

Insurance 101



Sally Becker CPCU ARM



Statutes

- Texas Tort Claims Act – CPRC 101
- Indemnification – CPRC 104
- Limitation of Liability – CPRC 108



Definition:

A contractual relationship that exists when one party (the Insurer) for a consideration (the Premium) agrees to reimburse another party (the Insured or third party on behalf of the Insured) for a loss to a specified subject (the Risk) caused by designated contingencies (the Hazards or Perils)



Transfer of Risk

- The financial burden of losses can be transferred from the entity incurring the loss to an outside entity. This may be accomplished through the purchase of insurance or a contractual transfer
- Insurance premiums to the insurer are pooled with the premiums paid by all insureds who purchased the same type of insurance. The risks are “spread” among all insureds, keeping premiums to a minimum. The insurer is legally responsible for payment of all losses.



Lines of Insurance

- Automobile Liability - Insurance in which the insurer agrees to pay all sums for which the insured is legally obligated because of bodily injury or property damage arising from the ownership, maintenance, or use of a vehicle. This may include either/or, or both owned and non-owned vehicles.
- Builder's Risk/Installation Floater – Coverage for materials, supplies and equipment required in the renovation, remodeling of existing buildings or construction of new buildings. Coverage should include Fire, Extended Coverage, Vandalism, Malicious Mischief, Flood (if located in a flood zone), Theft and Transit.



Terms

- *Hired automobile – An automobile whose exclusive use and control has been temporarily given to another for a consideration.*
- *Liability – The obligation to pay a monetary award for injury or damage caused by one's negligent or statutorily prohibited action.*
- *Nonowned automobile – Vehicles owned by employees and used for company business.*



Lines of Insurance

- Directors' and Officers' (Public Officials) Liability – Insures corporate directors and officers (board members, commissioners, elected officials) against claims alleging financial loss arising from mismanagement.
- Electronic Data Policy – Coverage for electronic data processing equipment, computer programs and data. Typically includes coverage for perils such as mechanical breakdown, electrical injury and changes in temperature and humidity.



Lines of Insurance

- Employee Dishonesty – This insurance protects employers from loss due to theft by their employees. It protects an employer from financial loss due to fraudulent activities of one or more employees.
- Employment Practices Liability – Coverage for wrongful acts arising from the employment process including wrongful termination, discrimination and harassment.
- Environmental Impairment/Pollution Liability - Coverage for liability arising from bodily injury and property damage caused by the discharge of hazardous materials or pollutants including clean up costs.



Lines of Insurance

- Excess Liability Insurance – A policy issued to provide limits in excess of an underlying liability policy.
- General Liability – Insurance designed to protect businesses for third party bodily injury or property damage claims arising from an occurrence involving premises, operations, products and completed operations exposures.
- Liquor Liability (Dram Shop) – Insurance coverage that protects the owners of an establishment in which alcoholic beverages are sold or served against liability arising out of accidents caused by intoxicated customers.



Lines of Insurance

- Owners, Contractors Protective (OCP) Liability – Covers bodily injury and property damage liability arising out of an independent contractor's operations for a third party.
- Professional Liability – Insurance to cover the negligent acts (errors & omissions) that injure their clients from the rendering of, or failure to render, professional services.
- Property – This coverage pays for the repairs or replacement of buildings and contents owned by an entity or individual which may be damaged by a range of perils, such as fire, flood, hail, wind, smoke, vandalism, theft, etc. This policy also protects the property of others, which is under the care, custody and control of the insured.



Lines of Insurance

- Umbrella Liability - A coverage providing higher liability limits in excess of the primary policies such as general liability, automobile and employers' liability.
- Workers' Compensation – Insurance that pays for the medical expenses of injured workers and indemnifies them for lost wages while they are unable to work. Employers' liability insurance is included in the standard workers' compensation policy; this coverage applies to liability that may be imposed on an employer outside the provisions of workers' compensation law.



Terms

- *Deductible – A portion of covered loss that is not paid by the insurer.*
- *Endorsement – An addendum to an insurance policy that changes the original policy provisions.*
- *Expiration – The termination date of an insurance contract.*
- *Inception – The date coverage commences.*



Terms

- *Insured – The person(s) protected under an insurance contract.*
- *Insurer – The insurance company that undertakes to indemnify for losses and perform other insurance-related operations.*



Additional Terms

- *Additional insured – A person or organization not automatically included as an insured, that an insured desires to protect because of a close relationship (employees) or to comply with a contractual agreement (customers), usually by endorsement.*
- *Aggregate – A limit of liability stipulating the most the insurer will pay for all covered losses sustained during the policy term.*
- *All risk coverage – This term relates to property insurance covering a loss arising from any unexpected cause except those specifically excluded.*



Additional Terms

- *Cancellation – The termination of an insurance policy before its expiration, by either the insured or the insurer.*
- *Claims-made – An insurance policy that covers claims first made (reported or filed) during the year the policy is in force for any incidents that occur that year or during any previous period during which the insured was covered under a “claims-made” contract.*
- *Hold harmless agreement – A provision in a contract that requires one contracting party to respond to certain legal liability of the other party.*



Additional Terms

- *Indemnification – The agreement of one party to assume financial responsibility for the liability of another party.*
- *Loss payable clause – A provision authorizing payment in the event of loss to a person or entity other than the named insured having an insurable interest in the covered property*
- *Occurrence – An accident, including continuous or repeated exposure to conditions, which results in bodily injury or property damage neither intended or expected.*



Additional Terms

- *Other insurance clause – A provision establishing how loss is to be apportioned among insurers when more than one policy covers the same loss.*
- *Self-insurance – A system where an entity sets aside a portion of its monies to pay any losses that could ordinarily be covered under an insurance policy.*
- *Self-insured retention (SIR) – A dollar amount specified in an insurance policy that must be paid by the insured before the insurance policy will respond to a loss.*



Additional Terms

- *Vicarious liability – The liability of a principal for the acts of its agents.*
- *Waiver of subrogation – The relinquishment by an insurer of the right to collect from another party for damages paid on behalf of the insured.*



How to “read” a policy

- Insurance policy – *The entire written contract of insurance.*

- Sections of an insurance policy
 - Declarations page (information page);
 - Policy number;
 - Inception & expiration dates (policy period);
 - Insurer; Insurance agent;
 - Insured’s mailing address;
 - Physical address & description of property or operations;
 - Numbers and edition dates of forms and endorsements;
 - Applicable policy limits and deductibles;
 - Names of persons/entities whose additional interests are covered; and
 - Premium



How to “read” a policy

- Insurance agreement
 - What the insurer agrees to do under the contract subject to clarifications throughout the policy;
 - When the insurer will make a payment or provide a service;
 - In order to fully comprehend the meaning, the terms used in the insuring agreement need to be understood.
- Exclusions - *A provision referring to hazards, circumstances or property not covered by the policy.*
 - To avoid insuring risks that are considered uninsurable or which underwriters are unwilling to accept like moral or morale hazards;
 - To avoid insuring risks covered by other types of insurance; and
 - To eliminate coverages not needed by the majority of insureds or coverages/perils needing special treatment



How to “read” a policy

– Definitions

- Key words and phrases contained in insurance policies are precisely defined in the "definitions" section.
- Terms found in this section are either **boldface**, underlined, *italicized* or in CAPITAL LETTERS whenever they appear in the policy.
- Definitions may or may not correspond with those in general usage and should be carefully studied.
- Definitions can broaden, clarify or limit coverage afforded by an insurance policy.

– Conditions

- Cancellation provisions;
- Policy territory;
- Claims reporting requirements;
- Subrogation provisions; and
- Premium payment and refund provisions.



How to “read” a policy

- Endorsements - *An addendum to an insurance policy that changes the original policy provisions.*
 - Replace or modify any of the provisions in the form to which it is attached;
 - Correct individualized information contained on the declarations page; and
 - Amend policy conditions to meet statutory requirements.



Certificates of Insurance

- Definition – *A document providing evidence that certain general types of insurance coverages and limits have been purchased by the party required to furnish the certificate.*
- Quick review
 - In the upper right hand corner, you will see a date. This is the date the certificate was issued. If this is more than 30 days prior to the date of review, it is recommended a new certificate be requested.
 - In the middle of the certificate, you will see a column titled Policy Expiration. If any of these dates are in the past, request a new certificate. Policy has expired and there is no coverage on the day of issuance.
 - In the bottom left corner, you will see a block titled Certificate holder. If this is not your state agency or is not the correct address, request a new certificate with the correct state agency and address.



Certificates of Insurance

■ Checklist

- Complete the Insurance Requirements (left side of the checklist) by inserting the type and amount of insurance and any additional requirements from the contract.
- Check off the requirements that are shown on the certificate. The vendor/contractor should be contacted if there are any requirements not checked off. If all items are checked, all the insurance requirements have been fulfilled.



Last But Not Least

- Cancellation notices
 - Upon receipt, contact vendor/contractor
 - Request reinstatement or replacement certificate
- Policy periods vs. contract terms
 - Dates are seldom the same
 - Insurance should remain in force for the duration of the contract
 - Method for tracking policy expiration and contract terms



SORM 201

- Section 412.051 of the Labor Code requires state agencies to report an intended insurance purchase not later than the 30 days prior to the scheduled date of the purchase.
- The State Office of Risk Management's rule 252.307 requires the state agency to complete a SORM201.
- The SORM201 can be found on our website www.sorm.state.tx.us under Risk Management, then, Bonds and Insurance.



SORM 201

- Complete the form and submit to the Insurance & Bonds Section of SORM by e-mail, interoffice mail, fax or post office.
- This form was designed for multiply functions, so some areas are more appropriate in certain applications.
- Section A through F, if appropriate should be completed – instructions for completion are available at

http://www.sorm.state.tx.us/Risk_Management/Bonds_and_Insurance/insurance.php



SORM 201

- The bottom section is designated for SORM's use.
 - After the review of the information provided in the previous sections, SORM will determine if the insurance is necessary and advantageous to the state.
 - Upon determination, the SORM 201 will be returned to the person designated in Section A.



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Reference Materials

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- Rodda, William H., Trieschmann, James S., and Hedges, Bob A.; *Commercial Property Risk Management and Insurance*; Volumes I & II; American Institute for Property and Liability Underwriters; Malvern, PA; 1978