

Glossary of Commercial Insurance Terms

Commercial insurance is divided into two main categories: property insurance and casualty insurance. Property insurance provides coverage for property that is stolen, damaged, or destroyed by a covered peril. The term "property insurance" includes many lines of available insurance. **Commercial Property, Inland Marine, Boiler and Machinery**, and **Crime** are the most common commercial property coverage lines. Each of these property coverage lines is described below.

COMMERCIAL PROPERTY

Coverage Sections, limits of Insurance, and Coinsurance Buildings you own or lease as a part of your business, your business personal property, and the personal property of others make up the basic coverage sections of commercial property insurance. Commercial property insurance can be sold separately as an individual line policy (referred to as a monoline policy), or it can be sold as part of a Commercial Package Policy (CPP), which combines two or more commercial coverage parts such as commercial property, general liability, and commercial auto.

Building coverage includes buildings or structures and any completed additions, which are listed on the declarations page of a commercial policy. Permanently installed fixtures, machinery, and equipment are also insured as a part of building coverage. The limit of insurance is the estimated amount needed to rebuild your building and to replace permanently installed fixtures, machinery, and equipment in the event of a total loss. You are required under the insurance policy to fully insure the value of your buildings.

If a building is not insured to value, you can be subject to a monetary penalty at the time of a loss. This penalty is commonly referred to as "coinsurance." It is important to read and understand the coinsurance clause of your commercial property policy and to discuss any questions with your broker-agent.

Business Personal Property consists of furniture; fixtures, machinery, and equipment not permanently installed; inventory; or any other personal property owned by and used in your business.

Personal Property of Others refers to property that is in your business's care, custody and control. The type of business you operate will determine if you need to protect the personal property of others.

Covered Causes of loss

Whether or not a property loss is covered depends upon the policy language, exclusions, and endorsements. You can choose the covered causes of loss in your property policy. Causes of loss are divided into two main categories: specified perils and open perils.

Specified Perils consist of a list of each peril to be insured against, such as fire, explosion, windstorm, vandalism, et cetera. You can usually request basic specified perils or broad specified perils coverage. Broad specified perils coverage adds to the list of covered perils found under basic specified perils.

Open Perils coverage covers all losses unless they are specifically excluded. Earth movement (including earthquake) and flood are two common perils that are excluded under open perils coverage. Since open perils coverage offers more comprehensive protection, it is more costly than a specified perils policy.

Valuation Types

Commercial property coverage will include a provision to determine what valuation method is to be used to pay the loss. The most common policy valuation method is Actual Cash Value (ACV). Unless otherwise defined in the policy, ACV is considered to be Fair Market Value in California. There are two other methods of property valuation: agreed value and replacement cost. Agreed value waives any coinsurance penalty and pays 100% of the stated amount (agreed upon amount) for any covered loss. Replacement cost covers the amount it takes to replace your property with new property of like kind and quality up to the limits of insurance. Like ACV, replacement cost is subject to coinsurance.

Coverage forms and Endorsements

There are various coverage forms and endorsements in addition to the basic property coverages already discussed that can customize coverage in a commercial property insurance policy. The following are the most common coverage forms and endorsements used in commercial property insurance:

• **Builder's Risk** - Added to a policy for a one-year minimum term to cover a new building or structure under construction or an existing structure undergoing additions, alterations, or repairs. Cancellation is allowed on a pro rata basis upon project completion; however, midterm cancellation will result in a short rate penalty. A reporting form or renovations form allows coverage to be carried according to the stage of completion (i.e., as more of the project is completed, more value is reported, resulting in the proper amount of coverage for each stage of construction)

• **Legal Liability or Fire Legal Liability** - Covers your legal liability for loss or damage to real and personal property of others as the result of your negligent acts and/or omissions. The loss or damage must be caused by a covered peril (including loss of use). The loss must be accidental and the coverage most often is purchased for tenants in commercial buildings .

•• **Building Ordinance or Law** - Provides coverage if the enforcement of any building, zoning or land use law results in loss to the undamaged portion of the building (Coverage A); demolition and removal costs of undamaged parts of the structure (Coverage B); or any increased cost of repairs or reconstruction (Coverage C). Replacement cost must be in effect for Coverage C to be applied .

• **Improvements and Betterments** - Usually added by a lienholder.

Covers all permanently installed improvements and betterments, which cannot be removed when a tenant vacates the building.

• **Peak Season** - An endorsement that provides additional limits on personal property inventory during a designated period of time. This is specifically used to cover fluctuating inventory values before and during peak shopping seasons.

• **Inflation Guard** - Automatically adjusts the limits of insurance to keep up with inflation. The adjustment can be tied to the construction cost index in a regional area or a specified percentage per year. This endorsement can be very important in helping to maintain adequate coverage limits, which can protect against potential coinsurance penalties in a property loss.

• **Time Element** - Insurance that covers other losses stemming from a direct loss by a covered peril to business property. Business interruption, extra expense, and loss of rents and rental value are the most common time element coverages. Business interruption coverage replaces lost business income after a covered loss. Certain key employees can be named, allowing the employer to continue to pay their salaries until the business restarts operations after a loss. Extra expense coverage mainly applies to service or product related companies where the business must continue to ensure the survival of the company. Extra expense can pay for office space, equipment rental, advertising, or most costs considered reasonable for keeping the company operating after a covered loss. Loss of rents and rental value cover loss of rental income to the property owner caused by damage or destruction of a building rendering it unfit for occupancy.

CRIME

Crime insurance provides protection for the assets of your business including merchandise for sale, real property, money and securities. It is considered a property insurance line. Based on the crime coverage that you purchase, it is possible to be covered for the following causes of loss: robbery, burglary, larceny, forgery, and embezzlement. Specialty coverage parts can be added based on need and exposure to loss such as mercantile open-stock, burglary insurance, mercantile robbery insurance, mercantile safe burglary insurance, money and securities broad form policy, office burglary and robbery insurance, and storekeepers burglary and robbery insurance.

Glossary

Actual Cash Value

Unless otherwise defined in the policy, Actual Cash Value in California means Fair Market Value. The Fair Market Value of an item is the dollar amount that a knowledgeable buyer (under no unusual pressure) is willing to pay and a knowledgeable seller (under no unusual pressure) is willing to accept.

Agent

A licensed individual or organization authorized to sell and service insurance policies for an insurance company.

Aggregate limit

The maximum dollar amount of coverage in force for a property damage policy or liability policy. This maximum amount can be figured on a per occurrence basis or as a general aggregate for the complete policy term.

Agreed Value

A method of loss valuation where the insured and the insurer list an agreed upon amount to be paid in case of loss. This valuation method is most common in property insurance when insuring valuable artwork, antiques, or classic autos. A professional appraisal is usually required.

Arbitration Clause

A clause in an insurance policy that allows the insured and the insurer to each appoint an arbitrator if they cannot agree upon an appropriate claim settlement. Once the arbitrators have been selected, they in turn appoint an independent umpire. If the arbitrators disagree, then the umpire decides which claims settlement to support. The final decision is binding.

Betterment

A situation that occurs in a loss when an old piece of property is replaced by a brand new item. The insured is put in a better financial position than they were before the loss occurred, and consequentially may have to pay the difference in price for the betterment.

Binder

A short-term agreement that provides temporary insurance coverage until the policy can be issued or delivered.

Broker

A licensed individual or organization who sells and services insurance policies on your behalf.

Broker-agent

A licensed individual who can act as an agent representing one or more insurers, and also as a broker dealing with one or more insurers representing your interests.

Cancellation

The termination of an in-force insurance contract by either the insured or the insurer before its normal expiration date.

Claim

Notice to an insurance company that a loss has occurred that may be covered under the terms and conditions of the policy.

Claim Adjuster

The person who evaluates the damage caused by a covered loss and determines the amount to be paid under the policy terms.

Claims Made

A liability insurance policy where coverage applies to claims filed during the policy period no matter when the loss occurred subject to a retroactive inception date.

Coinsurance

An insurance clause that defines the amount of each loss that the company pays according to the amount of insurance carried, divided by the amount of insurance required. This basic formula relates to a contracted percentage of coverage that must be required to prevent a coinsurance penalty. **Combined Single Limit**

When bodily injury liability and property damage liability is expressed as a single sum (limit) of coverage.

Commerdallines

Insurance coverages for businesses, commercial institutions, and professional organizations, as contrasted with personal insurance.

Commission

A portion of the policy premium that is paid to an agent by the insurance company as compensation for the agent's work.

Concurrent Causation

Occurs when two or more perils cause a loss. When only one of these perils is covered by the insurance policy, the court generally rules that the entire loss is covered. Many insurance companies have reworded their policies to clarify that only a loss attributed to a covered peril is indeed covered.

Conditions

The portion of an insurance contract that sets forth the rights and duties of the insured and the insurer.

Coverage

Protection that is provided under an insurance policy.

Declarations (DEe) Page

Usually the first page of an insurance policy that contains the full legal name of the insurance company, the policy number, effective and expiration dates, premium payable, the amount and types of coverage, and the deductibles.

Deductible

The amount of the loss that the insured is responsible to pay before benefits from the insurance policy are payable.

Depredation

The actual or accounting recognition of the decrease in value of property over a period of time according to a predetermined schedule.

Earned Premium

The portion of the policy premium paid by an insured that has been allocated to the insurance company's loss experience, expenses, and profit year to date.

Endorsement

A written agreement that changes the terms of an insurance policy by adding or subtracting coverage.

Effective Date

The starting date of an insurance policy: the date the policy goes in to force.

Exclusion

A contractual provision in an insurance policy that denies or restricts coverage for certain perils, persons, property, or locations.

Experience Modification

The adjustment of premium resulting from the use of experience rating. Experience rating plans reflect an insured's past loss experience (usually from the past three years) and uses this experience to modify and determine the premium for the current policy year.

Expiration Date

The termination date of coverage as indicated on an insurance policy.

Flat Cancellation

Cancellation that takes place on the policy effective date.

No premium charge is made; however, other charges (i.e., service) may apply.

Fraud

An intentionally deceptive act committed to obtain an unfair or unlawful advantage. Fraud usually involves monetary gain.

Hazard

A circumstance that increases the likelihood or potential severity of a loss.

Indemnity

In a property and casualty contract, the objective is to restore an insured to the same financial position after the loss that the insured had prior to the loss. In the most basic sense, indemnity is: compensation for a loss.

Independent Adjuster

A person or organization that provides claim adjusting services to different insurers on a contract basis.

Insurable Interest

Any interest (most commonly ownership) that a person, company, or corporation has in a subject of insurance such as a business, building, or auto, which can be damaged and may cause the person, company, or corporation financial loss or other tangible deprivation. Generally, an insurable interest must be demonstrated when a policy is issued and must exist at the time of loss.

Insurance

A method of shifting risk from a person, business, or organization to an insurance company in exchange for the payment of premium. The insurance company commits to be responsible for covered losses.

Insured

The policyholder(s) entitled to coverage under an insurance policy.

Insurer

The insurance company who issues insurance and agrees to pay for losses and provide covered benefits.

Insuring Agreement

The portion of an insurance contract that describes what is covered. The insuring agreement usually states the perils insured against, the person(s) and/or property covered, the property locations, and the period of the contract.

License

A certificate of authority issued by the CDI to an insurer, agent, broker, or broker-agent to transact insurance business.

Limits of Insurance

The maximum amount of benefits the insurance company agrees to pay in the event of a loss.

Loss of Consortium

A potential situation in any bodily injury claim (including Workers Compensation claims) where a spouse contends that the bodily injury of their partner deprives them of the natural affection (spousal duties), help, and companionship of said spouse.

Loss Payable Clause

A provision that authorizes the insurer to make a loss payment to a person, company, or organization (loss payee) other than the insured. The loss payee must have an insurable interest (such as a lienholder for business personal property or a mortgagee on real property).

Managing General Agent (MGA)

An agent contractually authorized by an insurance company to manage all or part of the insurer's business activities. An MGA can manage the marketing, underwriting, policy issuance, premium collection, appointing and supervision of other agents, claims payments, and reinsurance negotiations of an insurance company.

Material Misrepresentation

A factual falsification made in such a manner that the insurance company would have refused to insure the risk if the truth had been known at policy issuance. A material misrepresentation gives an insurance company grounds to rescind a contract.

Nonrenewal

The termination of an insurance policy on its normal expiration date.

Occurrence

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.

Peril

Cause of loss.

Personal lines

Insurance written on the personal and real property of an individual (or individuals) to include such policies as homeowners insurance and personal auto insurance, as contrasted with commercial lines.

Policy

A contract that states the rights and duties of the insurance company and the insured.

Premium

The monetary payment that an insured makes to an insurance company in exchange for the contract indemnifying the insured against potential loss. Simply put this is the payment made by the insured to keep an insurance policy in effect.

Producer

A term used by the insurance industry to refer to agent, brokers, broker-agents, and solicitors.

Pro Rata Cancellation

A cancellation of a policy by an insurance company that returns the unearned premium to the policyholder (the portion of the premium for the remaining time period that the policy will not be in force).

Provisions

The statement of policy conditions in an insurance policy.

Public Adjuster

A licensed person or organization that represents the policyholder by contract in property damage claims negotiations with an insurance company.

Quotation

An estimate of the cost of insurance based on the information supplied to the agent, broker, broker-agent, or the insurance company.

Rescission

The cancellation of an insurance policy back to its effective date resulting in a return of all premium charged.

Regulations

Requirements developed by the CDI that implement laws passed by the legislature. Regulations go through a public comment process and must be approved by the state Office of Administrative Law.

Reinstatement

The restoration of a lapsed or canceled policy.

Renewal

The continuation of an insurance policy (offer of renewal) into a new term from the same insurance company that issued the existing policy.

Replacement Cost

The amount that it costs to replace lost or damaged property with new property of like kind or quality in the local market.

Schedule Rating

A method of pricing property and liability insurance. Schedule Rating uses debits and credits to modify a base rate figured by the special characteristics of the risk exposure. Insurers develop Schedule Rating because actuarial experience shows a direct relationship between certain physical characteristics and the possibility of loss. Most schedule rating plans must be filed and approved by the CD.

Self-Insured Retention (SIR)

The portion of a property or liability loss retained by a policyholder.

Severity

The size of a loss. Loss severity is used as a factor in establishing premium rates.

Short Rate Cancellation

A cancellation initiated by policyholder request in which the premium returned is subject to an administrative penalty.

Sistership liability

Exists when a manufacturer refuses to withdraw a product as ordered by a government agency or company management. Once a defective product has been identified and recalled, an insurance company excludes all other claims arising from the defective product due to the negligent failure of the company to take the product off the market.

Split limits

The technique for expressing limits of liability coverage under a particular insurance policy by stating separate limits for different types of claims growing out of a single event or combination of events. Coverage can be split (limited) per person, per occurrence, between bodily and property damage, or in other ways.

Subrogation

The process of recovering the amount of claim damages paid out to a policyholder from the legally liable party. When a company pursues the legally liable third party, they are required to include the policyholder's deductible in the recovery process.

Underwrite

The process to evaluate the insurance application and independent sources in order to verify the information provided and to determine the acceptability of the risk.

Underwriter

The person who performs the underwriting process to accept, reject, or modify risks on behalf of the insurer.

Unearned Premium

The portion of the written premium applicable to the unexpired or unused part of the policy period for which the premium has been paid. For example, in an annual premium policy 11/12 of the premium is unearned at the end of the first month of the policy.

Waiver

The relinquishment of a known right, which may be expressed or implied.

Written Premium

The total premium on all policies written by an insurer during a specified period of time, regardless of what portion has been earned.
