

# INSURANCE BULLETIN

BULLETIN #1

## Glossary of Insurance Terms

CNA and NESPA are proud to provide you with this information. We trust that you will find it useful in understanding the insurance and risk management issues associated with your business.

The spa and swimming pool industry has a language that may be difficult for those in other professions to fully understand. The same is true of the insurance industry. To understand insurance, you must first learn the basic terminology. CNA trusts that you will find this publication helpful in doing so.

**Accident Frequency** — The rate of the occurrence of accidents, often expressed in terms of the number of accidents over a period of time. It is one method used for measuring the effectiveness of safety and loss control programs.

**Accident Severity** — A measure of the severity or seriousness of losses, rather than the number of losses. It is measured in terms of time lost from work or dollars incurred rather than the number of individual accidents. It is also another way to measure the effectiveness of safety and loss control programs.

**Aggregate Limit** — Usually refers to liability insurance and indicates the maximum amount of coverage that the insured has under the policy for each policy term, regardless of the number of claims or suits made against the contractor.

**Audit** — A survey of the insured's payroll, subcontract costs and/or gross receipts records to determine the final premium that should be paid for the coverage provided. It is sometimes referred to as a "final audit" and is usually done after the applicable policy period has expired.

**Basic Rate** — The manual rate from which discounts are taken or to which charges are added to reflect the individual characteristics of a risk.

**Commercial Lines Insurance** — Insurance coverages such as Workers' Compensation, General Liability, Automobile, Umbrella Liability, Property, Inland Marine, etc. that are designed for business loss exposures. This is in contrast to personal lines insurance coverages, which are designed for an individual's or family's personal loss exposures.

**Deductible** — The portion of an insured loss to be paid by the insured before the insured is entitled to recovery from the insurer.

**Dividend** — The return of a portion of the premium paid on a participating policy. It represents the difference between the gross premium charged and the actual cost assessed against the policy by formula.

**Earned Premium** — The amount of the premium that has been "used up" during the term of a policy. For example, if a one-year policy has been in effect six months, half of the total premium has been earned.

**Estimated Premium** — The provisional premium, which is adjusted at the end of the policy term. The adjustment is determined by an audit.

**Expenses** — The insurance carrier's cost of conducting an insurance operation aside from the amount paid for claims. Carrier expenses include items such as overhead, employee compensation, claim adjustment expenses and legal fees incurred to provide legal defenses for their insured's under liability policies.

**Experience** — 1) The loss or claims history of a contractor over a specified period of time, such as three years or five years.  
2) A statistical compilation relating losses to premium.

**Experience Modification** — The modification factor developed from the contractor's experience (claims history) that increases or decrease the policy premiums.

**Experience Rating** — A method of adjusting a contractor's policy premiums upwards or downwards based on past claim history for that contractor, compared to an expected average claim history.

**First Named Insured** — The first named insured appearing on a commercial lines policy. As compared to other named insureds that may be listed on a policy, first named insureds have certain rights and duties stipulated in the policy that other named insureds do not have.

**Guaranteed Cost** — Insurance premiums issued at policy inception that are guaranteed to the extent that the rates will not be adjusted during the policy period. The premiums may be subject to a final audit of the contractor's payroll, subcontract costs and/or gross revenue at the end of the policy term, but they will not be adjusted based the contractor's claims experience during the applicable policy period.

**Incurred But Not Reported** — This refers to losses which have occurred during a stated period, usually a calendar year, but have not yet been reported to the insurer as of the date under consideration. For instance, insurance company statements prepared after the end of the calendar year include an estimate of losses that occurred during that year but have yet to be reported to the carrier.

**Incurred Loss Ratio** — The ratio of losses incurred to premiums earned.

**Incurred Losses** — The losses or claims occurring within a policy period, whether or not the claims are fully adjusted, paid or settled during the same period. Claims that occur during the policy period often remain open with a reserve or estimate of the ultimate claim amount posted. These reserve amounts or estimates are included in incurred losses, along with amounts that the insurance carrier has actually paid.

**Line of Business** — The general classification of business as utilized in the insurance industry (e.g., Workers' Compensation, General Liability, Automobile, Umbrella Liability, Property, Inland Marine, etc).

**Indemnify** — To restore the victim of a loss to the same position they were in before the loss occurred.

**Loss** — The amount paid on behalf of an insured under an insurance policy.

**Loss Conversion Factor** — A term used in retrospective rating plans. It is a factor applied to the losses in the formula to cover the funds needed to handle claims.

**Loss Development** — The difference between the amount of losses initially estimated or reserved by the insurer and the amount that is ultimately paid on that loss.

**Loss Development Factor** — A factor designed to contemplate the subsequent development of losses.

**Loss Expectancy** — An underwriter's estimate of the probable maximum loss to be suffered on a contractor being considered for coverage.

**Loss Frequency** — The number of times a specific kind or type of loss occurs within a specified period of time.

**Loss Limitation** — A term used in retrospective rating formulas. It is designed to limit the effect of catastrophic losses that would otherwise be considered in full in figuring the final retrospective premium.

**Loss Ratio** — The total losses divided by the total premiums. The numerator (losses) can be losses incurred (including reserves) or losses paid (excluding reserves), and the denominator (premium) can be earned premiums or written premiums.

**Loss Reserve** — The estimated, ultimate liability for unpaid claims or losses that have occurred as of a given evaluation date. On an individual claim basis, the loss reserve is the estimate of what will ultimately be paid out on that claim.

**Loss Severity** — The amount of a claim or loss expressed in monetary terms, such as a \$500,000 workers' compensation claim.

**Losses Outstanding/Pending** — Claims that are still "open" that are not yet settled and closed.

**Monopolistic State Fund** — The state operated entity in states having laws, which require that all businesses buy Workers' Compensation insurance from the state. Private Workers' Compensation insurers cannot write business in these states.

**Occurrence** — An event that results in an insured loss. In some lines of insurance, such as Liability, it is distinguished from an accident in that the loss does not have to be sudden and accidental and can result from continuous or repeated exposure which results in bodily injury or property damage that is neither expected nor intended by the insured.

**Package Policy** — Any insurance policy including two or more lines of coverage in the same policy, such as Property coverage and General Liability coverage.

**Paid Losses** — The amount actually paid in losses during a specific period of time, not including estimates of amounts (reserves) that may be paid in the future.

**Underwriter** — A technician trained in evaluating risk and determining the coverages and premiums to be offered for that risk.

**Underwriting** — The process of selecting risks and classifying them according to their degree of hazard so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not meet the carrier's underwriting criteria or that the underwriter feels will not be profitable for the carrier.

**Unearned Premium** — That portion of the written premium that applies to the unexpired or unused part of the policy period. For example, if the policy period is one year, at the end of the first six months, one-half of the premium remains "unearned".

**Written Premium** — The total premium charged by the insurer at policy inception, which includes both earned and unearned premiums.

Through the SPLASH program, CNA can provide a business insurance program that offers comprehensive risk control (safety) services, expert claim handling and property/liability insurance coverages designed specifically for spa and swimming pool professionals. So when your business is insured with the CNA/SPLASH program, you'll have peace of mind knowing it's a program backed by a carrier with more than 60 years experience in the construction industry. Give us an opportunity to earn your business – ask your insurance agent to obtain a quote from CNA and discover how you can benefit from this partnership.

For more information, contact your local independent agent or visit [www.cna.com](http://www.cna.com).

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