

# IMPORTANT INSURANCE TERMS

The following terms are commonly used in the insurance market and may also appear in your insurance policy or communication from us or from your insurers. In this leaflet, we have tried to explain simply, what the most important and common terms mean. Words or phrases in *italics* are defined elsewhere within this document.

<b>Aggregate limit</b>	The maximum amount an insurer will pay under a policy in respect of all claims arising within a specified period of insurance.
<b>Average</b>	A clause in most insurance policies whereby, in the event of <i>Underinsurance</i> then a claim paid out by the insurer is reduced in proportion to any <i>Underinsurance</i> which applied at the time of the incident.
<b>Business Interruption Cover</b>	<p>Also known as Loss of Profits, Loss of Revenue, Consequential Loss, Increased Cost of Working or Additional Increased Cost of Working, this will provide cover for the effect on your business as a result of an insured peril (loss or damage) at your premises or other designated locations.</p> <p>For covers other than Increased Cost of Working, cover is triggered by a demonstrable loss of turnover in the period following the loss, which is subject to a <i>Maximum Indemnity Period</i>.</p>
<b>Claims Made Policy</b>	<p>A <i>Claims Made</i> insurance policy means insurers will pay out for any valid claim made during the policy period, regardless of when the incident or alleged breach of duty actually occurred. It is important to notify insurers as soon as you become aware of any situation or circumstance, which could lead to a claim. See also <i>Claims Notification</i>.</p> <p>Examples can include professional indemnity or directors &amp; officers insurance (or even some specialist product liability covers) where there may be a long period of time between a negligent or wrongful act and when a claim for this act eventually arises.</p> <p>In <i>Claims Made</i> policies a retroactive date may apply and this is the earliest date from which insurers will accept liability for previously occurring negligent or wrongful acts.</p>
<b>Claims Notification</b>	<p>Different insurers will have different <i>Conditions</i> on claims reporting and failure to adhere to these could seriously affect your ability to claim.</p> <p><b>It is therefore essential that you comply with the <i>Claims Notification Conditions</i>. Our advice is to notify us, or your insurers at the earliest possible opportunity.</b></p>
<b>Claims Occurring Policy</b>	<p>Most insurance policies, including; property, motor and public/employers liability are written on a <i>Claims Occurring</i> basis.</p> <p>For these policies, insurers will pay claims arising from a <i>Loss</i> or damage incident, from the policy in force at the time of the event.</p>
<b>Co-insurance Clause</b>	A clause in an insurance policy where the insured is responsible for a stated percentage of any <i>Loss</i> .
<b>Condition</b>	<p>Parts of a policy that must be complied with by one party or the other. The <i>Conditions</i> regulate the manner in which the policy will operate.</p> <p>There are several types of <i>Condition</i> within a policy, with each having specific powers that give the insurer the opportunity to limit their liability to pay a claim.</p> <p><b>Please ensure you take time to read all your policy documentation, so you understand all <i>Warranties</i> and <i>Conditions</i> which apply to you and how this may affect your cover. If you are in any doubt, please ask us.</b></p>
<b>Contribution Clause</b>	A clause in most insurance policies which states that if cover is also provided by another insurance policy covering the same risks, the respective insurer would only pay their share of the claim.

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<b>Day One Basis</b>	<p>Where a Material Damage cover is insured under “<i>Day One Basis</i>” you decide on the “Declared Value” which, to avoid <i>Underinsurance</i> will need to be adequate at the beginning (<i>Day One</i>) of each period of insurance.</p> <p>The policy will provide cover up to a specific sum insured, typically with a 15% or 30% uplift of the “Declared Value”, to make allowance for changes in value during the period of insurance. Such changes might be brought about by inflation, changes in rates of currency or other factors out of your control.</p> <p>You will still need to notify us of the acquisition of additional stock or other insured assets, or where for example a property has been enhanced or extended.</p>
<b>Endorsement</b>	A change in the wording of or cover offered by a policy, which may either limit your cover or extend it.
<b>Estimated Gross Profit or Revenue</b>	<p>This is the <i>Gross Profit*</i> or <i>Gross Revenue</i> estimated by you for the coming period of insurance, which may be extendable to a declaration-linked basis, where the insurer provides an ‘uplift’ (usually of ⅓) for the <i>Estimated Gross Profit</i> declared; where required.</p> <p><b>*Please remember, you will still need to pay many, if not all of your employees during this period; even if you are not trading - so you will need to take this into account in your estimates or declarations.</b></p> <p>This may need to be projected beyond the next twelve months if you have a long <i>Maximum Indemnity Period</i>. Please carefully consider the amount of cover needed.</p>
<b>Excess or Deductible</b>	The first portion of a <i>Loss</i> or claim which is borne by the insured. An <i>Excess</i> can be either voluntary to obtain premium benefit or imposed by an insurer for underwriting reasons. May also known be known as a <i>Deductible</i> .
<b>Exclusion</b>	<i>Exclusions</i> in an insurance policy remove cover for some type of risk. These could be a general exclusion – such as war or nuclear risks, or an <i>Exclusion</i> relating to specific areas of the policy, such as a theft <i>Excess</i> .
<b>Fair Presentation</b>	<p>A <i>Fair Presentation</i> of the risk is one in which you have provided the insurer with relevant information about your business and the risks to be insured, including <i>Material Facts</i> and after conducting a reasonable search of the information available, or where you have put the insurer on notice that they may need to seek further details.</p> <p><b>Please ensure you have read and understood our leaflet, “The Insurance Act 2015 Explained” which contains more detailed information on this matter.</b></p>
<b>Incurred claims / losses</b>	The total amount (in value) of claims paid and <i>Losses</i> reported during a policy year.
<b>Indemnity</b>	<p>A principle whereby the insurer seeks to place you in the same position after a <i>Loss</i> as you occupied immediately before the <i>Loss</i> (as far as practicable.)</p> <p>Where an item is insured on an <i>Indemnity</i> basis, a deduction for wear and tear will be made when settling any claim for damage or <i>Loss</i>. Wear and tear is the amount deducted from claims payments to allow for any depreciation in the property insured which is caused by its age or usage.</p>
<b>Insurable Interest</b>	This is the financial interest the policyholder must have in the property or person which is insured for a contract of insurance to be valid. For most policies this must exist, both at the time the policy is taken out and at the time of the <i>Loss</i> .
<b>IPT - Insurance Premium Tax</b>	This is a Government levied tax on most insurance premiums. These are two rates of tax – standard or higher. The higher rate applies, for example to travel insurance and for domestic appliance insurance. Certain classes of insurance are exempt, including life insurance policies, aircraft and commercial ships as well as all policies for overseas risks.

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<b>Loss Adjuster</b>	Independent qualified <i>Loss Adjusters</i> are used by Insurers for their experience and expertise necessary to carry out detailed and in some instances prolonged investigations of complex and large <i>losses</i> .
<b>Loss Assessor</b>	A <i>Loss adjuster</i> who, in return for a fee (usually a percentage of the amount claimed), acts for the claimant in negotiating the claim.
<b>Loss or Losses</b>	Injury or damage to an insured property or person as a result of an accident or misfortune. This can include both <i>Losses</i> which are insured and those which are not.
<b>Material Fact</b>	<p>Any information which would influence the insurer in accepting or declining a risk or in fixing the premium or the terms and <i>conditions</i> of the insurance contract is material and must be disclosed by you, before inception of the policy, at renewal and whenever changes are made, during the period of the cover.</p> <p>Examples of a <i>Material Fact</i> could be previous claims (including incidents or <i>Losses</i> which could have led to claims) convictions, or financial difficulties; both past and present, including County Court Judgements (CCJ's), bankruptcies, liquidations and the like; non-standard construction of premises and previous insurance declines of cover or terms imposed.</p> <p>These are some examples and there are many more, so if you are in doubt, please tell us.</p>
<b>Maximum Indemnity Period</b>	<p>Under <i>Business Interruption</i> is the period during which cover is provided for the disruption to the business following the occurrence of an insured peril.</p> <p><b>This period must be calculated to enable your business to fully recover from the effects of serious insured damage, including any growth plans or contractual obligations.</b></p>
<b>Minimum &amp; Deposit Premium</b>	This mainly relates to liability policies where the initial premium is charged on estimated wage roll and then adjusted at the end of the year to reflect actual wages paid. Normally there will be no refund available for these policies in the event of a mid-term cancellation.
<b>Moral and Physical Hazard</b>	A <i>Physical Hazard</i> is a physical condition that increases the possibility of a <i>Loss</i> . Thus, smoking is a <i>Physical Hazard</i> that increases the likelihood of a house fire and illness. <i>Moral hazard</i> arises from the attitude and conduct of people. In insurance, this is usually the conduct of the person insured. This could include criminal convictions or a lax attitude towards health & safety matters.
<b>Peril</b>	A <i>Peril</i> can be defined as that which gives rise to a <i>Loss</i> . These would include (for example) Fire, Theft, Storm, and Flood. Most Insurance Policies only provide cover for <i>Loss</i> or damage if it is as a result of one of the <i>Perils</i> listed in the Policy.
<b>Proximate Cause</b>	<i>Proximate cause</i> is the main cause by which a <i>Loss</i> has occurred (e.g. fire, theft, subsidence.) For a claim to be accepted by an insurer, the <i>Proximate Cause</i> must be one of the perils listed in the policy.
<b>Reinstatement Basis (New for Old)</b>	A term where insurers agree to pay the cost of property lost or destroyed based on the current replacement cost, without deduction for wear, tear or other depreciation, but subject to its <i>Sum Insured</i> being reflective of its new replacement value, so as to avoid the possible application of <i>Average</i> . See also <i>Day One Basis</i> .
<b>Subrogation</b>	This is the right for an insurer to legally pursue a third party that caused an insurance <i>Loss</i> . This is done as a means of recovering the amount of the claim paid by the insurance carrier to the insured for the <i>Loss</i> .

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<b>Sum Insured</b>	<p>The maximum amount payable in the event of a claim under contract of insurance.</p> <p>It is your responsibility to ensure the <i>Sum insured</i> is adequate whether your policy is written on an <i>Indemnity</i> basis or <i>Reinstatement</i> basis. This includes ensuring you review all <i>Sums Insured</i> on an annual basis to take account of inflation, currency changes or other factors. Although some policies may be index linked, you should still review your <i>Sums Insured</i> each year, to ensure their adequacy.</p> <p>For property insurance, the <i>Sum Insured</i> should represent the full rebuilding cost of the property, which should also include the cost of clearing the site and all professional fees.</p> <p>This is also relevant to your <i>Business Interruption</i> cover where the amount insured must be sufficient to allow your business to continue trading. This should take into consideration any growth plans for the company and any contractual obligations you may have.</p>
<b>Terms of Business, TOBA or TOB</b>	<p>This document confirms the terms under which an insurance intermediary will trade with their client. This may also include the firms regulatory status (such as being regulated by the Financial Conduct Authority) although sometimes this will be in a separate document.</p>
<b>Underinsurance</b>	<p><i>Underinsurance</i> occurs when the <i>Sum Insured</i> under a policy is insufficient to cover the full extent of a <i>Loss</i>.</p> <p>Where this happens, most insurers have clauses in their policies which allow them to apply <i>Average</i> to the <i>Loss</i>.</p>
<b>Warranty</b>	<p>A very strict requirement contained in your policy which normally states that you must do something or must not do something, in order for policy cover to apply.</p> <p>A breach of the <i>Warranty</i> in question may entitle the insurer to avoid payment of your claim; or on some occasions, to reduce the amount paid to you. <b>It is vital that you read, understand and comply with all Warranties</b></p>