Insurance Terms

To look up the definitions of commonly used insurance terms click on the term below to move to that section of the document. We hope that you find this information helpful. Our comprehensive range of benefits makes the OSMA Insurance Agency the source for all your insurance needs. For more information about any of our plans, please contact the OSMA Insurance Agency at 800-860-4525 or email us at osmagency@osmaia.org

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COMMON TERMS

About Best's Credit Ratings – a Best's Financial Strength Rating reflects A.M. Best's opinion about a company's financial strength and ability to meet its ongoing insurance policy and contract obligations.

Agent – an individual who sells insurance polices

Independent Agent – represents two or more insurance companies

Captive Agent – only sells policies of the company that employs him or her

HEALTH & LIFE INSURANCE

Admitted Assets – those recognized and accepted by state insurance laws in determining solvency. State insurance laws prohibit companies from listing certain primary assets – such as accounts receivable that are over 90 days in the rears and office equipment – on its balance sheets.

Capital & Surplus – the sum remaining after liabilities are deducted from all assets – essentially an insurer's net worth.

Credit Accident & Health – Insurance that covers a borrower for accidental injury, disability and related health expenses, providing a monthly income.

Credit Life – pays a borrower's outstanding balance on a specific loan or line of credit, up to the plan maximum, in the event the borrower dies before the balance is paid off.

Disability Insurance – provides an income when an insured cannot work because of disease or injury.

Flexible Spending Account (FSA) – also called a "cafeteria plan", it allows employees to select certain benefits normally paid on an after-tax basis and, through salary reduction, pay for these benefits on a pre-tax basis. The result is a tax savings for both the employee and the employer. Unused FSA balances are forfeited at the end of the plan year.

Group Accident & Health – These plans are designed for a natural group, such as employees of a single employer, or union members, and their dependents. Insurance is provided under a single policy, with individual certificates issued to each participant.

Group Annuities – The payout is dependent upon the life expectancy of all members of the group rather than on the individual.

Group Life – These life insurance policies are written for a group of members, most often employees, provided the group is not formed for the purpose of buying insurance. The cost usually is lower than purchasing individual policies.

Health Insurance - policies pay benefits to insureds who become ill or injured.

Health Reimbursement Arrangement (HRA) – allow employers to set aside a specific annual amount for employees to use to pay health care expenses. All employer contributions are tax deductible to the employer and are tax-free to the employee.

Health Savings Account (HSA) – pays for qualified and routine health care expenses with tax-free money until you've met the deductible (high-deductible health plan); then your insurance coverage takes over. The funds in the HSA also can be used for expenses the HDHP doesn't cover. Unused HSA balances carry forward to future years.

Individual Annuities – An insurance product that makes periodic payments to individuals for a specific period of time or over the course of the individual's lifetime.

Industrial Life – These low-value life insurance policies generally sell in amount of less than $1,000. The premiums are collected by the salesperson on a weekly or monthly basis at the home of the insured.

Life Insurance - pays a death benefit free from federal income tax that can be used to replace lost income or to pay estate taxes.

Long-Term-Care Insurance – pays for skilled nursing, intermediate, or custodial care for a patient in a nursing facility or residence.

Managed Care – is the most common delivery system for health insurance. It is a system that controls the financing and delivery of health services through fee agreements with medical professionals and facilities (Major Types: Health Maintenance Organization (HMO); Preferred Provider Organization (PPO); Point-of-service plan (POS).

Ordinary Life – is issued in multiples of $1,000, with premiums payable continuously until the insured dies. Ordinary life policies can build up non-forfeiture values.

Other Accident & Health - accident and health policies do not cover sickness. Products that fall into this category could be policies for individuals that cover major medical, disability insurance, long-term-care, dental, dread disease or auxiliary coverage's such as Medicare supplement.

Permanent Life Insurance – uses higher premiums to build up cash in the policy that will pay for the insurance later in life when coverage becomes expensive.

Premiums – the amount of money a policyholder is charged for an insurance policy.

Term Life Insurance – lasts for a specified time and yields a greater benefit for the premium dollar but expires without value if the insured survives the specified period.

PROPERTY & CASUALTY INSURANCE

Aircraft – Insurers sell commercial airlines property insurance on the hulls and instrumentation of airplanes, and liability insurance for negligent acts that result in injury or property damage to passengers or others. Damage is covered on the ground and in the air.

Allied Lines – types of property insurance that are usually bought in conjunction with fire insurance. It includes wind, water damage and vandalism.

Assets – property owned by insurance companies – primarily stocks, bonds, mortgages and real estate.

Automobile Insurance (Commercial or Private Passenger) – the most bought insurance in the United States. Different coverages can be purchased based on the needs of the insured.

Boiler & Machinery – Policies protect against a sudden or accidental breakdown of heating, cooling, production machinery and electrical equipment.

Burglary & Theft – This is insurance for when someone breaks in and damages or steals your property at your home or while your business is closed.

Commercial Multiple Peril – protect the physical assets of large businesses as well as actions of owners or employee dishonesty that result in liability exposure.

Credit – credit insurance protects companies against the risk of non-payment by buyers arising from commercial risks, such as insolvency, or noncommercial risks, such as death, disability or unemployment.

Earthquake – Because earthquakes are not covered by standard homeowners or most business policies, coverage must be purchased separately. It covers direct damage to property resulting from an earthquake or volcano. It typically excludes damage resulting from fire, explosion, flood or a tidal wave that follows the quake or eruption.

Farmowners Multiple Peril – similar to homeowners insurance, protecting farmowners and ranchowners against a number of named perils and liabilities. Coverage usually protects the home and its contents, as well as barns, stables and other structures.

Federal Flood – Like earthquake insurance, flood coverage is excluded under homeowners policies and many commercial property policies. Coverage for flood damage is available from the National Flood Insurance Program but is sold by licensed insurance agents.

Fidelity – Coverage created to cover commercial businesses and financial establishments for losses of monies or stock through acts of employee dishonesty. Must now encompass internet transactions.

Fire – protects property against losses caused by fire or lightning and may be included in homeowners or commercial multiple peril policies.

Global Catastrophes – a catastrophe is an event that causes $25 million or more in direct insured losses to property and that affects a significant number of policyholders and insurers.

Homeowners Multiple Peril – cover most property or liability perils – such as fire or theft – to which the homeowner is exposed. Coverage includes structures on the property as well as personal possessions in the structures. However, standard homeowners insurance does not cover flood damage.

Inland Marine – was developed for shipments that do not involve ocean transport. It covers articles in transit by all forms of land and air transportation as well as bridges, tunnels and other means of transportation and communication. It also provides special coverage for distinctive items such as jewelry, fine arts and silverware.

Liability Insurance – protects against legal liability resulting from negligence, carelessness or a failure to act causing property damage or personal injury to others.

Medical Malpractice – provide professional liability coverage for physicians and other medical professionals against lawsuits alleging negligence or errors and omissions during the care of patients.

Mortgage Guaranty (also called private mortgage insurance (PMI) – covers the lender originating the mortgage in the event that the mortgage holder defaults on a loan, spreading the risk of foreclosure between the lender and the insurer.

Multiple Peril Crop – covers growing crops against perils such as hail, wind and fire.

Ocean Marine – insures against property damage to all types of vessels and watercraft and to the loss of cargo. Coverage excludes war and terrorism risk.

Policyholder Surplus – the sum remaining after all liabilities are deducted from assets – essentially an insurer's net worth.

Product Liability – coverage of the liability that parties along the supply chain of the product – from the manufacturer or the storeowner – has to assume if some defect in the product sold or manufactured injures a third party or damages his or her property.

Property/Casualty Insurance - protects against damage, loss or injury to the insured, as well as legal liability for damages caused to other people or their property (auto, homeowners and commercial insurance).

Surety – surety bonds guarantee that a principal will perform a specific obligation. They are three-party contracts:

Principal – the primary party who will be performing the obligation
Obligee – the party who is the recipient of the obligation
Surety – ensures that the obligation will be performed

Workers' Compensation – is a system under which employers provide insurance and the payment of lost wages for employees in the case of injury, disability or death resulting from workplace hazards.