GLOSSARY OF TERMS - GENERAL INSURANCE

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1-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.

3-year accounting :- a form of funded accounting.

8ths 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.

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. (Core Reading 303: Unit 1 (1999/2000)) [395]

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.

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.

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.

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.

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.

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 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.

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.

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.

Average (marine insurance) :- in marine insurance the term is generally used to describe damage or loss.

Average (non-marine insurance) :- 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.

Balance of a reinsurance treaty:- the ratio of the total premiums receivable by a re-insurer under a surplus treaty to the re-insurer's maximum liability for any one claim, based on EML.

Benchmark :- a benchmark is a claim reporting or payment pattern derived from external sources.

Best estimate :- an actuarial assumption which the actuary believes has an equal probability of under- or over-stating the future experience (i.e. the median of the distribution of future experience.)

Bonus hunger :- the reluctance of policyholders under an NCD (No-Claim Discount) system to notify claims or claim amounts when faced with a potential increase in premiums.

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 Continental Europe and elsewhere.

Bordereau :- a detailed list of premiums, claims and other important statistics provided by ceding insurers to re-insurers, so that payments due under a reinsurance treaty can be calculated.

Break-up basis/ Wind-up basis :- a valuation basis which assumes that the writing of new business ceases.

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.

Business interruption/Loss of profits consequential loss insurance :- insurance cover for financial losses arising following damage (e.g. a fire) to business premises.

Cancellation :- a mid-term cessation of a policy, which may involve a partial return of premium.

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.

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.

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.

Casualty insurance (USA) :- 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.

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.

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.

Catastrophe reserve :- a reserve built up over periods between catastrophes to provide some contingency against the risk of catastrophe.

Ceding company (cedant) :- an insurance company which passes (or cedes) a risk to a reinsurer.

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.

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 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. If appropriate, the method can be applied to past claims data that have been explicitly adjusted for past inflation.

Claim :- a request by a policyholder for payment following the occurrence of an insured event. A claim does not necessarily lead to a payment.

Claim amount distribution :- a statistical frequency distribution for the amounts of claims.

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.

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.

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.

Claim frequency distribution :- a statistical frequency distribution for claim frequency.

Claim handling expense provision/Unallocated loss adjustment expenses (US) :- 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. 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 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 Use For Loss 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.

Claims incurred :- claims that have occurred, irrespective of whether or not they have been reported to the insurer.

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 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 during the accounting period.

Claims reserve :- see Loss reserve

Claims run-off analysis Use For Claims delay table :- 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.

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.

Co-reinsurance :- similar to co-insurance, but referring to reinsurance of a risk rather than insurance.

Coinsurance :- 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.

Combined ratio/Operating ratio underwriting 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 denominators for the claim and expense ratio are different, can give rise to anomalies.

Commercial lines (UK) :- classes of insurance for businesses, those for individuals are usually referred to as Personal Lines.

Composite insurer :- a single insurance company writing both life and non-life business

Consequential loss:- see Business interruption

Constructive total loss :- an expression defined by the Marine Insurance Act. Constructive total 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.

Corporate governance:- The system whereby boards of directors are responsible for the governance of their companies upon appointment by shareholders, who ensure that an appropriate governance structure is in place.

Cover note :- a note issued by an insurance company to confirm the existence of insurance cover pending the issue of formal policy documentation. An 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.

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.

Deductible :- the portion of an insured loss borne by the policyholder. The amount or percentage is specified in the policy.

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.

Deferment period :- a period between an event occurring that triggers a benefit and that benefit becoming payable.

Delay table :- see Claims run-off analysis

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.

Development factors/Link ratios :- the factors emerging from a chain ladder calculation which are the ratios of claims in successive development years.

Direct business/Primary business :- the primary cover provided by the insurer for the insured policyholder, as opposed to any reinsurance cover provided for the insurer.

Disallowed claim frequency :- the claim frequency calculated using only the number of claims disallowed under an No Claims Discount (NCD) scheme (as opposed to the claims that are allowed not to be counted as claims for the purpose of the scheme).

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 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.

Eighths method See 8ths Method

EML/Estimated Maximum Loss

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.

Equalisation reserve :- a reserve built up to provide a cushion against periods with worse than average claims experience

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.

Estimated Maximum Loss (EML)/Expected maximum loss :- 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.

Event :- an occurrence, usually one that may lead to one or more claims. For 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.

Excess of Loss Reinsurance (XLR) :- 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 reinsuranc 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.

Exclusion :- an event, peril or cause defined within the policy document as being beyond the scope of the cover.

Expense ratio :- the ratio of management expenses plus commission to premium (usually calendar accounted expenses to written premium).

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.

Expiry date :- the date on which the insurance cover for a risk ceases.

Exposure :- this term can be used in three senses: the state of being subject to the possibility of loss; the measurable extent of risk; the possibility of loss to insured property caused by its 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.

Extra premium :- an extra premium is an addition to the standard premium payable under a contract in order to cover an extra risk.

Extra risk :- an extra risk arises where a proposal for life insurance is not acceptable at standard rates.

Facultative-obligatory reinsurance :- a facultative reinsurance facility with an obligation placed on the reinsurer to accept.

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.

Facultative (reinsurance) :- on the part of a ceding company, facultative means that it is free to seek cover from any reinsuring company. On the part of a reinsuring company it means that it is free to accept the reinsurance or not, and, if it does accept, on what terms.

Financial risk reinsurance :- this is a form of reinsurance involving less underwriting risk transfer and more investment or timing risk transfer from the cedant.

Finite risk insurance or reinsurance :- a form of financial reinsurance which provides a defined upper limit to the total amount of payment.

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.

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 risks.

Fleet rating :- the process of determining premium rates for fleets. 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.

Franchise :- 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.

Free reserves/Shareholders' funds net asset value :- the excess of the value of an insurer's assets over its technical reserves and current liabilities.

From the ground up :- 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.

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.

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.

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

Grossing-up factor :- a factor used to adjust a base figure to an ultimate one. For example: (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.

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.

Guarantee fund (US) :- this is a US term which is applied in two different ways: (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. (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.

Hard premium rates :- high, profitable premium rates, usually associated with more demand for insurance than supply.

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.

IBNER :- see incurred but not enough reported reserve

IBNR :- see Incurred but not reported reserve

ILU :- see Institute of London Underwriters

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.

Incurred but not enough reported reserve (IBNER) :- a reserve reflecting expected changes (increases and decreases) in estimates for reported claims only (i.e. excluding any true IBNR claims).

Incurred but not reported reserve (IBNR) :- a reserve to provide for claims in respect of 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 already known to the cedant, have not yet been reported to the reinsurer as being liable to involve the reinsurer.

Incurred claims :- (1) In the context of a particular year of origin, all claims (whether reported or not) arising out of incidents in that year. (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.) (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. Typically, incurred claim values include some expenses of paying claims such as those allocated to individual claims.

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 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.

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.

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.

Insurance cycle :- the process whereby hard premium rates which often result in an increase in the supply of insurance are followed by soft premium rates usually associated with increased competition, which in turn may be followed by a decrease in supply, reduced competition and a return to hard premium rates. This process is complex but appears to occur in all types of insurance and reinsurance, though at different speeds and to different degrees.

Inwards reinsurance :- reinsurance business accepted or written by an insurer or reinsurer, as opposed to outwards reinsurance which is ceded to a reinsurer.

Just-in-time fund :- a form of advance funding that only arises when triggered by an event that may otherwise affect the security of the benefit promise, for example on bankruptcy or change of ownership of a sponsor.

Knock-for-knock agreement :- an agreement between two insurers specifying how claims costs are shared between them when vehicles 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.

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.

Lead underwriter :- the underwriter who takes the lead in setting premium rates and agreeing policy conditions under a system of coinsurance.

Liability :- a duty or contract to fulfil an obligation to another person or organisation.

Line :- mainly the ceding office's retention under a surplus reinsurance treaty. Also used in coinsurance arrangements as the percentage allocated to an insurer.

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.

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.

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.

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.

Lloyd's Managing Agent :- a company appointed to manage the affairs of an underwriting syndicate, appoint the underwriter, and provide technical and administrative services.

Lloyd's special reserve fund :- a contingency reserve of limited size which may be built up by individual Lloyd's names out of pre-tax income.

LMX :- see London Market excess of loss

London Market :- insurance and reinsurance business carried out on a face-to-face basis in the City of London.

London Market excess of loss (LMX) :- outwards excess of loss reinsurance in the London Market.

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.

Long-term business :- UK legislation divides insurance into long-term and short-term business, which broadly correspond to life and non-life business. Thus long-term business consists of life assurance, annuity, pension and sickness (permanent health) insurance contracts.

Loss :- what the policyholder may suffer and what insurance is designed to cover.

Loss expense reserve :- another expression for any type of claims handling expense provision.

Loss ratio :- see Claim ratio

Loss reserve/Claims reserve technical 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.

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.

Marriage value :- marriage value is the value added by combining several different interests in a property. The interest created will be of greater value than the sum of the values of the previous interests.

Mathematical reserves :- in the context of supervisory returns, the mathematical reserves consist of the value of a company's liabilities including any explicit additional reserves, for example a mismatching reserve.

MIB :- see Motor Insurers Bureau

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.

Motor Insurers Bureau (MIB) :- this comprises almost all the insurance companies and Lloyd's underwriters transacting motor insurance in the UK. The Bureau 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.

Names :- the members of Lloyd's, who accept the liability for (and profits from) the risks underwritten in their name.

NCD :- see No-claims discount

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.

No-claims 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 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.

Non-technical account :- the non-technical account 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.

OCR :- see Outstanding claims reserve

OGPI :- see Original gross premium income

One-year accounting :- see 1-year accounting

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.

Operating ratio:- see Combined ratio

Operational gearing :- companies with high fixed costs and low marginal costs are said to have high "operational" gearing. A small change in sales gives a big change in profits for such companies

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.

Outstanding claims reserve (OCR)/Reserve for Notified (or Reported) Outstanding Claims :- 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.

Outwards reinsurance :- reinsurance ceded by an insurer, as opposed to inwards reinsurance accepted.

Over-riding commission :- additional commission paid by a reinsurer to an insurer ceding proportional business, as a contribution towards expenses.

P&I clubs :- see Protection & Indemnity clubs

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.

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, accident, windstorm earthquake, riot and civil commotion.

Personal lines (UK) :- 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

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.

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

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.

Portfolio premiums :- the unearned premiums that together with the portfolio claims make up the reinsurance premium required for a portfolio transfer.

Portfolio transfer :- the reinsurance of an entire portfolio at a premium relating to the estimated outstanding claims and unearned premiums under that portfolio. 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 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.

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.

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.

Product costing :- product costing is the calculation of the theoretical office premium to be charged for a particular class of business.

Product pricing :- product pricing is the determination of the actual office premium. This will take account of current market conditions.

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.

Profit test :- a profit test is a technique - involving consideration of the cash-flows arising under a contract - for assessing the expected profitability of that contract. It can be used to determine the premium or the level of charges under a contract.

Proportional reinsurance/Quota share treaties :- 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.

Proprietary insurer :- an insurance company owned by shareholders, i.e. not a Lloyd's syndicate or a mutual insurer.

Protected no claims discount :- 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.

Protection & Indemnity clubs (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.

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 practice to apply the term reserve to both categories.

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.

Rate on line :- for non-proportional reinsurance, the total premium charged for the reinsurance divided by the width of the layer covered.

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.

Rating basis :- the collection of assumptions used to associate the risk premium with the characteristics of the risk being insured.

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.

RBC :- see Risk-Based Capital

Re-opened claim :- a claim formerly deemed settled, but subsequently re-opened because further payments may be required.

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.

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.

Reinstatement :- the restoration of full cover following a claim. 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).

Reinsurance :- insurance purchased by an insurance company in relation to its insurance liabilities.

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. 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).

Reinsurer :- an insurer providing reinsurance cover. Some reinsurers do not write any direct or primary insurance business.

Replacement/Replacement-as-new new-for-old :- a basis of cover where the insurer pays the cost of replacing the insured item with a similar but new item.

Requirement for capital :- on a per contract basis, the requirement for capital is the amount of finance a company needs in order to be able to write that contract, i.e. the new business strain. This can be extended to the whole company where its requirement for capital is the finance it needs in order to be able to carry out its new business plans.

Retention :- in the context of reinsurance, a company's retention is the amount of any particular risk that it wishes to retain for itself. It will then reinsure the excess over that retention.

Retrocession :- reinsurance purchased by a reinsurer in relation to its (inwards) reinsurance liabilities (i.e. reinsurance of reinsurance).

Return commission :- a commission paid by a reinsurer to the ceding company for proportional reinsurance business to recompense the cedant for acquisition expenses.

Return on capital :- this arises in the context of product pricing. A company will usually need to provide capital in order to write new business. The expected return on that capital will influence whether or not the company writes particular types of business and the price at which it will write them. The expected level of return required will depend on the expected levels from other uses of the company's capital.

Risk attaching basis :- a basis under which reinsurance is provided for claims arising from policies commencing during the period to which the reinsurance relates.

Risk-Based Capital (RBC) :- the assessment of the capital requirement for a general or life 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.

Risk excess of loss reinsurance :- excess of loss reinsurance which relates to individual losses affecting only one insured risk at any one time.

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.

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 premium/Net premium pure premium :- the amount of premium required to cover claims expected for a risk, i.e. average claim amount / average claim frequency. It may alternatively be expressed as a rate per unit of exposure.

RITC :- see Reinsurance to Close

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.

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.

Run-off triangle :- the development or run-off triangle may be of claims by amount, number or of premiums.

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.

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 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.

Shareholders' funds :- see Free reserves

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.

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.

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.

SMSM :- see Statutory minimum solvency margin

Soft premium rates :- low premium rates.

Solvency :- a life insurance company is solvent if its assets are adequate to enable it to meet its liabilities. Insurance supervisory authorities will usually have requirements, in terms of the values a company can place on its assets and liabilities, for the purpose of showing statutory solvency.

Solvency margin :- see Free reserves

Solvency ratio :- the free reserves divided by the net written premiums.

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.

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 in the case of general insurance.

Statutory returns :- annual statements and accounts that 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.

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.

Sunset clause :- clause defining the time limit within which a claim must be notified, if it is to be valid.

Suretyship/Fidelity guarantee insurance :- insurance to provide a guarantee of performance or for the financial commitments of the insured.

Surplus :- 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.

Surplus reinsurance :- a form of proportional reinsurance where the proportions are determined 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.

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.

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.

Three-year accounting:- see 3-year accounting

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 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.

Treaty (reinsurance) :- in the context of reinsurance, a treaty is an agreement between the ceding company and the reinsuring company. The ceding company usually agrees to cede all business that comes within the treaty with the reinsuring company and the latter agrees to accept it.

Twenty-fourths method :- see 24ths Method

Uberrima fides :- Latin for "utmost good faith". This honesty principle is assumed to be observed by the parties to an insurance, or reinsurance, contract.

Unallocated Loss Adjustment Expenses (ULAE) :-see Claim handling expense provision

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.

Underwriter :- an individual who assesses risks and decides the premiums, terms and conditions on which they can be accepted by the insurer.

Underwriting :- in general insurance, 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.

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.

Unearned premium reserve (UPR) :- the amount set aside from premiums written before the accounting date to cover risks incurred after that date.

Unearned premiums :- 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: (1) net of deferred acquisition costs (DAC), i.e. by deducting acquisition expense before proportioning the written premium. (2) gross of DAC, i.e. by proportioning the full written premium without any deduction for DAC. 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. A typical balance sheet includes values gross and net of reinsurance also.

Unexpired risks reserve (URR)/additional reserve for unexpired risk :- (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.

UPR :- see unearned premium reserve

URR :- see unexpired risks reserve

working layer :- layers of excess of loss reinsurance at levels where there is likely to be a fairly regular flow of claims.

written premiums :- the amount of premium for which cover commenced in an accounting period, either net or gross of reinsurance.

XLR:- see Excess of Loss Reinsurance

Zero claim :- see Nil claim