

# SILA



Securities & Insurance  
Licensing Association

# Financial Services

## Common Terminology

(Excerpt from the ***SILA Best Practices Handbook***, produced by the Securities & Insurance Licensing Association, Inc.)

## COMMON TERMINOLOGY

### Glossary

| Term                        | Synonym(s)  | Definition  | Clarification/Example   |
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| <b>1033 Consent Waiver</b>  | Consent Order   | A document that allows an individual otherwise banned under a federal law commonly referred to as “1033” to apply to a state insurance commissioner for written consent to participate in the insurance business. | Each state has specific reasons for rejection of a license application. If the applicant completes and signs the form 1033 and submits the form to the state insurance commissioner, the insurance commissioner will consider allowing the agent to be involved in the insurance business.  |
| <b>Accommodation Filing</b> | Courtesy Filing   | A surplus lines filing made by a surplus lines broker who had no involvement with the placement, on behalf of a producer who lacks the required surplus lines license.  | Most states no longer allow accommodation filings, instead requiring a properly licensed surplus lines broker to actually be involved in a placement. If a courtesy filing is submitted in a state that still allows the practice, the submitting surplus lines broker assumes responsibility for meeting state compliance as though he/she actually placed the business.   |
| <b>Adjuster</b>             | Company Adjuster, Independent Adjuster, Public Adjuster | An individual who evaluates coverage and determines the amount of loss suffered   | <p>States may define adjuster differently. Generally, there are three types of adjuster licenses: Company (or Staff), Independent and Public. Both "company adjusters" (employees of the insurer) and "independent adjusters" (independent contractors hired by the insurer) represent the insurance company's interests. A "public adjuster" may be employed by the policyholder to represent the policyholder's interests.</p> <p>An adjuster determines the amount of money that an insurance company will pay for a claim. An adjuster may rely upon the written estimate or appraisal in the settlement of the claim, but the adjuster cannot require an appraiser to include or exclude damage on the estimate. <i>See Public Adjuster and Appraiser.</i></p> |

| Term                      | Synonym(s)                         | Definition  | Clarification/Example   |
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| <b>Admitted Company</b>   | Authorized Company                 | An insurance company that meets a state insurance department's standards and is authorized to do business in that state.  | Admitted insurers are required to file all forms and rates they will use for their placements. Some states permit admitted insurers to use unfiled forms and rates if they meet the specific requirements of an "industrial insured" or "commercial policyholder" exemption. <i>See Exempted Coverages.</i>   |
| <b>Agency</b>             |                                    | A corporation, partnership or sole proprietorship engaged in the business of insurance.   | In most states, agencies are licensed as producers, often with the same appointment requirements as individual producers. Establishing an agency allows payment of commissions to the business entity (agency) instead of to individual agents. State regulations vary as to how an agent/producer is associated with an agency. <i>See Agency Affiliation.</i>   |
| <b>Agency Affiliation</b> |                                    | A transaction tracked by the state that declares that a producer is authorized to transact insurance on behalf of that agency. The transaction is initiated by, and is the responsibility of, the agency. | The agency affiliation is a transaction filed by the agency with the state insurance department. The agency affiliation process is required/allowed in some form in 20 states. State regulations for agency affiliation vary greatly. The SILA Agency Affiliation Chart may be used as a reference for the individual state requirements. The agency affiliation transaction is very similar in its effect to the individual agent appointment process. |
| <b>Agent</b>              | Producer                           | An individual licensed by a state insurance department to sell, solicit, negotiate and service insurance within that state.   | The Agent represents the insurance company and serves as the link between the insurer and the policyholder. In the NAIC's Producer Licensing Model Act (PLMA), the functions of an agent and a broker are combined into a new "Producer" license. The holder of a Producer license can act as an agent if he/she obtains carrier authorization (an appointment). Those producers who act as brokers do not require appointments.                        |
| <b>Alien Company</b>      | Foreign Corporation, Alien Insurer | An insurance company organized and domiciled in a country other than the United States.   |   |

| Term                             | Synonym(s) | Definition  | Clarification/Example   |
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| <b>Allied Lines</b>              |            | Property coverages that are closely associated with (and frequently sold with) Fire Insurance, such as Dwelling or Earthquake Insurance.  |   |
| <b>Annuity</b>                   |            | A contract providing periodic income payments for either a fixed period of time or during the lifetime of the annuitant. The purchase of an annuity systematically liquidates an estate over a period of time.        |   |
| <b>Appointment</b>               |            | A transaction, tracked by the state and initiated by an insurance company, that declares a licensed individual or agency to be authorized to transact insurance on behalf of that insurer.                            | Most states require the insurance company to file an official notification with the state insurance department for each of its appointed producers. The official notification transaction with the state usually has a fee assigned. The appointment requirements vary by state.  |
| <b>Appraiser</b>                 |            | An individual who determines the value of property and/or who determines the amount of a disputed loss.   | There are 11 states that have separated the adjuster claims functions from the appraiser claims functions. These states usually have a separate exam and license for the appraiser function. An appraiser evaluates damage and estimates the cost to repair, but does not determine whether such damage is covered by, or whether the total estimated cost of repairs is compensable under, an insurance policy. Appraiser licensing requirements are complex; details may be found in the SILA Adjuster Licensing Reference Charts. <i>See Adjuster.</i> |
| <b>Articles of Incorporation</b> |            | A legal document outlining how a corporation is set up, how its officers are elected and the guidelines for its operation. A corporation is often required to submit a copy of its filed Articles of Incorporation to |   |

| Term                                     | Synonym(s) | Definition   | Clarification/Example   |
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|  |            | the state insurance department in order to obtain an agency license.   |   |
| <b>Assignee</b>                          |            | The individual or agency to which commissions are assigned. Some states require the assignee to be licensed and appointed.   |   |
| <b>Authorized Company Representative</b> |            | An individual who has the authority to appoint and/or terminate the appointments of licensed individuals and agencies on behalf of the insurance company. <i>See Appointment.</i>                        |   |
| <b>Background Investigation</b>          |            | The investigation of an applicant or licensed individual prior to the hiring/contracting of an individual, to determine the acceptability of the individual according to state and/or company standards. | Some states require a background investigation as part of the licensing process. An insurance company will usually require a background investigation because the insurer may be held liable for the actions of its appointed producers. The depth of a background investigation may vary by state and carrier, and can include a review of an individual's criminal history, employment history and/or credit history. |
| <b>Bail Bond</b>                         |            | A surety bond that guarantees that the principal will appear in the event of a criminal proceeding.  |   |
| <b>Black List</b>                        |            | A list of insurance companies, published by some states, that may not be used by surplus lines brokers under any circumstances.  | The Black List for some states may not be current, therefore those states should be contacted directly to confirm an insurer's eligibility. (Note: Per the Nonadmitted and Reinsurance Reform Act [NRRA], states cannot prohibit the use of any insurers that appear on the NAIC's Quarterly Listing of Alien Insurers.)  |

| Term   | Synonym(s)                           | Definition  | Clarification/Example  |
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| <b>Broker</b>                                |                                      | A licensed, legal representative of the insured who negotiates with insurance companies on behalf of the insured.                       | A broker may place insurance coverages with more than one insurer, and is often involved in the placement of very large or unusual risks. Although the broker represents the insured, the broker commission is paid by the insurer. Since the Broker represents the insured, no appointment or affiliation is required for the Broker to transact business in a state. <i>See Agent or Producer.</i> |
| <b>Broker/Dealer</b>                         |                                      | A firm that acts as an intermediary between buyers and sellers of securities for both the general public and other broker/dealer firms. |  |
| <b>Business Entity</b>                       |                                      | A corporation, association, partnership, limited liability company, limited liability partnership or other legal entity.                |  |
| <b>Captive Agent</b>                         | Exclusive Agent, Controlled Agent    | An agent who has contracted to represent only one insurance company and its affiliates.   |  |
| <b>Carrier</b>                               | Insurance Company, Insurance Carrier | A commercial entity that provides benefits or services and/or undertakes losses.  |  |
| <b>Central Registration Depository (CRD)</b> |                                      | The securities industry's online registration and licensing database, operated by the Financial Industry Regulatory Authority (FINRA).  | The CRD contains professional background information on currently registered and formerly registered brokers and securities firms.   |

| <b>Term</b>                         | <b>Synonym(s)</b>             | <b>Definition</b>  | <b>Clarification/Example</b>   |
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| <b>Certificate of Completion</b>    | Course Completion Certificate | A certificate issued by a course provider to students upon the successful completion of prelicense education and continuing education courses. |  |
| <b>Certificate of Good Standing</b> | Certification Letter          | Certificate issued by a state official as evidence that a corporation is qualified and in good standing to do business in that state.          |  |
| <b>Commission</b>                   |                               | Payment made by the insurance company to the producer as compensation for the sale, distribution and/or servicing of a policy.                 | The commission is calculated as a specific percentage of the premium paid, in accordance with the contract between the producer and the insurance company. |
| <b>Common Shares</b>                |                               | A class of shares having no special features and giving no greater rights than any other shares.   |  |
| <b>Concealment</b>                  |                               | The failure of a prospective insured to disclose a fact that is relevant to the acceptance or rejection of the policy application.             | Concealment may also refer to the failure by an applicant for an insurance license to disclose a material fact to the state insurance department.          |
| <b>Contract</b>                     |                               | A legal agreement between two parties promising a certain performance in exchange for a certain consideration.                                 |  |
| <b>Corporation</b>                  |                               | An entity created under, and governed by, the laws of a state of incorporation.  |  |
| <b>Countersignature</b>             |                               | The signature of a resident licensee or representative of the insurer on an  |  |

| Term                         | Synonym(s) | Definition   | Clarification/Example   |
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|                              |            | insurance policy sold by a nonresident licensee.   |   |
| <b>Credit Life Insurance</b> |            | Life insurance designed to pay the balance of a loan (usually repayable in installments) if the insured dies before the loan has been repaid in full.            | Generally, credit life insurance is handled by a bank, department store or finance company. This type of insurance is usually written on a group basis, but may also be written on an individual basis.   |
| <b>Credit Report</b>         |            | A detailed report, obtained from a professional reporting company, regarding the financial status of an individual or entity.                                    | A Credit Report usually includes personal data, a credit history summary, detailed account information, a list of inquiries into the subject's credit history, and details of any accounts turned over to a credit agency.  |
| <b>Diligent Search</b>       |            | The requirement that a broker approach a minimum number of admitted insurers prior to going to the non-admitted market for a needed coverage.                    | <p>In most cases, the Retail Broker is responsible for performing the diligent search and providing the results and information to the Surplus Lines Broker or Wholesaler. The Surplus Lines Broker then completes the required surplus lines filing(s).</p> <p>While several states provide exemptions from diligent search requirements, an insured's request to omit the diligent search usually does not relieve the Surplus Lines Broker of the requirement. This can be a source of friction between the broker and the insured, so the best approach is to address the need for the diligent search with the insured early in the process.</p> |
| <b>Direct Writer</b>         |            | A company that sells insurance to the public only through employees licensed as agents and/or captive licensed agents who are compensated on a commission basis. |   |

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| <b>Domestic Company</b>   |                        | An agency or insurance company incorporated or organized under the laws of the state in which the insurance is written.   |  |
| <b>Domicile State</b>     |                        | The state in which a business entity was incorporated or organized.   |  |
| <b>Exempted Coverages</b> |                        | Certain coverages that may be exempted by some states from the reporting and payment of surplus lines taxes and fees.   | The exemptions must be carefully reviewed and understood, and applicable licensing requirements must be followed. In some states, only certain types of insureds, such as “industrial insureds” or “commercial policyholders,” may qualify for Exempted Coverages. |
| <b>Export List</b>        |                        | A list of coverages that are exempt from Diligent Search requirements (thereby allowing the Surplus Lines Broker to go directly to the surplus lines market without having to conduct a Diligent Search). | Many states publish an Export List, although they may call the list by a different name, such as Alaska’s “Placement List.” See <i>Diligent Search</i> .   |
| <b>Fictitious Name</b>    | Doing Business As, DBA | A name an individual or entity chooses to use in lieu of the individual’s or entity’s true name.  | A fictitious name may be used for various reasons, including if the true name is unavailable.  |
| <b>Fidelity Bond</b>      |                        | An insurance policy that reimburses an employer for losses resulting from the dishonest acts of employees.  | The policy may be written to cover specific employees or all employees.  |
| <b>Fingerprint</b>        |                        | The process of using an applicant’s fingerprints to check for possible criminal history, as required by some states prior to issuance of a license.   |  |

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| <b>Foreign Company</b>                                 | Foreign Corporation, Alien Insurer, Alien Corporation   | An agency or insurance company operating in a state other than the state in which the entity was incorporated or organized.   |   |
| <b>Fraternal Insurance</b>                             |   | A cooperative type of insurance provided by a social organization for its members (e.g., life insurance offered by the "Knights of Columbus").  |   |
| <b>Generally Accepted Accounting Principles (GAAP)</b> |   | The standards and guidelines for financial accounting used in any given jurisdiction.   | GAAP includes the standards, conventions, and rules accountants follow in the preparation of financial statements.  |
| <b>Hard/Soft Market</b>                                | Hard Market also referred to as Seller's Market; Soft Market also referred to as Buyer's Market | The condition of the insurance market.  | Based on economic supply-and-demand principles, the insurance market has proven to be cyclical, transitioning back and forth over time from "soft" to "hard."<br><br>During a Soft Market, insurance products are generally more available and usually offered at lower premiums rates, so insurers and producers must sell higher volumes in order to maintain earning levels. During a Hard Market, insurance is harder to obtain and generally more expensive because insurers tend to rescind some of the lower-premium products and enhanced coverages offered during the preceding Soft Market. |
| <b>Health Insurance</b>                                |   | A broad term covering the various forms of insurance relating to the health of individuals, including coverages such as accident, sickness, disability, and hospital and medical expense. |   |

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| <b>Home State</b>                       |  | The state or territory of the United States (including the District of Columbia) in which an individual or entity maintains a principal place of residence or principal place of business and is licensed to act as an insurance producer. |   |
| <b>Independent Agent</b>                |  | A licensed insurance producer who sells insurance as an independent contractor while representing one or more insurers of the producer's choosing.   | Independent Agents are paid on a commission basis, and own and control their accounts, policy records and renewals.   |
| <b>Independently Procured Insurance</b> | Self-Procured Insurance, Directly Procured Insurance | Insurance procured directly by an insured from a non-admitted insurance company, without the use of a Broker or Surplus Lines Broker.  | Because insureds are not regulated by state insurance departments, they can usually go to the non-admitted market without completing a diligent search of the admitted market, and are not restricted to the use of eligible or authorized surplus lines insurers. Many states impose a premium tax on Independently Procured Insurance policies, which the insured must file and pay.              |
| <b>Just in Time Appointment (JIT)</b>   |  | An appointment submitted to the state insurance department by an insurer after the producer has sold and submitted his/her first policy for the company.   | Not all states permit Just in Time Appointments. Those that do allow JIT do so on the condition that the agent has a valid license. The company must appoint the agent within the period of time specified by the state (often 15 days) after the date the agency contract is executed or the date the agent's first piece of business is submitted, whichever comes first. <i>See Appointment.</i> |
| <b>License</b>                          |  | A legal document issued by a state insurance department to an individual or entity, authorizing the individual or entity to transact the business of insurance under the guidelines established by the insurance laws of that state.       |   |

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| <b>Managing General Agent (MGA)</b>   |  | An individual or entity authorized by an insurance company to manage all or a part of the insurer's business in exchange for a commission or fee.   | Activities performed by a Managing General Agent on behalf of the insurer may include marketing, underwriting, issuing policies, collecting premiums, appointing and supervising other agents, paying claims, and negotiating reinsurance. Many states regulate the activities and contracts of MGAs. |
| <b>Material Misrepresentation</b>     |  | A direct or indirect false statement, or an omission of a material fact, used to mislead the insurance company regarding material facts affecting the issuance of a policy or the settlement of a loss.   | Material Misrepresentation may also refer to an applicant's use of a direct or indirect false statement, or the omission of a material fact, when applying to the state insurance department for an insurance license.  |
| <b>National Producer Number (NPN)</b> |  | A unique number assigned by the National Insurance Producer Registry (NIPR) that identifies each individual and entity in the Producer Database (PDB). <i>See Producer Database (PDB).</i>  | The NPN assigned to an individual or entity will remain the NPN for that individual or entity indefinitely. NPNs are not reused.  |
| <b>Negotiate</b>                      |  | The act of conferring directly with, or offering advice directly to, a purchaser or prospective purchaser of an insurance contract concerning any of the substantive benefits, terms or conditions of that contract, provided that the person engaged in that act either sells insurance or obtains insurance from insurers for purchasers. |   |
| <b>No Par Value Shares</b>            |  | Shares for which the articles of incorporation do not set a par value and that may therefore be issued for any consideration determined by the company's board of directors. <i>See Par Value.</i>  |   |

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| <b>Non-Admitted Company</b>    | Surplus Lines Company, Unauthorized Insurer | An insurance company not licensed to transact the business of insurance in the state in which the risk is located.  |  |
| <b>Nonprofit Insurer</b>       |   | A classification that, under special state laws, entitles an organization to provide hospital, medical or dental insurance on a nonprofit basis.  |  |
| <b>Override Commission</b>     |   | A commission paid to an agency or individual for a percent of business produced by its affiliated producers or sub-licensees.   |  |
| <b>Par Value</b>               |   | The minimum price of shares, below which the share cannot be issued, as designated in the company's articles of incorporation.  |  |
| <b>Personal Lines</b>          |   | Insurance coverages intended to protect individuals and their families.   |  |
| <b>Principal</b>               |   | The individual whose honesty, fidelity, or ability to perform is guaranteed by a fidelity or surety bond.   |  |
| <b>Producer Database (PDB)</b> |   | An electronic database that serves as a central repository for the license and appointment information of insurance producers and adjusters, as provided by the state insurance departments. Every state participates in the PDB. |  |

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| <b>Public Adjuster</b>                                |  | An insurance claims adjuster who, for a fee, acts on behalf of the policyholder in appraising a loss and negotiating a claim settlement with the insurance company.   |  |
| <b>Rebating</b>                                       |  | Offering a portion of the premium or the producer's commission, or giving anything of value (or any valuable consideration not specified in the policy) to any party as an inducement to purchase or renew an insurance policy.                           | Rebating is illegal, and both parties are considered guilty when it is done knowingly. |
| <b>Reciprocal Agreement</b>                           |  | A mutual agreement between two states whereby the particular requirements of one state are recognized as fulfilling the requirements of the other state.  |  |
| <b>Regulatory Information Retrieval System (RIRS)</b> |  | A database maintained by the National Association of Insurance Commissioners (NAIC) that includes information provided by the states regarding formal administrative actions such as suspensions, revocations and fines against individuals and entities. |  |
| <b>Reinsurance</b>                                    |  | An agreement between insurance companies in which one insurer accepts all or part of the risk for the other insurer.  |  |
| <b>Reinsurance Intermediary</b>                       |  | An individual or entity who acts as an insurance producer in soliciting, negotiating or procuring the writing of any reinsurance contract or binder on behalf of an insurer.  |  |

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| <b>Retaliatory</b>         |  | The circumstance, usually applying to licensing fees, under which an individual or entity is charged an amount that is the higher of the fees charged by either the individual's/entity's home state or the nonresident state to which the fee is being paid. |   |
| <b>Sell</b>                |  | To exchange a contract of insurance by any means, for money or its equivalent, on behalf of an insurance company.   |   |
| <b>Sole Proprietorship</b> |  | An unincorporated business with a sole owner.   |   |
| <b>Solicit</b>             |  | Attempting to sell insurance or asking or urging a person to apply for a particular kind of insurance from a specific insurance company.  |   |
| <b>Solicitor</b>           |  | A licensed individual appointed by an agent to solicit insurance, receive policy applications and collect premiums as a representative of the agent. A solicitor may not issue or countersign policies.   |   |
| <b>Split Commission</b>    |  | The situation in which the commission is shared between two or more licensees who have participated in the sale of the insurance policy.<br><i>See Commission.</i>  |   |
| <b>Stamping Office</b>     |  | A non-profit non-governmental agency whose existence is authorized by law and who acts as a liaison between the surplus lines producer and the state insurance department.  | Stamping office duties vary among the 14 states in which they exist. Responsibilities may include evaluation of insurance companies for inclusion on a white list, review of surplus lines policies, and education. Stamping offices are funded by "stamping fees" (filing fees) assessed on each policy of surplus lines insurance written in the state. |

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| <b>Subsidiary</b>               |  | A corporation either wholly owned, or controlled through ownership of a majority of its voting shares, by another corporation.  |   |
| <b>Surety Bond</b>              |  | A bond that guarantees that someone will perform faithfully whatever he or she agrees to do or that someone will make an agreed-upon payment to another party.                                      | For the purpose of limited line licensing, the Surety line does not include Surety Bail Bonds.  |
| <b>Surplus Lines</b>            |  | Insurance products sold by authorized non-admitted companies, who provide access to coverages not available in a particular state.  | In some states, Surplus Lines companies are required to file a special registration with the state insurance department.  |
| <b>Surplus Lines Affidavit</b>  |  | The generic term for a state-required filing made by a surplus lines broker after a surplus lines placement is completed.   | These filings may be made through a state's Surplus Lines Association or directly with the state insurance department.  |
| <b>Surplus Lines Broker</b>     |  | An individual who holds a Surplus Lines license in one or more states. The Surplus Lines Broker can go directly to a surplus lines insurer, but may have to access the market through a Wholesaler. | Some states require a separate exam for the Surplus Lines license, while others view the license as an additional line of authority or allow the issuance of the license upon receipt of an application and fee. <i>See Wholesaler.</i>               |
| <b>Surplus Lines Tax Report</b> |  | A separate tax filing required by states in order to report surplus lines premium and submit the required surplus lines tax payments to the state.  | The report submission schedule (monthly, quarterly, semi-annually or annually) varies by state. Some states require that a Surplus Lines Tax Report be filed even if no surplus lines premium was generated in the state during the reporting period. |
| <b>Termination for Cause</b>    |  | The situation in which an insurer or agency ends its relationship with a producer for one of the reasons set forth in Section 12 of the NAIC's Producer Licensing Model Act (PLMA).                 |   |

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| <b>Third-Party Administrator (TPA)</b> |                           | An entity that, directly or indirectly, underwrites, collects charges or premium, and/or adjusts or settles claims on behalf of a self-funded insurance plan for life, annuity or health coverages.                     |   |
| <b>Title Insurance</b>                 |                           | Insurance that protects an owner's or lender's financial interest in real property against losses from defects in a property title or from the invalidity or unenforceability of a mortgage lien.                       |   |
| <b>Underwriter</b>                     |                           | An individual who accepts or rejects risks on behalf of an insurer (originally, by writing that person's name underneath the contract of insurance being issued).   | The Underwriter evaluates policy applications, determines the risk involved, and decides whether an insurance policy should be issued as requested, offered at a higher premium, or declined. |
| <b>Variable Annuity</b>                | Separate Accounts Annuity | An annuity having a value that will change periodically, creating a variable payout account. <i>See Annuity.</i>  |   |
| <b>Viatical Settlement</b>             | Life Settlement           | A transaction in which the owner of a life insurance policy sells the right to receive the policy's death benefit to a party other than the named beneficiary.  | Typically, the policy's owner/insured receives a cash payment and the buyer agrees to make any remaining premium payments on the policy.  |
| <b>White List</b>                      |                           | A list, published by many states, of eligible or authorized non-admitted insurers. Surplus Lines Brokers are restricted to the use of those eligible or authorized non-admitted insurers for exposures in those states. |   |

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| <b>Wholesaler</b>                     |  | A surplus lines licensee who represents the surplus lines insurance company.  | A Surplus Lines Broker must go through a Wholesaler to obtain surplus lines insurance if the surplus lines insurer has given exclusive rights to its market to that Wholesaler. This action is often referred to as “giving the pen” to the Wholesaler to write coverage on behalf of the insurer, which gives the Wholesaler underwriting and binding authority. |
| <b>Workers Compensation Insurance</b> |  | Protection that provides benefits to employees for any injury or contracted disease arising out of, and in the course of, employment. | All states have laws that require such protection for workers and prescribe the length and amount of the benefits provided.   |