



# GLOSSARY OF INSURANCE TERMS



This glossary provides a list of key insurance terms to help guide you through the process of shopping for or learning about insurance. While not exhaustive, it aims to clarify some of the most commonly used terms to enhance your understanding.

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### **Accidental Death and Dismemberment (AD&D) Rider**

An add-on to many life insurance policies that offers an extra cash payout to the insured or their beneficiaries if an accident results in the insured's death or the loss of two limbs or vision in both eyes.

### **Actual Cash Value**

The worth of property determined by the cost to repair or replace it with similar property of the same type and quality, typically calculated as the current replacement cost minus depreciation (considering age, condition, usage duration, and obsolescence).

### **Adjuster**

An individual responsible for examining and resolving insurance claims on behalf of an insurance company.

### **Agent**

A person authorized to act on behalf of an insurance company to negotiate, manage, or issue insurance policies.

### **Annual Out-of-Pocket Maximum**

The maximum dollar amount a plan sets that limits how much the insured must personally pay for covered services within a calendar year.

### **Annuity**

A financial agreement that ensures a series of regular payments are made or received at consistent intervals.

### **Applicant**

The individual or entity submitting a request for an insurance policy.

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## **Application**

A standardized form created by an insurer that gathers information about the potential insured and the type and amount of coverage being requested.

## **Assigned Risk**

A type of insurance coverage provided through a pool of insurers and allocated to a particular insurer. These risks are typically seen as high-risk by underwriters but must be covered due to legal or regulatory requirements.

## **Auto Collision Coverage**

An optional car insurance policy that covers damage to your vehicle resulting from a collision with another vehicle or object, or from the vehicle overturning. Often required when financing a vehicle.

## **Auto Comprehensive Physical Damage Coverage**

An optional car insurance policy that covers damage to your vehicle from non-collision events such as fire, theft, vandalism, flooding, or hail. Often required when a vehicle is financed.

## **Automatic Premium Loan**

A feature in certain life insurance policies that allows the insurer to use the policy's accumulated cash value to automatically pay overdue premiums at the end of the grace period, helping to maintain coverage.

## **Beneficiary**

An individual, group, or organization named to receive the benefits of a policy upon the death of the insured.

## **Binder**

A temporary written or verbal agreement that provides immediate insurance coverage until a formal policy can be issued or updated. It is subject to the same terms and premium as the final policy.

## **Binding Receipt**

A receipt for a premium payment that provides immediate temporary insurance coverage until the insurer either declines the application or approves it and issues the policy.

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## **Broker**

A professional who specializes in insurance marketing and works with agents or insurance companies to secure the appropriate coverage for a client.

## **Buck-Buck-Bu-Guck (a.k.a. “Buck”)**

The legendary golden rubber chicken trophy awarded for feats of greatness, questionable brilliance, or just surviving another week in the office. Buck is more than a symbol—he’s a lifestyle. Whether perched proudly on a desk or passed around in celebration (or gentle mockery), Buck reminds us that excellence comes in many forms... and sometimes, it squawks.

## **Buy-Sell Agreement**

A contract stating that a deceased business owner’s share will be sold and bought at a set price or based on a pre-established pricing formula.

## **Calendar Year Deductible**

The total amount an insured individual must pay for health care services within a calendar year before the insurance plan begins covering eligible expenses.

## **Cancellation**

The termination of an insurance policy before its scheduled end date, initiated either by the policyholder or the insurer.

## **Case Management**

A cost-control strategy that evaluates the necessity of medical care and explores alternative treatments, particularly for patients expected to incur high medical costs.

## **Cash Value (cash surrender value)**

The amount of money available to a life insurance policyholder if the policy is ended or surrendered before it matures or the insured event occurs.

## **Certificate of Insurance**

A document provided to an insured individual under a group insurance plan, detailing the benefits and key terms of the coverage available to them.

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## **Claim**

A request made by an individual to an insurance company for payment due to a loss that is covered under the terms of the insurance policy.

## **COBRA (Consolidated Omnibus Budget Reconciliation Act)**

COBRA mandates that employers with twenty or more employees must offer continued group health coverage (including Medical, Dental, Vision, and Medical Reimbursement Accounts) to employees and their covered dependents following a “Qualifying Event.”

Employers must provide an initial COBRA notice to covered employees and dependents, a letter outlining an individual’s rights after a “qualifying event,” and details about the option to convert coverage. The law identifies the following six “Qualifying Events” that trigger COBRA continuation:

- Termination of Employment
- Reduction of Work Hours
- Employee’s Death
- Employee’s Divorce (or legal separation in certain states)
- Medicare Entitlement
- Change in “Dependent” Status

## **Coinsurance Provision**

A clause requiring the insured to pay a fixed percentage of the costs for covered medical services after the deductible has been satisfied.

## **Collision Insurance**

Coverage that compensates for damage to the policyholder’s vehicle resulting from a collision with another object or vehicle, or from the car overturning, regardless of who is at fault.

## **Commission**

A payment, typically a percentage of the insurance premium, given to an insurance agent as compensation for selling a policy.

## **Comprehensive Auto Insurance**

Coverage that protects against damage to the insured vehicle from causes other than collision or overturning.

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## **Compulsory Auto Liability Insurance**

In certain states, laws require drivers to carry minimum levels of auto insurance coverage. This mandatory coverage is known as “compulsory” insurance.

## **Conditions**

The section of an insurance policy that outlines the responsibilities of both the insured individual and the insurance provider.

## **Contingent Beneficiary**

In a life insurance policy, the individual named to receive the policy’s benefits if the primary beneficiary passes away before the insured.

## **Contract**

A binding legal agreement between two or more parties that is enforceable by law.

## **Conversion Privilege**

The option to switch from a term life insurance policy to a whole life insurance policy without undergoing a medical exam.

## **Convertible Term Life Insurance**

A form of term life insurance that allows the policyholder to convert the policy into permanent life insurance coverage.

## **Copay**

A fixed amount you pay for specific health care services or prescriptions—for example, \$20 for a doctor’s visit or \$10 for a prescription—while the insurance plan covers the remaining cost.

## **Creditable Coverage**

Prior health insurance coverage that reduces the length of time a pre-existing condition exclusion applies, provided the gap between the old and new coverage is no more than 63 days.

## **Declination**

An insurance company’s decision to deny coverage to an applicant after reviewing the application and relevant information..

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## **Deductibles**

The amount of a loss that the policyholder agrees to pay out of pocket before the insurance company covers the remaining balance. For instance, if a covered claim totals \$1,000 and your deductible is \$250, you would pay \$250 and the insurer would pay \$750. Deductibles help manage insurance costs—higher deductibles typically result in lower premiums.

## **Dependent**

An individual for whom the insured has a legal responsibility. In most insurance plans, this includes the insured's spouse and/or children. Some plans also recognize non-traditional partners (such as a significant other or life partner) as dependents, often requiring additional documentation.

## **Depreciation**

A decrease in the value of property over time due to age, wear, and usage.

## **Double Indemnity**

A clause in a life insurance policy that, under certain conditions and exclusions, pays twice the policy's face value if the insured dies as a result of an accident. Typically, the insured must die before a specified age, and the death must result solely from external, violent, and accidental causes, occurring within 60 or 90 days of the incident.

## **Emergency Room Visit**

A hospital visit for urgent treatment of an accidental injury or a medical emergency. To be considered an emergency, the condition must be sudden, intense, and require immediate care. Some states apply the "prudent layperson" standard, meaning coverage is required if a reasonable person would believe an emergency medical condition existed. Note that some plans may not cover emergency room visits if symptoms began more than 24 hours earlier.

## **Endorsement**

An amendment or addition to an insurance policy that modifies the original terms of the contract.

## **Exclusions and Limitations**

Specific conditions, circumstances, or services that are not included in the coverage provided by a health insurance plan.

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## **Extended Term Life Insurance**

A nonforfeiture option where the policy's net cash value is used to buy term life insurance with the same coverage amount as the original policy.

## **Face Amount**

The specified sum in a life insurance policy that will be paid out as the death benefit.

## **Floater**

Supplemental insurance that provides coverage for valuable items not included in a standard policy, such as jewelry, collectibles, or antiques.

## **Fredictible Finsurance**

Our beloved office fish and unofficial mascot, Fredictible Finsurance reminds us daily that even in the world of insurance, a little fun floats to the surface. While not covered under any policy, he's fully protected by our affection and a very generous feeding schedule.

## **Grace Period**

The designated time frame after a Life or Health insurance premium is due during which the insured can still make the payment without losing coverage. (Typically 30 days.)

## **Group Health Insurance**

A health insurance policy that covers a group of individuals—such as employees of a company—under a single contract.

## **Guaranteed Renewable Policy**

A type of health insurance policy that the insurer must renew as long as premiums are paid, up to the age limit stated in the policy or until the policyholder cancels it. The insurer may adjust premium rates for an entire class of guaranteed renewable policies.

## **Guaranty Association**

A state-established organization that protects policyholders if an insurance company becomes insolvent. These associations are funded through assessments on insurance companies.

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## **HIPAA – Health Insurance Portability and Accountability Act of 1996**

HIPAA is a federal law that protects employees' access to health insurance coverage. Under this law, group health plans cannot deny coverage solely based on an individual's health status. HIPAA also improves access to coverage for employees who change or lose their jobs, guarantees renewability and availability of coverage, and limits exclusions related to pre-existing conditions.

One key protection under HIPAA is the recognition of prior creditable coverage. Group health plans must give employees credit for the time they were covered under a previous health plan. If an employee has maintained continuous health insurance coverage for at least 12 months—with no break in coverage of 63 days or more—any pre-existing condition must be covered immediately when the employee enrolls in a new group health plan, without a waiting period.

This means employees who move from one job to another can maintain coverage for pre-existing conditions as long as they meet the continuous coverage requirement. If an employee does not have 12 months of prior creditable coverage, a group health plan may impose a waiting period for pre-existing conditions; however, that waiting period cannot exceed 12 months.

## **HMO (Health Maintenance Organization)**

A managed health care system that provides comprehensive medical services to enrolled members within a defined geographic area. HMOs generally require members to receive care exclusively from in-network providers and to select a primary care physician (PCP) who coordinates most treatment, including referrals to specialists.

## **Indemnification**

Making someone financially whole after a loss by paying money, fixing what was damaged, or replacing what was lost.

## **Indemnity**

The core idea of insurance: to put you back in roughly the same financial position you were in before a loss – not better off and not worse off..

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## **Incontestable Clause**

A provision in a life insurance policy that limits how long an insurance company can challenge or cancel coverage due to errors or misstatements, usually after the policy has been in force for a set period (often two years).

## **Insolvent**

Unable to pay debts or meet financial obligations as they come due.

## **Insurable Interest**

A situation where you would suffer a financial loss if a person, property, or business were damaged, destroyed, or harmed – which is required to buy insurance.

## **Insurable Risk**

A type of risk that insurance companies are willing to cover because it can be clearly identified, measured, and would cause a real financial loss.

## **Insurance Company**

A licensed business that sells insurance policies and agrees to cover certain losses in exchange for premiums.

## **Insured**

The person, business, or organization protected by an insurance policy.

## **Insurer**

The insurance company that issues the policy, collects premiums, and pays covered claims.

## **Irrevocable Beneficiary**

A beneficiary designation that cannot be changed unless the named beneficiary gives written permission, even if the policyowner's circumstances change.

## **Key Employee Insurance**

Insurance a business buys on a crucial employee to help cover lost income, hiring costs, or other financial impacts if that employee dies or becomes disabled.

## **Lapse**

When an insurance policy ends because premiums were not paid within the required time, causing coverage to stop.

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## **Liability**

Legal responsibility for causing injury, property damage, or financial harm to another person or organization.

## **Liability Coverage**

Insurance that helps pay for damages, legal costs, or settlements when the insured is legally responsible for injury or damage to others.

## **Life Insurance**

A type of insurance that pays money to designated beneficiaries when the insured person dies, helping provide financial support, replace income, or cover expenses.

## **Lifetime Maximum**

The highest total amount an insurance plan will pay for covered benefits over an insured person's lifetime.

## **Living Benefits**

The highest total amount an insurance plan will pay for covered benefits over an insured person's lifetime.

## **Loss**

An unexpected event that results in injury, damage, or financial harm and may be covered by an insurance policy.

## **Loss Expense – Allocated**

Costs associated with handling a specific claim, such as investigation fees, legal expenses, or expert services related to that claim.

## **Loss Expense – Unallocated**

General costs of operating the claims department, such as staff salaries or office expenses, that are not linked to any one specific claim.

## **Medical Payments Coverage**

Insurance coverage that pays for medical bills resulting from an accident, no matter who was at fault.

## **Misrepresentation**

Giving incorrect, incomplete, or misleading information on an insurance application, whether intentionally or unintentionally, that could affect coverage or claims.

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## **Negligence**

Failing to act with the level of care a reasonable person would use, resulting in injury or damage to someone else.

## **Network**

A group of doctors, hospitals, pharmacies, and other healthcare providers that have agreed to provide services at negotiated rates for members of a specific insurance plan.

## **No-Fault Insurance**

A type of insurance system where each person's own insurance company pays for their covered losses after an accident, regardless of who caused it.

## **Non-Formulary Drugs**

Prescription medications that are not included on an insurance plan's approved list and are typically not covered or may cost more.

## **Offer and Acceptance**

The legal process of forming an insurance contract, where the applicant applies for coverage (the offer) and the insurance company agrees to provide it (the acceptance).

## **Out-of-Network**

Healthcare services received from providers who do not have a contract with your insurance plan, often resulting in higher costs.

## **Out-of-Pocket Expense**

Expenses for medical care or other services that insurance does not pay for, such as deductibles, copays, and coinsurance.

## **Paid-Up Policy**

A life insurance policy that stays in force without requiring any additional premium payments because all required payments have already been made.

## **Participating Policy**

A life insurance policy that may pay dividends to the policyowner based on the insurance company's financial performance.

## **Per Occurrence Limit**

The maximum amount an insurance policy will pay for a single claim or incident.

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## **Peril**

The specific cause of a loss, such as fire, theft, wind, or collision.

## **Permanent Insurance**

Life insurance designed to remain in effect for the insured's entire lifetime, as long as premiums are paid, and often includes a cash value component.

## **Personal Injury Protection (PIP)**

A type of auto insurance that pays for medical bills, lost wages, and certain related expenses after a car accident, regardless of who was at fault.

## **Personal Property Insurance**

Coverage that protects personal belongings—such as furniture, clothing, and electronics—if they are damaged, destroyed, or stolen.

## **Physical Damage**

Coverage for damage to an automobile itself caused by events like collisions, theft, fire, vandalism, or weather, depending on the policy.

## **Point-of-Service (POS) Plan**

A health insurance plan that allows members to receive care outside the provider network, typically at a higher cost and often with a referral.

## **Policy**

The written legal contract between the insured and the insurance company that explains coverage, exclusions, limits, and conditions.

## **Policy Declarations**

The section of an insurance policy that summarizes key information, including the insured's name, coverage limits, premiums, policy period, and covered property or vehicles.

## **Policyholder / Policyowner**

The person or entity that owns and controls an insurance policy and is responsible for paying the premiums.

## **Policy Limits**

The maximum amount an insurance policy will pay for covered losses, either per claim or over the life of the policy.

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## **Policy Loan**

Money borrowed against the cash value of a permanent life insurance policy, which reduces the death benefit if not repaid.

## **Policy Period**

The specific length of time an insurance policy is active and provides coverage.

## **PPO (Preferred Provider Organization)**

A health insurance plan that allows members to see in-network providers without referrals and also provides some coverage for out-of-network care at higher costs.

## **Pre-Existing Condition**

A medical condition that existed before a health insurance policy became effective.

## **Preferred Risk**

An insured person or property that an insurance company considers lower risk, often qualifying for lower premiums because of good health, safe driving history, or fewer past claims.

## **Premium**

The amount paid to the insurance company—monthly, quarterly, or annually—to keep an insurance policy in force.

## **Primary Beneficiary**

The first person or entity designated to receive insurance benefits, such as life insurance proceeds.

## **Primary Care Physician (PCP)**

A doctor who provides routine medical care and helps coordinate specialist treatment for patients enrolled in managed health insurance plans.

## **Prior Authorization**

Approval required from an insurance company before certain medical services, procedures, or prescriptions will be covered.

## **Probationary Period (Waiting Period)**

A set period of time that must pass before certain insurance benefits become available.

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## **Proof of Loss**

A formal statement and documentation submitted to an insurance company that details a claim and the amount of damage or loss.

## **Property Damage Coverage**

Auto insurance coverage that pays for damage the insured causes to another person's property, such as vehicles, buildings, or fences.

## **Property Insurance**

Insurance that protects buildings and personal property against covered risks such as fire, theft, and certain weather events.

## **Protection Amount**

The amount of money paid to beneficiaries when the insured person dies, also known as the life insurance death benefit..

## **Rate**

The price factor an insurance company uses to calculate premiums, based on things like risk level, coverage amount, and personal or property details.

## **Rated Policy**

An insurance policy issued at a higher-than-standard premium because the insured presents a higher level of risk, such as certain health conditions or hazardous activities.

## **Real Property**

Land and anything permanently attached to it, such as buildings, structures, or fixtures.

## **Reasonable and Customary Charges**

The typical amount charged for a medical service in a specific geographic area, which insurers use to determine how much they will pay.

## **Rebating**

An illegal practice in which an insurance agent or company offers cash, gifts, or special incentives not included in the policy to encourage someone to buy insurance.

## **Reimbursement**

Payment made by an insurance company to repay the insured for covered expenses that were paid out of pocket.

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## **Reinsurance**

Insurance purchased by insurance companies to help spread risk and protect against large or unexpected losses.

## **Reinstatement**

The process of restoring an insurance policy that lapsed due to nonpayment, usually by paying overdue premiums and meeting any required conditions.

## **Renewable Term Life Insurance**

A type of term life insurance that allows the policyowner to renew coverage at the end of the term without providing new proof of insurability.

## **Replacement Cost Coverage**

Insurance coverage that pays the cost to replace damaged or destroyed property with new items of similar kind and quality, without deducting for depreciation.

## **Residual Disability**

A partial disability that allows an insured to work in a limited capacity while still receiving reduced disability benefits.

## **Return of Premium**

A policy feature that refunds some or all premiums paid if no claims are made during a specified period.

## **Revocable Beneficiary**

A beneficiary designation that can be changed at any time by the policyowner without the beneficiary's consent.

## **Rider**

An optional add-on to an insurance policy that modifies or expands coverage, usually for an additional cost.

## **Risk**

The possibility that a loss, injury, or damage may occur and result in a financial loss.

## **Risk Management**

The process of identifying, evaluating, and taking steps to reduce or control risks to minimize potential losses.

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## **Salvage**

Property that has been damaged in a loss but still has value and may be sold to help offset the cost of a claim.

## **Settlement**

An agreement between the insured and the insurance company that resolves a claim, including the amount paid.

## **Standard Risk**

An insured person or property that meets normal underwriting guidelines and qualifies for standard insurance rates.

## **Stop-Loss Provision**

A feature in health insurance that pays 100% of covered expenses once the insured reaches a specified out-of-pocket limit.

## **Subrogation**

The legal right of an insurance company to recover money from a third party who caused a loss after the insurer has paid the claim.

## **Substandard Risk**

An insured person or property that presents higher-than-average risk and may require higher premiums or special policy terms.

## **Term Insurance**

Life insurance that provides coverage for a specific period of time, such as 10, 20, or 30 years, and pays a benefit only if the insured dies during that term.

## **Theft Limit**

The maximum amount an insurance policy will pay for certain stolen items, often applying to valuables like jewelry, electronics, or firearms.

## **Third-Party**

Someone other than the insured or the insurance company who may be involved in or affected by a claim.

## **Umbrella Liability Insurance**

Extra liability coverage that provides additional protection above the limits of home, auto, or other primary policies.

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## **Underwriter**

The person or department responsible for evaluating risk and deciding whether to approve insurance coverage and at what price.

## **Underwriting**

The process insurance companies use to review applications, assess risk, and determine coverage terms and premiums.

## **Unilateral Contract**

A type of contract where only one party—the insurer—makes legally enforceable promises, while the insured must meet certain conditions to receive benefits.

## **Uninsured / Underinsured Motorist Coverage**

Auto insurance coverage that pays for injuries caused by a driver who has no insurance or not enough insurance.

## **Uninsurable Risk**

A risk considered too great or unpredictable for an insurance company to cover.

## **Universal Life**

A type of permanent life insurance that offers flexible premiums, adjustable death benefits, and a cash value component.

## **Urgent Care**

Medical care for non-life-threatening conditions that need prompt attention but are not emergencies.

## **Usual, Customary, and Reasonable (UCR) Fee**

The maximum amount an insurance plan will reimburse for a medical service based on typical charges in a geographic area.

## **Valued Policy**

An insurance policy that pays a pre-agreed amount in the event of a total loss, regardless of actual cash value at the time of loss.

## **Variable Life Insurance**

A type of permanent life insurance where cash value and death benefits can vary based on investment performance.

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**Waiver**

A policy provision that excludes coverage for specific conditions, risks, or circumstances.

**Waiting Period**

A required amount of time that must pass before certain insurance benefits become available.

**Yearly Renewable Term**

A type of term life insurance that renews each year, with premiums typically increasing as the insured ages.

**Zero-Deductible Plan**

An insurance plan that does not require the insured to pay a deductible before coverage begins, often resulting in higher premiums.

