

Insurance Terms & Definitions

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Below are some standard terms and definitions used when describing Business and Personal Insurance coverages. When reading the definitions, please keep in mind that this glossary is provided as **a guide only** curated from various sources. These general definitions are provided for educational purposes. **Please refer to your policy or certificate of insurance for exact definitions of terms and coverage provisions.** The defined terms and coverage provisions in your policy or certificate of insurance, such as "Reasonable and Customary", may be different from the general information provided below, and the policy or certificate language will prevail. Please further note that definitions and plan options may vary by state and plan.

Scroll to the very bottom for terms and definitions specifically related to [Health & Life Insurance](#).

-A-

- **A&B:** Agents and Brokers.
- **A&E:** Asbestos & Environmental.
- **Absolute Liability:** Liability for damages even though fault or negligence cannot be proven.
- **Accident:** An event or occurrence which is unforeseen and unintended.
- **ACLF:** Adult Congregant Living Facility
- **Act of God:** A flood, earthquake or other non preventable accident resulting from natural causes that occur without any human intervention.
- **Activities of Daily Living:** A list of activities, normally including mobility, dressing, bathing, toileting, transferring, and eating which are used to assess degree of impairment and determine eligibility for some types of insurance benefits.
- **Actual Cash Value (ACV):** 1) The cost of replacing or restoring property at prices prevailing at the time and place of the loss, less depreciation, however caused; 2) replacement cost minus depreciation.
- **Additional Insured (AI):** A person, company or entity protected by an insurance policy in addition to the insured. A person or organization not automatically included as an insured under an insurance policy, but for whom insured status is arranged, usually by endorsement. A named insured's impetus for providing additional insured status to others may be a desire to protect the other party because of a close relationship with that party (e.g., employees or members of an insured club) or to comply with a contractual agreement requiring the named insured to do so (e.g., customers or owners of property leased by the named insured)
- **Additional Insured (AI) Blanket:** This includes unlimited additional insured endorsements.
- **Additional Insured (AI) Endorsement:** This usually includes one or two additional insured endorsements.
- **Additional Insured On A Primary And Non-Contributory Basis Clause:** It's most easily understood with an example; Joe Construction subs out some work to Jack's Plumbing, with Joe Construction requesting this wording. It means, if Joe Construction is sued, Jack's Plumbing's policy covers... They pay first (primary), and Joe Construction's policy doesn't have to kick in (non-contributory).

To break it down even more, in the example of a contractor (or owner) and sub-contractor, if the contractor (or owner) requires the sub-contractor to have this wording in their policy, the contractor (or



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owner) will be less liable for damage done to the project. Primary wording means that if a contractor (or owner) of a project is partially responsible for damage or injury that occurs on a project, the sub-contractor's policy will pay out FIRST. The Non-Contributory wording states that in the same situation, the sub-contractor's insurance will be the only insurance paying out.

- **Adjuster:** A person who investigates and settles losses for an insurance carrier.
- **Adjusting:** The process of investigating and settling losses with or by an insurance carrier.
- **Adjusting Injury:** What is an Advertising Injury?... An advertising injury is an injury to a third-party brought about by the business' advertising its goods and services. This can occur by copyright or trademark infringement. It can also occur as a claim of libel, slander, or invasion of privacy. Typically, a competitor of your business complains that an act, advertisement, practice, or comment you or your staff has made has damaged their business. For example, in comparing products, your advertisement uses a photo of your competitor's product and makes a false claim about the competitor's product. The competitor sues your business for a variety of claims: defamation, trademark infringement, etc. Your commercial policy would provide a defense and indemnity for this kind of claim.

What Claims are Covered?

Your business is provided advertising injury coverage through your commercial general liability policy for claims such as:

- Libel
- Slander
- Invasion of Privacy
- Copyright Infringement
- Trademark or Trade Dress Claims
- Certain State Law Claims
- Certain Misappropriation Claims
- Unfair Competition Claims (older policies)

The typical commercial general liability defines advertising as; "A notice that is broadcast or published to the general public or specific market segment about your goods, products or services for the purpose of attracting customers or supporters."

The coverage provides your business a defense and indemnification for damages as long as the claim relates to a business advertising reason and is not an intentional non-advertising claim. However, the definition of "advertising" has been interpreted differently from state to state. Some courts require the activity to be wide ranging communication to a broad audience while other courts define the simple act of business promotion to be advertising without regard to the size of the audience.

There are exclusions from coverage in most standard CGL policies. Most of the exclusions look to whether the act causing the claim was an intentional act or knowing violation of the law. Typical exclusions from coverage include:

- **Knowingly Publishing False Information** - Coverage is meant to cover those instances where advertising or promotion unintentionally includes false or misleading information.
- **Knowingly Violating the Rights of Another** - As an example: If your business knows it has no permission to use a child's image in its advertising, and does so anyways, coverage will be excluded.
- **Criminal Acts** - Criminal copyright and trademark infringement, or other criminal acts are not covered.



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- Breach of Contract and Contractual Liability - Your business cannot assume advertising liability by contract. For example, if your business rents a hall as part of a trade organization, and your business signs a hold harmless agreement with the organization and hall, if a visitor sues the trade organization or hall and your business becomes liable as a result of the hold harmless agreement - there is no coverage.
- Price, Quality, and Performance Claims - Generally damages incurred because of erroneous price, quality, or performance claims are not covered. If owing to a printer error you advertise a \$10,000 used car for \$1,000, and actually sell the car at the advertised price of \$1,000, the insurer will not reimburse the other \$9,000.

There are other exclusions that are less likely and you will want to review the exclusions with your insurance professional.

What About Websites, Bulletin Boards, and Forums?

First, understand that certain businesses are excluded from most advertising injury coverage:

- Internet Service Providers
- Web Site Designers and Publishers
- Advertising Companies

These companies will need to purchase a separate endorsement to be covered completely. However, creating your own company web site does not turn your business into an advertising company. Generally, if your business designs and builds a website coverage extends to the promotional advertising material on the site.

However, this coverage is being limited each year as insurers begin to recognize the risk of advertising claims related to internet activities. Today, most Standard CGL policies exclude coverage for electronic forums or bulletin boards hosted by the insured. CGL policies also now exclude from coverage claims related to "spam" or mass electronic advertising. Again, this is an area where you will want to speak with your insurance professional.

• **Admitted (Standard Lines):** Standard line insurance companies are insurers that have received a license or authorization from a state for the purpose of writing specific kinds of insurance in that state, such as automobile insurance or homeowners' insurance. They are typically referred to as "admitted" insurers. Generally, such an insurance company must submit its rates and policy forms to the state's insurance regulator to receive his or her prior approval; although whether an insurance company must receive prior approval depends upon the kind of insurance being written. Standard line insurance companies usually charge lower premiums than excess line insurers and may sell directly to individual insureds. They are regulated by state laws, which include restrictions on rates and forms, and which aim to protect consumers and the public from unfair or abusive practices. These insurers also are required to contribute to state guarantee funds, which are used to pay for losses if an insurer becomes insolvent.

• **Non-Admitted (E&S or Excess & Surplus Lines):** Excess line insurance companies (also known as Excess and Surplus) typically insure risks not covered by the standard lines insurance market, due to a variety of reasons (e.g., new entity or an entity that does not have an adequate loss history, an entity with unique risk characteristics, or an entity that has a loss history that does not fit the underwriting requirements of the standard lines insurance market). They are typically referred to as non-admitted or unlicensed insurers. Non-admitted insurers are generally not licensed or authorized in the states in which they write business, although they must be licensed or authorized in the state in which they are domiciled. These companies have more flexibility and can react faster than standard line insurance companies because they are not required to file rates and forms. However, they still have substantial regulatory requirements placed upon them.



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Most states require that Excess line insurers submit financial information, articles of incorporation, a list of officers, and other general information. They also may not write insurance that is typically available in the admitted market, do not participate in state guarantee funds (and therefore policyholders do not have any recourse through these funds if an insurer becomes insolvent and cannot pay claims), may pay higher taxes, only may write coverage for a risk if it has been rejected by three different admitted insurers, and only when the insurance producer placing the business has a surplus lines license. Generally, when an excess line insurer writes a policy, it must, pursuant to state laws, provide disclosure to the policyholder that the policyholder's policy is being written by an excess line insurer.

- **Agreed or Guaranteed Value:** Agreed upon value for property. Then in the event of a total covered loss, the policy pays that amount – minus any deductible – guaranteed.
- **ALS (Actual Loss Sustained):** Some policies are written on an Actual Loss Sustained (ALS) basis for Loss of Business Income. If there is no limit shown in the declarations for ALS, this does not mean an unlimited source of payment for your loss. The loss must still be proven and the proof is the amount that will be paid, and usually, it will note that the limit is to match some other limit or reference to your policy coverage.
- **A.M. Best:** Issues financial-strength ratings measuring insurance companies' ability to pay claims. It also rates financial instruments issued by insurance companies, such as bonds, notes, and securitization products.

Best's **Financial Strength Ratings (FSR)** represent the company's assessment of an insurer's ability to meet its obligations to policyholders. The rating process involves quantitative and qualitative reviews of a company's balance sheet, operating performance and business profile, including comparisons to peers and industry standards and assessments of an insurer's operating plans, philosophy and management. The ratings formulae are proprietary.

The ratings scale includes six "Secure" ratings:

- **A++, A+** (Superior)
- **A, A-** (Excellent)
- **B++, B+** (Good)

The scale also includes ten ratings for companies deemed "Vulnerable":

- **B, B-** (Fair)
- **C++, C+** (Marginal)
- **C, C-** (Weak)
- **D** (Poor)
- **E** (Under Regulatory Supervision)
- **F** (In Liquidation)
- **S** (Rating Suspended)

There are many companies that A.M. Best follows but does not issue a Best's Credit Rating on. These companies are designated as **Not Rated (NR)**.

- **Amendment:** A formal document changing the provisions of an insurance policy signed jointly by the insurance company officer and the policy holder or his authorized representative.
- **Annuity:** Any terminating stream of fixed payments over a specified period of time; An annuity is a contract between you and an insurance company that is designed to meet retirement and other long-range goals, under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date.



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Annuities typically offer tax-deferred growth of earnings and may include a death benefit that will pay your beneficiary a specified minimum amount, such as your total purchase payments. While tax is deferred on earnings growth, when withdrawals are taken from the annuity, gains are taxed at ordinary income rates, and not capital gains rates. If you withdraw your money early from an annuity, you may pay substantial surrender charges to the insurance company, as well as tax penalties.

There are generally three types of annuities — fixed, indexed, and variable. In a fixed annuity, the insurance company agrees to pay you no less than a specified rate of interest during the time that your account is growing. The insurance company also agrees that the periodic payments will be a specified amount per dollar in your account. These periodic payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse.

In an indexed annuity, the insurance company credits you with a return that is based on changes in an index, such as the S&P 500 Composite Stock Price Index. Indexed annuity contracts also provide that the contract value will be no less than a specified minimum, regardless of index performance.

In a variable annuity, you can choose to invest your purchase payments from among a range of different investment options, typically mutual funds. The rate of return on your purchase payments, and the amount of the periodic payments you eventually receive, will vary depending on the performance of the investment options you have selected.

Variable annuities are securities regulated by the SEC. An indexed annuity may or may not be a security; however, most indexed annuities are not registered with the SEC. Fixed annuities are not securities and are not regulated by the SEC.

- **Application:** A signed statement of facts made by a person applying for insurance and then used by the insurance company to decide whether or not to issue a policy. The application becomes part of the insurance contract when the policy is issued.
- **Arbitration:** Arbitration: A form of alternative dispute resolution where an unbiased person or panel renders an opinion as to responsibility for or extent of a loss.
- **Arson:** The willful and malicious burning of, or attempt to burn, any structure or other property, often with criminal or fraudulent intent.
- **Assault & Battery:** Assault & Battery Coverage for third party liability claims arising out of any assault or battery. Coverage is patron to patron or employee to patron. Assault & Battery is a very important coverage to have at a bar, nightclub or lounge in the event of a fight.
- **Assets:** All funds, property, goods, securities, rights of action, or resources of any kind owned by someone.
- **Assignment:** The legal transfer of one person's interest in an insurance policy to another person.
- **Attachment Bond:** (1): A bond given by a plaintiff seeking to attach the defendant's property that ensures payment to the defendant of any damages suffered because of the attachment in the event the plaintiff loses the suit. (2): A bond given by a defendant in order to have an attachment released that ensures payment of a judgment awarded to the plaintiff. (lawyers.com)
- **Audit:** Insurance Company Audit Procedures... Many commercial insurance policy premiums are rated on a variable basis such as payroll, gross sales, or contract cost, and are subject to annual adjustment following the policy expiration. This is the most equitable method of obtaining a fair premium for exposure to risk.

Your Commercial Insurance Policy is pre-paid. The insurance company charges a deposit premium, and the premium adjustment may be either an additional premium or a refund for over-estimating the rating basis. The insurance company will send one of their employees to review your books to obtain this



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information, though occasionally you will receive a form to complete and return. Telephone audits are not as desirable since there is no "paper trail" available to correct errors.

Your insurance company is not allowed to provide anyone else with copies of your audit results, as this information is considered confidential. The premium adjustment endorsement will be sent to your agent. Be sure to ask many questions of the auditor relating to special payroll limitations, officer restrictions, etc. It may result in premium savings.

In addition, request a copy of the auditor's handwritten worksheet. This may be invaluable when checking the audit results. The audit adjustment usually takes place between 30 and 60 days following expiration. Your copy of the audit results will be mailed with premium adjustments about four weeks following the audit.

- **Auto-adjudication:** is the process of paying or denying insurance and public benefit claims quickly, and without making a decision on each claim manually. Companies often rely on software to check claims for accuracy and to adjudicate those claims in order to improve efficiency in claim processing and to reduce costs.
- **Automobile Insurance Plan:** One of several types of "shared market" mechanisms where persons who are unable to obtain such insurance in the voluntary market are assigned to a particular company, usually at a higher rate than the voluntary market. Formerly called "Assigned Risk."
- **Automobile Liability Split Limits:** A split limit liability coverage policy splits the coverages into property damage coverage and bodily injury coverage. The limits are often expressed separated by slashes in the following form: "bodily injury per person"/"bodily injury per accident"/"property damage"... For example "\$250,000/\$500,000/\$100,000" would break down to mean:

- \$250,000 for injury per person
- \$500,000 for injury per accident
- \$100,000 for damage to property

- **Automobile Liability Insurance:** Protection for the insured against financial loss because of legal liability for car-related injuries to others or damage to their property.
- **Automobile Physical Damage Insurance:** Coverage to pay for damage to or loss of an insured automobile resulting from collision, fire, theft, or other perils.
- **Automobile "Fault" Insurance State:**

Also known as a "tort liability" system, Washington (for example) follows "fault" rules when it comes to the options of those involved in car accidents. Depending on the circumstances, a driver, passenger, or pedestrian who has been injured and/or incurred property damage via a car accident may choose to do any or all of the following:

- File a claim with his or her own insurance company (whether a general health insurance or car insurance policy) after the accident
- Pursue a claim the insurer of another driver who may have been at fault for causing the accident
- Go to court and seek money damages against the at-fault driver by filing a personal injury lawsuit.

Because Washington is a "fault" state, there are very few restrictions on your options when it comes to getting compensation for losses tied to car accidents. "No-fault" states have more restrictions, but proving fault in order to get compensation isn't required.

- **Automobile "No-Fault" Insurance State:**

In general, No-Fault coverage eliminates injury liability claims and lawsuits in smaller accidents in exchange for direct payment by the injured person's insurance company of medical bills and lost wages -- up to certain dollar amounts -- regardless of who was at fault for the accident.



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No-Fault often does not apply at all to vehicle damage; those claims are still handled by filing a liability claim against the one who is responsible for the accident, or by looking to your own collision insurance. After you file your PIP claim, you may also be able to file a liability claim against the person at fault. The circumstances under which you can file a liability claim vary from state to state.

- **Auto/Valet Liability:** Restaurants, night clubs, bars and lounges have very specific auto related exposures. Whether you hire a valet service, provide your own or have a delivery service - these are important factors to consider when reviewing your insurance. Make sure you protect yourself from the potential problems that come along with auto liability. Provide your Valet service coverage with Auto/Valet Liability to insure the brief time you will be utilizing customers' cars.

-B-

- **Bad Faith:** A term describing blatantly unfair conduct that exceeds mere negligence by an insurance company. For example, a bad faith claim may arise if an auto liability insurer arbitrarily refuses to settle a claim within policy limits, where an insured's liability is incontrovertible. Bad faith damages, also known as Extracontractual Damages, are often substantial. They frequently exceed the limits of the insurance policy that is the subject of the claim

- **Bailee:** A person or organization to which possession of the property of others has been entrusted, usually for storage, repair, or servicing. Except for policies issued expressly for such purposes, most property policies specifically prohibit coverage for benefit of a bailee.

- **Benefits:** The amount payable by the insurance company to a claimant, assignee or beneficiary under each coverage.

- **BI & EE (BIEE or BI/EE):** Business Income and Extra Expense. Commercial property insurance covering loss of income suffered by a business when damage to its premises by a covered cause of loss causes a slowdown or suspension of its operations. Coverage applies to loss suffered during the time required to repair or replace the damaged property. It may also be extended to apply to loss suffered after completion of repairs for a specified number of days.

- **Binder:** A written or oral contract issued temporarily to place insurance in force when it is not possible to issue a new policy or endorse the existing policy immediately. A binder is subject to the premium and all the terms of the policy to be issued.

- **Binding Receipt:** A receipt given for a premium payment accompanying the application for insurance. If the policy is approved, this binds the company to make the policy effective from the date of the receipt.

- **Blanket Additional Insured (Form 49-0108 07 11):** Any person or organization that the named insured is obligated by virtue of a written contract or agreement, will be an additional insured under this blanket form.

- **Blanket Medical Expense:** A provision which entitles the insured person to collect up to a maximum established in the policy for all hospital and medical expenses incurred, without any limitations on individual types of medical expenses.

- **Boat Owners Package Policy:** A special package policy for boat owners that combines physical damage insurance, medical expense insurance, liability insurance, and other coverage's in one contract.

- **Boiler and Machinery Insurance:** Coverage for loss arising out of the operation of pressure, mechanical, and electrical equipment. It covers loss of the boiler and machinery itself, damage to other property, and business interruption losses.

- **Bond (Bid):** A bond given by a bidder for a supply or construction contract to guarantee that the bidder, if awarded the contract within the time stipulated, will enter into the contract and furnish the prescribed performance, payment and/or other required bonds. Default will ordinarily result in liability to the obligee for the difference between the amount of the principal's bid and the bid of the next low bidder who can qualify for the contract. In any event, however, the liability of the surety is limited to the bid bond penalty.

- **Bond (Contractor's License):** A bond which assures that a contractor (such as a plumber, electrician, or general contractor, for example) complies with local laws relating to his field. License and permit bonds



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are required by certain federal, state, or municipal governments as prerequisites to receiving a license or permit to engage in certain business activities. These bonds function as a guarantee from a Surety to a government or state and its constituents (Obligee) that a company (Principal) will comply with an underlying statute, state law, municipal ordinance, or regulation – non-compliance would constitute such things as failure to pay a vendor for materials or failure to pay wages to employees.

This bond is a three-party agreement between a surety, the contractor and the project/property owner. The agreement binds the contractor to the terms and conditions of a contract. If the contractor has not performed to the contract's specifications, the surety assumes the contractor's responsibilities and ensures that the project is completed up to the amount of the bond.

If you are contracting a job for more than this Contractor's License bond of \$12,000/\$6,000 (In Washington State, for example), however, you would benefit from a performance bond (see below).

- **Bond (License & Permit):** Used interchangeably with the term "permit-bond" or "license-bond" to describe bonds required by state law, municipal ordinance or regulation, to be filed prior to the granting of a license to engage in a particular business or a permit to exercise a particular privilege. Such bonds provide payment to the obligee or, in some instances to third parties, for loss or damage resulting from violations by the licensee of the duties and obligations imposed upon him or her.
- **Bond (Payment):** A bond given by a contractor to guarantee payment to certain laborers and suppliers for the labor and material used in the work performed under the contract. This liability may be contained in the performance bond, in which case a separate labor and material bond (payment bond) is not given.
- **Bond (Performance):** A bond which guarantees performance and completion of the terms of a written contract. Performance bonds frequently incorporate payment bond (labor and materials) and maintenance bond liability.

A performance bond is a surety bond that covers the entire cost of a project, beyond the legal licensing requirement of \$12,000 or \$6,000 (In Washington State, for example) to guarantee satisfactory completion of a project. It is issued by a surety/bonding company.

Payment from the performance bond is available only to the project/property owner. No one else can make claims against it. If the contractor fails to construct according to the specifications in the contract, not pay his sub-contractors, etc., the project/property owner is guaranteed compensation for any monetary loss. In order for a performance bond to be effective, the contract must be specific about the work to be done. A contractor cannot be held accountable for vague descriptions that are open to interpretation.

- **Bond (Subdivision):** A bond guaranteeing to construct and complete improvements such as streets, sidewalks, curbs, gutters, sewers and drainage.
- **Bond (Supply):** A bond which guarantees performance of a contract to furnish supplies or materials. In the event of a default by the supplier, the surety must indemnify the purchaser of the supplies against the loss occasioned thereby.
- **Bond (Surety):** A written agreement providing for monetary compensation to be paid by the surety should there be a failure by the person bonded to perform specified acts within a stated period.
- **Bond (Suretyship):** Refers to obligations to pay the debts of, or answer for, the default or miscarriage of another. It is a legal relationship based upon a written contract in which one person or corporation (the surety) undertakes to answer to another (the obligee) for the debt, default or miscarriage of a third person (the principal) resulting from the third person's failure to pay or perform as required by an underlying contract, permit, ordinance, law, rule or regulation.
- **Book of Business:** the number, size and type of accounts (policyholders) that an agent "owns."
- **BOP (Business Owner's Policy):** A Business Owner's Policy includes:



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- General liability insurance to cover your commercial liability, and
- Property insurance for physical assets, such as contents, that are leased or owned

A BOP insurance package policy might also cover the loss of business income and extra expenses caused by an insured peril.

In general, a business owner's insurance package policy insures damaged or lost property for its replacement value. That means that in the event of a claim, you'll receive a large enough settlement to replace the property, without any deduction for depreciation. A BOP's property insurance also covers other people's personal property, if you as a business owner are legally liable for damage to it.

- **Broad Form:** Broad Form Coverage;
 - **B** – Burglary Damage
 - **I** – Ice and Snow Weight
 - **G** – Glass Breakage
 - **A** – Accidental Discharge or overflow of water or steam
 - **F** – Falling Objects
 - **F** – Freezing of Pipes
 - **E** – Electrical Damage
 - **C** – Collapse
 - **T** – Tearing Asunder
- **Broker:** A marketing specialist who represents buyers of property and liability insurance and who deals with either agents or companies in arranging for the coverage required by the customer.
- **Builder's Risk Insurance:** A special type of property insurance which indemnifies against damage to buildings while they are under construction. Builder's Risk Insurance is "coverage that protects a person's or organization's insurable interest in materials, fixtures and/or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from a covered cause.
- **Burglary:** Breaking and entering into another person's property with felonious intent.
- **Burglary and Theft Insurance:** Coverage against property losses due to burglary, robbery, or larceny.
- **Business Insurance:** A policy which primarily provides coverage of benefits to a business as contrasted to an individual. It is issued to indemnify a business for the loss of services of a key employee or a partner who becomes disabled.
- **Business Interruption Insurance:** Protection for a business owner against losses resulting from a temporary shutdown because of fire or other insured peril. The insurance provides reimbursement for lost net profits and necessary continuing expenses. Also Known As "Business Income and Extra Expense"; insurance is designed to help alleviate some of the financial suffering related to the inability to perform normal business activities due to a covered loss.
- **Building Ordinance & Law Coverage:** Coverage for loss caused by enforcement of ordinances or laws regulating construction and repair of damaged buildings. Older structures that are damaged may need upgraded electrical; heating, ventilating, and air-conditioning (HVAC); roofing materials; fences; and plumbing units based on city codes. Many communities have a building ordinance(s) requiring that a building that has been damaged to a specified extent (typically 50 percent) must be demolished and rebuilt in accordance with current building codes rather than simply repaired. Unendorsed, standard commercial property insurance forms do not cover the loss of the undamaged portion of the building, the cost of demolishing that undamaged portion of the building, or the increased cost of rebuilding the entire structure in accordance with current building codes. However, coverage for these loss exposures is widely available by endorsement. Most standard homeowners policies include a provision granting a limited amount (e.g., 10 percent of the dwelling limit) of building ordinance coverage; this amount can usually be increased by endorsement.



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- **Building & Personal Property (BPP):** Building(s), structures plus equipment, fixtures, furniture, merchandise, etc., identified in an insurance policy as owned by the insured and used in his or her business.
- **Burglary (Theft Peril):** A break-in.
- **Business Personal Property (Contents):** Things you own and can take with you; equipment, fixtures, furniture, merchandise, etc., identified in an insurance policy as owned by the insured and used in his or her business.
- **Buy-Sell Agreement Life Insurance:** Also known as a Buyout Agreement, this is a binding agreement between co-owners of a business that governs what happens if a co-owner dies or is otherwise forced to leave the business, or chooses to leave the business. It may be thought of as a sort of premarital agreement between business partners/shareholders or is sometimes called a "business will". An insured buy-sell agreement, (triggered buyout is funded with life insurance on the participating owner's lives) is often recommended by business succession specialists and financial planners to ensure the buy-sell arrangement is well-funded and to guarantee there will be money when the buy-sell event is triggered.

A Buy-Sell Agreement consists of several legally binding clauses in a business partnership or operating agreement or a separate, freestanding agreement, and controls the following business decisions:

- Who can buy a departing partner's or shareholder's share of the business (this may include outsiders or be limited to other partners/shareholders);
- What events will trigger a buyout, (the most common events that trigger a buyout are: death, disability, retirement, or an owner leaving the company) and;
- What price will be paid for a partner's or shareholder's interest in the partnership and so on.

Buy-Sell Agreement can be in the form of a cross-purchase plan or a repurchase (entity or stock-redemption) plan. For greater neutrality and effectiveness of the buy-sell arrangement, the service of a corporate trustee is recommended.

+ As a successful business owner, you have worked hard to reach your goals and it is probable that your business has become one of your most valuable assets. But, have you considered what would happen to your business and family should you unexpectedly die or become disabled?

- Do your heirs have experience operating the business on a day-to-day basis?
- Would your heirs be forced to sell the business?
- Would your heirs receive a fair price?
- Would the IRS seek a higher valuation for your business?

These are difficult questions to answer. You owe it to yourself and your family to protect your years of hard work. Through proper planning, you can secure the continuation of your business and the financial security of your heirs.

How Can You Protect Your Business and Family?

The Buy-Sell Agreement

When examining different strategies, it is important to select one that insures a smooth transition of ownership and protects your family's financial future. A buy-sell agreement can help you accomplish this goal.



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A buy-sell agreement is a contract among business owners. At the loss of an owner, the business interest is transferred according to the terms of this contract. The other owner(s) are obligated to purchase the deceased's business interest and the deceased's heirs are obligated to sell. Just look at what a buy-sell agreement can do.

Your Heirs

- Are free of business worries and guaranteed to receive a fair price for the sale of the business interest.
- May avoid some of the delays associated with probate.

Surviving Owners

- Will not have to worry about new and possibly unwanted partners.
- Know the purchase price of the business beforehand.
- Remain in good standing with clients and creditors through a smooth transition of ownership. Simply put, a properly funded buy-sell agreement will benefit your family, surviving owners, and creditors.

Methods of Funding Available

Option 1: Wait and Pay Cash

In this option, surviving owner(s) use cash at the death of a co-owner to fund the buy-sell agreement. But, several drawbacks to this method exist.

- At death, funds may not be readily available for payment.
- A savings plan accumulates funds over time. What if funds are needed tomorrow?
- Will a savings plan be depleted to pay for unforeseen expenses?
- Accumulation of cash may cause an accumulated earnings tax problem.

Option 2: Wait and Borrow Funds

In this option, surviving owner(s) borrow funds, usually bank loans, at the death of a co-owner to fund the buy-sell agreement. But, much like the first option, this method has drawbacks.

- Future growth may be slowed due to an increase in expenses (repayment of loan).
- Death of an owner may cause sales to decline, compounding the problem.
- Death of an owner may make it difficult to receive a loan.
- A surviving owner may have to sign for funds, exposing personal assets.
- Surviving owners pay dollar for dollar plus interest for the deceased's outstanding share of the business.

Option 3: Insurance: The Smart Choice

Purchasing insurance can be the most cost effective funding option for a buy-sell agreement. Using insurance as a funding vehicle will provide the following benefits:

- Immediate availability of proceeds when death or disability occurs.
- The funds used to buy the deceased's share are purchased for pennies on the dollar.
- Death benefit proceeds are generally income tax free.
- Premiums may be significantly lower than the cost of repaying the loan interest.

The Types of Buy-Sell Plans Available

What Will A Buy-Sell Agreement Accomplish?



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- Creates a market for the stock.
- Sets a predetermined price at which owners agree to buy and sell their shares.
- Provides money to fund the plan.

Cross Purchase Plan

In this plan, owners enter into an agreement with one another. To fund this plan, each owner applies for, owns, and pays the life insurance premiums on the other owners.

When an owner dies:

- Life insurance proceeds are paid to the surviving owner(s) income tax free.
- Proceeds are used to purchase the heirs' business interest.
- Heirs receive an agreed-upon payment for their business interest.
- Surviving owner(s) receive an increased cost basis for the acquired business interest.

Entity Plan

In this plan, owners enter into an agreement with the business. The business applies for, owns, and pays the life insurance premiums on each owner.

When an owner dies:

- The business will receive the life insurance proceeds.
- The business uses the proceeds to purchase the deceased's business interest.
- Heirs receive an agreed-upon price for their business interest.

Stock Redemption Plan

A stock redemption plan is an agreement between the business and its shareholders. The corporation applies for, owns, and pays the life insurance premiums on each shareholder.

When a shareholder dies:

- The corporation will receive the life insurance proceeds.
- The corporation will use the proceeds to purchase the shareholder's outstanding stock.
- Heirs receive an agreed-upon price for the shareholder's outstanding stock.

Wait and See Plan

This buy-sell agreement provides an added level of flexibility, providing the advantages of the cross purchase and entity plans.

- The owner and the company form an agreement.
- The surviving owners/company have the option to purchase the deceased's business interest.
- If the option is not exercised, the other party is obligated to purchase the interest.
- Funding the agreement is usually the obligation of the party who has the first option.
- If necessary, loans between the two can be used to help a party who is underfunded.

-C-

• **Cancellations:** The discontinuance of an insurance policy before its normal expiration date, either by the insured or the company. Insurance contracts can be canceled for many reasons, either by you or your insurance company. State laws govern when and why an insurance company can cancel a contract but



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you as the policyholder have the right to cancel your policy at any time for any reason. You should be familiar with the three different methods of premium refunds so you are not surprised by the size of your refund check.

- **FLAT RATE:** You will receive your entire premium as a refund if your policy is canceled as if it never existed in the first place. Some policies, such as life insurance, come with a trial period and can be canceled for a full refund during that time. Insurance companies can rescind a policy for various reasons governed by state law. Surety bonds can be flat cancelled as well if they have never been attached or posted to a license. Flat rate cancellations mean the insurance company never accepted any risk under the policy and therefore earned none of your premium.
 - **PRO-RATE / PRO-RATA:** Pro-rate or pro-rata cancellations are the most common type of premium refund. You will receive a refund of premium proportionate to the amount of the original policy period that remains. For example, if you paid \$300 for a 12-month policy and it cancels after only six months you would receive \$150 back. Insurance rates are calculated on a daily basis so a pro-rate cancellation will be accurate to the very day.
 - **SHORT RATE:** A short-rate cancellation means you will receive a pro-rated refund minus a penalty. The penalty represents an administrative fee for costs incurred by the company, and is typically 10 percent of the pro-rated amount. A common reason for a short-rate refund is when you cancel your existing policy midterm in order to buy a new policy with a different company.
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- **Captive Insurance Company:** A company owned solely or in large part by one or more non- insurance entities for the primary purpose of providing insurance coverage to the owner or owners.
 - **Captive Insurer:** Insurance companies established and owned by a parent firm in order to insure its loss exposures while reducing premium costs, providing easier access to a re-insurer, and perhaps easing tax burdens.
 - **Cargo Insurance:** Type of ocean marine insurance that protects the shipper of the goods against financial loss if the goods are damaged or lost.
 - **Casualty Insurance:** Insurance concerned with the insider's legal liability for injuries to others or damage to other persons' property; also encompasses such forms of insurance as plate glass, burglary, robbery and workers' compensation.
 - **Catastrophe:** Event which causes a loss of extraordinary magnitude, such as a hurricane or tornado.
 - **Causes-of-loss Form:** Form added to commercial property insurance policy that indicates the causes of loss that are covered. There are four causes-of-loss forms: basic, broad, special, and earthquake. These are separate forms providing causes of loss (a substitute term for perils of insurance) on property risks written on the Building and Personal Property Forms and Personal Lines Property Forms.
 - *The Basic Form* includes the following: fire, lightning, explosion, windstorm/hail, smoke, aircraft/vehicles, riot/civil commotion, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action.
 - *The Broad Form* includes all items under Basic Form and, in addition, includes breakage of glass, falling objects, weight of snow, ice or sleet, water damage and additional coverage of collapse.
 - *The Special Form* is the "all risk" or risks of physical loss unless otherwise excluded form.
 - *The Earthquake Form* covers the peril of Earthquake.
 - **CCIP (Contractor-Controlled Insurance Program):** A Contractor-Controlled Insurance Program (CCIP), under which the general contractor is the sponsor and provides various insurance coverages to contractors and subcontractors. Another type of wrap-up is an Owner-Controlled Insurance Program (OCIP) is a wrap-up under which a project owner provides various insurance coverages to contractors and

subcontractors. OCIPs comprise about 90% of the wrap-up programs currently being performed in the U.S.

- **Certificate Holder:** An entity which is provided with an insurance certificate as evidence of the insurance maintained by another entity.
- **Certificate of Insurance:** A statement of coverage issued to an individual insured under a group insurance contract, outlining the insurance benefits and principal provisions applicable to the member.
- **Chartered Property and Casualty Underwriter (CPCU):** Professional who has attained a high degree of technical competency in property and liability insurance and has passed ten professional examinations administered by the American Institute for Property and Liability Underwriters.
- **Choice no-fault:** Allows auto insureds the choice of remaining under the tort system or choosing no-fault at a reduced premium.
- **Construction Types:**

Frame: Buildings where the exterior walls are wood or other combustible materials including construction where combustible materials are combined with other materials such as brick veneer, stone veneer, wood iron-clad, stucco on wood.

Joisted Masonry: Buildings where the exterior walls are constructed of masonry materials such as adobe, brick, concrete gypsum block, hollow concrete block, stone, tile or similar materials and where the floors and roof are combustible.

Masonry Non-Combustible: Buildings where the exterior walls are constructed of masonry materials as such as adobe, brick, concrete gypsum block, hollow concrete block, stone, tile or similar materials, with the floors and roof of metal or other non-combustible materials.

Metal Non-Combustible: Buildings where the exterior walls and the floors and roof are constructed of, and supported by metal, asbestos, gypsum or other non-combustible materials.

Fire Resistive: Buildings where the exterior walls and floors and roof are constructed of masonry or Fire Resistive materials having a fire resistance rating of not less than two hours. (*abacus*)

- **Contingent Business Income:** A business that depends upon a third party to make a profit is reliant on contingent business income. This means the income depends upon a third party upholding its end of the business relationship. This type of income can take many forms, depending upon the nature of the business. An example of contingent business income is an auto dealer that sells a specific brand of car. If the manufacturer of that car is unable to ship the product to the dealer, the dealer will go out of business. Another example is a jet manufacturer that makes a specific type of jet for a specific customer. If the customer, or buyer, of that jet goes out of business, the manufacturer will also go out of business if another customer for that specialty item cannot be procured. Even if one is later procured, the manufacturer may experience a major disruption in income during the interim.

Insurance designed to cover the consequential losses if the plant of a supplier or a major customer is destroyed, resulting in either reduced orders or reduced deliveries that force a shutdown of the insured firm.

- **Controlled Insurance Program (CIP):** A Controlled Insurance Program (CIP), also known as Contractor-Controlled Insurance Program (CCIP), Owner-Controlled Insurance Program (OCIP) or Wrap-Up, assures adequate coverage is being provided for a construction site. The sponsor of the CIP can be the construction manager, general contractor or owner.

Under a CIP, all enrolled contractors or subcontractors at the project site receive general liability, excess and, in many cases, workers' compensation coverage. These coverages can be tailored to meet the needs of a specific site or project. A CIP can cover a single site, typically a large project or multiple sites.

- **Claim:** A request for payment of a loss which may come under the terms of an insurance contract.
- **Claims Adjustor:** Person who settles claims: an agent, company adjustor, independent adjustor, adjustment bureau, or public adjustor.



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- **Claims Made Policies:** As the name indicates, Claims Made Policies provide coverage for claims made in the period the policy is in force. Claims made policies provide coverage only so long as the insured continues to pay premiums for the initial policy and any subsequent renewals. Once premiums stop being paid, and the policy ends, then the coverage stops for any claims not known or made to the insurance company during the coverage period.

What this means to the business owner is that there is a risk of an unknown or unreported claim being made long after the policy period and not being covered because the claim was made outside of the coverage period.

To continue coverage after the coverage period, the business owner must purchase "a tail." Tail coverage (or, the Extended Reporting Endorsement) is an endorsement that extends the claims reporting period after the policy is ended. Tail coverage must be purchased to continue any risk protection afforded under the policy. Tail coverage can be expensive and can prove to be an unaffordable expense when winding down.

If you move from one insurer to the next with claims made coverage you must purchase tail coverage or your new insurer must include a prior acts endorsement. The new insurer assumes coverage for the prior acts occurring in the other carrier's coverage period.

A claims-made policy protects an insured against claims or incidents that are reported while the policy is in force. Normally, a claims-made policy provides coverage for acts occurring prior to the claims-made policy period. Coverage for acts occurring prior to the policy period is called "prior acts coverage," and the period prior to the policy period for which claims are covered is called the prior acts period. Prior acts coverage is usually only provided when a claims-made policy has been in force immediately prior to the current claims-made policy on a basis consistent with the prior policy. Prior acts coverage is defined as "full prior acts", covering acts occurring at any time prior to the current policy period, or is defined by a "retroactive date." When a retroactive date is used, prior acts coverage is provided from the retroactive date to the current policy period.

- **CLM:** Insurance Services Office's (ISO) commercial lines manual.

- **C.L.U.E (Comprehensive Loss Underwriting Exchange):** Insurance companies have at their disposal multiple reporting tools to determine what to charge you for car insurance or homeowner's insurance. These include your C.L.U.E. report, MVR, or motor vehicle record (personal driving history), vehicle history and financial responsibility reports.

It is important to understand what is on these reports to ensure you aren't being overcharged for insurance coverage. We recommend getting online quotes as a first step in determining whether or not you have a suitable insurance rate.

C.L.U.E. stands for "comprehensive loss underwriting exchange." In simple terms, your C.L.U.E. report is a five to seven year history of property damage claims you have filed with your insurance company. There are basic pieces of information in the report including the date and type of your loss.

Additionally, the final amount paid for the claim along with general information such as your policy and claim number and the name of the insurance company that paid your claim.

Insurers use this information to help calculate how much to charge you for coverage. Your insurance company will charge you more for coverage if you have a history of filing insurance claims and vice versa. It is much more common for an automobile insurer to use an MVR rather than a C.L.U.E. report.



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Keep in mind that there are records kept for both automobile and property claims. The two are kept on separate reports; so a claim related to your car insurance will not have any effect on what your insurer will charge you for homeowner's insurance coverage.

It is important to understand that a company cannot report a claim to C.L.U.E. if you have not actually filed the claim. For example, if you were to call your insurer after an accident to ask questions about your deductible, your insurer does not have the right to report the incident.

Per the Fair Credit Reporting Act, it is possible to obtain a copy of your C.L.U.E. report by contacting:

ChoicePoint Consumer Disclosure
P.O. Box 105108, Atlanta, Georgia 30348-5108
866-527-2600 (toll free)

- **Co-Insurance:** 1) A provision under which an insured who carries less than the stipulated percentage of insurance to value, will receive a loss payment that is limited to the same ratio which the amount of insurance bears to the amount required; 2) a policy provision frequently found in medical insurance, by which the insured person and the insurer share the covered losses under a policy in a specified ratio, i.e., 80 percent by the insurer and 20 percent by the insured.
- **Collision:** This provides coverage in the event of a loss or damage to an insured vehicle caused by a collision or overturn.
- **Collision Deductible Waiver:** This coverage is available in certain states and only if you have Uninsured Motorist Coverage. With this coverage, if an accident with an uninsured motorist causes damage to your auto, and if you have the correct documentation that the other party is at fault and uninsured, you can collect your collision deductible back from your insurance company. However, this cannot be done until the repairs to your vehicle have been completed.

Even though it's illegal to drive without auto insurance coverage in most states, inevitably, there are drivers out there who believe they're above the law. If you should happen to be hit by an uninsured driver, it wouldn't be fair for you to have to pay for the damages. That's why the collision deductible waiver is available (in some states) when you buy auto insurance coverage.

In states where it's available, you (may be) required to buy a collision deductible waiver in conjunction with your collision coverage. The collision deductible waiver pays your collision deductible if your insured car is involved in an accident in which an uninsured (and sometimes a fully insured) motorist is held legally responsible. If you have a high deductible this is especially helpful!

Uninsured/underinsured motorist coverage is another important type of auto insurance coverage to be aware of. There are 2 types of uninsured/underinsured motorist coverage: bodily injury and property damage. Both will help cover you in case of an accident with an uninsured or underinsured driver. The repercussions of driving without insurance should fall on the culprit, not the victim. Without a collision deductible waiver, however, you could get stuck cleaning up after somebody else's mess.

Even if a collision deductible waiver is not mandatory in your area, we recommend you cover yourself when you buy you auto insurance coverage. A few extra dollars a month can save you quite a bit of money if you ever have to deal with an uninsured driver. In a perfect world, everybody would carry auto insurance coverage. Since this isn't a perfect world, a collision deductible waiver is a wise investment.

"When will I get my deductible back if the accident was not my fault?" The short answer is, "Eventually." Each state has different laws that determine if your insurance must also collect your deductible while they collect what they paid out for your damages. Almost every insurance company collects your deductible for you anyway, as a courtesy to you. It might take up to a year or more, though. The two factors which affect



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this the most are 1) Does the responsible party have insurance? and 2) Does the responsible party's insurance agree that the accident was their fault? In other words, do they accept liability for the accident? If the responsible party has insurance and their insurance accepts liability for the accident, then you should have your deductible within a few weeks. You can even call the responsible party's claims representative and ask her to forward your deductible - either to you or to your repair shop.

If the responsible party has insurance, but their insurance does not agree that they are at fault for the accident, then the disputed claim usually goes to Arbitration Forums. This is an organization that insurance companies join voluntarily. Most insurance companies in the USA are members of Arbitration Forums. The member insurance companies all send claims representatives (panelists) to Arbitration Forums once a month to read disputed claims and then make liability determinations. Member insurance companies have all agreed to stick to the liability determinations made at Arbitration Forums. (This agreement only applies to property damage, not to injuries.)

Because many claims are disputed, your insurance company collects as much evidence as it can, as soon as it can, on all claims. It records your statement of how the accident happened. It requests recorded statements from all the other drivers, passengers, and witnesses. It gets photographs of the damage to your vehicle and any other vehicles or property involved in the accident. It should also photograph and diagram the scene of the accident, unless this is too dangerous.

Meanwhile, the other insurance companies are doing the same. The insurance companies for all the parties in the accident send all this evidence to Arbitration Forums with contentions explaining who they believe was the cause of the accident. Arbitration Forums examines all the contentions and all the evidence, and then Arbitration Forums hands down a liability decision which all the insurance companies must follow (with respect to the property damage only). The more parties are involved in the disputed claim, the longer this tends to take. If this is your scenario, then you are looking at waiting three to six months before you get your deductible back.

If the responsible party does not have insurance, then your insurance company will contact them directly and demand repayment. If you do not have any provision for your deductible to be waived, then you may be waiting up to a year or more to get your deductible back, in this situation especially.

- **Collision Insurance:** Protection against loss resulting from any damage to the policyholder's car caused by collision with another vehicle or object, or by upset of the insured car, whether it was the insured's fault or not. Collision coverage pays for damage to your vehicle caused by any accidental impact with another vehicle or object, and includes if your vehicle overturns. The maximum amount you'd receive under collision coverage is the actual cash value of your vehicle minus the deductible you chose for this coverage.
- **Combined Ratio:** Basically, a measure of the relationship between dollars spent for claims and expenses and premium dollars taken in; more specifically, the sum of the ratio of losses incurred to premiums earned and the ratio of commissions and expenses incurred to premiums written. A ratio above 100 means that for every premium dollar taken in, more than a dollar went for losses, expenses, and commissions.
- **Combined Single Limit:** Combined Single Limit (CSL) insurance refers to Bodily Injury (BI) and Property Damage (PD) coverage combined in one single policy. Since it is one single unit of coverage, it can be used towards either covering medical expenses or paying for repair bills.

CSL is also referred to as "single limit insurance", as opposed to the "split limit" system. With a single limit policy the insurer will pay for any expense up to a certain amount, while with split limit coverage the amount is split in three categories, each with its own limit.



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E.g.: A \$200,000 single limit policy could be used, for instance, with \$180,000 in medical expenses and \$20,000 in property damage. With a \$75/150/50 split policy you are limited to \$75,000 in medical expenses per passenger, but not more than \$150,000 per accident, and \$50,000 in property damage.

CSL policies are generally more expensive.

• **Commercial Auto Symbols/Designations:** Most commercial auto policies, including the standard ISO auto policy, use a set of numeric symbols to designate the types of autos that are covered by your policy. These symbols are called *covered auto designation symbols*. They consist of the numbers 1 through 9, as well as 19. Each numeric symbol represents a category of autos, such as "owned autos" or "hired autos."

Symbol 1 Of the ten symbols used in a commercial auto policy, symbol "1" affords you (the named insured) the broadest coverage. Symbol 1 designates *any auto*. *Any auto* includes autos you own; autos you hire, rent, lease or borrow; and autos you don't own (non-owned autos). Symbol "1" is used to trigger liability insurance only. It cannot be used to initiate any other coverage.

Suppose that your commercial auto policy shows symbol 1 (any auto) for liability coverage. Imagine that you are the sole owner of a consulting business. Your company is a corporation, and both you (Jack Jones) and your business (Jones Inc.) are named insureds on your commercial auto policy. One day you are driving a vehicle owned by your company when you inadvertently rear-end another vehicle. The driver of that vehicle is injured and sues you (Jack Jones) for bodily injury. Are you covered for the suit under your policy?

For an auto accident to be covered under your auto policy, the accident or loss must occur during the policy period and in the coverage territory. (In the scenarios presented in this article, we'll assume these conditions have been satisfied.) In addition, for liability coverage to apply:

1. The party liable for the accident must qualify as an insured; and
2. The auto that caused the accident must be a covered auto

Under the standard commercial auto policy, you (the named insured) are an insured for any covered auto. Symbol 1 designates *any auto*. At the time of the accident you (Jack Jones) were driving an owned auto. *Any auto* includes owned autos. Because you are an insured, and you were driving a covered auto when the accident occurred, the suit against you is covered.

Now suppose that Steve, one of your employees, is running an errand for your company in his personal vehicle when he accidentally sideswipes another auto. The driver of the other vehicle is injured in the accident and sues both your company (Jones Inc.) and Steve for negligence. Symbol 1 appears next to liability coverage in the commercial auto declarations. As the named insured, Jones Inc. is an insured for accidents involving any covered auto. Steve's vehicle is considered a non-owned auto since it is not owned by you or your company. *Any auto* includes a non-owned auto. Thus, the vehicle is a covered auto, and the suit against Jones Inc. is covered.

Unfortunately, Steve is not an insured. Employees are insureds under a commercial auto policy only while driving vehicles you own, hire or borrow. At the time of the accident, Steve was driving a non-owned vehicle. Thus, the claim against him is not covered.

Symbols 2, 3 and 4 The next three symbols designate owned autos. Symbol 2 triggers coverage for all autos you own, including private passenger type autos and commercial vehicles (trucks etc.). Symbol 3 designates private passenger autos only while symbol 4 triggers coverage for commercial vehicles only. Symbols 2, 3 and 4 afford automatic coverage for autos you acquire during the policy period. Symbols 2



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and 4 automatically afford liability coverage for any trailer you don't own that is attached to a car or truck that you do own.

Symbols 5 and 6 These symbols apply only to specific coverages. Symbol 5 is used only to provide no-fault coverage for autos you own, when such coverage is required by law. Symbol 6 is used to trigger uninsured motorist coverage for autos you own. This symbol is used only when you are required by law to purchase, and cannot reject, UM coverage.

Symbol 7 This symbol is the most restrictive. It covers only for those vehicles that are described in the declarations. That is, when symbol 7 is listed for liability, no coverage is afforded for any vehicle that is not scheduled on the policy. Moreover, any vehicle you acquire after the policy inception date is covered only for those coverages that are included on all autos you own.

For example, suppose that you own two autos, both of which are covered for liability and comprehensive coverages. You acquire a new auto during the policy period. Because all of the autos you own are currently covered for liability and comprehensive coverage, your new auto will be insured for those coverages as well. These coverages will apply for a maximum of thirty days unless you notify your insurer within that thirty-day period and ask to have the auto added to your policy.

A new auto will also be covered for up to thirty days if it replaces an auto you previously owned. In this case, the new auto will be covered for the same coverages that were included on the previous vehicle. You must notify the insurer within 30 days of the acquisition.

The use of Symbol 7 should be avoided. However, this symbol may be appropriate in rare circumstances. For instance, suppose you own two pickup trucks that you lease to another company. The pickups are insured under the lessee's auto policy. You own a third vehicle that you insure under your own policy. Your policy includes Symbol 7 for liability in order to avoid providing duplicate coverage for the pickups.

Symbol 8 This symbol designates hired autos. Hired autos include vehicles you hire, rent, lease or borrow. Symbol 8 does not cover any vehicle you hire, rent, lease or borrow from any of your employees, partners or members (if you are a limited liability company) or any members of their households. Symbol 8 may be used for liability or physical damage coverage.

Symbol 9 is used to cover non-owned autos. Non-owned autos are vehicles you use in your business but do not own, hire, rent, lease or borrow. Examples are vehicles used in your business that are owned by your employees or partners.

Symbol 19 designates mobile equipment that is subject to a compulsory or financial responsibility law. This symbol is rarely used. Under a commercial auto policy, mobile equipment (such as a bulldozer or forklift) that you are required by law to insure for liability is considered an auto while it is being driven on a public road. (When parked or used at a job site, the vehicle is considered mobile equipment.) Thus, it can be covered via any symbol that triggers coverage for commercial autos you own. Examples are symbols 2 and 4.

Symbol 19 may be used if you acquire mobile equipment during the policy period that requires liability insurance, and none of the existing symbols are appropriate. For example, suppose that you purchase a commercial auto policy that covers only hired and non-owned autos. Two months after your policy begins you buy a forklift that you are required by law to insure for liability. Symbols 8 and 9 do not cover owned autos. Thus, symbol 19 can be added to your policy to trigger liability coverage for your forklift when the vehicle is driven on a public road. *[definition from about.com]*



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• **Commercial Auto (Trucking): What are the definitions of common, contract, and broker authorities and freight forwarders?**

- Common carriers provide for-hire truck transportation to the general public. Common carriers must file bodily injury and property damage (BI&PD) liability insurance but are not required to file cargo insurance
- Contract carriers provide for-hire truck transportation to specific, individual shippers based on contracts. Carriers must file liability (BI&PD) insurance but are not required to file cargo insurance
- Both common and contract motor carriers of household goods are required to file liability (BI&PD) insurance and cargo insurance
- A broker is a person or an entity which arranges for the transportation of property by a motor carrier for compensation. A broker does not transport the property and does not assume responsibility for the property
- A freight forwarder is a person or entity which holds itself out to the general public to provide transportation of property for compensation and in the ordinary course of its business:
 - Assembles and consolidates, or provides for assembling and consolidating, shipments and performs break-bulk and distribution operations of the shipments
 - Assumes responsibility for the transportation from the place of receipt to the place of destination
 - Uses for any part of the transportation a rail, motor or water carrier subject to the jurisdiction of either FMCSA or the Surface Transportation Board

• **Commercial General Liability Policy (CGL):** A broad commercial policy that covers all liability exposures of a business that are not specifically excluded. A commercial liability policy can be drafted to contain one of two claim forms; occurrence or claims-made.

For example; A "1,000,000(a)/2,000,000(b)/1,000,000(c)" CGL policy ends up with this as coverage:

Per Occurrence or Claim: \$1,000,000(a)

Aggregate (total annual maximum for the policy): \$2,000,000(b)

Products/ Completed Operations: \$1,000,000(c)

Personal/ Advertising Injury: \$1,000,000(a)

Property Damage: \$1,000,000(a)

Bodily Injury: \$1,000,000(a)

Fire Legal: \$50,000 (this is pretty standard but can change from policy to policy)

Med Pay : \$5,000 (this is pretty standard but can change from policy to policy)

Deductible: \$1,000 (this is pretty standard but can change from policy to policy)

A Commercial Liability insurance policy provides insurance protection to pay for bodily injury or property damages when the insured is legally responsible.

- The policy provides coverage for liability arising from personal injury and advertising injury.
- Coverage for medical expense is also provided. This pays medical expenses resulting from bodily injury caused by an accident on premises owned or rented by the insured party, or locations next to such property, or when caused by the insured's operations.
- The policy also covers accidents occurring on the premises or away from the premises.
- Liability coverage is provided for injury or damages arising out of goods or products made or sold by the insured.
- In addition to the limits, the policy provides supplemental payments for attorney fees, court costs and other expenses associated with a claim or the defense of a liability suit.



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- There are two commercial general liability coverage forms, the occurrence form and the claims-made form. The difference between them lies in the way claims are handled under the two forms. While the occurrence form covers bodily injury or property damage claims that occur during the policy term, the claims-made policy form only covers claims made against the insured during the policy term.
 - The fire damage limit provides liability coverage for fire damage caused by negligence on the part of the insured to rented premises. If a fire occurs because of negligence and damages property not rented to the insured, coverage is provided under the occurrence limit.
 - Coverage is also provided for injury resulting from offenses such as false arrest, malicious prosecution, detention or imprisonment, acts of invasion, or rights of private occupancy of a room.
 - Liability coverage for libel and slander is also provided in the policy. This coverage pays for damages done in the course of oral or written advertisement that disparages, libels or slanders a person's or organization's goods, products or services.
- **Commercial Lines:** Insurance for businesses, organizations, institutions, governmental agencies, and other commercial establishments.
 - **Commercial Property Insurance:** Property Insurance is any type of commercial insurance that reimburses an insured party who has suffered a financial loss because property has been damaged or destroyed.
 - Property is considered to be any item that has value and can be classified as real property or personal property. Real property is land and the attachments to it, such as buildings. Personal Property is all property that is not real property.
 - The Building and Personal Property coverage form is used to insure almost all types of commercial property.
 - The insuring agreement in the Building and Personal Property coverage form promises to pay for direct physical loss or damage to covered property at the premises as described in the policy under covered cause of loss.
 - Coverage for the building includes the building and structures, completed additions to covered buildings, outdoor fixtures, permanently installed fixtures, machinery and equipment. The building material used to maintain and service the premises is also insured.
 - Business Personal Property owned by the insured party and used in business is covered for direct loss or damage. This type of commercial insurance policy is also intended to protect against loss or damage to the personal property of others while in the insured party's care.
 - Basic property insurance policies are written to cover fire, lightning, explosion, windstorm, hail, smoke, aircraft or vehicle damage, riot or civil commotion, vandalism, sprinkler leakage, sinkhole collapse and volcanic action.
 - Other property insurance policies add coverage for water damage, weight of snow, ice or sleet, breakage of glass and coverage for falling objects.
 - Most commercial insurance companies use two approaches to determine value of a property:
 1. The replacement cost of a property is the cost to replace it with new property.
 2. Actual cash value (ACV) is replacement cost, minus the accumulated depreciation for age and condition.
 - **Commercial Umbrella or Excess Insurance:** The (commercial) umbrella policy serves three purposes: it provides excess limits when the limits of underlying liability policies are exhausted by the payment of claims; it drops down and picks up where the underlying policy leaves off when the aggregate limit of the underlying policy in question is exhausted by the payment of claims (IRMI)



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- **Community Property:** A special ownership form requiring that one half of all property earned by a husband or wife during marriage belongs to each. Community property laws do not generally apply to property acquired by gift, by will, or by descent.
- **Comparative Negligence:** Under this concept a plaintiff (the person bringing suit) may recover damages even though guilty of some negligence. His or her recovery, however, is reduced by the amount or percent of that negligence.
- **Completed Operations:** Liability arising out of faulty work performed away from the premises after the work or operations are completed. Applicable to contractors, plumbers, electricians, repair shops, and similar firms.
- **Comprehensive Automobile Insurance:** Protection against loss resulting from damage to the insured auto, other than loss by collision. This may include damages due to fire, theft, vandalism, windstorm or contact with an animal.
- **Comprehensive Personal Liability Insurance:** Protection against loss arising out of legal liability to pay money for damage or injury to others for which the insured is responsible. It does not include automobile or business operation liabilities.
- **Compulsory Auto Liability Insurance:** Insurance laws in some states required motorists to carry at least certain minimum auto coverage's. This is called "compulsory" insurance.
- **Compulsory Insurance Law:** Law protecting accident victims against irresponsible motorists by requiring owners and operators of automobiles to carry certain amounts of liability insurance in order to license the vehicle and drive legally within the state.
- **Concealment:** Deliberate failure of an applicant for insurance to reveal a material fact to the insurer.
- **Concurrent Causation:** Legal doctrine that states when a property loss is due to two causes, one that is excluded and one that is covered, the policy provides coverage.
- **Conditions:** Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
- **Consideration:** One of the elements for a binding contract. Consideration is acceptance by the insurance company of the payment of the premium and the statement made by the prospective policyholder in the application.
- **Consequential Loss:** Financial loss occurring as the consequence of some other loss. Often called an indirect loss.
- **Contaminated Products Recall Insurance:** Typically, product liability insurance will cover only third-party claims. This means claims from those outside of the business claiming to have been injured by the product. But, massive product recalls involve expenses beyond potential claims such as loss of revenue, business interruption, and costs associated with the recall. Those costs are generally not covered in a traditional product liability policy.
Contaminated products insurance is a type of business insurance coverage that fills the gap. The coverage is designed to cover those costs associated with contaminated product recalls. Some insurers also offer disaster containment consulting services as a part of the coverage and coverage designed to restore the product to a safe condition.
Contaminated products coverage is something to consider for your company if it will be involved in the food, medicine, or restaurant business at any level of the supply chain.
"Product Recall Coverage" is a specialty coverage purchased by manufacturers. The scope of coverage varies. Most policies cover the cost of recalling the product. Others also include crisis management and/or extortion.
- **Contingent Liability:** Liability arising out of work done by independent contractors for a firm. A firm may be liable for the work done by an independent contractor if the activity is illegal, the situation does not permit delegation of authority, or the work is inherently dangerous.
- **Contract:** A binding agreement between two or more parties for the doing or not doing of certain things. A contract of insurance is embodied in a written document called the policy.



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- **Contractors Pollution Liability (CPL):** A contractor-based policy, offered on a claims-made or occurrence basis, that provides third-party coverage for bodily injury, property damage, defense, and cleanup as a result of pollution conditions (sudden/accidental and gradual) arising from contracting operations performed by or on behalf of the contractor.
- **Contributory Negligence:** Negligence of the damaged person that helped to cause the accident. Some states bar recovery to the plaintiff if the plaintiff was contributory negligent to any extent. Others apply comparative negligence.
- **Coverage:** The scope of protection provided under a contract of insurance; any of several risks covered by a policy.
- **Coverage Letter:** A coverage letter is a carrier's written response to an insured's first notice of claim under a policy. It generally sets forth the carrier's position on coverage for the claim that has been tendered under the applicable (or potentially applicable) policy.
- **Covered:** A person covered by a pension plan is one who has fulfilled the eligibility requirements in the plan, for whom benefits have accrued, or are accruing, or who is receiving benefits under the plan.
- **Coverholder (Lloyd's of London):** A coverholder is a company or partnership authorised by a managing agent to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate managed by it in accordance with the terms of a binding authority.

Coverholders allow Lloyd's syndicates to operate in a region or country as if they were a local insurer. This is achieved by Lloyd's syndicates delegating their underwriting authority to coverholders.

A coverholder can have full or limited authority to underwrite on behalf of a Lloyd's syndicate. It will usually issue the insurance documentation and will often handle claims. The document setting out the terms of the coverholder's delegated authority is known as a binding authority.

- **Credit Insurance:** A guarantee to manufacturers, wholesalers, and service organizations that they will be paid for goods shipped or services rendered. Applies to that part of working capital which is represented by accounts receivable. Credit insurance protects suppliers in case a retailer fails to pay them for merchandise, as in the event of a bankruptcy.
- **Crop-hail Insurance:** Protection against damage to growing crops as a result of hail or certain other named perils.
- **CSR:** Customer service representatives support the work of insurance agents with a variety of tasks that must be done within a company or agency to deliver services to and handle requests from clients.

-D-

- **Damage to Rented Premises (aka Fire Legal Liability Coverage):** Covers your liability to others if you occupy leased or rented property for which you could be held legally liable for damage to the property due to fire or explosion.
- **Death and Disgrace Insurance:** Insurance to cover large corporations who endorse players, celebrities, etc. and can cover the company in case a brand ambassador dies or turns into a persona non grata (causing harm to a brand name due to illicit or inappropriate activity). Lance Armstrong, Tiger Woods and Paula Dean are all examples of American icons who lost endorsement deals because of public outrage and scandal.
- **Declination:** The insurer's refusal to insure an individual after careful evaluation of the application for insurance and any other pertinent factors.
- **Deductible:** An amount which a policyholder agrees to pay, per claim or per accident, toward the total amount of an insured loss.
- **Defective or Faulty Workmanship:** Although the definition of what constitutes a construction defect varies by jurisdiction, a defect generally occurs when problems in design, workmanship or building materials result in property damage or failure of the building to perform in an expected way. Common claims include cracks in floor slabs and foundations due to improper site preparation, roof leakage—



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particularly on flat roofs—due to faulty construction and structural shifting caused by errors in design or construction that leads to any number of interior problems ranging from sticking doors and windows to countertops that pull away from walls.

Defects also are categorized as “patent” (something found through a reasonable inspection) and “latent,” something that manifests itself over time. For example, a patent defect causing water damage could involve leaky pipes, which should have been detected during an inspection and repaired. A latent defect causing water damage may involve freezing pipes due to inadequate insulation, which isn't easily noted once walls are enclosed.

What added protection does a faulty workmanship endorsement provide?

Protect yourself against claims arising out of faulty workmanship, materials or products, such as the class code examples described below. (These claims would otherwise be excluded by the “business risk” exclusions found in **every** standard ISO Commercial General Liability policy.)

Electrical - Within Buildings:

Installation of wiring, switches, breaker, or fixtures that are either insufficient or in contravention with plans and specifications requires replacement.

Carpentry - Residential:

Failure to obtain a permit or meet building codes and building department requires removal of the work performed.

Floor Covering - No Tile:

Improper installation of vapor barrier may cause warping and require replacement of exotic wood flooring.

HVAC:

While replacing an HVAC unit, faulty installation of the new unit causes the heat exchanger or compressor to fail, requiring costly repairs.

Paint Exterior - 3 Stories & Under:

After completing the exterior painting of a house, the paint begins to peel and deteriorate. Thus, the entire house must be re-painted.

Tile/Stone Installation:

Crooked, hollow sounding, or uneven tile, or tile used in contravention of the plans and specifications requires demolition and replacement of the tile.

- **Dependent Benefits:** Social Security benefits available to the spouse or children of a Social Security beneficiary.
- **Depreciation:** A decrease in the value of property over a period of time due to wear and tear or obsolescence. Depreciation is used to determine the actual cash value of property at time of loss. (See Actual Cash Value)
- **DIC (or Difference in Conditions):** What is DIC? There are two common forms that are used by Insurance Carriers:
DIC = Difference in Conditions (typically used when adding perils – DIC policies include coverage for landslide, mudflow, earthquake and flood.)



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The "Difference in Conditions" policy form is used today to wrap around an All Risk policy covering specific exposures not covered within the All Risk policy. DIC policies will exclude the perils covered under the All Risk policy and add additional exclusions to limit the coverage under the DIC policy. You specifically have to name the items you do want covered such as Earthquake, EQSL (Earthquake Sprinkler Leakage), Landslide, Mudflow, Flood or Wind.

The Named Peril policy form specifically names what is to be covered in the policy. Typical choices would be Earthquake, EQSL (Earthquake Sprinkler Leakage), Landslide, Mudflow, Flood or Wind.

What is the difference between the two policies: When underwriters issue a DIC policy they are truly rating for and expecting to only pay losses for the peril indicated such as Earthquake or EQSL (Earthquake Sprinkler Leakage), Landslide, Mudflow, Flood or Wind. There is potential to pay for losses under some unknown cause if it is not specifically excluded (Y2K is a good example - it is now excluded but losses could have been submitted under a DIC policy if such an exclusion was not on the policy). Named Peril policies leave no doubt as to what is being covered and can be priced at bit more competitive. Not all carriers offer a Named Peril policy.

- **Direct Loss:** Financial loss that results directly from an insured peril.
- **Disability:** a physical or a mental impairment that substantially limits one or more major life activities of an individual. It may be partial or total. (See Partial Disability; Total Disability.)
- **Disability Benefit:** Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.
- **Disability Income Insurance:** A form of health insurance that provides periodic payments to replace income when an insured person is unable to work as a result of illness, injury, or disease.
- **Dismemberment:** Loss of body members (limbs), or use thereof, or loss of sight due to injury.
- **Dividend:** A return of part of the premium on participating insurance to reflect the difference between the premium charged and the combination of actual mortality, expense and investment experience. Such premiums are calculated to provide some margin over the anticipated cost of the insurance protection.
- **D&O (Directors & Officers Insurance):** Liability insurance payable to the directors and officers of a company, or to the organization(s) itself, to cover damages or defense costs in the event they suffer such losses as a result of a lawsuit for alleged wrongful acts while acting in their capacity as directors and officers for the organization. Such coverage can extend to defense costs arising out of criminal and regulatory investigations/trials as well; in fact, often civil and criminal actions are brought against directors/officers simultaneously. It has become closely associated with broader management liability insurance, which covers liabilities of the corporation as well as the personal liabilities for the directors and officers of the corporation.

Under the "traditional" D&O policy applied to "public companies" (those having securities trading under national securities exchanges etc.), there are three (3) insuring clauses. These insuring clauses are termed: Side-A or "non-indemnified"; Side-B; or "indemnified"; and Side-C; "entity securities coverage". D&O policies may also provide an additional Side-D clause, which provides for a sublimit for investigative costs coverage related to a shareholder derivative demand. In detail, the coverage clauses provide the following:

- *Side-A* provides coverage to individual directors and officers when not indemnified by the corporation as a result of state law or financial capability of the corporation; however, exclusions may apply if a corporation simply refuses to pay the legal defense/loss of a director or officer, or if a bankruptcy court issues an order preventing such indemnification
- *Side-B* provides coverage for the corporation (organizations) when it indemnifies the directors and officers (corporate reimbursement)



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- *Side-C* provides coverage to the corporation (organizations) itself for securities claims brought against it (NOTE: securities claims only coverage applies to publicly traded companies and large private companies; small private companies may be able to obtain broader "entity" coverage)

More extensive coverage can be obtained for individual directors and officers under a *Broad Form Side-A DIC* ("Difference in Conditions") policy purchased to not only provide excess Side-A coverage but also to fill the gaps in coverage under the traditional policy, respond when the traditional policy does not, protect the individual directors and officers in the face of U.S. bankruptcy courts deeming the D&O policy part of the bankruptcy estate and otherwise more fully protect the personal assets of individual directors and officers.

- **Dollar Threshold:** In no-fault auto insurance states with the dollar threshold, it prevents individuals from suing in tort to recover for pain and suffering unless their medical expenses exceed a certain dollar amount.

- **DP-2 – Broad Form:** Includes the Fire, EC and VMM perils of DP-1 and adds the following perils (each subject to certain limitations): Damage by burglars; falling objects; weight of ice, snow or sleet; accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning or automatic fire protective sprinkler system or from with a household appliance; sudden and accidental tearing apart, cracking, burning or bulging of a steam or hot water heating system, air conditioning system or automatic fire protective sprinkler system, or water heating appliance; freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system or of a household appliance; sudden and accidental damage from artificially generated electrical current; volcanic eruption.

- **Dramshop Law:** Law that imputes negligence to the owner of a business that sells liquor in the case that an intoxicated customer causes injury or property damage to another person. Usually excluded from general liability policies.

- **Dwelling Property 1:** Property insurance policy that insures the dwelling at actual cash value, other structures, personal property, fair rental value, and certain other coverage's. Covers a limited number of perils.

- **Dwelling Property 2:** Property insurance policy that insures the dwelling and other structures at replacement cost. It adds additional coverage's and has a greater list of covered perils than the Dwelling Property 1 policy.

- **Dwelling Property 3:** Property insurance policy that covers the dwelling and other structures against direct physical loss from any peril except for those perils otherwise excluded. However, personal property is covered on a named-perils basis.

-E-

- **Earned Income:** Employment income derived from salary, wages, commissions, or fees.

- **Earned Premium:** The portion of an insurance written premium which is considered "earned" by the insurer, based on the part of the policy period that the insurance has been in effect, and during which the insurer has been exposed to loss. For instance, if a 365-day policy with a full premium payment at the beginning of the term has been in effect for 120 days, 120/365 of the premium is considered earned. Earned premium will not be returned to the insured if the policy is cancelled.

- **EC:** Extended Coverage;

- W – Windstorm

- C – Civil Commotion

- S – Smoke

- H – Hail

- A – Aircraft

- V – Vehicles

- V – Volcanic Eruption

- E – Explosion

- R – Riot



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- **Effective Date:** The date on which the insurance under a policy begins.
- **EIFS (Exterior Insulation and Finishing System):** A type of building exterior wall cladding system that provides exterior walls with an insulated finished surface and waterproofing in an integrated composite material system.
- **Elements of a Negligent Act:** Four elements an injured person must show to prove negligence: existence of a legal duty to use reasonable care, failure to perform that duty, damages or injury to the claimant, and proximate cause relationship between the negligent act and the infliction of damages.
- **Elevation Certificate:** The Elevation Certificate is an important administrative tool of the National Flood Insurance Program (NFIP). It is to be used to provide elevation information necessary to ensure compliance with community floodplain management ordinances, to determine the proper insurance premium rate, and to support a request for a Letter of Map Amendment (LOMA) or Letter of Map Revision based on fill (LOMR-F). The Elevation Certificate is required in order to properly rate post-FIRM buildings.
- **Embezzlement:** Fraudulent use or taking of another's property or money which has been entrusted to one's care.
- **Employer's Liability Insurance (Work Comp):** This coverage provided by part 2 of the workers compensation policy provides coverage to the insured (employer) for liability to employees for work-related bodily injury or disease, other than liability imposed on the insured by a workers compensation law. A product for employers that protects them from major financial loss if a worker experiences a job-related injury or illness that workers compensation doesn't cover. Employer's liability insurance can be packaged with workers compensation insurance to further protect companies against the costs associated with workplace injuries, illnesses and deaths that aren't covered under workers compensation. Employer's liability insurance is also called "part 2" of a workers' compensation policy.
- **Endorsements:** An additional piece of paper, not a part of the original contract, which cites certain terms and which, when attached to the original contract, becomes a legal part of that contract. An amendment of the policy usually by means of a rubber stamp or rider.
- **E&O (Errors & Omissions Insurance):** Liability insurance policy that provides protection against loss incurred by a client because of some negligent act, error, or omission by the insured.
- **EPLI (Employment Practices Liability Insurance):** Covers companies against lawsuits or claims filed by employees, former employees and employment candidates. The insurance coverage protects the company, its directors, officers and other employees. A company can use this type of insurance to cover expenses associated with employee rights violations, such as alleged acts of discrimination and wrongful termination. Employment Practices Liability Insurance covers losses that would not be covered by Directors & Officers (D&O) coverage or Comprehensive General Liability. EPLI is a very specialized kind of insurance, designed to protect your company in ways that are essential in today's litigious society.
- **Estoppels:** Legal doctrines that prevent a person from denying the truth of a previous representation of fact, especially when such representation has been relied on by the one to whom the statement was made.
- **Excess and Surplus Insurance:** 1) Insurance to cover losses above a certain amount, with losses below that amount usually covered by a regular policy. 2) Insurance to cover an unusual or one-time risk, e.g., damage to a musician's hands or the multiple perils of a convention, for which coverage is unavailable in the normal market. (See also "Umbrella Liability" and "Surplus Lines.")
- **Exclusions:** Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments.
- **Exclusive Remedy Doctrine:** Doctrine in workers compensation insurance which states that workers compensation benefits should be the exclusive or sole source of recovery for workers who have a job related accident or disease; doctrine has been eroded by legal decisions.
- **Experience Modification Factor:** Used in workers compensation rating to reflect the degree to which a particular employer has experience that is better or worse than expected for that industry. Weighted by employer's credibility factor.



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- **Experience Rating:** The process of determining the premium rate for a group risk, wholly or partially on the basis of that group's experience.
- **Exposure Unit:** Unit of measurement used in insurance pricing.
- **Extended Non-owned Coverage:** Endorsement that can be added to an automobile liability insurance policy that covers the insured while driving any non owned automobile on a regular basis.
- **Extortion:** Surrender of property away from the premises as a result of a threat to do bodily harm to the named insured, relative, or invitee who is being held captive.
- **Extracontractual Damages:** Damages that are in addition to or outside of a contract of insurance. Extracontractual damages are awarded in "bad faith" claims against insurance companies. They are a form of punitive damages, intended to punish extreme insurer conduct. Extracontractual damage awards most frequently arise from unfair claims handling practices (e.g., unjust denial of coverage, failure to settle a claim within policy limits).

-F-

- **Fair Rental Value:** Amount payable to an insured homeowner for loss of rental income due to damage that makes the premises uninhabitable.
- **Faulty Workmanship Coverage Endorsement:** Contractors Faulty Workmanship Coverage is a new and unique endorsement that provides a \$10,000 limit to protect your clients against claims arising out of faulty workmanship, materials or products. These claims would otherwise be excluded by the "business risk" exclusions found in every standard ISO Commercial General Liability policy.

In states that require a contractor's license bond, claims arising out of faulty workmanship, materials or products may also be made against the contractor's license bond. If the bonding company pays any such claim, the contractor must repay the bonding company. The contractor's failure to repay the bonding company could result in suspension or revocation of their contractor's license. By protecting against bond claims, the Contractors Faulty Workmanship Coverage also protects the contractor's license, and their livelihood.

Faulty Workmanship Exclusion

Most liability policies contain this property damage exclusion for products-completed operations losses, although it is now more often referred to as the work performed exclusion. The intent of this exclusion is to make sure that insureds are maintaining acceptable standards of performance and are not using the insurance contract to recover for poor training, poor business practices or poor installation by the insured.

The following is a post by James Wakefield from <http://www.cumminsandwhite.com/2012/03/when-does-insurance-cover-faulty-workmanship/>

Usually, commercial general liability ("CGL") policies do not cover a contractor for property damage due to the contractor's own faulty workmanship. As one California court summarized: "Generally liability policies ... are not designed to provide contractors ... with coverage against claims their work is inferior or defective.... Rather liability coverage comes into play when the contractor's (insured) defective materials or work cause injury to property *other than* the insured's own work or products." *Clarendon America Ins. Co. v. General Sec. Indem. Co. of Arizona*, 193 Cal. App. 4th 1311, 1325 (2011) (emphasis added).

Suppose, for example, a contractor is hired to install a water heater that explodes, resulting in the entire house burning down. The water heater (and the labor to remove and reinstall) is not covered, but the damage to the rest of the property may well be.

This distinction between covered and uncovered property damage from a contractor's workmanship may be outlined in the "your work" or "faulty workmanship" exclusion of the insurance policy. The exclusion



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usually states that the policy does not cover property damage for “that particular part of any property that must be restored, repaired or replaced because ‘your work’ was incorrectly performed on it.”

But what if it wasn’t really you, the contractor, who performed the work? What if it was a subcontractor you hired who performed the work that turned out to be faulty?

An interesting exception to the “your work” exclusion in most current standard form CGL policies provides that, if a subcontractor caused the defect, there may still be coverage. This exception typically states that the exclusion “does not apply if the damaged work or work out of which the damage arises was performed on your behalf by a subcontractor.”

The following is a post by Craig F. Stanovich, CPCU, CIC, CRM, AU is co-founder and principal of Austin & Stanovich Risk Managers, LLC from

http://www.amwins.com/Pages/Client%20Advisories/Construction_Defect_Claims_1.15.aspx?spMailingID=10396961&spUserID=MTIzOTAwNDIwMDE4S0&spJobID=461267455&spReportId=NDYxMjY3NDU1SO

As an illustration, should a subcontractor misread the plans and install two by four inch joists when the plan calls for two by six inch joists, the cost to remove and reinstall the proper joists is not covered by the CGL as there is no property damage. However, if the joists result in the collapse of the structure, the general contractor, whose work is the entire house being built, would have coverage for the damage to portions of the general contractor’s work (due to the subcontractor exception) that was not otherwise defective.

• **Federal Crop Policies:** USDA-RMA (United States Department of Agriculture Risk Management Agency) provides policies for more than 100 crops. Policies typically consist of general crop insurance provisions, specific crop provisions, policy endorsements and special provisions. See RMA's county crop program listings for information about crop policies available in specific counties and states.

Policies are available for most commodities; however, some policies are being tested as pilots or have not been expanded nationwide so are not available in all areas.

Federal Crop Policy Insurance Plans provide different types of insurance coverage to specific commodities:

- **Actual Production History (APH)** policies insure producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. The producer selects the amount of average yield to insure; from 50-75 percent (in some areas to 85 percent). The producer also selects the percent of the predicted price to insure; between 55 and 100 percent of the crop price established annually by RMA. If the harvested plus any appraised production is less than the yield insured, the producer is paid an indemnity based on the difference. Indemnities are calculated by multiplying this difference by the insured percentage of the price selected when crop insurance was purchased and by the insured share.
- **Actual Revenue History (ARH)** plan of insurance has many parallels to the APH plan of insurance, with the primary difference being that instead of insuring historical yields, the plan insures historical revenues. The policy is structured as an endorsement to the Common Crop Insurance Policy Basic Provisions. It restates many of the APH yield procedures to reflect a revenue product. Each crop insured under ARH has unique crop provisions. Like current revenue coverage plans, the ARH pilot program protects growers against losses from low yields, low prices, low quality, or any combination of these events.
- **Adjusted Gross Revenue (AGR)** and **AGR-Lite** policies insure revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a



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small amount of livestock revenue. The policies use information from a producer's Schedule F tax forms, and current year expected farm revenue, to calculate policy revenue guarantee.

- **Dollar Plan** policies provide protection against declining value due to damage that causes a yield shortfall. The amount of insurance is based on the cost of growing a crop in a specific area. A loss occurs when the annual crop value is less than the amount of insurance. The maximum dollar amount of insurance is stated on the actuarial document. The insured may select a percent of the maximum dollar amount equal to CAT (catastrophic level of coverage), or purchase additional coverage levels.
- **Group Risk Plan (GRP)** is designed as a risk management tool to insure against widespread loss of production of the insured crop in a county. GRP policies use a county yield index as the basis for determining a loss. When the estimated county yield for the insured crop, as determined by National Agricultural Statistics Service (NASS), falls below the trigger yield level chosen by the producer, an indemnity is paid. Payments are not based on an individual producer's crop yields. Coverage levels are available for up to 90 percent of the expected county yield. GRP involves less paperwork and costs less than plans of insurance against individual loss, as described above. Under GRP, insured acreage for an individual producer's crop may have low yields and not receive a payment if the county does not suffer a similar level of yield loss. This insurance is primarily intended for producers whose crop yields typically follow the average county yield.
- **Group Risk Income Protection (GRIP)** is designed as a risk management tool to insure against widespread loss of revenue from the insured crop in a county. GRIP policies use a county revenue index as the basis for determining a loss by using the estimated county yield for the insured crop, as determined by National Agricultural Statistics Service (NASS), multiplied by the harvest price. If the county revenue falls below the trigger revenue level chosen by the producer, an indemnity is paid. Unlike GRP, it is not necessary to have a decline in yield to be indemnified, as long as the combination of price and yield results in a county revenue that is less than the trigger revenue. Payments are not based on individual producer's crop yields and revenues. Coverage levels are available for up to 90 percent of the expected county revenue. GRIP involves less paperwork and costs less than plans of insurance against individual loss as described above. Under GRIP, an individual producer's crop may receive reduced revenue from the insured acreage and not receive a payment under this plan if the county does not suffer a similar level of revenue loss. This insurance is primarily intended for producers whose crop yields typically follow the average county yield and wish to insure that the combination of yield and price result in a particular level of revenue.
- **Group Risk Income Protection - Harvest Revenue Option (GRIP-HRO)** is a supplemental endorsement to the GRIP Basic Provisions. The Harvest Revenue Option changes the trigger revenue to be the result of multiplying the expected county yield by the greater of the expected price or the harvest price and by the producer chosen coverage level percentage. If the county revenue for the insured crop, type, and practice falls below the GRIP-HRO trigger revenue, an indemnity is paid.
- **Livestock policies** are designed to insure against declining market prices of livestock and not any other peril. Coverage is determined using futures and options prices from the Chicago Mercantile Exchange Group. Price insurance is available for swine, cattle, lambs and milk. Producers decide the number of head (cwt of milk) to insure and the length of the coverage period. There are two types of plans available: Livestock Risk Protection, provides coverage against market price decline, if the ending price is less than the producer determined beginning price and indemnity is due; and Livestock Gross Margin, provides coverage for the difference between the commodity and feeding costs. If the producer determined expected gross margin is greater than the actual gross margin, an indemnity is due.
- **Rainfall Index (RI)** is based on weather data collected and maintained by the National Oceanic and Atmospheric Administration's Climate Prediction Center. The index reflects how much



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precipitation is received relative to the long-term average for a specified area and timeframe. The program divides the country into six regions due to different weather patterns, with pilots available in select counties.

- **Revenue Protection** policies insure producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease, and revenue losses caused by a change in the harvest price from the projected price. The producer selects the amount of average yield he or she wishes to insure; from 50-75 percent (in some areas to 85 percent). The projected price and the harvest price are 100 percent of the amounts determined in accordance with the Commodity Exchange Price Provisions and are based on daily settlement prices for certain futures contracts. The amount of insurance protection is based on the greater of the projected price or the harvest price. If the harvested plus any appraised production multiplied by the harvest price is less than the amount of insurance protection, the producer is paid an indemnity based on the difference.
- **Revenue Protection With Harvest Price Exclusion** policies insure producers in the same manner as Revenue Protection policies, except the amount of insurance protection is based on the projected price only (the amount of insurance protection is not increased if the harvest price is greater than the projected price). If the harvested plus any appraised production multiplied by harvest price is less than the amount of insurance protection, the producer is paid an indemnity based on the difference.
- **Vegetation Index (VI)** is based on the U.S. Geological Survey's Earth Resources Observation and Science (EROS) normalized difference vegetation index (NDVI) data derived from satellites observing long-term changes in greenness of vegetation of the earth since 1989. The program divides the country into six regions due to different weather patterns, with pilots available in select counties.
- **Yield Protection** policies insure producers in the same manner as APH policies, except a projected price is used to determine insurance coverage. The projected price is determined in accordance with the Commodity Exchange Price Provisions and is based on daily settlement prices for certain futures contracts. The producer selects the percent of the projected price he or she wants to insure, between 55 and 100 percent.

Federal Crop Policy Endorsements and Options are available for some crop provisions that add supplemental coverage, exclude coverage or otherwise modify coverage. An endorsement or option generally must be applied for on or before the sales closing date.

- **Catastrophic Risk Protection Endorsement (CAT Coverage)** pays 55 percent of the price of the commodity established by RMA on crop losses in excess of 50 percent. The premium on CAT coverage is paid by the Federal Government; however, producers must pay a \$300 administrative fee (as of the 2008 Farm Bill) for each crop insured in each county. Limited-resource producers may have this fee waived. CAT coverage is not available on all types of policies.
- **High-Risk Alternate Coverage Endorsement (HR-AQCE)** is a privately developed product approved through the 508(h) process which allows a producer who farms both high-risk and non-high-risk land to insure the high-risk land at an additional coverage level which is lower than the coverage level on the non-high-risk land. Beginning with the 2013 crop year. The HR-ACE is available for corn, soybeans, wheat, and grain sorghum in certain counties as specified in the actuarial documents.
 - *See actuarial documents for other endorsements and options available to a specific commodity.
- **Fidelity Bond:** A form of protection which reimburses an employer for losses caused by dishonest or fraudulent acts of employees. A fidelity bond is a form of insurance protection that covers policyholders



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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.

While called bonds, these obligations to protect an employer from employee-dishonesty losses are really insurance policies.[1] These insurance policies protect from losses of company monies, securities, and other property from employees who have a manifest intent to cause the company loss. There are also many other forms of crime-insurance policies (burglary, fire, general theft, computer theft, disappearance, fraud, forgery, etc.) to protect company assets.

- **Fiduciary:** A person who holds something in trust for another.
- **Final Expense Insurance (aka Burial or Funeral):** Final expense insurance, also known as "burial" or "funeral" insurance, is a life insurance policy with a low face value, such as \$5,000 to \$50,000, that you buy directly from an insurance company. You can name any beneficiary, typically a family member, who would make the claim and receive the money upon your death. That beneficiary would then be responsible for using the money to carry out your wishes.

The beneficiary legally could decide to use the money any way they want, so make sure you trust your beneficiary. Also, if your benefit amount exceeds the cost of your funeral, the beneficiary keeps the difference. For example, if you have a final expense policy for \$15,000 and your services and burial end up costing \$12,000, your beneficiary would pay the bill and keep the extra \$3,000.

Final expense policies are either "term life" (which covers you for a specific time period or until a certain age, then expires) or "whole life" (which covers you for the rest of your life). They are generally either "simplified issue" policies, for which you're asked several medical questions but don't have to take a medical exam, or "guaranteed issue," where the policy is issued to anyone who applies with no medical questions asked.

- **FIO (Federal Insurance Office):** The Federal Insurance Office (FIO) was established by Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA). The FIO is housed in the Department of the Treasury and is headed by a Director who is appointed by the Secretary of the Treasury. While the FIO serves an important role by providing necessary expertise and advice regarding insurance matters to the Treasury Department and other federal agencies, it is not a regulatory agency and its authorities do not displace the time-tested robust state insurance regulatory regime.

The NAIC coordinates closely with the Federal Insurance Office to serve as an information resource for the federal government and to engage in international discussions in conjunction with U.S. insurance regulators.

FIO Scope and Functions

The FIO's authorities extend to all lines of insurance other than health insurance, long-term care insurance (except that which is included with life or annuity insurance components) and crop insurance, which is governed by the Federal Crop Insurance Act. The FIO does not have supervisory or regulatory authority over the business of insurance.

The FIO is charged with monitoring all aspects of the insurance sector, including identifying activities within the sector that could potentially contribute to a systemic crisis to the broader financial system, the extent to which under-served communities have access to affordable insurance products, and the sector's regulation. The Director of the FIO serves as a non-voting member of the Financial Stability Oversight Council (FSOC). He also plays a role in the resolution of certain troubled insurance companies.



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The FIO advises the Secretary of the Treasury on major domestic and prudential international insurance matters. The FIO has authority to represent the U.S. federal government internationally at meetings of the International Association of Insurance Supervisors (IAIS) and other similar organizations. However, state insurance regulators, either directly or through their NAIC representatives, present the views of the insurance regulatory community internationally.

FIO Powers

In order to carry out these functions, the FIO is authorized to receive and collect data and information on the insurance industry and can enter into information sharing agreements with state regulators. The FIO can also require an insurer or its affiliate to submit data to the office; however, the FIO must first determine whether any public or regulatory sources are available before requiring such information directly from an insurer. The law provides an exemption for small insurers that meet a minimum size threshold not yet defined by the FIO.

FIO Reports

A primary function of the FIO is to issue several one-time reports as well as annual reports to Congress.

- **Fire Following (Terrorism):** In some states a doctrine known as “fire following” applies. This means that in the event of a terrorist-caused explosion followed by fire, insurers could be liable to pay out losses attributable to the fire (but not the explosion) even if a commercial property owner had not purchased terrorism coverage. Laws requiring coverage for “fire-following” an event —known as the standard fire policy (SFP)—irrespective of the fire’s cause. Therefore, in SFP states, fire following a terrorist event is covered whether there is insurance coverage for terrorism or not. Therefore, when the insured elects to reject Terrorism coverage, Fire Following Terrorism coverage cannot be rejected from the policy.
- **Fire Insurance:** Coverage for losses caused by fire and lightning, plus resultant damage caused by smoke and water.
- **Fire Legal/Damage Liability (aka Damage to Rented Premises):** To protect an insured for fire damage caused by negligence of and damage to property of another while renting/leasing property (An office space you rent). Covers your liability to others if you occupy leased or rented property for which you could be held legally liable for damage to the property due to fire or explosion.
- **Fire Legal Limit:** Coverage for property loss liability as the result of negligent acts and/or omissions of the insured that allows a spreading fire to damage others' property. Negligent acts and omissions can result in fire legal liability. For example, a tenant occupying another party's property through negligence causes serious fire damage to the property.
- **Fire Protection Class (1-10), Public Protection Classification (PPC™) or Fire Suppression Rating Schedule (FSRS):** Indicates the proximity of fire resources to the insured’s location. Protection Class 3 is common for buildings within the city limits. Protection Class 10 indicates a rural area without fire hydrants or fire departments. Class 1 represents the best public protection, and Class 10 indicates no recognized protection.
- **FIRM (Flood Insurance Rate Map):** It is the official map of a community on which FEMA has delineated both the special hazard areas and the risk premium zones applicable to the community.
- **First Dollar Coverage:** First dollar coverage in health insurance means that your insurance covers health care expenses without copayments or deductibles having to be paid first. It pays expenses beginning with the first dollar charged for health care or hospitalization depending on the type of policy purchased.
- **First Party Claim:** a demand made by a policyholder reporting an insured event directly to his company.
- **First Party Coverage:** An insurance coverage under which the policyholder collects compensation for losses from the insured's own insurer rather than from the insurer of the person who caused the accident.
- **Floater:** Insurance policies that cover property that can be moved from one location to another for both transportation perils and perils affecting property at a fixed location.



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- **Flood Insurance:** Coverage against loss resulting from the flood peril, widely available at low cost under a program developed by the private industry and the federal government.
- **Flood Related Erosion:** The collapse or subsidence of land along the shore of a lake or other body of water as a result of undermining caused by waves or currents of water exceeding anticipated cyclical levels or suddenly caused by an unusually high water level in a natural body of water, accompanied by a severe storm, or by an unanticipated force of nature, such as a flash flood or an abnormal tidal surge, or by some similarly unusual and unforeseeable event which results in flooding. (<http://www.fema.gov/flood-related-erosion>) The process of the gradual wearing away of land masses. Erosion can occur along coasts and rivers and streams. Although flood-related erosion is covered by flood insurance, this peril is not covered per se under the National Flood Insurance Program (NFIP). The mapping and regulatory standards of the NFIP do not currently address erosion, but Community Rating System (CRS) credit is given to communities that include this hazard in their regulations, planning, public information, hazard disclosure, and flood warning programs. Many States and communities have established setbacks and other requirements in areas subject to erosion. (<http://www.fema.gov/erosion>)
- **Follow Form:** When an umbrella policy provision follows the underlying policy as to how the provision applies. Follow form also identifies an "excess" liability policy that follows the underlying policies for most policy provisions. The policy may stand alone for certain exclusions, conditions, etc., while relating back to the underlying coverage for most provisions. This type of policy form is typically used excess of scheduled underlying insurance and usually contains a requirement that the insured maintain scheduled underlying insurance. Follow Form can also be used when Excess insurance is subject to all of the terms and conditions of the policy beneath it. In the event of a conflict, it is the underlying policy provisions that take precedence. Many excess liability policies state that they are follow form except with respect to certain terms and conditions. (*IRMI*)
- **Food Contamination:** "Food contamination" coverage protects you in the event of a patron getting or suspecting that they got food poisoning from food supplied by you. Check your current policy to see if you are covered for Food Contamination risks. Food contamination is one of the restaurant industries greatest areas of risk.
- **Flood:** A general and temporary condition of partial or complete inundation of 2 or more acres of normally dry land area or of 2 or more properties (at least 1 of which is the policyholder's property) from:
 - + Overflow of inland or tidal waters; or
 - + Unusual and rapid accumulation or runoff of surface waters from any source; or
 - + Mudflow; or
 - + Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above.
- **Flood Zones:** Flood zones are geographic areas that the FEMA has defined according to varying levels of flood risk. These zones are depicted on a community's Flood Insurance Rate Map (FIRM) or Flood Hazard Boundary Map. Each zone reflects the severity or type of flooding in the area.

Moderate to Low Risk Areas. In communities that participate in the NFIP, flood insurance is available to all property owners and renters in these zones:

Zone B and X (shaded): Area of moderate flood hazard, usually the area between the limits of the 100-year (base-flood or 1% annual-chance of being equaled or exceeded in any given year) and 500-year (0.2% annual-chance of being equaled or exceeded in any given year) floods. B Zones are also used to designate base floodplains of lesser hazards, such as areas protected by levees from 100-year flood, or shallow flooding areas with average depths of less than one foot or drainage areas less than 1 square mile.

Zone C and X (unshaded): Area of minimal flood hazard, usually depicted on FIRMs as above the 500-year flood level (0.2% annual-chance). Zone C may have ponding and local drainage problems that



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don't warrant a detailed study or designation as base floodplain. Zone X is the area determined to be outside the 500-year flood and protected by levee from 100-year flood.

High Risk Areas. In communities that participate in the NFIP, mandatory flood insurance purchase requirements apply to all of these zones:

Zone A: Areas with a 1% annual chance of flooding and a 26% chance of flooding over the life of a 30-year mortgage. Because detailed analyses are not performed for such areas; no depths or base flood elevations are shown within these zones.

Zone AE: The base floodplain where base flood elevations are provided. AE Zones are now used on new format FIRMs instead of A1-A30 Zones.

Zone A1-30: These are known as numbered A Zones (e.g., A7 or A14). This is the base floodplain where the FIRM shows a BFE (old format).

Zone AH: Areas with a 1% annual chance of shallow flooding, usually in the form of a pond, with an average depth ranging from 1 to 3 feet. These areas have a 26% chance of flooding over the life of a 30-year mortgage. Base flood elevations derived from detailed analyses are shown at selected intervals within these zones.

Zone AO: River or stream flood hazard areas, and areas with a 1% or greater chance of shallow flooding each year, usually in the form of sheet flow, with an average depth ranging from 1 to 3 feet. These areas have a 26% chance of flooding over the life of a 30-year mortgage. Average flood depths derived from detailed analyses are shown within these zones.

Zone AR: Areas with a temporarily increased flood risk due to the building or restoration of a flood control system (such as a levee or a dam). Mandatory flood insurance purchase requirements will apply, but rates will not exceed the rates for unnumbered A zones if the structure is built or restored in compliance with Zone AR floodplain management regulations.

Zone A99: Areas with a 1% annual chance of flooding that will be protected by a Federal flood control system where construction has reached specified legal requirements. No depths or base flood elevations are shown within these zones.

High Risk - Coastal Areas. In communities that participate in the NFIP, mandatory flood insurance purchase requirements apply to all of these zones:

Zone V: Coastal areas with a 1% or greater chance of flooding and an additional hazard associated with storm waves. These areas have a 26% chance of flooding over the life of a 30-year mortgage. No base flood elevations are shown within these zones.

Zone VE, V1 – 30: Coastal areas with a 1% or greater chance of flooding and an additional hazard associated with storm waves. These areas have a 26% chance of flooding over the life of a 30-year mortgage. Base flood elevations derived from detailed analyses are shown at selected intervals within these zones.

Undetermined Risk Areas.

Zone D: Areas with possible but undetermined flood hazards. No flood hazard analysis has been conducted. Flood insurance rates are commensurate with the uncertainty of the flood risk.

- **Forced Placement:** Insurance that is forced or required by a bank or other entity.
- **Functional Capacity Evaluation (FCE):** is a compilation information that 1) objectively assists in measuring functional abilities and consistency of efforts, 2) provides further data for the determination of permanent work capacity and 3) helps to promote safe work parameters.
- **Future Increase Option:** A provision found in some policies that allows the insured to purchase additional disability income insurance at specified future dates regardless of the insured's physical condition.



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• **GAP Insurance OR Loan/Lease (pertaining to autos):** GAP stands for "Guaranteed Auto Protection." Such insurance is indeed important when leasing or buying with a small down payment, since you don't actually own the car and usually don't put down a large down payment. If you have an accident, your insurance will pay you the current market value of the car, but not the total amount of what you owe the finance company. This leaves a gap in your coverage, and an amount that you still have to pay.

If your \$20,000 car is totaled in an accident, you still could owe as much as \$5,000, even after your insurance pays your finance company. GAP covers that difference.

That's because car depreciation sometimes outpaces your car payments. So if you buy a car for \$20,000 and put no money down, the car might be worth only \$14,000 a year later, even though you still owe \$19,000. If an accident totals your car, you will be responsible for paying the \$5,000 difference. Again, GAP covers that difference.

To see if you need GAP insurance for a financed car purchase, consider the coverage and the size of your down payment. If you are putting down less than 20 percent on your car purchase, you may need GAP insurance, particularly if you buy a car that depreciates quickly. (Look up depreciation on Edmunds' [True Cost to Own](#)). Also, look at how your auto insurance policy is written. If it says the policy will pay off the fully financed amount, then you don't need GAP insurance.

Also known as Loan/Lease Insurance – it can protect you if your vehicle is financed or leased. If your vehicle is totaled, this coverage may pay the difference between the actual cash value of the vehicle and the unpaid balance of the loan or lease.

• **General Liability:** General Liability insurance provides coverage that protects against, bodily injury, property damage or personal injury claims made by someone else. Some things that general liability protects you from are:

- Injuries sustained by patrons while at your restaurant
- Injuries that occur off premises due to your services
- Property damage caused by you or your employees
- Contractual issues
- Advertising
- Problems with your products

There are other more specific exposures that are not covered by general restaurant/bar liability coverage. General Liability provides coverage only for particular instances; look into the additional coverages that can be purchased to ensure you are correctly insured for all the services you provide.

General Liability vs. Professional Liability:

It's not really about choosing between general liability or professional liability. If you have a business or a company that provides services or advice to clients for a fee, you are in need of both.

Similarities:

General liability and professional liability are both similar in that they protect a business from any liability that they might face with regards to a third party who wants to make a claim to do some kind of damage or loss they experienced. These coverage's protect you from risks with regards to your responsibility to your customers and to people your business comes into contact with.

Both will pay for:



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- Legal defense costs
- Damages - this may be a settlement agreed upon with the claimant or as a judgment ordered and required by law

Differences:

The difference is that professional liability is more specific to the particular profession being covered. General liability insurance is easier to obtain and it is also more or less standardized across most types of businesses. Professional liability insurance, on the other hand, is more specific, since various professions have various needs. That is why this type of insurance also is called different names - medical malpractice, errors and omissions liability insurance and so on.

Coverage:

General liability will protect your company or practice against bodily injury, property damage, advertising injury and personal injury (for damage such as libel or slander). Meanwhile, professional liability will protect your business or practice against its failure to perform or for losses resulting from error or omission with regards to the product or services being sold. It will also cover against personal injury, breach or security, breach of intellectual property or warranty.

Who's Involved:

With professional liability, the insurance protects against claims from clients or customers. However, for general liability, the insurance will protect against a wider scope of claimants - not just customers, but also of competitors, visitors or even trespassers. In essence, it will cover just about anyone who comes into contact with your business - through your product, through your business office or area or even through your advertising campaigns.

Kind of Damage Covered:

For general liability insurance, the damage being protected against is usually bodily injury or damage to property. Another area of damage may also be damage to a person or company by your businesses' claims or libelous statements. For professional liability insurance, the damage being protected against is usually financial in nature - a financial loss that resulted in bad advice or service you failed to provide the client.

- **General Liability Aggregate:** Liability insurance available for each year as a total (For example, 4 lawsuits at \$250,000 each would be the max [1M aggregate]) \ - of course, you can get more coverage if you wish.
- **General Liability Insurance:** Coverage that pertains, for the most part, to claims arising out of the insured's liability for injuries or damage caused by ownership of property, manufacturing operations, contracting operations, sale or distribution of products, and the operation of machinery, as well as professional services.
- **Glass Insurance:** Protection for loss of or damage to glass and its appurtenances.
- **Grace Period:** A specified period after a premium payment is due, in which the policyholder may make such payment, and during which the protection of the policy continues.
- **Gross Negligence:** the intentional failure to perform a manifest duty in reckless disregard of the consequences as affecting the life or property of another
- **Group Insurance:** Insurance written on a number of people under a single master policy, issued to their employer or to an association with which they are affiliated.
- **Guaranty Fund:** A fund, derived from assessments against solvent insurance companies, to absorb losses of claimants against insolvent insurance companies.

-H-

- **Hazard:** Condition that creates or increases the chance of loss.



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- **Health Maintenance Organization (HMO):** An organization that provides a wide range of comprehensive health care services for a specified group at a fixed periodic payment. The HMO can be sponsored by the government, medical schools, hospitals, employers, labor unions, consumer groups, insurance companies, and hospital medical plans.
- **High Risk Automobile Insurer:** Company that specializes in insuring motorists who have poor driving records or have been canceled or refused insurance.
- **Hired/Non-Owned Vehicle Liability:** Hired/Non-Owned Vehicle Liability coverage provides contingent excess liability for Hired (rented) vehicles and Non-Owned vehicles (vehicles owned by employees and driven for company business.) Hired/Non-Owned Vehicle Liability limits are the same as the General Liability policy. Hired & Non-owned coverage is essential for risks that have a delivery service as you can be held responsible for accidents that your employees get into. Note that hired autos are almost always insured on an excess basis. This means that the insurer will pay only after any other available insurance, such as the driver's personal auto policy, has been used up.

Modern society is dependent on autos, and few businesses can function without them. Yet, many small businesses do not own any vehicles. Instead, they rely on autos that belong to company principals, employees or other parties. Vehicles that your company does not own but that it uses for business purposes are called *non-owned autos*. [Non-owned autos](#) may be insured for liability under a commercial auto policy.

What are Non-owned Autos?

Under the standard commercial auto policy, non-owned autos are defined in terms of what they are not. *Non-owned autos* means "autos you do not own, lease, hire, rent or borrow that are used in connection with your business". Autos that you lease, hire, rent or borrow are considered *hired autos*. Thus, non-owned autos are vehicle *other than* those you (the named insured) own or [hire](#). Non-owned autos include vehicles used in your business that are owned by your employees, partners, members (if you are a limited liability company) or members of their households.

Some businesses make extensive use of vehicles owned by employees. For instance, a company may employ a large sales force and require all sales employees to drive their own autos when making sales calls on clients. Other businesses rely on employee-owned vehicles only occasionally. No matter how often your company uses them, it is important to make sure that non-owned autos are covered under your commercial auto policy.

The term *non-owned auto* may include a vehicle owned by virtually anyone as long as it is used in your business. For example:

- Volunteers for your charitable organization use their personal autos to ferry elderly people from their homes to doctor appointments.
- Members of your company, a professional association, use their personal autos to conduct association business.
- An employee of yours drives to work using his neighbor's car because the employee's car is in the shop. Later that day, you send the employee on a business-related errand (buying stamps at the post office) and the employee complies, using the vehicle he borrowed from his neighbor.
- A customer of yours will soon arrive at the airport but neither you nor your business partner is available to meet him; thus, your partner asks his friend (Bill) to pick up the customer using Bill's vehicle.

None of the autos described above is owned or hired by the business. Because they are used on behalf of the business, all are considered non-owned autos.

Vicarious Liability



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How could you be liable for accidents involving autos that don't belong to you? The answer has to do with vicarious liability. As an employer, you may be held vicariously liable for negligent acts committed by your employees. This liability extends to auto accidents your employees inadvertently cause while performing their jobs. You may also be held liable for accidents caused by people who are not employees (such as the partner's friend in the above example), if they are driving a non-owned vehicle for the benefit of your business.

Who is an Insured?

You may elect to insure non-owned autos for liability under your commercial auto policy. If you have purchased this coverage, only you (the named insured) are covered for claims arising out of auto accidents involving non-owned autos. No one else is covered. This means that your employees are not insureds under your policy while driving their personal autos on your company's behalf.

For example, suppose that Barbara, an employee of yours, is running an errand for you using her personal auto. Barbara has completed the task and is on her way back to your office when she runs a stop sign. Barbara broadsides another car, injuring its driver. The driver later sues both Barbara and your company. Assuming your commercial auto policy covers non-owned autos, the claim against your company should be covered. However, Barbara will have to rely on her own personal auto policy to cover the claim against her.

Employees as Insureds

You can elect to cover your employees under your policy as insureds for their use of non-owned autos. An endorsement called Employees as Insureds is available for this purpose. The endorsement will cover employees of yours for claims arising out of accidents that occur while employees are driving their personal vehicles on company business. Unfortunately, the endorsement applies as excess coverage over the employee's personal auto policy. Why isn't the endorsement primary?

The standard ISO commercial auto policy states that it provides excess liability coverage for any auto you don't own. The endorsement does not affect this provision, so the coverage it affords applies on an excess basis.

Suggested Reading

- [Who's Covered Under My Commercial Auto Policy?](#)
- [Questions to Ask Before Your Business Rents an Auto](#)
- **Hold Harmless Clause:** Clause written into a contract by which one party agrees to release another party from all legal liability, such as a retailer who agrees to release the manufacturer from legal liability if the product injures someone.
- **Homeowners Policy:** A package of insurance providing home owners with a broad range of property and liability coverage's.
- **Hurricane:** A tropical storm marked by extremely low barometric pressure and circular winds with a velocity of 75 miles an hour or more.

-I-

- **IMO / FMO (Insurance/Independent or Field Marketing Organization):** Marketing organizations that usually deal with agents in the life insurance, fixed and indexed annuities fields.
- **Imputed Negligence:** Case in which responsibility for damage can be transferred from the negligent party to another person, such as an employer.
- **Indemnification:** Compensation to the victim of a loss, in whole or in part, by payment, repair, or replacement.
- **Indemnity:** Legal principle that specifies an insured should not collect more than the actual cash value of a loss but should be restored to approximately the same financial position as existed before the loss.



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- **Independent Adjustor:** Claims adjustor who offers his or her services to insurance companies and is compensated by a fee.
- **Independent Agent:** an independent business person who usually represents two or more insurance companies in a sales and service capacity and who is paid on a commission basis.
- **Independent Medical Examination (IME):** A medical examination used to determine whether an injured party claiming injuries is actually injured or to the extent they claim. Independent medical examiners are registered medical practitioners who provide impartial medical assessments of an injured worker to assist decisions about: accepting a claim, ongoing liability and the worker's level of fitness for work.
- **Inland Marine Insurance:** A broad form of insurance, generally covering articles in transit as well as bridges, tunnels and other means of transportation and communication. Besides goods in transit (generally excepting trans-ocean), it includes numerous "floater" policies, such as those covering personal effects, personal property, jewelry, furs, fine arts, and other items.
- **Inservant:** A person employed to work for another, especially one who performs household duties.
- **Inspection Report:** A report (usually written) of an investigation of an applicant, conducted by an independent agency that specializes in insurance investigations. The report covers such matters as occupation, financial status, health history, and moral problems.
- **Insurability:** Acceptability to the company of an applicant for insurance.
- **Insurable Risk:** The conditions that make a risk insurable are (a) the peril insured against must produce a definite loss not under the control of the insured, (b) there must be a large number of homogeneous exposures subject to the same perils, (c) the loss must be calculable and the cost of insuring it must be economically feasible, (d) the peril must be unlikely to affect all insureds simultaneously, and (e) the loss produced by a risk must be definite and have a potential to be financially serious.
- **Insurance:** A system under which individuals, businesses, and other organizations or entities, in exchange for payment of a sum of money (a premium), are guaranteed compensation for losses resulting from certain perils under specified conditions.
- **Insurance Company:** An organization chartered to operate as an insurer. Any corporation primarily engaged in the business of furnishing insurance protection to the public.

• **Insurance Coverage Abbreviations:**

ACV Actual Cash Value

AIP Automobile Insurance Plan

AP Additional Premium

BI Bodily Injury

BI Business Interruption

BOP Business Owner's Policy

BV Brick Veneer

CGL Commercial General Liability

COLL Collision

COMP Comprehensive Coverage or Compensation as in Workers' Compensation

CX Cancelled

D&B Dunn & Bradstreet, Inc.

D&O Directors & Officers

DED Deductible

DIC Difference in Conditions

DP Deposit Premium

DPP Deferred Premium Payment Plan

EC Extended Coverage

E&O Errors & Omissions

GA General Average



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GKLL Garage Keepers Legal Liability
GL General Liability
HO Homeowners
INCL Included
M&C Manufacturers & Contractors
MP Minimum Premium
MV Masonry Veneer
MVR Motor Vehicle Report
NA Not Applicable
NOC Not Otherwise Classified or Notice of Cancellation
O&CP Owners & Contractors Protection
OL&T Owners Landlords & Tenants
P&C Property & Casualty
PD Property Damage
PIP Personal Injury Protection
PRC Pro Rata Cancellation
RC Replacement Cost
SRC Short Rate Cancellation
UM Uninsured Motorist
V&MM Vandalism & Malicious Mischief
WC Workers Compensation

• **Insurance Guaranty Funds:** State Funds that provide for the payment of unpaid claims of insolvent insurers.

• **Insurance Organizations & Periodicals Abbreviations:**

ARIA American Risk & Insurance Association
FC&S Fire Casualty & Surety Bulletins
IIA Insurance Institute of America
IAA Independent Insurance Agents of America
III Insurance Information Institute
ISO Insurance Services Office
NAIC National Association of Insurance Commissioners
NAIW National Association of Insurance Women
RIMS Risk & Insurance Management Society

• **Insurance Services Offices (ISO):** Major rating organization in property and liability insurance that drafts policy forms for personal and commercial lines of insurance and provides rate data on loss costs for property and liability insurance lines.

• **Insured:** A person or organization covered by an insurance policy, including the "named insured" and any other parties for whom protection is provided under the policy terms.

• **Insurer:** The party to the insurance contract who promises to pay losses or benefits. Also, any corporation engaged primarily in the business of furnishing insurance to the public.

• **Intellectual Property (IP):** Intellectual Property Insurance coverage protects companies for copyright, trademark or patent infringement claims arising out of the company's operation. It pays the defense costs and any judgment up to the policy limits.

-J-

• **Joint-and-Severall Liability:** A legal principle that permits the injured party in a tort action to recover the entire amount of compensation due for injuries from any tort-feasor who is able to pay, regardless of the degree of that party's negligence.



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- **Joint Tenants:** A form of joint property ownership with right of survivorship, i.e., in which the survivors automatically own the share of a deceased co-owner.
- **Joint Underwriting Association:** One of several types of "shared market" mechanisms used to make automobile insurance available to persons who are unable to obtain such insurance in the regular market. JUAs also have been created in some states to help alleviate availability problems in the fields of medical malpractice and commercial insurance.
- **Joint Underwriting Association:** A device used to provide insurance to those who cannot obtain insurance in the voluntary market. Certain companies (called carriers) issue policies at one rate level and handle claims, but the ultimate costs are borne by all companies writing insurance in that state.
- **Judicial Bond:** Type of surety bond used for court proceedings and guaranteeing that the party bonded will fulfill certain obligations specified by law, for example, fiduciary responsibilities.

-K-

- **K&R (Kidnap & Ransom Insurance):** Kidnap, Ransom and Extortion insurance provides numerous benefits and services to the applicant and the insured. Kidnap, Ransom & Extortion Insurance provides coverage for kidnappings and other events through a combination of financial indemnification and expert crisis management.

A basic policy can cover items such as ransom payment, loss of income, interest on bank loans, and medical/psychiatric care. Besides insurance, companies can also utilize crisis management teams and employee training in what to do in a hostage situation to minimize losses due to kidnap or ransom.

The Kidnap, Ransom and Extortion insurance covers named employees for individual or aggregate amounts, with deductibles requiring the insured to participate in about 10% of any loss.

Kidnap Extortion and Detention are real dangers for companies operating both overseas and in domestic markets. They are often overlooked by management on the grounds that "it won't ever happen to us", but the damage this can inflict on a business can be very severe - as the annual roll call of corporate and individual victims around the world testifies.

With over 1,000 annual kidnappings of professionals and executives world wide and numerous terrorists attacks, life and health insurance professionals should consider such policies for anyone who travels internationally.

Those persons who are perceived to be wealthy need Kidnap and Ransom Insurance. Not everyone generally needs it. A kidnappers' perception of victim's liquid assets may have little to do with the real value of the victim's assets.

For people who travel frequently to high-risk regions such as Columbia and Peru, this coverage could be a life saver.

Kidnap and Ransom insurance plans provide assistance to the family and business with regard to independent investigations, negotiations, arrangement and delivery of funds, and numerous other services vital to a safe, speedy and satisfactory resolution.

Extortionists don't discriminate. Any company of any size can be a target for extortion threats against the company and its employees. People tend to associate business extortion and kidnapping with global companies. The fact is, radical groups and criminals exist everywhere.



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Kidnap, Ransom and Extortion Insurance will help you manage the costs associated with an extortion threat against your products, proprietary information, computer system or your people can be enough to push a small to medium-sized company to its financial limits.

These risks may not feel like everyday exposures, but too often they are. And when they happen, you may need financial assistance to meet extortion demands and the extensive costs associated with negotiation and recovery.

Due to globalization of economies, multinational companies need to prepare for the possibility of attacks on their employees and facilities virtually anywhere in the world.

- **Key Man Insurance (aka Keyperson or Keyman):** An important form of business insurance. In general, it can be described as an insurance policy taken out by a business to compensate that business for financial losses that would arise from the death or extended incapacity of the member of the business specified on the policy. The policy's term does not extend beyond the period of the key person's usefulness to the business. The aim is to compensate the business for losses and facilitate business continuity. Key person insurance does not indemnify the actual losses incurred but compensates with a fixed monetary sum as specified on the insurance policy.

An employer may take out a key person insurance policy on the life or health of any employee whose knowledge, work, or overall contribution is considered uniquely valuable to the company. The employer does this to offset the costs (such as hiring temporary help or recruiting a successor) and losses (such as a decreased ability to transact business until successors are trained) which the employer is likely to suffer in the event of the loss of a key person.

-L-

- **Land Insurance:** Land insurance is a form of property coverage that will cover a claim of bodily injury or property damage if someone has an accident on your property and you are found to be at fault. If someone files a lawsuit against you, it will also help to cover your legal fees. While it cannot cover any damage that happens to your land, it will protect you financially if others are ever on your property. (c/o *TrustedChoice.com*)

- **Landslide Types/Classifications:** To explain cause-and-effect differences in slope failures, geologists have classified landslides by the type of movement and the size of the material involved:

Slides consist of blocks of material moving on well-defined shear planes. They are divided into **rotational slides** that move along a concave surface and **translational slides** that move parallel to the ground surface. **Falls** are the sudden release of rocks or soils dropping freely through the air with little contact with other surfaces until impact. **Topples** are similar to falls except that the initial movement involves a forward rotation of the mass. **Flows** move entirely by shearing within the transported mass and act like viscous fluids. **Creep** is the almost imperceptible movement of material down a slope. **Lateral spreads** occur when liquefaction in underlying materials causes surface rocks or soils to move down gentle slopes.

- **Lapse:** The termination or discontinuance of an insurance policy due to nonpayment of a premium.

- **Lapsed Policy:** A policy terminated for non-payment of premiums. The term is sometimes limited to a termination occurring before the policy has a cash or other surrender value.

- **Larceny-theft:** The unlawful taking, carrying, leading or riding away of another person's property.

- **Last Clear Chance Rule:** Statutory modification of the contributory negligence law allowing the claimant endangered by his or her own negligence to recover damages from a defendant if the defendant has a last clear chance to avoid the accident but fails to do so.

• **Lessor's Risk Only (LRO) or Landlord Insurance Policy:** When leasing a building to others, it is important to protect your investment in any way that you can. While you may have other insurance to cover your property, and your lessee (tenant) may have the same, lessor's risk insurance is a great way to make sure that your property is protected against any possible damage. Lessor's risk insurance is also known as landlord's insurance, and may be required in your area.

- **Function** - Lessor's risk insurance provides liability and property coverage for individuals who lease their building to others. If you occupy less than 75 percent of your building, and lease the remainder of it, you may also qualify for lessor's risk insurance. Check with your local insurance agent to find out whether you qualify for this insurance, and your premium eligibility.
- **Types** - All lessor's risk insurance is designed to protect you for liability and property damage. If you require more protection, it is possible to expand your coverage into other areas, such as bodily injury and pollution liability. These additional functions will raise your insurance premium, so check with your insurance agent to find out whether these expansions are right for you.
- **Function** - Your lessor's risk insurance policy covers the building that you are leasing out, so your tenants may also benefit from the insurance. In case of damage to the building, your tenants can be assured that the insurance will cover repairs to their space in a timely manner. As such, it is recommended to carry lessor's risk insurance even if not required in your area, as it will provide an attractive benefit to potential lessees.

- **Liability:** Any legally enforceable obligation.
- **Liability Insurance:** Insurance covering the policyholder's legal liability resulting from injuries to other persons or damage to their property. Provides protection for the insured against loss arising out of legal liability to third parties. Liability insurance protects your business if a lawsuit is filed for employee or business negligence. Depending on the type of work you do, your state may also require you to purchase professional liability which protects you against malpractice, errors and negligence. Liability insurance protects your company in case it is sued or held legally liable for injury or loss caused by a mistake made by your company.
- **Liability Limits:** The stipulated sum or sums beyond which an insurance company is not liable to protect the insured.
- **Liability Without Fault:** Principle on which workers compensation is based, holding the employer absolutely liable for occupational injuries or disease suffered by workers, regardless of who is at fault.
- **Life Annuity:** A financial contract in the form of an insurance product according to which a seller (issuer) — typically a financial institution such as a life insurance company — makes a series of future payments to a buyer (annuitant) in exchange for the immediate payment of a lump sum (single-payment annuity) or a series of regular payments (regular-payment annuity), prior to the onset of the annuity.

The payment stream from the issuer to the annuitant has an unknown duration based principally upon the date of death of the annuitant. At this point the contract will terminate and the remainder of the fund accumulated is forfeited unless there are other annuitants or beneficiaries in the contract. Thus a life annuity is a form of longevity insurance, where the uncertainty of an individual's lifespan is transferred from the individual to the insurer, which reduces its own uncertainty by pooling many clients. Annuities can be purchased to provide an income during retirement, or originate from a structured settlement of a personal injury lawsuit.

- **Lifetime Disability Benefit:** A benefit to help replace income lost by an insured person as long as he/she is totally disabled, even for a lifetime. Disability income payable for the life of the insured as long as he is totally disabled.
- **LOI (Limit of Indemnity):** The limit of indemnity is the maximum amount the insurer will pay for compensation and claimant's costs and expenses arising from any one claim and all claims in the aggregate made by the insured under a policy during the period of insurance.
- **Liquidation:** Dissolving a company by selling its assets for cash.



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• **Liquor Liability:** Liquor Liability coverage is for bodily injury or property damage caused by an intoxicated person who was served liquor by the policyholder. Liquor liability insurance provides coverage for bodily injury or property damage for which an insured may be held liable by reason of the following:

- Causing or contributing to the intoxication of any person;
- Furnishing alcoholic beverages to a person under the legal drinking age or under the influence of alcohol; or
- Violating any statute, ordinance, or regulation relating to the sale, gift, distribution, or use of alcoholic beverages.

This coverage applies only if the insured is involved in the following activities:

- Manufacturing, selling, or distributing alcoholic beverages;
- Serving or furnishing alcoholic beverages for a charge, whether or not such activity requires a license or is for the purpose of financial gain or livelihood; or
- Serving or furnishing alcoholic beverages without a charge, if a license is required for such activity.

Liquor liability insurance is business insurance that protects your business against loss or damages claimed as a result of a patron of your business becoming intoxicated and injuring themselves or others. If your business manufactures, sells, serves, or facilitates the uses or purchase of alcohol, then your business may need this coverage.

Liquor liability coverage may be sold as an add-on to a commercial liability policy or as a separate liability policy. But, if you do not purchase this extra coverage your standard liability policy DOES NOT protect your business against these kind of claims.

This coverage is expensive - depending on your location - and it is estimated by experts that only 35% of businesses that should have this coverage actually purchase this coverage. Part of this is because of misconceptions that exist in the hospitality industry regarding the industry's liability risks for intoxicated patrons. That issue is a topic in itself. Part of this is because the insurers continually add exclusions to the point that this coverage is seen as having no value.

If you live in a state with a "dram shop liability" statute, then purchase this insurance if your business will manufacture, sell, serve, or facilitate the use of alcohol.

What to look for/ask for in a liquor liability policy:

- **Assault and Battery Coverage** - Most claims against bars and restaurants are the results of fights. Your liquor liability policy should include coverage for assault and battery claims. If not, the policy has a much lower real value.
- **Defense Costs Included** - The biggest cost facing your business in these types of claims is the cost of retaining a lawyer against frivolous claims. Insurers know this. That is why they sell policies where "defense costs" are deducted from the total coverage. That is, your \$500,000 policy is reduced to \$400,000 because of \$100,000 in attorneys' fees. Frankly, even with a lower premium, pass on the policy if it does not provide your business with skilled, appointed legal counsel that does not reduce coverage.



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- **Employees Included** - If you serve, then employees will drink regardless of the rules. Insurers know this and sometimes exclude employees from coverage. Make sure employees are covered as patrons.
- **Damage Definition Includes Mental Damages** - Claimants may claim they were damaged in non-physical ways: stress, mental anguish, or psychological damage. Some policies exclude these types of damages. Don't purchase a policy with limited damage definitions.
- **Reduced Premiums Based on Safety and Claims** - Good insurers who are market leaders in bar and restaurant insurance will offer free classes and training to their insureds employees and discounts on premiums for having safety training and no claim history. Some insurers will reduce premiums by 15-20% for this basic safety training.

As a final note, liquor liability insurance WILL NOT cover sales that are contrary to law and sales to minors.

Social Hosts and Liquor Liability - Ah summer! Warm weather, sunny beaches and family vacations. Another summer tradition is the company picnic. Employees gather in a local park or in the boss's backyard to eat hot dogs and play silly games. And what's a company picnic without beer? Unfortunately, liquor served at a company-sponsored event can create liability for your firm as a social host.

Some states have passed laws regarding "social hosts", meaning individuals that provide alcohol to others at social events. Most of these laws are directed at minors. These laws can create liability for businesses that serve liquor at social events where minors are present. For example, suppose your firm sponsors a picnic for employees and their families. An employee's teenaged son drinks beer at the event and becomes intoxicated. He later causes an auto accident in which another driver is injured. Depending on the state law, your firm could be subject to legal sanctions in addition to a negligence suit.

- **Long-Term Disability Income Insurance:** Insurance issued to an employer (group) or individual to provide a reasonable replacement of a portion of an employee's earned income lost through serious and prolonged illness or injury during the normal work career. (See also Integration.)
- **Loss:** The happening of the event for which insurance pays.
- **Loss Assessment:** A property owner's share of a loss to property owned in common by all members of a property owners association. Homeowner's policies and condominium unit owner's policies typically provide a small amount of coverage for such assessments, with additional amounts available by endorsement for an additional premium.
- **Loss of Rents:** If you own rental property, or are thinking about investing in real estate, rent loss insurance can help ensure that an accident or natural disaster does not empty your bank account. Rent loss insurance can help when you need it the most.
 - **What is Rent Loss Insurance?** - Rent loss insurance is a policy that covers a rental property owner from loss in rental value due to damage.
 - **Coverage** - There are, of course, several rent loss policies from which to choose. Generally, rent loss insurance covers external hazards such as fire, falling trees, floods and other calamities for at least six months that the unit is uninhabitable. Rent loss insurance covers your property damage as well as any lost rental income from the damaged unit(s). Many times rent loss insurance is offered as part of a comprehensive insurance policy for landlords.
 - **Factors** - The amount of rent loss coverage depends on your net operating loss. Net operating loss is calculated by subtracting taxes, maintenance costs, utilities expenses, mortgage payments and insurance premiums from your monthly rental income.



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- **Is Rent Loss Insurance Mandatory?** - Many mortgage companies require you to have rent loss insurance when you purchase your rental property. If rent collections is your main source of income for making your rental property's mortgage payments, it is wise to purchase this insurance regardless of your lender's requirements.
- **Rent Loss Due to a Tenant Defaulting on Rent Payments** - Another type of landlord insurance policy, rent guarantee insurance, covers loss of rent due to tenant non-payment. Most insurance companies have comprehensive insurance plans for landlords that encompass both rent loss and rent guarantee policies.

• **Loss Ratio:** The percent which losses bear to premiums for a given period. The ratio of claims to premiums. It may be calculated in several different ways, using paid premiums or earned premiums, and using paid claims with or without changes in claim reserves and with or without changes in active life reserves.

• **Loss Reserve:** The amount set up as the estimated cost of a claim. (See IBNR Reserve)

• **Loss Runs:** Loss runs are reports that detail the insurance claims an individual or a business has had during a particular time frame. They are used both as an update for the insured and as an underwriting tool to help insurance companies make decisions about whether to continue writing insurance for the client or not. They are also used to assess the risk level of a potential new client for an insurance company.

What Do Loss Runs Contain?

Loss runs begin by giving basic information about the policy holder like their name, address and effective dates of their policies. They typically contain loss information for the current year and the last 3 to 5 years. Below is a list of information loss runs usually provide about each claim:

- Date of the loss
- Date the claim was reported
- Name of the claimant
- Synopsis of what happened
- Amount paid to date
- Reserve amount that has been set aside
- Whether the claim is closed or still open

• **Low Speed Vehicles (LSV):** LSVs are a small, but growing niche of vehicles that fit somewhere between golf carts and passenger vehicles.

-M-

• **Malingering:** The practice of feigning illness or inability to work in order to collect insurance benefits.

• **Malpractice:** Improper care or treatment by a physician, hospital, or other provider of health care.

• **Malpractice Insurance:** Coverage for a professional practitioner, such as a doctor or a lawyer, against liability claims resulting from alleged malpractice in the performance of professional services.

• **Managed Care:** Health care systems that integrate the financing and delivery of appropriate health care services to covered individuals by arrangements with selected providers to furnish a comprehensive set of health care services, explicit standards for selection of health care providers, formal programs for ongoing quality assurance and utilization review, and significant financial incentives for members to use providers and procedures associated with the plan.

• **Manifestation Provision:** The Manifestation Clause restricts the Occurrence coverage by stating that the damage must manifest during the policy period to be considered an occurrence. The bodily injury or property damage must first manifest during the policy period. The insurance does not apply to any bodily



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injury or property damage that is continuous or progressively deteriorating and that first manifested prior to the effective date of the policy or after the expiration of the policy, even if such injury or damage continued or deteriorated during the time of the policy, and whether or not such occurrence is known to any insured. If the date of the first bodily injury or property damage cannot be determined, then usually the date of first damage or injury shall be deemed to be the earliest date on which the process, which led to the bodily injury or property damage began. Regardless of the policy's exact definition, the damage can only FIRST manifest once and so only the policy in which it first manifests will have an obligation to pay. The occurrence of damage has to have become known (or made evident, or obvious) during the policy period. This form would not want to cover a situation where the damage became apparent after the policy period even if the damage occurred during the policy period and they often require that the damage be obviously apparent. That is, unlike a full occurrence policy, the manifestation policy doesn't want to send out a team of scientists to determine whether or not there was a microscopic crack in a pipe during the policy period that caused damage to occur at a later date. The manifestation policy wants to see that there was a water leak that first occurred during the policy period and it was apparent to anyone who walked in and got his/her feet wet even if the claim wasn't filed until years in the future.

• **Marijuana Business Terms:**

- *Dispensary* - is for profit and has product on hand, owned by the dispensary.
- *Collective* - a collective garden is a non-profit "donation" based business that houses a collection of marijuana from individuals and then is offered to medical marijuana patients for a "suggested donation".

• **MGA or GA or BGA (Managing or General or Brokering General Agent):** A wholesale insurance intermediary with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. Managing general agents generally provide underwriting and administrative services, such as policy issuance, on behalf of the insurers they represent.

• **Market Price (or Market Value):** The price at which a item can be bought or sold at any particular time.

• **Material Damage:** Insurance against damage to a vehicle itself. It includes automobile comprehensive, collision, fire and theft. Material damage and physical damage are terms that often are used interchangeably.

• **Maximum Medical Improvement (MMI)** Maximum Medical Improvement (MMI) is a treatment plateau in each person's healing process. It can mean that the patient has fully recovered from the injury or that the patient's medical condition has stabilized to the point that no major medical or emotional change can be expected in the injured workers' condition. This occurs despite continuing medical treatment or rehabilitative programs the injured worker partakes in.

• **Med Pay:** Believe it or not, most of the cost associated with our insurance rates (how car insurance rates are determined) is based on the cost to settle a claim versus the amount of money actually paid for injury liability or physical damage. Think attorney fees and court costs.

"Med pay insurance," or "medical payments to others," is an optional coverage addition to your auto insurance policy that eases the necessity of court involvement after an accident.

Basically, Med Pay will cover the medical costs associated with bodily injury resulting from an accident, without having to prove any fault. However, you must be both injured and have expenses associated with treatment resulting from the accident. We are talking basic injury here. Limits do not typically exceed \$5,000. Also, this coverage cannot be triggered in the future after an accident has occurred, e.g. no stiff neck two weeks down the road.

According to most policy language, any insured in your vehicle is eligible for Med Pay rewards. "Insured" often refers to the named insured, or the name on the policy, the named insured's spouse and family members, anyone living in the insured's household, or anyone you allow to drive your vehicle. However, there are also some exclusions to this type of policy.



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Med Pay is purchased on a “by vehicle” basis. This means if you have one policy covering two cars, you must purchase Med Pay for both if you wish to be covered while in either vehicle. This is similar to physical damage coverage, where you may have two cars on a policy, but only wish to have one repaired in the event of an accident.

Med pay and personal injury protection (PIP) are no-fault coverage, conceived in an attempt to reduce the overall cost of car insurance and unclog the American court system. Whether it’s working or not is an ongoing debate.

No fault coverage refers to instances where an individual, other than the driver of the vehicle, is injured in a minor accident where fault may be difficult or impossible to determine. This coverage will pay a specified amount of money to the injured party. The typical coverage limits for med pay and PIP span from \$1,000 to \$10,000.

Let’s look at an example:

You’re driving a friend to work, when you careen off the road and hit a tree at low speed while avoiding a car that wandered into your lane. Your friend breaks her arm during the impact. She may choose not to file a claim against your insurance company, but still needs to go to the hospital and get treatment, resulting in a \$2,500 hospital bill.

If you have med pay coverage, your insurance policy will cover the hospital costs without the need for your friend to file a claim to determine who was at fault or charged the deductible. The \$2,500 hospital visit would be much cheaper than investigating the accident and paying court costs and attorney fees.

Med pay coverage limits are “stackable” in some states. This means if you have a \$5,000 med pay limit on your policy and have an accident in which three people are injured, your insurance company would be responsible for up to \$15,000 in injury expense.

Some argue that if you have health insurance there is no need to have med pay insurance, as health insurance may cover your injury expense in the example above.

As always, I recommend purchasing as much insurance coverage as you can afford. Get an online quote and speak to your insurance company or independent agent if you have questions about med pay coverage or cost. This will ensure you are full covered at a fair price.

- **Medical Payments Insurance:** A coverage, available in various liability insurance policies, in which their insurer agrees to reimburse the insured and others, without regard for the insured's liability, for medical or funeral expenses incurred as the result of bodily injury or death by accident under specified conditions.
- **Misrepresentation:** A false, incorrect, improper, or incomplete statement of a material fact, made in the application or claim process.
- **Monopolistic State:** In regards to Worker’s Compensation Insurance, Washington State is a monopolistic state. They make their own rules and operate the only source for Worker’s Compensation Insurance, the Washington State Fund. Labor & Industries Washing State Fund is an exclusive state fund. Insurance in Washington must be purchased through this fund unless the entity is a qualified self-insurer.
- **Monthly Limit of Indemnity:** The monthly limit of indemnity method imposes a monthly maximum based on the fractional limit (1/3, ¼, or 1/6 of the policy limits). This form does not limit the length of recovery as is often thought; it limits the amount of business income loss that may be recovered on a monthly basis.



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- **Mortgagee Clause:** is how the lender will require their name, address and loan number to appear on the insurance documents.
- **Motor Truck Cargo Insurance:** Provides insurance on the freight or commodity hauled by a For-hire trucker. It covers your liability for cargo that is lost or damaged due to causes such as fire, collision, or striking of a load. *(Progressive)*
- **Motor Truck General Liability Insurance:** If you're a for-hire trucker, or motor carrier, you'll most likely need Trucker's GL. Examples of situations where Motor Truck General Liability insurance may provide coverage *(Progressive)*:
 - Customers slipping / falling on your premises
 - Erroneous delivery of products resulting in damage
 - Actions of a driver while representing the insured and on the premises of others, such as, loading docks, truck stops, etc.
 - Libel and slander exposures
 - Fire on rental property due to insured's error
- **Mutual Insurance Company:** An insurance company in which the ownership and control is vested in the policyholders and a portion of surplus earnings may return to policyholders in the form of dividends. No capital stock exists.
- **Mysterious Disappearance:** Personal property that has simply disappeared without any indication of a theft.

-N-

- **NAICS (The North American Industry Classification System):** NAICS (pronounced "nakes") is used by business and government to classify business establishments according to type of economic activity (process of production) in Canada, Mexico and the United States. It has largely replaced the older Standard Industrial Classification (SIC) system; however, certain government departments and agencies, such as the U.S. Securities and Exchange Commission (SEC), still use the SIC codes.

NAIC numbers are assigned on a national basis by the National Association of Insurance Commissioners. They are used as the primary company identification in most states for everything from annual reports to the filing of taxes.*

Additionally, the various agencies within a state may also assign **state codes** to be used on a state basis when dealing with that agency. For example, the Insurance Department will often assign a Certificate of Insurance number when a company is licensed. A state may require companies to use that number instead of the NAIC number. The Department of Motor Vehicles (DMV) may also assign a specific number for use only with DMV related business.*

*From Safeco website

- **Named Perils:** Coverage in a property policy that provides protection against loss from only the perils specifically listed in the policy rather than protection from physical loss. Examples of named perils are fire, windstorm, theft, smoke, etc.
- **National Association of Insurance Commissioners (NAIC):** The association of insurance commissioners of various states formed to promote national uniformity in the regulation of insurance.
- **Negligence:** Failure to use the care that a reasonable and prudent person would have used under the same or similar circumstances.
- **NOC:** Not Otherwise Classified. A term used in the classification section of liability or workers' comp rating manuals. If a listing is followed by an NOC, it means to use this classification if an insured cannot be classified more specifically.



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- **No-Fault:** A type of auto insurance mechanism whereby the right to sue another party for damages caused by negligence is limited and, in exchange, expanded first party benefits are offered.
- **No-fault Automobile Insurance:** A form of insurance by which a person's financial losses resulting from an automobile accident are paid by his or her own insurer regardless of who was at fault.

The 12 states that currently have or include a no-fault car insurance scenario are**:
(source: ecoverage.com)

1. Florida
2. Michigan*
3. New Jersey
4. New York
5. Pennsylvania
6. Hawaii
7. Kansas
8. Kentucky
9. Massachusetts
10. Minnesota
11. North Dakota
12. Utah

Nine of these states are considered just "No-Fault" and three are considered "Choice" states. In a so-called "Choice" state, drivers can choose a no-fault system policy or a policy based on traditional tort liability law. The tort policy used in "Choice" states are the same as those used in states without no-fault laws and, therefore, the claims procedures are the same. A driver retains her right to sue, generally without any significant statutory limitations.

The three "Choice" states are Kentucky, New Jersey and Pennsylvania. Kentucky's no-fault scheme uses a monetary threshold. New Jersey and Pennsylvania, the no-fault insurance system uses a verbal threshold.

No-fault car insurance is the exception rather than the rule when it comes to motor vehicle accident insurance coverage. The purpose of this insurance scheme is simple, the actual implementation is not. If you live in a state that has some form of no-fault insurance, seeking professional guidance in making your car insurance purchase decisions will steer you in the right direction.

*Michigan is the sole exception as it requires a Property Protection Insurance policy which pays for damage to your vehicle regardless of fault.

**The District of Columbia and Puerto Rico also have some form of no-fault insurance.

- **Non-disabling Injury:** An injury which may require medical care, but does not result in loss of working time or income.
- **Non-Contributory:** (Ask for legal advice) Primary and noncontributory is usually an attempt to establish the order or priority of coverage; it is not concerned with allocating percentages of fault. Noncontributory generally means that an insurer has agreed not to seek its independent right to contribution when two or more insurers apply to the same accident for the same insured. In this context, noncontributory appears to be shorthand for the insurer giving up its right of contribution.

Waiver of subrogation and similar approaches to prevent contribution may fail as the right of contribution is independent of any insured's rights. As subrogation is derived solely from an insured's rights, the insurer would likely retain its right of contribution.



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Primary and noncontributory is likely redundant when two ISO CGL policies with ISO additional insured endorsements both apply to the same accident and same insured as the post-1997 ISO CGL policy already sets the priority of coverage in the other insurance condition; if you are an additional insured by endorsement on my policy, my policy is primary and your policy is excess.

However, non-ISO or proprietary additional insured endorsements may change the priority of coverage in a manner not intended by the parties unless the underlying contract requires primary and noncontributory. While this may be viewed as unwelcome, it is reality of the marketplace.

Finally, imposing primary and noncontributory on excess or umbrella policies is inherently problematic; the other insurance condition of most umbrella policies may well thwart any such attempt. Further, the caselaw on this matter of "vertical versus horizontal" exhaustion is mixed and unresolved in most states.

- **Non-Owned Auto:** The driver's policy will afford valuable backup coverage in the event neither the employer's nor the rental agency's policy is available to cover a claim. Many personal policies cover non-owned autos, a term that includes vehicles rented by the policyholder or a resident family member. (Personal policies do not use the term "hired auto".)

- **NPI:** No Prior Insurance

-O-

- **OCIP (Owner-Controlled Insurance Program):** An Owner-Controlled Insurance Program (OCIP) is a wrap-up under which a project owner provides various insurance coverages to contractors and subcontractors. OCIPs comprise about 90% of the wrap-up programs currently being performed in the U.S. Another type of wrap-up is a Contractor-Controlled Insurance Program (CCIP), under which the general contractor is the sponsor.

- **Obligee (Bond):** The party who is the recipient of the obligation. A business or person who asks for or requires the bond. Also called promisee.

- **Occupational Hazards:** Occupations which expose the insured to greater than normal physical danger by the very nature of the work in which the insured is engaged, and the varying periods of absence from the occupation, due to the disability, that can be expected.

- **Occurrence:** An accident, including continuous or repeated exposure to substantially the same general, harmful conditions, that results in bodily injury or property damage during the period of an insurance policy.

- **Occurrence Claims Coverage Policy:** A liability insurance policy that covers claims arising out of occurrences that take place during the policy period, regardless of when the claim is filed. Occurrence coverage is, in my opinion (and others differ), the better option for the business owner. Occurrence coverage is insurance that provides coverage for the act when it occurs - regardless of when it is reported. If you had coverage under an occurrence policy in 2000 and the claim is reported today (they just found the defect in the wall, like the example above, for example) then the claim is covered. An occurrence policy obligates the insurance company to pay for claims arising out of occurrences during the policy period regardless of when the claim is reported. The policyholder is covered for any incident that occurs during the term of the policy regardless of when the claim arising from the incident is reported to the company. In some situations the claim might be made many years after the incident occurred. This leads to uncertainty for both the insured and the insurer.

- **Ocean Marine Insurance:** An *ocean marine insurance policy* provides protection against a wide range of causes-of-loss on a named-peril basis, including perils of the sea, such as collision, high waves, stranding; and other perils, such as damage or loss caused by pirates, jettison, fire, barratry, etc. However, at the request of the named insured, ocean marine insurance can provide protection against all risks, except the ones that are specifically excluded in the policy.



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Here are the common coverages provided by ocean marine insurance:

- **Hull insurance** resembles the collision coverage of auto insurance policies in that it provides protection against any potential damage to the vessel or ship. If you opt for this type of ocean marine insurance contract, you will have to pay a certain deductible in the event of a covered loss. Hull insurance has an extra provision called collision liability coverage under which ship owners whose vessels cause physical damage to another vessel and/or its cargo, are protected. However, this clause does not pertain to liability for bodily injury.
- **Freight insurance** provides financial protection to the owner of the vessel in the event that the cargo is damaged or lost.
- **Cargo insurance** indemnifies the shipper of the goods if the latter have suffered any damage or loss. Depending on the personal insurance needs of shippers, cargo insurance can cover a single shipment or it can be written on an open-policy basis whereupon the policy provides automatic coverage for every shipment.
- **Protection and indemnity insurance** protects the owner of the vessel against legal liability that may arise out of the bodily injury or property damage to others. ([c/o insuranceqna.com](http://c/o.insuranceqna.com))
- **Ordinance Or Law Insurance:** Coverage designed to provide protection against financial loss for (1) the loss of value of an undamaged portion of the existing building which must be demolished and/or removed to conform with municipal ordinance, code, etc.; (2) the cost of demolition of the undamaged portions of the building necessitated by the enforcement of building, zoning or land use ordinance or law; (3) any increased expenses incurred to replace the building with one conforming to building laws or ordinances, or to repair the damaged building so that it meets the specifications of current building laws or ordinances.
- **Overhead Insurance:** A type of short-term disability income contract that reimburses the insured person for specified, fixed monthly expenses, normal and customary in the operation and conduct of his/her business or office.
- **OCP (Owners & Contractors Protective Liability Coverage):** A stand-alone policy that covers the named insured's liability for bodily injury (BI) and property damage (PD) caused, in whole or in part, by an independent contractor's work for the insured. The contractor purchases the policy to provide coverage for vicarious liability the client (project owner) incurs as a result of the contractor's acts or omissions on the project. The OCP policy also responds to liability arising out of the insured's own acts or omissions in connection with its general supervision of the contractor's operations.
- **Outservant:** A domestic servant whose principal duties are outside, such as a gardener or chauffeur.
- **Owners Interest Liability Coverage:** Coverage that extends an Owner's liability on a property being built by a General Contractor for said Owner. While it is true that much of the risk is with the contractors, it is a mistake to conclude the owner has no potential for liability. While obtaining the status of additional insured on the contractor's CGL policy or requiring the contractor to provide an OCP (Owners & Contractors Protective Liability Coverage) policy helps protect the owner, such coverage is quite limited and should not be the only liability coverage available to the owner. Owners of construction projects should have their own liability coverage.

A realistic evaluation of the risk that confronts project owners during and after construction indicates most owners are exposed to considerable liability. The ownership of property (including the ownership of buildings undergoing renovation) and construction work completed by contractors are two obvious examples.

One unique feature that is often available on the Owner's Interest policy is the extended completed operations coverage – an endorsement that extends products-completed operations coverage to protect the owner for products-completed operations claims that take place *after* the project is completed and *after* the *policy expires*. The extended completed operations coverage lengthens the period of coverage



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for completed operations for several years *after project completion*, often matching the state's statute of repose timeframe for suits against the owner for completed work.

Many property owners have learned costly lessons about the liability associated with new construction — and that historical means of addressing this liability often falls short. Even when a property owner is named as an additional insured on a general contractor's liability policy it remains vulnerable to certain construction-related claims — most notably, to construction defect claims which can emerge years after a project's completion. Owner's Interest Liability Insurance closes this potentially catastrophic coverage gap by providing project owners with dedicated general liability limits, plus optional completed operations coverage which is frequently excluded on standard general liability policies and not provided on Owner Contractor's Protective Liability policies.

Owner's Interest Liability Insurance provides general liability insurance (excess of the general contractor's policy) for vicarious liability the landowner can face during construction. Protection will drop down to pay covered losses that are uncollectible under the general contractor's policy because limits have been eroded or coverage otherwise cannot respond. The policy can be extended to provide completed operations coverage aligned with the statute of repose in the applicable jurisdiction. And because coverage is underwritten by Lexington, it comes with the highly rated financial strength lenders require.

-P-

- **Partial Disability:** The result of an illness or injury which prevents an insured from performing one or more of the functions of his/her regular job. A benefit sometimes found in disability income policies providing for the payment of reduced monthly income in the event the insured cannot work full time and/or is prevented from performing one or more important daily duties pertaining to his occupation.
- **Patient Protection and Affordable Care Act (PPACA):** Commonly called Obamacare or the Affordable Care Act (ACA), PPACA is a United States federal statute signed into law by President Barack Obama on March 23, 2010. Together with the Health Care and Education Reconciliation Act, it represents the most significant regulatory overhaul of the country's healthcare system since the passage of Medicare and Medicaid in 1965.

The ACA aims to increase the quality and affordability of health insurance, lower the uninsured rate by expanding public and private insurance coverage, and reduce the costs of health care for individuals and the government.

- **Payroll or Gross Sales Basis Rating:** Many commercial insurance policy premiums are rated on a variable basis such as payroll, gross sales, or contract cost, and are subject to annual adjustment following the policy expiration through a "Premium Audit". This is the most equitable method of obtaining a fair premium for exposure to risk.

Basis Rating for General Liability Insurance.

Premium for a General Contractor, for example, can be based on one or both of two things, either your gross receipts and or your payroll and cost of subcontractors, depending on which market is quoting for you. As far as the distinction for subcontractor's costs, i.e. materials vs. labor, most are rated off of their subcontractor's labor payroll. If your subcontractors do not have their own liability insurance this will be picked up at your year end audit and you will pay a significantly higher premium for them than you would have had they carried their own insurance.

For example, suppose you are a General Contractor with employed carpenters. Your rate per \$1,000 of payroll may be \$39.45*, but your rate for the Total Cost of sub-contractors may only be \$0.58* per \$1,000. (*These numbers were picked out of the 'air' for illustration purposes only.) The payroll information is also used to reconcile payroll totals between owners and employees and the amounts



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requested for payroll verification on the forms such as 941s or state unemployment.

There may be differences, but assume that industry wide employees are based on Payroll and sub-contracted work is based on Total Cost. Make sure that you've done a proper job of documenting that the subs are truly sub-contractors, e.g. certificates of insurance for both General Liability and Workers' Compensation. Because lacking documentation will result in the Total Cost of sub-contracted work to be picked up and charged for as employees. Thus an unexpected large audit billing for the prior term insurance policy.

Different rating methods are used to more accurately reflect the exposure. For example, a restaurant's exposure is more accurately defined by using receipts, rather than area, because it better determines the volume of customers (exposure) that comes into the restaurant. However, an apartment building is rated by units or number of apartments, and an office building is rated on the area or square footage of the space. Contractors use payroll because this more accurately reflects their particular exposure.

The most common rating basis is payroll, followed by gross sales, but may be admissions, area, total cost, etc. Some rating bases are unique to the class, such as hospitals, which are rated on the total number of beds.

Payroll includes all remuneration such as commissions, bonuses, and piece work. Unlike Workers' Compensation, the following may be excluded from ratable payroll—tips, group insurance premiums, severance pay, clerical office employees, outside salespersons, drivers, and drafters. You may exclude the overtime amount if your books are set up to distinctly show overtime apart from regular wages. Most insurers will limit ratable payroll for officers to \$27,400.

Gross Receipts or Sales includes the entire amount charged for all goods sold or distributed, services provided, rentals, dues, or fees. There are a few areas which may be excluded from gross sales: sales or excise taxes which are collected and submitted to a governmental division, installment finance charges, freight charges if billed separately, and royalty income from patent rights or copyright income. Rates are normally applied per \$1,000.

Why Am I Being "Charged" So Much Payroll For My General Liability Policy? I Don't Make That Much.
Businesses are rated on a set, minimum payroll figure, no matter what you actually make. This figure is established by the National Council of Compensation Insurance and cannot be reduced.

Why Are Some General Liability Policies Rated On Area, And Others On Payroll Or Receipts?

Different rating methods are used to more accurately reflect the exposure. For example, a restaurant's exposure is more accurately defined by using receipts, rather than area, because it better determines the volume of customers (exposure) that comes into the restaurant. However, an apartment building is rated by units or number of apartments, and an office building is rated on the area or square footage of the space. Contractors use payroll because this more accurately reflects their particular exposure.

Give accurate payroll and subcontractor cost to your insurance agent. The cost of your contractor's general liability insurance is based on your payroll. Do not under report this figure. Under reporting your payroll can result in an audit premium at the end of the year... Basically you will have to pay the difference.

- **Peril:** The cause of a possible loss, such as fire, windstorm, theft, explosion, or riot.
- **Per Occurrence:** Liability insurance per each potential lawsuit. (For example; 500k Per occurrence/1M aggregate)
- **Persistency:** A term used to refer to the length of time insurance remains continuously in force.



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• **Personal Injury & Advertising Insurance:** Your business' commercial liability policy has coverage you may not have realized was in the policy. This coverage is called "personal and advertising injury coverage" and may be set apart as separate coverage or "Coverage-B." The coverage can provide coverage for a variety of acts above and beyond typical physical damage claims. The purpose of this information below is to provide a brief overview of the coverage.

What is an Advertising Injury?

An advertising injury is an injury to a third-party brought about by the business' advertising its goods and services. This can occur by copyright or trademark infringement. It can also occur as a claim of libel, slander, or invasion of privacy. Typically, a competitor of your business complains that an act, advertisement, practice, or comment you or your staff has made has damaged their business. For example, in comparing products, your advertisement uses a photo of your competitor's product and makes a false claim about the competitor's product. The competitor sues your business for a variety of claims: defamation, trademark infringement, etc. Your commercial policy would provide a defense and indemnity for this kind of claim.

What Claims are Covered?

Your business is provided advertising injury coverage through your commercial general liability policy for claims such as:

- Libel
- Slander
- Invasion of Privacy
- Copyright Infringement
- Trademark or Trade Dress Claims
- Certain State Law Claims
- Certain Misappropriation Claims
- Unfair Competition Claims (older policies)

The typical commercial general liability defines advertising as:

A notice that is broadcast or published to the general public or specific market segment about your goods, products or services for the purpose of attracting customers or supporters.

The coverage provides your business a defense and indemnification for damages as long as the claim relates to a business advertising reason and is not an intentional non-advertising claim. However, the definition of "advertising" has been interpreted differently from state to state. Some courts require the activity to be wide ranging communication to a broad audience while other courts define the simple act of business promotion to be advertising without regard to the size of the audience.

There are exclusions from coverage in most standard CGL policies. Most of the exclusions look to whether the act causing the claim was an intentional act or knowing violation of the law. Typical exclusions from coverage include:

- **Knowingly Publishing False Information** - Coverage is meant to cover those instances where advertising or promotion unintentionally includes false or misleading information.



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- Knowingly Violating the Rights of Another - As an example: If your business knows it has no permission to use a child's image in its advertising, and does so anyways, coverage will be excluded.
- Criminal Acts - Criminal copyright and trademark infringement, or other criminal acts are not covered.
- Breach of Contract and Contractual Liability - Your business cannot assume advertising liability by contract. For example, if your business rents a hall as part of a trade organization, and your business signs a hold harmless agreement with the organization and hall, if a visitor sues the trade organization or hall and your business becomes liable as a result of the hold harmless agreement - there is no coverage.
- Price, Quality, and Performance Claims - Generally damages incurred because of erroneous price, quality, or performance claims are not covered. If owing to a printer error you advertise a \$10,000 used car for \$1,000, and actually sell the car at the advertised price of \$1,000, the insurer will not reimburse the other \$9,000.

There are other exclusions that are less likely and you will want to review the exclusions with your insurance professional.

What About Websites, Bulletin Boards, and Forums?

First, understand that certain businesses are excluded from most advertising injury coverage:

- Internet Service Providers
- Web Site Designers and Publishers
- Advertising Companies

These companies will need to purchase a separate endorsement to be covered completely. However, creating your own company web site does not turn your business into an advertising company. Generally, if your business designs and builds a website coverage extends to the promotional advertising material on the site.

However, this coverage is being limited each year as insurers begin to recognize the risk of advertising claims related to internet activities. Today, most Standard CGL policies exclude coverage for electronic forums or bulletin boards hosted by the insured. CGL policies also now exclude from coverage claims related to "spam" or mass electronic advertising. Again, this is an area where you will want to speak with your insurance professional.

- **Personal Articles Floater:** A form of coverage designed to meet the needs for insurance on property of a moveable nature. The coverage usually protects against all physical loss, subject to special exclusions and conditions. Examples of property covered include jewelry, furs, silverware, and fine arts.

- **PII (Personally Identifiable Information):** Confidential and private client data.

- **PIP (Personal Injury Protection):** An extension of car insurance available in some U.S. states that covers medical expenses and, in some cases, lost wages and other damages. PIP is sometimes referred to as "no-fault" coverage, because the statutes enacting it are generally known as no-fault laws, and PIP is designed to be paid without regard to "fault," or more properly, legal liability. PIP is also called "no-fault" because, by definition, a claimant's, or insured's, insurance premium should not increase due to a PIP claim.

States with mandatory PIP coverage (*Orange Insurance is licensed in these states):

- Delaware
- Florida*
- Hawaii
- Kansas
- Kentucky



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- Massachusetts
 - Michigan
 - Minnesota
 - New Jersey
 - New York
 - North Dakota
 - Oregon*
 - Pennsylvania
 - Texas (*unless a waiver is signed at initial purchase of the policy also known as the exclusion agreement*)
 - Utah
 - Washington* (*unless a waiver is signed at initial purchase of the policy*)
 - WA. Specific Details:
 - <http://www.insurance.wa.gov/your-insurance/auto-insurance/personal-injury-protection/>
 - <http://www.insurance.wa.gov/your-insurance/auto-insurance/personal-injury-protection/how-much-pip-covers/>
- **Personal Lines:** Those types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organizations.
- **Personal representative:** A person appointed through the will of a deceased or by a court to settle the estate of one who dies.
- **Physical Damage:** Damage to or loss of the auto resulting from collision, fire, theft or other perils.
- **Policy:** The printed legal document stating the terms of the insurance contract that is issued to the policyholder by the company. A contract of insurance. The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance; also called the policy contract or the contract.
- **Policy Term:** That period for which an insurance policy provides coverage.
- **Policyholder:** The person who owns a life insurance policy. This is usually the insured person, but it may also be a relative of the insured, a partnership or a corporation. A person who pays a premium to an insurance company in exchange for the insurance protection provided by a policy of insurance.
- **Pre-Need Insurance:** Another type of life insurance policy, called pre-need insurance, is intended for the person who has selected specific arrangements at a funeral home and wants the assurance that those arrangements will be paid for and implemented. Unlike final expense policies, which you buy directly from an insurance company, pre-need policies are sold by funeral home directors who are also licensed agents. The funeral home is the beneficiary of the policy and the funeral director receives a commission, like any agent, for selling you the policy.
- **Premium:** The sum paid by a policyholder to keep an insurance policy in force.
- **Premium Audit:** Simply defined, it is “the examination of an insured’s operations, records, and books of account to determine the actual exposures and applicable premiums for the coverages provided.” A premium audit, whether by mail or on site is a necessary function of casualty insurance. Premiums for casualty insurance, in particular General Liability and Workers’ Compensation, are based on such variables as sales, receipts, costs or payrolls.
- **Primary Insurance:** Insurance that pays compensation for a loss ahead of any other insurance coverage’s the policyholder may have.
- **Principal (Bond):** A business or person who is required to purchase and secure a bond. The primary party who will be performing a contractual obligation.
- **Pro Rata (Pro-rata):** A non-penalty method of calculating the return premium of a canceled policy. A return premium factor is calculated by taking the number of days remaining in the policy period divided by the number of total days of the policy. This factor is multiplied by the written premium to arrive with the return premium.



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- **Probate:** The court supervised process of validating or establishing a distribution for assets of a deceased including the payment of outstanding obligations.
- **Probationary Period:** A period from the policy date to a specified time, usually 15 to 30 days, during which no sickness coverage is effective. It is designed to eliminate a sickness actually contracted before the policy went into effect.
- **Products/Completed Ops:** Product liability insurance protects the business from claims related to the manufacture or sale of products, food, medicines or other goods to the public. It covers the manufacturer's or seller's liability for losses or injuries to a buyer, user or bystander caused by a defect or malfunction of the product, and, in some instances, a defective design or a failure to warn. When it is part of a commercial general liability policy, the coverage is sometimes called products-completed operations insurance.

To understand the need for this coverage it is critical to understand the potential liability. There are generally three types of products "claims" a company may face:

- **Manufacturing or Production Flaws-** A claim that some part of the production process created an unreasonably unsafe defect in the resulting product. Recent claims against Chinese manufacturers regarding the presence of dangerous chemicals in their products are an example of this type of claim.
- **Design Defect-** A claim that the design of the product is inherently unsafe. The most memorable example is the series of Pinto car cases against Ford in the 1970's.
- **Defective Warnings or Instructions-** The claim that the product was not properly labeled or had insufficient warnings for the consumer to understand the risk. The McDonald's "coffee case" is an example.

The damages awarded in these claims include medical costs, compensatory damages, economic damages, and, in some instances, attorneys' fees, costs and punitive damages. Product liability claims can and do put businesses out of business - just ask any of the officers from any asbestos manufacturer.

All too often, resellers, gray market commercial sellers, and retailers fail to secure this coverage. The logic is that, since they did not "manufacture" anything, the coverage is not necessary. However, manufacturers are not the only ones subject to product liability exposure, retailers and wholesalers are often brought into a lawsuit for alleged negligence by the consumer. Most states follow the "stream of commerce" model of liability. This means that if your company participated in placing the product into the "stream of commerce," it can be held liable for damages to the end user.

If your company provides any products to the consuming public, then your company needs product liability or completed-operations coverage. In most cases, some form of this coverage will be present in the standard commercial general liability or business owners' policy. You will need to confirm this with your insurance professional. You will want to have a clear understanding of what is covered (for example, some policies will cover economic damages, but not punitive or statutory damages).

Finally, the premiums on such policies are based upon the type of product, volume of sales, and the role of the insured in the process. Thus, underreporting the volume of sales may seem like a good way to lower premiums or the idea may be to insure only a part of the sales. Don't under report or try to insure less than the actual amount of sales. This is because there are usually substantial underinsurance penalties applied when the insured underinsures. On the other hand, you will want to make absolutely sure that your products are properly identified. For example, if you supply step stools, you do not want them categorized as ladders. Ladders will have a much higher premium because of the risk potential.



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- **Product Liability:** legal liability incurred by a designer, manufacturer, merchant, or distributor because of injury or damage resulting from the use of its product.
- **Product Liability Insurance:** Protection against financial loss arising out of the legal liability incurred by a manufacturer, merchant, or distributor because of injury or damage resulting from the use of a covered product.
- **Professional Designations Abbreviations:**
 - AAI Accredited Advisor in Insurance
 - AAM Associate in Automation Management
 - ACSR Accredited Customer Service Representative
 - AIC Associate in Claims
 - AIM Associate in Management
 - ALCM Associate in Loss Control Management
 - AMIM Associate in Marine Insurance Management
 - APA Associate in Premium Auditing
 - ARM Associate in Risk Management
 - AU Associate in Underwriting
 - ChFC Chartered Financial Consultant
 - CIC Certified Insurance Consultant
 - CISR Certified Insurance Service Representative
 - CLU Certified Life Underwriter
 - CPCU Chartered Property & Casualty Underwriter
- **PMPL (Project Management Protective Liability Insurance):** Provided by endorsement to the owners and contractors protective (OCP) liability insurance policy, this coverage simultaneously insures the vicarious liability of a construction project owner, primary architect or engineer, and general contractor as co-named insureds.
- **Professional Liability Insurance:** Professional Liability insurance differs from General Liability in that it pertains to negligence associated with your professional services. The damage is typically financial, rather than physical. Accordingly, a professional such as an accountant would be expected to perform in a certain manner and abide by a set code of conduct. Violating those principles could hold the accountant responsible for harm or damages done to others. A management consultant may have a different set of professional expectations to abide by. Both professionals must stand by their particular professional standards, or could be subject to liability suits and resulting damages.
- **Proof of Loss:** Documentation presented to the insurance company by the insured in support of a claim so that the insurer can determine its liability under the policy. Documentary evidence required by an insurer to prove a valid claim exists. It usually consists of a claim form completed by the insured and the insured's attending physician. For medical expense insurance itemized bills must also be included.
- **Promisee (Bond):** The party to which a promise is made.
- **Promisor (Bond):** A person who makes a promise.
- **Property Damage Coverage:** To protect an insured against legal liability for damage by an insured to the property of another while under the insured's care, custody and control. (A home you're working on if you are a contractor, for example)
- **Property Insurance:** Insurance providing financial protection against the loss of, or damage to, real and personal property caused by such perils as fire, theft, windstorm, hail, explosion, riot, aircraft, motor vehicles, vandalism, malicious mischief, riot and civil commotion, and smoke.
- **Proximate Cause:** The dominating cause of loss or damage; an unbroken chain of events between the occurrence and damage.
- **Punitive Damages:** a court awarded amount that exceeds the economic losses and general damages of a defendant and is intended solely to punish the plaintiff.
- **PUP (Personal Umbrella Policy):** An extra layer of very affordable liability protection over existing homeowners and auto insurance policies.



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-Q-

- **Qualification Period:** The period during which the insured must be totally disabled before becoming eligible for residual disability benefits.

-R-

- **RRPL (Railroad Protective Liability Insurance):** It is common for railroads to require a production or contractor to provide Railroad Protective Liability Insurance (RRPL) for the duration of projects on or near railways.

RRPL is different from a typical insurance policy in that it protects the railroad, not the contractor/production, since only the railroad is the "Named Insured". RRPL covers the railroad for acts or omissions arising out of the "work" at the "job location". (Source: productioninsurance.com)

- **Rate:** The pricing factor upon which the insurance buyer's premium is based.
- **Rated Policy:** Sometimes called an "extra risk" policy, an insurance policy issued at a higher-than-standard premium rate to cover the extra risk where, for example, an insured has impaired health or a hazardous occupation.
- **Recall Insurance:** This is insurance when a recall is in place and will help cover the costs of the recall, costs to customers, loss of gross profit, customer lost profits, adverse publicity and includes help with PR and crisis management.
- **Regulation:** Supervision of business practices by a governmental entity.
- **Rehabilitation:** 1) Restoration of a totally disabled person to a meaningful occupation, 2) a provision in some long-term disability policies that provides for continuation of benefits or other financial assistance while a totally disabled insured is retraining or attempting to resume productive employment.
- **Reimbursement:** The payment of the expenses actually incurred as a result of an accident or sickness, but not to exceed any amount specified in the policy.
- **Reinstatement:** The resumption of coverage under a policy which has lapsed.
- **Reinsurance:** Assumption by one insurance company of all or part of a risk undertaken by another insurance company. The acceptance by one or more insurers, called re-insurers, of a portion of the risk underwritten by another insurer who has contracted for the entire coverage. The purchase of insurance by an insurance company from another insurance company (re-insurer) to provide it protection against large losses on cases it has already insured.
- **Renewal:** Continuance of coverage under a policy beyond its original term by the insurer's acceptance of the premium for a new policy term.
- **Rent Loss Insurance:** A policy that covers a rental property owner from loss in rental value due to damage.

Coverage:

There are, of course, several rent loss policies from which to choose. Generally, rent loss insurance covers external hazards such as fire, falling trees, floods and other calamities for at least six months that the unit is uninhabitable. Rent loss insurance covers your property damage as well as any lost rental income from the damaged unit(s). Many times rent loss insurance is offered as part of a comprehensive insurance policy for landlords.

- **Renter's Policy:** A package type of insurance that includes coverage similar to a homeowner's policy to cover the personal property of a renter or tenant in a building.
- **Repair or Replacement Collision Coverage (pertaining to autos):** Repair or replacement collision coverage provides additional coverage when your car is a total loss as the result of a collision. This coverage increases the amount Travelers will pay under collision coverage to the cost of a similar new car. The cost of the new car must be less than the cost to repair your damaged car.
- **Replacement:** The substitution of health insurance coverage from one policy contract to another.



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- **Replacement Cost:** The cost to repair or replace property at construction costs prevailing at time of loss; the cost to repair or rebuild property without considering depreciation. (See Actual Cash Value)
- **Representation:** Statements made by an applicant in the application, which he represents as being substantially true to the best of his knowledge and belief, but which are not warranted as exact in every detail.
- **Rescission:** Termination of an insurance contract by the insurer on the grounds of material misstatement on the application for insurance. The action of rescission must take place within the contestable period or Time Limit on Certain Defenses but takes effect as of the date of issue of the policy, thus voiding the contract from its inception.
- **Reservation of Rights:** An arrangement whereby an insurer defends a case without commitment to provide coverage in the event that the facts disclosed during the trial reveal that the occurrence is not covered.
- **Reserve:** 1) an amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding. 2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund.
- **Retroactive Date of Inception:** The most important dates to keep in mind are your policy's termination date and its retroactive date of inception. What is a retroactive date of inception? Also called a "prior acts coverage date," your retroactive coverage date (a.k.a. retro date) establishes exactly when your coverage begins. In most cases, this date will be the date you first bought your policy. Some comprehensive E&O insurance plans also offer prior acts coverage, in which cases your retro date may be a date prior to your policy purchase.

For a claim to be covered, the alleged error or omission must be covered by the policy and must have taken place on or after the retroactive date of coverage, but before the policy's expiration date; and the claim must be made while the policy is still in force. The claim must also be reported to the insurance carrier within the time frame stipulated by the policy.

So, let's say you bought your errors & omissions coverage June 1, 2008, and that's your retroactive date of inception. Any claims related to errors and omissions you may have made prior to that date aren't covered. Your policy's termination date was May 31, 2009, but you renewed it to maintain continuous coverage. Your renewal date was June 1, 2009, so your new termination date is May 31, 2010 – but your retroactive date of inception is still June 1, 2008. Any covered claims related to work between June 1, 2008, and May 31, 2010, would be covered – as long as they are made and reported to your carrier while your policy is still in force.

But what happens if you choose not to renew your E&O policy? Let's say a client hires you to do a project, but stipulates in the contract that you must purchase E&O insurance for your business. When the contract job is complete, you let the insurance policy lapse because you think it's no longer needed. Months later, your client slaps you with a lawsuit alleging that it was able to trace the cause of a financial loss back to a mistake you made while working on the project. Because your E&O insurance policy is no longer in force, you have no coverage for that lawsuit – even though the policy was active when the error was made. Regardless of what your retroactive coverage date is, if you let your claims-made policy lapse, your coverage for prior acts is gone. You could lose coverage for years of work. Coverage starts all over again, with a new retro date, on the day your policy is reinstated.

- **Revocable Trust:** A trust that can be terminated or revoked by its creator.
- **Rider:** 1) A document which amends the policy or certificate. It may increase or decrease benefits, waive the condition of coverage or in any other way amend the original contract. 2) A special policy provision or group of provisions that may be added to a policy to expand or limit the benefits otherwise payable. 3) A document that modifies the policy. It may increase or decrease benefits, waive a condition or coverage, or in any other way amend the original contract.



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- **Right of Survivorship:** at the death of one co-owner of property, that person's interest in the property automatically passes to the surviving joint tenant or tenants.
- **Risk:** The chance of loss. Also used to refer to the insured or to property covered by a policy. (2) Any chance of loss. (3) A term used to refer to a person or the peril insured.
- **Risk Classification:** The process by which a company decides how its premium rates for life insurance should differ according to the risk characteristics of individuals insured (e.g., age, occupation, sex, state of health) and then applies the resulting rules to individual applications. (See: Underwriting)
- **Risk Profile:** A Risk Profile determines any potential insurance claims to which an individual, company or organization may be exposed. The risk profile will outline the type of risks, number of risks and potential effects of these risks. This way, a business or individual can view their overall 'exposure profile' and insure themselves accordingly - enabling them to mitigate their risks with specific insurance policies.
- **Risk Retention Group (RRG):** A type of insurance company. The way that an RRG is different than a "traditional" insurance company is that each of its policy holders are also stockholders. In addition most insurance companies are formed under state laws but RRGs are formed under federal laws - The Federal Liability Risk Retention Act of 1986.

A RRG will allow members who engage in similar or related business or activities to write liability insurance for all or any portion of the exposures of group members, excluding first party coverages, such as property, workers' compensation and personal lines. Authorization under the federal statute allows a group to be chartered in one state, but able to engage in the business of insurance in all states, subject to certain specific and limited restrictions. The Federal Act preempts state law in many significant ways.

- **Robbery (Theft Peril):** The taking of property from a person by force or threat of violence.

-S-

- **Salvage:** Recovery made by an insurance company by the sale of property which has been taken over from the insured as a part of loss settlement.
- **Self-Insurance:** (1) A program for providing group insurance with benefits financed entirely through the internal means of the policyholder, in place of purchasing coverage from commercial carriers. (2) A form of risk financing through which a firm assumes all or a part of its own losses.
- **Settlement Options:** The several ways, other than immediate payment in cash, which a policyholder or beneficiary may choose to have policy benefits paid.
- **SFHA (Special Flood Hazard Area):** SFHA are defined as the area that will be inundated by the flood event having a 1-percent chance of being equaled or exceeded in any given year. The 1-percent annual chance flood is also referred to as the base flood or 100-year flood. The land area covered by the floodwaters of the base flood is the Special Flood Hazard Area (SFHA) on NFIP maps. The SFHA is the area where the NFIP's floodplain management regulations must be enforced and the area where the mandatory purchase of flood insurance applies. SFHAs are labeled as Zone A, Zone AO, Zone AH, Zones A1-A30, Zone AE, Zone A99, Zone AR, Zone AR/AE, Zone AR/AO, Zone AR/A1-A30, Zone AR/A, Zone V, Zone VE, and Zones V1-V30.
- **Short Rate (Old Short Rate):** A penalty method of calculating the return premium often used when the policy is canceled at the insured's request. It uses a table of factors that results in penalties that can be lower or higher than short rate (90% Pro Rata) depending upon the date of cancellation.
- **Short Rate (90% Pro Rata):** A penalty method that where the penalty is 10% of the unearned premium.
- **Short-Term Disability Income Insurance:** The provision to pay benefits to a covered disabled person as long as he/she remains disabled up to a specified period not exceeding two years.
- **SIC (Standard Industrial Classification):** A States government system for classifying businesses and industries by a four-digit code.
- **S.I.R. / SIR (Self Insured Retention):** Portion of a property or liability loss retained by a policyholder. Most policyholders do not purchase insurance to cover their entire exposure. Rather, they elect to take a deductible, or portion that they will cover themselves. For example, a homeowner may purchase



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\$150,000 worth of insurance with a \$500 deductible for certain losses, such as roof damage by hail. The \$500 deductible is one form of self insurance. It means the homeowner will cover all losses for that amount or less.

- **Special Form:** Causes of loss forms establish and define the causes of loss (or perils) for which coverage is provided. The special causes of loss form (CP 10 30) provides what is referred to as all risks coverage: coverage for loss from any cause except those that are specifically excluded.
- **Special Risk Insurance:** Coverage for risks or hazards of a special or unusual nature.
- **Spouse's Benefit:** Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death.
- **State Fund:** A fund set up by a state government to provide a specific line or lines of insurance. Some state permit private insurers to compete with the state fund.
- **State Insurance Department:** A department of a state government whose duty is to regulate the business of insurance and give the public information on insurance.
- **Stated Value:** A set specific value, usually based upon an appraisal. When there's a total loss claim, insurers have the option to pay the *lesser of* the Stated Value or Actual Cash Value.
- **Strict Liability:** Liability for damages even though fault or negligence cannot be proven.
- **Stop Gap (Employer's Liability):** Stop gap coverage is designed to provide liability insurance for an employer who can be sued by an employee injured in the course of employment.

An employer's responsibility for injuries to his or her employees is usually handled through workers compensation coverage; this coverage is designed to provide injured employees with a schedule of benefits in exchange for their giving up the right to sue the employer. However, there are instances when an employer can be sued for injuries to employees, regardless of the existence of workers compensation.

In such instances, the employer should have employer's liability insurance; this coverage is normally part of the standard workers comp policy. A problem arises, though, when the standard workers comp policy cannot be written, as for example when the workers comp program is run by the state through a monopolistic state fund. When the state runs the workers comp program, employers liability coverage is not offered by the state, and in that situation, a gap in coverage for the employer exists. Coverage known as "stop gap" is there to plug that gap. This article offers a description of stop gap coverage.

Note first of all that stop gap coverage is not a substitute for workers compensation (WC) coverage. Stop gap coverage is designed to provide liability insurance for an employer who can be sued by an employee injured in the course of employment. Now, the standard workers compensation policy does provide employers liability insurance which applies to sums that the employer legally must pay as damages because of bodily injury to employees; insurance protection, in effect, for employers who are sued by their employees. However, such insurance is not offered under the workers comp program written in monopolistic workers compensation states, such as Ohio. To fill this "gap" in employer protection, stop gap coverage should be purchased.

In the monopolistic workers comp state funds jurisdictions, employers can purchase stop gap coverage from private insurers to give themselves employer's liability coverage (or self-insure the exposure). If the employer does buy stop gap coverage, the coverage can be the same as exists under the terms of the employer's liability section of the work comp policy; however, the terms of stop gap coverage do not automatically mirror those found in the employer's liability insurance part of the workers comp policy. Stop gap coverage is not a standardized policy-such as, an ISO personal auto policy or a commercial general liability form-and the insured needs to read the specifics to make sure he or she is getting the coverage needed and requested.



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- **Subscription for Shares:** In a Risk Retention Group (such as PCIC) you need to become a member/subscriber in order to access the low priced GL insurance. The shares have no value.
- **Subrogation:** Process by which one insurance company seeks reimbursement from another company or person for a claim it has already paid. Subrogation means collecting money from the responsible party in order to pay for the damage they caused. When you signed your insurance policy, you gave your insurance company this right. After your insurance pays for your damage, your insurance company demands that the responsible party (or their insurer) pays your insurance back.
- **Subsidence Insurance:** Subsidence insurance is a type of property insurance that pays out if the land underneath a building subsides, or collapses.
- **Substandard Insurance:** Insurance issued with an extra premium or special restriction to those persons who do not qualify for insurance at standard rates.
- **Substandard Risk:** An individual, who, because of health history or physical limitations, does not measure up to the qualification of a standard risk.
- **Sunset Provision or Clause:** The Sunset Provision or Clause is normally 3 years after your expiration of the policy. And it sets a limit on the amount of time that a claimant has to submit or report a claim on a policy.

With a Sunset Provision or Clause there is a time limit on when a claim can be reported and considered for coverage. If you are not allowed to report a claim per the policy then there is no chance that coverage would apply regardless of when the occurrence happened. So if the policy has a 3 year Sunset Clause, after three years no claims can be reported on the policy. Any damage that shows up after the three years would not be covered. For this reason, ideally you would NOT want a sunset clause.

The policy will not provide any coverage, regardless of the other terms and conditions of the Policy, including the definition of "occurrence" for any claim or "suit" or demand for damages made against an insured unless the claim or "suit" or demand for damages is reported in writing within the specified number of years after the Policy Period or the state statute of limitation applicable to work performed, if that statute is less than the specified number of years in the sunset.

This type of clause is a provision in a general liability policy which states that the insurer will respond only to losses reported before some predetermined future date (sunset), usually a set period after the expiration of the policy. So let's say your general liability policy was effective 4.1.07 and expires 4.1.08, and has a 3-year "sunset clause". Any claim made against the policy has to have "occurred" during the policy period and must be "made" no later than 4.1.2011. So if a "latent" defect on work performed sometime within the year: 4.1.07 to 4.1.08 is not discovered until April 2, 2011 (3 years and 1 day after expiration) or later, there will be no coverage under the policy. You might wonder why this claim wouldn't be covered by the 4.1.11 to 4.1.12 policy? Because a "defective construction" claim is deemed to have "occurred" when the work is done; thus the policy that should respond is the 4.1.07 to 4.1.08 one. When there is no sunset or manifestation clause, the claim can be 'made' any time in the future and you could expect to have coverage.

- **Surety Bond:** A bond issued by an entity (Surety) on behalf of a second party (Principal), guaranteeing that the second party will fulfill an obligation or series of obligations to a third party (Obligee). In the event that the obligations are not met, the third party (Obligee) will recover its losses via the bond (Surety), and the Surety will recover those losses from the Principal.
- **Surety (Bond):** The party (Insurer) that ensures that the principal's obligations will be performed. Supplies the bond as a financial guarantee of the principal's commitment. Surety bond companies typically issue the bond and thus become an intermediary between the two parties (Principal and Obligee).
- **Surplus Lines:** (1) A risk or a part of a risk for which there is no normal insurance market available. (2) Insurance written by non-admitted insurance companies.



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- **Syndicate:** A group of insurers or reinsurers involved in joint underwriting. Members typically take predetermined shares of premiums, losses, expenses, and profits. Syndicates, more common in reinsurance than in primary insurance, are formed to cover major risks that are beyond the capacity of a single underwriter.

-T-

- **Tail Coverage:** You can purchase coverage for an extended reporting period beyond your policy's expiration date, allowing continuous coverage for any claims that may be brought after your business has ceased. This extension, known as "tail coverage," typically lasts from one to five years. Tail coverage only includes claims related to errors and omissions that took place after your retroactive coverage date of inception and while your business was operational; it doesn't cover claims related to work you may do after your business has closed. Costs for tail insurance coverage vary, as can the amount of time coverage is extended, so ask your agent or broker for details.

- **Temporary Total Disability (TTD):** This benefit is payable when the injured worker is unable to work during a period when he/she is under active medical care and has not yet reached what is called "maximum medical improvement" (MMI). By virtue of simple common sense, once "maximum medical improvement" has been reached the condition can no longer be categorized as temporary.

- **Temporary Partial Disability (TPD):** An employee may be eligible for temporary partial disability when he or she is able to do some work but is still recuperating from the effects of the injury, and is, thus, temporarily limited in the amount or type of work which can be performed compared to the pre-injury work.

- **Tenants in common:** A form of joint property ownership in which the owners may have unequal shares and which does not involve a right of survivorship.

- **Tenants Legal Liability:** Tenants Legal Liability covers legal liability for damages to space rented or leased to the Insured. What exactly does that mean and how is it applicable in the municipal and Non-Profit world?

If the municipality or non-profit organization is renting space that is not their own, they can become responsible for damage to that space in the event of a loss. The Commercial General Liability Insurance Policy will not respond to this situation because of the care, custody and control exclusion found in that policy. An endorsement can be added to this policy called Tenants Legal Liability. This endorsement alters the care, custody and control exclusion and now covers certain losses like fire that the renter is legally liable for

The municipality and non-profit organization can find themselves on either side depending on the rental situation. For example, if the municipality owns the arena and rents space out to a group, the municipality should be asking the group for proof of Tenant's Legal Liability. On the other hand, if the municipality is renting space in a tradeshow, they will require Tenant's Legal Liability to be included in their Commercial General Liability insurance in the event that they are negligent and cause damage to that rented space.

The limit that should be requested or carried is the same value that it would cost to rebuild the space that the municipality or non-profit organization is renting. For example, if the entire building costs \$3,000,000 to rebuild but only 1/3 of the area or space is being rented, then rule of thumb is, the Tenants Legal Liability should be set at \$1,000,000. (c/o AUMA)

- **Term UL (Universal Life):** A new hybrid life insurance product that grafts term life coverage onto a universal life, or UL, chassis. One major advantage of the Term UL framework is that it allows you to extend the term of the policy on a level-premium basis after you are in the plan, although that level premium will be based on your age at the time you extend the policy. This provides the planning flexibility that term insurance traditionally lacks and can be a financial benefit should your health decline to the point that you become uninsurable down the road.



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- **Terrorism Insurance:** Insurance purchased by property owners to cover their potential losses and liabilities that might occur due to terrorist activities. For commercial policies, a terrorist attack has to be declared a “certified act” by the Secretary of the Treasury.
- **Third Party:** The claimant under a liability policy. So called because the person making the claim is not one of the two parties, insured and insurer, to the insurance contract.
- **Third party claim:** a demand made by a person against a policyholder of another company and any payment that will be made by that company.
- **Threshold (No-Fault):** The point, measured in money, time or other ways, beyond which tort liability can be established. Until that point is reached, reparations must be paid within the provisions of the no-fault plan, with no recourse to the courts.
- **Time Limit:** The period of time during which a notice of claim or proof of loss must be filed.
- **Title Insurance:** Title insurance protects against losses that could occur if you discover after closing on a real estate deal that someone else can claim ownership of your property.

How Title Insurance Works:

You pay for title insurance in a lump sum when you close on the property and it's based on the value of the property. Coverage starts on the day the policy is Real estate deed photoissued and extends backward in time. This is different from property or life insurance, which protects you against losses that occur after the policy is issued.

Title insurance includes a search of past deeds, wills, and trusts to ensure that the title has passed to each new owner correctly. The search also verifies that all liens, judgments, and previous mortgages have been paid.

A search should uncover many potential problems, such as rights others may hold (e.g. rights of ways, view easements, power line easements, mineral rights), claims by prior undisclosed heirs, and pending legal actions. Title examiners also look for unpaid tax assessments or a neighbor's easement for right-of-way.

However, your title insurer will not provide you with a list of what they find in their search. And their search does not usually include government zonings or other land use regulations that could impact the marketability and use of your property.

When Title Insurance Is Required:

If you are buying real estate in Washington state and using a commercial lender to finance the purchase, the lender will require you to buy title insurance equal to the amount of the loan.

Title insurance protects the lender up to the amount of the mortgage, but it doesn't protect your equity. In order to do this, you need an owner's title policy for the full price of the property.

Generally, most sellers pay for the owner's policy as part of their obligation to deliver a clean title to the buyer. An owner's policy costs roughly one half of one percent of the price of the property.

If you refinance, you will need to buy a new title insurance policy for the lender. This policy provides the same coverage as the previous policy as well as protects the lender from any issues that may have arisen since you bought the property, such as liens or easements.

If you pay cash for a property, you are not required to buy title insurance.

Choosing a Title Insurance Company:



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Most lenders or brokers will recommend a title insurance company, but the final choice is yours. Unlike other types of insurance – such as auto or home insurance – title insurance companies do not market their products directly to the consumers who pay for them. They solicit business from real estate agents and agencies, banks, lenders, developers and others.

However, you pay the premium for the coverage. Take the time to shop around. Contact the companies you are interested in and compare costs and services. Even a small variation in price can make a difference.

Additional Tips:

- Make sure the title policy amount is for the full value of the property.
 - Check to see that the policy date matches the closing date of the escrow.
 - The policy must describe all of the property and interests you are buying.
 - Many title insurers offer a discount when both a lender and an owner policy are purchased at the same time.
 - Ask your title insurer if you qualify for other discounts.
 - Make sure the company you select meets your standards and those of your lender.
- **TIV:** Total Insured Value
 - **Tort:** A civil wrong, other than a breach of contract, for which a court of law will afford legal relief, i.e. harming another by an act of negligence in driving an auto.
 - **Total Disability:** An illness or injury which prevents an insured person from continuously performing every duty pertaining to his/her occupation or engaging in any other type of work. (This wording varies among insurance companies.)
 - **Total Insurable Value (TIV):** A property insurance term referring to the sum of the full value of the insured's covered property, business income values, and any other covered property interests.
 - **Tract Work (Tract Housing / Subdivisions):** Construction work performed within a style of housing development in which multiple similar homes are built on a tract of land which is subdivided into individual small lots. Tract housing development makes use of few architectural designs, and labor costs are reduced because workers need to learn the skills and movements of constructing only those designs. In addition, as all homes in the development will be built at the same time, the cost of purchasing and transporting building supplies may be reduced due to economies of scale.
 - **Travel Accident Policy:** A limited contract covering only accidents while an insured person is traveling, usually on a commercial carrier.
 - **TRIA (Terrorism Risk Insurance Act):** A United States federal law signed into law by President George W. Bush on November 26, 2002. The Act created a federal "backstop" for insurance claims related to acts of terrorism. The Act is intended as a temporary measure to allow time for the insurance industry to develop their own solutions and products to insure against acts of terrorism.

Under the Terrorism Risk Insurance Act of 2002, as amended pursuant to the Terrorism Risk Insurance Program Reauthorization Act of 2007, effective January 1, 2008 (the "Ad"), you have a right to purchase insurance coverage for losses arising out of acts of terrorism, as defined in Section 102(1) of the Act: The term "certified acts of terrorism" means any act that is certified by the Secretary of the Treasury-in concurrence with the Secretary of State, and the Attorney General of the United States-to be an act of terrorism; to be a violent act or an act that is dangerous to human life, property, or infrastructure; to have resulted in damage within the United States, or outside the United States in the case of certain air carriers or vessels or the premises of a United States mission; to have been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

You should know that where coverage is provided by this policy for losses resulting from "certified acts of terrorism," such losses may be partially reimbursed by the United States Government under a formula established by federal law. However, your policy may contain other exclusions which might affect your coverage, such as an exclusion for nuclear



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events. Under the formula, the United States Government generally reimburses 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance company providing the coverage. The premium charged for this coverage is provided and does not include any charges for the portion of loss that may be covered by the Federal Government under the Act.

You should also know that the Act, as amended, contains a \$100 Billion Cap that limits United States Government reimbursement as well as insurers' Liability for losses resulting from "certified acts of terrorism" when the amount of such losses in anyone calendar year exceeds \$100 billion. If the aggregate insured losses for all Insurers exceed \$100 billion, your coverage may be reduced.

CONDITIONAL TERRORISM COVERAGE

The federal Terrorism Risk Insurance Program Reauthorization Act of 2007 is scheduled to terminate at the end of December 31, 2014, unless renewed, extended or otherwise continued by the federal government. Should you select Terrorism Coverage provided under the Act and the Act is terminated December 31, 2014, any terrorism coverage as defined by the Act provided in the policy will terminate.

- **Triple Net Lease:** A lease agreement that designates the lessee (the tenant) as being solely responsible for all of the costs relating to the asset being leased *in addition* to the rent fee applied under the lease. The structure of this type of lease requires the lessee to pay for net real estate taxes on the leased asset, net building insurance *and* net common area maintenance. The lessee has to pay the net amount of three types of costs, which how this term got its name.
- **Turnover Rate:** The rate at which employees terminate covered service other than by death or retirement. Expected future turnover can be taken into account in translating contributions into benefits.
- **Twisting:** The practice of inducing by misrepresentation, or inaccurate or incomplete comparison, a policyholder in one company to lapse, forfeit or surrender his insurance for the purpose of taking out a policy in another company.

-U-

- **Usage Based Insurance (UBI) & Telematics:** Insurers introduced these several years ago, and they have increased in popularity. Usage-based insurance is also called "pay-as-you-drive" insurance. It relies on the use of "**telematics**", the transmission of computerized data over a long distance via wireless telecommunication.

UBI programs were developed by personal auto insurers. Here's how a personal program typically works. The insurer installs a "black box" in the policyholder's vehicle. Depending on the insurer, the device may measure the distance the vehicle travels, its speed, the driver's braking habits, and the time of day the car is driven. The insurer reviews the data to determine whether the policyholder has earned a credit. A credit may be awarded if driver has driven only minimal miles, has not sped, made jack-rabbit starts, slammed on the brakes or driven at times, such as the wee hours of the morning, when accidents are particularly likely to happen. UBI programs are not permitted in all states.

If your business owns multiple vehicles, you can use fleet telematics to operate them more efficiently. First, a "black box" is wired into each of your company's vehicles. The data from the devices can be fed into a central location. You can use this data for a variety of purposes. For instance, you can monitor and improve employees' driving habits. You can track the routes your drivers take to determine whether they are using vehicles efficiently. You can also use the data to improve fuel efficiency and to plan vehicle maintenance schedules. Finally, "black boxes" have GPS capabilities, so you can use one to quickly locate a stolen vehicle.

Fleet telematics may earn you discounts on your commercial auto premium. Commercial auto insurers generally support the use of telematics because the data you gather can be used to improve your employees' driving habits. Moreover, people tend to drive better when they know they are being



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monitored. Safer drivers have fewer accidents so your vehicles should cost less to insure. Ask your commercial auto insurer if it offers a UBI program for businesses. If not, check out the Intelledrive fleet telematics program offered by Travelers Insurance. Hartford Insurance offers a similar program called FleetAhead.

One major concern with telematics is privacy. Some policyholders avoid UBI programs because they fear insurers will use GPS technology to spy on them. UBI is not allowed in my state (California). Even if it were, I wouldn't rush to sign up. I have a good driving record and don't drive much, so a UBI program might save me money. Still, do I want my insurer monitoring my every move as I drive? I'm not sure. Privacy is something to consider if you are thinking about implementing fleet telematics. How will your employees respond to 24/7 monitoring? You may be able to overcome some privacy concerns by involving your employees in the program design process.

- **Umbrella Liability (Excess Liability Insurance or Commercial Umbrella Insurance):** Insures losses in excess of amounts covered by other liability insurance policies; also protects the insured in many situations not covered by the usual liability policies.

What Is Umbrella Liability Insurance?

Umbrella liability insurance for small businesses, also known as excess liability insurance or commercial umbrella insurance, provides additional protection when your business exceeds insurance limits on an underlying policy.

How Does Umbrella Liability Insurance Protect Your Business?

For a single premium, umbrella liability or excess liability policies add another layer of protection to any of several other policies that you might hold, including general liability, employer's liability, and hired and non-owned auto liability policies. For instance, if you have \$1 million in general liability coverage and a covered claim is settled for \$1.5 million, your small business's umbrella liability insurance policy would pick up the additional amount.

Excess liability insurance is generally the most affordable way to get higher policy limits on several other small business insurance policies. However, you should note that umbrella liability insurance does not extend the coverage limits on an errors and omissions or professional liability policy.

- **Unearned Premium:** The portion for an insurance written premium which is considered "unearned" by the insurer. It is the written premium less the earned premium. The unearned premium would be returned to the insured if the policy is canceled using pro rata cancellation method, when the policy is cancelled with no penalty.
- **Underwriter:** 1) a company that receives the premiums and accepts responsibility for the fulfillment of the policy contract; 2) the company employee who decides whether or not the company should assume a particular risk; 3) the agent who sells the policy.
- **Underwriting:** The process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept the risk.
- **Uninsured/Underinsured Motorist Coverage:** A form of insurance that pays if the person at fault does not have insurance, or has inadequate insurance to cover the accident. More Information...

Uninsured Motorist Bodily Injury (UM)/Underinsured Motorist Bodily Injury (UIM): The policy holder and passengers in his/her car are covered for bodily injury caused by the owner or operator of an uninsured or inadequately insured automobile.

Uninsured Motorist Property Damage (UMPD): The policy holder is covered for property damage caused by the owner or operator of an uninsured or inadequately insured automobile. In some states, hit-and-run



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is also covered for actual vehicle damage even if that vehicle does not have collision coverage (For example, Traveler's covers this with a deductible in Washington State – as of 1.16.12).

- **Utility Service Business Interruption:** Virtually all commercial property policies contain a utility services exclusion, which eliminates coverage for business income and extra expense loss that results from utility service failure that originates away from the insured's premises. A fire or other peril occurs away from the insured's premises and causes the insured's electricity to go out. They cannot operate their machinery, appliances, lighting, computer systems or office equipment causing significant loss of income. This exclusion gap fails to cover business interruption arising from utility interruption that originates away from the insured's premises, including overhead transmission lines. Adding additional coverage for Utility Service Business Interruption will eliminate this gap in coverage.

-V-

- **Vacant Land Insurance (Premises Liability):** You may be leaving your parcel of land undeveloped for a number of reasons. Maybe one day you plan on building a summer cabin or retirement retreat. No matter what your vacant land is used for, you might want to consider insuring it against certain risks. You can also be held responsible if someone gets injured on your land even if you didn't give him permission to be there... Fishing, hunting, lightning strikes your property and then ignites a flame that burns down a neighboring home, children playing and getting hurt, off-road vehicle accidents (ATV, Snowmobiles, etc.); These are just some examples of why you need liability on your vacant land.

- **Vacant Property (Building) Insurance:** The "vacant" dwelling/building policy is strictly intended to provide property and liability coverage for a "vacant" building that will have no occupancy or activity whatsoever except to show to potential buyers or renters or for routine maintenance. The "vacant renovations policy" is intended to provide coverage for a building that will have no occupancy but allows for activities related to remodeling or renovating or showing to potential buyers or renters.

- **Vendor's Insurance Endorsement:** This covers the Vendor as Additional Insured. Vendors coverage protects sellers against claims arising out of the manufacturer's product. The coverage is necessary because a seller may be liable if the product injures a buyer or damages a buyer's property. The seller may be held responsible even though it didn't design or manufacture the product, or change it in any way. A manufacturer may provide a seller a vendors endorsement as a means of enticing the seller to distribute the manufacturer's products. In some cases, a distributor may refuse to sell a manufacturer's products unless the latter agrees to provide a vendors endorsement.

Vince owns Vital Vacs, a small company that makes vacuum cleaners. The vacuums are marketed to pet owners because they have an attachment that is very effective at picking up pet hair. Vince has been selling his products through small appliance stores and sales have been growing steadily. However, Vince believes that sales would grow much faster if Vital Vacs' products were available from A-1 Appliance, a large chain of appliance stores.

Abe, the owner of A-1 Appliance, agrees to stock Vital Vacs' products on a trial basis. In return, Vince must insure A-1 under a *vendors endorsement*. What is this endorsement and what purpose does it serve?

Vendors endorsements vary, but most are based on the standard vendors endorsement published by the Insurance Services Office (ISO). This endorsement is designed for vendors that transfer a product "as is" from the seller to the buyer. It covers the vendor as an additional insured for claims alleging bodily injury or property damage that arises out of the manufacturer's products, if the products are distributed or sold in the regular course of the vendor's business. The products the vendor is selling must be described in the endorsement.

Like all additional insured endorsements, the vendors endorsement contains exclusions. These limit the scope of coverage afforded for the insured vendor. No coverage applies to the following:



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- **Contractual Liability** The endorsement excludes damages for bodily injury or property damage that the vendor is obligated to pay because it has assumed liability for such damages in a contract. For example, suppose that A-1 Appliance subcontracts with another seller, Tip Top Tools, to distribute the Vital Vacs' vacuum cleaners. Tip Top agrees to sell the vacuums and in return, A-1 will assume liability for any claims against Tip Top that arise out of Vital Vacs products. Suppose Tip Top is sued because of a product defect in a Vital Vacs vacuum cleaner and presents the claim to A-1 Appliance. A-1 will have no coverage for the claim under the vendors endorsement.
- **Unauthorized Warranties** No coverage is afforded for product warranties made by the seller that are not authorized by the manufacturer. For example, a salesman at A-1 Appliance tells a customer that Vital Vacs vacuum cleaners are safe to use directly on pets. Vital Vacs has made no such guarantee. The customer buys a vacuum cleaner and injures his dog while using the vacuum on it. If A-1 Appliance is sued for breach of warranty, the claim will not be covered by the vendors endorsement.
- **Changes, Inspections or Repackaging** If the vendor repackages the products or fails to make inspections, and is sued as a result, the claims will not be covered by the endorsement. Also excluded are any physical or chemical changes the vendor makes to the product intentionally.
- **Demonstration, Installation, Servicing or Repair** These activities are excluded unless they are done at the vendor's premises in connection with sale of the product. For instance, suppose that A-1 Appliance demonstrates Vital Vacs' vacuum cleaners for customers in the store. If a customer is injured during a demonstration, and files a product liability suit against A-1 Appliance, the claim should be covered.
- **Sole Negligence** The endorsement excludes injury or damage caused solely by the vendor's negligence. For example, suppose that A-1 Appliance displays Vital Vacs products on a shelf several feet above floor-level. A customer is lifting a canister vacuum cleaner off the shelf when the power brush falls on him and causes an injury. If the customer sues A-1 Appliance for bodily injury, the claim may not be covered because the injury resulted solely from A-1's negligent storage of the product. An exception applies to injury or damage that results from repackaging, demonstration, installation, servicing or repair by the vendor. If (in the previous example) the power head fell on the customer while A-1 was demonstrating a Vital Vacs' vacuum cleaner, the claim would likely be covered.
- **Any Insured From Whom You Have Acquired the Product** Finally, if any insured has supplied the product, or parts thereof, to the vendor, that insured is not covered under the endorsement.
- **Verbal Threshold:** In no-fault auto insurance states with a verbal threshold, victims are allowed to sue in tort only if their injuries meet certain verbal descriptions of the types of injuries that render one eligible to recover for pain and suffering.
- **Vessel Survey:** A "Vessel Survey" details the entire vessel and is very similar to a "Pre-Purchase Survey", only shorter. A great emphasis is placed on safety and value. The safety of the vessel occupants is of the most consideration when insuring any vessel. The second most important consideration is the value and condition of the vessel. A "Fair Market Value" of the vessel is always obtained in an "vessel survey". The price the surveyor places on the vessel is generally what the vessel will be insured for. When insurance companies are changed, a new survey is generally required. An insurance survey may also cost slightly less than a pre-purchase survey since a sea trial may not be needed. Most insurance surveys are requested by boat owners and not boat purchases. A boat owner usually knows what is wrong or what may need fixing. While a "Pre-Purchase Survey" will list every cosmetic defect or finding in detail whereas an "Insurance Survey" will not.

Most boats 27'+ and older than 5 or 10 years will require a survey. Not always, but most of the time.. It depends on the carrier. And that is normally for personal ownership.



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In general:

Vessels 26' and under are considered "boats".

Vessels 26'-27' can be considered "boats" or "yachts" depending on the carrier.

Vessels 27' and over are considered "yachts".

- **Viatical Settlement:** Payment of a portion of the proceeds from life insurance to an insured who is terminally ill.
- **Vicarious (Imputed) Liability:** This term refers to liability that is imposed on one party because of actions committed by someone else. Vicarious liability arises because of a special relationship that exists between two parties. Typically, one party (Party A) exerts some type of control over the other (Party B) such that Party B acts on Party A's behalf. If Party B acts negligently and inadvertently causes an accident that injures Party C, Party A may be liable for Party C's injury. Party B may be liable even though he or she personally did nothing wrong. Vicarious liability is a type of *strict* liability, meaning liability that is not based on fault. For example, employers may be held liable for negligence committed by their employees under a legal theory called *respondeat superior* (Latin for "let the master answer"). The employer-employee relationship is often called a master-servant relationship. The master (employer) has control over its servants (employees). If an employee is acting in the course of his or her employment and negligently causes an accident that injures a third party, the injured party may seek restitution from the employer.
- **VMM or V&MM:** Vandalism and Malicious Mischief

-W-

- **Waiver:** An agreement attached to a policy which exempts from coverage certain disabilities or injuries that otherwise would be covered by the policy.
- **Waiver of Subrogation:** A special type of endorsement on a property-casualty insurance policy. The Waiver of Subrogation prohibits the insurer from attempting to seek restitution from a third party who causes any kind of loss to the insured. This type of arrangement is allowable under certain circumstances where the insured could be held liable for a claim that is paid.

An agreement between two parties in which one party agrees to waive subrogation rights against another in the event of a loss. The intent of the waiver is to prevent one party's insurer from pursuing subrogation against the other party. Generally, insurance policies do not bar coverage if an insured waives subrogation against a third party before a loss. However, coverage is excluded from many policies if subrogation is waived after a loss because to do so would violate the principle of indemnity.

An example of Waiver of Subrogation can be seen where a tenant rents an apartment from a landlord and takes out a renter's insurance policy. The landlord makes an agreement with the tenant stating that the landlord will not hold the tenant liable for any type of damage to the rental unit. If damage occurs, the insurer could pay the claim to the landlord and then come after the tenant for the damage. But a Waiver of Subrogation would prevent the insurer from being able to do this.

- **Warehouse Legal Liability Insurance:** It is an insurance policy that protects you, including legal defense, in the event you are held legally liable for damage to others goods in your care, custody, or control.
- **Whole Life:** A life insurance policy that remains in force for the insured's *whole life* and requires (in most cases) premiums to be paid every year into the policy.
- **Workers Compensation:** A system established under state law that provides payments, without regard to fault, to employees injured in the course and scope of their employment.
- **Workers' Compensation Insurance:** Insurance against liability imposed on certain employers to pay benefits and furnish care to employees injured, and to pay benefits to dependents of employees killed in the course of or arising out of their employment. These benefits are offered to the claimant who guarantees they will not sue the employer or state.



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The cost of a workers' compensation policy (the premium) is based upon the employer's payroll, type of business risk (classification assignment), and the employer's loss history.

Item 3C (Other States Insurance), found on the information page of a workers' compensation policy, can be looked at as a catch all or safety net. Typically, it's here that you will find states listed where an employer may begin work after the effective or renewal date of a workers' compensation policy but not where they have ongoing operations.

A bit archaic and cumbersome at best, the use of Item 3C is the only way you can add coverage to a workers' compensation policy for Other States Coverage. That is when, at the policy effective or renewal date, an employer does not have operations in the specific state in question. Let me try that again...for those states in which an employer is actively conducting business operations at the effective or renewal date of the policy they must be listed in Item 3A. (For more information on Item 3A check out this previous post.) It's the other remaining states, those where the employer may, at sometime in the future conduct business operations, that must be listed in Item 3C. Additionally, if an employer begins operations in a 3C listed state, the standard policy requires the employer to notify the insurance company as soon as work begins. *(Randy Sieberg, CIC, ARM, CRM)*

- **Wrap-Up, CCIP/OCIP:** "Wrap-Up" insurance covers all parties in a construction project under one umbrella policy. The wrap policy includes the owner, general contractor, sub-contractors and all other parties involved in the construction project. The wrap-up originated as a type of consolidated insurance program that could be viewed as a Contractor-Controlled Insurance Program (CCIP) or an Owner-Controlled Insurance Program (OCIP). On a CCIP, responsibility for providing project insurance coverage for all subs resides with the General Contractor. On an OCIP, the owner is the sponsor who provides insurance for all parties and the owner takes total responsibility for the insurance procurement, including direct payment of premiums, along with the management and administration of the entire program.
- **Write-Your-Own (WYO) Program:** A program available under the National Flood Insurance Program (NFIP) which allows participating insurers to issue NFIP flood insurance policies, in contrast to policies issued directly by the NFIP. WYO insurers write the coverage on their own "paper" but the NFIP reinsures 100 percent of the coverage. Regardless of whether NFIP or a WYO insurer issues the policy, the coverage provided is identical. WYO insurers employ exactly the same policy terms that are included in policies issued directly by NFIP. The majority of flood insurance policies are written via the WYO program.
- **Written Premium:** This is the premium registered on the books of an insurer or a reinsurer at the time a policy is issued and paid for.

-X-

- **XC or XCU Coverage:** XCU is coverage for Explosion, Collapse and Underground. A long time ago, these causes of loss were excluded in a typical CGL policy. However, today, they are INCLUDED unless they have been specifically excluded by endorsement. Now, these are the sort of claims that this insurance is designed to cover;

Explosion - most often associated with blasting and any resulting property damage to others. A condo complex client of mine suffered \$25K in damage when a developer down the street did some blasting.

Collapse - imagine that there is a structure right next to the single family dwelling being demolished and during the process, as the dwelling collapsed, it caused property damage to surrounding homes.

Underground - damage to underground cables, power lines, sewer lines, and pipes as a result of demolition. There could be a sink hole the contractor isn't aware of and when the house comes down, the city sewer line is damaged, or power lines, or gas pipe lines, etc... **(Expert:** Kristen Mulcahy, CIC)



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Health, Life & Long Term Care Insurance Terms & Definitions

Coinsurance... Copayment... EOB... PPO... PCY... What does it all mean?

Below are some standard terms and definitions used when describing Health and Life Insurance coverages. When reading the definitions, please keep in mind that this glossary is provided as a **guide only** curated from various sources. These general definitions are provided for educational purposes. **Please refer to your policy or certificate of insurance for exact definitions of terms and coverage provisions.** The defined terms and coverage provisions in your policy or certificate of insurance, such as "Reasonable and Customary", may be different from the general information provided below, and the policy or certificate language will prevail. Please further note that definitions and plan options may vary by state and plan.

-A-

- **Acute** (as opposed to **Chronic**): An illness typically with a sudden onset and resolving after a single course of treatment or therapy. Many are infectious in origin. Examples include pneumonia, gastritis, urinary tract infection, and minor trauma not requiring surgery.
- **Ancillary Services**: Services, other than those provided by a physician or hospital, which are related to a patient's care, such as laboratory work, x-rays and anesthesia.

-B-

- **Beneficiary Designations**: A beneficiary is a person or entity named to receive a portion of the death benefit of a life insurance policy. The owner of a life insurance policy may name multiple beneficiaries, and most insurance companies permit the policy owner to change beneficiaries.

There are two types of beneficiaries: primary and contingent. A primary beneficiary has the first claim to the proceeds of a life insurance policy should the insured die. There may be more than one primary beneficiary and the proceeds do not have to be shared equally. The policy owner of a life insurance contract may also name a contingent or secondary beneficiary. The contingent beneficiary has claim to a portion of the death proceeds should the primary beneficiary(s) be removed or die prior to the death of the insured. There may also be more than one contingent beneficiary.

Many individuals designate a spouse as the primary beneficiary of their life insurance policy and the children as contingent beneficiaries. You should consult with an estate-planning attorney prior to making a minor child a beneficiary of a life insurance policy. In addition, anyone contemplating making their estate the beneficiary of their insurance policy should use extreme caution and consult with an estate planning attorney prior to doing so.

- **Benefit**: The portion of services your health plan pays for.
- **Benign** (as opposed to **Malignant**): A mild and non-progressive form of a disease.

-C-

- **Calendar Year**: The period beginning January 1 of any year through December 31 of the same year.
- **Case Management**: A process whereby a covered person with specific health care needs is identified and a plan which efficiently utilizes health care resources is designed and implemented to achieve the optimum patient outcome in the most cost-effective manner.
- **Cash Surrender Value**: The sum of money an insurance company will pay to the policyholder or annuity



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holder in the event his or her policy is voluntarily terminated before its maturity or the insured event occurs. This cash value is the savings component of most permanent life insurance policies, particularly whole life insurance policies. Also known as "cash value", "surrender value" and "policyholder's equity".

- **Catastrophic Illness:** A severe illness requiring prolonged hospitalization or recovery. Examples would include coma, cancer, leukemia, heart attack or stroke. These illnesses usually involve high costs for hospitals, doctors and medicines and may incapacitate the person from working, creating a financial hardship. They are the type intended to be covered by high-deductible health plans. Research indicates that the unusual economic environment of the delivery of catastrophic illness care encourages the use of innovative therapies. Medicare contains a benefit for catastrophic illness.
- **Certificate of Coverage:** A document given to an insured that describes the benefits, limitations and exclusions of coverage provided by an insurance company.
- **Chronic** (as opposed to **Acute**): A continuing illness that may or may not improve over time. Chronic illnesses can last from weeks to years. Examples include heart failure, COPD, leukemia, and many of the psychiatric illnesses such as depression and schizophrenia.
- **Claim:** Information a medical provider or insured submits to an insurance company to request payment for medical services provided to the insured.
- **COBRA (Consolidated Omnibus Budget Reconciliation Act):** An Insurance plan that temporarily continues your employer-sponsored health benefits. COBRA gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances such as voluntary or involuntary job loss, reduction in the hours worked, transition between jobs, death, divorce, and other life events. Qualified individuals may be required to pay the entire premium for coverage up to 102 percent of the cost to the plan. It provides coverage regardless of pre-existing health conditions. Monthly premiums are paid in full by the employee.
- **Coinsurance:** The portion of covered health care costs for which the covered person has a financial responsibility, usually a fixed percentage. Coinsurance usually applies after the insured meets his/her deductible. Your share of the fee for a service. If your plan's coinsurance share is 20%, you pay 20% of the allowable charge and your plan benefit pays the other 80% of the allowable charge.
- **Coinsurance Maximum:** A preset limit after which your plan pays at 100% of the allowable charge.
- **Congenital:** A condition that existed at birth. This condition may be inherited or may have developed in the womb. Although the condition existed at birth it may not be discovered until later in life.
- **Consolidated Omnibus Budget Reconciliation Act (COBRA):** A federal law that, among other things, requires employers to offer continued health insurance coverage to certain employees and their beneficiaries whose group health insurance has been terminated if they undergo a triggering event.
- **Contract Year:** The period of time from the effective date of the contract to the expiration date of the contract.
- **Coordination of Benefits (COB):** A provision in the contract that applies when a person is covered under more than one medical plan. It requires that payment of benefits be coordinated by all plans to eliminate over-insurance or duplication of benefits.
- **Copay (Copayment):** A cost-sharing arrangement in which an insured pays a specified charge for a specified service, such as \$10 for an office visit. The insured is usually responsible for payment at the time the service is rendered. This charge may be in addition to certain coinsurance and deductible payments.
- **Covered Person:** An individual who meets eligibility requirements and for whom premium payments are paid for specified benefits of the contractual agreement.

-D-

- **Deductible:** The amount of eligible expenses a covered person must pay each year from his/her own pocket before the plan will make payment for eligible benefits.
- **Deductible Carry Over Credit:** Charges applied to the deductible for services during the last 3 months of a calendar year which may be used to satisfy the following year's deductible.



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- **Dependent:** A covered person who relies on another person for support or obtains health coverage through a spouse, parent or grandparent who is the covered person under a plan.
- **Diagnosed:** A licensed physician or medical professional has identified a specific disease or medical condition.
- **Disability:** a physical or a mental impairment that substantially limits one or more major life activities of an individual. It may be partial or total. (See Partial Disability; Total Disability.)
- **Disability Benefit:** Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.
- **Disability Income Insurance:** A form of health insurance that provides periodic payments to replace income when an insured person is unable to work as a result of illness, injury, or disease.

-E-

- **Effective Date:** The date insurance coverage begins.
- **Eligible Dependent:** A dependent of a covered person (spouse, child, or other dependent) who meets all requirements specified in the contract to qualify for coverage and for who premium payment is made.
- **Eligible Expenses:** The lower of the reasonable and customary charges or the agreed upon health services fee for health services and supplies covered under a health plan.
- **Elimination Period [LTC]:** The length of time between when an injury or illness begins and receiving benefit payments from an insurer. Also known as the "waiting" or "qualifying" period, policyholders must in the interim pay for these services and can be thought of as a deductible. Options often include 7, 30, 60, 90, 180 days, and in some cases 365 days.
- **Explanation of Benefits (EOB):** The statement sent to an insured by their health insurance company listing services provided, amount billed, eligible expenses and payment made by the health insurance company.

-F-

- **FSA (Flexible Spending Account or Flexible Spending Arrangement):** Is one of a number of tax-advantaged financial accounts that can be set up through a cafeteria plan of an employer in the United States. An FSA allows an employee to set aside a portion of earnings to pay for qualified expenses as established in the cafeteria plan, most commonly for medical expenses but often for dependent care or other expenses. Money deducted from an employee's pay into an FSA is not subject to payroll taxes, resulting in substantial payroll tax savings. One significant disadvantage to using an FSA is that funds not used by the end of the plan year are lost to the employee.

-G-

- **GP (General Practitioners):** A medical practitioner who treats acute and chronic illnesses and provides preventive care and health education for all ages and both sexes.

-H-

- **HDHP (High-Deductible Health Plan):** A health insurance plan with lower premiums and higher deductibles than a traditional health plan. Being covered by an HDHP is also a requirement for having a health savings account. Some HDHP plans also offer additional "wellness" benefits, provided before a deductible is paid. High-deductible health plans are a form of catastrophic coverage.
- **Home Health Care Coverage [LTC]:** Long-term care provided formally in the home, also known as home health care, can incorporate a wide range of clinical services (e.g. nursing, drug therapy, physical therapy) and other activities such as physical construction (e.g. installing hydraulic lifts, renovating bathrooms and kitchens). These services are usually ordered by a physician or other professional. Usually, the dollar amount available for Home Health Care is determined by selecting a percentage of the daily benefit amount for Nursing Home coverage (e.g. 50%, 75%, 80% or 100% of the Nursing Home benefit). If you



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prefer to receive care at home (when feasible), you may want to select a Home Health Care benefit that is 100% of the daily nursing home benefit. If cost is a concern, choosing a Home Health Care benefit of 50% of the selected daily benefit will lower the cost of the premium.

- **HRA (Health Reimbursement Account or Health Reimbursement Arrangement):** Internal Revenue Service (IRS)-sanctioned programs that allow an employer to set aside funds to reimburse medical expenses paid by participating employees. Using an HRA yields "tax advantages to offset health care costs" for both employees as well as employers.
- **HSA (Health Savings Account):** A tax-advantaged medical savings account available to taxpayers in the United States who are enrolled in a high-deductible health plan (HDHP). The funds contributed to an account are not subject to federal income tax at the time of deposit. Unlike a flexible spending account (FSA), funds roll over and accumulate year to year if not spent. HSAs are owned by the individual, which differentiates them from company-owned Health Reimbursement Arrangements (HRA) that are an alternate tax-deductible source of funds paired with either HDHPs or standard health plans. HSA funds may currently be used to pay for qualified medical expenses at any time without federal tax liability or penalty. However, beginning in early 2011 OTC (over the counter) medications cannot be paid with HSA dollars without a doctor's prescription. Withdrawals for non-medical expenses are treated very similarly to those in an individual retirement account (IRA) in that they may provide tax advantages if taken after retirement age, and they incur penalties if taken earlier. These accounts are a component of consumer-driven health care.
- **HMO (Health Maintenance Organization or Defined Network):** An organization that provides managed care for health insurance contracts in the United States as a liaison with health care providers (hospitals, doctors, etc.). Unlike traditional indemnity insurance, an HMO covers only care rendered by those doctors and other professionals who have agreed to treat patients in accordance with the HMO's guidelines and restrictions in exchange for a steady stream of customers. Most HMOs require members to select a primary care physician (PCP), a doctor who acts as a "gatekeeper" to direct access to medical services. PCPs are usually internists, pediatricians, family doctors, or general practitioners (GPs). Excepting medical emergency, patients need a referral from the PCP in order to see a specialist or other doctor, and the gatekeeper cannot authorize that referral unless the HMO guidelines deem it necessary. Some HMO plans require that you fulfill a deductible before services are covered. Others only require you to make a copayment when services are rendered. Health care services obtained outside of the HMO are typically not covered, though there may be exceptions in the case of an emergency.

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- **Inflation Protection [LTC]:** When it comes to inflation protection riders, there are four main choices. There are common choices for different age groups. Read more to find out what option will work best for your long term care insurance policy.

No Inflation Protection: The first choice would be to not buy inflation protection and just purchase as much daily benefit as you can possibly afford. This option is almost always for the much older buyer. If you are 80 or older, this is what we would suggest.

Guarantee Purchase Option: Second choice is something called the guarantee purchase option (GPO), sometimes called COLI or future purchase. This is either built in at no cost up front, or adds a minimal charge (about 2% or so). With this option, offers will be made every two to three years depending on the contract to increase the daily benefit with no additional underwriting. The downside to this option is that the cost of each increase chosen is based on the new age of the insured. Also, many of the policies will stop the offer you if have rejected it two or more times or have been on claim. GPO is a very good choice for people in their 70s.

Simple Inflation: The third option is called simple inflation. This usually adds between 40% and 60% to the premium. Simple inflation increases the original daily benefit by 5% every year automatically. This will double the daily benefit in 19 and a half years. It is usually best for people in their 60s.

Compound Inflation: The last, and most would say best option, is compound inflation. This can double



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your premium but is well worth it. Compound inflation typically adds 5% to the daily benefit and is compounded annually so the daily benefit doubles in 14 and a half years. Sometimes we see compound inflation options at 3%, 4% or even linked to the Consumer Price Index (CPI). Anyone under 60 years old should seriously consider the compound option.

- **Insured:** A person who has obtained health insurance coverage under a health insurance plan.

-L-

- **Life Insurance:** Life Insurance is a contract binding a life insurance company to compensate a beneficiary for the death of a person insured. If the insured dies the company will provide a cash payment to the beneficiary. Life insurance is used to protect the economic value of a human life with regards to those who may be financially dependent upon it.

Uses of Life Insurance: Life insurance has many uses for both individuals and businesses. Some common uses include...

Individual Uses: Life insurance uses for an individual...

- *Funeral* - Life insurance proceeds can ensure that there is enough money for proper funeral and burial expenses.
- *Debt* - Personal bills, credit card debt, student loans, and personal notes can be covered by life insurance in the event of an individual's death.
- *Mortgage Protection* - The proceeds of a life insurance policy can pay off the balance of a mortgage or provide an income stream to pay monthly mortgage or rent payments.
- *Income Replacement* - In the event of an individual's death, life insurance proceeds can provide a supplemental income stream to ensure that the surviving family members are able to maintain the same standard of living.
- *Education* - Life insurance proceeds can ensure that the education costs of the insured's children are covered.
- *Taxes* - Federal estate and state inheritance taxes can be pre-funded using life insurance to preserve the value of an estate.
- *Donations/Gifts* - An individual can use a life insurance policy to fund a donation to a charity or leave a gift to a family member.

Business Uses: Life insurance uses for a business...

- *Key-Person* - A life insurance policy can be used to protect a business from the loss of income and profits caused by the death of a key employee.
- *Business Continuation* - Life insurance can be used to fund a buy/sell agreement or stock redemption plan to enable a partner or group of employees to buy the business interest of a deceased partner.
- *Business Loans* - Life insurance protection on a key employee or business owner can be used to pay off the debts of a business in the event of that individual's death.
- *Employee Benefits* - Life insurance protection for employees is commonly included in company employee benefits plans.

Determining Your Needs: There is no magic formula to determine how much life insurance you should have; however, there are a number of factors that should be considered when estimating how much life insurance you should carry. They include:



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- *Final Expenses* - These could be unpaid hospital bills, funeral expenses, unpaid debts, probate costs, and estate and inheritance taxes.
- *Readjustment Fund* - This may be used to cushion the immediate lifestyle adjustment that a family must make when a loved one dies. The family may be forced to move, or the surviving spouse might have to look for a new job. In addition, a working spouse may find it difficult to return to work immediately after the death of a partner. The readjustment fund allows for adequate bereavement due to loss.
- *Supplemental Income* - After the readjustment period, there should be a consistent income stream to help pay for the family's living expenses, such as mortgage payments, monthly bills, and daycare.
- *Educational Funds* - Adequate funds should be available for the children's education. This might include elementary school, high school, and college.
- *Retirement Fund* - There should also be adequate funds available to ensure that the spouse can retire comfortably.

These are some factors that you should consider carefully when estimating how much life insurance you need. Everyone's life insurance needs are different but, in general, an individual's needs are greatest from the time they start their careers or a family until they reach retirement, at which time many individuals' needs for life insurance diminish. It is important to remember that you should review your life insurance needs annually to account for changes in your family's lifestyle.

- **Life Settlement:** A life settlement is a transaction in which a life insurance policy is sold by one party to another party. The purchasing party is an investor willing to pay the seller a fee to purchase the policy and in return is named the beneficiary and takes on responsibility for paying future premiums.

- **Long Term Care Insurance:** A form of insurance that helps provide for the cost of long-term care beyond a predetermined period. Long-term care insurance covers care generally not covered by health insurance, Medicare, or Medicaid. Individuals who require long-term care are generally not sick in the traditional sense, but instead, are unable to perform the basic activities of daily living (ADLs) such as dressing, bathing, eating, toileting, continence, transferring (getting in and out of a bed or chair), and walking.

-M-

- **Malignant** (as opposed to **Benign**): A severe and progressively worsening form of a disease.
- **Medicare:** A federally sponsored program for individuals age 65 or older, or who have end-stage renal disease, or are disabled as defined by Social Security. Medicare and Medicaid are different.
- **Medicaid:** is a state-sponsored program for individuals and families who qualify based on income and other criteria. Medicaid and Medicare are different.
- **Medicated:** A drug prescribed by a licensed physician or other licensed medical professional has been taken for the treatment of a medical (including mental) condition.
- **Monitored:** A licensed medical professional has assessed the state of an existing or previously diagnosed disease or condition, possibly including diagnostic tests or imaging. A specific condition must first be diagnosed to be monitored. Monitoring does not include routine preventive screenings that are recommended for the general population in the absence of disease such as annual mammograms for women.

-N-

- **Nursing Home Daily Benefit [LTC]:** This is the maximum amount your insurance will pay in any single day.
- **Nursing Home Benefit Duration [LTC]:** The amount of time your policy will pay out from the point of claim.



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-O-

- **Out-of-Pocket Maximum:** The total payments that must be paid by a covered person (i.e., deductibles and coinsurance) as defined by the contract. Once this limit is reached, covered health services are paid at 100% for health services received during the rest of that calendar year.
- **OTC (Over The Counter):** Medications that can be purchased without a prescription.

-P-

- **Participating Provider:** A medical provider who has been contracted to render medical services or supplies to insureds at a pre-negotiated fee. Providers include hospitals, physicians, and other medical facilities.
- **PCIP -WA (Pre-existing Condition Insurance Plan / Federal High Risk Pool):** A temporary federal high risk pool, called "Pre-existing Condition Insurance Plan," is being operated alongside the current state high risk pool. The federal pool has been created by the new federal health reform law to give individuals with pre-existing conditions who have been uninsured for at least six months, access to health insurance.
- **PCY:** Per Calendar Year.
- **Physical Trauma:** An injury to any tissue by physical or chemical means. This may include abrasions, lacerations, incisions, or stab, puncture, or bullet wounds. When trauma occurs to the bone, this can result in fractures, dislocations, or sprains. Trauma can also be the result of exposure to toxic chemicals, high heat, irradiation, or electrical shock causing damage to tissues and organs.
- **POS (Point of Service):** POS plans combine elements of both HMO and PPO plans. As a member of a POS plan, you may be required to choose a primary care physician who will then make referrals to specialists in the health insurance company's network of preferred providers. Care rendered by non-network providers will typically cost you more out of pocket, and may not be covered at all.
- **PPO (Preferred Provider Organization):** A health care benefit arrangement which offers insureds access to participating providers at reduced costs. PPO's provide insureds incentives, such as lower deductibles and copayments, to use providers in the network. This is an arrangement designed to supply services at a discount by providing incentives for members to use designated health care providers (who contract with the PPO at a discount), but which also provides coverage for services rendered by health care providers who are not part of the PPO network. Network providers agree to negotiated fees in exchange for their preferred provider status.
- **Provider:** A physician, hospital, health professional and other entity or institutional health care provider that provides a health care service.
- **PCP (Primary Care Physician):** A physician that is responsible for providing, prescribing, authorizing and coordinating all medical care and treatment. A doctor who acts as a "gatekeeper" to direct access to medical services. PCPs are usually internists, pediatricians, family doctors, or general practitioners (GPs).

-R-

- **Reasonable and Customary (R&C):** A term used to refer to the commonly charged or prevailing fees for health services within a geographic area. A fee is generally considered to be reasonable if it falls within the parameters of the average or commonly charged fee for the particular service within that specific community. This term can also be referred to as "Prevailing Rate", "Covered Charge", "Allowable Charge" and/or "Usual" "Reasonable" and "Customary" amount.
- **Return of Premium (ROP) Term Life Insurance Policy?:** A return of premium term life insurance policy typically offers a level death benefit with fully guaranteed* level premiums for the first 15, 20, or 30 years, though this may vary by company and state. Under the return-of-premium feature, the cumulative premiums paid, not including substandard and rider charges, will be returned at the end of the level term period if the policy is in force at that time. Often, a portion of the cumulative premiums will be returned upon surrender after the policy has been in force for a specified number of years. Most return of premium life insurance policies allow for conversion to permanent insurance offered by the same company during the covered period without further evidence of insurability.

*guarantees subject to the claims-paying ability of the underwriting insurance company.



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- **Riders:** The 'living' part of life insurance contracts. Here are 3 common riders:
 1. **Guaranteed Insurability Rider:** By enabling the insured to purchase a pre-determined amount of additional coverage during a future period the 'GIR' or 'GIO' is almost too good to be true. It costs only pennies yet provides an "option" for someone whose health has deteriorated dramatically or whose life has changed significantly to re-align their risk protection with their actual risk. The GIR is also a nifty feature for you to "make known" when you are reviewing a contract that you did not initially sell - it's a great way for you to be the expert. And, it is a fantastic way to lead into a policy review meeting with your own client. But, every carrier and every product is different: when it can be exercised, how, and at what rates.
 2. **Child Term Rider:** While shunned by non-believers as money that you would never want to collect, the real value of the CTR is its ability to convert to a **multiple** of the original coverage between pre-determined future ages of the insured. Like with the GIR, this is especially beneficial if the insured, who could now be in their 20's, has an immediate need for insurance or has a deterioration of health (including something simple, like gaining weight). It guarantees low cost coverage and sets your child up to be a responsible owner of guaranteed life insurance for his family. As with the GIR, CTR's *vary by carrier in the exact ages that they can be exercised, the terms of the conversion, the multiple of the face amount, and the 'attained' vs 'at issue' rate card used to determine the conversion cost.* In short, they're a lot of work to manage and review.
 3. **Spouse Insurance Rider:** As with the aforementioned riders, carrier systems are notorious for 'missing' alerts and renewals with respect to spousal term riders leading to excessive premiums and sometimes cash value degradation; they, too, have specific renewals, conversion options, and so forth which much be regularly reviewed, compared, and shown to your clients, but they too often take a back seat to the "primary" coverage despite being just as "primary" and perhaps only being a rider for the policy fee advantages. (c/o InforcePRO)

-S-

- **Second-to-Die or Survivorship Life Insurance:** A second-to-die life insurance policy insures the lives of two people, typically a husband and a wife. The death benefit is not paid to the beneficiary until the death of the second insured. These life insurance policies are generally available as either whole life insurance or universal life insurance policies, and premiums are often less expensive than buying two life insurance policies.

Second-to-die life insurance policies are effective tools often used by wealthy individuals in estate planning. They can be used to pay for estate taxes. By removing the proceeds of a life insurance policy through the use of gifting policies and third party ownership, a life insurance policy can be used to pay for estate taxes. Careful planning by your tax and legal counsel, coupled with a properly structured second-to-die life insurance policy, can help you preserve your net worth.

- **SHQ (Standard Health Questionnaire):** The Standard Health Questionnaire (SHQ) is used by insurance carriers to determine eligibility of people who apply for private, individual medical coverage. Carriers are required by law to use this questionnaire and its scoring system if they sell plans for which you can be rejected based on your health. You may only be rejected for coverage if you score 325 or more points. If you are rejected, you are automatically eligible for coverage from WSHIP. WSHIP was created by the Washington legislature to offer health insurance to residents who are rejected for individual coverage.
- **Settlement Options:** The life insurance policy owner may designate a specific settlement option to be paid upon his or her death. If the policy owner does not choose a specific option, the beneficiary(s) will be given a number of choices. These usually include:

- **Lump Sum Payment** - The death proceeds of a life insurance policy are paid to the beneficiary(s) in one lump sum payment.



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- *Fixed Period Payments* - The death proceeds of a life insurance policy are paid to the beneficiary(s) for a fixed period.
- *Life Income with Installments Certain* - The death proceeds of a life insurance policy are paid to the beneficiary(s) in installment payments through a certain period. After the certain period, payments will continue to be made throughout the beneficiary's lifetime but the payment may vary from the payments during the certain period.
- *Interest Payments* - The death proceeds of a life insurance policy remain with the insurance company and the company pays the beneficiary interest payments.
- *Fixed Installments* - The death proceeds of a life insurance policy are paid to the beneficiary(s) in fixed installments until the proceeds and interest on the unpaid balance of the proceeds are exhausted.
- *Single Premium Annuity* - The proceeds of a life insurance policy are used to purchase a single premium annuity from the insurance company.

• **Supplemental Medical Insurance and/or Payroll Insurance:** Designed to provide cash when a policyholder becomes unable to work or collect a paycheck from an employer for a covered event. This type of policy may also be able to provide cash income in specific situations like cancer, stroke, heart attack and transplants operations. When the policyholder loses a source of income due to a covered event, the carrier may provide compensation to the policyholder that they can use to pay medical bills, buy groceries, pay bills or cover day-to-day living expenses.

-T-

Term Life Insurance: Term life insurance provides protection for a specified period of time. A death benefit is paid to the beneficiary if the insured dies within a specified period of time while the policy is still in force. Many term life insurance plans can be converted to permanent life insurance plans without evidence of insurability.

Level premium term life insurance has premiums which remain level over a specified period of time. These plans have premiums that remain level for a period of 5, 10, 15, 20, 25, and 30 years. After the initial level period expires, the annual premium increases each year, subject to a guaranteed maximum.

In general, term life insurance is suitable when your life insurance needs are temporary or your life insurance needs are long-term but your budget does not permit the higher premiums of permanent life insurance.

• **Treated:** A licensed physician or other licensed medical professional has recommended a course of action or performed services to remedy a disease. For example, having surgery and having a diet and exercise program developed by a physician are both forms of treatment.

-U-

• **Underwriting:** The act of reviewing and evaluating prospective insureds for risk assessment and appropriate premium.

• **Universal Life Insurance:** Universal life insurance is permanent life insurance. As long as premiums are paid, a death benefit is paid to the beneficiary. These policies are different from whole life insurance policies because they offer the policy owner some flexibility to change the premium payments and death benefit. The death benefit may be increased subject to insurability or decreased, and the premiums can also be increased and decreased as well as skipped. Universal life insurance policies may be purchased with one of two different death benefit options. One is a level death benefit and the second is an increasing death benefit. Although premium payments are flexible, a universal life policy will usually have a target premium which is the suggested annual premium payment. The target premium for some



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companies is sufficient to keep the policy in-force to age 100; however, this is not guaranteed. Universal life insurance policies also accumulate cash values on a tax-deferred basis. These cash values tend to be interest-sensitive and can be used for a variety of options:

- The policy can be surrendered at any time for the cash surrender value.
- The policy owner can take out a loan and use the cash value as collateral.
- The policy can be changed to a reduced amount paid-up whole life policy.
- The cash values may be used to pay premiums for a certain period of time.
- The cash surrender value can be used to supplement retirement income.

Universal life insurance policies are valuable because they can provide permanent protection and accumulate cash values that can be used for emergencies or for meeting specific objectives. For those who prefer flexibility, universal life insurance provides more options than whole life insurance.

The cash values of universal life insurance policies may be affected by a life insurance company's future performance. Some factors that influence a life insurance company's performance are expenses, mortality experience, and investment performance.

-V-

• **Variable Life Insurance:** Variable life insurance is permanent life insurance and provides protection for life. As long as premiums are paid, a death benefit is paid to the beneficiary. The premiums for variable life insurance policies are designed to remain level over time. In addition, these policies accumulate cash values on a tax-deferred basis with the potential for higher rates of return than traditional whole life policies. Variable life insurance policies' cash values vary with the investment results of funds chosen by the policy owner. The policy owner is given a choice of investment options which are usually stock, bond and money market funds. Unlike whole life insurance policies which have guaranteed cash values, the cash values of variable life insurance policies are not guaranteed. The cash values of variable life insurance policies can be used for a variety of options:

- The policy can be surrendered at any time for the cash surrender value.
- The policy owner can take out a loan and use the cash value as collateral.
- The cash values may be used to pay premiums for a certain period of time.
- The cash surrender value can be used to supplement retirement income.

Variable life insurance policies are valuable because they provide permanent protection and may accumulate cash values; however, these policies carry more risk than traditional whole life insurance policies. Individuals considering purchasing a variable life insurance policy should be experienced investors in equity investments.

The cash values of variable life insurance policies may also be affected by a life insurance company's future performance. Some factors that influence a life insurance company's performance are expenses and mortality experience.

• **Variable Universal Life Insurance:** Variable universal life insurance is permanent life insurance. As long as premiums are paid, a death benefit is paid to the beneficiary. These policies are different from variable life insurance policies because they offer the policy owner some flexibility to change the premium payments and death benefit. The death benefit may be increased or decreased, and the premiums can also be increased and decreased as well as skipped. Variable universal life insurance policies may be purchased with one of two different death benefit options. One is a level death benefit and the second is an increasing death benefit. In addition, these policies accumulate cash values on a tax-deferred basis



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with the potential for higher rates of return than traditional whole life policies. The cash values of variable universal life insurance policies vary with the investment results of funds chosen by the policy owner. The policy owner is given a choice of investment options which are usually stock, bond and money market funds. Unlike universal life insurance policies which have guaranteed cash values, the cash values of variable universal life insurance policies are not guaranteed. The cash values of variable universal life insurance policies can be used for a variety of options:

- The policy can be surrendered at any time for the cash surrender value.
- The policy owner can take out a loan and use the cash value as collateral.
- The cash values may be used to pay premiums for a certain period of time.
- The cash surrender value can be used for retirement income.

Variable universal life insurance policies are valuable because they can provide permanent protection and may accumulate cash values; however, these policies carry more risk than traditional universal life insurance policies. Individuals considering purchasing a variable universal life insurance policy should be experienced investors in equity investments.

The cash values of variable universal life insurance policies may also be affected by a life insurance company's future performance. Some factors that influence a life insurance company's performance are expenses and mortality experience.

-W-

• **Whole Life Insurance:** Whole life insurance is permanent life insurance and provides protection for life. As long as premiums are paid, a death benefit is paid to the beneficiary. The premiums for whole life insurance policies are designed to remain level over time. In addition, these policies accumulate cash values on a tax-deferred basis. The rate of return on whole life insurance cash values is dependent upon a number of factors including the results of an insurance company's investment performance. Cash values can be used for a variety of options:

- The policy can be surrendered at any time for the cash surrender value.
- The policy owner can take out a loan and use the cash value as collateral.
- The policy can be changed to a reduced death benefit amount that is paid up.
- The cash values may be used to pay premiums for a certain period of time.
- The cash surrender value can be used to supplement retirement income.

Whole life insurance policies are valuable because they provide permanent protection and accumulate cash values that can be used for emergencies or to meet specific objectives.

The cash values of whole life insurance policies may be affected by a life insurance company's future performance. Some factors that influence a life insurance company's performance are expenses, mortality experience, and investment performance.

• **WSHIP (Washington State Health Insurance Pool / Washington State High Risk Pool):** The Standard Health Questionnaire (SHQ) is used by insurance carriers to determine eligibility of people who apply for private, individual medical coverage. Carriers are required by law to use this questionnaire and its scoring system if they sell plans for which you can be rejected based on your health. You may only be rejected for coverage if you score 325 or more points. If you are rejected, you are automatically eligible for coverage from WSHIP. WSHIP was created by the Washington legislature to offer health insurance to residents who are rejected for individual coverage. WSHIP is also responsible for the form and content of the questionnaire and for recertifying it every 36 months to ensure that it meets the requirements of state



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law. WSHIP does not administer or score the questionnaire; the carrier provides and scores the applicant's questionnaire.



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