

GLOSSARY OF INSURANCE AND POOLING TERMS

This glossary was compiled by AGRIP from works originally provided by the Dan Klaff, Chief Executive Officer of the Association of California Water Agencies/JPIA and from definitions reinsurance provided by AmRe. It is periodically updated based upon requests from Fund Commissioners for additional definitions.

Active Negligence – The party that was negligent took an active part in doing whatever caused the damage. For example, digging a hole and someone falls in.

ACV – Actual Cash Value. Value of property at the time of its loss or damage, determined by subtracting depreciation of the item from its replacement cost. Applies to vehicles and mobile (contractor's) equipment and other property subject to a higher rate of depreciation than the typical property types.

AGRIP – Association of Governmental Risk Pools. A national organization of JIFs and public agency insurance pools. Formed for educational, information gathering and advocacy purposes, “to unite the pooling community to achieve excellence in pooling management operations and services”.

Aggregate – The term used to describe the cumulative amount of all losses for a period of time.

Aggregate Excess of Loss Reinsurance – A form of excess of loss reinsurance that indemnifies the reinsured against the amount by which the reinsured's losses incurred (net after specific reinsurance recoveries) during a specific period (usually 12 months) exceed either an agreed upon amount or an agreed upon percentage of some other business measure, such as aggregate net premiums over the same period or average insurance in force for the same period. This form of reinsurance also is known as STOP LOSS REINSURANCE, STOP LOSS RATIO REINSURANCE, or EXCESS OF LOSS RATIO REINSURANCE.

Aggregate Stop Loss – A financial arrangement with the pools excess carrier that caps the aggregate to a predetermined limit at which point the excess carrier would “drop down” and pay losses within the pools SIR, or pooled layer. Currently, this “drop down” provision would be triggered if the total incurred losses for a coverage year, within the pooled layer, exceed 62.5% of the total annual deposit premium.

AIS – Associate in Insurance Services. A professional designation earned through course work followed by a proficiency examination.

ALCM – Associate in Loss Control Management. A professional designation earned through course work followed by a proficiency examination.

Alien Company – An insurer or reinsurer domiciled outside the U.S. but conducting an insurance or reinsurance business within the U.S.

ARM – Associate in Risk Management. A professional designation earned through course work followed by a proficiency examination.

ARM-P – Associate in Risk Management – Public. A professional designation earned through course work followed by a proficiency examination.

Asset Check – *An investigation into the assets of another party to determine financial ability to pay.*

Assumed Portfolio – The transfer of in-force insurance liability by an insurer to a reinsurer (or vice versa) by the payment of the unearned premium reserve on those policies alone, or by the concurrent transfer of liability for outstanding losses under those policies by the payment of the outstanding loss

reserve by the insurer to the reinsurer (or vice versa). The former is a premium portfolio, the latter a loss portfolio.

Asymptomatic – Normal – not showing any sign of disease.

Attachment Point – The dollar amount of a loss where the next layer of insurance begins to pay for the loss.

Automobile Liability – Designed to afford bodily injury and property damage liability coverage associated with owned, non-owned and hired vehicles. May include medical payments, uninsured/underinsured motorists' liability coverages.

Automobile Physical Damage – Usually a first party coverage; however, some entities have “Bailment” or “care, custody and control” liability exposures such as garages, maintenance facilities that service vehicles of others, and parking lots.

Bordereau – Furnished periodically by the reinsured, a detailed report of reinsurance premiums or reinsurance losses.

CAJPA – (Pronounced ka jaup' a.) California Association of Joint Powers Authorities. Performs regulatory and legislative lobbying as well as accreditation of Joint Powers Authorities to promote the financial stability of JPAs.

Capacity – The maximum limit an insurer or reinsurer will make available, per policy, based on its current underwriting standards. It is a reflection of its surplus condition, its reinsurance or retrocession treaties, and also an expression of not just how much it has available, but how it wants to allocate its risk financing strength across various classes of business, coverage lines, or individual risks".

Captive Insurance Company – A company that is wholly owned by another organization (generally non-insurance), the main purpose is to insure the risks of the parent organization.

CIH – Certified Industrial Hygienist. A professional designation earned through course work followed by a proficiency examination.

CIPRA – California Institute for Public Risk Analysis. Organized to develop, analyze and disseminate information on risk management in California's public sector, especially self-insured entities and Joint Powers Authorities.

Claim – A demand of a right. In general a demand for compensatory damages resulting from the actions of another.

Claims Administrator – Firm that adjusts claims on behalf of the Joint Insurance Fund.

Claims Made – A provision of an insurance policy that requires it to pay only for claims presented during the policy period with no regard for when the action causing the claim took place. (See “Occurrence”)

Claims Made Basis – The provision in a contract of insurance or reinsurance that coverage applies only to losses that occur and claims that are made during the term of the contract. (Losses occurring before the contract term are sometimes covered by the addition of “prior acts” coverage to the contract. Losses reported after the contract term are sometimes covered by the addition of “tail” coverage.) Once the policy period is over in claims-made covers, the approximate extent of the underwriter's liability is

known. On the other hand, the traditional “occurrence” liability insurance method provides coverage for losses from claims that occurred during the policy period, regardless of when the claims are assessed. With the traditional “occurrence” liability coverage method, the underwriter may not discover the extent of liability for years to come from losses asserted to have occurred within the policy period. With claims-made covers that are renewed, however, losses that occurred during any period when the policy was in force are again covered if reported during the renewal term. In summary, the traditional method is similar to claims-made if the latter has added to it both “prior acts” and “tail” coverage.

Clash Cover - (also known as **Casualty Catastrophe Cover**). Reinsurance that is not exposed on a policy limit basis, i.e., the deductible on the treaty is equal to or exceeds the reinsured's maximum net exposure on any one policy. Therefore, such treaties protect against the infrequent loss involving two or more insured's in the same loss occurrence. Stated another way, it is a casualty excess of loss agreement with a retention higher than the limits on any one reinsured policy. The agreement is thus only exposed to loss when two or more casualty policies (perhaps from different lines of business) are involved in a common occurrence in an amount greater than the clash cover retention. (See also CONTINGENCY COVER)

Commutation Clause – A clause in a reinsurance agreement that provides for estimation, payment, and complete discharge of all obligations including future obligations between the parties for reinsurance losses incurred. This clause is sometimes found in contracts reinsuring workers' compensation and may be optional (which is usual) or mandatory.

Contingency Cover - Reinsurance protection against an unusual combination of losses. (See also CLASH COVER).

Cost of Defense Settlement – Public entities are frequently sued without a clearly stated cause of action. They are brought into litigation with the hope that they will pay something to avoid the costs of litigation, hence the term cost of defense settlement. In the private insurance market this is a common practice as it makes short-term sense. We believe that in the long run it encourages more claims and do not agree with this practice.

CPCU – Chartered Property and Casualty Underwriter. A professional designation earned through course work followed by a proficiency examination.

CRM – Certified Risk Manager. A professional designation earned through course work followed by a proficiency examination.

CSP – Certified Safety Professional. A professional designation earned through course work followed by a proficiency examination.

Cumis Counsel – Cumis refers to a lawsuit against the Cumis Insurance Society in which they were found to have controlled the defense attorney to the detriment of their insured. The court determined that the Society should have assigned separate counsel to represent the exclusive interests of the insured. The need for *cumis counsel* arises in situations where there are significant coverage issues and defense counsel is conflicted between his duty to his client and the obligations to the insurance carrier.

Data Warehouse - is "a copy of transaction data stored on a server specifically structured for query and reporting".

Deductible – It is that portion of each claim that is paid by the member at the time of loss. It is in addition to any premium already paid.

Defense – A defendant's denial to a complaint or cause of action.

Deposit Premium – Premium required at the beginning of a policy period based on estimated costs.

DIC – Difference In Conditions. A specialized property insurance policy written to provide coverage for perils not covered in a standard property policy. In particular, it is most often used to provide coverage for earthquake and/or flood losses.

Directors, Officers and Trustees Liability – Intended to protect nonprofit board members, officers, and directors for faulty decisions which imperil the entity. Usually written to include entity reimbursement for legal actions and personal liability of specific wrongdoers.

Domestic Company – An insurer conducting business in its domiciliary state from which it received its charter to write insurance. (As opposed to a foreign company, an insurer conducting business in a state other than its domiciliary state; or an alien company, one domiciled outside the U.S. but conducting business within the U.S.).

Employers' Liability – Included as part of a worker's compensation insurance policy. Covers liability for losses arising out of injuries to employees that are not covered by statutory workers' compensation benefits.

Employment Practices Liability – Written to protect an entity from liabilities arising from allegations of discrimination, failure to promote or hire, harassment, ADA responsibilities, wrongful termination, etc. A relatively new coverage, this is one of the fastest growing areas of litigation.

Environmental Impairment Liability – Also referred to as "Pollution" and "Pollution Legal" Liability; can be written to protect an entity from actions resulting from contamination of air, water, and property. First-party (damage to owned property) and third-party (liability for damage to others) protection can often be combined.

Errors and Omissions Liability – Excludes bodily injury and property damage; intended to afford protection for the "misfeasance, malfeasance or non-feasance" of public officials, employees and volunteers. May also include incidental medical personnel (paramedics), police and fire personnel, architects and plan checkers, engineers, and on-staff attorneys.

Excess – See "Excess Insurance".

Excess Insurance – Insurance that is purchased to provide higher limits than the primary policy provides.

Excess Loss – The portion of a loss that is allocated to, or paid by, excess insurance.

Excess of Loss Reinsurance – A generic term describing reinsurance which, subject to a specified limit, indemnifies the ceding company against all or a portion of the amount in excess of a specified retention. The term includes various types of reinsurance, such as catastrophe reinsurance, per-risk reinsurance, per-occurrence reinsurance, and aggregate excess of loss reinsurance. It should never be confused with "surplus share," which always refers to a pro rata form of reinsurance. Also known as NON-PROPORTIONAL REINSURANCE.

Facultative Reinsurance – The reinsurance of part or all of (the insurance provided by) a single policy, with separate negotiation for each cession. The word "facultative" connotes that both the primary insurer and the reinsurer have the faculty or option of accepting or rejecting the individual submission (as distinguished from the obligation to cede and accept, to which the parties agree in treaty reinsurance).

Facultative Treaty – A reinsurance contract under which the ceding company has the option to cede and the reinsurer has the option to accept or decline individual risks. The contract describes how individual facultative reinsurances shall be handled.

FASB – Financial Accounting Standards Board.

Fidelity Bonds – Written as financial guarantees of employees' honesty. Personnel with money-handling responsibilities are considered exposures to loss.

Fiduciary Liability – Covers board members, executives and other decision-making personnel with responsibilities for pension funds, retirement plans and employee benefit monies for negligent decisions that result in losses to such funds.

Full Value – A term used to provide “guaranteed” replacement cost coverage, which will pay the full cost to replace damaged property regardless of the “limit” carried. Applies to buildings and personal property.

Foreign Reinsurer – A U.S. reinsurer conducting business in a state other than its domiciliary state, where it is known as a domestic company (as opposed to an alien reinsurer: one domiciled outside the U.S. but conducting business within the U.S.).

Fronting – An arrangement whereby one insurer issues a policy on a risk for, and at the request of, one or more other insurers with the intent of passing the entire risk by way of reinsurance to the other insurer(s). Such an arrangement may be illegal if the purpose is to frustrate regulatory requirements.

Fund Administrator – The firm that provides the day to day administration for the Joint Insurance Fund.

GAAP – Generally Accepted Accounting Principles.

GASB – Governmental Accounting Standards Board.

General Liability – Written to protect the member's assets against liability for property damage of or bodily injury to third parties (see definition of parties).

IBNR – Incurred But Not Reported. That part of the total claims that is unknown at any point in time. When a claim is reported, its final value must be estimated. The pool tracks how accurately it estimates and knows that historically the average claims' value will grow over time. The pool also understands that at any point in time occurrences have taken place that will certainly generate claims that have not yet been reported.

IME – Independent Medical Examination

Incurred Loss – This is the ultimate expected total value of any claim. It includes the amount already paid, plus the estimated amount yet to be paid (reserves).

Indemnity – Portion of a Workers' Compensation claim that pays lost wages (Indemnity) and disability award (Permanency).

Intergovernmental Risk and/or Benefits Pool – A) “...a cooperative group or governmental entities joining together to finance an exposure, liability or risk” (GFOA); B) “... a risk financing mechanism whereby a group or public entities contribute to a shared fund that in turn pays claims for and provide services to the participating entity” (AGRIP Pooling Manual).

Intermediary – A reinsurance broker who negotiates contracts of reinsurance on behalf of the reinsured, receiving a commission for placement and other services rendered. Under the terms of the one widely used intermediary clause, premiums paid a broker by a reinsured are considered paid to the reinsurer, but loss payments and other funds (such as premium adjustments) paid a broker by a reinsurer are not considered paid to the reinsured until actually received by the reinsured.

Intermediary Clause – A provision in a reinsurance contract that identifies the specific intermediary or broker involved in negotiating the contract, communicating information and transmitting funds. The clause should state clearly whether payment to the broker does or does not constitute payment to the other party of the reinsurance contract. Currently a widely used clause provides that payments by the ceding company to the intermediary shall be deemed to constitute payment to the reinsurer(s) and that payments by the reinsurer(s) to the intermediary shall be deemed to constitute payment to the ceding company only to the extent that such payments are actually received by the ceding company.

Inverse Condemnation – The United States Constitution and state Constitutions require that a private citizen be compensated if property is "taken" by a public entity. When the property is taken proactively it is called eminent domain. When the property is taken "accidentally," without due course, it is called inverse condemnation. Negligence need not be proven. The claimant's legal expenses are payable in addition to actual damages.

Law of Large Numbers – A mathematical concept which postulates that the more times an event is repeated (in insurance, the larger the number of homogeneous exposure units), the more predictable the outcome becomes. In a classic example, the more times one flips a coin, the more likely that the results will be 50% heads, 50% tails.

Limit – The most that will be paid in a loss.

Long-Tail Liability – A term used to describe certain types of third-party liability exposures (e.g., malpractice, products, errors and omissions) where the incidence of loss and the determination of damages are frequently subject to delays that extend beyond the term the insurance or reinsurance was in force. An example would be contamination of a food product that occurs when the material is packed but which is not discovered until the product is consumed months or years later.

Loss Development – The process of change in amount of losses as a policy or accident year matures, as measured by the difference between paid losses and estimated outstanding losses at one point in time, and paid losses and estimated outstanding losses at some previous point in time. In common usage it might refer to development on reported cases only, whereas a broader definition also would take into account the IBNR claims.

Medical – Portion of a claim that is paid to physicians or hospitals for drugs and/or treatment.

MEL - Municipal Excess Liability Joint Insurance Fund. A pool formed by all of the JIFs

MMI - Maximum Medical Improvement. This means that further medical treatment will not make the claimant any better.

MOLC – Memorandum of Liability Coverage. The pools agreement providing liability coverage to Member Agencies.

MOPC – Memorandum of Property Coverage. The pools agreement providing property coverage to Member Agencies.

MRI - Magnetic Resonance Imaging. A form of x-ray using magnetic fields.

Occurrence – A) An accident, event, act or omission to act which results in "damages," "bodily injury," or "property damage" neither expected nor intended from the covered parties' conduct. B) A provision of an insurance policy that requires it to pay for a claim caused during the policy period regardless of when it is presented. (See "claims made")

Operating Ratio – The arithmetic sum of two ratios: incurred loss to earned premium, and incurred expense to written premium. Considered the best simple index to current underwriting performance of a insurer.

PAR – Payment Authorization Request. Process whereby Scibal asks for authority to pay claims beyond \$5,000.

PARMA – Public Agency Risk Managers Association. A statewide association for risk managers in the public sector. Educational and lobbying activities.

PERMA – Public Entity Risk Management Associates. PERMA is the Fund Administrator for the MEL.

Passive Negligence – The party that was negligent did not take part in the action that caused the damage, but was responsible for somehow allowing it to take place. For example, a district allowed a contractor to dig a hole on district property and someone fell in.

PE – Registered Professional Engineer. A professional designation earned through course work followed by a proficiency examination.

PIP Lien – Personal Injury Protection. When an automobile insurance company pays PIP medical benefits to an injured person they place a lien on any money that is recovered.

Plaintiff – The party who complains or sues in a personal action. A claimant becomes a plaintiff by filing suit.

PRIMA – Public Risk Management Association. A national association for risk managers in the public sector. Formed for educational, information gathering and political lobbying purposes.

Pro Rata Reinsurance – A generic term describing all forms of reinsurance in which the reinsurer shares a proportional part of the original losses and premiums of the ceding company. Also known as PARTICIPATING REINSURANCE and PROPORTIONAL REINSRUANCE.

Property Insurance – This covers damage to property owned by the member town such as buildings and contents, sometimes called first-party coverage.

Public Officials Liability – Intended to protect governmental board members, officers, and directors for faulty decisions which imperil the entity. Usually written to include entity reimbursement for legal actions and personal liability of specific wrongdoers.

Punitive Damages – Damages awarded separately and in addition to compensatory damages, usually on account of malicious or wanton misconduct, to punish the wrongdoer and possibly others. Sometimes referred to as "exemplary damages" when intended to "make an example" of the wrongdoer.

Quota Share Reinsurance – A form of pro rata reinsurance (proportional) in which the reinsurance assumes an agreed upon percentage of each insurance being insured and shares all premiums and losses accordingly with the reinsured. Quota share reinsurance is usually arranged to apply to the insurer's net retained account (i.e., after deducting all other reinsurance except perhaps excess of loss catastrophe reinsurance), but practice varies. A quota share reinsurer may be asked to assume a quota share of a gross account, paying its share of premium for other reinsurance protecting that gross account.

Reinstatement – The restoration of the insurance limit of an excess property treaty to its full amount after payment by the reinsurer of loss as a result of an occurrence.

Reinsurance - See Excess Insurance. Reinsurance is different because the reinsurer covers exactly what we cover.

1. The transaction whereby the reinsurer, for a consideration, agrees to indemnify the ceding company against all or part of the loss that the latter may sustain under the policy or policies which it has issued.
2. When referred to as "a reinsurance," the term means the reinsurance relationship between reinsured(s) and reinsurer(s).

Replacement Cost – The cost to replace damaged property with like kind and quality, with no deduction for depreciation, but still subject to a "limit".

Reserve – In order to budget for its expected costs, the pool estimates the ultimate expected total value of each claim and "reserves" part of the deposit premium to pay for it. As moneys are paid out for a claim, the reserve amount is decreased.

Retrocedent – The ceding reinsurer in a retrocession, where the assuming reinsurer is known as the retrocessionnaire.

Retrocession – The transaction whereby a reinsurer cedes to another reinsurer all or part of the reinsurance it has previously assumed.

Retrocessionnaire – The assuming reinsurer in a retrocession, where the ceding reinsurer is known as the retrocedent.

Retrospective Rating Plan – The formula in a reinsurance contract for determining the reinsurance premium for a specified period on the basis on the loss experience for the same period (as opposed to prospective rating, which is based on loss experience for the prior period). Also known as EXPERIENCE RATING.

RIMS – Risk and Insurance Management Society. National professional organization to promote principles of risk management and assist risk managers in their daily activities.

Risk Control – Those risk management techniques designed to minimize the frequency and/or severity of claims. Risk control techniques include exposure avoidance, loss prevention, loss reduction, segregation of loss exposures, and contractual transfer to shift losses to others.

Risk Financing – Techniques for generating funds to pay for losses that risk control methods do not entirely eliminate. There are two types of risk financing techniques -- retention and transfer. Retention involves paying for losses using an organization's own assets; transfer involves covering losses using an outside intermediary for a consideration (such as a payment of a premium).

Risk Management – One of the specialties within the general field of management, the process of managing an organization’s activities to minimize the adverse effects of accidental losses on a cost-effective basis. Risk management has two components -- risk control and risk financing.

RMIS – A Risk Management Information System is a systematic process for collecting, storing and analyzing data so that it can be converted into actionable information, such as key performance indicators.

RPA – Retrospective Premium Adjustment. At the beginning of each policy period, the pool collects a deposit premium representing the estimated costs for that year. Forty-five months after its inception, the pool looks back at that estimate and determines how accurate it was and makes an RPA. If it collected too much, a refund is made. If it collected too little, the member is charged for the difference. The process is repeated annually for each coverage year until all claims for that year are closed out.

RPA Fund – Retrospective Premium Adjustment Fund. A separate pool fund designed to stabilize the RPA process. A Liability Program member’s refunds from the Catastrophic Loss Fund and from the RPA process is credited to this fund. Any RPAs resulting in additional premiums due will be charged against this fund. When a member’s Fund balance exceeds 50% of its annual deposit premium, the excess money will be refunded. Members will not be billed for additional premiums unless they have a negative balance in the Fund exceeding 50% of their annual deposit premium.

Section 20 - A form of Workers’ Compensation Settlement where we admit no liability (compressibility). Claimant cannot re-open the claim.

SIR – Self Insured Retention. In the pools liability program, members may choose SIRs of \$100,000, \$300,000 or \$500,000. This is the amount of each loss the member will be responsible for. It is payable at the time of the loss. An up-front premium credit is given to members selecting these high SIRs. Retentions below these levels are treated differently; they are considered RAPs.

Special Events – Designed to cover your sponsorship of events, such as fireworks shows, festivals, community/entity celebrations; often written to protect other policies’ loss integrity. Another type of special event coverage, known as a “tenants’ and users” policy, can be issued for third parties who rent or use your owned facilities. (See TULIP)

Statutory Accounting Principles (SAP) – Those principles required by state law that must be followed by insurance companies in submitting their financial statements to state insurance departments. Such principles differ from generally accepted accounting principles (GAAP) in some important respects, eg., SAP requires that expenses must be recorded immediately and cannot be deferred to track with premiums as they are earned and taken into revenue.

Subro – Short for Subrogation. Where we attempt to collect from another party for injury or damages claims we have paid out.

Syndicate – An association of individuals or organizations to pursue certain insurance objectives. For example, individual underwriters in Lloyd’s of London associate in separate syndicates to write marine insurance, reinsurance life insurance, etc., entrusting the administrative details of each syndicate to a syndicate manager.

Title 59 – A section of New Jersey Law that provides legal immunity to Governmental Agencies.

TIV – Total Insured Values. The values shown on a Member Agency’s schedule or appraisal for property coverage. Only those items shown on the schedule are covered for loss.

Treaty – A reinsurance agreement between the ceding company and the reinsurer, usually for one year or longer, which stipulates the technical particulars applicable to the reinsurance of some class or classes of business. Reinsurance treaties may be divided into two broad classifications:

1. The Participating type that provides for sharing of risk between the ceding company and the reinsurer; and
2. The excess type that provides for indemnity by the reinsurer only for loss, which exceeds some, specified predetermined amount. For different forms, see QUOTA SHARE, EXCESS OF LOSS, FIRST SURPLUS, SECOND SURPLUS, STOP LOSS, CATASTROPHE.

Treaty Reinsurance – A standing agreement between reinsured and reinsurer for the cession and assumption of certain risks as defined in the treaty. While most treaty reinsurance provides for automatic cession and assumption, it may be optional or semi-obligatory and is not necessarily obligatory.

Trending – The necessary adjustment of historical statistics (both premium and losses) to present levels or expected future levels in order to reflect measurable changes in insurance experience over time, which are caused by dynamic economic and demographic forces, and to make the data useful for determining current and future expected cost levels.

Ultimate Net Loss

1. In reinsurance, the unit of loss to which the reinsurance applies, as determined by the reinsurance agreement. In other words, the gross loss less any recoveries from the reinsurance that reduce the loss to the treaty in question.
2. In liability insurance, the amount actually paid or payable for the settlement of a claim for which the reinsured is liable (including or excluding defense costs) after deductions are made for recoveries, and certain specified reinsurance.

UST – Underground Storage Tanks. Refers primarily to underground fuel tanks; used most often in reference to the JPIA's Memorandum of Underground Storage Tank Pollution Liability Program. This program protects member agencies against third-party claims for bodily injury and property damage caused leaks from USTs. It also includes coverage for government mandated clean-up costs.

Workers' Compensation (W.C.) – A statutory coverage designed as the “sole remedy” for workers injured in the course and scope of their duties.