) at 1-888-799-MAPP (6277), designed to help those in underserved areas obtain insurance; and
   - other consumer concerns

You can also find some of this information on the TDI website at http://www.tdi.state.tx.us. 2. **INFORMATION FROM YOUR INSURANCE COMPANY.** You have the right to a toll-free number to call your insurance company free of charge with questions or complaints. You can find this number on a notice accompanying your policy. This requirement does not apply to small insurance companies.

What you should know before you buy insurance

3. **PROHIBITED STATEMENTS.** Your insurance company or agent is prohibited from making false, misleading, or deceptive statements to you relating to insurance.

4. **LENDER-REQUIRED INSURANCE.** A lender cannot require you to purchase insurance on your property in an amount that exceeds the replacement cost of the dwelling and its contents as a condition of financing a residential mortgage or providing other financing arrangements for the property, regardless of the amount of the mortgage
or other financing arrangements. In determining the replacement cost of the dwelling, a lender cannot include the fair market value of the land on which a dwelling is located.

5. CREDIT INFORMATION. An insurance company cannot deny you insurance solely on the basis of credit information. Insurers who use credit information must also consider other underwriting factors independent of credit information when deciding whether to offer coverage. (For additional information see the section of this Bill of Rights entitled What you should know about insurance companies’ use of credit information.)

6. APPLIANCE RELATED WATER DAMAGE CLAIMS. An insurance company cannot deny you insurance or increase your premium based on a prior appliance-related water damage claim if:
   - the claim has been properly repaired or remediated; and
   - the repair or remediation was inspected and certified unless three such claims have been filed and paid in a three-year period.

   NOTE: A claim includes a claim filed by you or a claim filed on your property.

7. WATER CLAIMS/MOLD DAMAGE OR CLAIMS. An insurance company cannot deny you insurance based:
   - solely on a single prior water damage claim.
   - on prior mold damage or a prior mold claim if:
     - the damage or claim was properly repaired or remediated; and the repair or remediation was inspected and certified. NOTE: A claim includes a claim filed by you or a claim filed on your property.

8. PROPERTY CONDITION. Voluntary Inspection Program: You have the right to have an independent inspection of your property by any person authorized by the Commissioner of Insurance to perform inspections. Once the inspector determines that your property meets certain minimum requirements and issues you an inspection certificate, no insurer may deny coverage based on property conditions without reinspecting your property. If an insurer then denies coverage, the insurer must identify, in writing, the specific problem(s) that makes your property uninsurable. You can find a list of available inspectors on the TDI website at www.tdi.state.tx.us/consumer/vipcommish.html or you can contact TDI for the list directly at (512) 322-2259.

9. SAFETY NET. You have the right to buy basic homeowners insurance through the Texas Fair Access to Insurance Requirements Plan, also known as the Texas FAIR Plan, if you have been denied coverage by two insurance companies. Your property must meet certain requirements, and eligibility for FAIR Plan coverage must be re-established every two years. You can access a list of insurance agents who are authorized to sell this coverage on the Texas FAIR Plan Association website at www.texasfairplan.org or by calling 1-800-466-6680.
10. **WINDSTORM COVERAGE.** For property located in areas designated by the Commissioner in certain counties on or near the coast, you have the right to buy windstorm and hail coverage from the Texas Windstorm Insurance Association. Your property must meet certain requirements, and the basic coverage is limited to a maximum amount set each year by the Commissioner of Insurance. This right applies whether or not you buy other insurance for your house. In all other counties your homeowners or dwelling policy includes this coverage. You may be able to purchase additional coverage from the Association.

11. **ELECTRONIC PAYMENTS.** If you authorize your insurer to withdraw your premium payments directly from your financial institution, including your escrow account, your insurer cannot increase the amount withdrawn unless:
   - the insurer notifies you of the premium increase at least 30 days prior to its effective date and provides a postage paid form you can use to object to the increase; and
   - you do not notify the insurer or financial institution that you object to the increase at least 5 days prior to the increase.

   This does not apply to premium increases specifically scheduled in the original policy, to increases based on policy changes you request, or to an increase that is less than $10 or 10% of the previous month’s payment.

12. **NOTICE OF REDUCED COVERAGE.** If an insurer uses an endorsement to reduce the amount of coverage provided by your policy, the insurer must give you a written explanation of the change made by the endorsement. The insurer must provide the explanation before the effective date of the new or renewal policy. An insurance company cannot reduce coverage during the policy period unless you request the change. If you request the change, the company is not required to provide notice.

13. **NOTICE OF PREMIUM INCREASE.** If your insurer intends to increase your premium by 10% or more upon renewal, the insurer must send you notice of the rate increase at least 30 days before your renewal date.

14. **EXPLANATION OF DENIAL.** Upon request, you have the right to be told in writing why you have been denied coverage. The written statement must fully explain the decision, including the precise incidents, circumstances, or risk factors that disqualified you. It must also state the sources of information used.

   NOTE: The obligation to provide a written explanation applies to insurance companies directly. An independent agent does not have a specific duty to quote the lowest possible rate to a consumer or to provide a written statement explaining why the agent did not offer the consumer the lowest possible rate.
15. **RATE DIFFERENTIAL WITHIN A COUNTY.** If an insurer subdivides a county for the purposes of charging different rates for each subdivision, the difference between the lowest and the highest rate cannot exceed 15% unless actuarially justified.

16. **RIGHT TO PRIVACY.** You have the right to prevent an insurance company, agent, adjuster or financial institution from disclosing your personal financial information to companies that are not affiliated with the insurance company or financial institution. Some examples are income, social security number, credit history and premium payment history.

If you apply for a policy, the insurance company or financial institution must notify you if it intends to share financial information about you and give you at least 30 days to refuse. This refusal is called “opting out.” If you buy a policy, the insurance company or financial institution must tell you what information it collects about you and whether it intends to share any of the information, and give you at least 30 days to opt out. Agents and adjusters who intend to share your information with anyone other than the insurance company or financial institution must give you similar notices. You can opt out at any time. Your decision to opt out remains in effect unless you revoke it.

These protections do not apply to information:
- publicly available elsewhere;
- insurance companies or financial institutions are required by law to disclose; or
- insurance companies or financial institutions must share in order to conduct ordinary business activities.

**What you should know about cancellation and nonrenewal**

**Cancellation** means that **before the end** of the policy period the insurance company:
- terminates the policy;
- reduces or restricts coverage under the policy; or
- refuses to provide additional coverage to which you are entitled under the policy.

**Refusal to renew** and **non-renewal** mean the policy terminates **at the end** of the policy period.

The **policy period** is shown on the declarations page at the front of your policy.

17. **LIMITATION ON CANCELLATION FOR HOMEOWNERS AND RENTERS POLICIES.** After your initial homeowners or renters policy with your company has been in effect for 60 days or more, that insurance company cannot cancel your policy unless:
- you don’t pay your premium when due;
- you file a fraudulent claim;
- there is an increase in the hazard covered by the policy that is within your control and results in an increase in the policy premium; or
• TDI determines continuation of the policy would result in violation of insurance laws.

If your policy has been in effect for less than 60 days, your insurance company cannot cancel your policy unless:
• one of the reasons listed above applies;
• the insurance company identifies a condition that:
  • creates an increase in hazard;
  • was not disclosed on your application; and
  • is not the subject of a prior claim; or
• the insurance company rejects a required inspection report within 10 days after receiving the report. The report must be completed by a licensed or authorized inspector and cannot be more than 90 days old.

18. LIMITATION ON CANCELLATION FOR DWELLING POLICIES. After your initial dwelling policy with your company has been in effect for 90 days, that insurance company cannot cancel your policy unless:
• you don’t pay your premium when due;
• you file a fraudulent claim;
• there is an increase in the hazard covered by the policy that is within your control and results in an increase in the policy premium; or
• TDI determines continuation of the policy would result in violation of insurance laws.

19. NOTICE OF CANCELLATION. To cancel your policy, your insurance company must mail notice at least 10 days prior to cancellation. Your policy may provide for even greater notice.

20. POLICYHOLDER’S RIGHT TO CANCEL. You have the right to cancel your policy at any time and receive a refund of the remaining premium.

21. CHANGE IN MARITAL STATUS. If your marital status changes, you have the right to continue your insurance coverage. You have a right to a new policy in your name that has coverages which most nearly approximate the coverages of your prior policy, including the same expiration date. The insurance company cannot date the new policy so that a gap in coverage occurs.

22. USE OF CLAIMS HISTORY TO NONRENEW. Your insurance company cannot use claims you filed as a basis to non-renew your policy unless:
• you file three or more claims in any 3-year period; and
• your insurer notified you in writing after the second claim that filing a third claim could result in non-renewal of your policy.
In determining the number of claims filed, your insurance company cannot include:

- claims for damage from natural causes, including weather-related damage;
- appliance-related water damage claims where the repairs have been inspected and certified; or
- claims filed but not paid or payable under the policy.

NOTE: An insurance company can count appliance-related claims if 3 or more such claims are filed and paid within a 3-year period.

23. **USE OF CREDIT INFORMATION TO NONRENEW.** An insurance company cannot refuse to renew your policy solely on the basis of credit information. Insurers who use credit information must also consider other underwriting factors independent of credit information when deciding whether to renew coverage. (For additional information see the section of this Bill of Rights entitled *What you should know about insurance companies’ use of credit information.*)

24. **NOTICE OF CHANGE IN POLICY FORM.** Your insurer must notify you in writing of any difference between your current policy and each policy offered to you when the policy renews.

25. **NOTICE OF NONRENEWAL.** If the insurance company does not mail you notice of nonrenewal at least 30 days before your policy expires, you have the right to require the insurance company to renew your policy.

26. **EXPLANATION OF CANCELLATION OR NONRENEWAL.** Upon request, you have the right to a written explanation of an insurance company’s decision to cancel or non-renew your policy. The written statement must fully explain the decision, including the precise incidents, circumstances, or risk factors that disqualified you. It must also state the sources of information used.

**What you should know when you file a claim**

27. **FAIR TREATMENT.** You have the right to be treated fairly and honestly when you make a claim. If you believe an insurance company has treated you unfairly, call the Department of Insurance at 1-800-252-3439 (463-6515 in Austin) or download a complaint form from the TDI at [http://www.tdi.state.tx.us](http://www.tdi.state.tx.us). You can complete a complaint form on-line via the Internet or fax it to TDI at 512-475-1771.

28. **SETTLEMENT OFFER.** You have the right to reject any settlement amount, including any unfair valuation, offered by the insurance company. You have the right to have your home repaired by the repair person of your choice.

29. **EXPLANATION OF CLAIM DENIAL.** Your insurance company must tell you in writing why your claim or part of your claim was denied.
30. **TIMEFRAMES FOR CLAIM PROCESSING AND PAYMENT.** When you file a claim on your own policy, you have the right to have your claim processed and paid promptly. If the insurance company fails to meet required claims processing and payment deadlines, you have the right to collect 18% annual interest and attorney's fees in addition to your claim amount.

Generally, within **15 calendar days**, your insurance company must acknowledge receipt of your claim and request any additional information reasonably related to your claim. Within **15 business days** (30 days if the company reasonably suspects arson) after receipt of all requested information, the company must approve or deny your claim in writing. The law allows the insurance company to extend this deadline up to **45 days** if it notifies you that more time is needed and tells you why.

After notifying you that your claim is approved, your insurance company must pay the claim **within 5 business days**.

If your claim results from a weather-related catastrophe or other major natural disaster as defined by TDI, your insurance company may take 45 additional days to approve or deny your claim and 15 additional days to pay your claim.

31. **RELEASE OF CLAIM FUNDS.** Often an insurance company will make a claim check payable to you and your mortgage company or other lender and will send it to the lender. In that case, the lender must notify you within 10 days of receipt of the check and tell you what you must do to get the funds released to you. Once you request the funds from the lender, within 10 days the lender must:
   - release the money to you; or
   - tell you in specific detail what you must do to get the money released.

If the lender does not provide the notices mentioned above or pay the money to you after all requirements have been met, the lender must pay you interest on the money at 10% per year from the time the payment or the notices were due.

32. **NOTICE OF LIABILITY CLAIM SETTLEMENT.** Your insurance company must notify you if it intends to pay a liability claim against your policy. The company must notify you in writing of an initial offer to compromise or settle a claim against you no later than the 10th day after the date the offer is made. The company must notify you in writing of any settlement of a claim against you no later than the 30th day after the date of the settlement.

33. **INFORMATION NOT REQUIRED FOR CLAIM PROCESSING.** You have the right to refuse to provide your insurance company with information that does not relate to your claim. In addition, you may refuse to provide your federal income tax records unless your insurer gets a court order or your claim involves lost income or a fire loss.
What you should know about prohibited discrimination

34. **PROTECTED CLASSES.** An insurance company cannot discriminate against you by refusing to insure you; limiting the amount, extent or kind of coverage available to you; charging you a different rate for the same coverage; or refusing to renew your policy:
   - because of race, color, religion, gender, marital status, disability or partial disability, or national origin; or
   - unless justified by actual or anticipated loss experience, because of age or geographic location.

35. **AGE OF HOUSE.** An insurance company cannot refuse to insure your property based on the age of your house. However, an insurance company may refuse to sell you insurance coverage based on the condition of your property, including the condition of your plumbing, heating, air conditioning, wiring and roof.

36. **VALUE OF PROPERTY.** An insurance company cannot refuse to insure your property because the value is too low or because the company has established minimum coverage amounts.

37. **UNDERWRITING GUIDELINES.** Underwriting guidelines may not be unfairly discriminatory and must be based on sound actuarial principles.

38. **EQUAL TREATMENT.** Unless based on sound actuarial principles, an insurance company may not treat you differently from other individuals of the same class and essentially the same hazard. If you sustain economic damages as a result of such unfair discrimination, you have the right to sue that insurance company in Travis County District Court.

If your suit prevails, you may recover economic damages, court costs and attorney and necessary expert witness fees. If the court finds the insurance company knowingly violated your rights, it may award up to an additional $25,000 per claimant. You must bring the suit on or before the second anniversary of the date you were denied insurance or the unfair act occurred or the date you reasonably should have discovered the occurrence of the unfair act. If the court determines your suit was groundless and you brought the lawsuit in bad faith, or brought it for the purposes of harassment, you will be required to pay the insurance company’s court costs and attorney fees.

What you should know about insurance companies’ use of credit information

39. **REQUIRED DISCLOSURE.** If an insurance company uses credit information to make underwriting or rating decisions, the company must provide you a disclosure statement within 10 days after receiving your completed application for insurance. The disclosure indicates whether the insurer will obtain and use your credit information and lists your specific legal rights, including:
credit information insurance companies cannot use against you;
how you can get reasonable exceptions that your insurer is required to make to its
use of credit information if certain life events, such as divorce, death of a close
family member, or identity theft, hurt your credit;
the notice* an insurer must send you when making a credit-based decision that
harms your ability to get or keep insurance or requires you to pay a higher
premium; and
how you can dispute credit information and require an insurer to re-rate your
policy if the rate was increased because of inaccurate or unverifiable credit
information.

* The notice must include a description of up to four primary factors that influenced the
action taken by the insurer. Generalized terms such as “poor credit rating” are not
sufficient.

Insurers must use the disclosure form (CD-1) adopted by the Commissioner or an
equivalent disclosure form filed prior to use with TDI. The CD-1 is available at
www.tdi.state.tx.us/company/pccrdtds.html or by calling 1-800-252-3439. Additional
information regarding insurers’ use of credit information is available at:
www.tdi.state.tx.us/commish/credit.html.

What you should know about enforcing your rights

40. **FILING COMPLAINTS.** You have the right to complain to TDI about any insurance
company and/or insurance matter and to receive a prompt investigation and response to
your complaint. To do so, you should:
- call TDI’s **Consumer Help Line** at 1-800-252-3439, in Austin 463-6515 for
  service in both English and Spanish;
- write to the Texas Department of Insurance, Consumer Protection (111-1A), P.O.
  Box 149091, Austin, Texas 78714-9091;
- e-mail TDI at ConsumerProtection@tdi.state.tx.us;
- fax your complaint to (512) 475-1771;
- download or complete a complaint form on line from the TDI website at
  http://www.tdi.state.tx.us; or
- call the TDI Publications/Complaint Form order line (24 hours) at 1-800-599-
  SHOP (7467), in Austin 305-7211.

**NOTE:** TDI offers interpreter services and publications in alternate formats. Persons
needing more information in alternate layouts or languages can call the **TDI Consumer
Help Line** listed above.

41. **RIGHT TO SUE.** If an insurance company violates your rights, you may be able to
sue that company in court, including small claims court, with or without an attorney.
42. **BURDEN OF PROOF.** If you sue to recover under your insurance policy, the insurance company has the burden of proof as to any application of an exclusion in the policy and any exception to or other avoidance of coverage claimed by the insurer.

43. **REQUESTING NEW RULES.** You have the right to ask in writing that TDI make or change rules on any residential property insurance issue that concerns you. Send your written request to: Texas Department of Insurance. Attn: Commissioner (113-2A), P.O. Box 149104 , Austin , TX 78714-9104 .

For more information contact: ChiefClerk@tdi.state.tx.us

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**Consumer Bill of Rights**

**Auto Insurance**

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3. PROHIBITED STATEMENTS. Your insurance company or agent is prohibited from making false, misleading, or deceptive statements to you relating to insurance.

4. EXCESS LIMITS. An insurer or agent cannot require you to purchase liability limits greater than the limits required by law (20/40/15) or require you to purchase other types of coverage as a condition of offering insurance or continued insurance to you.

NOTE: Texas law requires that automobile insurance policies include personal injury protection (PIP) and uninsured motorist protection (UM/UIM) unless you reject these coverages in writing. Also, as a condition of your automobile loan, your lender may require you to purchase other types of coverage, such as collision or comprehensive coverage, to pay for any damage to your vehicle.

5. CREDIT INFORMATION. An insurance company cannot deny you insurance solely on the basis of credit information. Insurers who use credit information must also consider other underwriting factors independent of credit information when deciding whether to offer coverage. (For additional information see the section of this Bill of Rights entitled What you should know about insurance companies’ use of credit information.)

6. SAFETY NET. You have the right to buy minimum liability, personal injury protection, and uninsured motorist insurance through the Texas Automobile Insurance Plan.
Association, also known as TAIPA, if you have been denied coverage by two insurance companies.

NOTE: After 3 consecutive years with no at-fault accidents or traffic violations, you have the right to be insured by your assigned company as a regular policyholder at a rate lower than the TAIPA rate. The company must provide you this offer in writing.

7. PAYMENT PLANS. You have the right to pay your automobile insurance premium in installments. Insurance companies may charge a fee for each installment. Your initial down payment cannot exceed the cost of two months’ coverage. For a 12-month policy, you have the right to pay the balance in at least ten equal monthly installments. For a six-month policy, you have the right to pay the balance in at least four equal monthly installments.

NOTE: You may be offered an installment loan through a premium finance company. These companies offer high-interest loans with fees and obligations that may be beyond those included in installment plans offered directly by insurance companies.

8. ELECTRONIC PAYMENTS. If you authorize your insurer to withdraw your premium payments directly from your financial institution, your insurer cannot increase the amount withdrawn unless:
   • the insurer notifies you of the premium increase at least 30 days prior to its effective date and provides a postage paid form you can use to object to the increase; and
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9. NOTICE OF REDUCED COVERAGE. If an insurer uses an endorsement to reduce the amount of coverage provided by your policy, the insurer must give you a written explanation of the change made by the endorsement. The insurer must provide the explanation before the effective date of the new or renewal policy. An insurance company cannot reduce coverage during the policy period unless you request the change. If you request the change, the company is not required to provide notice.

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If you apply for a policy, the insurance company or financial institution must notify you if it intends to share financial information about you and give you at least 30 days to refuse. This refusal is called “opting out.” If you buy a policy, the insurance company or financial institution must tell you what information it collects about you and whether it intends to share any of the information, and give you at least 30 days to opt out. Agents and adjusters who intend to share your information with anyone other than the insurance company or financial institution must give you similar notices.

You can opt out at any time. Your decision to opt out remains in effect unless you revoke it.

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- publicly available elsewhere;
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**What you should know about cancellation and nonrenewal**

Cancellation means that before the end of the policy period the insurance company:

- terminates the policy;
- reduces or restricts coverage under the policy; or
- refuses to provide additional coverage to which you are entitled under the policy.

Refusal to renew and non-renewal mean the policy terminates at the end of the policy period.

The policy period is shown on the declarations page at the front of your policy.

13. **LIMITATION ON CANCELLATION.** After your initial policy with your company has been in effect for 60 days, that insurance company cannot cancel your policy unless:

- you don’t pay your premium when due;
• you file a fraudulent claim;
• your driver’s license or car registration is revoked or suspended;
• the driver’s license of any household resident or person who customarily drives a covered auto is suspended or revoked. If you agree to exclude coverage for that person, the insurance company cannot cancel your policy for this reason; or
• TDI determines continuation of the policy would result in violation of insurance laws.

14. NOTICE OF CANCELLATION. To cancel your policy, your insurance company must mail notice at least 10 days prior to cancellation. Your policy may provide for even greater notice.

15. POLICYHOLDER’S RIGHT TO CANCEL. You have the right to cancel your policy at any time and receive a refund of the remaining premium. The refund will be paid to you unless your premium was financed through a premium finance company. In that case, the refund will be paid to the premium finance company to reduce the amount you owe on your loan.

16. CHANGE IN MARITAL STATUS. If your marital status changes, you have the right to continue your insurance coverage. You have a right to a new policy in your name that has coverages which most nearly approximate the coverages of your prior policy, including the same expiration date. The insurance company cannot date the new policy so that a gap in coverage occurs.

17. NOT-AT-FAULT CLAIMS. Your insurance company cannot refuse to renew your policy solely because of any of the following types of claims:
• claims involving damage from a weather-related incident that does not involve a collision, like damage from hail, wind or flood;
• accidents or claims involving damage by contact with animals or fowls;
• accidents or claims involving damage caused by flying gravel or flying objects; however, if you have three of these claims in a three year period, the insurance company may raise your deductible on your next renewal date;
• towing and labor claims; however, once you have made four of these claims in a three year period, the company may eliminate this coverage from your policy on your next renewal date; and
• any other accident or claim that was not your fault unless you have two or more of these claims or accidents in a one year period.

18. USE OF AGE TO NONRENEW. Your insurance company cannot refuse to renew your policy based solely on the age of any person covered by the policy. This includes placing you in a higher priced company or requiring a named driver exclusion for a teenager who reaches driving age.

19. USE OF CREDIT INFORMATION TO NONRENEW. An insurance company cannot refuse to renew your policy solely on the basis of credit information. Insurers who use
credit information must also consider other underwriting factors independent of credit information when deciding whether to renew coverage. (For additional information see the section of this Bill of Rights entitled What you should know about insurance companies’ use of credit information.)

20. LENGTH OF POLICY TERM. If the term of your insurance policy is less than one year, your insurance company must renew that policy until it has been in effect for one year. Your insurance company may only refuse to renew your policy effective on the anniversary of the policy's original effective date. For instance, if your policy was originally effective on January 1, Year 1, the insurance company must renew your policy to provide coverage until January 1, Year 2, and thereafter, may only refuse to renew your policy effective January 1 of any subsequent year.

21. NOTICE OF NONRENEWAL. If the insurance company does not mail you notice of non-renewal at least 30 days before your policy expires, you have the right to require the insurance company to renew your policy.

22. EXPLANATION OF CANCELLATION OR NONRENEWAL. Upon request, you have the right to a written explanation of an insurance company's decision to cancel or non-renew your policy. The written statement must fully explain the decision, including the precise incidents, circumstances, or risk factors that disqualified you. It must also state the sources of information used.

What you should know when you file a claim

23. FAIR TREATMENT. You have the right to be treated fairly and honestly when you make a claim. If you believe an insurance company has treated you unfairly, call the Department of Insurance at 1-800-252-3439 (463-6515 in Austin) or download a complaint form from the TDI website at http://www.tdi.state.tx.us. You can complete a complaint form on-line via the Internet or fax it to TDI at 512/475-1771.

24. SETTLEMENT OFFER. You have the right to reject any settlement amount, including any unfair valuation, offered by the insurance company.

25. EXPLANATION OF CLAIM DENIAL. Your insurance company must tell you in writing why your claim or part of your claim was denied.

26. TIMEFRAMES FOR CLAIM PROCESSING AND PAYMENT. When you file a claim on your own policy, you have the right to have your claim processed and paid promptly. If the insurance company fails to meet required claims processing and payment deadlines, you have the right to collect 18% annual interest and attorney's fees in addition to your claim amount.

Generally, within 15 calendar days, your insurance company must acknowledge receipt of your claim and request any additional information reasonably related to your claim. Within 15 business days after receipt of all requested information, the company must
approve or deny your claim in writing. The law allows the insurance company to extend this deadline up to 45 days if it notifies you that more time is needed and tells you why. After notifying you that your claim is approved, your insurance company must pay the claim within 5 business days.

If your claim results from a weather-related catastrophe or other major natural disaster as defined by TDI, your insurance company may take 45 additional days to approve or deny your claim and 15 additional days to pay your claim.

27. **CHOICE OF REPAIR SHOP AND REPLACEMENT PARTS.** You have the right to choose the repair shop and replacement parts for your vehicle. An insurance company may not specify the brand, type, kind, age, vendor, supplier, or condition of parts or products used to repair your automobile. The insurance company must provide you notice of the above requirements as follows:

- claims submitted by telephone – written notice within 3 business days or immediate verbal notice, followed by written notice within 15 days;
- claims submitted in person – immediate written notice at the time you present your vehicle to an insurer or an insurance adjuster or other person in connection with a claim for damage repair;
- claims submitted in writing – written notice must be provided within 3 business days of the insurance company’s receipt of the notice.

28. **DEDUCTIBLE RECOVERY.** If another person is liable for damage to your auto and you filed a claim and paid a deductible on your own policy, your insurance company must make a reasonable and diligent effort to recover the deductible from that person within twelve months from the date your claim is paid. If not, your company must:

- authorize you, at least 90 days prior to the expiration of the statute of limitations, to pursue your own collection efforts, or
- refund your deductible.

29. **NOTICE OF LIABILITY CLAIM SETTLEMENT.** Your insurance company must notify you if it intends to pay a liability claim against your policy. The company must notify you in writing of an initial offer to compromise or settle a claim against you no later than the 10th day after the date the offer is made. The company must notify you in writing of any settlement of a claim against you no later than the 30th day after the date of the settlement.

30. **INFORMATION NOT REQUIRED FOR CLAIM PROCESSING.** You have the right to refuse to provide your insurance company with information that does not relate to your claim. In addition, you may refuse to provide your federal income tax records unless your insurer gets a court order or your claim involves lost income or a fire loss.
What you should know about prohibited discrimination

31. **PROTECTED CLASSES.** An insurance company cannot discriminate against you by refusing to insure you; limiting the amount, extent or kind of coverage available to you; charging you a different rate for the same coverage; or refusing to renew your policy:
   - because of race, color, religion, or national origin; or
   - unless justified by actual or anticipated loss experience, because of age, gender, marital status, geographic location, or disability or partial disability.

32. **UNDERWRITING GUIDELINES.** Underwriting guidelines may not be unfairly discriminatory and must be based on sound actuarial principles.

33. **EQUAL TREATMENT.** Unless based on sound actuarial principles, an insurance company may not treat you differently from other individuals of the same class and essentially the same hazard. If you sustain economic damages as a result of such unfair discrimination, you have the right to sue that insurance company in Travis County District Court. If your suit prevails, you may recover economic damages, court costs and attorney and necessary expert witness fees. If the court finds the insurance company knowingly violated your rights, it may award up to an additional $25,000 per claimant. You must bring the suit on or before the second anniversary of the date you were denied insurance or the unfair act occurred or the date you reasonably should have discovered the occurrence of the unfair act. If the court determines your suit was groundless and you brought the lawsuit in bad faith, or brought it for the purposes of harassment, you will be required to pay the insurance company’s court costs and attorney fees.

What you should know about insurance companies’ use of credit information

34. **REQUIRED DISCLOSURE.** If an insurance company uses credit information to make underwriting or rating decisions, the company must provide you a disclosure statement within 10 days after receiving your completed application for insurance. The disclosure indicates whether the insurer will obtain and use your credit information and lists your specific legal rights, including:
   - credit information insurance companies cannot use against you;
   - how you can get reasonable exceptions that your insurer is required to make to its use of credit information if certain life events, such as divorce, death of a close family member, or identity theft, hurt your credit;
   - the notice an insurer must send you when making a credit-based decision that harms your ability to get or keep insurance or requires you to pay a higher premium; and
   - how you can dispute credit information and require an insurer to re-rate your policy if the rate was increased because of inaccurate or unverifiable credit information.
* The notice must include a description of up to four primary factors that influenced the action taken by the insurer. Generalized terms such as “poor credit rating” are not sufficient.

Insurers must use the disclosure form (CD-1) adopted by the Commissioner or an equivalent disclosure form filed prior to use with TDI. The CD-1 is available at [www.tdi.state.tx.us/company/pccrdtds.html](http://www.tdi.state.tx.us/company/pccrdtds.html) or by calling 1-800-252-3439. Additional information regarding insurers’ use of credit information is available at: [www.tdi.state.tx.us/commish/credit.html](http://www.tdi.state.tx.us/commish/credit.html).

What you should know about enforcing your rights

35. **FILING COMPLAINTS.** You have the right to complain to TDI about any insurance company and/or insurance matter and to receive a prompt investigation and response to your complaint. To do so, you should:
   - call TDI’s Consumer Help Line at 1-800-252-3439, in Austin 463-6515 for service in both English and Spanish;
   - write to the Texas Department of Insurance, Consumer Protection (111-1A), P.O. Box 149091, Austin, Texas 78714-9091;
   - e-mail TDI at ConsumerProtection@tdi.state.tx.us;
   - fax your complaint to (512) 475-1771;
   - download or complete a complaint form on line from the TDI website at [http://www.tdi.state.tx.us](http://www.tdi.state.tx.us); or
   - call the TDI Publications/Complaint Form order line (24 hours) at 1-800-599-SHOP (7467), in Austin 305-7211.

NOTE: TDI offers interpreter services and publications in alternate formats. Persons needing more information in alternate layouts or languages can call the TDI Consumer Help Line listed above.

36. **RIGHT TO SUE.** If an insurance company violates your rights, you may be able to sue that company in court, including small claims court, with or without an attorney.

37. **BURDEN OF PROOF.** If you sue to recover under your insurance policy, the insurance company has the burden of proof as to any application of an exclusion in the policy and any exception to or other avoidance of coverage claimed by the insurer.

38. **REQUESTING NEW RULES.** You have the right to ask in writing that TDI make or change rules on any automobile insurance issue that concerns you. Send your written request to: Texas Department of Insurance, Attn: Commissioner (113-2A), P.O. Box 149104, Austin, TX 78714-9104.

For more information contact: ChiefClerk@tdi.state.tx.us
GLOSSARY – TERMS AND DEFINITIONS

A

Abandonment—Most policies say that an insured may not abandon a property while the claims process is underway, but that after the claim is settled for a total loss, the insured must abandon it—to the insurance company. Insurers want to preserve the salvage value of property.

Adjuster—Licensed insurance professional who investigates or adjusts losses and also supervises the handling of claims.

Adjuster, Staff and Independent—Works for and represents the interests of an insurance company, either as a staff member or as an independent contractor to an insurer, including a self-insurer.

Adjuster, Public—Works for and represents the interests of the insured.

Adjuster’s Records—Three types of records kept by an insurance adjuster: (1) Initial or Field records are the first records created by an adjuster when investigating a claim, including: photos, journal notes, accounts from authorized witnesses, relevant facts from official records and documents. (2) Interim or Status reports organize all findings into clear and specific categories. (3) Full Formal Records are the final report, the lodestone of information referred to during the rest of the claims adjustment process, from determining value to dispute resolution to court cases.

Adventure—A term used in Ocean Marine insurance Clauses that describes what the vessel may and may not do on its voyage to remain covered.

Aggregate Limit—Also known as a General Aggregate Limit, this is the limit expressed in a Commercial Liability policy indicating how much an Insurance company will pay in total during any policy period.

Agreed Value—A method of valuation in which the insured and the insurance company agree on the value of an insured item before a loss occurs. If and when a covered loss does occur, the company pays the Agreed Value of the item without considering depreciation.

Aleatory Contract—A contract in which both parties will not benefit equally. For example, you could buy a car, pay car insurance premiums for ten years, never have an accident, and never file a claim, then sell the car without every collecting a cent from the insurance company. On the other hand, you could buy a car, insure it and then wreck it three weeks late and collect thousands of dollars.

Alien Company—A company started or chartered in a country other than the U.S.
All Risk—See also Special/Open Perils. The words “All Risk” are meant to convey the company is providing Special or Open Perils coverage on a Property Policy. “All Risk” is an antiquated term that is legally indefensible; because it implies everything is covered when in actuality there are exclusions even with Special or Open Perils coverage.

Appraisal—More than just having an expert place a value on an item, in Commercial Property Insurance, Appraisal refers to a process in which the insured and the company seek to place a value on damaged property by hiring three appraisers. When two of three agree on the value of the damage, it is binding on both parties.

Appurtenant Structure—See also Other Structure. In a Homeowners Policy, an Appurtenant Structure is a building or structure, other than a dwelling. For example, a detached garage or a tool shed would be referred to as an Appurtenant Structure.

Arbitration—A process under which two parties (the insured and the insurance company) can settle a claim dispute without the need to go to court. Three Arbitrators hear arguments from both parties and set the amount that should be paid under the claim. The determination made by the Arbitrators may or may not be binding.

Assailing Thieves (Piracy)—A covered peril under an Ocean Marine policy it covers loss due to pirates.

Assignment—Refers to the assignment of ownership of a policy from one policyowner to another.

Assumption of Risk—Is a legal defense in a negligence claim. If the injured party undertook an activity known to involve risk (skydiving, for example) it may be difficult for the person to collect damages if they are injured.

Audit—Audit, or perhaps more accurately Premium Audit, occurs at the end of a policy period when an insurance company underwrites a risk that varies. For example, in a Workers Compensation Policy, if a company underwrites a carpentry business that has 12 carpenters and business booms, and the carpentry shop hires 7 more carpenters during the year, then an Audit at the end of the year would reveal the insurance company is owed premium because the risk is greater than that which they originally undertook.

Authorized Company—Also known as an Admitted Company, an Authorized Company receives a Certificate of Authority as proof they are admitted to do business in a particular state.

Bailee—An individual or company that has care, custody or control of someone else’s valuable property.
**Bareboat Basis**—An agreement to charter a ship “bareboat,” which means without a crew or stores. The charter fee is based on the per ton price of cargo.

**Basic Perils**—A peril or cause of loss form in which 11 named Perils can be covered in Commercial Lines Property Policies and 9 named perils can be covered in Personal Lines Policies.

**Betterments and Improvements**—Protection generally provided tenants against loss to additions or changes made at their own expense that enhances the value of the property they occupy.

**Binder**—A Binder is an instrument that provides interim, temporary coverage. Binders can be oral or written in nature.

**Blue Water Vessels**—Refers to commercial and pleasure craft that sail the open seas.

**Boatowners Policy**—A Policy covering Property and Casualty losses associated with owning or using a boat.

**Bodily Injury (BI)**—Used extensively in Liability contracts, Bodily Injury refers to injuries sustained by a human being or the death of a human being.

**Boiler and Machinery**—A policy or coverage form designed to cover damage occurring to and damage occurring from a Boiler or other piece of machinery. Only sudden and accidental damage is covered. Today, more commonly known as Equipment Breakdown Coverage.

**Breach of Duty**—Failure to use a reasonable standard of care.

**Broad Form Homeowners**—The HO-2.

**Broad Perils**—A peril or cause of loss form in which 14 named Perils plus collapse can be covered in Commercial Lines Property Policies and 12 named Perils plus collapse can be covered in Personal Lines forms.

**Brown Water**—Refers to hull and liability coverage for tugboats, barges and other types of commercial vessels and businesses that operate primarily on or near inland and coastal waterways.

**Builders Risk**—A coverage form for commercial properties that provides coverage for a building under construction. It covers the building, the foundation, and any supplies and equipment that will become a part of the building. Coverage is provided within the structure or within 100 feet of the structure.
**Building Ordinance**—Building codes (Ordinance or Law) dictate how buildings must be constructed to ensure safety and other concerns are met. Financial losses suffered by an insured that result from the imposition of a Building Ordinance are either not covered or limited in coverage. Adequate coverage can be purchased with an endorsement.

**Burglary**—As defined in a Commercial Crime Policy, Burglary is the taking of property from a premises that is closed and locked. Furthermore, there must be visible signs of forced entry or exit.

**Business Income**—Coverage available under Commercial Property insurance, Business Income is designed to replace lost income following a covered loss that interrupts the income of a business. Business income is a type of Business Interruption Insurance.

**Business Interruption Insurance**—Coverage available under Commercial Property insurance including Business Income coverage and Extra Expense coverage, both of which are defined separately in this glossary.

**Business Personal Property**—Property owned, leased or rented by a business that is used to conduct business (computers, desks, file cabinets, etc.).

**Businessowners Policy (BOP)**—A policy for smaller, low-risk businesses that includes both property and liability insurance bundled together in a package.

**Cancellation**—Termination of an insurance contract during a policy period. Either the insurance company or the insured may effect cancellation.

**Captive Agency**—An agency agreement in which the agency agrees to exclusively represent one insurance company. See Exclusive Agency.

**Care, Custody or Control**—Property in your possession belonging to others for which you are legally responsible. Liability contracts typically exclude coverage for property in your care, custody or control thus creating the need for Bailees coverage.

**Cargo Coverage**—Coverage available through an Ocean Marine policy. Cargo Coverage pays the cargo owner if the cargo is damaged while being shipped over water.

**Casualty**—The side of the P&C insurance business concerned with protecting your pocketbook should you become legally liable for injuring a third party’s body or property.
Catastrophic Loss—A loss that causes damage to a significant number of people at the same time. Catastrophic losses include floods, wars, and earthquakes and are typically excluded.

Cause of Loss Forms—Found in property policies, cause of loss forms include Basic, Broad, and Special Perils.


Civil Commotion See also Riot—A covered peril under a Basic Peril cause of loss form. A Civil Commotion or riot (including actions by striking employees) is covered as well as looting that occurs as a result of the riot.

Claims Made Policy—A Commercial Liability policy in which the policy covering a risk at the time a claim is made is obligated to defend or settle covered claims.

Coinsurance Clause—A tool used by insurers in Commercial Property policies to encourage policyowners to purchase sufficient insurance. Claims for a partial loss to property not insured to a certain percentage of value will be reduced.

Collapse—Collapse of a building due to covered perils or certain other occurrences is covered with either the Broad or Special Cause of loss form.

Collision—Available under Coverage for Damage to Your Auto, Collision covers your automobile if it collides with another car, a stationary object or if it overturns.

Commercial General Liability policy—The primary liability policy for commercial entities. Can be sold as part of the Commercial Package policy or as a monoline coverage.

Commercial Lines—The P&C policies sold to businesses…the Commercial Package Policy and the Businessowners Policy for example.

Commercial Package Policy—A Commercial Package Policy offers a variety of coverages under one policy. Purchasing any two of the following coverages or more would constitute a Commercial Package Policy; Commercial Property, Commercial Liability, Commercial Crime, Commercial Automobile, Inland Marine, Equipment Breakdown and Farm.

Commercial Umbrella—See Umbrella.

Common Policy Conditions—Conditions which apply to all coverage sections of the Commercial Package policy.
**Common Policy Declarations**—The Common Dec Page for the Commercial Package policy…works much like a table of contents.

**Comparative Fault**—A legal defense to negligence in which the injured party is held somewhat responsible for their own injury. If you sued a store for $100,000 and won, but the judge or jury determined you were 10% at fault, you would only collect $90,000.

**Compensatory Damages**—Those damages awarded in a liability claim that are designed to compensate the injured party for their actual loss. Being reimbursed for medical bills and lost wages would be examples of compensatory damages.

**Completed Operations Liability**—Used in connection with Commercial Liability, Completed Operations Liability refers to the liability of a business (or individual) who has completed a job (or a portion of a job) and whose work injures someone or damages their property.

**Comprehensive**—The term Comprehensive is used in automobile policies. In today’s personal auto policy it is known as Other than Collision Coverage. It provides “All Risk” type coverage for damage to a car. Most every peril, other than collision, would be covered. Examples include, loss due to: Theft, flood, vandalism, and striking an animal.

**Comprehensive Form Homeowners**—The HO-5.

**Concealment**—The act of hiding a portion of the truth either in connection with a claim or on the application for a policy. Concealments, like misrepresentations, can void coverage.

**Concurrent Causation**—The concept in insurance that states that when two perils (one covered and one excluded) damage covered property at the same time that the insurance company will only pay for damage caused by the covered peril.

**Conditional Contract**—Insurance policies are Conditional Contracts…they cannot be fully executed until something happens in the future…death, illness, fire, tornado…

**Conditions**—The Conditions section of a policy essentially directs how the policy works. The Conditions are the rules of the contract and would detail the process for filing claims, how cancellation works, and other important information of which the policyowner should be aware.

**Condominium Form Homeowners**—The HO-6.

**Consequential Loss**—Generally an indirect loss. Specifically, an endorsement that can be purchased with an Equipment Breakdown Policy that would cover losses that occur after, and as a result of, a direct loss. For example, spoilage that occurs after power is lost.
Consideration—In a contract, Consideration is something of value. Parties to a contract must provide Consideration in order for the contract to be legally enforceable. In an insurance policy, the company provides the promise to pay benefits as Consideration, while the policyowner offers premium dollars and statements on the application as Consideration.

Contract—An agreement between two or more parties.

Contract of Adhesion—A contract written entirely by one party and offered to another party exactly as written. An insurance policy is a Contract of Adhesion because it is written entirely by the insurance company and offered to the insured "as is" without modification by the insured.

Contractual Liability—A legal agreement to indemnify another, as in liability assumed by one business on behalf of another business.

Contributory Negligence—A legal term expressing that an injured party is somewhat at fault for their own injury. However, unlike with Comparative Fault, if the injured party is found to be 1% at fault, under the doctrine of Contributory Negligence they would collect nothing at all from a claim.

Coverage Extensions—In Commercial Property insurance, Extensions of coverage can be earned by being 80% insured to value or more on the Declarations Sheet.

Coverage for Damage to Your Auto—Originally called Physical Damage Coverage, this is the portion of an Automobile Policy in which the insured would find coverage for damage to their automobile.

Covered Auto—Generally, your auto…the auto named on the Dec Sheet of the Auto policy. Also includes autos acquired during the policy period, trailers and temporary substitute autos.

Custodian—Under a Commercial Crime policy a Custodian is an individual designated to control valuable property while on the premises of the business.

Customs Bond—The U. S. Customs and Border Protection agency (CBP) requires Customs bonds to guarantee that taxes and import duties will be paid, and regulations governing all merchandise entering the U. S. from foreign soil will be followed.
**Damages**—Typically used in a liability policy, Damages are those losses which occurred as the result of the actions of another. Damages can include things such as medical bills, lost wages, and pain and suffering.

**Debris Removal**—Debris Removal is Additional Coverage of a property policy which stipulates to what extent the policy will pay for the removal of debris after a covered loss to property as occurred.

**Declarations Sheet/Page**—The first page of an Insurance contract that contains information concerning who is covered, what is covered, when it is covered, the amount and cost of coverage, and where covered property is located.

**Deductible**—The amount of the risk that the insured has retained. If you have a $500 deductible, for example, you have agreed that the first $500 suffered in a covered loss is your responsibility. The purpose of a deductible is to reduce claims and prevent over use of a property policy.

**Defense Costs**—If a liability claim is filed against an insured, the insurance company agrees to settle or defend that claim as long as it is a covered claim. If the company elects to defend the claim, they also have agreed to pay all defense costs (typically above and beyond the policy limit).

**Depreciation**—The loss of value of an item over time.

**Direct Loss**—A physical loss to covered property caused by a covered peril. A home destroyed by a tornado, or a commercial building destroyed by fire are two examples.

**Direct Response**—An insurance distribution system in which the company advertises via the internet, radio or TV to solicit inquiries and business is then conducted by licensed telemarketers.

**Direct Writer**—An insurance distribution system involving Producers who write policies representing only one company.

**Disability Income Benefit**—A benefit paid by a Workers Compensation policy to a worker who suffers from an Occupation disease or is injured at work. The benefit is designed to replace some of the workers income during the period they are disabled.

**Doctrine of Reasonable Expectation**—A principal applied to an insurance contract which holds that the policy must reasonably perform as expected. It would be unacceptable to buy a Homeowners policy and then find it would never cover damage to your home. Why? Because a reasonable person would expect that a Homeowners policy is designed to cover a home.
Doctrine of Utmost Good Faith—A principal applied to an insurance contract which holds that both parties (the insured and the insurance company) must act in good faith for the contract to work as designed.

Domestic Company—An insurance company chartered (and probably headquartered) in your state.

Duty—A reasonable standard of care. Tort law dictates that you have a duty to assure that your actions do not harm others.

Dwelling—A home and more. For insurance purposes a Dwelling is considered a house as well as items built-in to the home and items attached to the home.

Dwelling Policy—A policy to cover a dwelling in which the owner does not reside or for some other reason does not qualify for Homeowners coverage.

Earth Movement—An exclusion found in Property policies that do not include Earthquake coverage. Earth Movement includes the shaking or movement of ground due to Earthquake, Volcanic Eruption and other events or occurrences.

Earthquake—An exclusion found in Property policies as stated above.

Earthquake Endorsement—Coverage available at extra cost in a Property contract to cover losses due to Earthquake and Volcanic Eruption.

Employers Liability—Part II of Workers Compensation, Employers Liability can possibly cover Occupational Injuries and Diseases to workers or their families that for one reason or another are excluded from coverage under Workers Compensation.

Employers Nonowned Auto Liability—Provides liability coverage for an employer who has employees driving their personal automobiles on business for the employer.

Endorsement—An extra coverage that can be purchased for the benefit of the policyowner.

Equipment Breakdown coverage—Provides coverage for accidental loss arising from the operation of a boiler; pressure, mechanical, electrical equipment; and machinery. Covers damage to the equipment as well as other property...including other's property for which the insured has bailee's responsibility. Can also cover loss due to business interruption. Formerly called Boiler and Machinery.
**Estoppel**—A barrier to legal action due to a party’s prior actions. For example, a company would be *estopped* by a court from denying coverage on a property upon which coverage was bound by a Producer who was subsequently terminated.

**Excess Liability policy**—A liability contract that provides additional dollar amounts of coverage over and above the limits of the underlying coverages. Unlike Umbrellas, this contract does not provide any primary coverage.

**Exclusions**—Losses not covered by a policy, such as Flood and Intentional Losses.

**Exclusive Agency**—An agency agreement whereby the agency will represent only one insurance company. *See Captive Agency.*

**Expense Ratio**—The cost of marketing, underwriting and servicing an insurance policy as a percentage of premiums.

**Explosion**—A covered peril under Basic perils coverage. However certain explosions, like an explosion of a Boiler are excluded under the peril because such explosions are better covered under an Equipment Breakdown policy.

**Exposure**—That which is subject to a possible loss. If you own a store, there is a possibility a customer could fall down on your premises and thus, you have a Premises Liability Exposure.

**Expressed Warranty**—A term used in connection with Products Liability. An Expressed Warranty states the manufacturer’s guarantees in writing. For contrast, *see Implied Warranties.*

**Extended Business Income**—A period of time automatically attached to Business Income Coverage that allows the insured business a “start-up” period in which they have a chance to recapture some of their lost customer base. Typically, Extended Business Income is a 30-day period beginning on the date the business has been restored following a loss.

**Extensions of Coverage**—Coverages added to the Commercial Property Policy if the insured business accepts a coinsurance requirement of 80% or more.

**Extortion**—A term used in Commercial Crime insurance that means roughly the same thing as kidnapping. Extortion is the act of taking a policyowner, an employee, or family member hostage with the threat of doing bodily harm to the person unless valuable property is received.

**Extra Expense**—Coverage available under a Commercial Property policy to cover indirect losses sustained by a business following a covered loss. For example, if a
business if forced to relocate after a fire, the business will incur unexpected Extra Expenses such as additional rent, equipment costs, etc.

**F**

**Fair Credit Reporting Act**—A Federal Law that dictates the responsibilities of both organizations that collect credit information on consumers and entities that seek to investigate a consumer's credit. In addition, the act also details the rights of the consumer in that investigation.

**Fair Market Value**—The actual cost or resale value of real property (a home and its residence premises). Fair Market Value is used to establish the limit of coverage in an HO-8 Homeowners Policy.

**Fair Rental Value**—An indirect loss coverage designed to offset the losses sustained by a landlord following the damage or destruction of a rental property.

**Falling Objects**—A peril covered under Broad Perils coverage. For coverage to apply to interior or contents losses, the falling object must fall from outside the building.

**Fidelity Bond**—Used in connection with Commercial Crime insurance, a Fidelity Bond is designed to protect an employer against dishonest acts by an employee.

**Fiduciary**—A person who has a financial responsibility to another.

**Fire**—A Basic peril, the peril of Fire covers fire damage, smoke damage from the fire, firefighter damage, and firefighter water damage.

**Fire Department Service Charge**—An additional coverage automatically provided in both Homeowners and Commercial Property it is the payment made to a fire department to put out a fire. In Homeowners that amount is $500. In Commercial Property the Fire Department Service Charge payable is $1,000.

**Fire Legal Liability**—Insurance found in both Section II of Homeowners (Casualty) and in Commercial General Liability policies, it pays for fire damage caused by the insured to non-owned real property in their care. Fire Legal Liability would provide coverage for example if an insured accidentally burned down a rented cabin, or a business owner accidentally set fire to a leased office.

**First Named Insured**—In Commercial policies the First Named Insured is the first person listed on the Dec sheet. The First Named Insured is the individual with whom the insurance company will deal with in connection the policy.

**Floater**—Coverage available under Inland Marine insurance to cover personal property for more perils and with a better method of valuation than offered in property insurance.
Providing worldwide coverage, a floater is called a floater because the coverage moves or floats along with covered property wherever the property may be.

**Flood**—The covering of normally dry land with water that overflows its banks. Also would include erosion of shorelines, the unusual accumulation of surface water and mudflows. Does not include sewer back-up or wind-blown rain.

**Flood Insurance**—Insurance available to cover floods. Since floods are excluded by most property policies covering real property, Flood Insurance can be purchased through the National Flood Insurance Program (NFIP). Although sold by insurance companies flood insurance is actually underwritten by the Federal Government.

**Foreign Company**—An insurance company from another state, Washington D.C. or from a territory of the U.S. (e.g., Puerto Rico or Guam).

**Forgery**—The criminal act of fraudulently making or altering a document with the intent of depriving others of some right, interest or property.

**Fortuitous**—Happening by accident or chance.

**Fraternal**—An insurance company structure rather similar to a Mutual insurance company…the evolution of social and religious fraternities providing insurance for their membership.

**Fraud**—The attempt to materially benefit from a lie. Insurance fraud would result from collecting on a claim after lying on an application or in connection with the claim itself.

**Functional Replacement Cost** *See also Repair Cost*—Functional Replacement Cost is coverage that promises to handle a covered loss by providing functionally equivalent property. For example, a new, modern window for an antique stained glass window destroyed by a covered peril, or asbestos shingles for a slate roof destroyed by a storm.

**Garage Liability Policy**—A Garage Liability policy is a policy designed for a business that has a need for liability protection for their business, their products, and for automobiles they drive.

**Garage Keepers Liability**—Provides a business with protection for damage done to a customer’s car.

**General Average**—In Ocean Marine insurance, the principle of General Average says that the loss will be spread to all parties with an interest in the vessel's voyage and cargo. General Average occurs when all parties on a vessel voluntarily sacrifice items with the goal to prevent a total loss. See also Particular Average.
General Aggregate Limits—In a Commercial General Liability policy the General Aggregate Limit is the total amount of liability coverage available over the policy period. The General Aggregate Limit does not include cover for Products and Completed Operations Liability.

Glossary—A collection of definitions of terms presented in alphabetical order. For example, what you’re looking at right now.

Governmental Action—An excluded loss in a property policy caused by the seizure or destruction of property due to the actions of the government. The preventive destruction of property to stop the spread of a covered fire would be covered.

Guarantor See also Surety—The guarantor is the insurance company that guarantees a fidelity bond.

Guaranty Association—A state association designed to pay losses up to a certain, stated amount if an insurance company becomes insolvent. Typically, all admitted companies in a state must be members of the association.

Guard—In Commercial Crime insurance a Guard is defined as any person the insured retains specifically to have care and custody of property inside the premises and who has no other duties. See Watchperson.

Hail—A Basic peril covered under Windstorm/Hail.

Hazard—A Hazard is a person or condition that increases the likelihood of a peril occurring or which would increase the severity of destruction by the peril. Examples would include cans of gasoline near an open flame or smoking in bed (both of which would either increase the chance of a fire or the severity of a fire). There are three types of hazards. Physical hazards are those that can be seen and identified. Moral hazards are those that arise from the poor character of an individual and Morale hazards, those caused by the carelessness of an individual.

Homeowners—The series of contracts (HO2 through HO8) that provides property and casualty coverage for the exposures of the typical homeowner.

Endorsements—Additions to a policy that have the effect of expanding or limiting coverage.

Hull Coverage—Under an Ocean Marine policy Hull coverage would provide a ship owner coverage for damage to a ship or vessel.
Immigrant Bond—Immigrant bonds are issued to virtually anyone who legally enters the United States guaranteeing that they will return to their countries. They may be issued on a blanket or individual basis.

Implied Authority—The authority a producer has that is not explicitly spelled out in an Agency contract, but that can be assumed must exist. The authority to have a telephone, a computer, or to hire a receptionist would all be implied.

Implied Warranty—An unwritten warranty that typically is a feature in a liability case. An Implied Warranty is the supposition that a product being used correctly and properly should not be unreasonably dangerous.

Improvements and Betterments—See Betterments and Improvements.

Inchmaree Clause—The Additional Perils clause in Ocean Marine policies that covers negligence, certain accidents, explosions, and breakdowns. The clause gets its name from the vessel with the catchy name of Inchmaree that exploded when a forgetful engineer left a valve closed and the boiler blew up.

Increased Cost of Construction—See Ordinance or Law and Building Ordinance.

Indemnify—To restore an insured, as much as possible, to his or her pre-loss financial condition.

Independent Agency—An insurance distribution system utilizing agencies that represent multiple companies.

Independent Contractors Liability—An exposure covered under a Commercial General Liability policy, Independent Contractors Liability protects the insured if a claim is made based on an injury caused by an independent contractor hired by the insured. If a painter in an insurance agency hurts a customer, Independent Contractors Liability would protect the agency owner if a lawsuit were filed.

Indirect Loss—Indirect loss (often called loss of use) is a loss that follows a direct loss and which causes the insured to suffer further financial consequence. Examples include, renting a car after an accident rendered the insured’s car inoperable, or renting a hotel room after the insured’s home was destroyed in a fire.

Inflation Guard—An endorsement that would increase the limits of coverage in a property policy a certain percentage each year to keep up with the cost of inflation.
Inherent Vice—A naturally occurring defect or characteristic that is never covered by a property policy. A property claim filed because of an insured historic document has turned yellow would be denied because paper naturally turns yellow over time.

Inland Marine Insurance—An insurance policy that provides property coverage for either property that is prone to being moved often or for property that facilitates movement. Although coverage comes from the Commercial segment of insurance, floaters (defined elsewhere) are available for both Personal Lines risks (jewelry, furs, etc) and Commercial Lines (bulldozers, communication towers, etc.)

Insurable Interest—Insurable interest means having a financial stake in property. I can buy a homeowners policy on my home because I have insurable interest. I cannot, however, buy a policy on my neighbor’s home because I would lose nothing if his home were destroyed. To collect from a property policy, insurable interest must exist at the time of the loss.

Insurance—The transfer of risk from an individual or business to an insurance company.

Insurance Producer (Agent)—An individual licensed to sell insurance.

Insured—Person or entity for whom insurance is provided.

Insuring Agreement—The provision in a contact that contains the insurance company’s promise to pay benefits for a covered loss.

Intangible Damages—General or noneconomic damages which are difficult to quantify: humiliation, embarrassment, pain and suffering, and mental anguish.

Intentional Water—Friendly water invited into building such as water found in pipes and appliances. Intentional water that suddenly and accidentally gets damages covered property is a covered peril under the Broad Peril form.

Intervening Cause—A factor that results in an injury to a third party and which is not under the direct control of the insured. An intervening cause may break the direct causation link in a liability claim and perhaps relieve an insured of liability for injury caused to a third party.

Jettison—Tossing a ship’s cargo overboard in an attempt to save the ship and remaining cargo. Jettisoning cargo is a covered loss under Ocean Marine insurance if the action does in fact save the ship.

Jewelers Block—Under Inland Marine insurance Jewelers Block coverage is used to cover a jewelry retailer’s inventory.
Jones Act—A Federal Workers Compensation plan that covers Seamen.

Judgment—The finding of a court. Used in insurance in connection with liability claims.

Landlord—One who legally owns a building and rents it to individuals or companies.

Law of Large Numbers—The concept that states when a large number of similar risks are examined it is usually possible to accurately predict losses.

Legal Capacity—The state of being legally qualified to enter a binding contract.

Legal Liability Coverage—Available under Commercial Property insurance, Legal Liability coverage provides coverage not unlike Fire Legal Liability coverage but with perils other than fire being covered.

Legal Purpose—The principle that all contracts (including insurance policies) are only valid if they are written for lawful reasons.

Liability—To have responsibility for damage caused to another person or their property.

Liability Umbrella—See Umbrella.

Liberalization Clause—A clause that dictates that coverage can only get better or more expansive and not more restrictive over a policy period.

Lightning—A Basic peril...Mother Nature’s electricity.

Limits of Liability—The maximum that the company will pay on your behalf for damage to your property, or the maximum the company will pay on your behalf for bodily injury or property damage for which you are legally responsible.

Liquidated Demand—A statutory regulation that when a covered building is deemed a total loss, a fire insurance policy will pay the full amount on the declaration even if it exceeds the value of the building. Does not apply to personal property.

Liquor Liability—Liability coverage afforded a policyowner if an injured party claims they suffered injury because of liquor served. A business with a liquor liability exposure (i.e. bars, liquor stores) would not have Liquor Liability coverage in their CGL and would have to purchase a separate Liquor Liability policy.
**Lloyd’s of London**—A place where several hundred insurance syndicates issue insurance policies with syndicate members personally guaranteeing payment for losses. Primarily known to write Ocean and Inland Marine contracts, famous for insuring oddball, one-of-a-kind risks (i.e. Betty Grable’s legs). Most importantly today, the world’s biggest source of reinsurance.

**Loss**—A financial injury.

**Loss Ratio**—A prescribed ratio that compares the amount of premium dollars collected and the amount of claim dollars paid. A loss ratio of 75% would mean that 75% of dollars collected were paid out as claims.

**Loss of Use**—An indirect loss following a covered direct loss. For example if your home burns down, the amount of money it would cost to rent a hotel room would be considered “Loss of Use”.

**Marine Insurance**—Insurance written on movable property or on property that facilitates movement (see both Inland and Ocean Marine.)

**Market Value**—Determining worth on the basis of what someone would pay for the property today. Seldom used in insurance…the notable exception being the HO-8.

**Material Fact**—A fact that influence coverage in an insurance policy. A fact is considered to be material if the insurance company’s knowledge of the fact would have changed the conditions or the cost of the coverage.

**Medical Payments**—A “no fault” coverage found in Homeowners. Commercial General Liability policies and Automobile policies, Medical Payments (Med Pay) is designed to pay medical bills, dental bills, and funeral expenses. In Homeowners and CGL policies Med Pay pays for injuries sustained by others, in Automobile it pays for injuries sustained by insureds as well as passengers in the insured’s auto.

**Messenger**—In Commercial Crime, a Messenger is a person authorized to have insured property in their possession away from the insured premises.

**Misrepresentation**—A lie. A material misrepresentation on an application or proof of loss statement can invalidate coverage. See concealment for contrast.

**Mobile Equipment**—Land vehicles designed for use off public roads. A bulldozer or forklift vehicle would be two examples of Mobile Equipment.

**Mobilehomeowners**—A policy equivalent in most respects to an HO-2 or H0-3 tailored to meet the needs of the mobile home owner.
Modified Coverage Form Homeowners—The HO-8.

Monoline Policy—Any segment or module of a Commercial Package Policy purchased as a stand-alone policy.

Moral Hazard—A hazard created by the insured’s lack of moral character. A moral hazard increases the likelihood of various perils occurring because a moral hazard typically is looking for a way to file and collect in a fraudulent claim.

Morale Hazard—a hazard created by the insured’s lack of concern for covered property.

Mortgage Holder—The bank or mortgage company holding a mortgage.

Motor Carrier Act of 1980—A Federal act that prescribes minimum liability limits for cargo haulers.

Motor Carrier Coverage—A version of Business Auto insurance designed for either haulers of cargo or people (trucks or buses).

Mutual Insurance Company—A company operated for the benefit of policyowners.

Mysterious Disappearance—Coverage in “all risk” policies for property that is lost or misplaced with no likelihood or probability of theft.

Named Insured—An insured having the legal rights to modify coverage, negotiate and accept claim settlement and to cancel coverage…also having the legal responsibilities associated with ownership of the policy. A husband and wife who are married and living together would both be named insureds under a Homeowners policy.

Named Peril Coverage—In a property contract named peril coverage exists when insured property is covered only for perils specifically named in the contract. Both Basic Peril and Broad Peril Coverage are examples of named peril coverage.

National Flood Insurance Program—See Flood Insurance.

Nationwide Marine Definition—A statutory list defining the types of property on which Inland Marine and Ocean Marine insurance can be written.

Negligence—Negligence is quite often the basis of liability claims and is defined as: “The failure to do or not do what a reasonable person would do or not do in the same or similar circumstances.”
No Fault—Any situation where recovery or partial recovery is not predicated upon the fault of another party.

Non-admitted Company—A foreign or alien insurance company not authorized to do business in your state.

Nonconcurrency—Nonconcurrency exists when property is covered by more than one policy and the policies contain different levels of peril coverage. For example, if a Commercial Building is covered by two Commercial Property contracts and one policy is covering the building against Basic Perils and the other is covering the building against Broad Perils, the two policies are not concurrent.

Nonrenewal—Nonrenewal simply means a policy will not be renewed at the end of the policy period.

Obligee—In a Fidelity bond, the Obligee is the entity to which an obligation is owed, typically, the employer.

Occupy ALSO Occupying, Occupied, Occupancy—The word Occupy in Automobile Insurance simply means to be in or around a car. In Property policies Occupying a building means that you and your property are in the structure (dwelling or commercial building).

Occupational—An injury or disease directly related to one’s job. Occupational injuries or diseases are covered by Workers Compensation Insurance.

Occurrence—An accident that happens over a period of time. Normally, an accident means a sudden, unforeseen event. An Occurrence includes all accidents, but it also includes losses that happen over a period of time. Black lung disease is not an accident, but it is an occurrence. Being hit by a train is both an accident and an occurrence.

Occurrence Limit—The maximum amount payable by a liability policy for each occurrence.

Ocean Marine Insurance—A property contract that covers property on the move over water. Goods being shipped over the ocean, down a river, or on a lake could be covered as could the ship that is hauling the goods.

Offer—The first essential element of a valid contract. One party to the contract must make an offer to the other party.

Open Perils ALSO Special Perils, All Risk—Open Perils coverage on property means that the Insurance Company will cover any peril that has not been specifically excluded.
Therefore, in the event of a loss, the burden of proof for coverage or denial of coverage rests with the Insurance Company.

**Operations Liability**—A Commercial Liability exposure created by an insured performing a function of their job away from the business premises. For example, a roofer putting a new roof on a home would have an Operations Liability exposure for damage done to the home or homeowner that occurs while the new roof is being installed.

**Ordinance or Law**—See Building Ordinance.

**Other Structures** *See also Appurtenant Structures*—In a property policy Other Structures refer to buildings that are not attached to a dwelling or the primary insured building. In a Homeowners Policy, a detached garage and a tool shed would be two examples of Other Structures.

**Other than Collision Coverage** *See also Comprehensive*—Other than Collision Coverage is the modern day version of Comprehensive Coverage. It provides coverage for physical damage coverage caused to your car by something other than a collision with another car or stationary object. Examples of losses covered would include: Theft, contact with a bird or animal, fire, flood and glass breakage, plus any other accidental loss not caused by a collision with another car or stationary object.

**Package Policy**—Insurance policies that offer several coverages within a single contract.

**Partial Loss**—Something less than a total loss. A Partial Loss in a Commercial Property policy could result in the imposition of a coinsurance penalty.

**Particular Average**—A concept in Ocean Marine and Cargo insurance that refers to a partial (“particular”) loss resulting from an insured peril. Particular average loss is the opposite of General Average loss because the loss is not shared.

**Peak Season Endorsement**—An endorsement added to a Commercial Property Policy in the event a business has an inventory that fluctuates seasonally.

**Peril**—A cause of loss such as fire, windstorm or riot.

**Period of Restoration**—The Period of Restoration is that period of time found in Business Income coverage during which time the policyowner can collect. It is defined as
the period of time between the date the damage occurs and the date the damaged structure has been repaired.

**Personal Articles Floater**—Coverage available under an Inland Marine policy for certain items that need more coverage or coverage for more perils that could be obtained under a Homeowners Policy. Types of items on which Personal Articles Floaters might be purchased include furs, cameras, jewelry, and collections.

**Personal Automobile Policy**—A policy purchased to provide coverage on the Named Insured’s Auto or on any auto being operated by the Named Insured or any Insured family member. A Personal Automobile policy contains liability coverage plus it may or may not contain property coverage for the car, Medical Payments coverage and Uninsured/Underinsured Motorist coverage.

**Personal Contract**—Insurance policies are said to be Personal Contracts...when a company issues you an Auto policy, they are covering your insurable interest in the automobile as opposed to the auto itself...the company might be less inclined to issue a policy on the same car owned by a 17-year-old drag racer.

**Personal Effects**—A term used in Commercial Property Policy that refers to the insured’s or employees’ personal property located in a covered building.

**Personal Injury Liability**—Under a Commercial General Liability Policy, Personal Injury Liability refers to damage to an individual’s reputation.

**Personal Liability Policy**—Another name for Section II of a Homeowners Policy.

**Personal Lines**—The P&C policies sold to individuals or families...Homeowners, Auto, Boatowners as examples.

**Personal Property**—Sometimes referred to as contents, Personal Property is that property covered under a Homeowners Policy that can be easily moved. For example, clothing, furniture and dishes are classified as Personal Property. Personal Property is covered in many locations including your home, in your garage, in your shed, or in your possession.

**Personal Property of Others**—In a Commercial Property Policy, Personal Property of Others refers to a customer’s property that is in the control of the insured. For example, a Dry Cleaning business would purchase Personal Property of Others to cover customer’s clothing in the business’s possession.

**Plumbing**—Not a kosher insurance term...the authors of this text refer to the Broad Form coverage of the leaking and freezing of water pipes as *plumbing.*
**Policy Period**—The length of time for which a policy affords protection.

**Pollutant Clean-Up**—The portion of the CGL and other liability policies which covers necessary pollution clean-up.

**Power Failure off Premises**—A common exclusion under which losses that are incurred as a result of a power failure away from the insured premises are not covered.

**Predictable Losses**—Predictable losses are just that, predictable. Losses that are reasonably foreseeable or anticipated such as deterioration, wear and tear, etc. would be considered predictable and therefore excluded from coverage.

**Premises Liability**—The liability exposure that exists for a business at the location of the business. If someone falls in a store, that is a Premises Liability exposure. Businesses may have little exposure or massive exposure to Premises Liability claims. Compare for example the exposure of a small office to a large retail store.

**Premises Medical Payments**—See Medical Payments.

**Premium**—Money paid by a policyowner to an insurance company to acquire and maintain insurance coverage.

**Preservation of Property**—A requirement in most property contracts that the insured make reasonable efforts to protect the property from further damage following a covered loss. See Reasonable Repairs.

**Principal**—The Principal in a fidelity bond is the individual who is bonded and obligated to the employer or obligee.

**Pro Rata**—Means in proportion.

**Products Liability**—The liability exposure that exists for a business as the result of the manufacturing, distribution or sale of a product. Some business would have no Products Liability exposure while others may have a great deal of exposure. Compare for example an accounting office (no exposure) and a retail firearms store (huge exposure).

**Professional Liability**—The liability exposure that exists for an individual or an organization that arises from the practice of their profession. Insurance producers have a Professional Liability exposure as do doctors, lawyers and dozens of other occupations.

**Proof of Loss**—Proof of Loss may or may not be required when an insured files a claim under a property contract. Proof of Loss is a sworn statement concerning the circumstances surrounding the loss.
Property—Property is real or personal, tangible items that can be owned, possessed, or occupied. Your home, your business building, your car, your clothing and your dog are just a few examples of property.

Property Damage (PD)—In liability contracts damage done to a third party’s property including the loss of use of that property.

Proximate Cause—A direct and foreseeable link between an insured’s actions and any destruction and/or injury caused by those actions. Proximate Cause must be proven in liability claims involving negligence.

Punitive Damages—Damages awarded by a court designed to punish the wrongdoer.

Pure Risk—The risk offset by insurance. Pure risk means you have no chance to win but only a chance to lose. Insurance allows you to stay even.

Rate and Rating—A rate is the cost of a given unit of insurance. Rating is the function of applying the rate to a specific exposure to arrive at a premium cost for that particular exposure. There are Class Rates, Manual Rates, Merit Rates, Scheduled Rates, Experience Rates, Individual Rates, Judgment Rates and Retrospective Rates.

Reasonable Person—A hypothetical individual created to determine the appropriateness and prudence of an action taken by another. Negligence cases hinge upon a judge or jury’s determination of what a reasonable person would have done or not done in the same or similar circumstances.

Reasonable Repairs—The company will pay for reasonable repairs made by the insured to protect the property from further damage following a covered loss. See Preservation of Property.

Recovered Property—Property which was the subject of a paid claim that is later discovered unharmed. The insured may either return the property or the claim amount to the company.

Rehabilitation Benefit—A benefit often available under a Workers Compensation policy designed to help an injured or ill worker return to the workforce through the use of vocational rehabilitation training.
**Reinsurance**—Reinsurance is the practice of transferring a portion of an insurance company’s risk to another company.

**Relative**—A person related by blood, marriage or adoption and living with the Named Insured. A child in college is also considered a relative or family member.

**Removal**—Also known as Preservation of Property, removal is the action of taking undamaged property from a building damaged by a covered peril and putting it in a place where it is unlikely to sustain further damage. For example, removing a couch from a storm damaged home and putting it in a storage locker. Property removed is covered both under a Homeowners policy and a Commercial Property policy for 30 days.

**Repair Cost** *See also Functional Replacement Cost*—Repair cost is coverage that promises to handle a covered loss by providing functionally equivalent property. For example, a new, modern window for an antique stained glass window destroyed by a covered peril, or asbestos shingles for a slate roof destroyed by a storm.

**Replacement Cost**—Replacement Cost coverage in a property policy provides for new property of like kind and quality to replace covered property destroyed or lost due to a covered peril. For example, if your five-year old couch is destroyed and the coverage on the couch is Replacement Cost coverage, you would get a new couch with no deduction for depreciation.

**Representation**—A statement on an application that is true to the best of the applicant’s knowledge. For contrast, *see Warranty*.

**Residence Premises**—Your home as well as all other structures and the property on which they sit is considered your Residence Premises under a Homeowners Policy.

**Residential Community Property**—A policy clause which states that during the policy period, coverage will remain in full force and effect regarding the interest of each covered spouse irrespective of divorce or change of ownership.

**Retroactive Date**—A time period established in a Claims Made Liability contract which limits the liability of an insurance company. For example, a Retroactive Date of January 1, 1999, means that the current Claims Made policy covering a business will only be responsible for any claims made for occurrences that happened after January 1, 1999.

**Right of Salvage**—If an insurance company declares an insured piece of property to be non-repairable the company can simply pay the insured the value of the item and salvage the damaged property.
**Riot**—A Riot is an act perpetrated by groups of individuals acting outside the bounds of normal conduct and which typically results in the destruction of property. Riot is a covered peril under Basic Perils coverage. The peril would cover damage caused by rioters, striking employees and property looted during a riot.

**Risk**—Chance of loss, odds that a loss will occur. Insurance offsets Pure Risk...only the possibility of loss. Gambling is Speculative Risk...the possibility of gain or loss.

**Risk Retention Group**—A form of Group Self Insurance allowed by many states enabling businesses to insure Commercial Liability exposures.

**Robbery**—Under Commercial Crime, a Robbery is defined as the taking of property from a person using force or threat of force.

**Safe Burglary**—Under Commercial Crime, Safe Burglary is defined as taking property from a locked vault or safe or taking the safe itself.

**Salvage**—The insurance company's right to take (and probably sell) destroyed property following the payment of full insured value on a loss in an attempt to partially offset the amount paid as a claim.

**Salvage Charges and Awards**—This phrase applies to two situations in Marine and Cargo insurance: (1) Charges incurred when a salvor rescues a ship, its cargo, or other property from peril, or (2) awards granted to a salvor when it removes wrecks, patches or repairs a ship, or performs other duties. Unless there is a prior contract, salvage awards are determined by a federal court.

**Scheduled Personal Property**—An Inland Marine endorsement to a Homeowners policy which provides coverage for items excluded or limited under the basic policy.

**Second Injury Fund**—Found in Workers Compensation programs, the Second Injury Fund is a pool of money supplied by all Workers Compensation Insurers that is designed to encourage employers to hire handicapped persons without the fear that they will suffer a second, more expensive injury.

**Self-Insured Retention Layer**—Used in a Commercial Umbrella contract, a Self-Insured Retention Layer is a monetary punishment for a business for not having procured the appropriate underlying liability coverage. Since Umbrella policies are designed to provide secondary or excess coverage, the absence of underlying coverage would require them to be primary. However, the Self-Insured Retention Layer requires the insured be responsible for a certain amount of coverage before the Umbrella policy pays. Essentially, a liability deductible.
**Single Limit**—Found most frequently within a Commercial Automobile policy, a Single Limit simply states the total amount the insurance company would pay in a liability claim against an insured driver in a single occurrence without subdividing the amount into bodily injury or property damage coverage as is the case in Split Limits.

**Sinkhole Collapse**—A covered peril under Basic Peril coverage, Sinkhole Collapse covers the collapse of property into an underground space created by erosion from naturally occurring water.

**Sistership Exclusion**—An important exclusion in Products Liability eliminating payment for government ordered recalls of a product which has been the subject of a liability claim.

**Smoke**—A covered peril under Basic Peril coverage. The peril of Smoke covers accidental smoke damage occurring where there is no fire on the covered premises. So, for example, if smoke from a hostile fire next door damages an insured premises, the loss would be covered under the peril of Smoke.

**Special Cause of Loss Form**—See Open Perils.

**Special Form Homeowners**—The HO-3.

**Speculative Risk**—A risk representing a chance to either win or lose.

**Split Limits**—Used in connection with an automobile policy, a Split Limit simply states the total amount the insurance company would pay in a liability claim against an insured driver. Expressed as three numbers such as 25/50/10. The first two numbers refer to Bodily Injury Per Person and Bodily Injury Per Occurrence. The last number is the total amount payable for Property Damage per Occurrence.

**Sprinkler Leakage**—A covered peril under Commercial Basic Perils it covers damage caused by leaking sprinklers.

**Stated Value**—A method determining the amount of insurance required which relies upon the stated value that the insured places on the item. The actual value of a loss however is determined at the time of the loss. The insured can “state” that an item is worth a certain amount, but the actual value determined at the time of loss may be substantially different.

**Statute of Limitations**—A law limiting the period of recovery for a third party who has suffered bodily injury or property damage at the hands of another.

**Stock Company**—An insurance company operated for the benefit of stockholders or shareholders. Also known as a non-participating company.
**Strict Liability**—A measure of liability that considers neither duty nor negligence.

**Subrogation**—The legal act of an insurance company attempting to recover a payout made to an insured from the party responsible for the loss. If I accidentally burn down your house, your homeowners company will pay you then subrogate against me.

**Sue and Labor Expenses**—Expenses incurred when the Master of a vessel takes all necessary means to limit losses. Sue and Labor is paid by the insurer even when costs exceed the policy limit.

**Supplementary Payments**—Includes payments beyond the expressed dollar amount in a liability contract. Primarily associated with defense costs. (4-5)Defense costs can be paid in addition to the expressed limits of the policy.

**Surety See also Guarantor**—A Surety is the third party (the insurance company) in a Fidelity Bond. The Surety guarantees payment of the bond to the Obligee if the Principal commits a covered theft.

**Surplus Lines**—The type of insurance transaction in which a specially licensed producer is able to procure insurance from a non-admitted company.

**Suspension Provision**—The provision in an Equipment Breakdown policy which allows the insurance company to suspend coverage with written notice if the insured is not properly maintaining insured equipment.

**Tail Coverages**—A reporting period that extends beyond the expiration date of a Commercial Liability Claims Made contract. Policies come with a Basic Extended Reporting Period which provides Mini-Tail and Midi-Tail coverage, but the insured can also buy Full-Tail or Maxi-Tail coverage to extend the reporting period forever.

**Tenants Form Homeowners**—The HO-4.

**Terrorism**—An act committed by individuals acting on behalf of a foreign interest whose damage within the U.S., or to an embassy or flagged vessel of the U.S. exceeds $5 million and is certified as an act of terrorism by the Secretary of the Treasury.

**Theft**—Any act of stealing.

**Theft Coverage**—As theft is a rather broad (and oftentimes high risk) peril, not all property policies cover theft. Dwelling policies without a Limited Theft or Broad Theft endorsement do not cover theft at all and neither do Commercial Property policies written with a Basic or Broad Cause of Loss form. All Homeowners policies cover theft.
Third Party Contract—A liability contract. The three parties involved are the insured, the insurance company and an injured, unknown third party.

Tort—A wrong perpetrated against another individual or entity. An action, or a failure to act, which results in injuries to a third party and serves as the basis of a lawsuit. Negligence is the tort primarily addressed by liability insurance policies.

Two Party Contract—A property contract. The two parties involved are the insured and the insurance company.

U

Umbrella Policies—Umbrella policies (both Personal and Commercial) are purchased to provide excess liability coverage to an insured party.

Underinsured Motorist—An at-fault motorist who causes an accident and who, although meeting state liability requirements, does not have enough insurance to pay for the damage they caused. Legal…but inadequate.

Underwriting Profit—Gross premiums minus overhead, expenses and losses…does not include any investment gains.

Unilateral Contract—A contract in which only one party makes legally enforceable promises.

Uninsured Motorist—An at-fault motorist who causes an accident and who does not carry the required amount of liability insurance to satisfy the laws of the state in which the accident occurred. Illegal.

Unoccupancy—A property such as a residence or commercial building that is temporarily devoid of people. In plain English, nobody is home.

V

Vacancy—A property such as residence or commercial building that is devoid of both people and stuff. Often, losses to buildings that have been vacant for more than 60 consecutive days are not covered.

Vandalism and Malicious Mischief—V&MM is covered Basic Peril. It covers losses due to vandalism but not theft.

Vehicle and Aircraft Damage—A covered Basic Peril. Vehicle and Aircraft coverage would pay for losses to covered property when the property is damaged or destroyed by an aircraft or other vehicle.
Vicarious Liability—The liability concept that states those responsible for the actions of another are potentially liable for losses caused by that person. For example, an employer may be vicariously liable for the actions of an employee.

Volcanic Action—A covered Basic Peril. Volcanic Action refers to above ground losses caused by a volcano including ash and lava flow.

Volcanic Eruption—Covered only if Earthquake coverage is purchased. Volcanic Eruption covers damage caused by the movement or shaking of the ground when a volcano erupts.

Waiver—Giving up a right.

Warranty—A statement which must be of the absolute truth to have legal standing.

Watchperson—Defined in Commercial Crime policies, a Watchperson is a person hired to guard property on premises. See Guard.

Watercraft—Normally applies to private usage canoes, rowboats, sailboats and motor boats which can be insured under a Homeowners, Boatowners or Yacht policy.

Water Damage—A covered Broad Peril. Water damage provides coverage for property damaged or destroyed by contact with friendly water that has escaped from a pipe or appliance due to leaking or freezing. In this text...plumbing.

Weight of Ice and Snow—A Broad Form peril covering insured property from damage or collapse due to the weight of ice and/or snow.

Windstorm/Hail—A covered Basic Peril. Windstorm covers damage caused by straight line winds, tornados and, of course, hail.

XYZ

Yacht Policy—Covers private watercraft that exceed the coverage limits of a Boatowners policy.