

A-SHARE VARIABLE ANNUITY

A form of variable annuity contract where the contract holder pays sales charges up front rather than eventually having to pay a surrender charge.

ACCELERATED DEATH BENEFITS

A life insurance policy option that provides policy proceeds to insured individuals over their lifetimes, in the event of a terminal illness. This is in lieu of a traditional policy that pays beneficiaries after the insured's death. Such benefits kick in if the insured becomes terminally ill, needs extreme medical intervention, or must reside in a nursing home. The payments made while the insured is living are deducted from any death benefits paid to beneficiaries.

ACCIDENT AND HEALTH INSURANCE

Coverage for accidental injury, accidental death, and related health expenses. Benefits will pay for preventative services, medical expenses, and catastrophic care, with limits.

ACTUAL CASH VALUE

A form of insurance that pays damages equal to the replacement value of damaged property minus depreciation.

ACTUARY

An insurance professional skilled in the analysis, evaluation, and management of statistical information. Evaluates insurance firms' reserves, determines rates and rating methods, and determines other business and financial risks.

ADDITIONAL LIVING EXPENSES

Extra charges covered by homeowners policies over and above the policyholder's customary living expenses. They kick in when the insured requires temporary shelter due to damage by a covered peril that makes the home temporarily uninhabitable.

ADJUSTER

An individual employed by a property/casualty insurer to evaluate losses and settle policyholder claims. These adjusters differ from public adjusters, who negotiate with insurers on behalf of policyholders, and receive a portion of a claims settlement. Independent adjusters are independent contractors who adjust claims for different insurance companies.

ADMITTED ASSETS

Assets recognized and accepted by state insurance laws in determining the solvency of insurers and reinsurers. To make it easier to assess an insurance company's financial position, state statutory accounting rules do not permit certain assets to be included on the balance sheet. Only assets that can be easily sold in the event of liquidation or borrowed against, and receivables for which payment can be reasonably anticipated, are included in admitted assets.

ADMITTED COMPANY

An insurance company licensed and authorized to do business in a particular state.

ADVERSE SELECTION

The tendency of those exposed to a higher risk to seek more insurance coverage than those at a lower risk. Insurers react either by charging higher premiums or not insuring at all, as in the case of floods. (Flood insurance is provided by the federal government but sold mostly through the private market.) In the case of natural disasters, such as earthquakes, adverse selection concentrates risk instead of spreading it. Insurance works best when risk is shared among large

numbers of policyholders.

AFFINITY SALES

Selling insurance through groups such as professional and business associations.

AGENCY COMPANIES

Companies that market and sell products via independent agents.

AGENT

Insurance is sold by two types of agents: independent agents, who are self-employed, represent several insurance companies and are paid on commission, and exclusive or captive agents, who represent only one insurance company and are either salaried or work on commission. Insurance companies that use exclusive or captive agents are called direct writers.

ALIEN INSURANCE COMPANY

An insurance company incorporated under the laws of a foreign country, as opposed to a foreign insurance company that does business in states outside its own.

ALLIED LINES

Property insurance that is usually bought in conjunction with fire insurance; it includes wind, water damage, and vandalism coverage

ALTERNATIVE DISPUTE RESOLUTION / ADR

Alternative to going to court to settle disputes. Methods include arbitration, where disputing parties agree to be bound to the decision of an independent third party, and mediation, where a third party tries to arrange a settlement between the two sides.

ALTERNATIVE MARKETS

Mechanisms used to fund self-insurance. This includes captives, which are insurers owned by one or more non-insurers to provide owners with coverage. Risk-retention groups, formed by members of similar professions or businesses to obtain liability insurance, are also a form of self-insurance.

ANNUAL ANNUITY CONTRACT FEE

Covers the cost of administering an annuity contract.

ANNUAL STATEMENT

Summary of an insurer's or reinsurer's financial operations for a particular year, including a balance sheet. It is filed with the state insurance department of each jurisdiction in which the company is licensed to conduct business.

ANNUITANT

The person(s) who receives the income from an annuity contract. Usually the owner of the contract or his or her spouse.

ANNUITIZATION

The conversion of the account balance of a deferred annuity contract to income payments.

ANNUITY

A life insurance product that pays periodic income benefits for a specific period of time or over the course of the annuitant's lifetime. There are two basic types of annuities: deferred and

immediate: Deferred annuities allow assets to grow tax deferred over time before being converted to payments to the annuitant. Immediate annuities allow payments to begin within about a year of purchase.

ANNUITY ACCUMULATION PHASE OR PERIOD

The period during which the owner of a deferred annuity makes payments to build up assets.

ANNUITY ADMINISTRATIVE CHARGES

Covers the cost of customer services for owners of variable annuities.

ANNUITY BENEFICIARY

In certain types of annuities, a person who receives annuity contract payments if the annuity owner or annuitant dies while payments are still due.

ANNUITY CONTRACT

An agreement similar to an insurance policy for other insurance products such as auto insurance.

ANNUITY CONTRACT OWNER

The person or entity that purchases an annuity and has all rights to the contract. Usually, but not always, the annuitant (the person who receives incomes from the contract).

ANNUITY DEATH BENEFITS

The guarantee that if an annuity contract owner dies before annuitization (the switchover from the savings to the payment phase) the beneficiary will receive the value of the annuity that is due.

ANNUITY INSURANCE CHARGES

Covers administrative and mortality and expense risk costs.

ANNUITY INVESTMENT MANAGEMENT FEE

The fee paid for the management of variable annuity invested assets.

ANNUITY ISSUER

The insurance company that issues the annuity.

ANNUITY PROSPECTUS

Legal document providing detailed information about variable annuity contracts. Must be offered to each prospective buyer.

ANNUITY PURCHASE RATE

The cost of an annuity based on such factors as the age and gender of the contract owner

ANTITRUST LAWS

Laws that prohibit companies from working as a group to set prices, restrict supplies or stop competition in the marketplace. The insurance industry is subject to state antitrust laws but has a limited exemption from federal antitrust laws. This exemption, set out in the McCarran-Ferguson Act, permits insurers to jointly develop common insurance forms and share loss data to help them price policies.

APPORTIONMENT

The dividing of a loss proportionately among two or more insurers that cover the same loss.

APPRAISAL

A survey to determine a property's insurable value, or the amount of a loss.

ARBITRATION

Procedure in which an insurance company and the insured or a vendor agree to settle a claim dispute by accepting a decision made by a third party.

ARSON

The deliberate setting of a fire.

ASSET-BACKED SECURITIES

Bonds that represent pools of loans of similar types, duration and interest rates. Almost any loan with regular repayments of principal and interest can be securitized, from auto loans and equipment leases to credit card receivables and mortgages.

ASSETS

Property owned, in this case by an insurance company, including stocks, bonds, and real estate. Insurance accounting is concerned with solvency and the ability to pay claims. State insurance laws therefore require a conservative valuation of assets, prohibiting insurance companies from listing assets on their balance sheets whose values are uncertain, such as furniture, fixtures, debit balances, and accounts receivable that are more than 90 days past due.

ASSIGNED RISK PLANS

Facilities through which drivers can obtain auto insurance if they are unable to buy it in the regular or voluntary market. These are the most well-known type of residual auto insurance market, which exist in every state. In an assigned risk plan, all insurers selling auto insurance in the state are assigned these drivers to insure, based on the amount of insurance they sell in the regular market.

AUTO INSURANCE POLICY

There are basically six different types of coverages. Some may be required by law. Others are optional. They are:

1. Bodily injury liability, for injuries the policyholder causes to someone else.
2. Medical payments or Personal Injury Protection (PIP) for treatment of injuries to the driver and passengers of the policyholder's car.
3. Property damage liability, for damage the policyholder causes to someone else's property.
4. Collision, for damage to the policyholder's car from a collision.
5. Comprehensive, for damage to the policyholder's car not involving a collision with another car (including damage from fire, explosions, earthquakes, floods, and riots), and theft.
6. Uninsured motorists coverage, for costs resulting from an accident involving a hit-and-run driver or a driver who does not have insurance

AUTO INSURANCE PREMIUM

The price an insurance company charges for coverage, based on the frequency and cost of potential accidents, theft and other losses. Prices vary from company to company, as with any product or service.

Premiums also vary depending on the amount and type of coverage purchased; the make and model of the car; and the insured's driving record, years of driving and the number of miles the

car is driven per year. Other factors taken into account include the driver's age and gender, where the car is most likely to be driven and the times of day – rush hour in an urban neighborhood or leisure-time driving in rural areas, for example. Some insurance companies may also use credit history-related information

AVIATION INSURANCE

Commercial airlines hold property insurance on airplanes and liability insurance for negligent acts that result in injury or property damage to passengers or others. Damage is covered on the ground and in the air. The policy limits the geographical area and individual pilots covered.

B-SHARE VARIABLE ANNUITY

A form of variable annuity contract with no initial sales charge but if the contract is cancelled the holder pays deferred sales charges (usually from 5 to 7 percent the first year, declining to zero after from 5 to 7 years). The most common form of annuity contract.

BALANCE SHEET

Provides a snapshot of a company's financial condition at one point in time. It shows assets, including investments and reinsurance, and liabilities, such as loss reserves to pay claims in the future, as of a certain date. It also states a company's equity, known as policyholder surplus. Changes in that surplus are one indicator of an insurer's financial standing.

BANK HOLDING COMPANY

A company that owns or controls one or more banks. The Federal Reserve has responsibility for regulating and supervising bank holding company activities, such as approving acquisitions and mergers and inspecting the operations of such companies. This authority applies even though a bank owned by a holding company may be under the primary supervision of the Comptroller of the Currency or the FDIC.

BASIS POINT

0.01 percent of the yield of a mortgage, bond or note. The smallest measure used.

BEACH AND WINDSTORM PLANS

State-sponsored insurance pools that sell property coverage for the peril of windstorm to people unable to buy it in the voluntary market because of their high exposure to risk. Seven states (AL, FL, LA, MS, NC, SC, TX) offer these plans to cover residential and commercial properties against hurricanes and other windstorms. Georgia and New York provide this kind of coverage for windstorm and hail in certain coastal communities through other property pools. Insurance companies that sell property insurance in the state are required to participate in these plans. Insurers share in profits and losses

BINDER

Temporary authorization of coverage issued prior to the actual insurance policy.

BLANKET INSURANCE

Coverage for more than one type of property at one location or one type of property at more than one location. Example: chain stores.

BODILY INJURY LIABILITY COVERAGE

Portion of an auto insurance policy that covers injuries the policyholder causes to someone else.

BOILER AND MACHINERY INSURANCE

Often called Equipment Breakdown, or Systems Breakdown insurance. Commercial insurance that covers damage caused by the malfunction or breakdown of boilers, and a vast array of other equipment including air conditioners, heating, electrical, telephone, and computer systems.

BOND

A security that obligates the issuer to pay interest at specified intervals and to repay the principal amount of the loan at maturity. In insurance, a form of suretyship. Bonds of various types guarantee a payment or a reimbursement for financial losses resulting from dishonesty, failure to perform and other acts.

BOND RATING

An evaluation of a bond's financial strength, conducted by such major ratings agencies as Standard & Poor's and Moody's Investors Service.

BOOK OF BUSINESS

Total amount of insurance on an insurer's books at a particular point in time.

BROKER

An intermediary between a customer and an insurance company. Brokers typically search the market for coverage appropriate to their clients. They work on commission and usually sell commercial, not personal, insurance. In life insurance, agents must be licensed as securities brokers/dealers to sell variable annuities, which are similar to stock market-based investments.

BURGLARY AND THEFT INSURANCE

Insurance for the loss of property due to burglary, robbery or larceny. It is provided in a standard homeowners policy and in a business multiple peril policy.

BUSINESS INCOME INSURANCE (also known as BUSINESS INTERRUPTION INSURANCE)

Commercial coverage that reimburses a business owner for lost profits and continuing fixed expenses during the time that a business must stay closed while the premises are being restored because of physical damage from a covered peril, such as a fire. Business interruption insurance also may cover financial losses that may occur if civil authorities limit access to an area after a disaster and their actions prevent customers from reaching the business premises. Depending on the policy, civil authorities coverage may start after a waiting period and last for two or more weeks.

BUSINESSOWNERS POLICY / BOP

A policy that combines property, liability and business interruption coverages for small- to medium-sized businesses. Coverage is generally cheaper than if purchased through separate insurance policies

C-SHARE VARIABLE ANNUITIES

A form of variable annuity contract where the contract holder pays no sales up front or surrender charges. Owners can claim full liquidity at any time.

CAPACITY

The supply of insurance available to meet demand. Capacity depends on the industry's financial ability to accept risk. For an individual insurer, the maximum amount of risk it can underwrite based on its financial condition. The adequacy of an insurer's capital relative to its exposure to loss is an important measure of solvency.

A property/casualty insurer must maintain a certain level of capital and policyholder surplus to underwrite risks. This capital is known as capacity. When the industry is hit by high losses, such as after the World Trade Center terrorist attack, capacity is diminished. It can be restored by increases in net income, favorable investment returns, reinsuring more risk and or raising additional capital. When there is excess capacity, usually because of a high return on investments, premiums tend to decline as insurers compete for market share. As premiums decline, underwriting losses are likely to grow, reducing capacity and causing insurers to raise rates and tighten conditions and limits in an effort to increase profitability. Policyholder surplus is sometimes used as a measure of capacity.

CAPITAL

Shareholder's equity (for publicly-traded insurance companies) and retained earnings (for mutual insurance companies). There is no general measure of capital adequacy for property/casualty insurers. Capital adequacy is linked to the riskiness of an insurer's business. A company underwriting medical device manufacturers needs a larger cushion of capital than a company writing Main Street business, for example.

CAPITAL MARKETS

The markets in which equities and debt are traded.

CAPTIVE AGENT

A person who represents only one insurance company and is restricted by agreement from submitting business to any other company, unless it is first rejected by the agent's captive company

CAPTIVES

Insurers that are created and wholly-owned by one or more non-insurers, to provide owners with coverage. A form of self-insurance.

CAR YEAR

Equal to 365 days of insured coverage for a single vehicle. It is the standard measurement for automobile insurance

CASE MANAGEMENT

A system of coordinating medical services to treat a patient, improve care, and reduce cost. A case manager coordinates health care delivery for patients.

CATASTROPHE

Term used for statistical recording purposes to refer to a single incident or a series of closely related incidents causing severe insured property losses totaling more than a given amount, currently \$25 million.

CATASTROPHE BONDS

Risk-based securities that pay high interest rates and provide insurance companies with a form of reinsurance to pay losses from a catastrophe such as those caused by a major hurricane. They allow insurance risk to be sold to institutional investors in the form of bonds, thus spreading the risk.

CATASTROPHE DEDUCTIBLE

A percentage or dollar amount that a homeowner must pay before the insurance policy kicks in

when a major natural disaster occurs. These large deductibles limit an insurer's potential losses in such cases, allowing it to insure more property. A property insurer may not be able to buy reinsurance to protect its own bottom line unless it keeps its potential maximum losses under a certain level.

CATASTROPHE FACTOR

Probability of catastrophic loss, based on the total number of catastrophes in a state over a 40-year period.

CATASTROPHE MODEL

Using computers, a method to mesh long-term disaster information with current demographic, building and other data to determine the potential cost of natural disasters and other catastrophic losses for a given geographic area.

CATASTROPHE REINSURANCE

Reinsurance (insurance for insurers) for catastrophic losses. The insurance industry is able to absorb the multibillion dollar losses caused by natural and man-made disasters such as hurricanes, earthquakes and terrorist attacks because losses are spread among thousands of companies including catastrophe reinsurers who operate on a global basis. Insurers' ability and willingness to sell insurance fluctuates with the availability and cost of catastrophe reinsurance.

After major disasters, such as Hurricane Andrew and the World Trade Center terrorist attack, the availability of catastrophe reinsurance becomes extremely limited. Claims deplete reinsurers' capital and, as a result, companies are more selective in the type and amount of risks they assume. In addition, with available supply limited, prices for reinsurance rise. This contributes to an overall increase in prices for property insurance.

CELL PHONE INSURANCE

Separate insurance provided to cover cell phones for damage or theft. Policies are often sold with the cell phones themselves.

CHARTERED FINANCIAL CONSULTANT / ChFC

A professional designation given by The American College to financial services professionals who complete courses in financial planning.

CHARTERED LIFE UNDERWRITER / CLU

A professional designation by The American College for those who pass business examinations on insurance, investments, and taxation, and have life insurance planning experience.

CHARTERED PROPERTY/CASUALTY UNDERWRITER / CPCU

A professional designation given by the American Institute for Property and Liability Underwriters. National examinations and three years of work experience are required.

CLAIMS-MADE POLICY

A form of insurance that pays claims presented to the insurer during the term of the policy or within a specific term after its expiration. It limits liability insurers' exposure to unknown future liabilities.

COBRA

Short for Consolidated Omnibus Budget Reconciliation Act. A federal law under which group health plans sponsored by employers with 20 or more employees must offer continuation of

coverage to employees who leave their jobs and their dependents. The employee must pay the entire premium. Coverage can be extended up to 18 months. Surviving dependents can receive longer coverage.

COINSURANCE

In property insurance, requires the policyholder to carry insurance equal to a specified percentage of the value of property to receive full payment on a loss. For health insurance, it is a percentage of each claim above the deductible paid by the policyholder. For a 20 percent health insurance coinsurance clause, the policyholder pays for the deductible plus 20 percent of his covered losses. After paying 80 percent of losses up to a specified ceiling, the insurer starts paying 100 percent of losses.

COLLATERAL

Property that is offered to secure a loan or other credit and that becomes subject to seizure on default. (Also called security.)

COLLATERAL SOURCE RULE

Bars the introduction of information that indicates a person has been compensated or reimbursed by a source other than the defendant in civil actions related to negligence or other liability.

COLLISION COVERAGE

Portion of an auto insurance policy that covers the damage to the policyholder's car from a collision.

COMBINED RATIO

Percentage of each premium dollar a property/casualty insurer spends on claims and expenses. A decrease in the combined ratio means financial results are improving; an increase means they are deteriorating.

COMMERCIAL GENERAL LIABILITY INSURANCE / CGL

A broad commercial policy that covers all liability exposures of a business that are not specifically excluded. Coverage includes product liability, completed operations, premises and operations, and independent contractors.

COMMERCIAL LINES

Products designed for and bought by businesses. Among the major coverages are boiler and machinery, business interruption, commercial auto, comprehensive general liability, directors and officers liability, fire and allied lines, inland marine, medical malpractice liability, product liability, professional liability, surety and fidelity, and workers compensation. Most of these commercial coverages can be purchased separately except business interruption which must be added to a fire insurance (property) policy.

COMMERCIAL MULTIPLE PERIL POLICY

Package policy that includes property, boiler and machinery, crime, and general liability coverages.

COMMERCIAL PAPER

Short-term, unsecured, and usually discounted promissory note issued by commercial firms and financial companies often to finance current business. Commercial paper, which is rated by debt rating agencies, is sold through dealers or directly placed with an investor.

COMMISSION

Fee paid to an agent or insurance salesperson as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer, and the marketing methods.

COMMUNITY RATING LAWS

Enacted in several states on health insurance policies. Insurers are required to accept all applicants for coverage and charge all applicants the same premium for the same coverage regardless of age or health. Premiums are based on the rate determined by the geographic region's health and demographic profile.

COMPETITIVE STATE FUND

A facility established by a state to sell workers compensation in competition with private insurers.

COMPLAINT RATIO

A measure used by some state insurance departments to track consumer complaints against insurance companies. Generally, it is written as the number of complaints upheld against an insurance company, as a percentage of premiums written. In some states, complaints from medical providers over the promptness of payments may also be included.

COMPLETED OPERATIONS COVERAGE

Pays for bodily injury or property damage caused by a completed project or job. Protects a business that sells a service against liability claims.

COMPREHENSIVE COVERAGE

Portion of an auto insurance policy that covers damage to the policyholder's car not involving a collision with another car (including damage from fire, explosions, earthquakes, floods, and riots), and theft.

COMPULSORY AUTO INSURANCE

The minimum amount of auto liability insurance that meets a state law. Financial responsibility laws in every state require all automobile drivers to show proof, after an accident, of their ability to pay damages up to the state minimum. In compulsory liability states this proof, which is usually in the form of an insurance policy, is required before you can legally drive a car.

CONTINGENT LIABILITY

Liability of individuals, corporations, or partnerships for accidents caused by people other than employees for whose acts or omissions the corporations or partnerships are responsible.

COVERAGE

Synonym for insurance.

CRASH PARTS

Sheet metal parts that are most often damaged in a car crash.

CREDIT

The promise to pay in the future in order to buy or borrow in the present. The right to defer payment of debt.

CREDIT DERIVATIVES

A contract that enables a user, such as a bank, to better manage its credit risk. A way of transferring credit risk to another party.

CREDIT ENHANCEMENT

A technique to lower the interest payments on a bond by raising the issue's credit rating, often through insurance in the form of a financial guarantee or with standby letters of credit issued by a bank

CREDIT INSURANCE

Commercial coverage against losses resulting from the failure of business debtors to pay their obligation to the insured, usually due to insolvency. The coverage is geared to manufacturers, wholesalers, and service providers who may be dependent on a few accounts and therefore could lose significant income in the event of an insolvency.

CREDIT LIFE INSURANCE

Life insurance coverage on a borrower designed to repay the balance of a loan in the event the borrower dies before the loan is repaid. It may also include disablement and can be offered as an option in connection with credit cards and auto loans.

CREDIT SCORE

The number produced by an analysis of an individual's credit history. The use of credit information affects all consumers in many ways, from getting a job, finding a place to live, securing a loan, getting a telephone, and buying insurance. Credit history is routinely reviewed by insurers before issuing a commercial policy because businesses in poor financial condition tend to cut back on safety which can lead to more accidents and more claims. Auto and home insurers may use information in a credit history to produce an insurance score. Insurance scores may be used in underwriting and rating insurance policies.

CRIME INSURANCE

Term referring to property coverages for the perils of burglary, theft and robbery.

CROP-HAIL INSURANCE

Protection against damage to growing crops from hail, fire, or lightning provided by the private market. By contrast, multiple peril crop insurance covers a wider range of yield-reducing conditions, such as drought and insect infestation, and is subsidized by the federal government.

DECLARATION

Part of a property or liability insurance policy that states the name and address of policyholder, property insured, its location and description, the policy period, premiums, and supplemental information. Referred to as the "dec page."

DEDUCTIBLE

The amount of loss paid by the policyholder. Either a specified dollar amount, a percentage of the claim amount, or a specified amount of time that must elapse before benefits are paid. The bigger the deductible, the lower the premium charged for the same coverage.

DEFERRED ANNUITY

An annuity contract that is purchased either with a single tax-deferred premium or with periodic tax-deferred premiums over time. Payments begin at a predetermined point in time, such as retirement.

DEFINED BENEFIT PLAN

A retirement plan under which pension benefits are fixed in advance by a formula based generally

on years of service to the company multiplied by a specific percentage of wages, usually average earnings over that period or highest average earnings over the final years with the company.

DEFINED CONTRIBUTION PLAN

An employee benefit plan under which the employer sets up benefit accounts and contributions are made to it by the employer and by the employee. The employer usually matches the employee's contribution up to a stated limit.

DEMAND DEPOSIT

Customer assets that are held in a checking account. Funds can be readily withdrawn by check, "on demand."

DEMUTUALIZATION

The conversion of insurance companies from mutual companies owned by their policyholders into publicly-traded stock companies.

DEPOSITORY INSTITUTION

Financial institution that obtains its funds mainly through deposits from the public. Includes commercial banks, savings and loan associations, savings banks, and credit unions.

DEREGULATION

In insurance, reducing regulatory control over insurance rates and forms. Commercial insurance for businesses of a certain size has been deregulated in many states.

DERIVATIVES

Contracts that derive their value from an underlying financial asset, such as publicly-traded securities and foreign currencies. Often used as a hedge against changes in value.

DIFFERENCE IN CONDITIONS

Policy designed to fill in gaps in a business's commercial property insurance coverage. There is no standard policy. Policies are specifically tailored to the policyholder's needs.

DIMINUTION OF VALUE

The idea that a vehicle loses value after it has been damaged in an accident and repaired.

DIRECT PREMIUMS

Property/casualty premiums collected by the insurer from policyholders, before reinsurance premiums are deducted. Insurers share some direct premiums and the risk involved with their reinsurers.

DIRECT SALES/ DIRECT RESPONSE

Method of selling insurance directly to the insured through an insurance company's own employees, through the mail, or via the Internet. This is in lieu of using captive or exclusive agents.

DIRECT WRITERS

Insurance companies that sell directly to the public using exclusive agents or their own employees, through the mail, or via Internet. Large insurers, whether predominately direct writers or agency companies, are increasingly using many different channels to sell insurance. In reinsurance, denotes reinsurers that deal directly with the insurance companies they reinsure without using a broker.

DIRECTORS AND OFFICERS LIABILITY INSURANCE/D&O

Covers directors and officers of a company for negligent acts or omissions, and for misleading statements that result in suits against the company, often by shareholders. Directors and officers insurance policies usually contain two coverages: personal coverage for individual directors and officers who are not indemnified by the corporation for their legal expenses or judgments against them – some corporations are not required by their corporate or state charters to provide indemnification; and corporate reimbursement coverage for indemnifying directors and officers. Entity coverage for claims made specifically against the company may also be available.

DIVIDENDS

Money returned to policyholders from an insurance company's earnings. Considered a partial premium refund rather than a taxable distribution, reflecting the difference between the premium charged and actual losses. Many life insurance policies and some property/casualty policies pay dividends to their owners. Life insurance policies that pay dividends are called participating policies.

DOMESTIC INSURANCE COMPANY

Term used by a state to refer to any company incorporated there.

EARLY WARNING SYSTEM

A system of measuring insurers' financial stability set up by insurance industry regulators. An example is the Insurance Regulatory Information System (IRIS), which uses financial ratios to identify insurers in need of regulatory attention.

EARNED PREMIUM

The portion of premium that applies to the expired part of the policy period. Insurance premiums are payable in advance but the insurance company does not fully earn them until the policy period expires.

EARTHQUAKE INSURANCE

Covers a building and its contents, but includes a large percentage deductible on each. A special policy or endorsement exists because earthquakes are not covered by standard homeowners or most business policies.

ECONOMIC LOSS

Total financial loss resulting from the death or disability of a wage earner, or from the destruction of property. Includes the loss of earnings, medical expenses, funeral expenses, the cost of restoring or replacing property, and legal expenses. It does not include noneconomic losses, such as pain caused by an injury.

ELECTRONIC COMMERCE / E-COMMERCE

The sale of products such as insurance over the Internet.

ELIMINATION PERIOD

A kind of deductible or waiting period usually found in disability policies. It is counted in days from the beginning of the illness or injury.

EMPLOYEE DISHONESTY COVERAGE

Covers direct losses and damage to businesses resulting from the dishonest acts of employees.

EMPLOYEE RETIREMENT INCOME SECURITY ACT / ERISA

Federal legislation that protects employees by establishing minimum standards for private pension and welfare plans.

EMPLOYER'S LIABILITY

Part B of the workers compensation policy that provides coverage for lawsuits filed by injured employees who, under certain circumstances, can sue under common law.

EMPLOYMENT PRACTICES LIABILITY COVERAGE

Liability insurance for employers that covers wrongful termination, discrimination, or sexual harassment toward the insured's employees or former employees.

ENDORSEMENT

A written form attached to an insurance policy that alters the policy's coverage, terms, or conditions. Sometimes called a rider.

ENVIRONMENTAL IMPAIRMENT LIABILITY COVERAGE

A form of insurance designed to cover losses and liabilities arising from damage to property caused by pollution.

EQUITY

In investments, the ownership interest of shareholders. In a corporation, stocks as opposed to bonds

EQUITY INDEXED ANNUITY

Non-traditional fixed annuity. The specified rate of interest guarantees a fixed minimum rate of interest like traditional fixed annuities. At the same time, additional interest may be credited to policy values based upon positive changes, if any, in an established index such as the S&P 500. The amount of additional interest depends upon the particular design of the policy. They are sold by licensed insurance agents and regulated by state insurance departments.

ERRORS AND OMISSIONS COVERAGE / E&O

A professional liability policy covering the policyholder for negligent acts and omissions that may harm his or her clients.

ESCROW ACCOUNT

Funds that a lender collects to pay monthly premiums in mortgage and homeowners insurance, and sometimes to pay property taxes.

EXCESS AND SURPLUS LINES

Property/casualty coverage that isn't available from insurers licensed by the state (called admitted insurers) and must be purchased from a non-admitted carrier.

EXCESS OF LOSS REINSURANCE

A contract between an insurer and a reinsurer, whereby the insurer agrees to pay a specified portion of a claim and the reinsurer to pay all or a part of the claim above that amount.

EXCLUSION

A provision in an insurance policy that eliminates coverage for certain risks, people, property classes, or locations.

EXCLUSIVE AGENT

A captive agent, or a person who represents only one insurance company and is restricted by agreement from submitting business to any other company unless it is first rejected by the agent's company

EXCLUSIVE REMEDY

Part of the social contract that forms the basis for workers compensation statutes under which employers are responsible for work-related injury and disease, regardless of whether it was the employee's fault and in return the injured employee gives up the right to sue when the employer's negligence causes the harm.

EXPENSE RATIO

Percentage of each premium dollar that goes to insurers' expenses including overhead, marketing, and commissions.

EXPERIENCE

Record of losses.

EXPOSURE

Possibility of loss.

EXTENDED COVERAGE

An endorsement added to an insurance policy, or clause within a policy, that provides additional coverage for risks other than those in a basic policy.

EXTENDED REPLACEMENT COST COVERAGE

Pays a certain amount above the policy limit to replace a damaged home, generally 120 percent or 125 percent. Similar to a guaranteed replacement cost policy, which has no percentage limits. Most homeowner policy limits track inflation in building costs. Guaranteed and extended replacement cost policies are designed to protect the policyholder after a major disaster when the high demand for building contractors and materials can push up the normal cost of reconstruction

FACULTATIVE REINSURANCE

A reinsurance policy that provides an insurer with coverage for specific individual risks that are unusual or so large that they aren't covered in the insurance company's reinsurance treaties. This can include policies for jumbo jets or oil rigs. Reinsurers have no obligation to take on facultative reinsurance, but can assess each risk individually. By contrast, under treaty reinsurance, the reinsurer agrees to assume a certain percentage of entire classes of business, such as various kinds of auto, up to preset limits.

FAIR ACCESS TO INSURANCE REQUIREMENTS PLANS / FAIR PLANS

Insurance pools that sell property insurance to people who can't buy it in the voluntary market because of high risk over which they may have no control. FAIR Plans, which exist in 28 states and the District of Columbia, insure fire, vandalism, riot, and windstorm losses, and some sell homeowners insurance which includes liability. Plans vary by state, but all require property insurers licensed in a state to participate in the pool and share in the profits and losses.

FARMOWNERS-RANCHOWNERS INSURANCE

Package policy that protects the policyholder against named perils and liabilities and usually covers homes and their contents, along with barns, stables, and other structures.

FEDERAL FUNDS

Reserve balances that depository institutions lend each other, usually on an overnight basis. In addition, Federal funds include certain other kinds of borrowings by depository institutions from each other and from federal agencies.

FEDERAL INSURANCE ADMINISTRATION / FIA

Federal agency in charge of administering the National Flood Insurance Program. It does not regulate the insurance industry.

FEDERAL RESERVE BOARD

Seven-member board that supervises the banking system by issuing regulations controlling bank holding companies and federal laws over the banking industry. It also controls and oversees the U.S. monetary system and credit supply.

FIDELITY BOND

A form of protection that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees.

FIDUCIARY BOND

A type of surety bond, sometimes called a probate bond, which is required of certain fiduciaries, such as executors and trustees, that guarantees the performance of their responsibilities.

FIDUCIARY LIABILITY

Legal responsibility of a fiduciary to safeguard assets of beneficiaries. A fiduciary, for example a pension fund manager, is required to manage investments held in trust in the best interest of beneficiaries. Fiduciary liability insurance covers breaches of fiduciary duty such as misstatements or misleading statements, errors and omissions.

FILE-AND-USE STATES

States where insurers must file rate changes with their regulators, but don't have to wait for approval to put them into effect.

FINANCIAL GUARANTEE INSURANCE

Covers losses from specific financial transactions and guarantees that investors in debt instruments, such as municipal bonds, receive timely payment of principal and interest if there is a default. Raises the credit rating of debt to which the guarantee is attached. Investment bankers who sell asset-backed securities, securities backed by loan portfolios, use this insurance to enhance marketability.

FINANCIAL RESPONSIBILITY LAW

A state law requiring that all automobile drivers show proof that they can pay damages up to a minimum amount if involved in an auto accident. Varies from state to state but can be met by carrying a minimum amount of auto liability insurance.

FINITE RISK REINSURANCE

Contract under which the ultimate liability of the reinsurer is capped and on which anticipated investment income is expressly acknowledged as an underwriting component. Also known as Financial Reinsurance because this type of coverage is often bought to improve the balance sheet effects of statutory accounting principles.

FIRE INSURANCE

Coverage protecting property against losses caused by a fire or lightning that is usually included in homeowners or commercial multiple peril policies.

FIRST-PARTY COVERAGE

Coverage for the policyholder's own property or person. In no-fault auto insurance it pays for the cost of injuries. In no-fault states with the broadest coverage, the personal injury protection (PIP) part of the policy pays for medical care, lost income, funeral expenses and, where the injured person is not able to provide services such as child care, for substitute services.

FIXED ANNUITY

An annuity that guarantees a specific rate of return. In the case of a deferred annuity, a minimum rate of interest is guaranteed during the savings phase. During the payment phase, a fixed amount of income, paid on a regular schedule, is guaranteed.

FLOATER

Attached to a homeowners policy, a floater insures movable property, covering losses wherever they may occur. Among the items often insured with a floater are expensive jewelry, musical instruments, and furs. It provides broader coverage than a regular homeowners policy for these items.

FLOOD INSURANCE

Coverage for flood damage is available from the federal government under the National Flood Insurance Program but is sold by licensed insurance agents. Flood coverage is excluded under homeowners policies and many commercial property policies. However, flood damage is covered under the comprehensive portion of an auto insurance policy

FORCED PLACE INSURANCE

Insurance purchased by a bank or creditor on an uninsured debtor's behalf so if the property is damaged, funding is available to repair it.

FOREIGN INSURANCE COMPANY

Name given to an insurance company based in one state by the other states in which it does business.

FRAUD

Intentional lying or concealment by policyholders to obtain payment of an insurance claim that would otherwise not be paid, or lying or misrepresentation by the insurance company managers, employees, agents, and brokers for financial gain.

FREE-LOOK PERIOD

A period of up to one month during which the purchaser of an annuity can cancel the contract with no penalty. Rules vary by state.

FREQUENCY

Number of times a loss occurs. One of the criteria used in calculating premium rates.

FRONTING

A procedure in which a primary insurer acts as the insurer of record by issuing a policy, but then passes the entire risk to a reinsurer in exchange for a commission. Often, the fronting insurer is licensed to do business in a state or country where the risk is located, but the reinsurer is not. The

reinsurer in this scenario is often a captive or an independent insurance company that cannot sell insurance directly in a particular country.

FUTURES

Agreement to buy a security for a set price at a certain date. Futures contracts usually involve commodities, indexes or financial futures.

GAP INSURANCE

An automobile insurance option, available in some states, that covers the difference between a car's actual cash value when it is stolen or wrecked and the amount the consumer owes the leasing or finance company. Mainly used for leased cars.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES/GAAP

Generally accepted accounting principles (GAAP) accounting is used in financial statements that publicly-held companies prepare for the Securities and Exchange Commission.

GENERIC AUTO PARTS

Auto crash parts produced by firms that are not associated with car manufacturers. Insurers consider these parts, when certified, at least as good as those that come from the original equipment manufacturer (OEM). They are often cheaper than the identical part produced by the OEM

GLASS INSURANCE

Coverage for glass breakage caused by all risks; fire and war are sometimes excluded. Insurance can be bought for windows, structural glass, leaded glass, and mirrors. Available with or without a deductible.

GRADUATED DRIVER LICENSES

Licenses for younger drivers that allow them to improve their skills. Regulations vary by state, but often restrict night time driving. Young drivers receive a learner's permit, followed by a provisional license, before they can receive a standard drivers license.

GRAMM-LEACH-BLILEY ACT

Financial services legislation, passed by Congress in 1999, that removed Depression-era prohibitions against the combination of commercial banking and investment-banking activities. It allows insurance companies, banks, and securities firms to engage in each others' activities and own one another.

GROUP INSURANCE

A single policy covering a group of individuals, usually employees of the same company or members of the same association and their dependents. Coverage occurs under a master policy issued to the employer or association.

GUARANTEE PERIOD

Period during which the level of interest specified under a fixed annuity is guaranteed.

GUARANTEED DEATH BENEFIT

Basic death benefits guaranteed under variable annuity contracts.

GUARANTEED INCOME CONTRACT / GIC

Often an option in an employer-sponsored retirement savings plan. Contract between an

insurance company and the plan that guarantees a stated rate of return on invested capital over the life of the contract.

GUARANTEED LIVING BENEFIT

A guarantee in a variable annuity that a certain level of annuity payment will be maintained. Serves as a protection against investment risks. Several types exist.

GUARANTEED REPLACEMENT COST COVERAGE

Homeowners policy that pays the full cost of replacing or repairing a damaged or destroyed home, even if it is above the policy limit.

GUARANTY FUND

The mechanism by which solvent insurers ensure that some of the policyholder and third party claims against insurance companies that fail are paid. Such funds are required in all 50 states, the District of Columbia and Puerto Rico, but the type and amount of claim covered by the fund varies from state to state. Some states pay policyholders' unearned premiums – the portion of the premium for which no coverage was provided because the company was insolvent. Some have deductibles. Most states have no limits on workers compensation payments. Guaranty funds are supported by assessments on insurers doing business in the state.

GUN LIABILITY

A new legal concept that holds gun manufacturers liable for the cost of injuries caused by guns. Several cities have filed lawsuits based on this concept.

HACKER INSURANCE

A coverage that protects businesses engaged in electronic commerce from losses caused by hackers.

HARD MARKET

A seller's market in which insurance is expensive and in short supply.

HOMEOWNERS INSURANCE POLICY

The typical homeowners insurance policy covers the house, the garage and other structures on the property, as well as personal possessions inside the house such as furniture, appliances and clothing, against a wide variety of perils including windstorms, fire and theft. The extent of the perils covered depends on the type of policy. An all-risk policy offers the broadest coverage. This covers all perils except those specifically excluded in the policy.

Homeowners insurance also covers additional living expenses. Known as Loss of Use, this provision in the policy reimburses the policyholder for the extra cost of living elsewhere while the house is being restored after a disaster. The liability portion of the policy covers the homeowner for accidental injuries caused to third parties and/or their property, such as a guest slipping and falling down improperly maintained stairs. Coverage for flood and earthquake damage is excluded and must be purchased separately.

HOUSE YEAR

Equal to 365 days of insured coverage for a single dwelling. It is the standard measurement for homeowners insurance.

HURRICANE DEDUCTIBLE

A percentage or dollar amount added to a homeowner's insurance policy to limit an insurer's

exposure to loss from a hurricane. Higher deductibles are instituted in higher risk areas, such as coastal regions. Specific details, such as the intensity of the storm for the deductible to be triggered and the extent of the high risk area, vary from insurer to insurer and state to state.

IDENTITY THEFT INSURANCE

Coverage for expenses incurred as the result of an identity theft. Can include costs for notarizing fraud affidavits and certified mail, lost income from time taken off from work to meet with law-enforcement personnel or credit agencies, fees for reapplying for loans and attorney's fees to defend against lawsuits and remove criminal or civil judgments.

IMMEDIATE ANNUITY

A product purchased with a lump sum, usually at the time retirement begins or afterwards. Payments begin within about a year. Immediate annuities can be either fixed or variable.

INCURRED BUT NOT REPORTED LOSSES / IBNR

Losses that are not filed with the insurer or reinsurer until years after the policy is sold. Some liability claims may be filed long after the event that caused the injury to occur. Asbestos-related diseases, for example, do not show up until decades after the exposure. IBNR also refers to estimates made about claims already reported but where the full extent of the injury is not yet known, such as a workers compensation claim where the degree to which work-related injuries prevents a worker from earning what he or she earned before the injury unfolds over time. Insurance companies regularly adjust reserves for such losses as new information becomes available.

INCURRED LOSSES

Losses occurring within a fixed period, whether or not adjusted or paid during the same period.

INDEMNIFY

Provide financial compensation for losses.

INDEPENDENT AGENT

Agent who is self-employed, is paid on commission, and represents several insurance companies.

INDIVIDUAL RETIREMENT ACCOUNT/IRA

A tax-deductible savings plan for those who are self-employed, or those whose earnings are below a certain level or whose employers do not offer retirement plans. Others may make limited contributions on a tax-deferred basis. The Roth IRA, a special kind of retirement account created in 1997, may offer greater tax benefits to certain individuals.

INFLATION GUARD CLAUSE

A provision added to a homeowners insurance policy that automatically adjusts the coverage limit on the dwelling each time the policy is renewed to reflect current construction costs.

INLAND MARINE INSURANCE

This broad type of coverage was developed for shipments that do not involve ocean transport. Covers articles in transit by all forms of land and air transportation as well as bridges, tunnels and other means of transportation and communication. Floaters that cover expensive personal items such as fine art and jewelry are included in this category.

INSOLVENCY

Insurer's inability to pay debts. Insurance insolvency standards and the regulatory actions taken

vary from state to state. When regulators deem an insurance company is in danger of becoming insolvent, they can take one of three actions: place a company in conservatorship or rehabilitation if the company can be saved or liquidation if salvage is deemed impossible. The difference between the first two options is one of degree – regulators guide companies in conservatorship but direct those in rehabilitation. Typically the first sign of problems is inability to pass the financial tests regulators administer as a routine procedure.

INSTITUTIONAL INVESTOR

An organization such as a bank or insurance company that buys and sells large quantities of securities

INSURABLE RISK

Risks for which it is relatively easy to get insurance and that meet certain criteria. These include being definable, accidental in nature, and part of a group of similar risks large enough to make losses predictable. The insurance company also must be able to come up with a reasonable price for the insurance.

INSURANCE

A system to make large financial losses more affordable by pooling the risks of many individuals and business entities and transferring them to an insurance company or other large group in return for a premium.

INSURANCE POOL

A group of insurance companies that pool assets, enabling them to provide an amount of insurance substantially more than can be provided by individual companies to ensure large risks such as nuclear power stations. Pools may be formed voluntarily or mandated by the state to cover risks that can't obtain coverage in the voluntary market such as coastal properties subject to hurricanes.

INSURANCE REGULATORY INFORMATION SYSTEM / IRIS

Uses financial ratios to measure insurers' financial strength. Developed by the National Association of Insurance Commissioners. Each individual state insurance department chooses how to use IRIS.

INSURANCE SCORE

Insurance scores are confidential rankings based on credit information. This includes whether the consumer has made timely payments on loans, the number of open credit card accounts and whether a bankruptcy filing has been made. An insurance score is a measure of how well consumers manage their financial affairs, not of their financial assets. It does not include information about income or race.

Studies have shown that people who manage their money well tend also to manage their most important asset, their home, well. And people who manage their money responsibly also tend to handle driving a car responsibly. Some insurance companies use insurance scores as an insurance underwriting and rating tool.

INSURANCE-TO-VALUE

Insurance written in an amount approximating the value of the insured property.

INTEGRATED BENEFITS

Coverage where the distinction between job-related and non-occupational illnesses or injuries is

eliminated and workers compensation and general health coverage are combined. Legal obstacles exist, however, because the two coverages are administered separately. Previously called twenty-four hour coverage.

INTERMEDIATION

The process of bringing savers, investors and borrowers together so that savers and investors can obtain a return on their money and borrowers can use the money to finance their purchases or projects through loans.

INTERNET INSURER

An insurer that sells exclusively via the Internet.

INTERNET LIABILITY INSURANCE

Coverage designed to protect businesses from liabilities that arise from the conducting of business over the Internet, including copyright infringement, defamation, and violation of privacy.

INVESTMENT INCOME

Income generated by the investment of assets. Insurers have two sources of income, underwriting (premiums less claims and expenses) and investment income. The latter can offset underwriting operations, which are frequently unprofitable.

JOINT AND SURVIVOR ANNUITY

An annuity with two annuitants, usually spouses. Payments continue until the death of the longest living of the two.

JOINT UNDERWRITING ASSOCIATION / JUA

Insurers which join together to provide coverage for a particular type of risk or size of exposure, when there are difficulties in obtaining coverage in the regular market, and which share in the profits and losses associated with the program. JUAs may be set up to provide auto and homeowners insurance and various commercial coverages, such as medical malpractice

JUNK BONDS

Corporate bonds with credit ratings of BB or less. They pay a higher yield than investment grade bonds because issuers have a higher perceived risk of default. Such bonds involve market risk that could force investors, including insurers, to sell the bonds when their value is low. Most states place limits on insurers' investments in these bonds. In general, because property/casualty insurers can be called upon to provide huge sums of money immediately after a disaster, their investments must be liquid. Less than 2 percent are in real estate and a similarly small percentage are in junk bonds.

KEY PERSON INSURANCE

Insurance on the life or health of a key individual whose services are essential to the continuing success of a business and whose death or disability could cause the firm a substantial financial loss.

KIDNAP/RANSOM INSURANCE

Coverage up to specific limits for the cost of ransom or extortion payments and related expenses. Often bought by international corporations to cover employees. Most policies have large deductibles and may exclude certain geographic areas. Some policies require that the policyholder not reveal the coverage's existence.

L-SHARE VARIABLE ANNUITIES

A form of variable annuity contract usually with short surrender periods and higher mortality and expense risk charges.

LADDERING

A technique that consists of staggering the maturity dates and the mix of different types of bonds.

LAW OF LARGE NUMBERS

The theory of probability on which the business of insurance is based. Simply put, this mathematical premise says that the larger the group of units insured, such as sport-utility vehicles, the more accurate the predictions of loss will be.

LIABILITY INSURANCE

Insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person

LIMITS

Maximum amount of insurance that can be paid for a covered loss.

LINE

Type or kind of insurance, such as personal lines.

LIQUIDATION

Enables the state insurance department as liquidator or its appointed deputy to wind up the insurance company's affairs by selling its assets and settling claims upon those assets. After receiving the liquidation order, the liquidator notifies insurance departments in other states and state guaranty funds of the liquidation proceedings. Such insurance company liquidations are not subject to the Federal Bankruptcy Code but to each state's liquidation statutes.

LIQUIDITY

The ability and speed with which a security can be converted into cash.

LIQUOR LIABILITY

Coverage for bodily injury or property damage caused by an intoxicated person who was served liquor by the policyholder.

LLOYD'S OF LONDON

A marketplace where underwriting syndicates, or mini-insurers, gather to sell insurance policies and reinsurance. Each syndicate is managed by an underwriter who decides whether or not to accept the risk. The Lloyd's market is a major player in the international reinsurance market as well as a primary market for marine insurance and large risks. Originally, Lloyd's was a London coffee house in the 1600s patronized by shipowners who insured each other's hulls and cargoes. As Lloyd's developed, wealthy individuals, called "Names," placed their personal assets behind insurance risks as a business venture. Increasingly since the 1990s, most of the capital comes from corporations.

LLOYDS

Corporation formed to market services of a group of underwriters. Does not issue insurance policies or provide insurance protection. Insurance is written by individual underwriters, with each assuming a part of every risk. Has no connection to Lloyd's of London, and is found

primarily in Texas.

LONG-TERM CARE INSURANCE

Long-term care (LTC) insurance pays for services to help individuals who are unable to perform certain activities of daily living without assistance, or require supervision due to a cognitive impairment such as Alzheimer's disease. LTC is available as individual insurance or through an employer-sponsored or association plan.

LOSS

A reduction in the quality or value of a property, or a legal liability.

LOSS ADJUSTMENT EXPENSES

The sum insurers pay for investigating and settling insurance claims, including the cost of defending a lawsuit in court.

LOSS COSTS

The portion of an insurance rate used to cover claims and the costs of adjusting claims. Insurance companies typically determine their rates by estimating their future loss costs and adding a provision for expenses, profit, and contingencies.

LOSS OF USE

A provision in homeowners and renters insurance policies that reimburses policyholders for any extra living expenses due to having to live elsewhere while their home is being restored following a disaster.

LOSS RATIO

Percentage of each premium dollar an insurer spends on claims.

LOSS RESERVES

The company's best estimate of what it will pay for claims, which is periodically readjusted. They represent a liability on the insurer's balance sheet.

MALPRACTICE INSURANCE

Professional liability coverage for physicians, lawyers, and other specialists against suits alleging negligence or errors and omissions that have harmed clients.

MANAGED CARE

Arrangement between an employer or insurer and selected providers to provide comprehensive health care at a discount to members of the insured group and coordinate the financing and delivery of health care. Managed care uses medical protocols and procedures agreed on by the medical profession to be cost effective, also known as medical practice guidelines.

MANUAL

A book published by an insurance or bonding company or a rating association or bureau that gives rates, classifications, and underwriting rules.

MARINE INSURANCE

Coverage for goods in transit, and for the commercial vehicles that transport them, on water and over land. The term may apply to inland marine but more generally applies to ocean marine insurance. Covers damage or destruction of a ship's hull and cargo and perils include collision, sinking, capsizing, being stranded, fire, piracy, and jettisoning cargo to save other property. Wear

and tear, dampness, mold, and war are not included. (See Inland marine and Ocean marine)

MCCARRAN-FERGUSON ACT

Federal law signed in 1945 in which Congress declared that states would continue to regulate the insurance business. Grants insurers a limited exemption from federal antitrust legislation.

MEDIATION

Nonbinding procedure in which a third party attempts to resolve a conflict between two other parties.

MEDICAID

A federal/state public assistance program created in 1965 and administered by the states for people whose income and resources are insufficient to pay for health care.

MEDICAL PAYMENTS INSURANCE

A coverage in which the insurer agrees to reimburse the insured and others up to a certain limit for medical or funeral expenses as a result of bodily injury or death by accident. Payments are without regard to fault.

MEDICAL UTILIZATION REVIEW

The practice used by insurance companies to review claims for medical treatment.

MEDICARE

Federal program for people 65 or older that pays part of the costs associated with hospitalization, surgery, doctors' bills, home health care, and skilled-nursing care.

MEDIGAP/MEDSUP

Policies that supplement federal insurance benefits particularly for those covered under Medicare.

MINE SUBSIDENCE COVERAGE

An endorsement to a homeowners insurance policy, available in some states, for losses to a home caused by the land under a house sinking into a mine shaft. Excluded from standard homeowners policies, as are other forms of earth movement.

MONEY SUPPLY

Total supply of money in the economy, composed of currency in circulation and deposits in savings and checking accounts. By changing the interest rates the Federal Reserve seeks to adjust the money supply to maintain a strong economy.

MORTALITY AND EXPENSE (M&E) RISK CHARGE

A fee that covers such annuity contract guarantees as death benefits.

MORTGAGE GUARANTEE INSURANCE

Coverage for the mortgagee (usually a financial institution) in the event that a mortgage holder defaults on a loan. Also called private mortgage insurance (PMI).

MORTGAGE INSURANCE

A form of decreasing term insurance that covers the life of a person taking out a mortgage. Death benefits provide for payment of the outstanding balance of the loan. Coverage is in decreasing term insurance, so the amount of coverage decreases as the debt decreases. A variant, mortgage unemployment insurance pays the mortgage of a policyholder who becomes involuntarily

unemployed.

MORTGAGE-BACKED SECURITIES

Investment grade securities backed by a pool of mortgages. The issuer uses the cash flow from mortgages to meet interest payments on the bonds.

MULTIPLE PERIL POLICY

A package policy, such as a homeowners or business insurance policy, that provides coverage against several different perils. It also refers to the combination of property and liability coverage in one policy. In the early days of insurance, coverages for property damage and liability were purchased separately.

MUNICIPAL BOND INSURANCE

Coverage that guarantees bondholders timely payment of interest and principal even if the issuer of the bonds defaults. Offered by insurance companies with high credit ratings, the coverage raises the credit rating of a municipality offering the bond to that of the insurance company. It allows a municipality to raise money at lower interest rates. A form of financial guarantee insurance

MUNICIPAL LIABILITY INSURANCE

Liability insurance for municipalities.

MUTUAL HOLDING COMPANY

An organizational structure that provides mutual companies with the organizational and capital raising advantages of stock insurers, while retaining the policyholder ownership of the mutual.

MUTUAL INSURANCE COMPANY

A company owned by its policyholders that returns part of its profits to the policyholders as dividends. The insurer uses the rest as a surplus cushion in case of large and unexpected losses.

NAMED PERIL

Peril specifically mentioned as covered in an insurance policy.

NATIONAL FLOOD INSURANCE PROGRAM

Federal government-sponsored program under which flood insurance is sold to homeowners and businesses.

NO-FAULT

Auto insurance coverage that pays for each driver's own injuries, regardless of who caused the accident. No-fault varies from state to state. It also refers to an auto liability insurance system that restricts lawsuits to serious cases. Such policies are designed to promote faster reimbursement and to reduce litigation

NO-FAULT MEDICAL

A type of accident coverage in homeowners policies.

NO-PAY, NO-PLAY

The idea that people who don't buy coverage should not receive benefits. Prohibits uninsured drivers from collecting damages from insured drivers. In most states with this law, uninsured drivers may not sue for noneconomic damages such as pain and suffering. In other states, uninsured drivers are required to pay the equivalent of a large deductible (\$10,000) before they

can sue for property damages and another large deductible before they can sue for bodily harm.

NON-ADMITTED ASSETS

Assets that are not included on the balance sheet of an insurance company, including furniture, fixtures, past-due accounts receivable, and agents' debt balances

NON-ADMITTED INSURER

Insurers licensed in some states, but not others. States where an insurer is not licensed call that insurer non-admitted. They sell coverage that is unavailable from licensed insurers within the state.

NOTICE OF LOSS

A written notice required by insurance companies immediately after an accident or other loss. Part of the standard provisions defining a policyholder's responsibilities after a loss.

NUCLEAR INSURANCE

Covers operators of nuclear reactors and other facilities for liability and property damage in the case of a nuclear accident and involves both private insurers and the federal government.

NURSING HOME INSURANCE

A form of long-term care policy that covers a policyholder's stay in a nursing facility.

OCCUPATIONAL DISEASE

Abnormal condition or illness caused by factors associated with the workplace. Like occupational injuries, this is covered by workers compensation policies.

OCCURRENCE POLICY

Insurance that pays claims arising out of incidents that occur during the policy term, even if they are filed many years later.

OCEAN MARINE INSURANCE

Coverage of all types of vessels and watercraft, for property damage to the vessel and cargo, including such risks as piracy and the jettisoning of cargo to save the property of others. Coverage for marine-related liabilities. War is excluded from basic policies, but can be bought back.

OPEN COMPETITION STATES

States where insurance companies can set new rates without prior approval, although the state's commissioner can disallow them if they are not reasonable and adequate or are discriminatory.

OPERATING EXPENSES

The cost of maintaining a business's property, includes insurance, property taxes, utilities and rent, but excludes income tax, depreciation and other financing expenses.

OPTIONS

Contracts that allow, but do not oblige, the buying or selling of property or assets at a certain date at a set price.

ORDINANCE OR LAW COVERAGE

Endorsement to a property policy, including homeowners, that pays for the extra expense of rebuilding to comply with ordinances or laws, often building codes, that did not exist when the

building was originally built. For example, a building severely damaged in a hurricane may have to be elevated above the flood line when it is rebuilt. This endorsement would cover part of the additional cost.

ORDINARY LIFE INSURANCE

A life insurance policy that remains in force for the policyholder's lifetime.

ORIGINAL EQUIPMENT MANUFACTURER PARTS / OEM

Sheet metal auto parts made by the manufacturer of the vehicle.

OVER-THE-COUNTER (OTC)

Security that is not listed or traded on an exchange such as the New York Stock Exchange. Business in over-the-counter securities is conducted through dealers using electronic networks.

PACKAGE POLICY

A single insurance policy that combines several coverages previously sold separately. Examples include homeowners insurance and commercial multiple peril insurance.

PAY-AT-THE-PUMP

A system proposed in the 1990s in which auto insurance premiums would be paid to state governments through a per-gallon surcharge on gasoline.

PENSION BENEFIT GUARANTY CORPORATION

An independent federal government agency that administers the Pension Plan Termination Insurance program to ensure that vested benefits of employees whose pension plans are being terminated are paid when they come due. Only defined benefit plans are covered. Benefits are paid up to certain limits

PENSIONS

Programs to provide employees with retirement income after they meet minimum age and service requirements. Life insurers hold some of these funds. Since the 1970s responsibility for funding retirement has increasingly shifted from employers (defined benefit plans that promise workers a specific retirement income) to employees (defined contribution plans financed by employees that may or may not be matched by employer contributions).

PERIL

A specific risk or cause of loss covered by an insurance policy, such as a fire, windstorm, flood, or theft. A named-peril policy covers the policyholder only for the risks named in the policy in contrast to an all-risk policy, which covers all causes of loss except those specifically excluded.

PERSONAL ARTICLES FLOATER

A policy or an addition to a policy used to cover personal valuables, like jewelry or furs.

PERSONAL INJURY PROTECTION COVERAGE / PIP

Portion of an auto insurance policy that covers the treatment of injuries to the driver and passengers of the policyholder's car.

PERSONAL LINES

Property/casualty insurance products that are designed for and bought by individuals, including homeowners and automobile policies.

POINT-OF-SERVICE PLAN

Health insurance policy that allows the employee to choose between in-network and out-of-network care each time medical treatment is needed.

POLICY

A written contract for insurance between an insurance company and policyholder stating details of coverage.

POLICYHOLDERS' SURPLUS

The amount of money remaining after an insurer's liabilities are subtracted from its assets. It acts as a financial cushion above and beyond reserves, protecting policyholders against an unexpected or catastrophic situation.

POLITICAL RISK INSURANCE

Coverage for businesses operating abroad against loss due to political upheaval such as war, revolution, or confiscation of property.

POLLUTION INSURANCE

Policies that cover property loss and liability arising from pollution-related damages, for sites that have been inspected and found uncontaminated. It is usually written on a claims-made basis so policies pay only claims presented during the term of the policy or within a specified time frame after the policy expires.

PREFERRED PROVIDER ORGANIZATION

Network of medical providers which charge on a fee-for-service basis, but are paid on a negotiated, discounted fee schedule.

PREMISES

The particular location of the property or a portion of it as designated in an insurance policy.

PREMIUM

The price of an insurance policy, typically charged annually or semiannually

PREMIUM TAX

A state tax on premiums paid by its residents and businesses and collected by insurers.

PREMIUMS IN FORCE

The sum of the face amounts, plus dividend additions, of life insurance policies outstanding at a given time.

PREMIUMS WRITTEN

The total premiums on all policies written by an insurer during a specified period of time, regardless of what portions have been earned. Net premiums written are premiums written after reinsurance transactions.

PRIMARY COMPANY

In a reinsurance transaction, the insurance company that is reinsured.

PRIMARY MARKET

Market for new issue securities where the proceeds go directly to the issuer.

PRIME RATE

Interest rate that banks charge to their most creditworthy customers. Banks set this rate according to their cost of funds and market forces.

PRIOR APPROVAL STATES

States where insurance companies must file proposed rate changes with state regulators, and gain approval before they can go into effect.

PRIVATE PLACEMENT

Securities that are not registered with the Securities and Exchange Commission and are sold directly to investors

PRODUCT LIABILITY

A section of tort law that determines who may sue and who may be sued for damages when a defective product injures someone. No uniform federal laws guide manufacturer's liability, but under strict liability, the injured party can hold the manufacturer responsible for damages without the need to prove negligence or fault.

PRODUCT LIABILITY INSURANCE

Protects manufacturers' and distributors' exposure to lawsuits by people who have sustained bodily injury or property damage through the use of the product.

PROFESSIONAL LIABILITY INSURANCE

Covers professionals for negligence and errors or omissions that injure their clients.

PROOF OF LOSS

Documents showing the insurance company that a loss occurred.

PROPERTY/CASUALTY INSURANCE

Covers damage to or loss of policyholders' property and legal liability for damages caused to other people or their property. Property/casualty insurance, which includes auto, homeowners and commercial insurance, is one segment of the insurance industry. The other sector is life/health. Outside the United States, property/casualty insurance is referred to as nonlife or general insurance.

PROPERTY/CASUALTY INSURANCE CYCLE

Industry business cycle with recurrent periods of hard and soft market conditions. In the 1950s and 1960s, cycles were regular with three year periods each of hard and soft market conditions in almost all lines of property/casualty insurance. Since then they have been less regular and less frequent.

PROPOSITION 103

A November 1988 California ballot initiative that called for a statewide auto insurance rate rollback and for rates to be based more on driving records and less on geographical location. The initiative changed many aspects of the state's insurance system and was the subject of lawsuits for more than a decade.

PURCHASING GROUP

An entity that offers insurance to groups of similar businesses with similar exposures to risk.

PURE LIFE ANNUITY

A form of annuity that ends payments when the annuitant dies. Payments may be fixed or variable.

QUALIFIED ANNUITY

A form of annuity purchased with pretax dollars as part of a retirement plan that benefits from special tax treatment, such as a 401(k) plan.

RATE

The cost of a unit of insurance, usually per \$1,000. Rates are based on historical loss experience for similar risks and may be regulated by state insurance offices.

RATE REGULATION

The process by which states monitor insurance companies' rate changes, done either through prior approval or open competition models.

RATING AGENCIES

Six major credit agencies determine insurers' financial strength and viability to meet claims obligations. They are A.M. Best Co.; Duff & Phelps Inc.; Fitch, Inc.; Moody's Investors Services; Standard & Poor's Corp.; and Weiss Ratings, Inc. Factors considered include company earnings, capital adequacy, operating leverage, liquidity, investment performance, reinsurance programs, and management ability, integrity and experience. A high financial rating is not the same as a high consumer satisfaction rating

RATING BUREAU

The insurance business is based on the spread of risk. The more widely risk is spread, the more accurately loss can be estimated. An insurance company can more accurately estimate the probability of loss on 100,000 homes than on ten. Years ago, insurers were required to use standardized forms and rates developed by rating agencies. Today, large insurers use their own statistical loss data to develop rates. But small insurers, or insurers focusing on special lines of business, with insufficiently broad loss data to make them actuarially reliable depend on pooled industry data collected by such organizations as the Insurance Services Office (ISO) which provides information to help develop rates such as estimates of future losses and loss adjustment expenses like legal defense costs.

REAL ESTATE INVESTMENTS

Investments generally owned by life insurers that include commercial mortgage loans and real property

RECEIVABLES

Amounts owed to a business for goods or services provided.

REDLINING

Literally means to draw a red line on a map around areas to receive special treatment. Refusal to issue insurance based solely on where applicants live is illegal in all states. Denial of insurance must be risk-based.

REINSURANCE

Insurance bought by insurers. A reinsurer assumes part of the risk and part of the premium originally taken by the insurer, known as the primary company. Reinsurance effectively increases an insurer's capital and therefore its capacity to sell more coverage. The business is global and some of the largest reinsurers are based abroad. Reinsurers have their own reinsurers, called

retrocessionaires. Reinsurers don't pay policyholder claims. Instead, they reimburse insurers for claims paid.

RENTERS INSURANCE

A form of insurance that covers a policyholder's belongings against perils such as fire, theft, windstorm, hail, explosion, vandalism, riots, and others. It also provides personal liability coverage for damage the policyholder or dependents cause to third parties. It also provides additional living expenses, known as loss-of-use coverage, if a policyholder must move while his or her dwelling is repaired. It also can include coverage for property improvements. Possessions can be covered for their replacement cost or the actual cash value that includes depreciation.

REPLACEMENT COST

Insurance that pays the dollar amount needed to replace damaged personal property or dwelling property without deducting for depreciation but limited by the maximum dollar amount shown on the declarations page of the policy.

REPURCHASE AGREEMENT /'REPO'

Agreement between a buyer and seller where the seller agrees to repurchase the securities at an agreed upon time and price. Repurchase agreements involving U.S. government securities are utilized by the Federal Reserve to control the money supply.

RESERVES

A company's best estimate of what it will pay for claims.

RESIDUAL MARKET

Facilities, such as assigned risk plans and FAIR Plans, that exist to provide coverage for those who cannot get it in the regular market. Insurers doing business in a given state generally must participate in these pools. For this reason the residual market is also known as the shared market.

RETENTION

The amount of risk retained by an insurance company that is not reinsured.

RETROCESSION

The reinsurance bought by reinsurers to protect their financial stability.

RETROSPECTIVE RATING

A method of permitting the final premium for a risk to be adjusted, subject to an agreed-upon maximum and minimum limit based on actual loss experience. It is available to large commercial insurance buyers.

RETURN ON EQUITY

Net income divided by total equity. Measures profitability by showing how efficiently invested capital is being used.

RIDER

An attachment to an insurance policy that alters the policy's coverage or terms.

RISK

The chance of loss or the person or entity that is insured.

RISK MANAGEMENT

Management of the varied risks to which a business firm or association might be subject. It includes analyzing all exposures to gauge the likelihood of loss and choosing options to better manage or minimize loss. These options typically include reducing and eliminating the risk with safety measures, buying insurance, and self-insurance.

RISK RETENTION GROUPS

Insurance companies that band together as self-insurers and form an organization that is chartered and licensed as an insurer in at least one state to handle liability insurance.

RISK-BASED CAPITAL

The need for insurance companies to be capitalized according to the inherent riskiness of the type of insurance they sell. Higher-risk types of insurance, liability as opposed to property business, generally necessitate higher levels of capital.

SALVAGE

Damaged property an insurer takes over to reduce its loss after paying a claim. Insurers receive salvage rights over property on which they have paid claims, such as badly-damaged cars. Insurers that paid claims on cargoes lost at sea now have the right to recover sunken treasures. Salvage charges are the costs associated with recovering that property.

SCHEDULE

A list of individual items or groups of items that are covered under one policy or a listing of specific benefits, charges, credits, assets or other defined items.

SECONDARY MARKET

Market for previously issued and outstanding securities.

SECURITIES AND EXCHANGE COMMISSION / SEC

The organization that oversees publicly-held insurance companies. Those companies make periodic financial disclosures to the SEC, including an annual financial statement (or 10K), and a quarterly financial statement (or 10-Q). Companies must also disclose any material events and other information about their stock.

SECURITIES OUTSTANDING

Stock held by shareholders.

SECURITIZATION OF INSURANCE RISK

Using the capital markets to expand and diversify the assumption of insurance risk. The issuance of bonds or notes to third-party investors directly or indirectly by an insurance or reinsurance company or a pooling entity as a means of raising money to cover risks.

SELF-INSURANCE

The concept of assuming a financial risk oneself, instead of paying an insurance company to take it on. Every policyholder is a self-insurer in terms of paying a deductible and co-payments. Large firms often self-insure frequent, small losses such as damage to their fleet of vehicles or minor workplace injuries. However, to protect injured employees state laws set out requirements for the assumption of workers compensation programs. Self-insurance also refers to employers who assume all or part of the responsibility for paying the health insurance claims of their employees. Firms that self insure for health claims are exempt from state insurance laws mandating the illnesses that group health insurers must cover.

SEVERITY

Size of a loss. One of the criteria used in calculating premiums rates.

SEWER BACK-UP COVERAGE

An optional part of homeowners insurance that covers sewers.

SINGLE PREMIUM ANNUITY

An annuity that is paid in full upon purchase.

SOFT MARKET

An environment where insurance is plentiful and sold at a lower cost, also known as a buyers' market.

SOLVENCY

Insurance companies' ability to pay the claims of policyholders. Regulations to promote solvency include minimum capital and surplus requirements, statutory accounting conventions, limits to insurance company investment and corporate activities, financial ratio tests, and financial data disclosure.

SPREAD OF RISK

The selling of insurance in multiple areas to multiple policyholders to minimize the danger that all policyholders will have losses at the same time. Companies are more likely to insure perils that offer a good spread of risk. Flood insurance is an example of a poor spread of risk because the people most likely to buy it are the people close to rivers and other bodies of water that flood.

STACKING

Practice that increases the money available to pay auto liability claims. In states where this practice is permitted by law, courts may allow policyholders who have several cars insured under a single policy, or multiple vehicles insured under different policies, to add up the limit of liability available for each vehicle.

STATUTORY ACCOUNTING PRINCIPLES / SAP

More conservative standards than under GAAP accounting rules, they are imposed by state laws that emphasize the present solvency of insurance companies. SAP helps ensure that the company will have sufficient funds readily available to meet all anticipated insurance obligations by recognizing liabilities earlier or at a higher value than GAAP and assets later or at a lower value. For example, SAP requires that selling expenses be recorded immediately rather than amortized over the life of the policy.

STOCK INSURANCE COMPANY

An insurance company owned by its stockholders who share in profits through earnings distributions and increases in stock value.

STRUCTURED SETTLEMENT

Legal agreement to pay a designated person, usually someone who has been injured, a specified sum of money in periodic payments, usually for his or her lifetime, instead of in a single lump sum payment

SUBROGATION

The legal process by which an insurance company, after paying a loss, seeks to recover the amount of the loss from another party who is legally liable for it.

SUPERFUND

A federal law enacted in 1980 to initiate cleanup of the nation's abandoned hazardous waste dump sites and to respond to accidents that release hazardous substances into the environment. The law is officially called the Comprehensive Environmental Response, Compensation, and Liability Act.

SURETY BOND

A contract guaranteeing the performance of a specific obligation. Simply put, it is a three-party agreement under which one party, the surety company, answers to a second party, the owner, creditor or "obligee," for a third party's debts, default or nonperformance. Contractors are often required to purchase surety bonds if they are working on public projects. The surety company becomes responsible for carrying out the work or paying for the loss up to the bond "penalty" if the contractor fails to perform.

SURPLUS

The remainder after an insurer's liabilities are subtracted from its assets. The financial cushion that protects policyholders in case of unexpectedly high claims

SURPLUS LINES

Property/casualty insurance coverage that isn't available from insurers licensed in the state, called admitted companies, and must be purchased from a non-admitted carrier. Examples include risks of an unusual nature that require greater flexibility in policy terms and conditions than exist in standard forms or where the highest rates allowed by state regulators are considered inadequate by admitted companies. Laws governing surplus lines vary by state.

SURRENDER CHARGE

A charge for withdrawals from an annuity contract before a designated surrender charge period, usually from five to seven years.

SWAPS

The simultaneous buying, selling or exchange of one security for another among investors to change maturities in a bond portfolio, for example, or because investment goals have changed.

TERM CERTAIN ANNUITY

An form of annuity that pays out over a fixed period rather than when the annuitant dies.

TERM INSURANCE

A form of life insurance that covers the insured person for a certain period of time, the "term" that is specified in the policy. It pays a benefit to a designated beneficiary only when the insured dies within that specified period which can be one, five, 10 or even 20 years. Term life policies are renewable but premiums increase with age.

TERRITORIAL RATING

A method of classifying risks by geographic location to set a fair price for coverage. The location of the insured may have a considerable impact on the cost of losses. The chance of an accident or theft is much higher in an urban area than in a rural one, for example.

TERRORISM COVERAGE

Included as a part of the package in standard commercial insurance policies before September 11, 2001 virtually free of charge. Since September 11, terrorism coverage prices have increased

substantially to reflect the current risk.

THIRD-PARTY ADMINISTRATOR

Outside group that performs clerical functions for an insurance company.

THIRD-PARTY COVERAGE

Liability coverage purchased by the policyholder as a protection against possible lawsuits filed by a third party. The insured and the insurer are the first and second parties to the insurance contract.

TIME DEPOSIT

Funds that are held in a savings account for a predetermined period of time at a set interest rate. Banks can refuse to allow withdrawals from these accounts until the period has expired or assess a penalty for early withdrawals.

TITLE INSURANCE

Insurance that indemnifies the owner of real estate in the event that his or her clear ownership of property is challenged by the discovery of faults in the title.

TORT

A legal term denoting a wrongful act resulting in injury or damage on which a civil court action, or legal proceeding, may be based.

TORT LAW

The body of law governing negligence, intentional interference, and other wrongful acts for which civil action can be brought, except for breach of contract, which is covered by contract law.

TORT REFORM

Refers to legislation designed to reduce liability costs through limits on various kinds of damages and through modification of liability rules.

TOTAL LOSS

The condition of an automobile or other property when damage is so extensive that repair costs would exceed the value of the vehicle or property.

TRANSPARENCY

A term used to explain the way information on financial matters, such as financial reports and actions of companies or markets, are communicated so that they are easily understood and frank.

TRAVEL INSURANCE

Insurance to cover problems associated with traveling, generally including trip cancellation due to illness, lost luggage and other incidents.

TREASURY SECURITIES

Interest-bearing obligations of the U.S. government issued by the Treasury as a means of borrowing money to meet government expenditures not covered by tax revenues. Marketable Treasury securities fall into three categories — bills, notes and bonds. Marketable Treasury obligations are currently issued in book entry form only; that is, the purchaser receives a statement, rather than an engraved certificate.

TREATY REINSURANCE

A standing agreement between insurers and reinsurers. Under a treaty each party automatically accepts specific percentages of the insurer's business.

UMBRELLA POLICY

Coverage for losses above the limit of an underlying policy or policies such as homeowners and auto insurance. While it applies to losses over the dollar amount in the underlying policies, terms of coverage are sometimes broader than those of underlying policies.

UNBUNDLED CONTRACTS

A form of annuity contract that gives purchasers the freedom to choose among certain optional features in their contract.

UNDERINSURANCE

The result of the policyholder's failure to buy sufficient insurance. An underinsured policyholder may only receive part of the cost of replacing or repairing damaged items covered in the policy.

UNDERWRITING

Examining, accepting, or rejecting insurance risks and classifying the ones that are accepted, in order to charge appropriate premiums for them.

UNDERWRITING INCOME

The insurer's profit on the insurance sale after all expenses and losses have been paid. When premiums aren't sufficient to cover claims and expenses, the result is an underwriting loss. Underwriting losses are typically offset by investment income.

UNEARNED PREMIUM

The portion of a premium already received by the insurer under which protection has not yet been provided. The entire premium is not earned until the policy period expires, even though premiums are typically paid in advance.

UNINSURABLE RISK

Risks for which it is difficult for someone to get insurance.

UNINSURED MOTORISTS COVERAGE

Portion of an auto insurance policy that protects a policyholder from uninsured and hit-and-run drivers.

UNIVERSAL LIFE INSURANCE

A flexible premium policy that combines protection against premature death with a type of savings vehicle, known as a cash value account, that typically earns a money market rate of interest. Death benefits can be changed during the life of the policy within limits, generally subject to a medical examination. Once funds accumulate in the cash value account, the premium can be paid at any time but the policy will lapse if there isn't enough money to cover annual mortality charges and administrative costs.

VALUED POLICY

A policy under which the insurer pays a specified amount of money to or on behalf of the insured upon the occurrence of a defined loss. The money amount is not related to the extent of the loss. Life insurance policies are an example.

VANDALISM

The malicious and often random destruction or spoilage of another person's property.

VARIABLE ANNUITY

An annuity whose contract value or income payments vary according to the performance of the stocks, bonds and other investments selected by the contract owner.

VARIABLE LIFE INSURANCE

A policy that combines protection against premature death with a savings account that can be invested in stocks, bonds, and money market mutual funds at the policyholder's discretion.

VIATICAL SETTLEMENT COMPANIES

Insurance firms that buy life insurance policies at a steep discount from policyholders who are often terminally ill and need the payment for medications or treatments. The companies provide early payouts to the policyholder, assume the premium payments, and collect the face value of the policy upon the policyholder's death.

VOID

A policy contract that for some reason specified in the policy becomes free of all legal effect. One example under which a policy could be voided is when information a policyholder provided is proven untrue.

VOLATILITY

A measure of the degree of fluctuation in a stock's price. Volatility is exemplified by large, frequent price swings up and down.

VOLCANO COVERAGE

Most homeowners policies cover damage from a volcanic eruption.

VOLUME

Number of shares a stock trades either per day or per week.

401(K) PLAN

An employer-sponsored retirement savings plan funded by employee contributions, which may or may not be matched by the employer. Federal laws allow employees to invest pre-tax dollars, up to a stated maximum each year.

529 SAVINGS PLANS

State-administered plans designed to encourage households to save for college education. Named after a part of the Internal Revenue tax code, these saving plans allow earnings to accumulate free of federal income tax and sometimes to be withdrawn to pay for college costs tax-free. There are two types of plans: savings and prepaid tuition. Plan assets are managed either by the state's treasurer or an outside investment company. Most offer a range of investment options.