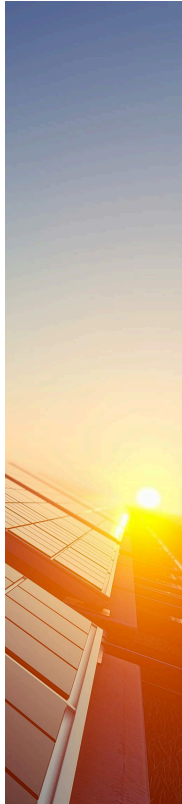
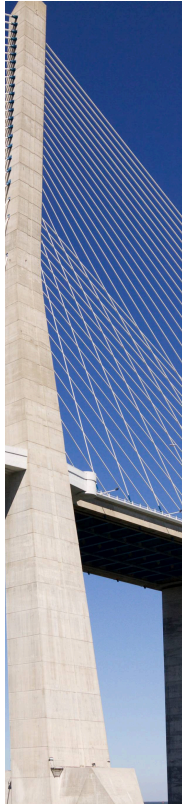


Glossary of Insurance Terms and Conditions



"Risk comes from not knowing what you're doing"

- Warren Buffet Chairman, Berkshire Hathaway Corp.

AN INSIDE GUIDE TO THE WORLD OF INSURANCE RISK MANAGEMENT

INTECH Risk Management Inc. is an award-winning insurance and risk management advisory firm that has been guiding clients with independent and impartial advice for over 45 years.

As the trusted advisor to hundreds of organizations involved in the procurement, design, construction, financing and operation of physical assets, INTECH is routinely involved in the analysis, development, implementation and management of commercial property and casualty insurance programs across North America.

We do not sell insurance, nor are we affiliated or owned by any insurance broker or company. This unique independent position in the marketplace enables our consultants to avoid any conflict of interest and provide our clients with unbiased, expert advice.

Like all professions, the insurance industry has its own unique vocabulary. As a result, our consultants are asked daily to describe the meaning of a specific word and how it relates to the business of insurance and risk management.

In order to assist insurance buyers, financial institutions and the legal profession gain a better understanding of some of these common terms, we are pleased to present INTECH's Glossary of Insurance Terms and Conditions, the Concise Version.

We hope you will find this Glossary useful and look forward to the opportunity to assist you with any insurance and risk management related issues in the future.

Sincerely,

Fraser Roberts, B.A., LL.M, CRM

Chief Executive Officer

INTECH RISK MANAGEMENT INC.

Actual Cash Value

The **Replacement Cost** of a property, at the time of a loss, less depreciation. *See also Replacement Cost.*

Actual Loss Sustained

A form of **Business Interruption** insurance, which covers the period from the time of an insured loss, until the property is tenantable, or the business can operate. *See also Gross Earnings, Gross Profits and Rental Income.*

Additional Insured

A person other than the **Named Insured** who is protected under the terms of the policy. Usually an additional insured is added by endorsement, or within the definition of “insured” in the policy. They do not have the same rights as a **Named Insured**. *See also Additional Named Insured, First Named Insured and Named Insured.*

Additional Named Insured

Those specifically endorsed as a **Named Insured** in the policy, having the same rights and privileges as the **First Named Insured** in the policy, i.e. for the notice, cancellation, payment or indemnity provisions. *See also Additional Insured, First Named Insured and Named Insured.*

Adjuster

A person who investigates and determines the extent of liability for loss or damage when a claim is reported. There are independent adjusters (who are paid a fee to work for a specific insurer on a specific claim), company adjusters (who work for only one insurer) and public adjusters (who are employed by claimants to represent their interests).

Agent

A person or organization who sells, negotiates or effects insurance contracts on behalf of an insurer or group of insurers. An agent may be an Insurer's employee or an independent businessman. An agent, typically, has authority to immediately bind the insurance company.

See also Broker.

Agreed Amount

See Stated Amount.

Aggregate Limit

A limit in an insurance policy stipulating the most it will pay for all covered losses sustained during a specified period of time, usually one year. Aggregate limits are commonly included in liability policies.

All Risks Policy

Coverage by an insurance contract that promises to cover all losses except those losses specifically excluded in the policy.

A.M. Best Rating

A financial rating published by A.M. Best Company that indicates the financial stability of insurance companies. A.M. Best Company is the leading provider of news, ratings and financial data for the insurance industry worldwide.

Binder

A legal agreement issued by the Insurer or it's **Agent**, or **Broker**, to provide evidence of coverage until such time as a full policy(ies) is/are issued.

Blanket Policy

An insurance policy covering more than one property, under an overall limit of indemnity.

Bodily Injury

Protection against loss arising out of the liability imposed upon the insured by law for damages due to bodily injury, sickness or disease, including death, sustained by third parties. **See also Personal Injury.**

Boiler and Machinery

Coverage for the loss to boilers and machinery caused by explosion or mechanical breakdown. The policy may cover damage to the boilers and machinery, other property and **Business Interruption.**

Breach of Conditions

A clause that can be added to a policy that causes the policy to continue to protect the financial interest of a mortgagee or lessor even when the insured breaches a condition, thereby voiding coverage. Any loss recoveries under this clause are payable only to the mortgagee or lessor.

Broad Form Property Damage

An endorsement to a general liability policy which grants expanded coverage to property in the care, custody or control of the Insured, property which is not normally insured if damaged by the Insured's negligence.

Broker

An insurance intermediary that represents the insured rather than the insurer, and is not tied to a particular company, unlike an **Agent**.

Builder's Risk

Cover which applies while building, or other real property, is under construction. Coverage may be narrow (fire and extended coverage) or broad (all risks) and may be expanded to include transit **Perils** and loss of revenue.

Business Interruption

Cover which applies to lost earnings and/or increased expenses when operations are suspended or curtailed because of property loss caused by an insured **Peril**. *See also Extra Expense, Actual Loss Sustained, Gross Earnings, Gross Profits and Rental Income.*

Bylaws Endorsement

Coverage available by endorsement to a standard commercial property policy to insure against loss caused by the increased cost of construction due to the enforcement of a building by-law, demolition of the undamaged portion of the building and the resultant loss of income.

CCIP

Contractor Controlled Insurance Program. *See also Builder's Risk and Wrap-up.*

Captive Insurance Company

A legally constituted insurance company, often formed offshore for tax reasons, organized and owned by a corporation or association to write its own insurance coverage(s) at either lower rates or broader coverage than that offered by other Insurers.

Certificate of Insurance

A document used to evidence that certain types of insurance are in effect, and subject to certain terms and conditions. The full policy copy always supersedes a certificate of insurance in any coverage dispute.

Certified Acts of Terrorism

A terrorist act that is eligible for coverage under the Terrorism Risk Insurance Act (TRIA). Such acts are certified by the Secretary of the Treasury, applying criteria spelled out in TRIA. To qualify as a certified act of **Terrorism**, the incident must: (1) be a violent act or an act that is dangerous to human life, property, or infrastructure; (2) cause damage within the United States or other area of U. S. sovereignty (e.g., an U. S. embassy, airplane, ship); (3) be committed by someone acting on behalf of a foreign person or foreign interest, as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the U.S. government by coercion; and (4) produce property and casualty insurance losses in excess of \$5 million. Insurers paying claims in response to certified acts of terrorism qualify for federal reimbursement.

Claims Made

Policies written on a **Claims Made** basis will only cover claims presented during the particular year the policy is in force for any incident that occurred during the same policy year, or for any previous year noted in the **Claims Made** policy retroactive date. This form of coverage contrasts with an **Occurrence** policy that covers an incident occurring while the policy is in force regardless of when the claim arising out of that incident is reported.

Coinsurance

A clause in some property insurance policies that forces an insured to share in a loss if the limit of insurance purchased does not at least equal a minimum specified percentage of the value of the true **Replacement Cost** of the property. The formula used to calculate the penalty is as follows:

$$\frac{\text{Amount Of Insurance Carried}}{\text{Amount of Insurance Required}} \times \text{Loss} = \text{Payout}$$

For example, suppose a building with a true replacement cost of \$1,000,000 is insured with a policy that includes an 80% coinsurance clause. The insured however only purchases a \$600,000 limit, and then suffers a \$100,000 loss. Since the insured was required to insure the property to a minimum of \$800,000, the coinsurance penalty applies. As such, the insurance recovery will only be \$600,000 (amount carried) divided by \$800,000 (amount required) times \$100,000 (amount of the loss), which equals \$75,000. **See also Stated Amount.**

Commercial General Liability

A policy which covers a variety of general liability, exposures including premises, property and operations, **Completed Operations**, product liability, owner's and contractor's protective, **Contractual Liability**, elevator liability, employer's liability.

Completed Operations

See Products and Completed Operations Insurance.

Consequential Loss

A financial loss occurring as the consequence of some other loss. Also called an **Indirect Loss**.

Contingent Business Interruption

Coverage for loss of earnings of an insured resulting from a loss at another business which is one of the insured's major suppliers or customers, or an anchor store, in the case of a shopping center.

Contractual Liability

Liability assumed under contract or agreement over and above that which might be imposed by law. Note that the extent of contractual liability coverage varies greatly in liability policies, i.e. it may be given on a blanket basis for all written contracts, or may be restricted to specific types of "incidental" contracts.

Constructive Total Loss

A partial loss of sufficient degree to make the cost of repairing the damaged property more than the property is worth.

Contingent Liability

Liability incurred as a result of negligence of a person engaged by an insured to carry out work, i.e. a contractor's responsibility for his sub-contractor's actions.

Cross Liability

Provides coverage when a suit is brought against an insured party by another party that has insured status under the same policy, without, however, increasing the overall limit of liability.

For instance, two entities are insured under one policy, and the limit of the policy is \$1 million. The courts could award judgment against both parties, or only one of the entities. In the former case the amount of the liability would be spread over the two entities. If only one entity was to be judged liable, then the full amount of the limit would be available to that named entity.

Debris Removal

An extension to a property policy that grants coverage for the expense of removing debris caused by damage to **property** by an insured **Peril**.

Deductible

That portion of a claim, which must be borne by the insured before the insurer is obligated to contribute.
See also Self-Insured Retention.

Delay in Start-Up

Also known as **Delayed Income**. This is an addition to a Builders' Risk policy; to cover the owner for the loss of anticipated revenue, as a result of an insured **Peril**, which causes a delay in the opening of the project under construction.

Demolition Clause

Coverage extended to cover the cost of demolishing property damaged by an insured **Peril**. Policies may be extended to cover the cost of demolishing undamaged property made necessary by a bylaw, court order etc.

Difference in Conditions (DIC)

(1) An all risks property insurance policy that is purchased in addition to a commercial property policy to obtain coverage for **Perils** not insured against in the commercial property policy (usually flood and earthquake). (2) An endorsement to a contractor's blanket builders risk insurance policy that fills the gaps between a policy provided by the project owner and the contractor's policy. When a project owner elects to provide the builders risk coverage for all parties with an **Insurable Interest**, the project is normally removed from coverage under the contractor's policy. A **DIC** endorsement typically states that, to the extent a loss is not covered under the owner-provided policy, but would be covered under the contractor's policy, coverage will apply on an excess basis.

Direct Writer

An Insurer whose distribution system involves either selling directly to the public or through an exclusive agency force.

Directors' & Officers Liability

A policy to cover the non-criminal acts of Directors & Officers of a corporation, accused of negligence. The policy may also include certain, limited protection for the corporation itself. The policy is written on a **Claims Made** basis.

Discovery Period

The period of time allowed for an insured to identify and report losses occurring during the policy period.

*See also **Extended Discovery Period**.*

Dual Obligee Rider

The dual obligee bond provision or rider extends a surety's obligations under the bond to an interested third party. In the context of a **Performance Bond**, the additional **Obligee** is usually a construction lender, although other entities having some interest in the completion of the project, such as title insurers, can also be dual obligees.

Employers' Liability

Coverage against the common law liability of an employer for injuries to employees, as opposed to liability imposed by a Workers Compensation law. Employer's liability coverage applies in those situations where a worker does not have cover under any **Workers' Compensation** law. Also known as **Voluntary Compensation**.

Encumbrance

A claim on property, such as a mortgage, lien or right of a power. The interest of the property owner is reduced by such encumbrance.

Environmental Impairment Liability

Insurance designed to protect an insured against claims for liability and clean up costs related to pollution. Cover may be granted for gradual as well as sudden and accidental pollution and is normally only written on a **Claims Made** form.

The form can include remediation of the insured's premises, and resultant **Business Interruption**, as well as protection from liability arising from the migration of contaminants onto another property.

Errors & Omissions Insurance

An insurance form that protects the insured against liability for committing an error or omission in performance of professional duties. Generally, such policies are designed to cover financial losses rather than liability for **Bodily Injury** and property damage.

Excess Insurance

Insurance designed to be in excess over one or more **Primary Insurance** policies, and which will not pay out until the primary limits of liability are exhausted. *See Also Primary Insurance and Umbrella Liability Insurance.*

Ex Gratia

A payment made by an insurer for which no coverage exists under the terms and conditions of its policy.

Extended Discovery Period

Also known as **Tail Coverage**.

A designated period of time after a **Claims Made** policy has expired, during which claims may be reported as if they were made during the original term of the policy.

Extended Period of Indemnity

Adds coverage under a **Business Interruption** policy for loss of income suffered during a specified period of time (e.g., 30, 60, 90 days) after the damaged property has been repaired. In the absence of this endorsement or option, business interruption coverage typically ends on the date the damaged property is repaired or replaced.

Extra Expense

A form of **Business Interruption** protection intended to pay for expenses in excess of normal operating expenses to continue operations while its property is being repaired following damage from an insured **Peril**. *See also Actual Loss Sustained, Business Interruption, Gross Earnings, Gross Profits and Rental Income Insurance.*

First Loss

An insurance policy, which is designed to pay for losses before others come into effect. It would represent primary insurance in a layered program.

First Named Insured

As its name implies, it is the first name on the policy. It usually represents the person or entity charged with buying the insurance, whether the owner of the property or otherwise. For instance, a property manager may be the **first named insured** under a **Blanket Policy** they have in place for a number of properties under their management.

Force Majeure

A specialized form of coverage for owners and contractors to protect against damage or delays caused by unpredictable or uncontrollable events such as war, strikes, etc. or those **Perils** not normally insured under “all risk” policies.

Forced Placed

Insurance that must be purchased to comply with terms of a contract, e.g., a mortgagee can purchase insurance on a mortgaged property and charge the premium to the mortgagor.

Gross Earnings

A form of **Business Interruption** insurance which covers the reduction of gross earnings (total net sales less the cost of goods sold) during the period that a business is shut down following damage by an insured **Peril**. Coverage only applies until the doors open again for business. **See also *Actual Loss Sustained, Business Interruption, Extra Expense, Gross Profits and Rental Income Insurance.***

Gross Profits

Business Interruption insurance which covers the period during which the property is untenable, or inoperable, and, in addition, covers for an additional period until such time as the rents, or income, return to the level that was projected, prior to the date of the loss.

This additional period is specified in the policy as a number of additional months and is, typically, anywhere from three to forty-eight months. **See also *Actual Loss Sustained, Business Interruption, Extra Expense, Gross Earnings and Rental Income Insurance.***

Hard Costs

Under a **Builders' Risk** policy, the cost of construction, usually the contract price, for labor and materials required to construct a building or other real property. Often referred to as the "bricks and sticks". **See also Soft Costs.**

Hard Market

One side of the market cycle that is characterized by high rates, low limits, and restricted coverage.

Hold Harmless Agreements

A clause found in contracts whereby the legal liability of one party is assumed by another party. The extent of the hold harmless agreement may vary but normally takes one of three formats:

Limited Form: Where Party A only acknowledges responsibility for his own negligent acts.

Intermediate Form: Where Party A reaffirms responsibility for his own negligent acts and agrees to share responsibility for joint and concurrent negligence of both parties.

Broad Form: Where Party A accepts responsibility for all liability, including that involving the sole negligence of Party B. This format may be held not to be in the public interest, and thus invalid when one party imposes this degree of responsibility on another, i.e. landlord to tenant.

Hostile Fire

A fire that becomes uncontrollable or expands outside its intended boundaries. For example, a fire set intentionally to burn brush becomes hostile if it spreads to other property; likewise, a fire that becomes much hotter than it is supposed to be or that cannot be extinguished is hostile even if it never spreads from the location where it was intentionally kindled.

Indemnify

To make compensation to an entity, person, or insured for incurred injury, loss or damage.

Indirect Loss

See Consequential Loss.

Inflation Protection

A provision that gradually and continuously increases the limit of insurance by a specified percentage over a specified period of time.

Ingress / Egress

A right to enter upon and pass through land.

Installation Floater

Coverage for equipment in transit to the job site, while awaiting installation on site and during installation until accepted or interest of the insured ceases, whichever occurs first.

Insured vs Insured Exclusion

An exclusion found in directors and officers (D&O) liability policies (and to a lesser extent in other types of professional liability coverage). The exclusion precludes coverage for claims by one director or officer against another. The purpose of this exclusion is to eliminate coverage for four types of situations: (1) employment practices claims, (2) internal disputes/infighting, (3) claims involving collusion, and (4) claims by organizations against their directors and officers for imprudent business practices.

Insurable Interest

The interest a person or corporation has in a subject of insurance, i.e. a building, of such a nature that if lost or damaged would cause that person or corporation a financial loss.

Joint Loss Agreement

An agreement between property and boiler insurers which states that in the event of a dispute as to the cause of a particular loss, each insurer will immediately contribute 50% of the loss to the insured and then seek arbitration to determine which insurer is responsible for accepting 100% of such claim.

Labour & Material Payment Bond

A contract between a contractor and a surety company in which the surety company in which the surety, in return for a premium paid by the contractor, agrees to pay subcontractors, laborers, and material suppliers amounts due to them for their materials and services under the terms of their contractual arrangements with the contractor, should the contractor default in his or her payment obligations to them. **See Also Surety Bond.**

Latent Defect

A defect that is concealed or inactive. Damage from a latent defect is typically excluded from coverage under all risks property insurance policies. For example, a homeowner discovers that his roof is decaying because the shingles were treated improperly with fire retardant chemicals. The cost to replace those shingles is precluded due to the latent defect exclusion. However, if a fire were to ensue, the exclusion would not prevent coverage for the damage from the fire.

Leasehold Interest

A coverage for tenants who enjoy a favorable lease at lower cost than they would have to pay at other available premises if they were forced to move because of damage or destruction of their existing premises.

The policy would pay for the difference in cost between the new and old lease, for the remainder of the term of the latter; on the basis that damage was caused by an insured **Peril**.

Letter of Credit

A promise by a financial institution (the issuer) to pay a third party (the beneficiary) on behalf of a second party (the applicant). A Letter of Credit is often used as performance security in construction projects.

Liberalization Clause

A clause in policies that states if policies or endorsements currently in force are broadened by the passage of legislation or rulings from rating bodies, such policies or endorsements will be construed to include the broadening features.

Liquidated Damages

Damages of a stipulated amount as agreed upon in a contract. Liquidated damages are often used in lieu of actual damages, especially in construction contracts. For example, a contractor may be liable for \$10,000 per day for each day required to complete a project beyond the agreed-upon completion date. Liquidated damages are not intended to be punitive and must have a reasonable correlation to anticipated actual damages.

Loss Payable Clause

A provision within a property insurance policy authorizing payment, in the event of a loss, to a person or entity other than the **Named Insured**.

Manuscript Policy

A policy designed specifically for a firm's specific needs and requirements.

Margin Clause

A clause establishing that the most the insured can collect for a commercial property loss at a given location is a specified percentage of the amount declared for that location on the insured's statement of values.

Maximum Foreseeable Loss (MFL)

The worst loss that is likely to occur because of a single event.

Maximum Possible Loss (MPL)

The worst loss that could possibly occur because of a single event.

Mechanical Breakdown

See Boiler & Machinery.

Misrepresentation

A false or misleading statement that, if intentional and material, can allow the insurer to void the insurance contract.

Mortgage Clause

A property insurance provision granting special protection for the interest of a mortgagee named in the policy, in effect setting up a separate contract between the insurer and the mortgagee. It establishes that loss to mortgaged property is payable to the mortgagee named in the policy and promises advance written notice to the mortgagee of policy cancellation. It also grants continuing coverage for the benefit of the mortgagee in the event that the policy is voided by some act of the insured.

Named Insured

Any person, firm, or organization, or any of its members specifically designated by name as an insured(s) in an insurance policy, as distinguished from others who, although unnamed, fall within the policy definition of an "insured." ***See Additional Insured, Additional Named Insured and First Named Insured.***

Named Perils

A policy that specifically lists the perils insured against. As opposed to an **All Risks Policy**, which covers all **Perils**, other than those specifically excluded.

Non-Admitted Insurance Company

An insurance company not licensed to do business in a certain jurisdiction.

Non-Vitiation Clause

A clause in the policy that protects the lender's interests by a waiving of rights by the local insurer and reinsurers to decline payment to Lenders for any breach of the insurance contract howsoever arising, including on grounds of material **Misrepresentation** and non-disclosure of material facts. Therefore the lender would receive payment even if the Insured is found to have misrepresented themselves.

Notice of Cancellation

Notice given to a mortgagee or other interested party that a policy has been cancelled.

Obligee

A person or organization to whom another party owes an obligation. In a bonding situation, this is the party that requires and receives the protection of the bond. For example, under a **Performance Bond**, the obligee is the project owner for whom the bonded contractor is required to perform the specified work.

OCIP

Owner Controlled Insurance Program. ***See also Builder's Risk and Wrap-up.***

Occurrence

An accident, including continuous or repeated exposure, which results in bodily injury or property damage neither expected nor intended by the insured. Occurrence policies cover claims, which occur during the policy period, regardless of when the claim is made against the policy.

See also Claims Made.

Off-Premises Service Interruption

An endorsement to a property policy that provides coverage for loss due to lack of incoming electricity caused by damage from an insured peril to property away from the insured's premises – usually the utility generating station. Also referred to as "off-premises power coverage."

Ordinance & Law

See By Laws Endorsement.

Owners and Contractors Protective

Covers Bodily Injury and property damage liability arising out of an independent contractor's operations for another party. Although the contractor purchases the policy, the Named Insured is the party for whom it is performing operations. The OCP policy also responds to liability arising out of the acts or omissions of the insured in connection with the general supervision of the contractor's operations.

Performance Bond

A bond issued by a surety company that guarantees the **Obligee** that if the contractor fails to complete the project in accordance with the terms of the contract, the surety company will complete the contract itself, or arrange for another contractor to complete the contract. **See Also Surety Bond.**

Peril

The cause of loss insured against in a policy, i.e. fire, flood, earthquake, etc.

Permission to Occupy

An endorsement to a **Builder's Risk** policy that provides permission for full or partial occupancy.

Personal Injury

Injury other than those arising out of **Bodily Injury** such as false arrest, malicious prosecution, wrongful entry or eviction, libel or slander, violation of privacy. The extent of such coverage may vary from policy to policy.

Political Risk

Specialized insurance for companies doing business or conducting operations in foreign countries. The insurance addresses the business exposures to loss faced by these companies as a result of governmental action either foreign or domestic. Types of exposures that can be covered under political risk policies include confiscation, expropriation, deprivation, nationalization, political violence, currency inconvertibility, contract frustration, and export credit.

Pollution Legal Liability

See Environmental Impairment Liability.

Primary Insurance

Coverage which applies from the first dollar of loss, after the application of any applicable **Deductible**. *See also Excess Insurance and Umbrella Liability Insurance.*

Principal

The primary party who will be performing the contractual obligation under a bond.

Probable Maximum Loss (PML)

A property loss control term referring to the maximum loss expected at a given location in the event of a fire at that location, expressed in dollars or as a percentage of total values.

Products and Completed Operations Insurance

A principal element of general liability insurance which applies to claims arising out of products sold, manufactured, handled or distributed, or operations which are completed and abandoned.

Pro Rata Cancellation

A premium charged based on the exact time a policy has been in force. *See also Short Rate Cancellation.*

Project Specific Errors & Omissions Insurance

A policy to cover all professionals engaged in a major construction project for their errors & omissions. This policy is usually issued for the term of the construction project (normally written with an **Extended Discovery Period**, of one to ten years following completion) and is non-cancelable, except for fraud or non-payment of premium.

Proof of Loss

A formal statement by an insured to his insurer outlining the circumstances of a loss and the amount of damage being sought in compensation.

Punitive Damages

Damages awarded by the Court to compensate the plaintiff for the wrong done and to punish the defendant for wanton, reckless or malicious acts or omissions.

Reciprocal Company

A device whereby persons or corporations combine into a group to insure each other, in order to obtain such protection at a lower cost and possibly obtain broader cover. An alternative to **Self-Insurance**, or the use of a **Captive Insurance Company**.

Reinstatement Clause

See Replacement Cost.

Reinsurance

The practice of one insurance company (the reinsurer) accepting risks or business from another insurer (the ceding company). It allows insurers to maintain a larger spread of risk and avoid large catastrophes.

Rental Income

A form of **Business Interruption** insurance.

Designed for landlords to cover the loss of rents when leased property is made untenable due to damage by an insured **Peril**. There are two forms of cover, **Actual Loss Sustained** and gross rentals, the latter of which is broader because it includes anticipated rents, i.e. for a newer building that is being tenanted over a period of time. *See also Actual Loss Sustained, Business Interruption, Extra Expense, Gross Earnings and Gross Profits.*

Replacement Cost

A valuation method under a property insurance policy that determines the amount the insurer will pay in the event of a loss. It is usually defined as the cost to replace the damaged property with materials of like kind and quality, without any deduction for depreciation. *See also Actual Cash Value.*

Same or Adjacent Site Clause

A clause in the **Replacement Cost** wording of a property policy that requires the insured to rebuild on the same or adjacent site in the event that reconstruction is required. Failure to remove this clause could result in an actual cash value settlement if a situation arises whereby reconstruction is prohibited.

Self-Insurance

Protecting one's self or company by putting aside money to pay for otherwise insurable and predictable losses. To purchase insurance for these types of losses would cost more because in addition to the premium charged, Insurers charge for their overhead, selling, general and administrative charges plus any premium taxes.

Self Insured Retention (SIR)

The amount that must be paid by the insured before the insurance policy will respond to a loss. Unlike a **Deductible**, under an SIR, the insurer is not obligated to pay the SIR portion of the loss and then seek reimbursement from the insured. Rather, the insured pays the SIR portion of the loss directly.

Severability of Interest Clause

A policy provision clarifying that, except with respect to the coverage limits, insurance applies to each insured as though a separate policy were issued to each. Thus, a policy containing such a clause will cover a claim made by one insured against another insured.

Short Rate Cancellation

A process of calculating premium charges which is not in direct proportion to the unexpired term of the policy, as in Pro Rata, but rather charges a penalty. It is used mostly to penalize an insured from canceling coverage before the natural expiry date of a policy. ***See Also Pro Rata Cancellation.***

Soft Costs

A construction industry term for an expense item that is not considered a direct construction cost. Soft costs include architectural, engineering, financing, and legal fees, and other pre- and post-construction expenses.

Soft Market

One side of the market cycle that is characterized by low rates, high limits, flexible contracts, and high availability of coverage.

Stated Amount

An agreement whereby the **Coinsurance** clause is waived if the insured agrees to carry a specific amount of insurance which represents at least 90% or 100% of total values at risk. *Also known as Agreed Amount.*

Subcontractor Default Insurance

Designed as an alternative to bonding contractors, subcontractor default insurance is first-party insurance that compensates the insured in the event a covered subcontractor fails to fulfill its contractual obligations. Generally, this coverage is best suited for large projects or large general contractors with a significant percentage of subcontracted work and established relationships with subcontractors.

Subguard®

A proprietary term for a specific insurer's **Subcontractor Default Insurance** policy. Because it was the first policy of this type, the name has become a somewhat generic label for the type of coverage the policy provides.

Subrogation

The assignment to an insurer by policy term or by law, after payment of a loss, of the rights of the insured to recover the amount of the loss from the party responsible for such a loss. **See Also Waiver of Subrogation.**

Substantial Completion

The point during construction at which the contractor is ready to turn the property over to the tenant or client for acceptance. It usually occurs upon the issuance of a certificate of occupancy.

Surety Bond

A contract under which one party (the surety) guarantees the performance of certain obligations of a second party (the **Principal**) to a third party (the **Obligee**). **See Also Labour & Material Payment Bond and Performance Bond.**

Tail Coverage

See Extended Discovery Period.

Tenant's Legal Liability

Insurance against legal liability for property damage to business premises leased or rented to the insured.

Terrorism

At the present time, the insurance industry does not have one, standard, definition of terrorism. Each case needs to be referred to an insurance professional for clarification.

Testing and Commissioning

Coverage for the testing of newly installed machinery or equipment as well as overhauling engines. Testing coverage can usually be arranged in conjunction with **Builders Risk** insurance.

Umbrella Liability

A form of **Excess Insurance** that provides limits in excess (both per accident and in aggregate) of those provided in the **Primary Insurance** policy and often provides additional coverage, e.g. advertising liability and non-owned aircraft and watercraft.

Unlike **Excess Insurance**, **Umbrella** policies can “drop down” and become primary, when the original **Primary Insurance** coverage has been exhausted; subject to the **Self Insured Retention**.

Vicarious Liability

The liability of a **Principal** for the acts of its agents. Vicarious liability can result from the acts of independent agents, partners, independent contractors, employees, and children.

Voluntary Compensation

See Employers Liability.

Waiver of Subrogation

The relinquishment by an insurer of the right to collect from another party for damages paid on behalf of the insured. The waiver of subrogation condition in current standard policies is referred to as “transfer of rights of recovery.” **See Also Subrogation.**

Warranty

A condition agreed to by an insured with the insurance company, the breach of which might invalidate the policy.

Workers' Compensation

A program of insurance to cover claims for injury, industrial illness or death of insured employees.

This can be a provincial program in Canada, or a state, or insured, program in the United States of America. Some states only allow Workers' Compensation to be provided by their own state program.

Wrap-up

A comprehensive policy, usually used on larger construction projects, which insures the liability of all the owners, lenders, contractor, subcontractors, architects and engineers and other consultants involved in the project.

It is **Primary Insurance** for all insured parties, and takes precedence over individual policies carried by these parties. Normally such cover allows the owner to reduce the overall insurance cost for the project and ensures concurrent coverage for all parties to the contract.

The Wrap-up program usually consists of **Builders' Risk, Delayed Income, Commercial General Liability, and Umbrella Liability**.

It can also extend to include **Project Specific Errors & Omissions** insurance on larger projects, usually in excess of \$50 million.

In the United States of America, this form of insurance may extend to include **Workers' Compensation** insurance and is commonly referred to as **CCIP or OCIP**.

CONCISE VERSION

This is a concise listing of some of the complex terms and conditions used by the insurance industry, particularly with respect to the real estate industry in North America and Europe. It is not intended to be an exhaustive dictionary of insurance terms. Rather, it has been developed as a guide, to assist in understanding some of the terms used on a daily basis and which have an impact of the insurance buying process.

For a more detailed description of insurance terms and conditions, or for any other insurance and risk management related inquiry, please contact us directly.



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