

Insurance Operations © 2013
Chapter 14: Legal Principles—Glossary

utmost good faith. A guideline in the insurance industry that states the insurance company and the policyholder are truthful with one another.

material misrepresentation. The willful and knowing misrepresentation of information by an insurance applicant, which can result in a policy being voided.

concealment. Applies to an applicant withholding certain information from an insurer.

warranty. A statement or promise a policyholder makes that becomes part of the insurance contract.

insurable interest. An insurance provision that means the policyholder must have a financial interest in what is being insured.

liable. Responsible according to law.

indemnity. The principle that means a policyholder cannot profit from an insurance loss.

actual cash value. An item's replacement cost minus its depreciation.

depreciation. The loss in value of an item because of age or wear and tear.

valued policies. Insurance policies that pay out the full face value of the policy, regardless of the actual amount of financial loss.

valued policy laws. Mandate that under certain circumstances insurance companies must pay the actual face value of the policy to the insured.

replacement cost insurance. A type of property insurance that pays the market cost of replacing a given item without accounting for depreciation.

subrogation. An insurance principle that allows the insurance company, in place of the insured, to claim damages from the person at fault in a case of a loss.