

INSURANCE TERMS

These definitions are provided for guidance purposes only.

Always ask YOUR insurer or solicitor to define them.

ACCEPTED VALUE. A value on property insured that is accepted by the insurer as its true value and is not therefore disputable in the absence of proof of fraud on the part of the insured.

ACT OF GOD. An event that is the result of natural forces, arising without human intervention, which no human foresight could have provided against and of which human prudence was not bound to recognise the possibility.

ACTUAL CASH VALUE. An amount equivalent to the replacement cost of stolen or damaged property at the time of the loss, less depreciation. For vehicles, this amount would be determined by the area, private party sales and dealer quotations. *Aussie equivalent* would only be used as a guide and not the final word.

ACTUAL TOTAL LOSS. There is an actual total loss (a) where the subject-matter of insurance is completely destroyed; (b) where it ceases to be a thing of the kind insured; or (c) where the insured is irretrievably deprived of it.

ADDITIONAL PREMIUM. Extra premium charged either because the insurance is more hazardous than normal or because additional benefits are added to the policy.

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

ATTACHMENT DATE. The date on which insurance cover comes into force.

AVERAGE.

1. The arithmetic mean.
2. In marine insurance, loss or damage.
3. In non-marine property insurance, where average is said to apply and there has been under-insurance, the insured's claim is reducible in proportion to the under-insurance, based on a valuation of the removing goods.

AVERAGE LOSS ADJUSTER. One who assesses and apportions losses in marine insurance, notable general average losses.

AVERAGE AGENT. An agent engaged in the assessment of cargo claims and the surveying and treatment of damaged goods.

BASIS OF VALUATION. To protect the insurer under an open cover where shipments may be declared and added to the insurance even after a loss a clause in the policy defines the basis to be adopted for the valuation.

BENEFIT OF INSURANCE. Term used, e.g., in a contract of carriage, where some person such as a creditor stipulates that he shall receive the benefit of insurance effected by the owner.

BILL OF LADING. A shipping document containing a description of the goods to be shipped.

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

BROKER. A licensed person or organization paid by your receiving a commission from the insurer company who looks for insurance on your behalf.

CANCELLATION. The termination of insurance coverage during the policy period by notice or mutual consent. Flat cancellation is the cancellation of a policy as of its effective date, without any premium charge.

CANCELLATION CLAUSE. A clause in a policy setting out the conditions under which the policy may be cancelled by notice.

CAPTIVE AGENT. Representative of a single insurer or fleet of insurers who is obliged to submit business only to that company, or at the very minimum, give that company first refusal rights on a sale. In exchange, that insurer usually provides its captive agents with an allowance for office expenses as well as an extensive list of employee benefits such as pensions, life insurance, health insurance and credit unions.

CHANGE OF VOYAGE CLAUSE. A clause in a marine insurance cargo policy providing that if the voyage is changed or there is any omission or error in the description of the interest, vessel or voyage the insurance will be held covered at a premium to be arranged.

CLAIM. Notice to an insurer that under the terms of a policy, a loss may be covered.

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

CLAIMS/LOSS ADJUSTER. One who negotiates settlement of a claim on behalf of an insurer.

CLAIMS EXPENSES. The expenses of investigation and settling claims, e.g., adjusters' fees as distinct from the claims themselves.

CLASSIFICATION CLAUSE. A clause in a marine cargo policy specifying the minimum standard of the vessels to be used in the carriage if additional premium is to be avoided. Vessels must be fully classed by a recognised classification society but additional premium may be required if a vessel over a specified age.

CONTENTS-ONLY COVERAGE. In personal property insurance, this coverage is for personal property items that are movable, that is, not attached to the building's structure (the home), such as television sets, radios, clothes and household goods. Not included under the coverage are animals, automobiles and boats.

COST, INSURANCE AND FREIGHT. A term of sale for goods in transit whereby the price paid by the buyer includes the insurance premium and the shipping charges.

DECLARATION. A statement on a proposal form signed by a proposer affirming certain things, e.g., the truth of the proposer's answers.

DECLINATURE. The refusal by an insurer of a proposed insurance.

DECLINE. The company refuses to accept the request for insurance coverage.

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

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

DIRECT WRITER. Method of selling insurance directly to insureds through a company's own employees, through the mail, the Internet, or at airport booths.

DUTY OF DISCLOSURE. A common law duty on the part of a proposed for insurance to disclose to the insurer all material facts, i.e., all facts that would influence a prudent insurer in deciding whether to grant the insurance and, if so, on what terms.

EARTHQUAKE FIRE DAMAGE. Damage by fire occasioned by or happening through an earthquake.

EARTHQUAKE SHOCK DAMAGE. Damage by earthquake shock as opposed to earthquake fire damage.

EFFECTIVE DATE. The date on and from which an insurance policy comes into force.

ENDORSEMENT. Any writing on a policy in addition to its normal wording which supplements or modifies its terms. It may be added when the policy is prepared, or subsequently. Also referred to as a "rider".

EX GRATIA PAYMENT. A sum paid by an insurer who maintains that he is not liable to make the payment.

EXCESS. An amount being the first part of the cost of a claim, which the insured has to bear in accordance with the terms of the insurance.

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

EXPIRATION DATE. The date on which the policy ends.

EXPIRY. The ending of the period of insurance.

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

FIRE. In fire insurance "fire" means actual ignition of something that should not be on fire, the cause being accidental or fortuitous in origin.

FIRE EXTINGUISHER. An appliance, mechanical or otherwise, used for the extinguishment of fires.

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

FIRST LOSS INSURANCE. Property insurance where the sum insured is accepted to be less than the value of the property but the insurer undertakes to pay claims up to the sum insured.

FRAUD. A deliberate act done with intent to deceive.

FREIGHT. By the Marine Insurance Act, 1906, s.90 *check if applicable to Australia* "freight" includes the profit derivable by a shipowner from the employment of his ship to carry his own goods or moveables, as well as freight payable to a third party, but does not include passage money.

GENERAL AVERAGE. The principle in maritime law that when a sacrifice is made or an expense voluntarily incurred to preserve the rest of a venture the loss or expense should be shared among all the interests involved in proportion to their value.

GENERAL AVERAGE ADJUSTMENT. A statement of losses, values and proportionate contributions prepared by an average adjuster nominated by the shipowner for the purpose of adjusting a general average loss.

GENERAL AVERAGE CONTRIBUTION. The payment due from a party in a marine venture to pay for a general average loss. It is in proportion to the value of his interest as compared with the total values of all interests in the venture.

GENERAL AVERAGE DEPOSIT. A deposit which a shipowner requires of a cargo owner as a condition of releasing his lien on cargo that is subject to a general average contribution.

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

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

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

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

INCEPTION DATE. The date on which an insurance begins to operate.

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

INDEPENDENT AGENT. Contractor who represents different insurance companies and who searches the market for the best coverage based on a client's insurance needs.

INSURABLE INTEREST. Insurance requires for its validity that the insured shall be so related to the subject-matter of the insurance that he will benefit from its survival or will suffer from loss or damage to it or may incur liability in respect of it. In the absence of such an interest, known as an insurable interest, the insurance will e invalid. Everyone has an insurable interest in his own life and spouses are deemed to have such an interest in the lives of each other.

INSURANCE. Insurance is a contract whereby one party, called the insurer, in return for a consideration, called the premium, undertakes to pay to the other party, called the insured, a sum of money or its equivalent in kind upon the happening of a specified event that is contrary to the interest of the insured.

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

INSURER. The insurance company.

JURISDICTION. The power o a court to hear and determine law suits.

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

LIMIT. Maximum amount a policy will pay either overall or under a particular coverage. The insurer's maximum liability.

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

LOSS RATIO. The proportion of claims paid or payable to premiums earned.

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

MISQUOTE. An incorrect estimate of the insurance premium.

PARTIAL LOSS. A loss not amounting to a total loss.

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

POLICY. The written contract of insurance.

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

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

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

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

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

RATE. Cost per unit of insurance. When used to calculate a premium, it must be adequate enough pay expected losses according to frequency and severity, reasonable to the point that insurers do not earn an excessive profit and not discriminatory or inequitable. Based on the amount of coverage needed, an individual will purchase the appropriate number of units of insurance with the total cost reflected in a premium payment.

RECOVERY. Money received by an insurer in respect of a loss, thus reducing the loss, by way of subrogation, salvage or reinsurance.

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

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

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

RETURN PREMIUM. Premium returned to the insured for some reason, e.g., that the insurance never attached or that the risk was reduced in some way, for example, because an insured vessel was laid up for a time.

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

SALVAGE CHARGES. Charges recoverable under maritime law by a salvor independently of contracts.

SALVAGE LOSS. Where goods insured under a marine policy are damaged and as a result of the damage are sold short of destination for less than their insured value there is said to be a salvage loss. The insurer must pay the difference between the insured value and the proceeds, after deduction of sale charges and survey fee, of the sale.

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

SUBROGATION. The right of one such as an insurer, who has indemnified another in respect of a loss, to be put in the place of that other person with regard to all his other means of recouping the loss.

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

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

SURVEY 1. An inspection of premises or property proposed for insurance. **2.** An inspection of a vessel, aircraft or cargo to ascertain the cause and extent of damage or the condition of insured property.

SURVEYOR. A person qualified by knowledge and skill to make a report on the condition and value of property and the cause of damage to it.

THEFT. The dishonest appropriation of the property of another with the intention of permanently depriving the other of it.

TOTAL LOSS 1. A loss of the subject-matter of insurance such that it is totally lost, destroyed or damaged beyond economic repair. **2.** A loss that gives rise to payment of the full sum insured.

TRANSIT CLAUSE. A clause in marine and aviation cargo policies providing that the cover attaches from the departure from the place of storage at a place named in the policy until the cargo arrives at a place of storage at a named destination or at some alternative place.

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

UTMOST GOOD FAITH. Insurance contracts are one of a limited class that requires the parties (insurer and insured) to exercise the utmost good faith in their dealings with each other. Specifically the proposer of an insurance must disclose all material facts which would

influence a prudent insurer in deciding whether to accept the insurance and if so on what items.

VALUABLE. A "valuable" item can be defined differently under different policies. The maximum claim for a valuable can also vary.

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

WITHOUT PREJUDICE. Term used in discussion and correspondence. Where there is a dispute or negotiations for a settlement and terms are offered "without prejudice" an offer so made or a letter so marked and subsequent letters in an unbroken chain cannot be admitted in