

# WORKERS' COMPENSATION GLOSSARY

## **ACCIDENT**

An unplanned and unexpected event which occurs suddenly and at a definite place resulting in injury and/or damage.

## **ACCIDENT FREQUENCY**

The rate of the occurrence of accidents, often expressed in terms of the number of accidents over a period of time. It is one method used to measure the effectiveness of loss control efforts.

## **ACCIDENT SEVERITY**

A measure of the severity of seriousness of losses, rather than the number of losses. It is measured in terms of time lost from work rather than the number of individual accidents. It is another way of measuring the effectiveness of loss control services.

## **AGENT**

One who solicits, negotiates or effects contracts of insurance on behalf of an insurer and the insured. His or her right to exercise various functions, his or her authority, and his or her obligations and the obligations of the insurer to the agent are subject to the terms of the agency contract with the insurer, to statutory law, and to common law.

## **AGENT'S LICENSE**

A certificate of authority from the state which permits the agent to conduct business.

## **APPLICATION**

A form on which the prospective insured states facts requested by the insurer on the basis of which, together with information from other sources, the insurer decides whether to accept the risk, modify the coverage offered, or decline the risk.

## **AUDIT**

A verification of the books or similar accounts as they relate to payroll or remuneration to determine their accuracy. Workers' compensation policies are written on a reporting or auditable basis. This gives the insurance company the right to audit the policyholder's records to verify the accuracy of the earned premiums.

## **AUDIT REVIEWER**

An individual who has the responsibility to review an audit before billing. The reviewer examines the audit for conformity to the policy contract, manual rules, regulatory agency rules and company rules in order to ensure the proper invoicing of earned premiums.

## **AUDITABLE POLICY**

A policy in which the exposure basis is a variable (such as sales, payroll, etc.) which can only be determined at the end of the policy term. Workers' compensation policies are auditable based on payroll.



**AVERAGE WEEKLY EARNINGS**

The average earnings per week of an employee over a fixed period of time. The time is based on last pay raise, hours worked, permanency of employment, etc.

**BENEFITS**

The financial reimbursement and other services provided under the terms of an insurance contract.

**BROKER**

A person who, for compensation and on behalf of another person, transacts insurance other than life with, but not on behalf of, an insurer. A broker must file a bond with the Department of Insurance.

**CANCELLATION**

Termination of a workers' compensation policy by the insurer or insured in accordance with the provisions of the contract or by mutual agreement.

**CARRIER**

Used to designate the insurance company.

**CERTIFICATE OF INSURANCE**

A form that verifies that a policy has been written and states the coverage in general, often used as proof of insurance in loan transactions and for other legal requirements.

**CLAIMANT**

Any employee reporting an industrial injury or occupational disease irrespective of its merits. At some point if the claimant hires an attorney, a legal application can be filed with the Workers' Compensation Appeals Board, which will ultimately decide or approve the resolution of all issues.

**CLASS OR CLASSIFICATION**

The systematic arranging of business operations into groups or categories according to certain criteria. The purpose of such classification is to create bases for establishing statistical experience and determining proper rates.

**CLASSIFICATION RATES**

Rates filed by each insurance company with the Department of Insurance for the specific classification of operations. The workers' compensation rates apply per \$100 of payroll of the insured.

**COMBINED RATIO**

The sum of an expense ratio and a loss ratio. An underwriting profit occurs when the combined ratio is under 100% and an underwriting loss occurs when the combined ratio is over 100%.

**COMPROMISE & RELEASE (C&R)**

A legal document filed and approved by the Workers' Compensation Appeals Board that, for a financial consideration, removes from the carrier/employer all or a portion of future liability on a loss.



**COVERAGE**

The scope of the protection provided under a workers' compensation contract of insurance.

**DATE OF ISSUE**

The date stated in a policy as the date on which the contract was issued by the insurer. This is not necessarily the effective date of the policy.

**DECLINATION**

Rejection of an application for insurance by the insurer.

**DEPOSIT PREMIUM**

The terms of a workers' compensation policy provide that the insurer require a deposit premium at the inception of the policy. The deposit premium is applied once the actual earned premium has been determined upon completion and billing of the final audit.

**EARNED PREMIUM**

That amount of the estimated premium determined to have been earned based on actual payrolls audited either by a physical audit or by the policyholder's voluntary payroll report. This can be determined monthly, quarterly, semiannually or annually.

**EFFECTIVE DATE**

The date the coverage of a workers' compensation insurance policy goes into effect at 12:01 a.m.

**EMPLOYER'S FIRST REPORT OF OCCUPATIONAL INJURY OR DISEASE**

A form specified by the state on which an employer must report to the insurer an occupational injury or illness. The report must be filed within five days of the insured's knowledge or communication from the employee.

**EMPLOYER'S LIABILITY COVERAGE**

This is coverage B of the standard workers' compensation policy. It provides coverage against the common law liability of any employer for injuries to employees as distinguished from the liability imposed by a Workers' Compensation law. Employer's Liability applies in situations where a worker does not come under these laws.

**ENDORSEMENT**

A written or printed form attached to the policy that alters the provisions of the contract.

**ESTIMATED PREMIUM**

A provisional premium which is adjusted at the end of the year. In workers' compensation insurance, an estimated premium is based on estimated payrolls for the coming year. At the end of the year, final payrolls are determined and the final earned premium is computed.

**EXCLUSION**

A contractual provision that denies coverage for certain perils, person, or location.



**EXPENSE RATIO**

The percentage of the premium dollar devoted to paying the expenses of an insurer, other than losses.

**EXPENSES**

The cost of conducting an insurance operation aside from the amount paid for losses.

**EXPERIENCE**

A statistical compilation relating losses to premiums for a specific policy or policies.

**EXPERIENCE MODIFICATION**

The increase or decrease in premiums resulting from the application of an experience rating plan, usually expressed as a percentage and calculated by the Workers' Compensation Insurance Rating Bureau.

**EXPERIENCE RATING**

A method of adjusting the premium for a risk based on past loss experience for that risk compared to the manual rate for the insured's classification.

**EXPIRATION DATE**

The date indicated in an insurance contract as the date coverage expires.

**FINAL AUDIT BILLING**

An actual billing based on either actual audited exposure or reported exposures (payroll report) for the entire policy period. The final audit billing takes into account all previously billed invoices.

**FLAT CANCELLATION**

The policy which is cancelled upon its effective date, affording no coverage. Under a flat cancellation no premium charge is made.

**GOVERNING CLASSIFICATION**

The classification assigned to the operations of an insured that carries the largest amount of payroll other than standard exception classifications.

**INCURRED BUT NOT REPORTED (IBNR)**

Losses that have occurred during a stated period of time but have not yet been reported to the insurer as of the date under consideration.

**INCURRED LOSS RATIO**

The percentage of losses incurred to premiums earned.

**INCURRED LOSSES**

The losses occurring within a fixed period, whether or not reported, adjusted or paid during the same period.

**INFORMATION PAGE**

The first page of the policy identifying the entity insured, mailing address, broker, policy period, policy limits, list of the endorsements, classification rating information, minimum premium, deposit premium and annual premium.



**INSTALLMENT BILLING**

A premium charge for which premium payments may be made by the policyholder in installments during the policy period.

**INSURANCE DEPARTMENT**

A governmental bureau charged with the administration of insurance laws, including the licensing of agents and insurers and their regulation and examination.

**INSURANCE POLICY**

The printed form which states the terms and conditions of coverage between an insurer and an insured.

**INSURED**

The party to an insurance contract whom the insurer agrees to indemnify for losses, provide benefits or render services.

**INSURER**

The party to an insurance contract who undertakes to indemnify for losses, provide benefits or render services. The work insurer is generally used in statutory law.

**INTEGRATED COVERAGE**

The integration of workers' compensation insurance with group health insurance.

**INTERIM AUDIT BILLING**

An actual billing based on either actual audited exposure or reported exposures.

**LAPSED POLICY**

A policy which has been allowed to expire because of nonpayment of premiums or because the insurance contract becomes void for other reasons.

**LOSS**

The amount the insurer is required to pay because of a claim which it has insured.

**LOSS CONTROL CONSULTANT**

Provides professional and technical counseling to policyholders and insurance company management staff on proper risk evaluations, including possible controls to eliminate/reduce potential losses.

**LOSS DEVELOPMENT**

The increase in the amount of losses and/or reserves reported on a specific date and the amount reported on a later date.

**LOSS FREQUENCY**

The rate of the occurrence of accidents expressed in terms of the number of accidents over a given period of time.

**LOSS RATIO**

The losses incurred expressed as a percentage of earned premium.



**LOSS RESERVE**

The estimated liability for unpaid insurance claims or losses that have occurred as of a given evaluation date. On an individual claim, the loss reserve is the estimate of what will ultimately be paid out on that claim.

**LOSS RUN**

A report listing specific claims with their individual reserves.

**MINIMUM PREMIUM**

The smallest amount of premium for which an insurer will issue coverage under a given policy.

**N.O.C. (NOT OTHERWISE CLASSIFIED)**

A term often found in the classification section of workers' compensation rating manuals. If a classification is followed by N.O.C., it means to use this classification if an insured cannot be classified more specifically.

**N.P.D.**

No Payroll Division

**NOTICE OF CANCELLATION**

Written notice by an insurer of its intent to cancel insurance.

**OCCUPATIONAL DISEASE**

A disease arising out of and medically linked to the exposure to harmful conditions of employment.

**OCCUPATIONAL HAZARD**

A condition in an occupation that increases the peril of accident, sickness or death.

**PAID LOSSES**

The amount actually paid for losses during a specified period of time.

**PERMANENT DISABILITY (P.D.)**

The benefit paid for impairment resulting from an industrial injury or occupational disease of any bodily or mental function which remains after maximum recovery and, which causes diminishment of earning capacity, diminishment of normal use of a member or competitive handicap in the open labor market.

**PERMANENT PARTIAL DISABILITY**

A condition where the injured party's earning capability is impaired for life, but he or she is able to work at reduced efficiency.

**PERMANENT TOTAL DISABILITY**

A condition where the injured party is not able to work at any gainful employment for the remaining lifetime.

**POLICY ANNIVERSARY**

The anniversary of the effective date of coverage of a policy.



**POLICY PERIOD (OR TERM)**

The period during which the policy contract affords protection.

**POLICY YEAR EXPERIENCE**

The measure of premiums and losses for each 12-month period a policy is in force. Losses occurring during the 12-month period are assigned to the period regardless of when they are reported or paid.

**PRO RATA CANCELLATION**

The termination of a workers' compensation insurance contract with the premium charge adjusted in proportion to the exact time the coverage has been in force.

**PRODUCER**

See Agent and Broker.

**PURE PREMIUM RATES**

The loss cost per unit of exposure as developed by the Workers' Compensation Rating Bureau, including loss adjustment expense for the standard classifications.

**RATING BUREAU**

An organization under the jurisdiction of the Department of Insurance that classifies, analyzes manual rate, compiles statistical data and measures the hazards of individual risks.

**REINSTATEMENT**

Restoration of coverage on a policy that has been previously cancelled.

**SAFETY GROUP**

Members of a specific industry joining together for the purpose of purchasing insurance.

**SHORT RATE CANCELLATION**

A cancellation procedure in which the earned premium is not in direct proportion to the number of days of coverage.

**SHORT RATE PENALTY**

The penalty paid by the insured for replacing coverage prior to the expiration date.

**SHORT-TERM POLICY**

A policy written for a period of time less than one year.

**STANDARD EXCEPTION**

In workers' compensation insurance, certain employees are classified separately rather than being included in the main classification for a risk. There are two standard exceptions, clerical office employees and outside sales persons.

**STOP LOSS**

Any provision in a policy designed to cut off an insurer's losses at a given point.

**SURPLUS**

What is left over after a company's liabilities are deducted from its assets.



**TEMPORARY DISABILITY (T.D.)**

The benefit paid to a claimant for the time that he or she is medically unable to work due to an industrial injury or occupational disease and before he or she has reached a point of maximum improvement or permanent and stationary status from the effects of the accident. The benefit amount is derived from average weekly earnings within minimum and maximum ranges.

**TERMINATION**

The time the coverage under an insurance policy ends, either because its term has expired or because it has been cancelled by either party.

**TRADE RATIO**

The sum of loss, loss adjustment expense, other expense and dividend ratios.

**UNDERWRITER**

An individual trained in the evaluating of risk selection and determining the potential profitability.

**UNDERWRITING**

The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned.

**UNIT STAT**

Unit statistical filings are experience reports that include payroll and loss information on every workers' compensation policy.

**VOCATIONAL REHABILITATION**

The process, services and benefits necessary to return an injured worker to suitable gainful employment when the worker is medically unable to return to the job due to an industrial injury or occupational disease.

**VOLUNTARY PAYROLL REPORT**

A request sent to the policyholder with a set of instructions for providing payroll information necessary to adjust the premium earned on outstanding and expired policies.

**WORKERS' COMPENSATION INSURANCE**

- A scheduled of benefits payable to an employee by his or her employer without regard to liability, required by state law in the case of injury, disability, or death as the result of occupation hazards.
- Insurance agreeing to pay workers' compensation law benefits to employees on behalf of the insured.

