

# Overview of Insurance

**Blackstone** LaunchPad

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## Definitions and Terms

### Client/Agent Relationship

#### Agent

A person or organization who/that is authorized to act on behalf of another. An insurance agent is a person or organization who/that solicits, negotiates, or instigates insurance contracts on behalf of an insurer and can be independent or an employee of the insurer. Insurance agents are the legal representatives of insurers, rather than policyholders, with the right to perform certain acts on behalf of the insurers they represent, such as to bind coverage.

#### Retail Agent

An insurance agent who acts as an intermediary between an insured and the marketplace. In some instances, retail agents deal directly with an insurer in arranging coverage, while in others, retail agents work with managing general agents or wholesale brokers to secure coverage for their client-insured.

#### Broker

An insurance intermediary who/that represents the insured rather than the insurer. Since they are not the legal representatives of insurers, brokers, unlike independent agents, often do not have the right to act on behalf of insurers, such as to bind coverage. While some brokers do have agency contracts with some insurers, they usually remain obligated to represent the interests of insureds rather than insurers. For example, some state insurance codes impose a fiduciary responsibility to act on behalf of their customers or provide full disclosure of all their compensation from all sources. See also [agent](#).

## Wholesale broker

A type of insurance broker who acts as an intermediary between a retail broker and an insurer, while having no contact with the insured. Wholesale agents place business brought to them by retail agents. Unlike a retail broker, wholesale brokers have direct contact with the insurer, whereas the retail agent who produced the business does not. The same broker can function as a retailer or wholesaler, depending on the specific situation.

Wholesale brokers often possess specialized expertise in a particular line of coverage or in a line of coverage that is unusual and/or have greater access to or influence with certain insurance markets, which is especially valuable when dealing with a difficult-to-place risk.

There are two types of wholesale brokers: managing general agents and surplus lines brokers. The latter work with the retail agent and the insurer to obtain coverage for the insured; but unlike a managing general agent, a surplus lines broker does not have binding authority from the insurer.

## Managing General Agent (MGA)

A specialized type of insurance agent/broker that, unlike traditional agents/brokers, is vested with underwriting authority from an insurer. Accordingly, MGAs perform certain functions ordinarily handled only by insurers, such as binding coverage, underwriting and pricing, appointing retail agents within a particular area, and settling claims.

Typically, MGAs are involved with unusual lines of coverage, such as professional liability and surplus lines of insurance, in which specialized expertise is required to underwrite the policies. However, MGAs also write some personal lines business, especially in geographically isolated areas (e.g., western Oklahoma, North Dakota) where insurers do not want to set up a branch office.

MGAs benefit insurers because the expertise they possess is not always available within the insurer's home or regional offices and would be more expensive to develop on an in-house basis.

## Surplus lines broker

A broker who is licensed to place coverage with nonadmitted insurers (insurers not licensed to do business in a given state). Surplus lines insurers can write coverage through a surplus lines broker if the broker is licensed in the state where coverage is being written. The types of risks typically written by surplus lines brokers are generally substandard risks (e.g., risks with adverse loss experience), unusual risks, and risks for which there is a shortage of capacity in the admitted market.

## Stock company

An insurance company that has, in addition to surplus and reserve funds, a capital fund paid in by stockholders, as distinguished from mutual or cooperative companies, which have no stockholders. Shares of stock companies are usually traded on one of the organized stock exchanges.

## Mutual company

A corporation owned and operated by and for its insureds. Every owner of the company is an insured; every insured is an owner.

## **Admitted insurer**

An insurer licensed to do business in the state or country in which the insured exposure is located.

## **Nonadmitted insurer**

An insurance company not licensed to do business in a certain state or country. In U.S. jurisdictions, such insurers can nevertheless write coverage through an excess and surplus lines broker licensed in that jurisdiction.

## **Excess and Surplus (E&S) lines insurance**

Any type of coverage that cannot be placed with an insurer admitted to do business in a certain jurisdiction. Risks placed in E&S lines markets are often substandard as respects adverse loss experience, unusual, or unable to be placed in conventional markets due to a shortage of capacity. Captives sometimes qualify as E&S companies. Hefty local premium taxes are payable by the broker.

## **Guaranty fund**

Established by law in every state, guaranty funds are maintained by a state's insurance commissioner to protect policyholders in the event that an insurer becomes insolvent or is unable to meet its financial obligations. The funds are usually financed by assessments against all property and liability insurers regulated by a state.

# Insurance vs. Risk Management

## Risk Management

The practice of identifying and analyzing loss exposures and taking steps to minimize the financial impact of the risks they impose. Traditional risk management, sometimes called "insurance risk management," has focused on "pure risks" (i.e., possible loss by fortuitous or accidental means) but not business risks (i.e., those that may present the possibility of loss or gain).

## Risk Management Process

The process of making and implementing decisions that will minimize the adverse effects of accidental business losses on an organization. Making these decisions involves a sequence of five steps: identifying and analyzing exposures to loss, examining feasible alternative risk management techniques to handle exposures, selecting the most appropriate risk management techniques to handle exposures, implementing the chosen techniques, and monitoring the results.

## Avoidance

A risk management technique whereby risk of loss is prevented in its entirety by not engaging in activities that presents the risk.

## Risk financing aka Insurance

Achievement of the least-cost coverage of an organization's loss exposures, while ensuring post-loss financial resource availability. The risk financing process consists of five steps: identifying and analyzing exposures, analyzing alternative risk financing techniques, selecting the best risk financing technique(s), implementing the selected technique(s), and monitoring the selected technique(s). Risk financing programs can involve insurance rating plans, such as retrospective rating, self-insurance programs, or captive insurers.

## Insurance policy

In broad terms, the entire printed insurance contract. Generally, an insurance policy is assembled with a combination of various standard forms, including a declarations page, coverage form, and endorsements. Sometimes a cause of loss form is also required. Together these forms delineate the coverage term, the insurance policy limits, the grant of coverage, exclusions and other limitations of coverage, and the duties and responsibilities of the insured in the event of a loss

## Insurance

A contractual relationship that exists when one party (the insurer) for a consideration (the premium) agrees to reimburse another party (the insured) for loss to a specified subject (the risk) caused by designated contingencies (hazards or perils). The term "assurance," commonly used in England, is considered synonymous with "insurance."

# What your agent or Broker should do for you?

## **Risk Identification and Exposure Analysis**

- Evaluate Client's business operations and practices in an effort to identify and quantify potential risks and exposures.

## **Development of Risk Management Strategies**

- Assist Client in developing comprehensive risk management strategies to effectively and efficiently address the Client's risks and exposures, taking into consideration the Client's own "appetite" for risk. Risk management strategies may include the placement of insurance, self-insurance, contractual risk transfer and the implementation of various safety and loss control initiatives.

## **Insurance Placement and Consultation**

- Review and analyze Client's existing insurance policies (as appropriate) to identify potential coverage gaps, opportunities for coverage enhancements or additional lines of coverage in an effort to improve Client's overall insurance program.
- Advise Client of current insurance market conditions and any significant implications for Client's insurance program.
- Provide Client with current insurance carrier financial strength rating information available through A.M. Best.
- Coordinate the placement of all insurance as requested by Client, with a focus on securing comprehensive and cost-effective coverage. Placement services will include assistance with the completion of insurance applications, marketing/securing quotations from insurance carriers, reviewing and analyzing quotations, and providing proposals with recommendations for consideration by Client.
- Review all insurance policies and endorsements upon receipt from carriers to verify coverage properly addresses exposures and complies with insurance specifications/binders.
- Preparation of insurance summaries and schedules of insurance for quick reference materials.

## **Contract Review**

- Review and provide risk management recommendations with respect to insurance and indemnification language in contracts furnished by Client in an effort to reduce insurance costs and liabilities assumed under contract by Client.

- Assist Client from a risk management perspective with the development of waiver and release forms, hold harmless agreements and other exculpatory agreements, and guidance regarding the collection, storage and maintenance of such documents.

### **Certificate of Insurance Administration**

- Review certificates of insurance issued by third parties, as requested by Client, to ensure compliance with the contractual insurance requirements.
- Supervise the timely issuance and review of certificates of insurance as required by contract or agreement by carriers or through the agent's/broker's online certificate management system.

### **Claims Management**

- Establish and periodically review the claims reporting procedures and forms to ensure that incidents are properly documented and claims are being promptly reported to the appropriate insurers in a timely manner and in accordance with policy provisions.
- Assist Client, its legal representatives and insurance company personnel in the defense, negotiation and settlement of open claims covered under policies placed by agent/broker.

### **Safety and Loss Control Consultation**

- Review losses on a periodic basis with Client to determine loss trends and provide recommendations with respect to the development of programs to prevent and/or reduce the frequency and/or severity of those losses.
- Schedule and coordinate safety and loss control surveys and inspections with insurance company representatives on an as needed basis.

## Casualty Insurance

Insurance that is primarily concerned with the losses caused by injuries to persons and legal liability imposed on the insured for such injury or for damage to property of others.

### Commercial general liability (CGL) policy

A standard insurance policy issued to business organizations to protect them against liability claims for bodily injury (BI) and property damage (PD) arising out of premises, operations, products, and completed operations; and advertising and personal injury (PI) liability. The CGL policy was introduced in 1986 and replaced the "comprehensive" general liability policy.

### Business auto policy (BAP)

A commercial auto policy that includes auto liability and auto physical damage coverages; other coverages are available by endorsement. Except for auto-related businesses and motor carrier or trucking firms, the business

### Nonowned automobile

Described in commercial auto policies as an auto that is used in connection with the named insured's business but that is not owned, leased, hired, rented, or borrowed by the named insured. As used in the business auto policy (BAP), the term specifically applies to vehicles owned by employees and used for company business; as used in the truckers and motor carrier policies, it applies only if such autos are private passenger type autos. (Autos other than private passenger type owned by employees are classified as hired autos in the truckers and motor carrier policies.)

### Hired automobile

Term used ("hired autos") in the Insurance Services Office, Inc. (ISO), business auto, garage, and motor carrier coverage forms to denote a particular type of auto included as a covered auto under the policy. With certain exceptions, the term refers to autos the named insured leases, hires, rents, or borrows. As respects both the business auto and the garage policy, the term does not include any auto the named insured leases, hires, rents, or borrows from any of its employees, partners, limited liability members, or members of their households. As respects the motor carrier, the exception applies as respects private passenger type autos only.

### Umbrella liability policy

A policy designed to provide protection against catastrophic losses. It generally is written over various primary liability policies, such as the business auto policy (BAP), commercial general liability (CGL) policy, watercraft and aircraft liability policies, and employers liability coverage. The umbrella policy serves three purposes: it provides excess limits when the limits of underlying liability policies are exhausted by the payment of claims; it drops down and picks up where the underlying policy leaves off when the aggregate limit of the underlying policy in question is exhausted by the payment of claims; and it provides protection against some claims not covered by the underlying

policies, subject to the assumption by the named insured of a self-insured retention (SIR).

## **Foreign Liability Coverage**

A specialty policy for an insured's liability for foreign operations arising out of a permanent branch office, manufacturing facility, construction project, or other operation located in another country. The commercial general liability (CGL) policy provides coverage for incidental exposures—for example, when an executive who lives and works in the United States and occasionally travels overseas for business trips. For permanent operations in foreign countries, a separate foreign liability policy is required.

## **Workers compensation and employers liability policy**

An insurance policy that provides coverage for an employer's two key exposures arising out of injuries sustained by employees. Part One of the policy covers the employer's statutory liabilities under workers compensation laws, and Part Two of the policy covers liability arising out of employees' work-related injuries that do not fall under the workers compensation statute. In most states, the standard workers compensation and employers liability policy published by the National Council on Compensation Insurance (NCCI) is the required policy form.

## **Property Insurance**

First-party insurance that indemnifies the owner or user of property for its loss, or the loss of its income-producing ability, when the loss or damage is caused by a covered peril, such as fire or explosion. In this sense, property insurance encompasses inland marine, boiler and machinery (BM), and crime insurance, as well as what was once known as fire insurance, now simply called property insurance: insurance on buildings and their contents.

## **Event Insurance**

Provides package coverage for the sponsor of public or private events, such as concerts, festivals, conferences, trade shows, sporting events, and celebrations, to name a few. Available coverages include property insurance, general liability insurance, employers liability insurance, and cancellation insurance.

## **Directors and Officers (D&O) Liability Insurance**

A type of liability insurance covering directors and officers for claims made against them while serving on a board of directors and/or as an officer. D&O liability insurance can be written to cover the directors and officers of for-profit businesses, privately held firms, not-for-profit organizations, and educational institutions. In effect, the policies function as "management errors and omissions liability insurance," covering claims resulting from managerial decisions that have adverse financial consequences. The policies contain "shrinking limits" provisions, meaning that defense costs—which are often a substantial part of a claim—reduce the policy's limits. This approach contrasts with commercial general liability (CGL) policies, in which defense



is covered in addition to policy limits. Other distinctive features of D&O policies are that they: (a) are written on a claims-made basis, (b) usually contain no explicit duty to defend the insureds (when covering for-profit businesses), and (c) cover monetary damages but exclude bodily injury (BI) and property damage (PD).

## **Errors and Omissions (E&O) 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 (BI) and property damage (PD).

## **Employment Practices Liability Insurance (EPLI)**

A type of liability insurance covering wrongful acts arising from the employment process. The most frequent types of claims covered under such policies include: wrongful termination, discrimination, sexual harassment, and retaliation. In addition, the policies cover claims from a variety of other types of inappropriate workplace conduct, including (but not limited to) employment-related: defamation, invasion of privacy, failure to promote, deprivation of a career opportunity, and negligent evaluation.

The policies cover directors and officers, management personnel, and employees as insureds. The most common exclusions are for bodily injury (BI), property damage (PD), and intentional/dishonest acts. EPLI policies are written on a claims-made basis. The forms contain "shrinking limits" provisions, meaning that insurer payment of defense costs—which are often a substantial part of a claim—reduce the policy's limits. This approach contrasts with commercial general liability (CGL) policies, in which defense is covered in addition to policy limits. Although EPLI is available as a stand-alone coverage, it is also frequently sold as part of a management liability package policy. In addition to providing directors and officers (D&O) and fiduciary liability insurance, management liability package policies afford the option to cover employment practices liability (EPL).

## **Fiduciary Liability**

The responsibility on trustees, employers, fiduciaries, professional administrators, and the plan itself with respect to errors and omissions (E&O) in the administration of employee benefit programs as imposed by the Employee Retirement Income Security Act (ERISA).

## **Employee Benefits Liability**

Liability of an employer for an error or omission in the administration of an employee benefit program, such as failure to advise employees of benefit programs. Coverage of this exposure is usually provided by endorsement to the general liability policy but may also be provided by a fiduciary liability policy.

## **Commercial Crime Policy**

A crime insurance policy that is designed to meet the needs of organizations other than financial institutions (such as banks). A commercial crime policy typically provides several different types of crime coverage, such as: employee dishonesty coverage; forgery or alteration coverage; computer fraud coverage; funds transfer fraud coverage; kidnap, ransom, or extortion coverage; money and securities coverage; and money orders and counterfeit money coverage.

## **Kidnap/Ransom Insurance**

Specialty crime coverage that insures against loss by the surrender of property as a result of a threat of harm to the named insured, an employee, or a relative or guest of the insured or the insured's employees.

## **Cyber and Privacy Insurance**

A type of insurance designed to cover consumers of technology services or products. More specifically, the policies are intended to cover a variety of both liability and property losses that may result when a business engages in various electronic activities, such as selling on the Internet or collecting data within its internal electronic network.

Most notably, but not exclusively, cyber and privacy policies cover a business' liability for a data breach in which the firm's customers' personal information, such as Social Security or credit card numbers, is exposed or stolen by a hacker or other criminal who has gained access to the firm's electronic network. The policies cover a variety of expenses associated with data breaches, including: notification costs, credit monitoring, costs to defend claims by state regulators, fines and penalties, and loss resulting from identity theft.

In addition, the policies cover liability arising from website media content, as well as property exposures from: (a) business interruption, (b) data loss/destruction, (c) computer fraud, (d) funds transfer loss, and (e) cyber extortion.

Cyber and privacy insurance is often confused with technology errors and omissions (tech E&O) insurance. In contrast to cyber and privacy insurance, tech E&O coverage is intended to protect providers of technology products and services, such as computer software and hardware manufacturers, website designers, and firms that store corporate data on an off-site basis. Nevertheless, tech E&O insurance policies do contain a number of the

## **Travel Insurance**

Insurance that provides indemnification for (1) trip cancellation or interruption; (2) theft of, or loss to, property such as jewelry, cameras, baggage, or passports while on the trip; and (3) emergency medical and dental expenses during the trip. Travel insurance may be procured from travel agents or directly from certain insurers.

