

Insurance Operations © 2013

Chapter 10: Nature of the Insurance Industry

Tools:

- Printer
- 8.5" x 11" paper
- Scissors

Directions:

1. Print
2. Fold paper in half vertically
3. Cut along dashed lines

insurance contract

Also called a policy, is a legally binding document that outlines the terms of an insurance agreement between an insurance company and the potential policyholder.

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legally binding

An agreement, or contract, between parties that can be enforced through legal action if one of the parties fails to abide by the terms of the agreement.

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utmost good faith

A central principle of an insurance product that requires the consumer and the insurance agent to be honest with each other.

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insurance agent

A professional licensed to sell an insurance contract.

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ISO (Insurance Services Office,
Inc)

An organization that advises the
insurance industry and produces
policy forms.

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declarations

The section of an insurance
agreement that lists a policy number,
the name of the policyholder, and the
insurance carrier.

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definitions

The section of an insurance
agreement to clearly define terms
used in the contract.

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insuring agreement

The contract between insurance
carrier and policyholder that identifies
the commitment the insurance carrier
has made to the policyholder. It
outlines perils the policy does or does
not cover.

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named-perils policy

A type of insurance contract that only covers losses resulting from the causes listed in the insuring agreement.

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all-risk policy

A type of insurance contract that list perils it will not cover.

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conditions

A section of an insurance agreement that describes the responsibilities the policyholder has when a loss occurs.

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exclusions

Losses the insurance carrier will not cover.

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endorsements

An add-on to a standard insurance policy.

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law of large numbers

A statistical law that states the accuracy of a statistic increases with sample size.

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underwriter

An insurance professional who determines whether to accept the risk of an applicant and what premium to charge.

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adverse selection

Those who are more likely to present a risk to insurance companies are more likely to seek insurance coverage than are those in the wider population.

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smart systems

Computer applications that can quickly analyze applications, recommend whether to deny or accept them, and adjust premiums based on the applicant's risk profile.

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inspection report

A report that provides more detailed look at the applicant's finances, health habits, occupation, and character.

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Medical Information Bureau

An agency that maintains records of applications for life, health, disability, long-term care, and critical-care insurance.

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credit score

A numerical value that reflects a person's credit history.

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insurance score

A numerical value that reflects the risk the applicant represents to the insurance carrier.

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actuary

A person who uses statistics, math, computer science, and finance to determine risk for insurance companies.

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ratings bureau

A business collects loss and claims information from across the industry and sells it to insurance companies.

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reinsurance

The transfer of some of an insurance company's risk to another insurance company.

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claim

The process of documenting the loss against the policy.

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loss adjuster

A specialist who visits with the policyholder to determine the cause of a loss and its extent, whether the policy covers the loss, and whether the amount claimed is reasonable.

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arbitration

The process of bringing the dispute in front of a professional mediator.

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mediator

A person who looks at both sides of an arbitration case, favoring neither side, and then makes a judgment.

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ratings agency

An organization that provides an expert opinion on the health of companies and investment products.

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financial analyst

A professional that researches companies to determine their ability to pay their debts.

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statistician

A professional that collects and analyzes numerical data.

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state insurance departments

State-level government departments that supervise and regulate insurers in their respective states.

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