



Glossary of Insurance and Risk Management Terms

See: <https://www.irmi.com/glossary#E> for more definitions.

AGENT OR AGENCY

An agent is a person and an agency is an organization who solicit, negotiate, or initiate 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. See also broker.

A.M. BEST RATING

The Best's Financial Strength Rating is an evaluation published by A.M. Best Company and represents an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. The ratings are often used to determine the claims-paying ability, suitability, service record, and financial stability of insurance companies. Other rating agencies include Standard & Poor's, Conning & Company, Fitch, and Moody's. The AIA Trust recommends that insurers have an A.M. Best's Financial Strength Rating rating no lower than "A-" meaning an excellent or superior rating.

BROKER

An insurance intermediary that represents the insured rather than the insurer. Since they are not the legal representatives of insurers, brokers (unlike independent agents) 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.

CARRIER

An insurance or reinsurance company that insures or "carries" the insurance or reinsurance.

ENDORSEMENT

An insurance policy form that either changes or adds provisions to an insurance policy. Insurance policy endorsements may serve any number of functions, including broadening the scope of coverage, limiting or restricting the scope of coverage, clarifying the application of coverage to some unique loss exposure, adding other parties as insureds, or adding locations to the policy. They often effect these changes by modifying the existing insuring agreement, policy definitions, exclusions, or conditions in the coverage form or adding additional information, such as insured locations, to the declarations page.

EXCLUSION

A provision of an insurance policy or bond referring to hazards, perils, circumstances, or property that are not covered by the policy. Exclusions are usually contained in the coverage form or causes of loss form used to construct the insurance policy. Exclusions can also be added by endorsements.

FINANCIAL SIZE CATEGORY

To enhance the usefulness of ratings, A.M. Best assigns each rated insurance company a Financial Size Category (FSC). The FSC is based on adjusted policyholders' surplus and is designed to provide a convenient indicator of the size of a company in terms of its statutory surplus and related accounts. It is important for an insurance buyer to consider insurance from companies that have sufficient financial capacity to provide the necessary policy limits to insure their risks. Although companies utilize reinsurance to reduce their net retention on the policy limits they underwrite, many buyers are more comfortable buying from companies perceived to have greater financial capacity. The AIA Trust recommends insurers to have a *minimum* size category of XI.

Class	Policyholder Surplus in \$ Millions
IX	\$250 to \$500
X	\$500 to \$750
XI	\$750 to \$1,000
XII	\$1,000 to \$1,250
XIII	\$1,250 to \$1,500
XIV	\$1,500 to \$2,000
XV	\$2,000 or greater

LOSS CONTROL SERVICES

A risk management technique that seeks to reduce the possibility that a loss will occur and/or reduce the severity of those that do occur. Also known as risk control or safety. For example, contract review performed by an architect's agent, broker or insurer is an important element in protecting an architect's assets. Use of AIA documents for services and construction help in controlling exposures to lawsuits for architect firms. Other loss control services would include a firm operational review from an insurer or broker identifying areas of concern such as overall project management, record keeping, dispute resolution and contract management.

MANAGING GENERAL AGENT (MGA)

A wholesale insurance intermediary with the authority to accept placements from (and often to appoint) agents on behalf of an insurer. MGAs generally provide underwriting and administrative services requiring specialized expertise to underwrite policies, and handle policy issuance on behalf of the insurers they represent. These arrangements are most common in the surplus lines marketplace. MGAs benefit insurers because such expertise is not always available within the company and would be more costly to develop on an in-house basis.

UNDERWRITING

The process of determining whether to accept a risk and, if so, the amount of coverage that is acceptable for the risk and the rate. Underwriters are companies, individuals, or insurance companies that determine the amount, price, and conditions under which the submission is acceptable.