



## COMMON HOMEOWNERS INSURANCE TERMS

**NOTICE:** This document is for informational purposes only and is not intended to alter or replace the insurance policy. Additionally, this informational sheet is not intended to fully set out your rights and obligations or the rights and obligations of the insurance company. If you have questions about your insurance, you should consult your insurance agent or the language of the insurance policy.

**Actual cash value (ACV)** - The value of your property, based on the current cost to replace it minus depreciation. Also see "replacement cost."

**Additional living expenses (ALE)** - Reimburses the policyholder for the cost of temporary housing, food, and other essential living expenses, if the home is damaged by a covered peril that makes the home temporarily uninhabitable.

**Adjuster** - An individual employed by an insurer to evaluate losses and settle policyholder claims. Also see "public insurance adjuster."

**Agent** - A person who sells insurance policies.

**Application** - A form you fill out with information about you that an insurance company will use to decide whether to issue you a policy and how much to charge.

**Binder** - A temporary insurance contract that provides proof of coverage until you receive a permanent policy.

**Cancellation** - Termination of an insurance policy by the company or insured before the renewal date.

**Claim** - A policyholder's request for reimbursement from an insurance company under a home insurance policy for a loss to property.

**Claimant** - A person who makes an insurance claim.

**Contract** - In most cases, an insurance policy. A policy is considered to be a contract between the insurance company and the policyholder.

**Declarations page** - The page in a policy that shows the name and address of the insurer, the period of time a policy is in force, the amount of the premium, and the amount of coverage.

**Deductible** - The amount the insured must pay in a loss before any payment is due from the company.

**Depreciation** - Decrease in the value of property over time due to use or wear and tear.

**Earned premium** - The portion of a policy premium that has been used to actually buy coverage, or that the insurance company has "earned." For instance, if you have a six-month policy that you paid for in advance, two months into the policy, there would be two months of earned premium. The remaining four months of premium is "unearned premium."



**Effective date** - The date on which an insurance policy becomes effective.

**Endorsement** - A written agreement attached to a policy expanding or limiting the benefits otherwise payable under the policy. Also called a “rider.”

**Escrow** - Money placed in the hands of a third party until specified conditions are met.

**Exclusion** - A provision in an insurance policy that denies coverage for certain perils, people, property, or locations.

**Expiration date** - The date on which an insurance policy expires.

**Independent adjuster** - A person who charges a fee to an insurance company to adjust the company’s claim.

**Inflation protection** - Automatically adjusts your home insurance policy limits to account for increases in the costs to repair or rebuild a property.

**Insurable interest** - Any financial interest a person has in the property or person insured. In life insurance, a person’s or party’s interest - financial or emotional - in the continuing life of the insured.

**Insured** - The policyholder - the person(s) protected in case of a loss or claim.

**Insurer** - The insurance company.

**Lapse** - The termination of an insurance policy because a renewal premium is not paid by the end of the grace period.

**Liability coverage** - Covers losses that an insured is legally liable. For homeowners insurance, liability coverage protects you against financial loss if you are sued and found legally responsible for someone else’s injury or property damage.

**Loss** - The amount an insurance company pays on a claim.

**Loss of use** - A provision in homeowners and renters insurance policies that reimburses policyholders for the additional costs (housing, food, and other essentials) of having to live elsewhere while the home is being restored following a disaster.

**Market value** - The current value of your home, including the price of land.

**Material misrepresentation** - A significant misstatement in an application form. If a company had access to the correct information at the time of application, the company might not have agreed to accept the application.

**Non-renewal** - A decision by an insurance company not to renew a policy.

**Peril** - A specific risk or cause of loss covered by an insurance policy, such as a fire, windstorm, flood, or theft. A named-peril policy covers the policyholder only for the risks named in the policy. An all-risk policy covers all causes of loss except those specifically excluded.



**Personal property** - All tangible property (other than land) that is either temporary or movable in some way, such as furniture, jewelry, electronics, etc.

**Policy** - The contract issued by the insurance company to the insured.

**Policy owner** - The person or party who owns an individual insurance policy. This person may be the insured, the beneficiary, or another person. The policy owner usually is the one who pays the premium and is the only person who may make changes to a policy.

**Policy period** - The period a policy is in force, from the beginning or effective date to the expiration date.

**Premium** - The amount paid by an insured to an insurance company to obtain or maintain an insurance policy.

**Property damage** - Physical damage to property.

**Refund** - An amount of money returned to the policyholder for overpayment of premium or if the policyholder is due unearned premium.

**Reinstatement** - The process by which a life insurance company puts a policy back in force after it lapsed because of nonpayment of renewal premiums.

**Renewal** - Continuation of a policy after its expiration date.

**Renters insurance** - A form of insurance that covers a policyholder's belongings against perils. It also provides personal liability coverage and additional living expenses. Possessions can be covered for their replacement cost or the actual cash value, which includes depreciation.

**Replacement cost** - Pays the dollar amount needed to replace the structure or damaged personal property without deducting for depreciation but limited by the policy's maximum dollar amount.

**Return premium** - The premium returned to an insured for canceling or amending a policy.

**Rider** - A written agreement attached to the policy expanding or limiting the benefits otherwise payable under the policy. Also called an "endorsement."

**Underwriter** - The person who reviews an application for insurance and decides if the applicant is acceptable and at what premium rate.

**Underwriting** - The process an insurance company uses to decide whether to accept or reject an application for a policy.

**Unearned premium** - The amount of a pre-paid premium that has not yet been used to buy coverage. For instance, if you paid in advance for a six-month premium, but then cancel the policy after two months, the company must refund the remaining four months of "unearned" premium to you.