Glossary of Risk Management and Insurance Terms

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Accident — Unexpected or chance event. This term is frequently defined in older commercial general liability (CGL) policies.

Accident medical reimbursement insurance — Covers medical expenses for injuries arising out of accidents, regardless of liability. Traditionally also provides a schedule of payments for death or severe injury, such as loss of limb or sight. Can be written to provide coverage for volunteers in the course of their work for the insured, participants in the insured's activities, or clients while under the insured's supervision.

Actual cash value (ACV) — Replacement cost of damaged or lost property less depreciation.

Actual damages (also known as compensatory damages) — Sum of money a plaintiff (injured party) is entitled to, to compensate him for actual economic loss sustained.

Additional insured endorsement — An additional insured endorsement is the contract by which an additional insured (a person or entity, other than the named insured) is protected by a particular insurance policy.

Admitted carrier — An insurance company licensed by a particular state, monitored by the state for financial stability, covered by the state's guaranty fund, and subject to the state's regulations for licensed insurance companies.

Agent — An insurance professional/intermediary who markets and explains insurance products to insureds and prospective insureds. Agents, like brokers, are licensed by state regulatory agencies. However, they are restricted in the marketing and placement of coverage to those carriers with whom they have a contractual relationship. Some agents have relationships with a number of companies, while others represent a single insurer. An agent, therefore, represents the company or companies with whom she or he has a relationship.

Aggregate limit — Maximum amount that the insurer will pay under a liability policy during one annual policy period, regardless of the number of occurrences, usually in addition to legal defense costs. For general liability, policies are sometimes written with the aggregate limit applying separately to each scheduled location.

Alternative market — Nontraditional risk financing, including risk retention groups, risk pools, self-insurance and captive insurance companies.

A.M. Best Company, Inc. — An independent company that rates insurance companies on their financial stability and future claims-paying ability (see www.ambest.com).

Appraising risks — Identifying the portfolio of risks and assigning values or weights to the risks. Risk appraisal is a hybrid of list making and brainstorming. This is the second step in the risk management process.

Auto insurance — Business auto policy (BAP) — A standard business automobile policy that is designed to cover the liability and physical damage of motor vehicles. Liability coverage can be provided for the organization, regardless of whether a nonprofit, a staff member, volunteer or other party owns the vehicle.

Broker — An insurance professional/intermediary who markets and explains insurance products to insureds and prospective insureds. Brokers are typically licensed by a state to place insurance on behalf of clients (individuals and organizations) with any number of companies, while others represent a single insurer. A broker technically represents the client.

Business auto policy — A hybrid policy that provides both property and liability coverage; main coverages are auto liability and physical damage coverage.

Business interruption insurance (loss of income coverage) — Insurance coverage designed to protect the insured against loss of earnings resulting from the interruption of business caused by an insured peril, subject to the policy provisions.

Captive insurance company — Subsidiary of one or more parent or member organizations formed for the purpose of insuring the exposures of the parent or member organization(s).

Certificate of insurance — A form that indicates the types of insurance policies written, policy dates, and coverage limits.

Charitable immunity — Legal defense by which charitable organizations were protected from litigation by virtue of their charitable status. The common law doctrine of charitable immunity exists — to some degree — in nine states: Alabama, Arkansas, Georgia, Maine, Maryland, New Jersey, Virginia, Utah and Wyoming. The states with the least restrictive forms of charitable immunity are Arkansas, New Jersey and Virginia.

Charitable risk pool — A nonprofit property/casualty insurance company that insures nonprofit organizations and qualifies as a charitable risk pool pursuant to federal tax laws and is exempt from federal income tax. A qualified charitable risk pool may only be comprised of nonprofit organizations that qualify under section 501 (c)(3) of the Internal Revenue Code.

Claims-made basis — A liability coverage form that requires that claims be reported to the insurance company while the policy is still in force in order for coverage to apply. In other words, a claim must be made while the policy is in force. The claims-made form is one of two types of liability policy forms. The other more common form is called occurrence form. Under an occurrence form policy, a claim occurring during the policy term may be reported to the insurance company at any time, even years after the policy expires.

Claims management — Involves proper and timely notification and record keeping of specific claims and overall loss history for the organization.

Commercial general liability insurance — Covers liability exposures that are common to all organizations; a combination of three separate coverages, each with its own insuring agreement and exclusions: Coverage A = general liability; Coverage B = personal injury and advertising injury liability; and Coverage C = medical payments.

Commercial property insurance — Covers risk of loss to an organization's buildings or personal property. Usually includes buildings, personal property of the insured, personal property of others on site and in insured's possession. Coverage can be on an all risk or specific perils basis.

Conceptual competition — A method of choosing an insurance provider. Establish a comfortable relationship with a new insurance provider (agent, broker or consultant) prior to obtaining firm coverage proposals.

Conditions — Part of every insurance policy; qualify the various promises made by the insurance company.

Consequential damage insurance — Optional coverage for equipment insurance that insures against spoilage of specified property (food or plants) from lack of power, light, heat, steam or refrigeration.

Context — The environment and circumstances facing your nonprofit which affect risks and risk management efforts. For example, a nonprofit that serves vulnerable clients is exposed to a different array of risks than an organization that doesn't. A nonprofit that has never faced an incident or lawsuit may be somewhat less enthusiastic about risk management activities. Exploring the context for risk management in a nonprofit is the first step in the risk management process.

Crime coverage — A package of policies that protect an organization against intentional theft by insiders, as well as theft of assets by third parties. Crime coverage generally includes a fidelity bond plus a basic menu of other coverages.

Declarations — Usually the first page of an insurance policy; summarizes key information specific to the policy; sometimes called a dec page.

Deductible — Amount deducted from a loss. The deductible is an amount assumed in advance by an insured as required by the insurance company or as a means of obtaining a lower premium for the coverage. Also, the amount of the loss that the insured must pay.

Defendant — Individual or organization against whom a lawsuit has been brought.

Defense coverage — Source of funding for the defense of a legal challenge filed against the nonprofit.

Definitions — Part of every insurance policy; explain the special meaning of the designated words (identified in bold print or set off by quotation marks) within the context of insurance.

Dimensions of risk — The three dimensions of risk are 1) directional (positive/negative), 2) probability (more/less often) and 3) magnitude (major/minor) dimension of risk.

Directors' & officers' liability insurance (D&O insurance) — Insurance that provides coverage against wrongful acts which might include actual or alleged errors, omissions, misleading statements, and neglect or breach of duty on the part of the board of directors and other insured persons and entities. Many D&O policies include employment practices liability coverage.

Disability insurance — Provides an employee security by providing an income should he or she become sick or injured and unable to work.

Doctrine of contra proferentem — Latin term referring to practice of reviewing courts to construe ambiguous insurance policy terms in favor of the insured policyholder.

Earthquake coverage — Purchased as separate policy as most property policies do not protect against damage by earthquake.

Electronic property coverage — An inland marine floater designed specifically for computers and other electronic equipment. Provides coverage for perils not normally included in a standard property policy, such as electrical surge and loss of data.

Employee benefits liability (EBL) — Covers errors and omissions in the administration of the insured's employee benefits such as health insurance or pension benefits.

Employment practices liability insurance (EPLI or EPL) — Insurance that provides coverage for claims arising out of employment practices. EPLI policies generally cover the organization, its directors, officers, and employees.

Employer's liability insurance — Coverage protecting an employer against claims, which are not covered under workers' compensation statutes, alleging employer negligence stemming from work-related injuries, illness or death. Claims may be filed by injured workers or their spouse or family members for economic losses. This policy is generally bundled with workers' compensation coverage.

Endorsement — Part of most insurance policies; policy forms that modify the main coverage form; changes to the policy language.

Equipment breakdown insurance — Supplements property insurance (which specifically excludes physical damage and the financial damage stemming from equipment breakdown) to cover the unique causes that can damage equipment. Was known as boiler and machinery coverage.

Excess and surplus lines carrier — Insurer that is not admitted (not licensed) to do business in a particular state, but is permitted because coverage is not available through licensed insurers.

Excess liability insurance — Provides coverage over and above primary insurance. The coverage is triggered when the amount of a loss exceeds (exhausts) an existing primary policy. Excess liability coverage mirrors the terms and conditions of the underlying policy.

Exclusions — Part of every insurance policy; policy provisions that eliminate coverage for specified exposures.

Extra expense insurance — Covers the extra cost of continuing to deliver services following the destruction or damage to a nonprofit's facility or equipment due to a covered peril. Extra expense coverage is generally sold in tandem with business interruption coverage.

Fidelity bond — A bond that reimburses an employer, up to the stated amount, in the event that an employee commits a dishonest act covered by the bond. Also known as employee dishonesty coverage. A nonprofit can purchase a fidelity bond as a stand alone or part of a crime coverage package.

Fiduciary liability — Protects the fiduciaries of health and welfare, or pension plans from claims by employees alleging financial loss due to mismanagement of funds.

Group insurance programs — Special programs generally developed to serve homogeneous or geographically similar groups of organizations; may offer better rates, specialized coverages or features, fewer restrictions and better acceptance of the risks inherent in the group programs.

Hammer clause — A policy provision that acts as a financial incentive for an insured to agree to a settlement proposed by the insurer.

Hard market — A phase of the insurance market cycle during which time coverage may be more costly, terms may be more restrictive, and policy conditions and requirements more stringent.

Health insurance — Covers medical expenses for accidents or sickness, on a first-party basis, and regardless of fault.

Hired and nonowned auto liability — Coverage that protects a nonprofit for claims that result from the use of a vehicle not owned by the nonprofit but used on the nonprofit's behalf (for example, an employee's or volunteer's personal vehicle). Hired and nonowned coverage is excess over the insurance on the auto involved in the accident. The policy protects the named insured, not the driver of the vehicle. This coverage can be purchased as an add-on to the CGL policy, as an adjunct to the Business Auto Policy, as part of a Business Owners Policy, or as a separate policy.

Hold harmless agreement — Contract by which legal liability for damages of one party is assumed by the other party. One party agrees to hold the other party harmless (and usually indemnify) from the liabilities associated with the hazards of a particular activity or venture. Contracts may contain a hold harmless clause.

Hybrid policies — Have both liability and property coverages. Examples are business auto policy, international coverage, volunteer accident medical reimbursement and personal liability policies.

Immunity — A provision in the law which shields a person or organization from legal obligations.

Improper sexual conduct coverage — Coverage that protects an organization against claims alleging improper sexual conduct.

Indemnification agreement — When one party (the indemnitor) assumes the liability of another (the indemnitee) in the event of a claim or loss. An example is a hold harmless agreement.

Indemnify — To compensate for actual losses sustained.

Individual causing harm — The person whose actions led to the injury or loss.

Inland marine coverage — Also known as a floater endorsement. Insure special items, such as computers, light and sound equipment, and camera equipment at an agreed amount.

Insurance — Traditional risk-financing tool used to transfer the financial hazard of risk. An insurance policy spells out what is or is not covered caused by all or specific perils (causes of damage or injury). Insurance is also a contract whereby an organization agrees to indemnify another and/or to pay a specified amount for covered losses in exchange for a premium. For many nonprofits, insurance provides the funds to pay for the nonprofit's unexpected losses of people, property and income, while ultimately keeping the organization in operation.

Insurance policy — A legally binding contract that defines the obligations of both the insured and the insurer.

Insurance professional — An agent, broker or consultant.

Insurance program review — A review of the nonprofit's existing insurance coverages for the purpose of identifying coverage gaps, overlaps and commenting on the adequacy of specific policy terms, limits and deductibles.

Insurance Services Office (ISO) — An insurance industry-supported agency that creates standard policy forms and collects premium and claims statistics.

Insured versus insured exclusion — Negates coverage for claims brought by one insured against another insured.

Insuring agreement — Part of every insurance policy; specifies what the insurance company has agreed to pay for or to provide in exchange for the premium.

Intentional acts — Deliberately fraudulent acts or omissions, wanton, willful, reckless or intentional disregard of any law or laws.

Joint liability — A form of liability in which liability is shared by more than one person or organization.

Latent injury — Injury that manifests itself years after the event occurred such as those from asbestos, medical malpractice, and sexual abuse or molestation.

Liability — Any enforceable legal obligation. For example, the failure to meet the duty of care of a reasonable person under similar circumstances.

Liability insurance — Insurance covering the financial risk of civil lawsuits.

Liquor liability — Liability arising out of the manufacture, distribution or sale of liquor. Under the standard CGL, coverage is excluded if the insured is in the business of serving alcohol.

Long-tail exposure — Exposures for which a claim might be filed long after the insurance policy or policies expire. Loss may not be recognized for many years, involving such latent injuries as asbestos, medical malpractice, and sexual abuse or molestation.

Loss control — Analyzing hazards and determining a course of action to reduce the risk of loss while carrying out the nonprofit's mission.

Loss experience report — Compiled by the insurance company, it provides detailed history of an insured's claims information. Also known as loss runs or hard copy loss runs. Every insured is entitled to receive an account history from its insurance company.

Market assignment — Method of choosing an insurance provider. Choose several insurance agents or brokers as bidders for your account and assign one or more insurance companies (markets) to each.

Media liability — Policy protects the insured from extensive personal and advertising injury, as well as publishers' liability for all forms of media.

Moody's — An insurance rating service that provides credit ratings on an estimated 700 insurance companies worldwide (see www.moodys.com).

Named insured — An individual, business or organization that is identified on the policy declarations page as the insured(s) under a policy. Most policies, especially liability policies, will have insureds or additional insureds other than the named insured (such as employees, volunteers, board members, landlords), but only the named insured is responsible for premium payments, receipt of notices, and adjustment of losses.

Negligence — Failure to use the standard of care that a reasonably prudent person would exercise in a similar circumstance.

Obedience, duty of — Standard of care that obligates a director or officer (of a board) to act in a manner that demonstrates faithfulness to the organization's mission and obeys all applicable laws, statutes and regulations.

Occupational accident — Accident to an employee that occurs within and arises out of the course of employment.

Occurrence basis — A liability coverage form that covers claims that occur during the policy period, and for which claims can be reported to the insurance company at any time during or after the policy period.

Open bidding — Method of choosing an insurance provider. Send a request for proposal to a list of firms asking them to bid for your business.

Personal injury liability — Injury to a person or organization caused by slander, invasion of privacy, false arrest or detention, malicious prosecution, or wrongful entry or eviction.

Personal liability policy (volunteers) — Provides protection if the volunteer is liable for bodily injury or property damage arising out of the performance of his or her duties; generally written on an excess basis. Purchase separately or bundled with accident medical reimbursement and/or excess automobile liability insurance for volunteers.

Personally liable — Liability that an individual assumes when he/she is directly involved in the occurrence and cannot defer the liability to another person or entity.

Plaintiff — Individual or organization that initiates a lawsuit to obtain a remedy for an injury. an injury.

Premium — The payment for an insurance policy or bond.

Prior acts coverage — Coverage for all acts that occurred before the policy was issued. Prior acts coverage is one of the means of covering the gap in coverage when switching from a claims-made policy to another claims-made policy or to an occurrence policy. The prior acts coverage is provided by the new policy, as opposed to tail coverage that is added by endorsement to an expired claims-made policy.

Professional liability insurance — Also known as malpractice coverage or errors and omissions (E&O) coverage; covers liability for damages arising from the rendering of or failure to render professional services.

Property — Category of nonprofit assets at risk that includes real property (buildings, improvements and betterments), personal property (furniture, fixtures, valuable papers and records, equipment, and supplies) and intangible property (copyrights, business goodwill and trademarks).

Property insurance — Insurance that covers direct damage to the nonprofit's property and equipment including consequential losses (business income, loss of rents, extra expense) caused by an insured peril.

Punitive damages — Damages awarded by the court in excess of those required to compensate the plaintiff for the loss sustained. These damages are a type of punishment for the offender for failing to take proper care.

Reinsurer — A company that insures upper layers of coverage for commercial carriers, risk retention groups, captive insurance companies and other insurance providers.

Replacement cost basis — The cost of replacing the appraised or inventoried property.

Respondeat superior — Legal principle by which employers are held responsible for the actions of those they supervise. Literally, the master shall answer for the acts of his servant. In the context of volunteer organizations, the nonprofit is the master and paid and volunteer staff are the servants working on the organization's behalf.

Risk — A measure of the possibility that the future may be surprisingly different from what we expect. Downside risk of loss and upside risk of gain.

Risk assessment — A thorough examination of the exposures of the nonprofit, both insurable and uninsurable.

Risk-financing plan — The monetary tools that you will use to protect the nonprofit's resources so the lion's share may be devoted to its community-serving mission. Primarily used to protect an organization from catastrophic financial loss.

Risk-financing pools — A nonprofit association that benefits it members by pooling their contributed premiums in order to finance losses.

Risk management — A discipline for dealing with the possibility that the future may be surprisingly different from what we expect (see Strategic risk management).

Risk management committee — A representative group of staff, volunteers and advisors who identify exposures, develop a risk control program, and establish a risk-financing strategy for the nonprofit. May act in place of a staff designee in small nonprofits. In midsize and large organizations, they may work in partnership with the staff designee (such as finance director or professional risk manager).

Risk management program — Educated projections about the future and sound management practices.

Risk retention — A method of funding loss using internal money.

Risk transfer or sharing — A method of funding loss using external funds (such as insurance) or risk sharing with another organization. Examples of risk sharing include mutual aid agreements with other nonprofits, and sharing responsibility for a risk with another through a contractual agreement.

Self insurance — When an organization's own resources (internal) are used to fund losses. A nonprofit may self-insure risks through a formally structured risk-financing program, such as a captive insurer, or by setting aside funds to pay for losses. A nonprofit can also be self-insured on an informal basis when it has made no arrangements to finance losses and must use operating funds when losses occur.

Self-insured retention — Similar to a deductible except that until the SIR is exhausted the insured will generally be responsible for performing the loss adjustment functions that would otherwise be undertaken by an insurance company. For umbrella liability, the SIR is the amount the insured is obligated to pay for claims when there is no underlying insurance.

Soft insurance market — Insurance companies are eager to write new business.

Special endorsement — Written language appended to an insurance policy that changes the coverage in regards to special circumstances.

Special events insurance — General liability insurance for events that are outside the day-to-day operations of the insured, such as fund-raising events.

Speculative risk — An insurance term that includes the possibility of gain or loss. loss.

Sponsored insurance program — Members, chapters or affiliates of a national, regional or statewide organization create a group insurance program by partnering with a commercial insurance provider or endorsing the services of an agent or broker.

Standard & Poor's — A nationally recognized organization that rates insurance companies on their financial strength (see www.standardandpoors.com).

Standardized form — A document prepared in a prescribed arrangement of words and layout.

Strategic risk management — A discipline that counters downside risks by reducing the likelihood, magnitude, and unpredictability of losses and financing recovery from these losses; and seizes upside risks by searching for opportunities to more fully, more certainly, and more efficiently achieve an organization's nonprofit goals, and developing plans to act on these opportunities when the future presents them.

Strategic risk management process — Five steps to empower an organization to be all it can be in a less-than-fully-predictable world.

1. Establish the risk management context.
2. Appraise risks.
3. Decide what to do.
4. Take action on your decision.
5. Follow up and adjust.

Umbrella liability insurance — Provides excess coverage over several primary policies, such as CGL, auto liability and employers liability. Increases the amount of liability insurance beyond that of the basic policies carried by the nonprofit and reaches out to cover areas of unknown exposures lacking in the basic insurance policy.

Underwriting — The process of determining whether coverage will be offered, what policy provision will be included and at what price.

Volunteer excess automobile liability insurance — Auto liability insurance that covers claims arising from a volunteer's use of his or her own vehicle. This policy pays in excess of the volunteer's personal auto policy. No coverage is provided to the nonprofit.

Waiver — The giving up of a right or privilege. Nonprofits frequently require participants in recreational or other programs to waive the right to sue in the event of injury. Courts often invalidate waivers on the grounds that the individual did not fully appreciate the rights being waived or that the waiver did not specifically indicate that it covered liability for negligence.

Workers' compensation and employers' liability insurance — The first part covers expenses an employer is mandated to pay by state statute to cover specific benefits for employee injuries. The second part protects employers from employee-related suits that are separate from WC claims.

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