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Covey Inspection Services, PLLC

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Self-Study

Before attending the live class, the Department of Insurance requires that you study this material for a minimum of 10 hours. Please watch these [VIDEOS](#). We will discuss these terms in class.

After you have studied this material for at least five hours, take this mandatory online EXAM (<https://www.classmarker.com/online-test/start/?quiz=dkk58d94e7190314>). The password is **6aUWuAYD**. This exam has 60 questions and you can pause and continue later. A passing score of 70 is required. You can refer to this study guide while taking the exam.

Please turn in the notarized affidavit certifying completion of at least 10 hours of self-study at the beginning of the first day. A notary public will be onsite during the class.

Insurance Terms and Related Concepts

Here are a few terms you will hear during this course. This list is not all-inclusive. Although we will discuss them more in depth, you should become very familiar with them to understand your role as an adjuster. To help develop a more solid foundation, as you study the definitions, you will see certain bolded words within the definitions. These words refer to other definitions contained within the text.

1. **Accident** – As you will see in policy languages, coverage is provided for sudden, unexpected events that cause property damage or bodily injury. These can include, but are not limited to, hurricanes, tornadoes, flood, vehicular, aviation, slip & fall, lightning, explosion, etc.



2. **Actual Damages** – Damages that have a specified cost to repair them.
3. **Actual Total Loss** – Complete destruction of insured property, so that nothing of value remains. There is no salvage component.
4. **Actuary** – A person who computes premium rates, dividends, risks, etc., according to probabilities based on statistical records. Current data show single male drivers under

- the age of 25 are a higher risk than single female drivers under the age of 25, and as such, their premiums are higher. The person who determines those rates is an actuary.
5. **ACV** (Actual Cash Value) – Basically, this is the value of the property after **depreciation**. As with anything that deteriorates with age, the value decreases, or depreciates.
 6. **Adjusting** – The process of investigating a loss, interpret policy wording, and apply the policy wording to the facts discovered while investigating the claim.
 7. **ALE** (Additional Living Expense) – If a homeowner is temporarily displaced from their home due to a catastrophe to allow repairs, certain homeowner’s policies provide coverage to help defray this cost. The homeowner may have been forced to evacuate or the house was deemed non-livable (no bathroom, kitchen, or bedroom available).
 8. **All Risk Policy** – This policy is only in name as there is no policy that actually covers all **risks**, though this policy is the most common. Every policy has some **condition**, **provision**, or **exclusion**, which limits **coverage**.
 9. **Amendment** – A document attached to a policy reflecting a change to the policy language made by the insurance company or the department of insurance.
 10. **Assumption of Risk** – If a person/company knows ahead of time that there is a possibility of injury, or worse, and agree not to hold anyone else responsible if an **accident** occurs, there really isn’t **negligence** and insurance companies will generally not be **liable** and will resist paying.
 11. **Attachment** – A court order allowing one person to take something of value belonging to another into custody for a particular purpose.
 12. **Auto Liability** – Financial protection for a driver who causes harm to another person or property while driving a vehicle.
 13. **Bad Faith** – The actions of an insurance company that indicate intentional improper handling of one’s claim. For example, state departments of insurance stipulate a set number of days to issue a payment once the decision has been reached to pay a claim. If the insurance company unreasonably delays payment, this would be an act of bad faith.
 14. **Bailee** – Person(s) who, with permission, take care of another person/company’s property.
 15. **Basic Form** – This was one of the first policy types, still in use today, by those who want the least expensive policy (landlords for example), or in some cases, high risk properties such as those in a high crime area. This policy form only covers three **perils** on the structure and contents: fire, lightning, and demolition/removal. It is an **ACV** policy and not **RCV**. **Endorsements** can be added to extend other coverage. Often, you may see the number “1” or the letter “A” in the form number that designates specific broad forms such as HO-1 or HO-A.

16. **Barratry** – Fraud or gross negligence of a ship’s master or crew at the expense of its owner or users.
17. **Blanket Coverage** – This is a specific **endorsement** that provides a preset dollar amount to a particular category, i.e. \$500 for “tree removal”, \$10,000 for “personal property.”
18. **Bodily Injury** – Bodily injuries, legal defense, and compensation to other parties caused by an insured, is covered with coverage known as Bodily Injury. Auto insurance usually has a ‘per person’ and/or ‘per accident’ limit, sometimes listed as \$15,000 and \$30,000. Do not confuse this with property damage insurance or medical pay insurance.
19. **Bond** – A secured, long-term IOU with issuer obligations.
20. **Breach of Contract** - A legal cause of action in which a binding **agreement** or bargained-for exchange is not honored by one or more of the parties to the **contract** by non-performance or interference with the other party's performance. For example, an insured is required to notify the insurance company promptly in the event of a loss. Waiting several months before reporting the damage can result in the claim being denied.
21. **Broad Form** – Similar, but a bit costlier than the **Basic Form**, it covers 16 named perils on structure and content. Also, like the Basic Form, it only pays Actual Cash Value (**ACV**), not Replacement Cost Value (**RCV**). **Endorsements** can be added to extend other coverage. Often, you may see the number “2” or the letter “B” in the form number which designates specific broad forms such as HO-2 or HO-B.
22. **C&O** – Cause and origin investigation, often used to determine how and when a fire started.
23. **Cancellation** – An insurance company or the insured can cancel a policy with 60 days notice. There are various reasons leading to a cancellation, such as a change in the coverage, criminal felony conviction, misrepresentation in the policy application. Often, if an insured tries to cancel a policy before the end of their policy period, they need to provide evidence of other insurance.
24. **Cargo** – see freight.
25. **Claimant** – This is a term often used by homeowner’s liability, auto, and workers compensation adjusters. A “First Party” claimant is an insured who files a claim against his own insurance company, aka “Second Party.” A “Third Party” claimant is someone who files a claim against someone else’s insurance company.
26. **Collision Coverage** – Auto coverage for impact damage, not to be confused with **Comprehensive Coverage**.



27. **Commercial Lines** – If a company cannot cover a loss on their own, commercial insurance helps to keep the economy running smoothly by protecting businesses.
28. **Comprehensive Coverage** – Auto coverage for non-collision damage, such as fire, vandalism, theft, flood, etc. If there is an unpaid loan balance on the vehicle, the lender will require comprehensive coverage.
29. **Conditions** – One of four basic parts of an insurance policy. This section has two main parts, “Your Duties After Loss” and “Settlement Provisions.” Some conditions require the insured to protect the property from further damage, promptly notify the insurer of the claim, and cooperate with the insurer.
30. **Constructive Total Loss** – When the cost to repair an insured item exceeds the cost to replace the item, regardless of **RCV** or **ACV** policy.
31. **Contents** – AKA: Personal property such as clothing, furniture, televisions, computers, etc.



32. **Continuing Education Requirements (CE)** – 24 hours of which two hours must be Ethics/Consumer Protection.
33. **Contract** – The insurance policy is a contract between two competent parties.
34. **Coverage** – Protection against losses that are not specifically excluded.
35. **Date of Discovery (DOD)** - The date when the damages were discovered which is often different from, and not to be confused with, the **date of loss**.
36. **Date of Loss (DOL)** – This is the date when then damages actually occurred. Do not confuse this with the **date of discovery**.

37. **Declaration (Dec) Page** – Usually the cover sheet of a policy listing the insured’s name, mailing address, loss location, and basic policy information such the policy period, list of endorsements, and dollar limits for different coverage types.

Sally Jo Smith
123 Main Street
Dallas, TX 77002

Policy period: 08/15/2012-08/15/2013

Endorsements:
Jewelry and Furs \$12,500/\$10,000

Coverages/Limits:
A Dwelling \$165,000
B Personal Property \$65,000

38. **Deductible** – This is the portion of the damages the insured must pay. It is usually a set dollar amount, though in some cases, it is a percentage. The percentage may differ based on peril and loss location. For example, there may be a 2% hurricane deductible for Florida or a 5% deductible for wind and hail in Texas.
39. **Depreciation** – The decrease or loss in value based on the approximate age and/or wear & tear. This value is based on the perception of adjuster and the normal life expectancy of the item. Some items, like glass, may not have any depreciation, whereas carpet, may have greater depreciation due to the wear & tear of foot traffic. Different companies will have separate **recoverable** and **non-recoverable** depreciated items.



40. **Dock** - A platform extending from shore over water, used to secure, protect, and provide access to ships or boats.
41. **Endorsement** – Document(s) attached to a policy that add, take away, or limits coverage, conditions, and/or terms. An endorsement is also known as a “Floater” or “Rider.”

42. **Estoppel** – This is a legal principle that bars a party from changing its mind after initially indicating they would act in a certain way. For example, if an adjuster tells a homeowner that the insurance company will pay for flood damages, and the insurance company denies the damages as there was no coverage. The insurance company would be “estopped” from denying the claim. It is extremely important no one ever discusses coverage with the insured, unless it is the desk adjuster assigned to complete the claims process.
43. **Exclusions** – Every policy has exclusions that limits, or eliminates, certain causes of loss for various reasons. There are two main parts: the list of excluded causes of loss and exceptions to exclusions.
44. **Expiration Date** – The date when the policy expires.
45. **Fair Rental Value** – The reasonable value of a building being rented. This is an option available in some homeowner’s policies instead of paying **ALE**.
46. **Fidelity Bond** – Usually provided for businesses to cover dishonest acts of an employee.
47. **Forced Place Insurance** – If a loan exists on a house, vehicle, plane, etc., and the insured’s insurance lapses, the lender/lien holder can force insurance on the property to protect their interest in the loan. The premiums are much higher and the coverage is considerably less. For example, insurance on a house may be \$1,200 for the year, covering the house, **contents**, **ALE**, and **liability**. Forced place insurance may cost \$3,000 and only cover the house itself. Basically, the lender will purchase insurance to cover the remaining value of the loan.
48. **Fraud** – Intentional misrepresentation (lying, falsifying documents, etc.) when filing a claim to get money from an insurance company that would otherwise not be paid. Insurance company employees (managers, agents, brokers, adjusters, etc.) could also be guilty of fraud when something is done for financial gain, for example.
49. **Freight** – Goods transported by truck, train, ship, or aircraft.
50. **Gap Insurance** – A type of auto insurance that car owners can buy to protect themselves against losses that can arise when the amount of compensation received from a total loss does not fully cover the amount the insured owes on the vehicle's financing or lease agreement. This situation arises when the balance owed on a car loan is greater than the book value of the vehicle.
51. **General Contractor** – Someone who is hired to either perform all repairs (electrical, framing, plumbing, etc.) during construction or hire subcontractors for various trades. If a general contractor is needed to oversee repairs, **O&P** is usually included in the estimate.

52. **General Damages** – These damages are subjective and usually quite difficult to place an actual value on, such as pain and suffering, emotional distress, scarring, and disfigurement. Damaged vocal chords may be valued more to a professional singer than a computer analyst.
53. **HO1/A** – See **Basic Form**
54. **HO2/B** – See **Broad Form**
55. **HO3/C** – See **Special Form**
56. **HO4** – Renters Insurance policy for tenants. Covers personal property and extends liability for damages caused by personal property.
57. **HO6** – Condo/Townhome insurance. Similar to home owner policies, but only covers from the drywall inward. The condo association covers the exterior wall framing and cladding and the roof.
58. **Inchmaree clause** – A clause that protects against damage or loss caused by the negligence of a vessel's captain or crew or by any defect in the ship's hull or machinery and not caused by nature.
59. **Incurred Expense** – What the insured has spent to **mitigate** damages.
60. **Indemnification** – A legal and insurance principle that means to return the insured back to the condition they were before the loss, no more and no less. This is applicable for **ACV** policies, but not for **RCV** policies.
61. **Independent Adjuster (IA)** – An adjuster who is self-employed and hires out as a contractor to different firms. These are frequently used to handle catastrophe claims.
62. **Independent Adjuster Firms** – Companies contracted with insurance companies to provide insurance adjusters. Insurers usually cannot maintain a full staff of adjusters to handle major catastrophes as the storms are inconsistent. Instead, they establish contracts with different IA firms to assist with the volume of claims. The IA firms will hire adjusters either as employees (withholdings, insurance, etc.) or as sub-contractors.
63. **Inland Marine** – Provides coverage for cargo being shipped domestically.
64. **Insurable Interest** – Insurable interest exists when an insured person derives a financial or other kind of benefit from the continuous existence, without impairment or damage, of the insured object (or in the case of a person, their continued survival). A person has an insurable interest in something when loss of or damage to that thing would cause the person to suffer a financial or other kind of loss. Typically, insurable interest is established by ownership, possession, or direct relationship. For example, people have insurable interests in their own homes and vehicles, but not in their neighbors' homes and vehicles, and certainly not those of strangers.
65. **Insured** – The person, property, or entity, covered with an insurance policy.
66. **Insurer** – Company that provides insurance.
67. **Invitee** – Person(s) invited into a business for conducting business, customer.

68. **Jettison** – A voluntary sacrifice of cargo to lighten a ship's load in time of distress.
69. **Liability** – The responsibility for an act.
70. **Liability Coverage** – Coverage for unintentional bodily injury or property damage.
71. **Licensee** – Person(s) invited into a business for non-business activity, a social visit.
72. **Loss History** – This information, though sometimes critical in determining coverage, may not always be readily available. It may require more investigation by the desk adjuster.
73. **Loss of Income** – Major part of a business policy which is usually the net profit lost for a specific amount of time due to an accident or loss.
74. **Loss Payee** – The person, or entity, to whom the claim proceeds are to be paid.
75. **Marketing Practices** – The establishment and regulation of insurance trade practices to prevent unfair methods of competition or unfair or deceptive acts.
76. **Medical Payments/Personal Injury Protection (PIP) Coverage** – Pays small dollar medical expenses (usually up to \$20,000) for the insured and their passengers due to an auto or home accident, regardless of who was at fault.
77. **Mitigation** – The process to protect property from further harm, such as having a tarp placed on a roof after a hurricane or wind storm.



78. **Negligence** – Unintentional and accidental damages that could have been avoided due to what is reasonably expected of persons/entities in similar situations. An example would be placing a tarp on a roof after a hurricane or placing a pail under a leaking pipe below the kitchen sink.
79. **Non-recoverable Depreciation** – Depreciation on item(s) that cannot be recovered, valuing that item as **actual cash value (ACV)**.
80. **Non-renewal** – When an insurance company decides to cancel the policy at the end of its current period.
81. **Notice of Loss** – To avoid breach of contract, this written notice is required by insurance companies immediately after an accident or loss.
82. **Ocean Marine** – Transport of cargo internationally.
83. **Occurrence** – Usually an unexpected loss due to events or repeated exposure to conditions over a period.

84. **Overhead & Profit (O&P)** – This is a calculated percentage increase based on the complexity of damages usually applied if a **general contractor** must oversee the repairs or if more than three trades are involved, such as plumbing, electrical, flooring, etc. The normal amount of O&P is 10% for overhead and 10% for profit.
85. **Personal Auto Policy (PAP)** – The most standardized automobile policy that covers personal vehicles but not recreational vehicles.
86. **Personal Lines** – Provides protection for individuals against losses they may not be able to cover on their own. The products include homeowner, flood, earthquake, renters, auto, life, disability, umbrella, and health insurance.
87. **Perils** – Actual causes of loss that are identified in the policy.
88. **Piers** – A platform extending from shore over water, providing access to ships or boats.
89. **Policy** – See Basic, Broad, and Special Forms. A written contract of insurance.
90. **Policy Limits** – The maximum amount of payout per loss.
91. **Policy Period** – The period of actual coverage provided by an insurance company.
92. **Premium** – The dollar amount (cost) of an insurance policy paid by the insured.
93. **Preservation Companies** – When properties are vacant and/or abandoned by insured parties, lenders hire preservation companies to visit the property on a monthly basis to maintain the yard and monitor for damages. When damages are discovered, they may file the claim, or report to the lender or a **third party administrator (TPA)**.
94. **Public Adjuster** – A licensed adjuster who is an advocate for the insured. They will act as a liaison between the insured and the insurance company. They will inspect the property and negotiate settlement amount. Their fee is usually a percentage (15-20%) of the RCV amount.
95. **Recorded Statement** – A recorded question and answer session usually between the **insured** and **insurer** regarding questions about the **claim**. Refusing to cooperate with the recorded statement by the insured can lead to a denial for breach of contract of the policy **conditions**.
96. **Recoverable Depreciation** – Depreciation on item(s) that can be recovered once repairs are completed, valuing that item as **replacement cost value (RCV)**.
97. **Reinstatement** – Once an insurance policy lapses, it can be reinstated after payment is made.
98. **Reinsurance** – Insurance coverage for an insurance company itself. Usually, this is set on catastrophic losses over a certain dollar amount. The initial amount will be paid by the original company and the excess will be paid by the reinsurance coverage. For example, USAA may pay \$500 million toward total earthquake damages and any amount over that would be paid by QBE, for example, as the reinsurer.
99. **Repair ACV** – The cost of repairs minus **depreciation**.

100. **Replacement Cost Value (RCV)** – The total cost to replace damaged property without deductions for **depreciation** or **overhead & profit**. Not to be confused with **actual cost value (ACV)**.
101. **Reserves** – The insurance company’s best-estimated cost of repairs. Proper setting of reserves can determine an insurance company’s solvency.
102. **Restoration Company** – A company that works with insured or insurers to minimize loss or restore to pre-loss conditions. They often repair buildings, contents, furnishings, etc. Companies such as ServiceMaster and ServPro perform these functions.
103. **Risk** – The item/property/person insured.
104. **Risk Management** – The practice of identifying potential risks in advance, analyzing them and taking precautionary steps to reduce/curb the risk.
105. **Salvage** – If damaged property has any value, and if the insurance company pays for replacing the item, the insurance company can have the item sold and collect whatever salvageable worth it may have. It may also elect to sell it back to the insured. For example, a garage door may have had numerous hail hits, and the cost to repair the door (remove dents) may cost more than replacing the door, the insurance company would pay for replacing the door, then “sell” the existing door to the insured for a lower price.
106. **Scope of Loss** - AKA “Scope” A scope of loss is a detailed, line-item breakdown of all the items and services necessary to rebuild or repair a damaged property. One can refer generally to a scope as the extent of the loss. Most commonly, a scope of loss will be broken down by room and trade so one can easily identify all damages that are being addressed.
107. **Severity** – The extent of damages. This is also used in determining premium rates.
108. **Slip** – A ramp (such as a boat ramp) beside a body of water, where ships are built and launched.
109. **Special Form** - Similar, but a bit costlier than the **Broad Form**, it covers 16 named perils on **structure** and **content**. It pays **Replacement Cost Value (RCV)** on the structure and **Actual Cash Value (ACV)** on contents. **Endorsements** can be added to extend other coverage. Often, you may see the number “3” or the letter “C” in the form number which designates specific broad forms such as HO-3 or HO-C.
110. **Special Investigation Unit (SIU)** – Highly trained team of adjusters/investigators used to determine the possibility of fraud. Works closely with each state’s department of insurance and appropriate law enforcement agencies.
111. **Standard Fire Policy** – Provides coverage against one’s home.

112. **Subrogation** – A legal and insurance principle that allows an insurance company to seek restoration of financial costs incurred with a claim payment from a third party. For example, if an electrical panel breaker malfunctioned and caused a fire, the manufacturer of the electrical panel or breaker may be responsible for the damages. The insurance company may pay the insured for the damages and then seek restoration of those payments from the manufacturer.
113. **Supplement** – When an adjuster inspects damage, they prepare an estimate for the insurance company. If there were hidden damages, or if the adjuster overlooked something, a supplemental payment could be issued to bring the insured to pre-loss condition.
114. **Surety Bond** – A promise to pay a certain amount if the other party fails to meet an obligation such as a contract.
115. **Third Party Administrators (TPA)** – These are companies that file claims on behalf of lenders for example.
116. **Total Loss** – See Actual Total Loss and Constructive Total Loss.
117. **Total Value ACV** – The actual cash value of the entire property, including the damaged area.
118. **Trespasser** – Person(s) on the premises without permission.
119. **Umbrella** – Extra coverage for those with a higher risk of being sued just in case the regular amount is exhausted in a law suit.
120. **Umpire** – This is a person who helps settle disputes between the insured and insurer.
121. **Underwriting** – This is the process the insurance company goes through when it is trying to determine to approve or deny a policy application.
122. **Unearned Premium** – The amount of insurance premium the insurance company collected for the remainder of the policy period. For example, if a policy premium costs \$100 per month and the insurance company received \$600 for the first 6 months, after the first month has passed, \$500 would be the unearned premium.
123. **Uninsured Motorists Coverage** – Pays for damages caused by another person/entity if they don't have insurance.
124. **Valued Policy** – Pays the policy limit in the event of a total loss, regardless of the extent of loss. Depreciation deduction is not applied. For example, if damages to a building are \$115,000, \$38,000 in depreciation, and the policy limit is \$100,000, the insurance company would pay \$100,000, minus deductible. Likewise, if a policy limit is \$150,000 and the damages come to \$78,113, the payout would be \$150,000, minus deductible. There are specific states that require this type of policy on buildings.
125. **Wharves** – A pier where ships or boats are tied up for loading and unloading.
126. **Workers Compensation** – Provides wage replacement and medical benefits to employees injured while doing their job.