

Comparison of Terms Used in Non-Life Insurance in the US and UK

Kevin Armstrong

COMPARISON OF TERMS USED IN NON-LIFE INSURANCE IN THE US AND UK

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The following document represents the progress to date of the Working Party set up to produce a Comparison of Terms used in the US and UK.

The terms defined are those found either in

- the Glossary of Terms in the UK Subject 403 (General Insurance) Core Reading, or
- the Glossary of Actuarial Terms developed by the Editorial Advisory Committee of the Actuarial Standards Board in the US, or
- both.

Note that where a term is 'not defined', this does not mean that the term has no meaning in the relevant country, merely that it is not defined in the source we have used.

It is still a work-in-progress, but even so begins to address one of the reasons for its existence – it highlights that there are many differences in terminology used in the US and UK.

However, there is still some work to do on it, specifically:

Write definitions, where appropriate, for those entries 'not defined'

For each country, add any terms whose equivalent in the other country is defined

Address any other obvious omissions

Improve cross-reference between definitions

The document represents the distillation of a great deal of information taken from various sources, as well as these mentioned above. Specifically, definitions from the following dictionaries were considered:

- Witherby's Dictionary of Insurance, by Cockerell (UK)
- Dictionary of Insurance, by Bennett (UK)
- Dictionary of Insurance Terms, by Rubin (US)

It is likely, however, that definitions in the first two sources mentioned will be used almost without exception. This will ensure a consistency of style, within columns if not between columns. Exceptions might be where a particular US or UK definition can obviously be improved.

I am grateful for the assistance of David Hart and Herb Desson in getting this far, but we would all welcome any further offers of assistance in completing the task. I can be contacted at the Institute of Actuaries.

TERM	403 GLOSSARY DEFINITION	ACTUARIAL STANDARDS BOARD
Accident basis	Not defined.	A concept of policy coverage that applies to claims arising from accidents that take place during the term of the policy; distinguished from claims-made basis, occurrence basis.
Accident year	An accident year grouping of claims means that all the claims relating to events that occurred in a 12 month period are grouped together, irrespective of when they are actually reported or paid and irrespective of the year in which the period of cover commenced.	Accident year losses: Data gathered on losses, attributing to a given year the total cost of losses that occur in that year, regardless of when the losses are reported or recorded.
Accounting classes	The different classes of insurance business for the purpose of statutory returns. There are currently ten different accounting classes (e.g. accident & health, motor vehicle, general liability) which cover the eighteen different classes of business for authorisation purposes.	Not defined.
Acquisition costs/ Acquisition expenses	Not defined.	Acquisition expense: The cost of acquiring business, including but not limited to commissions and brokerage fees, underwriting expenses, and field supervision expenses.
Act of God	Not defined.	Not defined.
Actual total loss	A form of total loss, defined by the Marine Insurance Act 1906. Actual total loss is deemed to occur in one of three ways: (1) where the insured item is totally destroyed, (2) where it is so damaged that it can no longer be classed as the type of object originally insured, (3) where the insured is irretrievably deprived of the insured item.	Not defined
Additional reserve for unexpired risk	The reserve held in excess of the unearned premium reserve, to allow for any expectation that the unearned premium reserve will be insufficient to cover the outstanding risk in respect of the unearned expenses. See also Unexpired Risks Reserve.	Not defined
Adjustment premium	The adjustment premium is a further premium payable at the end of a period of cover. This may result from the use of retrospective experience	Not defined

	rating or from a situation where the exposure cannot be adequately determined at the start of the period of cover.	
Agents' balances	Moneys, typically premiums, which belong to an insurer but are held by an agent.	Not defined
Aggregate excess of loss reinsurance	A form of excess of loss reinsurance which covers the aggregate of losses, above an excess point and subject to an upper limit, sustained from a single event or from a defined cause (or causes) over a defined period, usually one year.	Not defined
Allocated loss adjustment expenses reserve	Not defined.	A liability as of a valuation date for ALAE to be paid in the future on claims that have been incurred as of that date.
Allocated loss adjustment expenses (ALAE)	Not defined.	Expenses incurred in investigating and settling claims that are assigned to specific claims or groups of claims as prescribed in statistical data reporting plans or financial accounting rules.
All risks	A term used where the cover is not restricted to specific events such as fire, storm, flood etc. The cover is for loss, destruction or damage by any cause not specifically excluded. The exclusions will often be inevitabilities such as wear and tear. The term is sometimes loosely used to describe a policy that covers a number of specified risks, though not all.	Not defined
Anti-selection	An insurer is exposed to the risk of anti-selection if a policyholder can make use of information not available to the insurer to obtain insurance cover that would not have been granted if the insurer had had the information, or to obtain cover on more favourable terms than would have been granted by the insurer. An insurer may also be exposed to the risk of anti-selection by failing to make use of available, relevant information.	The actions of one or more individuals, acting for themselves or for others, who are motivated directly or indirectly to take advantage of a risk classification system, contract option, or company practice for their own benefit; also known as adverse selection.
Assigned risk	Not defined.	A person or other entity obtaining insurance coverage through an assigned risk plan or assigned risk pool.
Assigned risk plan	Not defined.	A market device that provides

		insurance for individuals or other entities than cannot obtain coverage from an insurer on a voluntary basis, by assigning such entities to insurers participating in the plan; distinguished from assigned risk pool, joint underwriting association.
Assigned risk pool	Not defined.	A market device that provides insurance for individuals or other entities than cannot obtain coverage from an insurer on a voluntary basis, by sharing premiums and losses for such entities among insurers participating in the pool; distinguished from assigned risk plan, joint underwriting association.
Average	<p>(1) In non-marine insurance, the term relates to the practice of scaling down the amount of a claim by applying the ratio of the actual sum insured to the amount deemed to have been the appropriate sum insured.</p> <p>(2) In marine insurance, the term is generally used to describe damage or loss.</p>	Not defined.
Balance of a reinsurance treaty	The ratio of the total premiums receivable by a reinsurer under a surplus treaty to the reinsurer's maximum liability for any one claim, based on EML.	Not defined.
Basic limits	Not defined.	A prescribed set of policy limits used to standardise the collection of experience.
Benchmark	A benchmark is a claim reporting or payment pattern derived from external sources.	Not defined.
Betterment	Not defined.	Not defined.
Bond	Not defined.	Not defined.
Bonus Ifunger	The reluctance of policyholders under an NCD system to notify claims or claim amounts when faced with a potential increase in premiums.	Not defined.
Bonus-malus	A bonus-malus system is a no-claim bonus (or no-claim discount) system in which the premium level reached after a policyholder has made claims may be higher than that corresponding to the point of entry. The term is used throughout	Not defined.

	Continental Europe and elsewhere.	
Bordereau	A detailed list of premiums, claims and other important statistics provided by ceding insurers to reinsurers, so that payments due under a reinsurance treaty can be calculated.	Not defined.
Break-up basis	A valuation basis which assumes that the writing of new business ceases. Also known as a wind-up basis.	Not defined.
Bulk reserves	Not defined.	A liability for losses with or without LAE or ALAE not attributable to specific claims.
Burning cost	The actual cost of claims paid or incurred during a past period of years expressed as an annual rate per unit of exposure. This is sometimes used, after adjustment for inflation, as a method of calculating premiums for certain types of risks or monitoring experience, e.g. motor fleets and non-proportional reinsurance.	Not defined.
Business interruption	Insurance cover for financial losses arising following damage (e.g. a fire) to business premises. Also called loss of profits or consequential loss insurance.	Not defined.
Cancellation	A mid-term cessation of a policy, which may involve a partial return of premium.	Not defined.
Capacity	The amount of premium income that an insurer is permitted to write or the maximum exposure that could be accepted. It could refer to an insurance company, a Lloyd's Name, a Lloyd's syndicate or a whole market.	Not defined.
Captive	An insurer wholly owned by an industrial or commercial enterprise and set up with the primary purpose of insuring the parent or associated group companies and retaining premiums and risk within the enterprise. Some insurers are set up with the primary purpose of selling insurance to the customers of the parent. These are often known as captives, but, as they write third party business, should not properly be so called. If the word captive is used without qualification it precludes this interpretation.	Not defined.

Case by case estimation	A method of determining the reserve for outstanding reported claims. Each outstanding claim is individually assessed to arrive at an estimate of the total payments to be made.	Case method (health): A claim reserve method whereby a liability is established for each open claim based on a judgement as to expected future payments taking into account all relevant factors. Case reserve (property/casualty): The amount a claims professional determines as appropriate to value the unpaid portion of a reported claim, group of reported claims, or allocated loss adjustment expenses based on the information available at a valuation date.
Casualty insurance	Specifically the term is used in the USA, and to a lesser extent in the UK, as an alternative to liability insurance. In a wider context casualty insurance may cover all non-life insurances.	Not defined.
Catastrophe	In the context of general insurance a catastrophe is a single event which gives rise to exceptionally large losses. The exact definition often varies and is often dependent on excess of loss wordings. e.g. it might mean all losses, in a 72 hour period, arising from a wind storm.	Not defined.
Catastrophe reinsurance	This is a form of aggregate excess of loss reinsurance providing coverage for very high aggregate losses arising from a single event, which may be spread over a number of hours; 24 or 72 hours is common.	Not defined.
Catastrophe reserve	A reserve built up over periods between catastrophes to provide some contingency against the risk of catastrophe.	Not defined.
Ceding company (cedant)	An insurance company which passes (or cedes) a risk to a reinsurer.	Not defined.
Central fund (Lloyd's)	A contingency reserve built up from contributions by Lloyd's Names and held by Lloyd's as a layer of protection for policyholders.	Not defined.
Cession	Not defined.	Cede: Transfer of a risk from an insurance company to a reinsurance company.
Chain ladder method	A statistical method of estimating outstanding claims, whereby the weighted average of past claim development is projected into the future. The projection is based on the	Not defined.

	<p>ratios of cumulative past claims, usually paid or incurred, for successive years of development. It requires the earliest year of origin to be fully run-off or at least that the final outcome for that year can be estimated with confidence.</p> <p>If appropriate, the method can be applied to past claims data that have been explicitly adjusted for past inflation.</p>	
Claim	A request by a policyholder for payment following the occurrence of an insured event. A claim does not necessarily lead to a payment.	A demand for payment under the terms of a plan or insurance contract.
Claim amount distribution	A statistical frequency distribution for the amounts of claims.	Not defined.
Claim cohort	A group of claims with a common period of origin. The period is usually a month or a quarter or a calendar year. The origin varies but is usually defined by the date of occurrence, by the date of reporting, or by the date of payment of a claim.	Not defined.
Claim cost inflation	The rate of increase in the cost of claim payments. It is likely to be influenced by many different types of inflationary force, e.g. general or specific salary inflation, general or specific price inflation, court award inflation.	Not defined.
Claim frequency	The number of claims in a period per unit of exposure, such as, the number of claims per vehicle year for a calendar year or per policy over a period.	The number of claims per unit of exposure for a period of time (commonly one year).
Claim frequency distribution	A statistical frequency distribution for claim frequency.	Not defined.
Claim handling expense provision	<p>A provision or reserve to cover the estimated expenses of settling all claims, reported and unreported, outstanding at the accounting date; often known as Unallocated Loss Adjustment Expenses (ULAE) after the US.</p> <p>It excludes external expenses and those which can be directly attributed to the settlement of individual known claims (such as legal expenses and claims assessors' fees) as these are</p>	<p><u>Loss adjustment expense reserve:</u> The sum of Allocated Loss Adjustment Expenses and Unallocated Loss Adjustment Expenses.</p>

	commonly identified in statistics as a form of claim payment and thus provided for within the provision (or reserve) for outstanding claims. In the US these would be known as Allocated Loss Adjustment Expenses (ALAE). It usually includes expenses that are not directly attributable to specific claims such as salaries of claims department staff and premises cost allocations.	
Claim ratio	The ratio of paid or incurred claims to earned premiums over a defined period. Alternatively it may be the ratio of paid or incurred claims on business written in an underwriting period to the written premiums for that period. It may be either net or gross of reinsurance. Also often called the loss ratio.	Loss ratio: A ratio of claim amounts or losses to premium.
Claim run-off analysis	A tabulation showing the speed of settlement for cohorts of claims. Also called a claims delay table. The analysis may be in terms of claim numbers or claim amounts. It is often presented as an intermediate step in a chain ladder method projection.	Not defined.
Claims incurred	Claims that have occurred, irrespective of whether or not they have been reported to the insurer. See also incurred claims.	Incurred claims: 1 (health, life) - The claim amounts paid or payable for claims covered by a policy or group of policies attributable to a specific coverage period provided by the policy or policies 2 (property/casualty) - The number of claims attributable to a specific coverage period provided by a policy or group of policies; distinguished from incurred losses.
Claims made policy	A policy which covers all claims reported to an insurer within the policy period irrespective of when they occurred. The type of cover provided by such a policy is known as claims made cover.	Claims-made basis: A concept of policy coverage which applies to claims that are reported during the policy term that occurs subsequent to the retroactive date of claims-made coverage; distinguished from <i>accident basis, occurrence basis</i> .
Claims notified/reported	Claims that have been incurred and which have been notified or reported to the insurer. It is often used in relation to those claims reported	Not defined.

	during the accounting period.	
Claims-occurring policy	See losses-occurring policy.	Not defined.
Closed claims	Not defined.	Claims on which no further payments are anticipated by the insurer.
Closed year	A year for which provisions for all future claims arising in the year are established. Under the system of three-year accounting an underwriting year is closed at the end of three years from the start of the underwriting year (or other period as appropriate) when the results for the year are determined and a profit (or loss) is struck. The underwriting years not closed are "open". In the company market the accounting convention is to carry any outstanding liabilities into the next open underwriting year as a notional reinsurance transfer premium. In the case of a Lloyd's syndicate any outstanding liabilities are dealt with by an actual premium payment called a Reinsurance to Close (RITC).	Not defined.
Co-insurance	A method of sharing a risk among a number of direct insurers, each of which has a separate direct contractual relationship with the insured and is, therefore, liable only for its own contractual share of the total risk. The term is also used in certain excess of loss contracts to refer to the proportion of claims retained by the cedant.	Not defined.
Combined ratio	The sum of the claim ratio and the expense ratio (and thus not a ratio itself, unless the two separate ratios have the same denominator). Also called the operating ratio or underwriting ratio. The fact that the denominators for the claim and expense ratio are different, can give rise to anomalies.	Not defined.
Commercial lines	Classes of insurance for businesses. Those for individuals are usually referred to as Personal Lines.	Not defined.
Composite insurer	A single insurance company writing both life and non-life business.	Not defined.
Consequential loss	See business interruption.	Not defined.
Constructive total loss	An expression defined by the Marine Insurance Act. Constructive total	Not defined.

	loss is where the insured abandons the insured item because an actual total loss is unavoidable or because the costs of preventing a total loss exceed the value saved.	
Co-reinsurance	Similar to co-insurance, but referring to reinsurance of a risk rather than insurance.	Not defined.
Cover note	A note issued by an insurance company to confirm the existence of insurance cover pending the issue of formal policy documentation. A cover note is particularly useful where the policyholder is under a statutory obligation to be covered by insurance and may be required to show evidence of cover, for example third party motor insurance.	Not defined.
Credibility	A statistical measure of the weight to be given to a statistic. This often refers to the claims experience for a particular risk (or class) as compared with that derived from the overall experience of a corresponding parent or larger population. The measure is used to determine a premium when using experience rating. For example a company may give full credibility to any motor fleet expected to give rise to 1000 claims in a period (i.e. use a burning cost approach alone) but would only give partial credibility or weight to the burning cost experience of smaller schemes, and may use weighted averages in rating. The weight applied to the actual burning cost in that case would be referred to as the Credibility Measure or Weight, following a Bayesian type approach to risk evaluation.	A measure of the predictive value that the actuary attaches to a particular body of data. <u>Credibility factor:</u> A factor applied to adjust experience to reflect the credibility of the experience for the purpose of making projections.
Deductible	The portion of an insured loss borne by the policyholder. The amount or percentage is specified in the policy.	Not defined.
Deep pocket syndrome	A situation where claims are made based on the ability of the defendant to pay rather than on share of blame. An injured party will try to blame the party with the greatest wealth (i.e. deepest pocket) where there is more than one potential defendant.	Not defined.
Deferred	A deduction from unearned	Deferred policy acquisition cost asset

acquisition costs (DAC)	premiums, as they become earned, for acquisition and commission costs.	(DPAC): Under GAAP accounting, the unamortized portion of those policy acquisition expenses that vary with, and are primarily related to, the acquisition of new and renewal insurance contracts and coverages (similar to ASOP No. 10).
Delay table	See claims-run off analysis.	Not defined.
Deposit premium	A premium paid at the start of a period of cover, which may be followed by an adjustment premium when all the relevant rating data are known. On certain contracts adjustments also relate to the claims experience emerging.	Not defined.
Development	Not defined.	Change in the value of a data element evaluated at successive valuation dates.
Development factors	The factors emerging from a chain ladder calculation which are the ratios of claims in successive development years. Sometimes known as link ratios.	An expression of the observed mathematical relationship of a data element evaluated at successive valuation dates.
Diagnosis-related grouping (DRG)	Not defined.	A system for classifying medical and hospital claims for payment on the basis of diagnoses.
Direct business	The primary cover provided by the insurer for the insured policyholder, as opposed to any reinsurance cover provided for the insurer. Also known as Primary business.	Not defined.
Disallowed claim frequency	The claim frequency calculated using only the number of claims disallowed under an NCD scheme (as opposed to the claims that are allowed not to be counted as claims for the purpose of the scheme).	Not defined.
Discounted reserve	Not defined.	The present value calculated at selected interest rate(s) and payout pattern(s) of the payment of outstanding losses, LAE or ALAE; distinguished from full value reserve.
Discovery period	A time limit, usually defined in the policy wording or through legislative precedent, placed on the period within which claims must be reported. It generally applies to classes of business where several years may elapse between the occurrence of the event or the awareness of the condition that may	Not defined.

	give rise to a claim and the reporting of the claim to the insurer e.g. employer's liability or professional indemnity.	
Earned premiums	The total premiums attributable to the exposure to risk in an accounting period; can be gross or net of adjustment for acquisition expenses and gross or net of reinsurance. It is often used to describe a measure of exposure (e.g. in claims ratios), but also has a similar accounting definition.	<ol style="list-style-type: none"> 1. The portion of the premium for a policy or group of policies attributable to a period of coverage. 2. Written premium adjusted for changes in the unearned premium reserve for a calendar period.
Eths method	A basis for estimating unearned premium reserve, based on the assumption that annual policies are written evenly over each quarter and the risk is spread evenly over the year. For example, policies written in the first, second, third and fourth quarter of each year are assumed to contribute one-eighth, three eighths, five-eighths and seven-eighths respectively of the quarters' written premium to the unearned premium reserve at the end of the year.	Not defined.
Endorsement	Some change to the policy wording, usually following a change in the risk covered, which takes effect during the original period of insurance. Usually, but not necessarily, accompanied by an alteration in the original premium.	Not defined.
Equalisation reserve	A reserve built up to provide a cushion against periods with worse than average claims experience.	Not defined.
Escalation clause	A policy clause which permits the insurer to raise automatically the level of benefits or sum insured (and therefore the premium) in line with some form of inflation index.	Not defined.
Estimated (or expected) maximum loss (EML)	The largest loss which is expected to arise from a single event. This may well be less than either the market value or the replacement value of the insured property and is used as an exposure measure in rating certain classes of business. See also the two terms probable or possible maximum loss (PML).	Not defined.
Event	An occurrence, usually one that may lead to one or more claims. For	Not defined.

	example a fire, storm, etc. Events may be insured or uninsured.	
Excess	Amount of any loss that is not included in the cover provided (e.g. a loss falling below the excess is not a claim). A deductible on the other hand eats into the cover. This difference only really matters where there is an upper limit on the amount of cover such as reinstatements or an annual aggregate.	Not defined.
Excess of loss (XL) reinsurance	A form of reinsurance whereby the reinsurer indemnifies the cedant for the amount of a loss above a stated excess point usually up to an upper limit. The excess point and upper limit may be fixed or indexed as specified in a stability clause. Usually this type of reinsurance relates to individual losses, but it can be a form of aggregate excess of loss reinsurance covering the total of all losses in a period and subject to a total aggregate claim limit.	Not defined.
Excess of loss ratio reinsurance	Not defined.	Not defined.
Exception	Not defined.	Not defined.
Exclusion	An event, peril or cause defined within the policy document as being beyond the scope of the cover.	Not defined.
Expense ratio	The ratio of management expenses plus commission to premium (usually calendar accounted expenses to written premium).	Not defined.
Experience rating	A system by which the premium of each individual risk depends, at least in part, on the actual claims experience of that risk usually in an earlier period, but sometimes in the period covered. This latter case is sometimes referred to as Swing Rated or Loss Sensitive, and there are often upper and lower limits called a "collar".	A prospective or retrospective premium adjustment process based on actual experience of a policyholder or group of policyholders.
Expiry date	The date on which the insurance cover for a risk ceases.	Not defined.
Exposure	This term can be used in three senses: 1. the state of being subject to the possibility of loss; 2. the measurable extent of risk; 3. the possibility of loss to insured property caused by its	1. Measure of the extent of risk and/or possibility of loss; 2. The number of items subject to possibility of loss.

	surroundings.	
Exposure unit	The basic unit used by the insurer to measure the amount of risk insured, usually over a given period and usually used directly in rating with premiums expressed as the rate: exposure unit times the number of units for the risk. For example, sum insured year or vehicle year.	Exposure base: 1. the number of exposure units used to determine the premium or pure premium for a policy or group of policies; 2. a unit such as payroll, receipts, area, gate receipts, automobiles, etc used to measure exposure.
Facultative reinsurance	A reinsurance arrangement covering a single risk as opposed to a treaty arrangement; commonly used for very large risks or portions of risk written by a single insurer, that are shared among several reinsurers.	Not defined.
Facultative-obligatory reinsurance	A facultative reinsurance facility with an obligation placed on the reinsurer to accept.	Not defined.
Financial risk reinsurance	This is a form of reinsurance involving less underwriting risk transfer and more investment or timing risk transfer from the cedant. These contracts are often on a multi-line, multi-year basis. They typically absorb at least the cost associated with claims differing from expected claims experience, and often carry excess of loss terms and multiple options. Premiums usually reflect the time value of money to a larger extent than traditional excess of loss contracts.	Not defined.
Fine arts insurance	Not defined.	Not defined.
Finite risk insurance or reinsurance	A form of financial reinsurance which provides a defined upper limit to the total amount of payment.	Not defined.
First loss	A form of insurance cover in which the sum insured is less than the full value of the insured property, so that the policyholder has to bear any loss in excess of the sum insured. It is appropriate in circumstances where the policyholder considers that a loss in excess of the sum insured is extremely unlikely or the item is effectively priceless. It is commonly used in fire business.	Not defined.
Fleet	A group of vehicles, ships or aircraft that are insured together under one policy. Sometimes these are subject to different rating approaches from those that would apply to individual	Not defined.

	risks.	
Fleet rating	<p>The process of determining premium rates for fleets.</p> <p>Different techniques will be used from those that would be used for the individual risks in a fleet, largely based on the size of the fleet and the amount of claims history available. For example, while small fleets may be largely rated according to book rates per vehicle with some adjustment for expense savings, some form of experience rating will be used for larger fleets with the credibility increasing with the size of the fleet.</p> <p>In Marine Hull insurance, fleet rating will aim to incorporate the characteristics of a fleet (for example ones under common management) into the rating process, as well as the risk characteristics of the individual ship. Advanced statistical rating techniques could be applied although simpler rating techniques are used in practice.</p>	Not defined.
Force majeure	Not defined.	Not defined.
Franchise	<p>A minimum percentage or amount of loss which must be attained before insurers are liable to meet a claim. Once it is attained the insurers must pay the full amount of the loss.</p>	Not defined.
Free reserves	<p>The excess of the value of an insurer's assets over its technical reserves and current liabilities. Sometimes referred to as shareholders' funds or net asset value.</p>	Not defined.
From the ground up	<p>A statement of an original insurer's experience of a class of business offered for reinsurance is said to be from the ground up when it shows the number and distribution by amount of all claims however small even though reinsurance is required for large claims only. Also, ground up loss distributions are used to evaluate the impact of different levels of deductible on other insurances such as motor. Analyses often entail</p>	Not defined.

	simulation techniques to evaluate (re)insured loss distributions	
Full value reserve	Not defined	An undiscounted provision for the payment of outstanding losses, ALAE, or LAE, distinguished from discounted reserve
Functional costing	A process used within an expense analysis to split the expenses of each line department between the different classes of business covered by that department. The process usually relies upon fixing relative unit costs for each of the processes carried out by the department and counting the number of times that each of the processes is carried out over the period in question.	Not defined
Fund accounting	A process whereby a fund is established for future losses for a period or a type of claim against which claims experience is monitored, rather than a prospective approach to evaluating and settling claims reserves.	Not defined
Going-concern basis	The accounting basis normally required for Companies Act accounts, which is based on the assumption that the insurer will continue to trade as normal for the long term future.	Not defined
Grossing-up factor	<p>A factor used to adjust a base figure to an ultimate one. For example:</p> <ol style="list-style-type: none"> (1) The ratio between the ultimate cost and the accumulated payments at a prior development period, as used in statistical claims projection methods, such as the chain ladder method. (2) The scaling-up of claims experience to allow for the expectation of the occasional very large claim. This is used in experience rating of individual claims experience that has been stripped of any very large claims. It is also sometimes used in motor rating to make adequate allowance for large bodily injury liability claims, stripped out of a basic analysis. 	Not defined

Guarantee fund (EU)	The greater of one-third of the SMSM and 400,000 ecu. The very minimum level of funding required by EC (and UK) legislation, below which severe action will be taken by the supervisory authorities.	Not defined.
Guarantee fund (US)	<p>This is a US term which is applied in two different ways.</p> <p>(1) In the context of mutual insurers it refers to the amounts policyholders may be called on to pay in addition to their premiums if the insurer is unable to meet its claim liabilities.</p> <p>(2) A premium levy on all insurers within each US state to form a centrally run fund to pay the claims and other outstanding liabilities of insolvent companies.</p>	Not defined.
Hard premium rates	High, profitable premium rates.	Not defined.
Health care cost trend	Not defined.	Changes over time in a unit cost of providing health care benefits.
Home foreign business	General insurance business written in the UK relating to risks which originate or are located outside the UK.	Not defined.
Hours clause	A clause within a catastrophe reinsurance treaty which specifies the limited period during which claims can be aggregated for the purpose of one claim on the reinsurance contract. Commonly 24 or 72 hours.	Not defined.
Inception date	This is the date from which the insurer assumes cover for a risk. This may or may not coincide with premium collection dates.	Not defined.
Incurred but not enough reported (IBNER) reserve	A reserve reflecting expected changes (increases and decreases) in estimates for reported claims only (i.e. excluding any true IBNR claims).	Not defined.
Incurred but not reported (IBNR) reserve	A reserve to provide for claims in respect of claim events that may have occurred before the accounting date but had still to be reported to the insurer by that date. In the case of a reinsurer, the reserve needs to provide for claims that, although	<p>The provision for IBNR claims or IBNR losses as of the valuation date.</p> <p>IBNR claims:</p> <p>Claims that are liabilities of a plan or an insurer but that have not been reported to or recorded by the plan or insurer.</p>

	<p>already known to the cedant, have not yet been reported to the reinsurer as being liable to involve the reinsurer.</p> <p>In certain London Market and reinsurance work, IBNR provisions include any IBNER provisions. Sometimes the terms True or Pure IBNR are used to refer to provisions for claims reported after the valuation date.</p>	<p>IBNR losses: Losses that are liabilities of a plan or an insurer but that have not been reported to or recorded by the plan or insurer.</p>
Incurred claims	<p>(1) In the context of a particular year of origin, all claims (whether reported or not) arising out of incidents in that year.</p> <p>(2) In the context of a revenue account under one-year accounting, the amounts paid on claims during the year plus the increase in the total reserves for outstanding claims over the year. (A decrease in reserves being treated as a negative increase.)</p> <p>(3) In the context of three-year accounting, all claims (whether reported or not) arising from the underwriting year of cover as determined at the time of closure of the account.</p> <p>Typically, incurred claim values include some expenses of paying claims such as those allocated to individual claims.</p>	<p>The number of claims attributable to a specific coverage period provided by a policy or group of policies; distinguished from <i>incurred losses</i>.</p> <p>Incurred losses:</p> <ol style="list-style-type: none"> 1. The losses paid or payable for claims covered by a policy or group of policies attributable to a specific coverage period provided by the policy or policies; 2. Paid losses adjusted for changes in the loss reserve for a calendar period; distinguished from <i>incurred claims</i>.
Incurred losses	Not defined.	<ol style="list-style-type: none"> 1. The losses paid or payable for claims covered by a policy or group of policies attributable to a specific coverage period provided by the policy or policies. 2. Paid losses adjusted for changes in the loss reserve for a calendar period; distinguished from <i>incurred claims</i>.
Indemnity, principle of	The principle whereby the insured is restored to the same financial position after a loss as before the loss. This is typical of most types of insurance. This contrasts with the	Not defined.

	new-for-old basis of settlement, often used in home contents insurance, under which the insured is entitled to the full replacement value of the property without any deduction for depreciation or wear and tear.	
Indemnity limits	Not defined.	Not defined.
Institute of London Underwriters (ILU)	A body of insurance companies transacting mainly marine insurance, whose purpose is to further the interests of insurance by coordinating consistency in policy wordings and conditions between its members and with Lloyd's. The ILU also provides central accounting and administration services, including detailed solvency checks.	Not defined.
Insurance certificate	A certificate provided by an insurer to confirm that the policyholder has insurance cover. Although provided for many types of insurance, its main purpose relates to compulsory insurance where it is a legal requirement as evidence of statutory levels of cover may be required by a third party.	Not defined.
Insurance cycle	The process whereby hard premium rates resulting in an increase in the supply of insurance are followed by soft premium rates due to the increased competition, which in turn causes a decrease in the supply, reduced competition and a return to hard premium rates. This process occurs in all types of insurance though at different speeds and to different degrees.	Not defined.
Insurance cycle		
Inwards reinsurance	Reinsurance business accepted or written by an insurer or reinsurer, as opposed to outwards reinsurance which is ceded to a reinsurer.	Not defined.
Joint underwriting association	Not defined.	An unsubsidised direct insurer of individuals or other entities unable to obtain insurance in the voluntary market; the association is governed by representatives of voluntary market insurers; distinguished from assigned risk plan, assigned risk pool.
Knock-for-knock agreement	An agreement between two insurers specifying how claims costs are shared between them when vehicles	Not defined.

	insured by each of them are involved in the same accident. It specifies that each insurer meets the cost of the damage to the vehicle it has insured without any investigation or allocation of legal liability.	
Lapse	When a policyholder, having been invited to renew the policy, does not do so, the policy is said to lapse and may be referred to as a lapse. The term is typically used on personal lines such as motor or home contents insurance.	Not defined in property/casualty context.
Lapse rate	Usually defined as the ratio of the number of lapses in a defined period to the corresponding number of renewal invitations, but could be another ratio associated with lapses.	Not defined.
Latent claims	Claims resulting from perils or causes which the insurer is unaware of at the time of writing a policy, and for which the potential for claims to be made many years later has not been appreciated. The first claims from these sources may often not be apparent until many years after the period of cover, e.g. asbestosis, pollution, industrial deafness etc.	Not defined.
Lead underwriter	The underwriter who takes the lead in setting premium rates and agreeing policy conditions under a system of coinsurance. A lead underwriter may, or may not, be the lead claims handler depending on market practice and agreements for the class of business.	Not defined.
Letter of credit	A financial guaranty issued by a bank that permits the party to which it is issued to draw funds from the bank in the event of a valid unpaid claim against another party.	Not defined.
Liability	<p>(1) A duty or contract to fulfil an obligation to another person or organisation.</p> <p>(2) A type of insurance, i.e. liability insurance, which is an insurance to meet obligations to third parties, usually arising from accidents or disease causing injury or illness; or in the case of property, or productive capacity, loss of use</p>	Not defined.

	arising from an accident, or in the case of professional indemnity, financial loss arising from an event found by the courts to be the responsibility of the professional involved.	
Line	Mainly the ceding office's retention under a surplus reinsurance treaty. Also used in coinsurance arrangements as the percentage allocated to an insurer.	Not defined.
Line slip	A facility under which the underwriters delegate authority to accept a pre-determined share of certain coinsured risks on their behalf. The authority may be exercised by the leading underwriter on behalf of the following underwriters; or it may extend to the broker or some other agent being authorised to act for all the underwriters.	Not defined.
Lloyd's	A society, incorporated by the Lloyd's Act 1871, that provides a market place and regulatory framework within which individual members may participate in the underwriting of insurance risks on their own account.	Not defined.
Lloyd's broker	An agent approved by the Committee of Lloyd's to place business with Lloyd's underwriters. Except for some of the smaller risks, business written at Lloyd's must pass through a Lloyd's broker.	Not defined.
Lloyd's deposit	Wholly owned, non-assigned assets which must be lodged in trust with the Committee of Lloyd's before a member can write any business. The amount of the Lloyd's deposit, together with the Name's means if they are individuals or their capital if they are incorporated Names, determines the maximum limit of premium income which may be written on their behalf.	Not defined.
Lloyd's Managing Agent	A company appointed to manage the affairs of an underwriting syndicate, appoint the underwriter, and provide technical and administrative services.	Not defined.
Lloyd's special reserve fund	A contingency reserve of limited size which may be built up by individual	Not defined.

	Lloyd's names out of pre-tax income.	
London Market	Insurance and reinsurance business carried out on a face-to-face basis in the City of London.	Not defined.
London Market excess of loss (LMX)	Outwards excess of loss reinsurance in the London Market.	Not defined.
LMX on LMX	Outwards excess of loss reinsurance of LMX business written in the London Market.	Not defined.
Long-tailed business	Types of insurance in which a substantial weight of claims take several years to be notified and/or settled from the date of exposure and/or occurrence.	Not defined.
Loss	What the policyholder may suffer and what insurance is designed to cover.	The economic cost of a contingent event that has taken place, as specified by the terms of a contract; also known as claim amount.
Loss and loss adjustment expense ratio	Not defined.	A ratio of the sum of losses and LAE (or ALAE) to premiums.
Loss cost	Not defined.	See pure premium.
Loss cost multiplier	Not defined.	A factor applied to a loss cost to develop a premium rate.
Losses-occurring policy	As opposed to claims-made policy or a risk attaching policy. Insurance cover is provided for losses occurring in the defined period.	Not defined.
Loss expense reserve	Another expression for any type of claims handling expense provision.	Loss adjustment expenses reserve; The sum of ALAE reserve and ULAE reserve.
Loss ratio	Usually another expression for claim ratio.	A ratio of claim amounts or losses to premiums.
Loss reserve	Another name for claims reserve. The expression is also often used in association with the reserve deposited by a reinsurer with the cedant to cover in part outstanding claims (exact terms would indicate which party received the investment income on associated assets).	An amount determined as of a valuation date for claims incurred but not yet paid or payable; also known as claim reserve.
Moral hazard	The risk that an insured may attempt to take an unfair advantage of the insurer, for example by suppressing information relevant to the assessment of risk or by submitting a false claim.	Not defined.
Motor Insurers Bureau (MIB)	This comprises almost all the insurance companies and Lloyd's underwriters transacting motor insurance in the UK. The Bureau	Not defined.

	undertakes to meet legitimate claims of third parties in respect of liabilities covered by the Road Traffic Act in circumstances where the third party is unable to recover from an insurer because the negligent driver is uninsured or untraced. In the latter case, the payments are limited to non-property damage claims. The costs of claims met by the MIB are financed by a general levy on its members.	
Mutual insurer	An insurer that unlike a proprietary insurer does not have equity shareholders to whom all or part of the profits might be allocated.	Not defined.
Names	The members of Lloyd's, who accept the liability for (and profits from) the risks underwritten in their name.	Not defined.
Net direct premium	Not defined.	Gross premium after returns for policies cancelled or not taken.
Net premium	Usually, the premium net of the cost of reinsurance, although it could mean net of acquisition expenses and/or commission.	Total written premium or earned premium less provision for ceded reinsurance premiums and, on occasion, certain expenses such as commissions. <u>Pure premium:</u> 1. The value of losses and in some cases LAE or ALAE per unit of exposure; 2. The portion of premium that is required to cover losses with or without LAE or ALAE.
Nil claim	A claim that results in no payment by the insurer, e.g. because the claim is found not to be valid, or because the amount of the loss turns out to be no greater than the excess, or because the policyholder has reported a claim in order to comply with the conditions of the policy but has elected to meet the cost in order to preserve any entitlement to no-claim discount.	Not defined.
No-claim discount (NCD)	A form of experience rating in which policyholders are allowed a discount from the basic premium according to a scale which depends upon the number of years since the last previous claim. In practice, the systems often do not count claims	Not defined.

	where the policyholder was not at fault ("allowed claims") and will usually still provide some discount if a claim is made after a previously long claim free period. It is used most often in private car insurance and occasionally in other classes such as household contents and medical expenses insurance.	
Non-proportional reinsurance	Reinsurance arrangements, where the claims are not shared proportionately between the cedant and reinsurer.	Not defined.
Non-technical account	The non-technical account is an account made up from the balance on the technical account plus the balance of the investment income and gains not included in the technical account, plus profits on any other activities less tax, dividends and any other charges.	Not defined.
Occurrence	Not defined.	An accident or continuous or repeated exposure to conditions that result in an insured claim.
Occurrence basis	Not defined.	A concept of policy coverage that applies to claims arising from occurrences that take place during the term of the policy; distinguished from accident basis, claims-made basis.
Office premium	This is the total premium charged for the period of cover. This premium will contain the risk premium, commission, an allowance to cover all other types of expenses, an allowance for any premium tax, a contribution to profits and a contingency loading.	<u>Gross premium:</u> The amount contractually required to be paid or anticipated to be contributed by the policyholder and/or reinsured entity.
One-year accounting	A basis of accounting which presents, at the end of each year of account, the estimated technical account for business exposed during the year.	Not defined.
Open claims	Not defined.	Known claims in the process of review or adjustment or on which further premiums are anticipated by the insurer.
Open year	An underwriting year which is not closed under the system of fund accounting. Typically no contribution to profit is removed from an open year, but any identified deficiency is offset by the use of external funds. See also closed year.	Not defined.
Operating ratio	See combined ratio.	Not defined.

Operative clause	Not defined.	
Original gross premium income (OGPI)	The gross premium income received by an insurer in relation to business that is covered by a non-proportional reinsurance treaty. The reinsurance premium is calculated as a percentage of this OGPI.	Not defined.
Outstanding claims reserve (OCR)	A provision for the estimated amount of claims that have not been settled. It can be interpreted in at least two different ways so care is needed. For example: (1) To include only claims that have been reported; in this case the provision may be called the Reserve for Notified (or Reported) Outstanding Claims. (2) To include all claims not yet settled, i.e. including IBNR, IBNER, re-opened claims and future claims expenses.	<u>Outstanding losses:</u> See loss reserve.
Outwards reinsurance	Reinsurance ceded by an insurer, as opposed to inwards reinsurance accepted.	Not defined.
Over-riding commission	Additional commission paid by a reinsurer to an insurer ceding proportional business, as a contribution towards expenses. The term is often used on primary business written through agents or brokers and refers to any addition to basic commission rates either for volume or profitable business.	Not defined.
Paid losses	Not defined.	1. The losses paid as of the valuation date for claims covered by a policy or group of policies attributable to a specific coverage period provided by the policy or policies. 2. Claim amounts paid during a specific calendar year (or period).
Partial payment	(1) Any claim for less than the full sum insured. (2) Partial claim settlement paid on account, before a claim is finalised or closed.	Not defined.
Peril	A type of event that may cause a loss that may or may not be covered by an insurance policy. An insured peril is one for which insurance cover is provided. Examples of perils that may be covered are fire, theft,	Not defined.

	accident, windstorm earthquake, riot and civil commotion.	
Persistency	A measure of the length of time for which a policy remains on the books before it is lapsed by the insured.	Not defined.
Personal lines	Classes of insurance business offered to individuals, as opposed to commercial lines business or group business, includes private motor, domestic household, private medical, personal accident, travel insurance etc.	Not defined.
Points rating system	A system for calculating the office premium by relating it to points associated with each cell within a rating factor. The higher the risk associated with the cell, the higher the points and the higher the premium. For example, a driver aged 20 would be associated with far more points, and all other things being equal a higher premium, than a driver aged 40. The extended application has now largely removed the need for this simple system.	Not defined.
Pooling	Arrangements where parties agree to share premiums and losses for specific types of class or cover in agreed proportions. To some extent all insurance is pooling but specific pooling arrangements often apply particularly where the risks have very large unit size (e.g. atomic energy risks) or via mutual associations, such as P&I clubs, catering for an industry.	Not defined.
Portfolio claims	Used in proportional reinsurance. The outstanding claims that, together with the portfolio premiums, make up the reinsurance premium required for a portfolio transfer; usually used to transfer obligations from one year of account to the next.	Not defined.
Portfolio premiums	The unearned premiums that together with the portfolio claims make up the reinsurance premium required for a portfolio transfer.	Not defined.
Portfolio transfer	The reinsurance of an entire portfolio at a premium relating to the estimated outstanding claims and unearned premiums under that portfolio.	Not defined.

	Usually used when an insurer has decided to discontinue writing a particular class, or by a reinsurer wanting to close a treaty year and pass on the liability to the following year for administrative reasons.	
Premium at present rates	Not defined.	The premium component of experience adjusted to reflect what such premiums would have been had they been written at current premium rates.
Premium income limit	The amount of premium that a Lloyd's Name may write in a given year, determined by the size of the Name's wealth, deposit and whether or not incorporated.	Not defined.
Premiums trust fund	A fund into which all premiums for a Lloyd's syndicate in a given underwriting year are paid. No moneys may be released from the fund other than any profit on closure and on-going claims and expenses.	Not defined.
Probable (possible) maximum loss (PML)	A measure of exposure used in rating or to judge outwards reinsurance requirements. Can be used as another term for estimated maximum loss depending on the class of business. Possible maximum loss may arise from more remote scenarios than those for probable or estimated maximum loss and therefore carry higher values.	Not defined.
Product costing	Product costing is the calculation of the theoretical office premium to be charged for a particular class of business.	Not defined.
Product pricing	Product pricing is the determination of the actual office premium. This will take account of current market conditions.	Not defined.
Profit commission	Commission paid by a reinsurer to a ceding office under a proportional reinsurance treaty that is dependent upon the profitability of the total business ceded during each accounting period. Also used, in other arrangements, as any commission contingent on the claims experience.	Not defined.
Profit testing	A term used for evaluating the economic value of contracts using net present value techniques i.e.	Not defined.

	proposed premium rates are tested by projecting possible levels of future business, claims, expenses, investment experience and profit. The process may be extended to include all business and so form a model office akin to those used in life companies.	
Proportional reinsurance	A reinsurance arrangement where the reinsurer and cedant share the claims proportionally. Usually, premiums and introduction commissions follow the same proportions. Two types commonly arise: quota share and surplus.	Not defined.
Proprietary insurer	An insurance company owned by shareholders, i.e. not a Lloyd's syndicate or a mutual insurer.	Not defined.
Prospective rating	Not defined.	Not defined.
Protected NCD	A modification to an NCD system whereby a policyholder who has attained a high level of NCD may elect to pay an extra premium in order to be able to make claims without losing future entitlement to discount. There may be a specified limit to the number of claims that can be made without affecting the discount, or the insurer may simply reserve the right to withdraw the policyholder's option to continue on protected NCD.	Not defined.
Protection & indemnity (P & I) clubs	Mutual associations of shipowners that cover, as a pool, risks not traditionally insured by a commercial marine hull policy, e.g. damage to harbours, removal of wrecks, pollution, loss of life and personal injury. They also provide shipowners with technical assistance in the marine market and advise on issues coming before the shipping industry.	Not defined.
Provisions	The practice among accountants is to apply the term provisions to the amounts set aside to provide for liabilities assumed to exist at the accounting date, and to apply the term reserves to amount available to meet liabilities that may arise after that date. Among actuaries, and among practitioners of general insurance it has been widespread	Not defined.

	practice to apply the term reserve to both categories.	
Pure premium	Not defined.	See net premium.
Pure premium at present level	Not defined.	The pure premium component of experience adjusted to reflect pure premiums underlying current premium rates.
Pure premium rate	Not defined.	The portion of the premium rate representing projected losses with or without LAE or ALAE.
Quota share reinsurance	A form of proportional reinsurance where the proportions used in apportioning claims and premiums between the insurer and reinsurer are constant for all risks covered by the treaty.	Not defined.
Ratemaking	Not defined.	The process of establishing premium rates used in insurance or other risk transfer mechanisms.
Rate on line	For non-proportional reinsurance, the total premium charged for the reinsurance divided by the width of the layer covered.	Not defined.
Rating	The process of arriving at a suitable premium for an insurance risk. It is sometimes synonymous with underwriting, though it is strictly just one part of the underwriting process.	Ratemaking: The process of establishing premium rates used in insurance or other risk transfer mechanisms. Rating plan: A formal system for establishing individual insureds' premiums that recognises individual risk characteristics.
Rating basis	The collection of assumptions used to associate the risk premium with the characteristics of the risk being insured.	Not defined.
Rating factor	A factor used to determine the premium rate for a policy, which is measurable in an objective way and relates to the intensity of the risk. It must, therefore, be a risk factor or a proxy for a risk factor or risk factors.	Not defined.
Rating plan	Not defined.	A formal system for establishing individual insured's premiums that recognises individual risk characteristics.
Reciprocity	An arrangement between two insurers who agree to reinsure risks with each other. Commonly used with quota share reinsurance to diversify the insurers' overall portfolios.	Not defined.

Recoveries	Amounts received by insurance companies to offset directly part of the cost of a claim. Recoveries may be made from several different sources, e.g. reinsurers, other insurers, salvage, liable third parties.	Not defined.
Reinstatement	<p>The restoration of full cover following a claim.</p> <p>For higher layers of excess of loss reinsurance, payment of a claim may cause the amount of cover for the remaining period of insurance to be reduced or terminated unless a further premium is paid for reinstatement. Such a premium may also be required, for lower layers of cover, following a number of claims (i.e. there may be a limited number of free reinstatements).</p>	Not defined.
Reinsurance	Insurance purchased by an insurance company in relation to its insurance liabilities.	Reinsurance agreement: Any contractual arrangement whereby some element of risk contained in insurance contracts is transferred from a primary (or ceding) insurer to a reinsuring (or assuming) insurer in return for some consideration.
Reinsurance facility	Not defined.	A market device that provides insurance for individuals or other entities that cannot obtain coverage from an insurer on a voluntary basis, by sharing premiums and losses for such entities among participating insurers.
Reinsurance to close (RITC)	The reinsurance premium, under the Lloyd's system of three year accounting, payable to the following open syndicate year, to cover all outstanding claims liabilities closing the year of account. This reinsurance may also be provided by another syndicate or arrangement as with Equitas accepting the 1992 and prior liabilities of Lloyd's syndicates in 1996.	Not defined.
Reinsurer	An insurer providing reinsurance cover. Some reinsurers do not write any direct or primary insurance business.	Not defined.
Re-opened claim	A claim formerly deemed settled, but subsequently re-opened because further payments may be required.	Not defined.

Replacement	A basis of cover where the insurer pays the cost of replacing the insured item with a similar but new item. Also referred to as "Replacement as new" or "New for old" and contrasts with "the principle of indemnity".	Not defined.
Report year (or period) losses	Not defined.	Data gathered on losses, LAE or ALAE, attributing to a given year (or period) the total cost of losses, LAE, or ALAE that are reported in that year, regardless of when the losses occurred; distinguished from accident year losses.
Reserves	See Provisions.	An amount determined as of a valuation date to provide for future payments.
Retention	The amount (or proportion) of risk retained by the cedant under a reinsurance arrangement or the insured for an insurance.	Not defined.
Retroactive date	Date on which a direct writer commences cover and to which subsequent facultative reinsurance cover is backdated	Not defined.
Retrocession	Reinsurance purchased by a reinsurer in relation to its inwards reinsurance liabilities (i.e. reinsurance of reinsurance).	Not defined.
Retrospective rating	Not defined.	See experience rating.
Return commission	A commission paid by a reinsurer to the ceding company for proportional reinsurance business to recompense the cedant for acquisition expenses.	Not defined.
Risk	Not defined.	<ol style="list-style-type: none"> 1. Uncertainty arising from the possible occurrence of future events. 2. An individual or other entity covered by a financial security system.
Risk attaching basis	A basis under which reinsurance is provided for claims arising from policies commencing during the period to which the reinsurance relates.	Not defined.
Risk-based capital (RBC)	The assessment of the capital requirement for a general insurer by considering the risk profile of the business written and its operations. In the US, the required minimum margins of solvency are determined after considering RBC requirements.	Not defined.

Risk excess of loss reinsurance	Excess of loss reinsurance which relates to individual losses affecting only one insured risk at any one time.	Not defined.
Risk factor	A factor which is expected, possibly with the support of statistical evidence, to have an influence on the intensity of risk in an insurance cover. See also rating factor.	Not defined.
Risk group	The rating cell or risk segment into which particular policies are categorised, within a type of insurance cover. The objective is to achieve a group of policies or risks which have homogeneous characteristics.	Risk classification: The process of grouping risks with similar risk characteristics so that differences in expected costs may be recognised.
Risk premium	The amount of premium required to cover claims expected for a risk, i.e. average claim amount \times average claim frequency. It may alternatively be expressed as a rate per unit of exposure.	See net premium.
Road Traffic Act	The legislation that requires anyone using a motor vehicle on the road to have insurance to cover their legal liabilities to third parties (including passengers) in respect of personal injury and property damage.	Not defined.
Running off	Not defined.	Not defined.
Run-off basis	A valuation basis that assumes an insurer will cease to write new business, and continue in operation purely to pay claims for previously written policies. Typically expenses and reinsurance arrangements change after an insurer ceases to write new business.	Not defined.
Run-off triangle	See claims run-off analysis. The development or run-off triangle may be of claims by amount or number or of premiums.	Not defined.
Salvage	Amounts recovered by insurers from the sale of insured items which had become the property of the insurer by virtue of the settling of a claim.	Not defined.
Self insurance	The retention of risk by an individual or organisation, as distinct from obtaining insurance cover. Large commercial concerns may opt for self-insurance on the grounds that they are avoiding the extra expenses and profit loadings of an insurance	Not defined.

	policy and have sufficiently strong finances to cope with their likely losses. In practice, they will typically still seek insurance against very large losses by having insurance contracts with very high excesses. Effectively, having any non-zero excess implies a level of self-insurance. Owning a captive insurance company is a means of arranging for self-insurance, with cover for very large losses being arranged by the captive by means of reinsurance.	
Short-tailed business	Types of insurance in which most claims are usually notified and/or settled in a short period from the date of exposure and/or occurrence.	Not defined.
Signing down	The process of reducing, pro rata, the proportion of risk that each co-insurer has accepted for a given risk where the slip has been more than 100% subscribed.	Not defined.
Slip system	The face-to-face system used within the London market to co-insure risks. Proposed risks are described by a broker on a standard form (slip); terms and the premium rate are added after negotiation with a lead underwriter (who also signs for a certain proportion of the risk), before the slip is circulated by the broker amongst other underwriters who sign the slip to confirm the proportion of risk that they will accept.	Not defined.
Soft premium rates	Low premium rates. See also hard premium rates.	Not defined.
Solvency margin	Another term for free reserves.	Not defined.
Solvency ratio	The free reserves divided by the net written premiums.	Not defined.
Stability clause	A clause that may be included in a non-proportional reinsurance treaty, providing for the indexation of monetary limits (i.e. the excess point and/ or the upper limit) in line with a specified index of inflation.	Not defined.
Statutory minimum solvency margin(SMSM)	The minimum level by which an insurance company's assets should exceed its liabilities according to EC (and UK) legislation. Often taken to be approximately 20% of net written premiums.	Not defined.
Statutory returns	Annual statements and accounts that	Not defined.

	an insurance company is obliged to file under the UK Insurance Companies Acts and Regulations. The purpose is to enable the authorities to supervise the insurers' liabilities by carrying out a valuation of the insurers' liabilities and comparing with the assets held.	
Stop loss reinsurance	An aggregate excess of loss reinsurance which provides protection based on the total claims, from all perils, arising in a class or classes over a period. The Excess Point and the Upper Limit are sometimes expressed as a percentage of the cedant's premium income rather than in monetary terms, e.g. cover might be for a claims ratio in excess of 110% up to a limit of 140%. Where this form of reinsurance exists in practice, it is usual for the cedant to be required to retain a proportion of the risk in the reinsured layer called the coinsurance proportion, to avoid any moral hazard.	Not defined.
Subrogation	The substitution of one party for another as creditor, with a transfer of rights and responsibilities. It applies within insurance when an insurer accepts a claim by an insured, thus assuming the responsibility for any liabilities or recoveries relating to the claim. For example, the insurer will be responsible for defending legal disputes and will be entitled to the proceeds from the sale of damaged or recovered property.	Not defined.
Sunset clause	Clause defining the time limit within which a claim must be notified, if it is to be valid.	Not defined.
Suretyship	Insurance to provide a guarantee of performance or for the financial commitments of the insured. Also known as fidelity guarantee insurance.	Not defined.
Surplus (US)	A risk which a broker is unable to place with insurers in their own state and for which cover must be sought outside the state.	Not defined.
Surplus reinsurance	A form of proportional reinsurance where the proportions are determined	Not defined.

	by the ceding office for each individual risk covered by the treaty, subject to limits defined in the treaty.	
Syndicate (Lloyd's)	A group of Lloyd's Names who collectively co-insure risks. The syndicates usually specialise in particular types of insurance and each Name will usually spread their exposure by belonging to many different syndicates.	Not defined.
Technical Account	The technical account is made up of: earned premiums less incurred claims (both adjusted for reinsurance as appropriate) less expenses (with an allowance for deferred acquisition costs as appropriate), plus any change in the statutory equalisation reserves (as appropriate). Some of the investment income earned may be included in the technical account, or it may all be included in the non-technical account.	Not defined.
Technical reserves	The accounting entries in the balance sheet which represent the insurer's liabilities from the business which has been written. For example, UPR, URR, outstanding claims reserve, equalisation reserve, etc.	Not defined.
Three-year accounting	A form of funded accounting.	Not defined.
365ths method	A basis for estimating unearned premium reserve, based on the assumption that the risk is spread evenly over the 365 days of a year of cover. For example, where a policy was written 100 days ago, 265/365ths of the premium is taken as being unearned.	Not defined.
Time and distance reinsurance	A type of financial reinsurance, which had widespread use in the London Market and Lloyd's, whereby an insurer pays a single premium in return for a fixed schedule of future payments matched to the estimated dates and amounts of the insurer's claim outgo. The purpose of such contracts was to achieve the effect of discounting in arriving at the reserves for outstanding claims. Since Lloyd's changed its rules so that the credit allowed for time and distance policies	Not defined.

	in a syndicate's accounts was limited to the present value, such policies have become less popular.	
Treaty reinsurance	Reinsurance that a reinsurer is obliged to accept, subject to conditions set out in a treaty.	Not defined.
24ths method	A basis for estimating unearned premium reserve, based on the assumption that annual policies are written evenly over each month and risk is spread evenly over the year. For example, policies written in the first month of the year are assumed to contribute 1/24th of the month's written premium to the unearned premium reserve at the end of the year.	Not defined.
Uberrima fides	Latin for "utmost good faith". This honesty principle is assumed to be observed by the parties to an insurance, or reinsurance, contract.	Not defined.
Unallocated loss adjustment expense reserve	Not defined.	A liability as of a valuation date for ULAE to be paid in the future on claims that have been incurred as of such date.
Unallocated loss adjustment expenses (ULAE)	Not defined.	(Property/casualty) Expenses incurred in settling and investigating claims not directly assigned to specific claims or groups of claims.
Underinsurance	There is said to be underinsurance when the sum insured is less than that required under the terms of the contract. Depending on the policy conditions, where Underinsurance is proved to exist, insurers may be able to claim that the policy is null and void. Alternatively, average may be applied to claim amounts.	Not defined.
Underwriter	An individual who assesses risks and decides the premiums, terms and conditions on which they can be accepted by the insurer.	Not defined.
Underwriting	The process of consideration of an insurance risk. This includes assessing the appropriate premium, together with terms and conditions of the cover as well as assessing the risk in the context of the other risks in the portfolio. The more individual the risk (e.g. most commercial lines), the more detailed the consideration.	The process of identifying and classifying the potential degree of risk represented by a proposed insured or group of insureds.
Underwriting	An organisation at Lloyd's providing	Not defined.

agent	management services for syndicates and/or advice for Names.	
Underwriting factor	Any factor which is used to determine the premium, terms and conditions for a policy. It may be a rating factor or some other risk factor that is accounted for in a subjective manner by the underwriter.	Not defined.
Unearned premiums	<p>The portion of premium written in an accounting period which is deemed to relate to cover in one or more subsequent accounting periods. It can be calculated in at least two ways:</p> <ol style="list-style-type: none"> (1) Net of deferred acquisition costs (DAC), i.e. by deducting acquisition expenses before proportioning the written premium. (2) Gross of DAC, i.e. by proportioning the full written premium without any deduction for DAC. <p>The first approach is consistent with a going-concern basis, whilst the second is consistent with a break-up basis. However, the second approach can also be used for a going-concern basis by including DAC as an asset in the balance sheet.</p> <p>A typical balance sheet includes values gross and net of reinsurance also.</p>	The portion of the premium for a policy or group of policies as of the valuation date attributable to coverage after the valuation date.
Unearned premium reserve (UPR)	The amount set aside from premiums written before the accounting date to cover risks incurred after that date.	The liability for the unearned premium as of a valuation date.
Unexpired risks reserve (URR)	<p>This term is often used in two ways:</p> <ol style="list-style-type: none"> (1) The reserve required to cover the claims and expenses which are expected to emerge from an unexpired period of cover. (2) The reserve required to cover the excess of (1) over the UPR. This is strictly, however, known as the additional reserve for unexpired risk. 	Not defined.

Working layer	Layers of excess of loss reinsurance at levels where there is likely to be a fairly regular flow of claims.	Not defined.
Written premiums	The amount of premium for which cover commenced in an accounting period, either net or gross of reinsurance.	<ol style="list-style-type: none"> 1. Premiums billed, collected or otherwise recorded on the books of the insurer as of the valuation date for policy or group of policies. 2. Premiums billed, collected or otherwise recorded on the books of the insurer during a calendar year (or period).
Zero claim	Another term for nil claim.	Not defined.