# THE 20 BIGGEST BUSINESS INSURANCE MISTAKES
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## V4.2

**SCOTT SIMMONDS, CPCU, ARM, CMC**
**THE GUY WITH THE BIG INSURANCE BRAIN**

**UNBIASED INSURANCE ASSURANCE CONSULTING**

## Introduction

This e-book will help you manage your business insurance better. From the information here you will get better insurance coverage and better mitigation of your risks.

This is the forth edition of this e-book. Some of the information is the same from past editions. Some is new. All of it is fresh.

Finding insurance mistakes is what I do.

As an insurance consultant, I'm hired to review and fix insurance mistakes. I go into a company and find risk problems. Often insurance is the answer. Sometimes it isn't.

You'll find that I approach the topic from a different perspective than most insurance experts.

- As an insurance consultant, I only work for insurance buyers.
- I never accept fees or commissions from the insurance companies or insurance agents I work with for my clients.
- I'm unbiased in the insurance recommendations I make to my clients.

In my work I see the good, the bad, and the ugly of business insurance. On average, my coverage reviews for businesses result in more than twenty recommendations and concerns. I decided to put together a list of the issues and problems I see as the worst mistakes in business insurance. I haven't listed all the problems I've come across – just the biggest and most frequent.

I hope the information I've presented here is helpful. Feel free to let me know what you like and don't like about this booklet. Call (207) 284-0085 or email me at Scott@ScottSimmonds.com. I'm interested in your thoughts and comments.

Regards,

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## What Is Insurance?

Let's not make this complicated. Insurance is a tool to transfer the financial consequences of certain risks you face from you to the insurance company. Those risks exist based on property you own or actions you take.

Risk can be addressed by avoiding the exposure (sell your home and you don't have to worry about it burning down), transferring the risk (using insurance or a contract), or retaining the risk. Usually we combine techniques – you insure your house (transfer), but take a deductible to help lower the premium (retention). You may insure your building for fire (transfer), but decide not to buy coverage for flood (retention).

Insurance contractually transfers the risk from the policyholder to the insurance company. The policy spells out what is insured and the terms and conditions of the transaction. The policy also tells you what is not covered – the exclusions.

## Mistake #1 - Not Having the Right Agent

Early in my career I learned that the most important part of the insurance transaction is the relationship between the insurance agent and the insurance buyer. As with all professional relationships, trust and respect are of the utmost importance.

If you don't trust your attorney, you need to find a new attorney. The same thing is true of your relationship with your insurance agent.

To find the right agent, ask people you respect. Talk with friends and associates. When looking for a new agency, interview the people who'll be handling your account. If something doesn't feel right, it probably isn't. You're the buyer; it's your money. Work with a trusted professional who gives you a feeling of confidence in his or her work. Consider his or her technical competence as well. How long has he or she been in the business? What classes has he or she attended? What industry designations does he or she hold?

Here are some great sources of referrals to agents:

Business leaders you respect including your attorney and accountant.

Local chamber of commerce.

Trade associations (you may find an agent who specializes in your industry).

Friendly competitors.

## Mistake #2 - Failure to Monitor Your Insurer's Financial Rating

In the current economic climate, this is especially important.

Each year insurance companies go out of business. Each year insurers go insolvent. Their clients are severely affected. Claims go unpaid, cash values are lost, and annuity payments are reduced or cut off. Policies have to be replaced in a rush, resulting in lower coverage and higher premiums. Not a fun time.

Several organizations analyze insurance companies for soundness. The best known is the AM Best Company (www.ambest.com). Standard & Poor's also rates insurers.

In past editions I highly recommended Weiss Ratings as a tough, unbiased source of information. The Weiss organization was blended with TheStreet.com. Insurance company ratings are now a bit hard to find on their site. Get their rating at http://www.thestreet.com/tsc/ratings/screener.html. They also offer full reports for $20.

TheStreet.com never accepts fees from insurers. They use industry and regulator's filings in their analysis. They're tough graders; a B- is still considered good in their system.

A recent review of AM Best Ratings revealed that almost 90% of insurance companies receive a rating of "Very Good" or higher. Only 29% of insurers received a Weiss Rating of "Good" or higher. TheStreet.com has a higher standard. When working with my client's money I want objective, tough, and accurate ratings.

## Mistake #3 - Failure to Review Coverage with Your Agent Regularly

Meet with your insurance agent at least once a year to review your coverage, catch her up on changes in your business, and talk about hazards. The best time to do this is usually four months before your policies expire.

Your agent should provide you with a summary of coverage and a listing of your losses. You should talk about where your business has been and where you plan to go in the near future. Are you considering mergers or acquisitions? Is a new product line being considered? Are you planning new locations or buying new equipment? Are you discontinuing any operations?

Let your agent be a part of your company. Let the agent know of risks you're concerned with. Look at your loss record. What can the agent do to help? Find out what services the agent offers that can assist with problem areas. Learn what services your insurer offers.

## Mistake #4 - Splitting Coverage between Two Insurance Agents

You'll get a better insurance program if one agent handles your entire insurance account. This is true of both your business and personal insurance. You may even want your business and personal insurance with the same agent.

Having one agent will save you both time and aggravation. Having one agent means that you make one call when you have a problem or a change in your life or business. Having one agent helps to prevent gaps and overlaps in coverage.

If you follow the advice in the previous section, one agent means only one review meeting, saving you time.

I've worked with several insurance buyers who thought that it was best to split the business up. Their idea was to let the two (or three) agents fight it out, scrapping for the business. I have never found that this works very well. Come claim time it can be a nightmare when each points to the other for coverage.

If you currently have two agents, you know which one is the better service provider. Have that agent handle your entire insurance account.

## Mistake #5 - Failure to Review All Policy Exclusions

Your insurance policies are filled with exclusions. Most are contained in the exclusions section of the policy-form. More and more, however, insurers are adding exclusions by endorsement – separate forms at the end of the policy (or coverage section) that change your insurance. Read through these and review them with your agent. This is especially important with professional liability, directors' and officers', and employment practices liability insurance.

Many of the policy exclusions have logical explanations. A general liability policy excludes auto accidents because they are best insured by an auto policy.

Some exclusions limit coverage an underwriter isn't comfortable writing.

Work with your agent to understand the limitations of the insurance you buy.

## Mistake #6 - Failure to Protect Your Profits after a Loss

I am regularly asked to explain business income insurance. First, let's get past semantics. The following terms mean the same thing: business interruption coverage, loss of business income, time element, use & occupancy. They all mean the same thing—protection from the loss of income that occurs when a business is shut down due to a fire or other insured loss.

For many years I've used the same story to help business owners understand what exactly business income coverage does. It's a silly story, but it makes the point.

Pretend you own a goose. Your goose lays golden eggs. If your goose gets run over by a truck, it's going to take you nine months to get a new goose. You have insurance that will pay for the cost of the new goose (property insurance), but what about the value of the eggs you won't get in the nine months you're without a goose? Business income coverage pays the value of the eggs while you're waiting for your new goose.

Part two of business interruption coverage is extra expense. Extra expense coverage pays the increased cost of getting your goose in five months instead of waiting for nine.

Another point: eliminate coinsurance penalties from business income coverage if at all possible. Make sure your policy will continue to pay for enough time to rebuild your property – many policies limit the time of business interruption payments to twelve months. Make sure the policy has enough coverage to accommodate a claim during a peak season in your business. For example, a hotel that is closed for a month in the off-season suffers a different loss than being closed for a heavy tourist month.

Consider contingent business income coverage that will pay if a key supplier or customer is shut down by fire or other insured peril.

## Mistake #7 - Failure to Manage Your Workers' Comp Policy

Managing the components of your workers' compensation policy can yield big savings.

Tip 1: Make sure your employees are properly classified. There are over 600 different classifications used in workers' compensation rating. Some have a low premium rate. Some are high. Ask your agent for a copy of your class descriptions. If you have more than one classification, make sure your employees are assigned to the right one.

Tip 2: Ask to review the insurance company's annual audit of your payroll. These worksheets show the employees allocated to each classification as well as how the payroll numbers were determined. They can be a major source of errors that cost you premium dollars.

Tip 3: Make sure your audits are performed correctly. Has the extra pay for overtime been removed from payroll amounts? Did the auditors recognize the salary caps for executive officers?

Tip 4: Your experience mod is the ratio of your claims to losses expected in companies like yours. It directly affects your premium. Make sure your experience modification is correct. I have found that about 10% of the experience modification worksheets I review contain an error in the data.

## Mistake #8 - Buying Insurance to Cover Non-Catastrophic Losses

Things happen in our daily lives. Don't use your insurance to pay for the bumps in the road. Look to insurance to help you through catastrophes.

Did vandals damage your sign? Why look to insurance to pay for such? Did a windstorm damage a few shingles on your roof? Fix them and move on. Insurance should be for when your roof is destroyed or for a loss that would have a devastating affect on your company's financial health.

Use high deductibles on your property insurance to reduce your premiums. Consider $5,000, $10,000, or higher. Small losses are a cost of business. Budget for them.

Note: Never pay liability claims yourself. Report damage you cause to other people's property or injuries to your insurance company as soon as possible. Even if it seems that the injury is minor, report the claim to your insurer quickly. Most insurers have 24-hour claim hotlines. Use them!

## Mistake #9 - Low Umbrella Liability Limits

Umbrella liability insurance provides protection above and beyond the coverage included in your general liability, auto liability, and employer's liability insurance. It's an inexpensive way to increase your level of protection against someone suing you. Premiums can be as low as $750 per $1,000,000 of coverage.

So, if you have an auto policy with $1,000,000 of coverage and a $2,000,000 umbrella, you have a total of $3,000,000 of coverage for your liabilities from an auto accident.

I consider $2,000,000 a minimum for even the smallest of companies. Think about $3,000,000 - $4,000,000, or more. Review your liability limits as compared to your annual sales and total business value. Think of the daily activities of your business and the accidents or losses that can occur.

Also consider the net worth of your company. How much do you have to lose? What is the cost of the insurance? What is the value of protecting your net worth?

Recall that most liability policies have total aggregate limits of coverage. This is the maximum amount that will be paid for the total of all of your claims. You can use up your insurance if you have multiple lawsuits against you. An umbrella can help by adding aggregate limit to your protection.

Contractors should be very careful of their liability limits. Look at your exposure to loss. A careless employee of a very small contractor burned down a multi-million-dollar church in my town a few years ago. It isn't just the "big boys" who cause big losses!

If you manufacture, bottle, or sell booze, try to get your liquor liability insurance included in the umbrella coverage. Most underwriters will add the extra protection at a fairly modest premium.

Insurers of municipalities and schools are starting to include public officials insurance in the protection included in the umbrella. Have your agent ask your insurer what policies can be included in the umbrella policies.

## Mistake #10 - Inadequate Employee Dishonesty Coverage

Theft by employees is a huge cause of loss to business – estimated by some to be almost half of all business theft losses. Be sure you have enough coverage.

Every time there's an article about someone stealing from his or her employer there is a quote like, "I never thought he would steal from me." Yep!

I can't tell you how many business owners tell me, "I don't need employee dishonesty coverage. I trust all my employees."

Think this through. If you didn't trust someone, would you let him or her handle your money? Of course not. Therefore, anyone whom you entrust with your money, you trust! (I can hear you saying, "Duh, obvious!") Therefore, the only people who ever steal from their employer are trusted employees. Employees you don't trust are never given the opportunity!

The only employee who steals from you is the one you give opportunity to. You need to do two things: remove the opportunity, and buy insurance.

Be sure the person reconciling your bank account doesn't have check signing authority. Better yet, reconcile the account yourself. Do frequent inventories looking for shrinkage. Let everyone know you're watching the storage room. Video technology is at a place where every business should have cameras. They also deter fraudulent injury claims – by both employees and customers.

How much crime insurance should you buy? $100,000 is a minimum for even the smallest company. You'll find that $1,000,000 of coverage is not all that expensive. Talk with your insurance advisor.

**Things to Do to Prevent Employee Theft**

Insist on complete honesty in dealing with customers, fellow employees and the company. Management must lead by example in showing that dishonesty will not be tolerated.

Develop a control system to trace the handling of cash, and merchandise including shipments in and out of your facilities. Review and test your control system to find weak points that may leave you vulnerable to theft or embezzlement.

Deposit cash receipts daily. Mark incoming checks "for deposit only" as soon as received. Have a person not able to sign checks reconcile checking accounts. Keep bank signature authorization cards up to date. Change door locks and computer passwords on a regular basis. Track mileage on company vehicles.

Ask applicants about any criminal convictions and consider seeking a criminal history record request from the State Police. Keep such records confidential. Verify facts thoroughly before taking any adverse action based on any prior criminal record.

Treat suspected incidents consistently, without favoritism or special treatment to any person or group. Remember that proving employee theft or embezzlement will require proof beyond a reasonable doubt. Keep an open mind until proof beyond a reasonable doubt is obtained.

Treat all persons interrogated in a professional, non-accusatory fashion - especially the suspect. Be patient and thorough when questioning suspects - get the minute details and check them out.

Advise employees in employment applications and personnel handbooks of your policy regarding searches of lockers, personal handbags, briefcases etc.

Obtain consent, in writing or in the presence of other witnesses, before searching any employee unless you know and follow the rules under which non-consensual searches may be made. Obtain an admission of theft or embezzlement in writing as soon as the suspect confesses. Keep in mind that the thief or embezzler has almost certainly stolen or embezzled more than he has confessed. Insist on immediate restitution. Keep the issue of restitution separate from the decision to press charges.

Consult legal counsel before firing an employee for theft or pressing criminal charges.

Assume that you will have to take the lead in proving the theft or embezzlement.

Review your employee dishonesty insurance. Give appropriate notice of any claim to your insurer. Remember that knowledge of prior criminal or dishonest acts can make future claims against an insurance policy invalid.

**Things Not To Do As You Try To Prevent Employee Theft**

Do not act on assumption or second hand information.

Do not tell an employee he is being fired for theft unless you are prepared to prove the theft beyond a reasonable doubt. Do not press charges against a former employee unless you can prove those charges beyond a reasonable doubt.

Do not fire an employee suspected of theft without first conducting a thorough investigation, including careful interrogation of the employee in an attempt to obtain a confession.

Do not ask employees about prior arrests or make decisions based on arrest records.

Do not promise or suggest that you will not prosecute if the employee makes restitution.

Do not directly or indirectly require, request, suggest, use, or inquire about polygraph tests without competent legal advice.

Do not disclose facts concerning an employee's misconduct or suspected misconduct unless the person to whom you reveal it has a clear need to know and you are prepared to prove the truth of what you disclose.

## Mistake #11 - No Claims Management Program

Big or small, your company should have a plan for handling incidents – those covered by insurance and those under your deductibles. Claims management includes follow-up with the adjuster. Stay in touch with your employees injured in workers' compensation claims too.

Keep the phone numbers of your insurance agent and insurance company handy. Let your employees know that in case of an auto accident with injuries, they should call the insurance company from the scene if possible. Make sure your insurer's claim-reporting phone number is on the Insurance ID Card or in the glove compartment. All vehicles should have a disposable camera under the driver's seat (the coolest part of a car) to be used if there's an accident.

Know what claims to report and to whom you report them. Know your workers' compensation insurer's procedure for claims reporting – online, fax, phone, or email.

Managing your claims means that you are on top of the claims process. Your diligence also will be noticed by over-burdened claims adjusters who will be more diligent with your case files.

## Mistake #12 - No Loss Control/Loss Prevention Plan

Accidents happen, but do they really need to?

With training, thought, and analysis you can reduce and prevent accidents and claims.

Review past accidents for clues as to what can happen. Build a safety team to help identify hazards and offer solutions. Your employees should also be comfortable pointing out issues and making recommendations.

Use your insurance company's loss control experts. Look at all areas of potential losses:

- How can you protect your property from losses like fire and windstorm?
- How can you prevent employee injuries that result in workers' compensation claims?
- What can be done to lessen the exposure to product liability issues, including packaging and instruction sheets?
- What procedures should be in place to prevent liquor liability claims?

- What can prevent slip and fall accidents by customers and employees?
- Work with your attorney to prevent employment practices claims like discrimination and harassment.
- What are the exposures of your business to intellectual property issues – unfair trade, violating patent or trademark?
- How can you minimize the chance of vandalism or break-ins? How can you make your business less of a target?

## Mistake #13 - No Fiduciary Liability Coverage

The federal law ERISA makes the administrator of employee benefit plans personally liable for errors. That means that the head of HR who mistakenly fails to add coverage for a new spouse is liable (using personal assets) for the oversight. Your company can't reimburse the employee, either. Personal liability!

The only protection or indemnification allowed is a Fiduciary Responsibility Insurance Policy, or the more limited Employee Benefits Liability coverage. Premiums are quite reasonable compared to Directors' and Officers' or other professional liability policies.

You need Fiduciary Liability Insurance if you have group health insurance, a pension, 401k or other savings plan, disability coverage, life insurance, etc.

Don't confuse fiduciary liability coverage with the bond required by ERISA (you must buy a fidelity bond that covers 10% of retirement plan assets).

Note: Governmental entities are usually exempt from ERISA. Talk with your attorney to be sure.

## Mistake #14 - Buying Inadequate Property Insurance

You'd think that the coverage on your buildings and business property would be pretty straightforward. It's a place I see plenty of problems, though.

Tip 1: Be sure you have enough insurance. If you intend to repair or replace your property in the event of fire, windstorms, or other catastrophe, buy enough insurance to actually replace the property. Ask your agent to come up with an estimate of the replacement cost of your building, or ask a contractor to give you an estimated cost per square foot for a building like yours. If you built your building in the past twenty years, ask your agent what the "increased cost of construction factors" are for your area.

Contents or personal property coverage is important too. Survey your belongings by walking into each room. Count $1,000 of value – don't worry about the small stuff. For example, in an office – desk and chair, $1,000. Three file cabinets, $1,000. Supply cabinet, $2,000. You're trying to get a broad idea of how much insurance you'll need to buy new property if you have a fire.

Tip 2: Work with your agent to eliminate any coinsurance clauses from your policies. Coinsurance is a penalty provision. It never helps you. It can only hurt at the time of a loss. Ask your insurance agent if you have coinsurance in any of your property insurance policies. If the answer is yes, ask why. I have long said that having coinsurance penalties in an insurance policy is a good indication that your agent is not looking out for your best interests.

Tip 3: Talk with your agent about blanket coverage – one amount of insurance for all your property. Even if you only own one building, combining the building and contents insurance into one amount of coverage can help you at the time of a claim.

While we're talking about property insurance, document the property you have. Take pictures or video of the inside and outside of your buildings every few years. Store the photos or the digital files away from your business.

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## Mistake #15 – Be Discriminating, Hire Only Great People

Bad employees cause losses.

Now I know that good people can cause losses and that bad stuff can happen to good people. However, in my experience a high number of claims are caused by problem employees.

- A careless employee takes a shortcut on a safety process and is injured or injures others.
- An impaired employee causes an auto accident
- Inattention to detail causes a flaw to pass through and the product fails when in the hands of a customer.

An often repeated phrase of mine is, “slow hire, fast fire.”

Take your time hiring people. Hire the best. Do not skimp or settle. Spend time with your prospective hires. Use trusted employees to meet with applicants. Check references and do your own due-diligence.

The current economy has put some excellent people into the job market. Bring them to your firm.

Get rid of bad employees fast. Poor performers rarely rehabilitate. Dump them.

Difficult, argumentative, lazy employees hurt your team. Get rid of them.

Obviously you need to follow employment laws and good management practices. You must be fair and ethical. Employees must understand your expectations. However, if they can't cut it, push them out.

A model for me is professional sports. Managers build teams based on the leader’s philosophy of the game. New players are brought in to overcome weaknesses and support strengths. When a play is not performing they may be sent to the minors for instruction and coaching. If the player does not perform or does not contribute to the achievement of goals they are traded or let go with little fuss. Everyone moves on.

An interesting thing often happens in sports. When a player is traded, his performance often improves with the new team. Either the new coach matches the player’s personality or the player realizes that the old way was not the best way and changes his behavior and approach.

Be slow to hire and fast to fire.

## Mistake #16 - No Non-Owned Auto Coverage

If your employees drive their personally-owned cars on company business, you need coverage for accidents involving “non-owned” autos.

Under common law if a worker goes to the store in his car to buy copy paper, you’re as responsible for any accident as he is. Some auto insurance policies cover employers for the actions of their employees, but some don’t.

Ask your agent if you're covered for non-owned auto liability.

The other part of the non-owned auto issue is the employee’s insurance. If an accident occurs when an employee is driving their own car on company business it is the employee’s insurance that will respond to cover their car and any liability of the employee. There are often misunderstandings that occur after an accident. Many employees will expect that you will pay for the damage.

Set expectations with your employees so they know what happens if there is an accident. Here is a letter you can send to employees:

> Dear Employee,
>
> From time to time it may be necessary for you to drive your personal vehicle on company business. The purpose of this letter is to <> you of our policy regarding such.
>
> All employees using their personal vehicle for approved business travel will be reimbursed for such use at a rate of <<$.xx>> per mile. This fee is intended to repay you for your expenses in operating the vehicle including the cost of gas, oil, tires, maintenance and the cost of insurance.
>
> We require that all employees who drive personal vehicles on company business carry at least <<$x00,000>> of liability protection and uninsured motorist coverage. The purchase of "comprehensive" and collision insurance is at your discretion.
>
> In the event of an accident while you are driving on company business you should look to your own insurance to protect you and your vehicle.
>
> Remember, the auto insurance you buy is what will protect you on or off company time. Our company automobile insurance policy provides no coverage for your vehicle.
>
> Should you have any questions regarding this memo please see your supervisor.

Of course you can set up your response to an accident in any way you want. My suggestion is that you let employees know ahead of time how the world works.

## Mistake #17 – Failure to Protect Business Data

Everyone is dependent on his or her business records in some way. Be sure that your computer data is backed-up and stored off site. Don’t use fireproof safes to store your backup data on site – tapes and computer disks can't withstand the heat that paper can.
Store important paper records in fireproof file cabinets.

If you have a computer data backup plan, test it. If you don’t have one, make one, then test it. Create a simple word processing document and store it so it will be backed up. After a few days, delete the file from your hard drive, and then have your computer techs retrieve it from your backup copy.

Tapes used in backup systems deteriorate with age and use. Rotate new tapes in and old tapes out into archive storage.

Ask your computer people where the latest backup is. If it's on site, raise hell!

In almost every company I visit, the data backup system is a process that has deteriorated. Employees who are involved in data protection must realize that their work is vital to the future of your company. Regular audits of the process to ensure the integrity of the system are vital. Technology should also be reviewed regularly to improve the quality of the backup system.

Consider using an Internet based backup system where encrypted copies of your files are constantly backed up and stored across the country.

## Mistake #18 - Not Considering Earthquake and Flood Insurance

The perils of flood and earthquake are excluded under most property insurance policies. Consider adding the coverage.

If you live in quake-prone areas, your agent has undoubtedly discussed the coverage with you. Most agents on the East Coast don't even talk about earthquake with their clients. That can be a mistake.

Intense quakes can hit anywhere. An earthquake hit Boston in 1755 that damaged 1,200 buildings. More than one hundred chimneys were leveled. People on ships in the harbor thought that they had run aground the intensity was so great. Think what would happen now?

Flood is the other commonly underinsured peril. Just because you don't live in a flood zone does not mean that your property can't be damaged by water.

Talk with your agent. You may be surprised how inexpensive the coverages are.

(Side Note: What actions can you take to prevent a flood loss? If you are using basement storage, are all boxes off the floor? Are drains clear? Can flood barriers be prepared and held in-the-ready?)

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## Mistake #19 – Not Managing the Risk of Employee Suits

Claims against employers for discrimination, harassment, wrongful termination, and failure to hire are far too common to ignore.

Employment practices liability insurance policies are widely available. Many insurers are offering exceptionally broad coverage. The premiums have come down dramatically from where they were ten years ago. Your agent can help you get competitive quotes.

Risk management is also a part of the process. Here are some other points to consider:

- How current is your employee handbook?
- It's better to not have a handbook than to have one you don't follow.
- Better yet, update the handbook to match your process.
- Have a labor attorney review your applications and policies regularly.
- Your managers must be trained in your process.
- Documentation is vital - if it isn't in writing, it didn't happen.

## Mistake #20 - Improperly Funded Buy-Sell Agreements

Buy-Sell agreements are contracts between the partners or shareholders of a business. The agreement stipulates that if one party dies, becomes disabled, or retires, the other(s) will buy the business. This protects the value of the former owner's share of the business while protecting the remaining owner(s) from having to deal with unqualified spouses or unrealistic valuations.

The tough part is figuring out how to fund the transfer of ownership. Partners should consider funding for all events that remove an owner—death, disability, and retirement.

I've seen many buy-sell agreements with life insurance in place. However, few have disability insurance in force to protect against an accident that prevents an owner from continuing as owner. For most business owners the chance of being disabled is much higher than the chance of death.

Make sure your buy-sell agreement is properly funded.

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## Mistake #21 - Failure to Use an Insurance Consultant

Shameless self-promotion, you say! I only promised twenty mistakes, so this is a bonus!

Using an informed specialist works. I have seen it many times. The insurance transaction traditionally has three players:

1. Insurance company
2. Insurance agent
3. Insurance buyer

The complexity of the insurance world puts the buyer at a tremendous disadvantage. Few really understand insurance or the insurance marketplace. Most buyers spend only a few hours each year on insurance. Working with a specialist levels the playing field. Quality cannot exist without a balance of knowledge and information. A consultant brings expertise to the buyer without the "entanglements" of an agent who works for an insurance company on commission.

When engaging a consultant, ask if he or she ever accepts commissions, fees, or gifts from insurance agents or companies. You're looking for someone who answers, "Never!"

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## Insurance Glossary

Insurance jargon can be complicated. I've tried to put together some of the most common terms. This is, by no means, a comprehensive dictionary. My friend Ray Burnham has a 900 page dictionary of insurance terms if you want the most comprehensive list. www.BurnhamSystem.com.

**Accident** An event or occurrence that is unforeseen and unintended.

**Actual Cash Value** Property insurance valuation method. The replacement cost of property damaged or destroyed at the time of loss, less depreciation.

**ACV** Actual Cash Value

**ADA** Americans with Disabilities Act

**Additional Insured** A person or organization that meets the definition of an insured within an insurance policy. The party is not named specifically but is insured due to a group or class. Employees, officers, and directors, for example.

**Additional Named Insured** A person or organization, other than the first named insured, specifically named as an insured in the declarations of the policy.

**Adjuster/Adjustor** A person who investigates and settles losses for an insurance company. May be an employee of the insurer or an employee of an independent adjusting firm.

**Advertising Injury** An injury rising out of an offense committed in the course of advertising activities. For example: libel, slander, defamation, violation of right of privacy, piracy, unfair competition, or infringement of copyright, title, or slogan.

**Agent** A legal representative of an insurance company. His or her role in the insurance transaction is to sell and service insurance. An agent may be an employee of the insurance company. See also: Independent Agent, Direct Writer, Captive Agent.

**Agent of Record** See Broker of Record

**Aggregate Limit** A limitation in many liability policies stipulating the maximum amount available for the total of all claims paid in a period of time. Aggregates are usually annual.

**Agreed Amount Endorsement** An endorsement to property insurance policies that removes the penalty for coinsurance issues by agreeing that the amount of insurance meets any coinsurance requirements.

**All Risk** Antiquated term to describe the perils in a property insurance policy. It has been replaced by the term "Special Risk." Using "All" got insurers and agents into trouble. See Special Risk.

**Application** A form completed by the insured and/or the agent, providing information used in the underwriting and pricing process. The application becomes a part of the insurance policy for many lines of insurance.

**ARAP** The rating system for assigned risk insurance programs managed by some states.

**ARM** A professional designation: Associate in Risk Management. A course of study including the management of risks using techniques other than insurance.

**ARP** Assigned Risk Plan

**Assessable Policy** An insurance policy that allows insurers to return to policyholders (as a group) for additional funds to cover losses of the group that are greater than anticipated. Usually only utilized in mutual insurance companies and captive/self-insurance plans.

**Assigned Risk Plan** Also known as The Pool. This is a risk-sharing mechanism set up by states to provide insurance for employers where no standard insurance company is interested. The problem may be with the risk (poor loss experience) or with the state's workers' compensation system (the state insurance has set up a system where insurers feel that they cannot make money).

**Audit Worksheet** The document prepared by the auditor that outlines the payrolls of your company. In many cases, the worksheet will show the remuneration of each employee and the classification assigned to that individual. The information on the worksheet is used to calculate the final premium.

**Audited Premium** The final premium based upon the audited, actual payrolls.

**Auditor** See Premium Auditor.

**Average Weekly Wage** A wage figure used to determine the payout in lost wages to an employee injured in a workers' compensation loss.

**B&M** See Boiler and Machinery Policy.

**Bailee** An individual or entity that holds property of another. Some examples are dry cleaners, jewelers, appliance repair firms, and computer repair firms.

**Bailee Insurance** Insurance on the property of others held by a bailee.

**BI** Bodily Injury.

**BII** Business Income Insurance, or Business Interruption Insurance.

**Binder** An oral or written statement that insurance coverage has been placed in effect. Usually issued by an insurance agent or the insurance company pending the actual policy being issued.

**Blanket Insurance** A single limit of property insurance that insures multiple classes of property (buildings and contents) over multiple locations. Specific insurance provides specific coverage to a specific property. Blanket coverage lumps all property into one amount of insurance.

**Bodily Injury** Injury or death. Some liability policies include emotional distress in the definition.

**Boiler & Machinery Policy** Provides coverage for damage to equipment and machinery by mechanical breakdown, power surge, etc.

**BOP** Business Owners' Policy

**BOR** See Broker of Record.

**BPL** Bankers' Professional Liability

**Broker** An insurance professional who represents the insured in the insurance transaction. Sometimes used incorrectly as a synonym for agent.

**Broker of Record Letter** A form letter used to indicate to an insurance company a policyholder's preference as to which insurance agent will have exclusive rights to the insured. Excludes all other agents/brokers from accessing the insurance company in question for that policyholder.

**Builder's Risk Insurance** Property insurance designed to protect buildings under construction or renovation. The policy recognizes the unique issues and hazards of construction. The rating of the policy recognizes the increasing values at risk.

**Burglary** Breaking and entering into another person's building with felonious intent.

**Business Income Insurance** See Loss of Business Income.

**Business Insurance** A subset of insurance that applies to the risks and hazards of business ventures, as opposed to personal insurance.

**Business Interruption Insurance** A part of property insurance that pays for the lost profits and continuing expenses that result from physical damage to insured property caused by an insured peril. See also Loss of Business Income, Extra Expense.

**Business Owners' Policy** A package of insurance coverage providing both property and general liability insurance, usually designed for smaller retail and office businesses.

**Cafeteria Plan** See Flexible Benefit Plan.

**Cancellation** Discontinuance of an insurance policy prior to policy expiration. May be at the request of the insured or by the insured's action (nonpayment of premium). In extreme cases, the insurance company cancels a policy for an increase in hazard. Cancellations are largely governed by state law.

**Captive Agent** An insurance agent who represents a single insurer or a single group of insurers. Captive agents may have to give their represented insurers first right of refusal or may be barred from accessing other insurers altogether.

**Captive Insurance Company** An insurance company owned by one or more non-insurance companies formed to provide insurance coverage for the owners.

**Carrier** The insurance company.

**Casualty Insurance** Classification of insurance dealing with losses caused by issues of liability through bodily injury, personal injury, wrongful acts, or property damage. Includes auto insurance, general liability, workers' compensation, professional liability, directors' and officers' liability, and fiduciary liability. Many casualty insurers also write surety business.

**Cede** To transfer all or part of a risk written by an insurer to a reinsurer.

**Certificate of Insurance** Proof of the existence at a moment in time of an insurance policy. Usually prepared by an insurance agent, listing the coverage included in a program of insurance. Prepared for the information of a business associate of the insured—a subcontractor would have his agent issue a certificate to the general contractor.

**Certified Insurance Counselor** Professional designation in property and liability insurance administered by the Society of Certified Insurance Counselors.

**CGL** Commercial General Liability

**CGL Policy** See Commercial General Liability Policy.

**Chartered Property and Casualty Underwriter** Professional designation administered by the American Institute for Property and Liability Underwriters. The course of study includes extensive examinations covering the breadth of property and casualty insurance issues.

**CIC** See Certified Insurance Counselor.

**Claims Made** Refers to the trigger of liability coverage. An occurrence policy responds to events that happen (occur) during the policy period. Claims-made policies respond to lawsuits filed (the making of a claim) during the policy period.

**Classification** Work comp – see Employment Classification.

**Closed Claim** A claim that has been resolved. No further payments or treatments are expected.

**CNP** Closed No Payment. Used on loss runs and claim reports to indicate that no payment was made on a claim and the file has been closed.

**COBRA** Health insurance – stands for Consolidated Omnibus Budget Reconciliation Act. Federal law that provides certain former employees, retirees, spouses, and dependent children the right to temporary continuation of health coverage at group rates. Coverage is limited to 18 months.

**Coinsurance** A penalty clause in property insurance policies that requires a certain percentage of the property's value to be insured.

Example: A building with a replacement cost of $1,000,000 and an 80% coinsurance clause must be insured for at least $800,000 (80% of the $1,000,000 value), or a penalty is assessed at the time of a loss.

Coinsurance in health insurance means the percentage of a loss paid by the insurance company. Liability insurance policies may have a coinsurance clause that denotes the percentage of the loss paid by the insurance company.

**Collision Insurance** Auto Insurance – coverage for damage caused to the insured vehicle by an automobile accident or upset of the vehicle. Damage caused by collision with an animal or bird is covered by comprehensive automobile insurance.

**Combination Safe Depository Policy** Covers losses to customers' property in a safe depository due to a loss or damage from actual, or attempted, burglary or robbery. Policies may exclude cash and coins.

**Commercial Auto Policy** Provides protection for liability arising out of the use of motor vehicles. Also provides physical damage coverage to specified vehicles (also known as comprehensive and collision coverage).

**Commercial Crime Insurance** Coverage forms used to insure against burglary, robbery, counterfeit currency for organizations other than banks and financial institutions.

**Commercial Crime Policy** Crime insurance used by general businesses. Banks use the Financial Institutions Bond.

**Commercial General Liability Policy** Provides coverage for bodily injury and property damage either from operations or products.

**Commercial Lines Insurance** A broad category of insurance indicating insurance for businesses, professionals, and commercial establishments.

**Commercial Property Policy** Coverage for buildings and contents.

**Conditions** Qualifications on the terms made by an insurance company – insured must pay premiums, insured must notify insurance company of claims, etc.

**Coverage** The scope of protection of an insurance policy. Used as a synonym for insurance.

**CPCU** See Chartered Property and Casualty Underwriter.

**Credit Insurance** Coverage against default by creditors. Insureds can protect all of their accounts receivable or specific creditors. Some credit insurance companies also provide credit watch and account receivable advisory services.

**CSR** See Customer Service Representative.

**Customer Service Representative** An employee of an insurance agency or company that provides administrative and customer support functions.

**D&O** Directors' and Officers' Insurance

**Death Benefit** Payment made to a policy beneficiary upon death.

**Debit Card Coverage** Can be included in the financial institutions bond. Provides coverage for loss resulting directly from the fraudulent use of a debit card to obtain cash or pay for products or services by gaining access to an electronic payment device, provided that such device, as part of the transaction, electronically verifies the customer's available funds in the customer's depository account at the insured's bank.

**Debris Removal Clause** Extends property insurance to include payment for the removal of the debris from an insured loss. Includes demolition, transportation, and disposal of the rubble.

**Dec** Declarations page – see Declarations.

**Declarations** The part of an insurance policy that specifically describes the limits, premiums, rates, names, and other information relative to a specific insured.

**Deductible** The part of a claim paid for by the insured. A $5,000 property deductible means that the insured pays the first $5,000 of any fire damage or other insured loss.

**Difference In Conditions Policy** A property insurance policy that provides additional perils such as earthquake and flood coverage.

**Definitions** The part of an insurance policy that defines many of the words used in the policy. Most policies highlight terms that are defined or place the term in quotation marks to indicate that the word is defined in the policy.

**Depository Bond** Bond (surety) to guarantee the safety of funds made by depositors and their availability for withdrawal as indicated in the terms of deposit. Generally used for municipalities and school districts.

**DIC** Difference in Conditions policy

**Direct Writer** An insurance company that does not work through independent insurance agents. Agents for direct writers are usually employees of the insurance company or in exclusive relationships with the insurance carrier. Liberty Mutual, State Farm, and Allstate are direct writers.

**Directors' & Officers' Insurance Policy** Provides coverage for allegations of third party mismanagement, failure to act properly, and other "wrongful acts" against directors and officers. Coverage also can be included for the bank, known as Entity Coverage

**Discovery Period** See Extended Reporting Period.

**Dishonesty Insurance** See Commercial Crime Policy.

**Dividend** A return of premium given after a policy has expired based on loss experience of the insured or of a group of insureds. Low losses result in higher dividends. Under most state laws insurers cannot guarantee dividends.

**DOC** See Drive Other Car coverage.

**Domestic** See Residence Employee.

**Domestic Insurer** An insurer domiciled in a state in which the insured's insurance is written.

**Drive Other Car Coverage** An endorsement to the commercial auto policy that extends coverage for individuals who are provided personal use of a company vehicle and are not covered by a personal auto policy.

**Earned Premium** Premium used in an insurance policy. In workers' compensation, premium is earned as the employer incurs payroll expense.

**E-Banking Insurance** Insurance designed to provide coverage for certain exposures unique to banking conducted over the Internet. Generally includes coverage for business interruption, copyright infringement, and public relations expense.

**E-Commerce Insurance** See E-Banking.

**EDP** Electronic Data Processing

**EE** Extra Expense

**EL** Employers' Liability

**Employee Retirement Income Security Act** U.S. federal law passed in 1974 that provides regulation over employee welfare plans – retirement funds, group insurance, pensions, etc.

**Employers' Liability** The second part of workers' compensation insurance policies. Provides protection from liabilities that arise out of the employment relationship but are not covered by workers' compensation. For example: a spouse of an employee who becomes ill because of chemical residues brought home on the employee's clothing.

**Employment Classification** The job code/description used to categorize employees and exposures.

**Employment Practices Liability Insurance** Liability insurance for acts of harassment, wrongful discharge, wrongful hiring, and discrimination. Also called EPLI.

**Endorsement** Additional policy coverage, conditions, or exclusions added to the insurance contract by the insurance company. Sometimes called a Rider.

**Entity Coverage** An extension of directors' and officers' insurance, providing coverage for legal actions against the insured entity.

**EPLI** Employment Practices Liability Insurance

**ERISA** See Employment Retirement Income Security Act.

**ERISA Bond** Provides the required protection for the assets of a retirement fund under the federal law known as ERISA

**E-Risk Insurance** See E-Banking.

**Errors and Omissions Insurance** See Professional Liability Insurance.

**Estimated Premium** Premiums determined at the beginning of a policy period based upon estimated payrolls. The insured pays for the policy based upon the estimated premium, and then the audit determines the final premium.

**Excess and Surplus Lines** See Surplus Lines.

**Excess Liability Policy** See Umbrella Liability.

**Excess Loss Premium Factor** A part of retrospective rating programs. A factor to compensate the insurer for limiting the effects of losses over a certain amount, $50,000 for example.

**Excess Losses** Part of the experience modification calculation. The amount of a loss that exceeds $5,000. See also Primary Losses.

**Exclusion** A part of an insurance contract that removes coverage for a specific set of circumstances. Flood is excluded from coverage on most property insurance policies.

**Exclusive Agent** See Captive Agent.

**Experience Modification Factor** A premium adjustment factor based upon the losses of a risk compared to losses of similar organizations. A ratio of expected losses to actual losses. Calculated by rating bureaus such as NCCI.

**Experience Period** Policy and claim periods used in the experience modification (mod); usually the oldest three of the past four years. The 2006 mod is based on the data from years 2004, 2003, and 2002.

**Exposure** A vulnerability to loss.

**Exposure Basis** A unit of measuring exposure. In workers' compensation the exposure basis is remuneration. In the case of some rates for domestic help, the unit may be per employee. A liability policy may use payroll, sales, or area as the basis of premium.

**Extended Discovery Period** See Extended Reporting Period.

**Extended Reporting Period** A provision included in claims-made liability insurance policies where, after the expiration or cancellation of a policy, the insured can extend the time to discover a claim that occurred prior to the end of the policy. Also called a Tail or Discovery Period.

**Extortion** Extracting money or forcing actions based on a threat of harm. A part of most kidnap and ransom insurance policies.

**Extra Expense Insurance** A part of time element insurance that pays the increased costs necessary to get an insured back into business quickly after insured property is damaged by an insured peril.

**Federal Employees Compensation Act** Workers' compensation act for federal civilian government employees. Overseen by the U.S. government. Does not involve private insurers or state funds.

**Federal Employers' Liability Act (FELA)** Applies to railway workers who are exempt from workers' compensation statutes. Cases decided on the basis of employers' liability.

**Fellow Servant Rule** Archaic term used as a common-law defense for employers prior to workers' compensation laws. Held that employer was not liable for injuries to an employee if the injury was caused by a fellow employee.

**Fidelity Bond** See Commercial Crime Policy.

**Fiduciary** A person entrusted with property or the care of an asset.

**Fiduciary Coverage** See Fiduciary Liability Insurance.

**Fiduciary Duty** The duties expected of a fiduciary.

**Fiduciary Liability Insurance** Protects the fiduciaries, directors, and officers of employee welfare plans (group insurance, pension plans, 401k plans) against actual or alleged wrongful acts. Covers liabilities imposed by the federal law ERISA.

**Financial Institutions Bond** Pays for dishonest acts by employees or outsiders. Theft of money, forgery, counterfeit currency, damage by hackers, etc.

**Fire Insurance** Broad term used to describe building and personal property insurance protection.

**Fire Legal Liability** A part of the commercial general liability insurance policy that protects damage to the part of the building occupied by the insured that is damaged due to the insured's negligence. Usually called upon to protect tenants for damage to the portion of the building they rent.

**First Named Insured** The first person or organization listed on an insurance policy as an insured. First named insureds receive all policy notices and bills.

**Flexible Benefit Plan** An employee benefit plan that allows employees to select among the various group life, medical expense, disability, dental, and other plans that best meet their specific needs.

**Flood Insurance** Insurance against the peril of a general and temporary increase in the level of a stream, lake, river, or ocean.

**Forced-Placed Insurance** Property insurance designed to cover properties where the bank's customer (the mortgagee) has failed to buy his own property insurance. Usually written on a monthly reporting basis.

**Foreign Insurer** An insurer domiciled in a state other than the one in which the insured's insurance is written.

**Form** The contract of insurance that outlines terms and conditions of protection.

**FRIP** Fiduciary Responsibility Insurance Policy

**Garagekeeper's Insurance** Provides coverage for the liability of parking vehicles owned by others.

**Garage Liability Policy** Liability coverage form used by auto sales and repair facilities.

**General Liability** See Commercial General Liability.

**GL** General Liability

**Governing Classification** The employment class with the highest remuneration on a policy, except for standard exception classifications.

**Group Self-Insurance** Many employers banding together to insure their operations based on a pooling of exposures and risks. They become an insurer. Groups can be homogeneous (a bank workers compensation group) or heterogeneous (a plumber, a lumber yard, and a bank band together).

**Guaranteed Cost** A workers' compensation program that is not subject to adjustments in premiums based on losses. Guaranteed cost programs include audits, and premiums are adjusted based on changes to remuneration.

**Hammer Clause** A provision in a professional liability policy or directors' and officers' insurance that limits the insurer's liability should the insured refuse to accept a settlement offer from the plaintiff.

**Hard Market** A description of the insurance marketplace used to indicate a period of increasing rates and constricting coverage/availability. A sellers' market. The opposite of a soft market.

**Hazard** A situation that presents a chance of loss or an increase in the severity of a potential loss.

**Incurred Losses** The total of amounts paid and amounts reserved.

**Indemnification** An agreement where one party agrees to provide protection for certain legal actions brought against the primary party by another.

**Indemnity** As to property insurance – legal principle that holds an insured should not collect more than what he or she lost in a claim. As to work comp – lost time payments. As opposed to medical bills.

**Indemnity Contract** As to liability – a provision that the insurance company reimburses an insured after settlement of a claim.

**Independent Adjuster** A contractor of the insurance company who manages insurance claims for the insurance company.

**Independent Agent** An autonomous business that sells and services insurance policies as a representative of a variety of insurance companies.

**Inland Marine Insurance** A class of insurance covering articles in transit as well as the modes of transportation. Includes cargo, equipment, bridges, tunnels, art, jewelry, property owned by others, and other items.

**Insurance** A contractual agreement where an insurance company assumes the risks outlined in an insurance policy in return for payment of a premium.

**Insurance Adjuster** The person who manages the claim process for the insurance company. May be an employee of the insurer or a contractor hired by the insurer.

**Insurance Carrier** See Insurance Company.

**Insurance Commissioner** The top insurance regulatory official in a state. May be called a Superintendent.

**Insurance Company** A commercial enterprise formed to sell and service insurance policies.

**Interstate Rating** An experience modification that includes payroll and loss information from more than one state. Some states do not participate in interstate rating plans.

**IRA-Keogh Errors & Omissions Policy** Covers errors in the administration of IRA and Keogh plans.

**K&R** Kidnapping and Ransom Insurance

**Kidnap, Ransom and Extortion Policy** Pays moneys demanded either for kidnapping or the threat of kidnapping. Also pays for extortion with a threat to property.

**Liability** A legally enforceable obligation usually due to a breach of some duty or negligence.

**Liability Insurance** Insurance that responds to a breach or negligence of the insured to another party.

**Liquor Liability Insurance** Coverage designed to respond to liabilities arising out of the sale, manufacture, or serving of alcoholic beverages.

Most commercial general liability policies exclude liquor liability claims only for those in the business of selling, manufacturing, or serving alcohol.

**Longshoremen's and Harbor Workers' Act** See United States Longshoremen's & Harbor Workers' Act.

**Loss** An accident or event that causes damage, injury, or illness.

**Loss Adjustment Expenses** Monies spent to investigate and settle losses.

**Loss Control** Practices and procedures used to minimize the severity of a loss. Also used to describe loss prevention activities.

**Loss of Business Income** A part of time element insurance that pays for the lost profits and continuing expenses after damage to insured property caused by an insured peril.

**Loss Prevention** Practices and procedures used to keep accidents from happening. Prevents frequency of loss. Also used to describe loss control activities.

**Loss Ratio** Incurred losses (and loss adjustment expenses) divided by net premiums earned. Measures profitability. A measure of losses compared to premiums.

**Loss Reserves** Estimated amounts for future payments of medical and wage payments for a specific claim.

**Loss Run** A record of losses for a policy period.

**Lost Wages** Amounts paid for wages lost by an employee due to a workers' compensation claim.

**LTD** Long-Term Disability

**Manual Premium** Calculated by multiplying payrolls by rate before application of any modification factors, schedule credits, or debits.

**Manuscript Policy** A unique policy customized to the needs and exposures of a specific insured and a specific insurance company.

**Medical Payments** General Liability – coverage for medical bills incurred by a third party at an insured location. Coverage is not dependent on the negligence of the insured. Automobile – coverage for injuries to occupants of the insured vehicle caused by an auto accident.

**Medical-Only Claims** Workers' compensation claims where there is no lost time/ wages.

**Misrepresentation** A false, incorrect, improper, or incomplete statement of a material fact, made in the application for an insurance policy. Constitutes fraud in many states.

**Mod** See Experience Modification.

**Modified Premium** The workers' compensation premium after the application of the experience modification, but before other credits/debits are applied.

**Monopolistic** A state workers' compensation system where no private insurers are allowed to compete for business.

**MOP** Manufacturers' Output Policy

**Mortgage Impairment Policy** Protects the bank's interest in properties mortgaged. Should a mortgage customer not purchase insurance (and the bank not know it), the policy will pay the bank's interest in the property should it be destroyed by a covered peril.

**MP** Medical Payments

**Mutual Insurance Companies** An insurance company owned by policyholders, as opposed to stockholders.

**Named Insured** Individual(s) and organization(s) listed on the declarations as insured.

**National Association of Insurance Commissioners (NAIC)** Association of state insurance regulators who administer state insurance rules and laws. NAIC promotes uniformity in regulation throughout the country.

**NCCI** The National Council on Compensation Insurance is the organization responsible in most states for administering classifications, experience modification factors, and collecting data used in ratemaking. NCCI is not connected with any state government. It is a rate and rulemaking organization funded by insurance companies that use their services. They report information to states and are certainly regulated by state insurance departments. It is not, however a government-run organization. They do act like it sometimes, though.

**Net Premium** Premiums after all fees, charges, and credits.

**NOC** As to work comp - see Not Otherwise Classified.

**No-Fault Automobile Insurance** An approach used by certain states for liability issues resulting from auto accidents. Injuries resulting from auto accidents are paid for by the insurance covering the vehicle occupied by the injured person, rather than who was negligent.

**Noncancelable** A policy feature that provides a guarantee of continuation of insurance at the insured's option. Insurers may adjust premiums, however.

**Not Otherwise Classified** As to work comp – a term used in the Scopes® classification manual and other rule books to indicate employment classifications that are not included in other class descriptions. Occupational Disease An illness or disease resulting from a work hazard or condition.

**Occupational Hazard** A condition in a job or work environment that increases the peril of accident, sickness, or death.

**Occurrence** Defined by most liability policies as "an accident, including continuous or repeated exposure to substantially the same general harmful conditions."

**Ocean Marine Insurance** Insures boats, vessels, and cargo transported over water.

**OD** Occupational Disease

**Ordinance or Law Insurance** A part of property insurance that pays the increased cost of construction due to new zoning or building codes. Can also pay for demolition of the undamaged portion of a building that must be torn down due to violation of codes or ordinances. All coverage is triggered by a covered cause of loss plus the required action of laws or codes.

**Other States** Work comp – the section of the policy that describes how coverage will apply outside of the states listed in the classification page of your policy.

**Package Policy** Combining two or more insurance coverage sections into a single policy—property and liability coverages, for example. Homeowners' and business owners' policies are package policies.

**Partial Disability** Work comp – impairment of a part of the body. May be permanent or temporary.

**Payroll Audit** Work comp – an examination of employer records to determine final remuneration in individual employment classifications for the purpose of determining policy premium. Performed by an auditor.

**PD** Property Damage

**Peril** A cause of loss – fire, lightning, hail, and robbery are examples of perils.

**Permanent Partial Disability** Partial impairment of a part of the body that is not reversible and will not heal—amputation of a finger, for example. May not impair work capacity for certain occupations. May remove an employee from the current occupation.

**Permanent Total Disability** Total loss of work capacity that is not reversible or will not heal.



**Personal Injury** Usually a part of the commercial general liability insurance policy. Provides coverage for libel, slander, false arrest, defamation of character. Actual definition varies by policy.

**Personal Injury Liability Insurance** Part of the commercial general liability insurance policy that provides protection for libel, slander, defamation, or violation of right of privacy; and wrongful entry, eviction, or other invasion of right of private occupancy.

**Personal Injury Protection (PIP)** Auto insurance – see No-Fault.

**Personal Lines** Insurance coverage in property and casualty insurance for families and households—personal auto coverage and homeowners' insurance, for example.

**PI** Personal Injury

**Policy** The insurance contract. It spells out the terms, conditions, and exclusions of the insurance provided by the insurance company.

**Policy Term** The period of time that the insurance policy is in force.

**Policyholder** The person or organization that owns the insurance policy.

**Pollution** A cause of loss that is excluded by most property and liability insurance policies. Usually requires a special pollution liability insurance policy.

**Pool** See Assigned Risk Plan.

**Premium** The price of insurance for a specified risk for a specified period of time.

**Premium Auditor** Work comp – an individual who performs the audit of remuneration at the end of a policy period. May be an employee of the insurance company or a contractor hired by the insurance company.

**Premium Discount** Work comp – a premium credit based on the size of the premium paid.

**Premium Finance** Finance arrangement for the insured to make payment of the insurance premium.

**Primary Insurance** The insurance policy that is responsible for paying the first part of a loss. Excess policies pay after primary policies pay.

**Primary Losses** Work comp – part of the experience modification calculation. The first $5,000 of any loss. See also Excess Losses.

**Product Liability Insurance** Protection from legal actions against an insured for bodily injury and property damage caused by a product sold, manufactured, processed, or provided by the insured.

**Professional Liability Insurance** Insurance against negligent damage caused by a wrongful act of the insured. Usually excludes bodily injury and property damage.

Also called malpractice insurance.
Also called errors and omissions insurance.

**Proof of Loss** Presentation by the insured of documentation of the extent of a claim. Usually used in property insurance policies as a condition. Insurers must respond (pay) within a certain time to the presentation by the insured of a proof of loss.

**Property Damage** Physical damage to tangible property.

**Property Insurance** Insurance protection for loss of tangible property owned by or in the care of the insured. Includes buildings, personal property, stock, inventory, and time element insurance.

**Property Policy** See Commercial Property Policy.

**Protection and Indemnity Insurance** Specialized insurance for boats and commercial vessels. Responds to the unique exposures of maritime law and federal laws such as the Jones Act.

**Public Adjuster** A person or firm that is a representative of the insured in a claim for insurance benefits.

**Rating Bureau** Work comp – an organization that compiles statistical and rate-making information to determine premiums. See NCCI. Non-NCCI states have their own rating bureaus. See the appendix of this document for a listing of NCCI states and the regulatory agencies for workers' compensation in each state.

**RC** Replacement Cost

**Registered Mail Insurance** Provides insurance for loss, damage, or destruction of securities and other important or valuable papers during shipment.

**Rehabilitation Benefits** Benefits payable to return an injured worker to work after a work-related injury or illness.

**Reinsurance** Insurance purchased by insurance companies to provide a risk transfer mechanism. Also used by self-insurers and self-insured groups.

**Remuneration** Payroll and other compensation paid to employees. Used to calculate premiums.

**Renewal** The reestablishment of an insurance policy after the expiration of a prior term of coverage.

**Replacement Cost** Property valuation method that uses the cost of replacement of an item or the cost of new construction without any deduction for depreciation.

**Reservation of Rights** A response to a claim whereby the insurance company defends a case without any commitment as to the coverage provided by a policy.

**Reserve** Amount expected to be paid on a claim that is not resolved or closed.

**Residence Employee** Work comp – a person who performs full- or part-time household services.

**Residual Market** See Assigned Risk Plan.

**Retention** Amount of a claim paid by the insured. The term is usually used in liability insurance. Similar to a deductible.

**Retention Plan** A loss sensitive insurance plan that adjusts the premium up or down based on losses and associated costs.

**Retrospective Rating** A loss sensitive workers' compensation insurance program where adjustments are made to premiums after policy expiration. Adjustments can go up or down subject to premium minimums and maximums.

**Rider** See Endorsement.

**Risk** 1) Exposure to loss. 2) An insured. 3) A portion of an insured operation.

**Risk Management** The process of addressing in a systematic way the hazards and exposures of an organization. Risks can be avoided, reduced, transferred, and retained.

Insurance transfers the risk (or a part of it) to an insurance company.

**Risk Retention Group** Alternative risk financing tool where similar businesses band together to share risks. Usually utilizes reinsurance and individual retentions along with regimented loss control and claims management process. Meets the requirements of the Risk Retention Act of 1986.

**Safe Depository** See Combination Safe Depository.

**Schedule Credit/Debit** Premium adjustment factors applied at the discretion of insurance company underwriters and based upon individual characteristics of the risk. Issues such as managed care, quality of management, loss control efforts, and the insurance company's appetite for the risk are included.

**Scopes® Manual** Work comp – a publication of NCCI that outlines the definitions of the 600 plus employment classifications.

**Second Injury Fund** Work comp – a mechanism set up by states to minimize the impact of re-injuries. The theory is that employers will be reluctant to hire previously injured workers without such a system.

Sometimes funded by surcharges on insurers for death claims where there are low medical bills.

**Self-Insurance** Retention of the risk, usually in a formal, calculated way. In workers' compensation, state regulations impose financial and administrative qualifications. May involve reinsurance or very large deductibles to cover catastrophic losses.

Self-insurance isn't really insurance—you are retaining the risk.

**Self-Insured Retention** See Retention.

**Short-Rate Penalty** A penalty assessed when an insurance policy is cancelled by the insured in the middle of a policy period. Workers' compensation short-rate penalties are high in the early months and gradually decline through the policy period. Short-rate penalties in other property and casualty policies are usually 10% of the unearned premium.

**Side A** Coverage within a directors' and officers' insurance policy that pays for claims against individual directors or officers when corporate reimbursement isn't allowed.

**Side B** Coverage within a directors' and officers' insurance policy that pays for claims against individual directors or officers when corporate reimbursement is allowed.

**Side C** Coverage within a directors' and officers' insurance policy that pays for claims against the bank. Also referred to as entity coverage.

**Sliding Scale Dividend** A dividend plan that varies the size of the dividend payment based on the loss ratio of the insured.

**Soft Market** A description of the insurance marketplace used to indicate a period of declining rates and expanding coverage/availability. A buyers' market. The opposite of a hard market.

**Sole Remedy** Workers' compensation is said to be the sole remedy for an employee's workplace injuries. In most states, employees may not seek payment from employers outside of workers' compensation for an employer's negligence or liability for an injury.

**Special Risk** A type of property insurance policy where all perils (causes of loss) are insured except those that are excluded by the policy. Some common exclusions: flood, earthquake, animals, nuclear, and deterioration.

**STAMP Bond** Securities Transfer Agents Medallion Program – provides signature guarantee.

**Standard Exception Classifications** Work comp – employment classifications that are allowed on most policies in addition to the primary business classes. Clerical, Sales, and Driver are common standard exceptions.

**Standard Markets** Insurance companies that are not surplus lines insurers.

**Standard Policy** An insurance policy used by a preponderance of insurance companies to cover similar exposures and operations.

**Standard Premium** Work comp – premium after application of the experience modifier and schedule credits or debits, but before premium discount.

**State Fund** A workers' compensation insurance system run by a state governmental agency. May be competitive with private insurers or monopolistic. Also synonymous with assigned risk fund or pool.

**STD** Short-Term Disability

**Strict Liability** Liability that comes out of an exposure that is so onerous that negligence need not be proven. Blasting within a city, the keeping of wild animals.

**Subrogation** The procedure under which an insurance company recoups losses paid from the insurer of the negligent or responsible party. For example, a workers' compensation insurer may subrogate against the auto insurer of the driver who caused an accident in which an employee is injured.

**Surety Bond** An agreement that guarantees that the principal will fulfill its obligations to the obligee.

> Surety – bonding company.
> Principal – party performing the work.
> Obligee – entity for whom the principal is working to whom the surety is obligated.

**Surplus Lines** Insurance written by non-admitted insurance companies.

**Tail Coverage** See Extended Reporting Period.

**Temporary Partial Disability** A condition where an injured worker's capacity is impaired for a time, but he is able to continue working at reduced capacity. Full recovery is expected.

**Temporary Total Disability** A condition where an injured worker is unable to work at all while he is recovering from injury. Full recovery is expected.

**Terrorism Risk Insurance Act** Federal law outlining the taxpayer-funded reinsurance provided for certain types of terrorism losses.

**Time Element Insurance** A subset of property insurance that pays the lost profits, continuing expenses, and increased expenses caused by an insured peril. Usually triggered by damage to insured property.

See Loss of Business Income.
See Extra Expense Insurance.

**Tort** A civil wrong other than a breach of contract.

**TRIA** Terrorism Risk Insurance Act



**Trust Department Errors & Omissions Policy** Provides protection for claims made against a bank for losses resulting from an error or omission by the trust department while performing trust functions.

**Twisting** Inaccurate or incomplete insurance policy descriptions used to entice the surrender or cancellation of an insurance policy in favor of another policy.

**U&O** Use and Occupancy (antiquated term)

**UIM** Under-Insured Motorist

**UM** Uninsured Motorist

**Umbrella Liability** A form of excess insurance that provides additional limits of liability protection as well as increasing the breadth of the coverage provided.

**Umbrella Liability Policy** Provides extra liability coverage above the general liability, auto liability, and employers' liability coverage. Also known as excess liability.

**Underlying Policies** The basic liability insurance policies accessed before excess or umbrella liability policies. Usually include auto liability, general liability, and employer's liability.

**Underwriter** 1) An insurance company. 2) The individual who performs underwriting for an insurance company.

**Underwriting** The process an insurance company goes through to classify, analyze, and price an insurance policy.

**Unearned Premium** The difference between the premium paid and the earned premium.

**Uninsured/Underinsured Motorist Coverage** Auto – pays the policyholder for injuries to occupants of the insured vehicle if the accident was caused by a driver who has too little or no liability insurance.

**Unit Stat Card** Work comp – a form filed with a rating bureau by an insurance company to report remuneration and losses on a specific policy. Used to calculate the experience modification. Usually submitted based on losses shown at the 6-month point in a policy.

**United States Longshoremen's & Harbor Workers' Compensation Act** Federal workers' compensation law that stipulates compensation for those who work in harbors and on wharves.

**U.S.L. &H.** See United States Longshoremen's and Harbor Workers' Compensation Act.

**Voluntary Compensation** An endorsement to the standard workers' compensation insurance policy; extends coverage to employees not required to be covered under the state's workers' compensation law. Farm workers, domestic help, business owners, for example. Usually has nothing to do with volunteers. The term refers to the voluntary addition of normally uncovered individuals.

**Voluntary Market** 1. The standard insurance market where insurers offer coverage on a competitive basis with no pressure from government. Assigned risk insurance programs (auto or workers' compensation) are involuntary markets. 2. Insurance written outside of any assigned risk plan.

**WC** Workers' Compensation

**Workers' Compensation** 1. A state-mandated program of benefits for injured workers. 2. An insurance policy designed to provide benefits based on a state's workers' compensation law.

**Workers' Compensation Insurance** Pays benefits as provided by state law for work-related injuries or diseases. The policy also provides protection for other types of work-related incidents.

## How to Read Your Insurance Policies

The mere thought of reading an insurance policy can make your head hurt. Here are some hints to make it less painful.

**Start with an Understanding of the Purpose of the Policy**

An auto policy is designed to cover vehicle accidents. General liability insurance is purchased to protect the insured from liability arising out of bodily injury, property damage, personal injury, and advertising injury. Directors' and officers' insurance indemnifies the key people for errors in judgment and bad decisions. Professional liability is designed to pay for poor advice and doing your work improperly.

**Read the Declarations Page**

The declarations page is usually the first few pages of the policy. It will have information specific to the policy being reviewed, such as: policy effective and cancellation dates; name of insured; the subject of the insurance policy (list of vehicles, buildings, description of property, etc.); premiums charged; policy form numbers and edition dates.

**Review the Definitions**

In most insurance policies, words that are defined by the policy are in bold type or are within quotation marks. Find the definition section of the policy and browse the terms.

**Read the Insuring Agreement**

The insuring agreement is usually the first part of the actual policy wording. It will tell you what is covered by the policy. For property insurance, learn what causes of loss (perils) are insured. For a directors' and officers' insurance policy, look at the definition of "wrongful act."

**Review the Exclusions**

Exclusions tell you what is not covered by the policy. Most policies start with broad insuring agreements, then whittle away at the coverage with the use of exclusions. Broad exclusions are not necessarily bad. For example, a general liability policy will exclude auto accidents. No problem. That's why you buy an auto insurance policy.

While reviewing exclusions, look for exceptions to the exclusion. Look for wording like, "This exclusion does not apply to…." For example, the general liability policy excludes watercraft. There is an exception to the exclusion in most policies for watercraft less than 26 feet in length that you do not own.

**Review the Endorsements**

The endorsements are usually found at the end of the policy. They amend the standard policy language. It is not unusual to have more than ten endorsements to the policy. The title of the endorsement usually gives you a good idea of what is trying to be accomplished with the form. If an endorsement deletes a section of the policy, mark that section in the policy document for future reference.



**Review Policy Conditions**

The policy conditions will show you the general "rules of the road" for the contract. Issues like cancellation, arbitration, and claims reporting are usually covered in this section.

**Read the Policy with a Pencil**

I read insurance policies with a pencil in hand. I mark sections and summarize the contents of a particular clause in two or three words. It helps me find sections later and makes sure that I am not wasting time looking at a section that is amended by an exclusion.

## About Scott Simmonds

Scott Simmonds, CPCU, ARM, CMC started his insurance career in 1979. He has provided insurance advice and counsel to hundreds of companies, large and small, throughout the US.

Simmonds is a graduate of Babson College, Wellesley, Massachusetts. In 1987 he received the Certified Insurance Counselor designation from the Society of CIC. In 1995, Simmonds completed his studies to qualify for the Chartered Property and Casualty Underwriter designation conferred by the American Institute for CPCU. He completed the requirements for the Insurance Institute of America's Associate in Risk Management designation in 2005. In 2007 he was awarded the Certified Management Consultant designation by the Institute of Management Consultants USA

Simmonds' insurance work has involved companies in a wide range of industries. He has handled insurance and risk management issues for public and private corporations, including many with international operations. His work includes nonprofits, banks, municipalities, and schools. He is licensed in property, casualty, life, and health insurance consulting.

Scott is a member of the Society for Advancement of Consulting, an organization accepting only the top 1% of consultants nationwide. He is the first and only insurance consultant granted membership in this prestigious organization. He was recently granted "Board Approved" status, an honor afforded to fewer than twenty consultants worldwide.

In 2006 Dr. Alan Weiss founded the Million Dollar Consultant Hall of Fame to recognize world class consulting achievement. Dr. Weiss is a consultant and prolific author. He is recognized world wide as the Dean of Consultants. Scott is one of only 20 inductees into the hall of fame. He is the only insurance consultant so honored.

His writing and comments have appeared in the Wall Street Journal, Forbes, Portland Press Herald, Mainebiz, Fortune, Money, Inc. Magazine, the New York Times, Boston Globe, Investors Business Daily, Kiplinger's, the Los Angeles Times, and countless trade publications.

Simmonds lives in Saco, Maine, with his family. He enjoys reading, hiking, snowshoeing, and bird watching. He is a past president of the trade association, Maine Association of Professional Consultants and of the Biddeford Saco Rotary Club. He is also active in many trade associations and serves on the adjunct faculty at the York County Community College in Wells, Maine.

## How to Contact Scott

I'm pleased to help you with your insurance in any way I can. Email or call me with your questions or comments regarding your insurance and risk management program — coverage, claims or premiums.

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Sign up for my monthly insurance newsletter filled with hints and tips to help you manage your insurance better. Send an email to news@ScottSimmonds.com. You'll be automatically added to my list.

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