REINSURANCE GLOSSARY
ABBREVIATIONS & DEFINITIONS

AAD	annual aggregate deductible
AC	Arbitration Clause
a/c(s)	account(s)
ACC	Average Claims Cost
acc	accident
Acc Yr	Accident Year
ACOD	Occupational Disease Clause
ACPC	Average Cost per Claim
acr	additional case reserves
ADP	Advance Deposit Premium
agg	aggregate
AIF	Acts in Force (Clause)
ALAE	Allocated Loss Adjustment Expenses
ANC	absolute net claims
ANL	aggregate net loss
ANP	absolute net premiums
ao	any one (loss occurrence etc)
ao acc	any one accident
ao occ	any one loss occurrence
a/o	account of
aob	any one bottom (cargo cover limit)
aoe	any one event
aol	any one loss
aor	any one risk
aoy	any one year
ap	(1) additional premium
	(2) annual premium
	(3) advance premium
APH	asbestos, pollution, health hazards (claim)
APL	a programming language
appd	approved
ar	all risks
ASD	Average Shortage and Damage
AT	After Tax

ATE	after-the-event (see below)
av	average
AVIA	Aviation
b/auth	binding authority
bal	balance
BBB	banker's blanket bond
BC	burning cost
BCAR	best capital adequacy ratio
bdi	(1) both days inclusive (2) both dates inclusive
bfsl	being full signed line
bfwl	being full written line
BEP	booked earned premium
BI	(1) business interruption
	(2) bodily injury
bkge	brokerage
BLR	booked loss ratio
Bord	bordereau(x)
BTE	before-the-event (type of insurance)
c	cede
CAR	Contractor's All Risks
CBA	cost-benefit analysis
cc	(1) catastrophe cover
	(2) ceding company
	(3) contingent covers
	(4) cost centre
CCDB	Corporate Claims Data Base
CE	Claim Expense (Loss Expense or Adjustment Expense)
CF	Cost and Freight
C/F	Carried Forward or Carry Forward
CFC	Currency Fluctuation Clause
CI	Compulsory Insurance
CIF	Cost, Insurance, Freight
CIP	carriage & insurance paid
CLLORA	Consequential Loss List of Rating Adjustments
CLP	commercial legal protection (insurance)
CMB	Claims Made Basis
COB	Claims Occurring Basis

CMR	Convention on the Contract for the International Carriage of Goods by Road
COINS	Co-Insurance
COM	Commission
COOC	Change of Ownership Clause
CPA	Contractors Plant Association
CPD	Continued Professional Development
CR	Credit
CR	Case Reserves
CRPA	Claims Related Premium Allocation
DEP	Deposit, e.g. Deposit Premium
D&O	Directors' and Officers' Liability
DMD	Distance Marketing Directive
DP	Data Processing
DR	Debit
ECR	enhanced capital requirement (for solvency margin purposes)
EL	Employers' Liability
EML	estimated maximum loss
EX R/I	Excess of Loss Reinsurance
FAC	Facultative
FAC/OBLIG	Facultative/Obligatory Treaty
FAC R/I	Facultative Reinsurance
FET	Federal Excise Tax
FI	Financial Indemnity
1ST S	First Surplus Treaty
FMC	Fire Miscellaneous Casualty
FOB	free on board
FOS	Financial Ombudsman Service
F/S	Future Start
FSL	Full Signed Line
FTF	Following The Fortunes
FWL	Full Written Line
GA	general average
GCO	gross claims outstanding
GI	general (i.e. non-life) insurance
GIT	goods in transit
GL	general liability

GMC	gross market capacity
GNEP(I)	gross net earned premium (income)
GNP(I)	gross net premium (income)
GOP	gross original premium
gr l	gross line
GTPL	general third-party liability
GP(I)	gross premium (income)
GUA	General Underwriters Agreement
GUS	global underwriting system
GWPI	Gross Written Premium Income
HC	Hours Clause
h/c	hold/held covered (at premium to be agreed)
h/c l/u	held covered subject agreement of leading underwriter
hh	hold harmless
HHI	Hirschmann-Herfindahl Index
HM	hard market
HPR	highly protected risk
HWD	heavy weather damage
IBNER	incurred but not enough reserved
IBNR	incurred but not reported
ICA	internal capital assessment
ICAS	individual capital adequacy standard(s)
ICOB	Insurance: Conduct of Business Sourcebook
If	in full
IFA	Independent Financial Adviser
IMD	Insurance Mediation Directive (concerns intermediaries)
incd val	increased value
incep	inception
ins	insurance
instal	instalment
IOB	Insurance Ombudsman Bureau
iro	in respect of
IPT	insurance premium tax
IR	issued and renewed
ISPV	insurance special purpose vehicle
I/V	increased value
J/A	joint account

JHC	Joint Hull Committee
K	used to denote 1000 - Commercial
KCR	Known Case Reserves
LE	Loss Event
LEI	legal expenses insurance
LMXL	London Market Excess of Loss
LOB	Line of Business
LoC	letter of credit
LR	Loss Ratio
LSC	Loss Sustained Cover
LTA	Long-Term Agreement
L	used to denote “million”
MAT	Marine Aviation and Transport
MC	Motor Car
MIN	Minimum
MLR	Minimum Lending Rate
MPL	maximum possible loss
MWPA	Married Women’s Property Acts
NCD	No Claims Discount
N/L	Non-Lloyd’s
N/M	Non-Marine
NPI	Net Premium Income
NPV	Net Present Value
NRL	Net Retained Line
NTD	Non-Tariff Discount
NUL	Net Ultimate Loss
NWT	Net Written Premium
O & M	Organisation and Methods
OB	Occurrence Basis
OCA	Outstanding Claims Advance
OEIC	Open Ended Investment Companies
OGP	Original Gross Premium.
OGPI,	Original Gross Premium Income
OGR	Original Gross Rate
ONPI	Original Net Premium Income
ONR	Original Not Rate
O/R	(1) Over Rider

	(2) Operating Ratio
ORIC	Operational Risk Insurance Consortium
ORS	Overseas Reporting System
O/S	(1) Outstanding
	(2) On Schedule or Overseas
OUE	Other Underwriting Expenses
PA	(1) Personal Accident
	(2) Percentage Adjustment or
PA(A)	Personal Accident (Assault)
PAYD	pay as you drive
PC	(1) Private care
	(2) Per capita
PD	Property Damage (third party)
PE	Portfolio Entry
PHI	Permanent Health Insurance
PI	(1) Primary insurer
	(2) Professional indemnity
P & I	Protection and Indemnity
PI	(1) Professional Indemnity
	(2) Personal Injury,
	(3) Premium Income
PIL	Premium Income limit (of a Name at Lloyds)
PL	(1) Public Liability
	(2) Personal Liability
	(3) Products Liability
PLI	Public Liability Insurance
PLR	Paid Loss Ratio
PM	Premium
PML	Probably/Possible Maximum Loss
PMS	Policy Management System
ProPRR	Proportional or Pro-Rata Reinsurance
PPI	Policy Proof of Interest
PQR	portfolio quality review
PR	(1) Plan and Report
	(2) portfolio return
	(3) primary reinsurer
	(4) pro rata

	(5) prospective rating
PRPorC	Provisional Rate, Premium or Commission
PRO	Portfolio Run-Off
PTSD	post-traumatic stress disorder
PYA	Prior Year Adjustments
PYE	Previous Year Experience of Equivalent
PYN	prior year now
QRR	Quarterly Reserve Review
QS	quota share
Qtly	quarterly
R	(1) retrocedent
	(2) retrocession
RB	Risk Basis
RETRO	Retrospective Rating or Retrocession
R/I	Reinsurance
R/AD	Re-Assured
R/IRS	Reinsurers
RCH	Recognised Clearing House
RIE	Recognised Investment Exchange
RLR	Reported Loss Ratio
RMM	regulatory minimum margin
ROP	Return of Premium
ROTC	Return on Total Capital
RP	Return Premium
RPI	Retail Price Index
RPR	Return of Premium Rider
RR	Retrospective Rating
RSP	Retail Service Provider
RTA	Road Traffic Act
RTBA	rate to be agreed
2ND S	Second Surplus Treaty
SC	Stability Clause
SDD	Settlement Due Date
SET	Selective Employment Tax
SG	Ship and Goods
SL	Stop Loss
SLOB	Sub Line of Business

SLR	Spread Loss Reinsurance
SM	Soft Market
SME	Small and Medium-Sized Enterprise
SOPA	Schedule of Percentage Adjustments
SPV	special purpose vehicle (financial term)
SofR	Selection of Risk
SR	Short Rate
SRO	self-regulatory organisation
ss	sliding scale
SST	Special Surplus Treaty
ST & F	Storm Tempest and Flood
SYN/SYND	syndicate
TAC	treaty accounts statement
tba	to be agreed/advised
tbi	to be identified
3RD S	third surplus treaty
TIV	total insured value
TL	(1) top layer
	(2) total loss
TLO	total loss only
TLR	terminal loss ratio
to	turn over
TOBA	Terms of Business Agreement
TOR	Time on Risk
TP	(1) third party
	(2) teleprocessing
TPBI	third party bodily injury or death (motor insurance)
TPFT	third party fire and theft (motor insurance)
TPL	third party liability
TPND	theft, pilferage and non-delivery
tsi	total sum insured
tty	treaty
TWP	Third World Pool
u/a	underwriting account
ucb	unless caused by
UEPR	unearned premium reserve
u/l	underlying

ULAE	unallocated loss adjustment expenses
ULR	ultimate loss ratio
UNL	ultimate net loss
unltd	unlimited
UPR	underwriting performance report
U/A	(1) underwriting account
	(2) underwriting agent
U/W	(1) underwriter
	(2) underwriting
vop	value as original policy
WA	with average
WAC	whole account cover
WBS	without benefit of salvage
WC	workmen's compensation
WCA	Workmen's Compensation Act
w/cvr	working cover
wdg	contract wording
wef	with effect from
w/l	written line
wp	without prejudice
WPI	written premium income
Wro	war risk only
wtd	warranted
wty	warranty
w/w	worldwide
X/L	excess of loss (reinsurance)
xol	excess of loss (reinsurance)
XS	excess
xs pt	excess point
YEF	yearend forecast
YOA	year of account
YTD	year to date

DEFINITIONS

AB INITIO: from the beginning

ABSOLUTE NET CLAIMS: claims paid less returns less reinsurance recoveries.

ABSOLUTE NET PREMIUM: premiums plus additional premiums less return premiums less reinsurance's, brokerage and commission.

ACCEPTANCE: notification by a party to a proposed contract that he accepts the offer of the other party of the terms proposed or where an underwriter initials a slip. The proposer of a life assurance on receiving an offer of cover from an assurer, signifies his acceptance by paying the premium.

ACCIDENT YEAR: the calendar or accounting year in which the accident or loss occurred.

ACCIDENT YEAR EXPERIENCE: The matching of all losses occurring (regardless of when the losses are reported) during a given 12-month period of time with all premium earned (regardless of when the premium was written) during the same period of time. More specifically, the total value (losses paid plus loss reserves) of all losses occurring during the defined 12- month time period (i.e., the date of loss falls within the time period) is divided by the Earned Premium for this same exposure period. As the experience is developing, loss reserves are used in the calculation, but the ultimate result cannot be finalized until all losses are settled. While any 12-month period can be used to define the exposure period, the year beginning January 1 is normally used. The most accurate method uses exposure earned premium as the denominator, whereas in practice accounting earned premium is frequently used as a matter of convenience.

ACCOMMODATION LINE: an interest which the company accepts to assist a broker, which would ordinarily be declined/diverted if considered strictly in accordance with underwriting philosophies.

ACCUMULATION: concentration of risk, as where an insurer may find that he has many policies on properties in adjacent locations that could result in losses arising from one event, e.g. fire.

ACQUISITION COSTS: total costs incurred in writing or issuing an insurance policy. Commission, plus all expenses (direct and allocated), excluding claims expenses.

ACT OF GOD: an accident or event which happens independently of human intervention and due to natural causes, such as storm, earthquake, etc. It will relieve from liability if it amounts to circumstances which no human foresight can provide against, and of which human prudence is not bound to recognise the possibility.

ACTIVE UNDERWRITER: in relation to a Lloyd's syndicate, the person at, or deemed by the Committee to be at, the underwriting box with the principal authority to accept risks on behalf of the members of the syndicate.

ACTUAL TOTAL LOSS: an actual total loss occurs when:

(a) the subject matter of insurance is completely destroyed;
(b) it ceases to be a thing of the kind insured;
(c) the insured is irretrievably deprived of it; or
(d) the ship is posted missing, in which case both the ship and its cargo are deemed to be an actual total loss.

ACTUARIAL VALUATION: a valuation by an actuary of the present value of future liabilities using probability tables and other statistical techniques to evaluate the long-term business liabilities.

ACTUARY: a specialist who applies the mathematical theory of probability to statistics.

AD HOC: for a special purpose

AD VALOREM: according to the value

ADDITIONAL PREMIUM: extra premium due from the insured either because the insurance is more hazardous than normal, change in circumstances which give rise to an endorsement or because additional benefits are added to the policy.

ADMITTED ASSETS: Assets recognized and accepted by state insurance laws in determining the solvency of insurers or reinsurers.

ADMITTED COMPANY: (1) an insurer licensed to conduct business in a given country (2) A reinsurer licensed or approved to conduct business in a given country.

ADJUSTABLE POLICY: an insurance where a premium is payable at inception and adjusted after expiry.

ADVANCE DEPOSIT: a rebate system to adjust premiums to the treaty loss experience (not to be confused with advance premium or deposit premium).

AFTER-THE-EVENT INSURANCE: insurance that is taken out only once the 'event' has occurred to insure the policyholder against the risk of losing his/her case. For example, if an accident has already happened and somebody has decided to make a claim, it is possible to take out a policy which will cover legal costs incurred as a result of the claim. It is usually used by people who do not have a ‘Before the Event’ insurance. After the event insurance is purchased when a course of legal action has been decided upon. It is usually paid as a single premium. This insurance is often offered by solicitors and claim management companies.

AGENCY AGREEMENT: a contract between the company and a broker, which lists all the conditions under which the company grants an agency upon appointment, i.e. commission terms, types of business etc.

AGENCY SYSTEM: system of producing business through a network of agents. Such agents have a contract to represent the underwriter and are of three classes: part-time, brokers and general. Brokers (but not part-time and general agents) are also agents for the client and therefore may encounter problems of conflict of interest. Agents are compensated at differing rates of commission, general agents having much greater responsibilities and duties than part-time agents and brokers.

AGENT’S ACCOUNT: a statement of the period's business showing each premium transaction, the policy number, the insured's name, the premium or return premium and claims in the appropriate column with commission, postage and other charges and the balance due either to the company or to the agent, in accordance with the contract between the agent and the underwriter.

AGENT - LLOYD'S UNDERWRITING: a company, firm or person approved by Lloyd's and authorised to manage the affairs of syndicates or Names at Lloyd's.

Managing Agent: the agent who manages a syndicate, appointing the underwriter and other staff, investing syndicate funds and preparing accounts. A managing agent frequently also acts as a members' agent.

Members: agent who looks after the interests of the Name to ensure he derives maximum benefit from his participation in syndicates.

Co-ordinating: the agent appointed by a Name to co-ordinate his affairs at Lloyd's where more than one agent is involved.

AGGREGATE EXCESS OF LOSS REINSURANCE: a form of reinsurance providing excess of loss cover for losses arising from any one event (or vessel) in excess of the reinsured's retention up to an agreed limit, but only when the aggregate of claims otherwise recoverable under the excess of loss treaty exceeds a stated amount.

AGGREGATE STOP LOSS REINSURANCE: this is a wider application of the ordinary stop-loss treaty in that it applies to the entire portfolio of one branch of the reinsured's activities (see "stop-loss reinsurance").

AGGREGATION: the process of accumulating claims as specified by an excess of loss reinsurance agreement for the purpose of establishing the amount recoverable.

ALL RISKS INSURANCE: insurance of property against loss or damage however caused, subject only to stated exceptions.

ALIEN INSURER OR REINSURER: an insurer or reinsurer organised under the laws of a non-United States jurisdiction.

AMORTIZATION PERIOD: Synonymous with payback period, this term is used in the rating of per-occurrence excess covers and represents the number of years at a given premium level necessary to accumulate total premiums equal to the limit of liability of the reinsurance cover. Also known as PAYBACK PERIOD .

ANNUAL REPORT - LLOYD'S: a document prepared by the Managing Agent of a syndicate for the underwriting members participating therein comprising:

(a) the underwriting accounts;
(b) a balance sheet;
(c) a seven-year summary;
(d) a disclosure of interests statement; and
(e) such other information as is necessary for a proper understanding of the annual report (e.g. a statement of accounting policies), as defined in the syndicate accounting rules.

ANNUAL SUBSCRIPTION: a subscription paid by a Name each year to Lloyd's (to cover expenses incurred by Lloyd's). It is geared to the Name's premium income limit and normally paid by the Syndicate on behalf of each Name.

ANNUITY:

(1) a contract of insurance to provide an income to the annuitant for a set period (commonly for life or for joint lives). The contract will provide for periodic payments, e.g. monthly or quarterly

(2) the annual sum paid under (1).

ANTEDATING: where a policy is expressed as operating from a date before final agreement was reached on its terms, it is said to be antedated.

ANY ONE BOTTOM (OR ANY ONE POLICY): a term applied by a reinsurer to a limit in marine reinsurance treaty to avoid a potential accumulation of liability (bottom hull).

APPOINTED REPRESENTATIVE: someone who carries out activities that are part of the business for which their principal has accepted responsibility in writing.

ARBITRATION CLAUSE: a clause providing a means of resolving differences between the reinsurer and the reinsured without litigation. Usually, each party appoints an arbitrator. The two thus appointed selected a third arbitrator, or umpire, and a majority decision of the three becomes binding on the parties to the arbitration proceedings.

ARRANGED TOTAL LOSS (COMPRISED TOTAL LOSS): a compromise settlement where a total loss has not in fact occurred, but is deemed to have done.

ARROW VISIT: Advanced Risk Responsive Operating framework, the FSA risk assessment framework undertaken with individual firms to assess their internal risk and capital allocation calculations. The FSA assesses the risk posed by individual firms. Firms are assigned to one of four supervision categories, with category 'A' representing firms that are viewed as 'high impact', i.e. in the event of their collapse, the impact on customers would high. Such firms can expect a close and continuous relationship, while those in category 'D' can expect little or no individual contact.

AS ORIGINAL: a term used in reinsurance to denote that the reinsurance is on the same conditions as the original insurance.

AS IF: A term used to describe the recalculation of prior years of loss experience to demonstrate what the underwriting results of a particular program would have been "as if" the proposed program had been in force during that period.

ASSUME: To accept all or part of a ceding company's insurance or reinsurance on a risk or exposure.

ASSUMED PORTFOLIO: The transfer of in-force insurance liability by an insurer to a reinsurer (or vice versa) by the payment of the unearned premium reserve on those policies alone, or by the concurrent transfer of liability for outstanding losses under those policies by the payment of the outstanding loss reserve by the insurer to the reinsurer (or vice versa). The former is a premium portfolio, the latter a loss portfolio

ASSURANCE: a term interchangeable with insurance, but generally used in connection with life business, as assurance implies the certainty of an event and insurance the probability.

ATTACHMENT DATE: the date on which insurance cover comes into force.

ATTACHMENT POINT: the dollar amount of loss (per occurrence or in the aggregate, as the case may be) above which excess of loss reinsurance becomes operative.

AUDIT CATEGORIES: the headings under which different types of risk are grouped for analysis.

AUDIT CODES: each audit category of risk is given a one letter audit code the purpose of which is to ensure that there are clearly defined categories for audit, accounting and reporting purposes.

AUDIT RESERVES: reserves created according to rules laid down by Lloyd's and approved by the FSA. They are made on open years of account to ensure that Names have sufficient funds to wind up their accounts after 36 months have elapsed. This solvency must be on an individual Name basis (i.e. aggregating the name's participation in all relevant syndicates) and any deficiency must be covered by the lodgement of additional assets.

AVERAGE:

(1) in marine insurance, a partial loss.

> (a) general average is a loss which arises in consequence of an extraordinary sacrifice made, or expenses incurred for the preservation of the ship and cargo. All underwriters involved in the ship and cargo will participate to indemnify the insured against the actual loss incurred;
>
> (b) particular average is partial loss of the subject matter insured, caused by a peril insured against, and which is not a general average loss;

(2) a clause in non-marine insurance policies (mostly for fire business) under which, in the event of under-insurance, the claim paid out by the insurer is restricted to the same proportion of the loss as the sum insured under the policy bears to the total value of the insured item.

AVERAGE COST PER CLAIM RESERVE: total claims outstanding divided into the total reserves (less payments) equal an average claim reserve. Reserves in this context means all amounts provided for all known claims less any deductions for subrogation.

AVIATION HULL INSURANCE: in aviation insurance, hull insurance (i.e. the aircraft's structure) is distinguished from cargo, passenger and liability insurance.

AVOIDANCE: the right of the underwriter to treat an insurance contract as though he had never accepted the risk. This can occur in cases where there is a breach of good faith, a significant change in the actual risk involved or a delay in the commencement of a voyage.

BALANCED PORTFOLIO: the total business of an insurer that has been so arranged by selection and reinsurance as to safeguard the financial equilibrium of the underwriter.

BANCASSURANCE: term borrowed from French – a combination of banking and insurance business, primarily the selling of non-banking-related insurance services by banks.

BENJAMIN METHOD: a reserving method devised by the actuary, Sidney Benjamin, involving the application of formulae to paid loss ratios

BILL OF LADING (B/L): a document issued by the ship owner, which has three functions (a) It is a receipt for the goods shipped; (b) It is evidence of the terms and conditions of carriage; (c) It is a document of title and when assigned to the buyer confers the rights under the contract of carriage and the title of the goods

BINDER (REINSURANCE): A record of reinsurance arrangements pending the issuance of a formal reinsurance contract (which then replaces the binder).

BINDING AUTHORITY: an authority issued by an Insurer to another party to accept insurance's on its behalf. Subject to the terms and conditions within an agreement between the parties.

BLANKET POLICY: a policy in which a single sum insured covers a number of separate items such as buildings in a fire policy or employees in a fidelity guarantee policy, without being divided up among them.

BONA FIDE: in good faith

BOOK: business in force.

BORDEREAU: detailed listings of premiums and/or loss transactions usually prepared monthly or quarterly and rendered to interested parties (plural: bordereaux). Frequently rendered by ceding companies to reinsures and by general agents and cover holders.

BOTTOMRY BOND: a shipping term. If the captain of a ship finds it necessary to incur expenditure, such as for the repair of his ship, he may give a bond mortgaging his ship as security for a loan obtained to cover this expenditure. Loss of the ship would extinguish the mortgage.

BROKER: one who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered, between (i) a policyholder and a primary insurer, on behalf of the insured party, (ii) a primary insurer and reinsurers on behalf of the primary insurer, or (iii) a reinsurer and a retrocessionaire, on behalf of the reinsurers.

BROKERAGE: the remuneration payable to a broker. This is normally agreed by the insurer and paid as a deduction from the premium.

BURNING COST: a method of calculating the premium for reinsurance whereby within certain limits the reinsurance premium paid by a cedant is related to the claims made under the policy. The adjustment factor works to the advantage of the reinsurer until the maximum level of reinsurance premium is reached. There are minimum and maximum levels of premium payable usually expressed as a percentage of the cedants underlying premiums. Within these limits, if the cedant makes a claim the reinsurer will collect an additional premium calculated in accordance with a formula contained in the policy. When the maximum premium has been paid the reinsurer has full liability for further claims with no recourse.

BUSINESS STANDARDS: detailed statutory standards which companies must adhere to.

CALENDAR YEAR EXPERIENCE: The matching of all losses incurred (not necessarily occurring) within a given 12- month period, usually beginning on January 1, with all premium earned within the same period of time. Incurred losses will include the change in IBNR (Incurred but not reported). More specifically, the total value of losses incurred (not necessarily occurring) during the calendar year is divided by the **Accounting Earned** premium for this same exposure period. Losses incurred are equal to the sum of losses paid, plus the outstanding loss reserves at the end of the year, less the outstanding loss reserves at the beginning of the year. Once calculated for a given period, calendar year experience never changes.

CALL: a payment made by a member of a protection and indemnity club in consideration for a right to indemnity. Such initial payment may be followed by supplementary calls.

CAPACITY: the percentage of surplus, or the dollar amount of exposure, that an insurer or reinsurer is willing or able to place at risk. Capacity may apply to a single risk, a program, a line of business or an entire book of business. Capacity may be constrained by legal restrictions, corporate restrictions or indirect restrictions.

CAPITAL REDEMPTION POLICY: an insurance to provide a capital sum at the end of a term of years.

CAPTIVE COMPANY: an insurance company set up by a (non-insurance) commercial /industrial company primarily to write the parent company's own insurances and obtain access direct to the reinsurance market.

CASE RESERVES: loss reserves established with respect to specific, individual reported claims.

CASH RESERVE: a provision made by an insurer where it is considered that liability could or will arise on a notified loss. This may be a known amount or an estimated amount depending upon the facts available at the time.

CASH LOSS: monies held by a cedant to pay claims in advance of the reinsurance recovery.

CASUALTY INSURANCE OR REINSURANCE: insurance or reinsurance that is primarily concerned with the losses caused by injuries to third persons and their property (in other words, persons other than the policyholder) and the legal liability imposed on the insured resulting there from. Also referred to as liability insurance.

CATASTROPHE: an event or series of events which when added together form a potential large claim.

CATASTROPHE COVER: a form of reinsurance that indemnifies the ceding company for the accumulation of losses in excess of a stipulated sum arising from a catastrophic event such an conflagration, earthquake or windstorm. Catastrophe loss generally refers to the total loss of an insurance company arising out of a single catastrophic event.

CATASTROPHE EXCESS OF LOSS REINSURANCE: a form of excess of loss reinsurance that, subject to a specified limit, indemnifies the ceding company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a ”catastrophe”.

CAUSA PROXIMA NON REMOTA SPECTATUR: the immediate, not the remote, cause is to be considered

CAVEAT EMPTOR*:* let the buyer beware

CEDE; CEDANT; CEDING COMPANY: when a party reinsures its liability with another, it “cedes” business and is referred to as the “cedant” or “ceding company”. Cede - To pass on to another insurer (the reinsurer) all or part of the insurance written by an insurer (the ceding insurer) with the objective of reducing the possible liability of the latter.

CEDING COMMISSION: In reinsurance, an allowance (usually a percentage of the reinsurance premium) made by the reinsurer for part or all of a ceding company's acquisition and other costs. The ceding commission also may include a profit factor for the reinsured.

CESSION: a ceded line is known as a cession.

CETERIS PARIBUS*:* other things being equal

CLAIM: any notified occurrence which it is considered can give rise to a payment or payments under any individual policy of insurance, e.g. if there is more than one claim made against an insured as a result of one incident, then it is still deemed to be one claim. If there are two separate insureds involved in one incident, then that is deemed to be two separate claims.

CLAIMS AND CLAIM EXPENSE RATIO: the ratio of claims and claim expenses to net premiums earned determined in accordance with wither SAP or GAAP

CLAIM EXPENSE (LOSS EXPENSE OR ADJUSTED EXPENSE): expenses of adjusting claims, such as court costs, fees and expenses of independent adjusters, lawyers, witnesses, and other expenses which can be charged to specific claims.

CLAIMS: death, injury, destruction, or damage covered by insurance gives rise to a claim, i.e. the mandatory indemnity payable to the insured under the terms of the policy.

CLAIMS CO-OPERATION: where the reassured agrees to consult and co-operate with reinsurers on claims handling and settlement.

CLAIMS EQUALISATION: amount set aside for the purpose of preventing abnormal fluctuations in claims due to the occurrence or exceptional events.

CLAIMS EXPENSES: the expenses incurred in the investigation, adjustment and settlement of claims. There are two types of claim expenses: **allocated** and **unallocated**.

(a) Allocated claims expenses are generally considered to cover expenses incurred in settling claims that can he attributed to specific cases including such items as actual court costs

(b) Unallocated claims expenses are generally considered to cover expenses incurred in settling claims which cannot be attributed to specific cases, including salaries of claims department employees and other direct and overhead expenses of the claims department as a whole.

CLAIMS FREQUENCY: the number of claims divided by the number of units of exposure, expressed as a percentage.

CLAIMS INCURRED: the claims for which liability exists and have been advised to the company.

CLAIMS MADE BASIS: an insurer only meets claims if they occur in the insurance year which has been agreed upon i.e. from 1st January – 31st December 2021. If a claim is made on 1st January 2022, it is not covered under this basis.

The provision in a contract of insurance or reinsurance that coverage applies only to losses that occur and claims that are made during the term of the contract. (Losses occurring before the contract term are sometimes covered by the addition of "prior acts" coverage to the contract. Losses reported after the contract term are sometimes covered by the addition of "tail" coverage.) Once the policy period is over in claims-made covers, the approximate extent of the underwriter's liability is known. On the other hand, the traditional "occurrence" liability insurance method provides coverage for losses from claims that occurred during the policy period, regardless of when the claims are asserted. With the traditional "occurrence" liability coverage method, the underwriter may not discover the extent of liability for years to come from losses asserted to have occurred within the policy period. With claims-made covers that are renewed, however, losses that occurred during any period when the policy was in force are again covered if reported during the renewal term. In summary, the traditional method is similar to claims-made if the latter has added to it both "prior acts" and "tail" coverage.

CLAIMS NOTIFIED/REPORTED: claims resulting from accidents or events which have taken place and on which the insurer has received notices or reports of claim.

CLAIMS OCCURRING BASIS: claims are met if they occurred (happened) during the insurance year even though a claim might not arise for a number of years e.g. an insurance company which covered an asbestos risk 5 years ago which now results in a claim. The insurance company is forced to pay out under a claims occurring basis.

CLAIMS OUTSTANDING: amount set aside for claims that have been advised but have not been settled.

CLAIMS RATIOS: expression in terms of ratio of the relationship of claims to premiums. Two ratios in common usage are:

(1) Paid claims ratio - paid claims divided by written or earned premiums.
(2) Incurred claims ratio - incurred claims divided by earned premiums.

CLAIMS RESERVE: (1) The provisions made by an insurer for outstanding claims and IBM; (2) Under a reinsurance contract an amount is retained by the reassured against payment of claims which will be recoverable under the contract in due course. This is called a claims reserve (see also Outstanding Claims Advance, Outstanding Claims Reserve and Premium Reserve). The difference between subsequent claims experience compared with reserves established as of a given date.

CLASH COVER: A casualty excess of loss agreement with a retention higher than the limits on any one reinsured policy. The agreement is thus only exposed to loss when two or more casualty policies (perhaps from different lines of business) are involved in a common occurrence in an amount greater than the clash cover retention. Also known as CONTINGENCY COVER.

CLASS: a category of insurance business defined by the nature of the cover provided or by the nature of the object at risk.

CLAIM RUN-OFF: an underwriting year of account all of whose benefits and liabilities have been transferred to a succeeding year or another Lloyd’s syndicate by means of a reinsurance to close. This is normally after 36 months (occasionally 48 months with special permission from Lloyd's). The ascertained profits or losses of a closed year are available for distribution to or are collected from the Names.

CLIENT: any person with or for whom a firm conducts or intents to conduct business.

CLOSING REINSURANCE: reinsurance of an entire portfolio of outstanding liabilities and outstanding claims to close a syndicate’s underwriting account by transfer of the outstanding liability to the next open underwriting account, normally by end of year 3.

CO-INSURANCE: where a number of insurers each cover part of a risk, or where a policy requires the insured to bear a part of each loss, there is said to be co-insurance, except in certain circumstances. A co-insurer is not obliged to follow the decision of another co-insurer. Each co-insurance is a separate contract with the insured.

COLLECTIVE POLICY: a form of policy for several co-insurers sharing the same risk. The policy is issued by the leading insurer in the joint names of all co-insurers and on renewal a collective receipt will be issued for all co-insurers.

COMBINATION PLAN REINSURANCE: A form of quota share and excess of loss reinsurance combined that provides that, in consideration of a premium at a fixed percent of the ceding company's subject premium on the business covered, a) the reinsurer will indemnify the ceding company for the amount of loss on each risk in excess of a specified retention, subject to a specified limit, and b) after deducting the excess recoveries on each risk, the reinsurer will indemnify the ceding company for a fixed quota share percent of all remaining losses.

COMBINED RATIO: the combination of an insurer's (or a reinsurer’s) loss ratio and expense ratio. Another name for Operating Ratio or Trade Ratio.

COMMERCIAL CUSTOMER: someone who purchases cover on behalf of their business, trade or profession.

COMMISSION:

1. Agent Commission - In insurance, an amount paid an agent for insurance placement services.
2. Brokerage Commission - An amount paid a broker for insurance or reinsurance placement services.

3. Ceding Commission - In reinsurance, an allowance (usually a percentage of the reinsurance premium) made by the reinsurer for part or all of a ceding company's acquisition and other costs. The ceding commission may also include a profit factor for the reinsured.
4. Overriding Commission - A fee or percentage of money that is paid to a party responsible for placing a retrocession of reinsurance. In insurance, a fee or percentage of money that is paid by the insurer to an agent or general agent for premium volume produced by the other agents in a given territory.
5. Overwriting Commission - Another name for Overriding Commission.
6. Producer Commission - Another name for Brokerage Commission.
7. Reinsurance Commission - Another name for Ceding Commission.

COMMON ACCOUNT: when an original insurer who already has reinsurance effects further reinsurance with another reinsurer, it may be either wholly for his own protection or also for the protection of the first reinsurer. In the latter case it is said to be reinsurance for the common account.

COMMUTATION: the finalisation of an outstanding loss by payment of an agreed figure in settlement.

COMMUTATION CLAUSE: a clause in a reinsurance agreement that provides for estimation, payment and complete discharge of all obligations including future obligations between the parties for reinsurance losses incurred.

COMPOSITE COMPANY: a company transacting most general lines and long-term business.

COMPULSORY INSURANCE: there are a number of necessary statutory forms of insurance like (1) motor third party – under the Road Traffic Act (2) employer's liability – under the Employer's Liability (Compulsory) Insurance Act (3) professional indemnity - statutory requirement for doctors, solicitors etc.
consensus ad idem: in perfect agreement

CONSEQUENTIAL LOSS: a loss following and consequent on a loss caused by a peril insured against. The insurer is not always liable for consequential loss. Nor is consequential loss allowed in general average, except where it is directly consequential on the general average act. Loss of profits as a consequence of the destruction of a factory by fire is an example of consequential loss.

CONTINGENCY INSURANCE: insurance of loss due to a contingency, e.g. non-performance, cancellation of event.

CONTINGENT COVERS: back-up cover which operates if an original policy, e.g. public liability policy, fails.

CONTINUED PROFESSIONAL DEVELOPMENT: pertains to the regulators requirement for each member of an organisation to be fit for purpose. In line with the regulator's requirements for processes and competence to be transparent, this must be demonstrable, i.e. by having received documented training and assessment material relating directly to an employee's job function.

CONTRACTOR'S ALL RISKS: insurance in respect of contract works covering damage to property on the site however caused (though with exceptions) and third-party liability.

CONTRIBUTION: if a claimant has more than one policy in respect of a claim, the insurer is liable only for the proportion of claims to premium paid. See Indemnity.

CONVERTIBLE CURRENCY: within Lloyd's, any currency other than sterling, US dollars and Canadian dollars.

COOLING-OFF PERIOD: the right of consumers to cancel policy coverage (without penalty), within a set time limit.

CO-REINSURANCE: retention by a reinsured in his own reinsurance.

COST AND FREIGHT: a variation of the CIF form of contract by means of which the buyer arranges the insurance. The selling price does not include the cost of insurance.

COST, INSURANCE AND FREIGHT (CIF): a form of sale contract in which the seller arranges shipping space and pays freight and insurance charges which are included in the selling price.

COVERNOTE: an interim document evidencing the grant of insurance cover.

CURRENCY FLUCTUATION CLAUSE: a clause in a non-proportional treaty, the purpose of which is to stabilise the treaty retention and cover at the rates of exchange prevailing at the start of the underwriting year.

CUTOFF: The termination provision of a reinsurance contract stipulating that the reinsurer shall not be liable for loss as a result of occurrences taking place after the date of termination or after an agreed-upon date following termination. A cutoff normally involves return of unearned premium in force at the cut-off date.

CUT-THROUGH ENDORSEMENT: An addition to an insurance policy between an insurance company and a policyholder which requires that, in the event of the company's insolvency, any part of a loss covered by reinsurance be paid directly to the policyholder by the reinsurer. The cut-through endorsement is so named because it provides that the reinsurance 19 claim payment "cuts through" the usual route of payment from reinsured company-to policyholder and then reinsurer-to-reinsured company, substituting instead the payment route of reinsurer-to-policyholder. The effect is to revise the route of payment only, and there is no intended increased risk to the reinsurer. Similar to the guarantee endorsement, the cut-through endorsement is also known as an ASSUMPTION ENDORSEMENT.

DECLARATION: A statement by the insured, giving details of the risks required to be covered.

DEDUCTIBLE: On direct insurance the first part of an insurance loss paid by the assured and thus not the insurer (see also as ‘Excess’).

DE FACTO: as a matter of fact

DEFICIT CLAUSE: A clause in a reinsurance or other agreement, which specifies that deficits shall be carried forward and offset in arriving at profit commission.

DE JURE: as a matter of law

DEPOSIT: A payment in advance as a deposit pending determination of the actual premium.

DIRECT BUSINESS: (1) Insurance placed with an insured direct and not through an intermediary. (2) Insurance as opposed to reinsurance.

DIRECT WRITER: 1. In reinsurance, a reinsurer that negotiates with a ceding company without benefit of an intermediary or broker. 2. In insurance, a primary insurer that sells insurance through licensed agents who produce business essentially for no one else.

DISCOUNTING: The technique of recognising the ability of the funds representing a reinsurance to close or outstanding claims reserve to earn investment income, by bringing such income into account in assessing the quantum of the provision.

DISCOVERY PERIOD: The period within which a loss covered by a policy has to be discovered and notified to the insurers. The period of discovery may extend beyond the term of the policy.

DISPUTE RESOLUTION COMPLAINTS: Refers to the detailed requirement for handling complaints via the Financial Ombudsman Service arrangements.

DIVERSIFIABLE RISK: Risk that can be eliminated by investors by holding diversified portfolios.

DIVIDEND:

(1) A return of part of the premium on participating insurance to reflect the difference between the premium charged and the combination of actual mortality, expense and investment experience. Such premiums are calculated to provide some margin over the anticipated cost of the insurance protection.
(2) An amount returned to a policyholder by an insurance company out of its earnings.
(3) In capital stock companies, a share of the profits distributed to stockholders.
(4) Portion of the premium which is returned to the insured because of favourable experience by the company.
(5) A policyholder's share in the insurer's divisible surplus fund apportioned for distribution, which may take the form of a refund of part of the premium on a participating policy. The term is also used for a stockholder's share of the portion of a corporation's earnings that is distributed in cash or additional stock.

DOUBLE INDEMNITY: Payment of twice the policy's normal benefit in case of loss resulting from specified causes or under specified circumstances.

DURESS*:* Actual or threatened violence, or imprisonment

EARNED PREMIUM: Premium in respect of that part of the insurance where the adventure has attached and terminated and during which the insurer was on risk. Where time is of the essence, the premium is "earned" pro-rata to the time on risk. If the policy pays a total loss the whole premium is deemed earned.

EMBEDDED VALUE: The discounted value of those present and future surpluses which are expected to be generated in respect of business in force within the long term business fund of a life company and to be transferable (after allowing for all relevant taxes) to the profit and loss account.

ECONOMIC LOSS: The estimated total cost, both insured and uninsured, of mishaps (such as motor vehicle accidents, work accidents, and fires); includes such factors as property damage, funeral expenses, wage loss, insurance administration costs, and medical, hospital and legal costs.

EFFECTIVE DATE: The date on which the insurance cover under a policy begins and the date on which the premium is due.

EJUSDEM GENERIS: of the same kind

EIGHTHS BASIS: A basis used for the calculation of unearned premiums involving the assumption that the average date of issue of all policies written during a quarter is the middle of that quarter. So at the end of the year premium arising in the first quarter is 1/8 unearned, 3/8 for the second quarter etc.

EMPLOYERS' LIABILITY: Compulsory insurance taken out by the insurer to cover injuries suffered to an employee in the course of their work.

ENDORSEMENTS: An additional piece of paper, not part of the original insurance policy, in which certain terms and conditions, when attached to the original insurance policy, becomes a legal part of that contract.

ENFORCEMENT: Where a firm intentionally or unintentionally fails to meet certain requirements, disciplinary enforcement action may be taken.

ERRORS AND OMISSIONS CLAUSE: A clause in a reinsurance treaty (requiring some affirmative act by the ceding insurer to activate the reinsurance protection) stipulating that, in the event of inadvertent error or omission, the reinsured shall not be prejudiced in the fulfillment of the agreement, provided that such error or omission shall be corrected as soon as it is discovered.

EXCESS: The first part of the cost of a claim which is not covered by a policy. It may be borne by the insured or by another party.

EXCESS AND SURPLUS LINES REINSURANCE: Any type of coverage that cannot be placed with an insurer admitted to do business in a certain jurisdiction. Risks placed in excess and surplus lines markets are often substandard as respects adverse loss experience, unusual, or unable to be placed in conventional markets due to a shortage of capacity.

EXCESS OF LOSS REINSURANCE: A type of reinsurance whereby an insurer limits his loss for a specific risk (facultative) or class of risk (treaty), beyond and up to specific limits. The lower limit is called his retention. The premium payable is usually a percentage of the underlying premiums accepted by the insurer for the risk or class covered, but it may be a moving percentage (see "Burning Cost"). This form of reinsurance may be placed to cover any one loss or each and every loss in which case claims are made on the reinsurer for the aggregate of the amounts by which individual losses paid out exceed the retention. Due to the wide range of cover required, excess of loss reinsurance is usually arranged in layers.

EXCLUSION: A clause in a policy excluding certain losses e.g. war perils, frustration, nuclear weapons, dangerous drugs, earthquakes etc.

EXECUTE: Carry into effect or perform a transaction, whether as a principal or as an agent.

EX GRATIA*:* a claim payment made without admission of liability or where liability clearly does not exist.

EXPENSE RATIO: The proportion that the expenses, other than claims and reinsurance premiums, of the insurer bear to his income from premiums.

EXPOSURE: A measure of risk may be expressed in terms of premium income, PXL, sum insured, wages, vehicle/years.

EXPROPRIATION COVER: The protection of the risk of seizure of the assets of the insured by the government of the country in which the assets are located.

EXTENDED COVERAGE INSURANCE: Protection for the insured against property damage caused by windstorm, hail, smoke, explosion, riot, riot attending a strike, civil commotion, vehicle and aircraft. This is provided in conjunction with the fire insurance policy and the various "package" policies.

FACULTATIVE CERTIFICATE: A document formalizing a facultative reinsurance cession.

FACULTATIVE REINSURANCE: (1) The reinsurance of risks that the original insurer may elect whether or not to offer for reinsurance, the reinsurer being free to accept or reject the offer; (2) Reinsurance of a single risk negotiated and placed individually.

FACULTATIVE SEMI-OBLIGATORY TREATY: A reinsurance contract under which the ceding company may or may not cede exposures or risks of a defined class to the reinsurer, which is obligated to accept if ceded.

FACULTATIVE TREATY: A reinsurance contract under which the ceding company has the option to cede and the reinsurer has the option to accept or decline individual risks. The contract describes how individual facultative reinsurances shall be handled.

FIDUCIARY: A person who holds something in trust for another.

FIRE ALL RISKS: Term used to cover not only insurance against fire, but also the insurance of additional perils such as explosion and weather.

FIRST LOSS RETENTION: The amount of loss sustained by the reinsured before the liability of the excess of loss reinsurer attaches, often referred to as NET RETENTION.

FIRST SURPLUS REINSURANCE/FIRST SURPLUS TREATY: The name given to an ordinary surplus treaty; the surplus must be allotted to that treaty first and in priority to any other reinsurers. Sometimes treaties are arranged as second surplus treaties, and these would receive a share of the surplus only after the first surplus treaty had received the full amount to which it is entitled.

FINANCIAL OMBUDSMAN: Scheme where certain disputes may be resolved quickly and with minimum formality by independent person.

FINANCIAL PROMOTION: An invitation or inducement to engage in investment activity.

FLAT COMMISSION: A stated commission percentage, payable by the reinsurer to the reinsured, which is not subject to further adjustment under a profit-sharing provision. Common in pro rata facultative reinsurance.

FLAT RATE: 1. A fixed rate not subject to any subsequent adjustment. 2. A reinsurance premium rate applicable to the entire premium income derived by the ceding company from the business ceded to the reinsurer (as distinguished from a rate applicable to excess limits).

FLOATERS: Insurance policies that cover property that can be moved from one location to another for both transportation perils and perils affecting property at a fixed location.

FMET: Originally a group of ships but applied to groups of other vehicles and in the US to a group of insurance companies in one ownership.

FOLLOW THE FORTUNES: The clause stipulating that once a risk has been ceded by the reinsured, the reinsurer is bound by the same fate thereon as experienced by the ceding company.

FORCE MAJEURE: superior power

FORTY PER CENT BASIS: A basis used for the calculation of unearned premiums, being 40% of written premiums. It is used for treaty business when there is not enough information about inception dates to use a more accurate method.

FORTUITOUS LOSS: Unforeseen and unexpected loss that occurs as a result of chance.

FORUM NON CONVENIENS: The principle whereby a plaintiff can demand an action be heard in a designated country even though facts may prove it would be more suitable for it to be founded elsewhere. The UK does not recognise this principle, although other jurisdictions do, notably the US.

FRANCHISE: The standard policy form, in the so-called "memorandum" excludes losses from insured perils with certain exceptions unless the specified percentage is reached, in which case losses are paid in full.

FRANCHISE DEDUCTIBLE: Deductible commonly found in marine insurance contracts in which the insurer has no liability if the loss is under a certain amount, but once this amount is exceeded, the entire loss is paid in full.

FREE OF PARTICULAR AVERAGE: An FPA policy does not cover partial loss except in certain circumstances defined in the policy and Institute FPA Clauses, which are usually attached to such policies.

FREE ON BOARD: Prices quoted on these terms include carriage only from the suppliers premises as far as the port from which the goods are to be despatched, the remainder of the cost of carriage having to be borne by the purchaser of the goods (see "Cost Insurance and Freight").

FREQUENCY: The number of claim occurring during a given coverage period.

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 (FGU) when it shows the number and distribution by amount of all claims however small even though reinsurance is large claims only.

FRONTING INSURANCE COMPANY: An insurer who accepts direct insurance in its own name and reinsures all or most of it with a reinsurer.

FSA RETURN: An annual return required to be filed with the Financial Services Authority by all insurers which carry on business in the United Kingdom.

FULL SIGNED LINE: When an insurer accepts a line on a slip this is called his written line. It frequently occurs that the broker over-places the insurance, whereby the total of the lines he receives exceeds the amount of the insurance required. This is accepted market practice but it means that when the insurance is finally closed (or signed) each insurers written line must be reduced in proportion so that the total of the lines agrees with exactly the amount of *insurance required*. The line so arrived at is called the "full signed linen. An insurer may use the expression "full signed linen manner both terms means the same because ultimately the full written line will be reduced to the full signed line when the reinsurance is closed. In cargo insurance, a further reason for reducing the written line to a lower amount when signing occurs is when the value which is subsequently shipped is less than the value contemplated by the insurance.

FUND: (1) General Business: The amount considered necessary at the end of a financial year to discharge the remaining obligations of business written on a three-year basis; (2) Long Term Business: The amount held to cover liabilities to pay future claims.

FUNDS HELD BY COMPANY UNDER REINSURANCE TREATIES: The deposit or retention by a company out of funds due to a reinsurer as a guarantee that a reinsurer will meet its loss and other obligations.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP): Accounting principles as set forth in opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and/or statements of the Financial accounting Standards Board and/or their respective successors and which are applicable in the circumstances as of the date in question. Also referred to as GAAP.

GENERAL BUSINESS: Insurance, other than long-term business, sometimes known as short-term or non-life business.

GROSS EARNED PREMIUMS: Premiums received by or due to an insurer, without deduction of the cost of any reinsurance. but adjusted to take account of the differences between the unexpired risk reserves at the beginning and end respectively of the period concerned.

GROSS LINE: The share of insurance accepted by an underwriter before a deduction is made for any reinsurance by him.

GROSS NET PREMIUM: The gross premium for a marine insurance, before deduction of brokerage and discounts but less gross returns of premium.

GROSS PREMIUM: The total premium before deduction of brokerage or discounts.

GROSS LOSS RATIO: The ratio of claims incurred after subrogation (but before reinsurance recovery) to gross premiums earned or deemed to be earned before reinsurance.

GROSS NEGLIGENCE: Intentional failure to perform a duty, reckless disregard of the consequences as affecting the life or property of another.

GROSS WRITTEN PREMIUMS: Premiums received by or due to an insurer without deduction of the cost of any reinsurance or any adjustment for the fact that some of the income has to be reserved for the unexpired element of the policy.

GROUND-UP LOSS: The total amount of loss sustained before deductions are applied for reinsurance covers, which inure to the benefit of the cover being considered and before the application of a deductible, if any, because that base theoretically reflects changes in exposure

GUARANTEE ENDORSEMENT: An addition to an insurance policy (between an insurance company and a policyholder covering the policyholder's mortgaged property) which requires that, in the event of the company's insolvency, the mortgagee and/or the policyholder be paid directly by the reinsurer either for any loss covered by reinsurance or (as is often provided) for the full insurance protection afforded by the insurance company. Since the full insurance protection afforded by the insurance company may be above the reinsurance that would be payable to a reinsured company, the reinsurer may be assuming an additional risk in such an endorsement. Similar to the cut-through endorsement, the guarantee endorsement is also known as a MORTGAGEE ENDORSEMENT.

GUARANTEE FUND: A solvency yardstick, defined as one-third of the required margin of solvency. If a company's net assets fall below the guarantee fund, it must submit a short-term financial scheme to the Department of Trade and Industry.

HABEAS CORPUS: (lit.) you have the body (a writ to a jailer to produce the body of one detained in prison and to state the reasons for the detention)

HARD MARKET: a market in which it is difficult to obtain insurance. This is demonstrated by high premium rates.

HAZARD: a physical or moral feature that introduces or increases the possibility of a loss arising from a peril or influences the extent of loss.

HELD COVERED: a marine term whereby the insured's interest remains covered in the event of a circumstance arising which would, without prior agreement, cancel coverage.

HIDDEN RESERVES: the reserves, undisclosed in amount, deducted from assets or added to liabilities by an insurance company which is exempted from some of the detailed disclosure provisions of the Companies Act.

HIRSCHMANN-HERFINDAHL INDEX: specific measurement of market concentration, that is of the extent to which a small number of firms account for a large proportion of output. The HHI is used as one possible indicator of market power or competition among firms. It measures market concentration by adding the squares of the market shares of all firms in the industry. Where, for example, in a market five companies each have a market share of 20%, the HHI is 400 + 400 + 400 + 400 + 400 = 2000. The higher the HHI for a specific market, the more output is concentrated within a small number of firms. In general terms, with an HHI below 1000 the market concentration can be characterised as low, between 1000 and 1800 as moderate and above 1800 as high.

HOURS CLAUSE: the period of time, usually 72 or 168 hours, during which all individual losses arising out of and directly occasioned by one catastrophic event are covered under a catastrophe excess of loss treaty.

HULL INSURANCE: (1) a classification of risks referring to a hull of a ship or boat or the fabric of a hovercraft or a plane, including its machinery and equipment. Marine hull insurance commonly includes indemnity for .75 of collision liability; (2) class of ocean marine insurance that covers physical damage to the ship or vessel insured. Typically written on an "all-risks" basis; (3) physical damage insurance on aircraft - similar to collision insurance in an automobile policy.

HURRICANE: a tropical storm marked by extremely low barometric pressure and circular winds with a velocity of 75 miles an hour or more.

IBNR CLAIMS: abbreviation for 'incurred, but not reported': Amount set aside for claims that are anticipated to have occurred but which have not yet been advised to the Company. The accounting code definition states that as a reserve it also represents any general reserve for inflation.

IGNORANTIA JURIS QUOD QUISQUE SCIRE TENETUR NON EXCUSAT: ignorance of the law which everybody is supposed to know about does not offer excuse

IMPLIED CONDITION: a condition which does not appear in the policy, but which is understood to be incorporated therein and is equally binding as though it were expressed in the policy. Breach of an implied condition by the assured entitles the underwriter to avoid the contract from inception.

IMPLIED WARRANTY: a warranty that is not expressed in the policy specifically, but which is understood by both parties to be incorporated in the contract. An implied warranty must be strictly complied with and in the event of a breach of warranty the insurer is discharged from liability as from the breach of the date, but the insurer may waive the breach or the breach may be waived by Statute.

INCEPTION DATE: the date when a risk commences.

INCIDENTAL NON-MARINE: non-marine insurance written by a marine underwriter as an adjunct to his marine insurance account.

INCURRED CLAIMS OR LOSSES: the total, under the normal accruals concept, of paid and outstanding claims arising in a period. The term is also used in the context of claims statistics where for a given accident or policy years the incurred claims (sometimes including IBNR) are compared to earned premiums, for each class of insurance, in order to assess the profitability of the underwriting.

INCURRED LOSS RATIO: The relationship between incurred losses and earned premium, usually expressed as a percentage.

INDEMNITY: (1) a principle under which the insurer seeks to place the insured in the same position after a loss as he occupied immediately before the loss (as far as possible). The principle does not apply to life assurance; (2) the cover given by an insurance policy or amount of claim paid to indemnify an insured.

INDEXING: A procedure that adjusts retention and limit provisions of excess of loss reinsurance agreements in accordance with the fluctuations of a published economic index such as wage, price, cost-of-living, etc.

INDIRECT BUSINESS: business accepted by way of reinsurance

INDUSTRY LOSS WARRANTIES (ILWS): are reinsurance products whose payout is triggered by catastrophic insured loss. There is a growing market for ILWs because they provide a viable alternative to traditional reinsurance and catastrophe bonds for mitigating losses from such events.

INLAND MARINE INSURANCE: a broad type of insurance, generally covering articles that may be transported from one place to another as well as bridges, tunnels and other instrumentalities of transportation. It includes goods in transit (generally excepting trans-ocean) as well as numerous "floater" polices such as personal effects, personal property, jewellery, furs, fine art and others.

INSOLVENCY CLAUSE: A provision now appearing in most reinsurance contracts (because many countries require it) stating that the reinsurance is payable, in the event the reinsured is insolvent, directly to the company or its liquidator without reduction because of its insolvency or because the company or its liquidator has failed to pay all or a portion of any claim.

INSURABLE INTEREST: for a contract of insurance to be valid the (prospective) policyholder must have an interest in the insured Item to the extent that its loss, death, damage or destruction would cause him loss. This is called insurable interest and must exist as follows: marine insurance - at the time of the loss; life assurance - at the time the policy is taken out; other insurance - at the time the policy is taken out and also at the time of the loss.

INSURABLE VALUE: the value of the insurable interest which the insured has in the insured occurrence or event. It is the amount to be paid out by the insurer (assuming full insurance) in the event of total loss or destruction of the item insured.

INSURANCE AGENT: a representative of an insurer, whether an employee or an independent contractor, who negotiates, effects and sometimes services contracts of insurance.

INSURANCE BROKER: one who advises persons on their insurance needs and negotiates insurances on their behalf with insurers, exercising professional care and skill in so doing. A registered broker sometimes acts as an insurance agent.

INSURANCE CONTRACT: a contract under which one party, the insurer, in return for a consideration, the premium, undertakes to indemnify the other party, the insured, against loss upon the happening of a specified event that is contrary to the interest of the insured.

INSURANCE-LINKED SECURITIES (ILS): are financial instruments that allow investors to speculate on a variety of events, including catastrophes such as hurricanes, earthquakes and pandemics. Insurance-linked securities may offer higher interest rates than similarly rated corporate bonds. But, if a triggering catastrophic event occurs, holders can lose most or all their principal and unpaid interest payments.

INSURANCE SPECIAL PURPOSE VEHICLE: Any undertaking, whether incorporated or not, other than an existing insurance or reinsurance undertaking which assumes risks from insurance or reinsurance undertakings and which fully funds its exposure to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the reinsurance obligations of such a vehicle.

INTER ALIA: among other matters

INTERMEDIARY: an agent or broker through whom a transaction is arranged between parties.

INTERMEDIARY CLAUSE: A provision in a reinsurance contract that identifies the specific intermediary or broker involved in negotiating the contract, communicating information and transmitting funds. The clause should state clearly whether payment to the broker does or does not constitute payment to the other party of the reinsurance contract. Currently a widely used clause provides that payments by the ceding company to the intermediary shall be deemed to constitute payment to the reinsurer(s) and that payments by the reinsurer(s) to the intermediary shall be deemed to constitute payment to the ceding company only to the extent that such payments are actually received by the ceding company.

INTER VIRES*:* during life; between living persons

INTRODUCER: an individual appointed by a firm or an appointed representative to induce business or distribute non-real-time financial promotions.

INVESTMENT INCOME: interest and dividends arising from the investing of premium monies pending claims being made.

ISSUED AND RENEWED: the “year of account" basis for treaties, under which all claims for policies issued or renewed in the treaty year are covered, no matter in what year they may occur. Thus the reinsurer is at risk until all policies covered by the treaty for that year have expired and all losses have been settled. As opposed to "losses occurring" (q.v.).

JOINT AND SEVERAL LIABILITY: A legal principle that permits the injured party in a tort action to recover the entire amount of compensation due for injuries from any tort feasor who is able to pay, regardless of the degree of that party's negligence.

KNOWN CASE RESERVES: Amount set aside to cover claims notified to the Company but which are not fully settled (also known as 'outstanding claims').

KNOCK-FOR-KNOCK AGREEMENT: An agreement between motor insurers that in the event of an accident involving their respective policy holders neither party shall seek to recover the insured cost of repairing the damage caused to the vehicle it insured from the other insurer, whoever is to blame for the accident.

KNOWN OUTSTANDING LOSSES: Where claim notifications have been received for potential loss.

LAYER: Term used to denote a stratum of cover, e.g. for claims between $50,000 and $250,000.

LAW OF LARGE NUMBERS: A mathematical concept which postulates that the more times an event is repeated (in insurance, the larger the number of homogeneous exposure units), the more predictable the outcome becomes. In a classic example, the more times one flips a coin, the more likely that the results will be 50% heads, 50% tails.

LEAD REINSURER: The reinsurer recognized as the one of several reinsurers on a contract responsible for negotiating the initial terms of the contract. There may be joint leaders on a contract, and the contract may specifically provide to the lead reinsurer the power to bind others to limited changes in or enhancements of the contract during its term.

LETTER OF CREDIT: *A document which authorises payment of an agreed sum of money to a person named therein. It is usually irrevocable and authorises the bank named in it to make a payment. The term is also used to indicate a document issued to an assured or a reinsured Company by the underwriter, authorising settlement of the claim amount.*

LEVERAGED EFFECT: The disproportionate result produced by inflation on a reinsurer's liability in excess of loss reinsurance compared with the ceding company's liability. In other words, inflationary increases in average claim costs of a reinsured usually produce even greater increases for its excess of loss reinsurer, since an increase affecting all losses (those within the retention limit and those above it) multiplies itself when affecting the excess of loss portion above that retention limit. For example, if the reinsured's retention limit average claim cost increases 8%, the reinsurer's increase can be as much as twice or three times that amount, or more. The increase on the reinsurer over the ceding company's increase is referred to as the leveraged effect. The effect is leveraged in that such increases fall more on the reinsurer, proportionately at least, than on the reinsured.

LIABILITY: Any legally enforceable act or obligation.

LIABILITY INSURANCE: Insurance in respect of liability to third parties, most commonly for accidents resulting in bodily injury and damage to property.

LIMITATION PERIOD: The period within which a person who has a right to claim against another person must start court proceedings to establish that right. The expiry of the period may be a defence to the claim.

LINE: A share of an insurance or of reinsurance business. Thus, the proportion of an insurance accepted is termed a line. In reinsurance the original insurer's retention is termed a line. Thus a ten-liner reinsurance treaty is one under which the insurer retains one line and can place ten lines with the various reinsurers.

LINES OF BUSINESS: The general classification of insurance written by insurers, i.e., fire, allied lines, homeowners, among others.

LINE OF CREDIT: A line of credit issued normally by a bank to an Insured, which can be drawn down to cover a liability eg to cover the reserve for a loss in lieu of cash deposit.

LINE SLIP: An arrangement entered into between underwriters and brokers whereby, for a given type of risk, the broker needs to approach only the leading and second underwriter who will accept or reject each risk on behalf of all the underwriters concerned in their agreed proportions. This is an administrative convenience where a broker is placing a large number of similar risks with the same group of underwriters.

LINKED LOSS: A method created by the claims department to embrace two or more claim records. A facility used to aggregate individual claims together. Any claim the subject of 'linked loss' may be subject to special reinsurance recoveries.

LLOYD'S SYNDICATE: A group of underwriting members of Lloyd's who are bound by the signature of an active underwriter on their behalf. When an insurance is accepted on behalf of the syndicate each member is liable for his stated fraction only of the insurance, not for the fractions of other members. His personal liability is unlimited.

LONG-TAIL CLAIMS: Claims notified or settled normally a long time after the expiry of a period of insurance.

LONG-TAIL LIABILITY: A term used to describe certain types of third-party liability exposures (e.g., malpractice, products, errors and omissions) where the incidence of loss and the determination of damages are frequently subject to delays that extend beyond the term the insurance or reinsurance was in force. An example would be contamination of a food product that occurs when the material is packed but which is not discovered until the product is consumed months or years later.

LOSS: (1) An event giving rise to a claim under an insurance; (2) A claim; (3) The disappearance of the subject matter of insurance through theft or some other cause as opposed to its survival in a damaged state. (4) The data on which the incident giving rise to a claim occurred.

LOSS ADJUSTER: An independent and highly trained claims expert, who acts as a consultant to insurers in assessing the true extent and value of any loss which has resulted in a claim being made against them. Although paid a fee by the insurer, a member of the Chartered Institute of Loss Adjusters is required to act with the claimant's legitimate interests in mind.

LOSS DEVELOPMENT: The process of change in amount of losses as a policy or accident year matures, as measured by the difference between paid losses and estimated outstanding losses at one point in time, and paid losses and estimated outstanding losses at some previous point in time. In common usage it might refer to development on reported cases only, whereas a broader definition also would take into account the IBNR claims.

LOSS EVENT: The total losses to the ceding company or to the reinsurer resulting from a single cause such as a windstorm, flood or bushfire.

LOSS SUSTAINED COVER: A type of reinsurance treaty covering only those losses which are sustained during the term of the treaty.

LOSSES OCCURRING BASIS: A provision in a reinsurance treaty whereby the reinsurance applies to all losses occurring during the treaty period even if the risk attached before that period. The reinsurance does not apply to claims occurring after the reinsurance period even though the underlying insurance began to run during that period. Professional indemnity insurance is usually underwritten on this basis, although "claims occurring" are usually advised and accepted on a potential claim basis.

LOD: Abbreviation used in the reinsurance area for 'losses occurring during' - similar to 'accident year'.

LOSS OCCURRENCE: (1) An occurrence of a single loss; (2) An occurrence of several losses in the same incident or catastrophe or disaster.

LOSS RATIO: The proportion of claims paid or payable to premiums earned.

LOSS RESERVE: The setting up of a reserve for outstanding losses.

(1) Where it is agreed that the reassured shall retain a proportion of the net premiums -_for a given period to provide a fund to settle gross claims without recourse to the reinsurer. Sometimes called cash flow reserve.

(2) A fund set aside to pay claims outstanding at the end of a period of account.

MALA FIDE*:* in bad faith

MARINE INSURANCE: (1) The insurance of ships (including oil rigs at sea) and their cargoes; (2) An agreement subscribed to by all underwriters in a given section of the Lloyd's market.

MARKET AGREEMENT: An agreement subscribed to by all underwriters in a given section of the Lloyd's market.

MATERIAL FACT: A fact that would influence the mind of a prudent insurer in deciding whether to accept a proposed insurance and, if so, on what terms.

MFL (MAXIMUM FORESEEABLE LOSS): The anticipated maximum property fire loss that could result given unusual or the worst circumstances with respect to the non-functioning of protective features (firewalls, sprinklers, a responsive fire department, etc.), as opposed to PML (Probable Maximum Loss), which would be a similar valuation, but under the assumption that such protective features function normally.

MINIMUM PREMIUM: The least premium charge applicable, frequently used in excess of loss reinsurance contracts or catastrophe covers which contain a provision that the final adjusted premium may not be less than a stated amount

MEANS TEST: An evaluation of the assets and/or income of a person for the purpose of determining his eligibility for underwriting membership of Lloyd's and the volume of premium income which he can write.

MEMBERS' SOLVENCY: The requirement for a Name to show that he can meet the financial requirements of Lloyd's based on a summary of his open and closed year results (see also "Syndicate Solvency").

MODE: The frequency of premium payment (e.g., monthly. quarterly, half-yearly etc).

MONEY LAUNDERING: The requirements for anti-money-laundering systems and controls.

MORAL HAZARD: The risk arising from the character and management style of the insured or their employees.

MORBIDITY TABLE: (1) A statistical table showing the incidence, by age, of a given sickness or accident in the population or in a selected group, based on the assumed morbidity which is being defined by the table. It is an instrument for measuring the probabilities associated with the given event and is one factor in computing premiums and reserves for policies providing cover for such events; (2) A statistical table showing the proportion of persons expected to die at each age, based on the assumed mortality which is being defined by the table, usually stated as so many deaths per thousand. as well as other mortality functions such as the rate of mortality and the expectation of life. It is the instrument for measuring probabilities of life and death. It is used as one factor in determining the amount of premium required at each age at issue of a policy.

MUTATIS MUTANDIS: the necessary changes being made

MUTUAL INSURANCE COMPANY: A company conducting mutual insurance. In non-life insurance business may be confined to insuring the risk of persons in the group who formed it (e.g. a trade association) who may have subscribed capital. In life assurance the policyholders (especially holders of with-profits policies) commonly become members of the company on effecting a policy. A mutual life assurance company has no risk capital.

NEGLIGENCE: Failure to use the care that a reasonable and prudent person would have used under the same or similar circumstances.

NET EARNED PREMIUMS: The premiums received or due to an insurer less the cost of reinsurance and after adjustment to allow for the cost of any unexpired risk.

NET LOSS RATIO: The ratio of claims incurred after subrogation and reinsurance recovery to net premiums earned after reinsurance.

NET: (1) In marine insurance, the premium after all discounts have been taken off, alternatively the premium following the deduction of a return of premium. The latter, if before deduction of discounts, may be called the "Gross Net Premium" (2) In life assurance valuation, a hypothetical premium calculated as sufficient to secure the guaranteed benefits on the valuation bases of mortality and interest, but without allowance for commission, expenses or bonus; (3) In Lloyd's syndicate accounting, premiums net of brokerage, against costs or ceding commission, return premiums and reinsurances; (4) In brokers, the amount due to underwriters after declaration of brokerage.

NET LINE: The amount of insurance the primary company carries on a risk after deducting reinsurance from its "gross" line. See NET RETENTION.

NET LOSS: The amount of loss sustained by an insurer after making deductions for all recoveries, salvage, and all claims upon reinsurers - with specifics of the definition derived from the reinsurance agreement. Such net loss may or may not include claim expenses. As provided in the reinsurance agreement, net loss can be confined to the amount paid by the reinsured within applicable policy limits, or it also can include amounts paid by the reinsured for compensatory damages in excess of applicable policy limits because of failure of the reinsured to settle within applicable policy limits

NO CLAIM DISCOUNT: The reduction allowed in a renewal premium in recognition of no claims having been paid by the insurer during the recent past period of insurance.

NON-ADMITTED ASSETS: Assets owned by an insurance company that are not recognized for solvency purposes by state insurance laws or insurance department regulations, e.g., premiums due and uncollected past 90 days, and furniture and fixtures among others.

NON-ADMITTED REINSURANCE COMPANY: A reinsurer not licensed or approved in a given state

NON-ADMITTED INSURANCE COMPANY: An insurance company not licensed to do business in a particular state; such a company, however, may sell excess and surplus insurance in that state if admitted insurers lack the capacity or expertise.

NON-ADMITTED REINSURANCE: Reinsurance protection bought by a ceding company from a reinsurer not licensed or authorized to transact the particular line of business in the jurisdiction in question. No credit is given the ceding company for such non-admitted reinsurance in its Annual Statement unless it withholds funds or holds a letter of credit on behalf of such unauthorized reinsurer.

NON-MARINE: General business other than marine, aviation and transport business. (motor business is also usually considered as falling outside the non-marine class).

NON-PROPORTIONAL REINSURANCE: Reinsurance such as excess of loss reinsurance where the reinsurer's liability is not calculated as a proportion of the insurers.

OCCURRENCE:

1. In a non-insurance sense, an incident, event or happening. In insurance, the term may be defined as continual, gradual or repeated exposure to an adverse condition that is neither intended nor expected to result in injury or damage, as contrasted with an accident

which is a sudden happening. In reinsurance, per occurrence coverage permits all losses arising out of one event to be aggregated instead of being handled on a risk-by-risk basis.

2. One basis or determinant for calculating the amount of loss or liability in insurance or reinsurance when an aggregation of related losses is to constitute a single subject of recovery. For example, in property catastrophe reinsurance treaties, occurrence is usually defined so that all losses within a specified period of time involving a particular peril are deemed an occurrence

OCCURRENCE BASIS: excess of loss reinsurance by which the reinsurer's liability is determined in relation to the aggregate net retained loss sustained by the reinsured as a result of a single occurrence.

OCEAN MARINE INSURANCE: **i**nsurance for sea-going vessels, including liabilities connected with them, and their cargoes.

OPEN COVER: **i**nsurance (or reinsurance) where the insurer obliges himself in advance to accept business of a specific kind.

OPEN MARKET: used to refer to a risk that is individually placed in the market as opposed to one that is covered under a binding authority, line slip or treaty.

OPEN YEAR: a year of account or insurance in respect of which the financial outcome remains to be determined. Particularly in Lloyd's, any year which has not been closed by reinsurance to close.

OPERATING INCOME/PROFIT: The sum of the net investment income and net underwriting income in any reporting period.

OPERATING RATIO: The arithmetic sum of two ratios: incurred loss to earned premium, and incurred expense to written premium. Considered the best simple index to current underwriting performance of an insurer.

ORIGINAL GROSS PREMIUM: The premium charged by the reassured to the original assured before any discounts have been taken into account. The reinsurer usually requires knowledge of the original gross premium to ensure that he is not backing the liability of a reassured who is retaining high commissions and thus encouraging bad underwriting.

OUTSTANDING CLAIMS LOSSES: The total of losses or claims which have been advised but at a given time are still outstanding and as such are only estimated amounts.

OUTSTANDING CLAIMS PORTFOLIO: An amount payable by a cedant to a reinsurer in consideration of the reinsurer accepting liability arising under a contract of reinsurance in respect of reinsurance claims incurred and arising prior to a fixed date.

OVERLINE: The amount of insurance or reinsurance that exceeds the insurer's or reinsurer's normal capacity. This is inclusive of automatic reinsurance facilities

OVERRIDING COMMISSION: A discount allowed to an agent or ceding insurer in addition to normal commission. In reinsurance it is commonly by way of contribution to the direct insurers overheads. In direct insurance it may be payable to an employee or agent in respect of insurance's written within his territory, even without his mediation.

PAID LOSSES OR CLAIMS: The total of claims or losses which have been settled during a given period.

PARI PASSU*:* with equal step, i.e. ranking equality

PARTICULAR AVERAGE: Means partial loss of the subject matter insured by insured perils.

PARTICIPATE: To share in the writing of a risk.

PARTICIPATING REINSURANCE: The sharing of risks, as in quota share and surplus share reinsurance that participate pro rata in all losses from the first dollar up. See PRO RATA REINSURANCE.

PAYBACK PERIOD: A term used in the rating of per occurrence excess covers that represents the number of years at a given premium level that would be necessary to accumulate total premiums equal to the indemnity. Synonymous with AMORTIZATION PERIOD

PAY AS YOU DRIVE: system employing a device the size of a video cassette which can be fitted to motor vehicles to record their mileage and which adjusts the level of insureds' motor premiums accordingly. It makes use of global positioning satellite (GPS) technology to record each journey and transmits the data to the insurer over a mobile phone network.

PERIL: Classification of possible causes of loss insured against, such as fire, windstorm, collision, hail, bodily injury, property damage, loss of profits etc.

PERSONAL LINES: Those types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organisations.

PER CAPITA: by heads; by the number of individuals

PER SE: by itself

PER RISK REINSURANCE: Reinsurance in which the reinsurance limit and the retention apply "per risk" rather than per accident, per event, or in the aggregate.

PLACING: (1) Effecting an insurance; (2) An insurance which has been effected.

PML: Probable Maximum Loss - The anticipated maximum property fire loss that could result given the normal functioning of protective features (firewalls, sprinklers, a responsive fire department, etc.), as opposed to MFL (Maximum Foreseeable Loss), which would be similar valuation, but on a worst-case basis with respect to the functioning of the protective features. Underwriting decisions typically would be influenced by PML evaluations, and the amount of reinsurance ceded on a risk would normally be predicated on the PML valuation.

POLICY: A document detailing the terms and conditions applicable to an insurance contract and constituting evidence of that contract. It is issued by an underwriter for the first period of risk. On renewal a new policy may not be issued but the same conditions would apply and the current wording would be evidenced by the renewal receipt. A change of conditions is evidenced by an endorsement.

POLICY SIGNING AND ACCOUNTING CENTRE: A bureau providing policy signing and central accounting services for its members (insurance companies) in respect of non-marine business.

POLICY YEAR EXPERIENCE: The segregation of all premiums and losses attributable to policies having an inception or renewal date within a given 12-month period. More specifically, the total value (losses paid plus loss reserves) of all losses arising from (regardless of when reported) policies incepting or renewing during the year is divided by the fully developed earned premium for those same policies. The finally developed earned premium will always equal the written premium for those policies. **Policy Year Experience** resembles **Accident Year Experience** in that, while the experience is developing, loss reserves are used in the calculation, but the ultimate result cannot be finalized until all losses are settled. **Policy Year Experience** is different in that premiums earned from policies incepting during a one-year period of time will earn over the course of both the year of inception and a later year(s). Similarly, losses to be included will be occurring over this same extended time

POLICYHOLDER: The person who owns an insurance policy. This is usually the insured person, but it may also be a relative of the insured, a partnership or a corporation.

POLICYHOLDER SURPLUS: 1. The net worth of an insurer as reported in its Annual Statement. For a stock insurer, the sum of its surplus and capital. For a mutual insurer, its surplus. 2. The amount by which the assets of an insurer exceed the organization's liabilities. Another name for SURPLUS TO POLICY HOLDERS.

POLICY RESERVES: The measure of the funds that a life insurance company holds specifically for fulfilment of its policy obligations. Reserves are required by law to be so calculated that, together with future premium payments and anticipated interest earnings, they will enable the company to pay all future claims.

POLLUTION LIABILITY: Exposure to lawsuits for injury or cleanup costs that result from pollution damage.

POOL: A pool is created when several insurers agree to share all insurances of a defined nature in specified proportions.

POOLING: Practice of sharing all business of an affiliated group of insurance companies among the members of the group. All premiums written by the subsidiary companies are customarily ceded to or reinsured by the parent company; then, after provision for any required outside reinsurance, the total premiums are in turn ceded back to the subsidiaries in agreed ratios. Claims, loss expenses, commissions and other underwriting and operating expenses (excluding investment expenses) are similarly treated, with the net result that each of the members of the affiliated group will share in the total business of the group (but usually in varying percentages) and all will achieve similar underwriting results.

PORTFOLIO: (1) The totality of the business of an insurer or reinsurer; (2) A segment of the business of an insurer or a reinsurer, e.g. fire insurance business is called his fire portfolio.

PORTFOLIO REINSURANCE: The transfer of a portfolio via a cession of reinsurance; the reinsurance of a runoff. Only policies in force (or losses outstanding) are reinsured, and no new or renewal business is included. Premium or loss portfolios, or both, may be reinsured. The term is sometimes applied to the reinsurance by one insurer of all business in force of another insurer retiring from an agency, from a territory or from the insurance business entirely.

PORTFOLIO ENTRY: The mechanics of attachment of a reinsurance treaty at inception may be arranged on varying bases - to new and renewal business or business in force, etc - all referred to as Portfolio Entry.

PORTFOLIO PREMIUM: The premium payable for the reinsurance of a portfolio of insurance or reinsurance business.

PORTFOLIO RETURN: The return of reinsurance premium and losses to the ceding company in respect of in-force business as of a specified date upon termination of a reinsurance treaty.

PORTFOLIO RUN-OFF: The opposite of Portfolio Return - permitting premiums and losses in respect of in-force business to run to their normal expiration upon termination of a reinsurance treaty.

PORTFOLIO TRANSFERS: Proportional treaties are written on either a "run-off" or "portfolio" basis. Where treaties are written on a "run-off" basis the underwriting year is kept open until all premiums are paid and all claims are settled. Treaties written on a portfolio basis are effectively cut at the end of the Underwriting Year and the Premium and Loss Portfolios transferred out to the ensuring year.

PREMIUM PORTFOLIO TRANSFER*:* Reinsurers assume liability for claims occurring on all business in force under this treaty at the start of the year and are relived of all liability for future claims on business in force at the close of the year.

LOSS PORTFOLIO TRANSFER - The liability for outstanding losses is transferred to the reinsurers for the next *annual period*. The new reinsurers make use of this transfer to pay outstanding losses as they fall due for settlement.

(1) The transfer of the portfolio of one direct insurer to another.

(2) A term used in treaty reinsurance. The reinsurer undertakes to accept the whole portfolio of an existing reinsurance from a specified date. He accepts not only the premium due on risks attaching from the date in respect of premiums paid to the previous reinsurer. He is, of course, also entitled to recoveries paid after the inception date of the treaty even though these may be in respect of claims paid by the previous reinsurer, but is equally liable for return of premium payable after the treaty inception date even though the premium was originally paid to the previous reinsurer.

(3) The term can also be used in connection with long-term premiums when a risk spans more than one period of account and part of the premium is carried forward to subsequent years of account.

(4) The consideration payable by the insured for a contract of insurance.

PRE-EXISTING CONDITION: A physical condition that existed before the effective date of coverage

PREMIUM BASE: The ceding company's premiums (written or earned) to which the reinsurance premium rate is applied to produce the reinsurance premium. Also known as BASE PREMIUM, SUBJECT PREMIUM, and UNDERLYING PREMIUM

PREMIUM INCOME: The income of an insurer from premium.

PREMIUM ADDITIONS: The amounts payable to the Company if the exposure under a policy is increased or the rate required by the Insurer is increased.

PREMIUMS – ADJUSTMENT: The amount due on the adjustable Policy as in the case of employer's liability, or where a deposit premium has been paid.

PREMIUMS – AUDIT: Normally attributable to CAR and EL Business and represents and additional premium payable on the determination of amounts whereby a premium is variable when such amounts can be determined i.e. salaries.

PREMIUMS – CLOSED: a premium having been received in full for the period of insurance.

PREMIUMS – EARNED: the proportion of the total premium under a policy which refers to a particular period normally calculated pro rata.

PREMIUM - FINANCIAL YEAR: the amount of premium earned within the accounting year having due regard for the release of unearned premium at the commencement of that year and the creation of unearned premium at the end of such a period.

PREMIUMS – GROSS: the amount of the premium before any deductions.

PREMIUMS – NET: premiums shown after the deduction of commission (brokerage).

PREMIUMS – INSTALMENT: a basis of payment whereby a premium is paid over a specified period during the duration of a policy.

PREMIUMS – GROSS: the amount of premium after reinsurance, but before commission is deducted.

PREMIUMS – NET: premiums shown after the deduction of commission (brokerage) and reinsurance.

PREMIUMS – REFUND: see Returns.

PREMIUMS – REGULAR: term used in an insurer's DoT [FSA?] return to distinguish between once-and-for-all single premiums for long-term business and those paid at regular intervals, e.g. under policies requiring annual premium payments throughout the duration of the contract.

PREMIUMS – REINSURANCE OUTWARDS: premiums payable by the company other than return premiums on original risk written either in respect of contracts written by or as retrocessions of original reinsurances accepted by it, also includes excess of loss premiums or similar protective premiums payable by the company to protect its own underwriting account.

PREMIUMS – RENEWAL: The premium to renew an existing policy which is expiring.

PREMIUMS – RETURNS: The amount due to the insured if a policy is reduced by rate. exposure or cancelled.

PREMIUMS – REVENUE: Premiums booked in a specified accounting period.

PREMIUM TAX: A tax, imposed by each state, on the premium income of insurers doing business in the state.

PREMIUMS – UNEARNED: The pro rata amount of premium in respect of a policy that has not expired.

PREMIUMS – WRITTEN: Premiums whether received or not, for which exposure has attached.

PRIMARY: An adjective applied in reinsurance to these nouns: insurer, insured, policy, and insurance - meaning respectively: 1. the primary insurer is the insurance company that initially originates the business, i.e., the ceding company; 2. the primary insured is the policyholder insured by the primary insurer; 3. the primary policy is the initial policy issued by the primary insurer to the primary insured; 4. the primary insurance is the insurance covered under the primary policy issued by the primary insurer to the primary insured (sometimes called "underlying insurance")

PRINCIPLES FOR BUSINESS: the fundamental obligations of all firms under the regulatory systems.

PRODUCTS LIABILITY INSURANCE: Insurance against the liability of a producer, supplier, tester or servicer of goods for injury to third parties or loss of or damage to their property caused by a deficiency in the goods.

PROFESSIONAL INDEMNITY INSURANCE: A contract of insurance that indemnifies a firm or professional people against claims / financial losses that may occur as a result of negligence.

PROFESSIONAL REINSURER: A term used to designate a company whose business is confined solely to reinsurance and the peripheral services offered by a reinsurer to its customers as opposed to direct insurers who exchange reinsurance or operate reinsurance departments as adjuncts to their basic business of primary insurance.

PROFIT COMMISSION: A commission based upon profit (as defined in an agreement). Eg. The commission received by a cedant where business ceded to a particular reinsurer has been profitable.

PROPERTY INSURANCE OR REINSURANCE: Insurance or reinsurance that provides coverage to a person with an insurable interest in tangible property for that person's property loss, damage or loss of use.

PROPERTY PER RISK TREATY REINSURANCE: Reinsurance on a treaty basis of individual property risks insured by a ceding company.

PROPORTIONAL OR PRO RATA REINSURANCE: Includes Quota Share, First Surplus, Second Surplus, and all other sharing forms of reinsurance where under the reinsurer participates pro-rata in all losses and in all premiums.

PROPORTIONAL REINSURANCE: Reinsurance of part of original insurance premiums and losses being shared proportionately between Reinsurer and Insurer.

PROPOSAL: Request for insurance submitted to the insurer by or on behalf of the insured, often on a printed proposal form. The proposal usually includes sufficient facts for the insurer to determine whether or not he wishes to accept the risk.

PRO RATA REINSURANCE: Same as "Proportional Reinsurance"

PROSPECTIVE RATING: Determination of premium in advance from past experience whether on a fixed basis or on the basis of a stated rate to be applied to a variable exposure.

PROTECTION AND INDEMNITY RISKS (PM): Certain risks have in the past not always been readily insurable in the marine insurance market and ship owners have formed mutual associations (clubs) to cover them. Protection risks include quarantine expenses, liabilities to crews, and for collision and impact damage, wreck removal expenses and liability under towage contracts, also liability for damage to other vessels apart from collision etc. Indemnity risks include ship owners' liability for cargo lost or damaged, fines for inadvertent immigration or customs offences, etc.

PROTECTING THE TREATY: Used to describe any action taken by an insurer to prevent heavy losses to its treaty reinsurer, which can lead to increased reinsurance rates or decreased participation in any profit-sharing arrangements with the reinsurer.

PROVISIONAL RATE, PREMIUM OR COMMISSION: Tentative figures for subsequent adjustment under a reinsurance retrospective rating plan.

PROXIMATE CAUSE: proximate cause is the original cause in an unbroken chain of events which give rise to a claim.

PURE LOSS COST: The ratio of reinsured losses incurred under a reinsurance agreement to the ceding company's subject earned premium for that agreement, before loading. Also known as BURNING COST.

PURE PREMIUM: 1. That part of the premium which is sufficient to pay losses and loss adjustment expenses but not including other expenses. 2. The premium developed by dividing losses by units of exposure, disregarding any loading for commission, taxes and expenses

PURE REINSURER: an insurer whose authorisation to carry on business is restricted to reinsurance.

QUANTUM: amount

QUID PRO QUO: something in return for something (lit. what for what); a mutual consideration

QUICK ASSETS: Assets that can be converted into cash quickly.

QUOTASHARE REINSURANCE: A form of pro rata reinsurance. Treaty reinsurance providing that the reinsurer shall accept a certain percentage of all or certain classes of or parts of the business of the reinsured.

QUOTE: A price estimate given to the potential consumer as he/she decides to which company a formal application will be submitted. Company may be legally bound to honour this quote in some jurisdictions and/or lines of business.

RATE: The percent or factor applied to the ceding company's subject premium to produce the reinsurance premium, or the percent applied to the reinsurer's premium to produce the commission payable to the primary company (or, if applicable, the reinsurance intermediary).

RATE ON LINE: Premium divided by indemnity. A British term for the rate which, when multiplied by the indemnity, would produce the premium. Related to the American terms, "amortization period" and "payback period." This term is used extensively in judging the adequacy of rates for per occurrence excess covers, and is the inverse of Amortization Period and Payback Period.

REBATING: Giving any valuable consideration (commission) to a prospect or insured as an inducement to buy.

RECAPTURE: The action of a ceding company to take back reinsured risks previously ceded to the reinsurer.

RECIPROCITY: The exchange of reinsurances between two reinsurers.

RECOVERY: Money received by an insurer in respect of a loss, thus reducing the loss, by way of subrogation, salvage or reinsurance.

RECURRING CLAIM PROVISION: A provision in some health insurance policies which specifies a length of time during which the recurrence of a condition is considered to be a continuation of a previous period of disability or hospital confinement.

REDUCED PAID-UP INSURANCE: Provides for continuation of the original insurance plan, but for a reduced amount.

REGULATORY MINIMUM MARGIN: The minimum margin over solvency that insurers are required to maintain.

REHABILITATION: (1) Restoration of a totally disabled person to a occupation; (2) A provision in a long-term disability policy that provides for continuation of benefits or other retraining or attempting to resume employment.

REIMBURSEMENT: Payment of the expenses actually incurred as a loss covered by the policy.

REINSTATEMENT: (1) A non-marine practice under which the amount of cover which has been reduced as a result of a claim is reinstated in the policy on payment of an additional premium, thus reverting. The cover to the original sum insured. (This practice is generally unnecessary in the marine market because (a) cargo is seldom insured on a time basis and any loss is calculated at expiry of the policy, and (b) repairs are carried out on hulls, thus *reinstating the* actual value of the vessel to its sound value. Reinstatement is therefore automatic in the marine market and no additional premium is charged, with the exception of excess loss *reinsurance where* it is common to apply the principle of reinstatement of losses by payment of an additional premium. Hull policies, nevertheless, always *contain a* clause providing that no claim is recoverable in respect of unrepaired damage if the vessel becomes a total loss before expiry of the policy); (2) Making good. Where insured property is lost or damaged, a policy may give the insurer the option to replace it or make it good rather than pay the loss in money.

REINSURANCE: Insurance protection taken out by an insurer to limit its exposure to losses on original business accepted. The reinsured may be referred to as the original or primary insurer or the ceding party.

REINSURANCE TO CLOSE: In syndicates, an agreement under which underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year) agree with underwriting members who comprise that or another syndicate for a later year of account (the *reinsuring members)* that the reinsuring members will indemnify the reinsured members against all *known* & unknown liabilities of reinsured members arising out of insurance business underwritten through that syndicate & allocated to the closed year, in consideration of:

(a) a premium; or

(b) the assignment to the reinsuring members of all the rights of the reinsured members arising out of or in connection with the insurance business (including, without limitation, the right to receive all future premium, recoveries and other monies receivable in connection with that insurance business).

REINSURANCE ASSUMED: That portion of risk the reinsurer accepts from the original insurer or ceding company. Reinsurance Ceded That portion of the risk which the ceding company transfers to the reinsurer.

REINSURANCE COMMISSION: Another name for CEDING COMMISSION.

REINSURANCE PREMIUM: An amount paid by the ceding company to the reinsurer in consideration for liability assumed by the reinsurer.

REINSURED: A company that has placed reinsurance risks with a reinsurer in the process of buying reinsurance. Also known as CEDING COMPANY.

REINSURER: An organization that assumes the liability of another by way of reinsurance.

RETENTION: The amount that an insurer assumes for its own account. In pro rata contracts, the retention may be a percentage of the policy limit. In excess of loss contracts, the retention is a dollar amount of loss.

RENEWAL: The continuation of an existing contract of insurance for a further period.

REPLACEMENT: The substitution of insurance coverage from one policy contract to another.

REPLACEMENT COST: The cost to repair or replace property without considering depreciation.

REPRESENTATION: Statements made by an applicant in the application, which he represents as being substantially true to the best of his knowledge and belief, but which are not warranted as exact in every detail.

RESCISSION: Termination of an insurance contract by the insurer on the grounds of material misstatement on the application for insurance. The action of rescission must take place within the contestable period or Time Limit on Certain Defences but takes effect as of the date of issue of the policy, thus voiding the contract from its inception.

RESERVE: (1) An amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding; (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund.

RESIDUAL MARKET: A system through which insurance is made available to buyers that represent unusually high risks.

RETENTION: (1) The net amount of any risk which an insurer does not reinsure but keeps for his own account; (2) The amount of premium retained by an insurer after paying claims and expenses, i.e. profit (US).

RETROCEDENT: The reinsurer placing a retrocession.

RETROCESSION: A reinsurance of reinsurance.

RETROCESSIONAIRE: A Reinsurer who buys reinsurance on some of the risks he has agreed to bear.

RETROSPECTIVE RATING: A plan or method which permits adjustment of the final reinsurance ceding commission or premium on the basis of the actual loss experience under the subject reinsurance treaty - subject to minimum and maximum limits.

RETURN PREMIUM: If an insured person if overcharged in any one Insurance year he may be eligible for a return (refund) of premium.

REVENUE: The accounting year during which business is booked, as reflected in the annual accounts.

RISK: Used in insurance in many senses, notably:
(1) The subject matter of insurance
(2) Uncertainty as to outcome of event
(3) Probability of loss
(4) The hazard or peril insured against
(5) Danger

RISK BASIS: Excess of loss reinsurance by which the reinsurer protects the reinsured against losses affecting individual exposure units.

RISK EXCESS: An excess of loss reinsurance where the contract is expressed "excess of each and every loss, each and every risk" (NB risk being an individual exposure).

RUN-OFF: A term describing the settlement of a year of account over a period of years. The pattern of settlements provides a statistical basis for insurers as a basis for the assessment of estimated liabilities on open years.

RUN-OFF ACCOUNT: A year of account of a Lloyd's syndicate which has been left open after the date at which that account would normally have been closed by reinsurance.

SALVAGE: (1) Amount received by an insurer from the sale of property (usually damaged) on which he has paid a total loss to the insured. For example, when an insurer has paid the insured the actual cash value of a car damaged (usually extensively by collision), then the insurer takes title to and sells the damaged vehicle for his own account. Salvage is applied by insurance companies to reduce the amount of claim paid; (2) Remuneration payable independently of contract to an outside party who takes part in a successful rescue operation to save life or property at sea?

SCHEDULE: a list of individual items covered by an insurance policy with their descriptions and values.

SECOND SURPLUS: see First Surplus.

SELECTION OF RISK: in reinsurance this phrase usually refers to the practice of ceding poorer business to the reinsurer while retaining the better business.

SELF-INSURANCE: when an organisation bears some or all of a risk itself.

SHORT-TAIL: business on which claims are known and settled quickly.

SINE DIE*:* without fixing a day

SHORT TAIL: a term which describes insurance business where it is known that claims will generally be notified and settled quickly.

SIDECAR: an alternative to traditional retrocession. Described by AM Best (2006 Annual Global Reinsurance Report, p.12) as “the offspring both of investors looking for risk with potentially high returns and of reinsurers/insurers strapped for capital after the catastrophe losses [in the 2005 Atlantic hurricane season].” Used mainly for property and marine catastrophe reinsurance, but have also been created for life reassurance. Thought to have been first used in 2002.

A sidecar is set up as a special-purpose vehicle (SPV – cf. also ISPV) with a defined purpose and limited lifetime. They are capitalised by third-party private investors – primarily hedge funds – and usually sponsored by a larger re/insurer. An SPV generally provides the sponsoring re/insurer with extra capacity through catastrophe quota-share or excess-of-loss reinsurance on an exclusive basis. It is also a way for a re/insurer to move selected – usually catastrophic – risks off its books while earning underwriting fees from the sidecar.

SLIDING SCALE: a predetermined formula under which the commission payable by the reinsurer to the ceding companies varies inversely with the actual loss experience.

SLIP: a document submitted by a broker to underwriters and containing particulars of a risk proposed for insurance. The underwriter signifies his acceptance by initialling the slip and indicating on it the share of the insurance he will take. The share may ultimately be scaled down by the broker, but it cannot be increased without the insurer's agreement.

SOCIAL INFLATION: The increasing of insurance losses caused by higher jury awards, more liberal treatment of claims by workers' compensation boards, legislated rises in benefit levels (in some cases retroactively), and new concepts of tort and negligence, among others

SOFT MARKET: A market in which it is relatively easy to obtain insurance and therefore is characterised by low premiums.

SOLVENCY MARGIN: An amount required for supervisory purposes, being the higher figure derived from two sets of prescribed calculations. The amount represents the minimum by which an Insurers asset must exceed the liabilities; requirements vary according to corporate status and the classes transacted.

SPECIALITY LINES: Lines of insurance and reinsurance that provide coverage for risks that are often unusual or difficult to place and do not fit the underwriting criteria of standard commercial products carriers.
SPECIAL ACCEPTANCE: The specific agreement by the reinsurer to include under a reinsurance contract a risk that is not automatically included within the terms thereof

SPREAD-LOSS REINSURANCE: A form of excess reinsurance where under each year's reinsurance premium rate is determined by the amount of the ceding company's excess losses for a specified number of preceding years (usually five) inclusive of the current year.

STABILITY CLAUSE: The clause in treaties which is intended to protect the relative values of a treaty from its inception e.g. Retention: $1,000. Index at inception: 17. Claims settled for $1,600 when index 19. Under the Stability Clause, the retention is calculated as:

$$\text{US\$ } 1{,}000 \times \frac{19}{17} = \text{US\$ } 1{,}117.6$$

Therefore the reinsurer's liability = US$ 4,824, as against US$ 6,000, if there had been no clause.

STATUS QUO: (the state in which) the existing state of affairs

STATUS QUO ANTE*:* the state of affairs previously existing

STATUTORY ACCOUNTING: Special accounting practices for insurance companies required by state law and designed to provide greater protection for the public against potential insolvency of these essential institutions.

STATUTORY ACCOUNTING PRINCIPLES (SAP): Recording transactions and preparing financial statements in accordance with the rules and procedures prescribed or permitted by Bermuda and/or the U.S. state insurance regulatory authorities including the NAIC, which in general reflect a liquidation, rather than going concern, concept of accounting.

STANDARD RISK: An individual who, according to a company's underwriting standards, is entitled to purchase insurance protection without extra rating or special restrictions

STOP-LOSS REINSURANCE: A form of reinsurance under which the reinsurer pays the cedant's losses in any year to the extent that they exceed a specified loss ratio or amount, subject as a rule to some specified limit. This reinsurance can be taken out by a company, syndicate or individual member of Lloyd’s.

SUBJECT PREMIUM: The ceding company's premiums (written or earned) to which the reinsurance premium rate is applied to produce the reinsurance premium. Also known as UNDERLYING PREMIUM.

- **(i) G.N.E.P.I. (Gross Net Earned Premium Income)** The usual rating base for excess of loss reinsurance. It represents the earned premiums of the primary company for the lines of business covered net, meaning after cancellations, refunds and premiums paid for any reinsurance protecting the cover being rated, but gross, meaning before deducting the premium for the cover being rated.
- **(ii) G.N.W.P.I. (Gross Net Written Premium Income)** Gross written premium less only returned premiums and less premiums paid for reinsurance that inure to the benefit of the cover in question. Its purpose is to create a base to which the reinsurance rate is applied. Same as G.N.E.P.I., except premiums are written instead of earned

SUB JUDICE*:* under consideration

SUBMISSION: An unprocessed application for (i) insurance coverage forwarded to a primary insurer by a prospective policyholder or by a broker on behalf of such prospective policyholder, (ii) reinsurance coverage forwarded to a reinsurer by a prospective ceding insurer or by a broker or intermediary on behalf of such prospective ceding insurer or (iii) retrocessional coverage forwarded to a retrocessionaire by a prospective ceding reinsurer or by a broker or intermediary on behalf of such prospective ceding reinsurer.

SUBROGATION: The right of an Insurer to recover any claim payments by standing in the place of the Insured in taking any actions against Third Parties. In contracts of indemnity, the right of an insurer to stand in the place of the insured and exercise all the rights of and remedies available to the insured, whether already enforced or not.

SUI GENERIS: of its own

SUM INSURED OR ASSURED: The limit of liability of the insurer under a contract of indemnity, or the amount payable on the occurrence of an event insured against under a benefit policy.

SUPERVISION: The regulatory powers of the FSA to monitor and maintain set standards in the industry including enforcement action.

SURPLUS LIABILITY: That portion of a reinsured company's gross liability on any one risk which exceeds the amount the company is willing to retain net for its own account

SURPLUS LINE: (1) The amount of reinsurance required after the maximum line has been declared on a reinsurance treaty or cover. (2) A risk which a broker is unable to place with insurers in his own state and for which he must therefore seek cover outside the state. In this context the expression is widely used in the US.

SURPLUS REINSURANCE: Reinsurance of amounts over a specified amount of insurance, premiums and losses being shared proportionately between insurer and reinsurer.

SURPLUS RELIEF: 1. The result of reinsurance ceded on a portfolio basis to offset extraordinary drains on policyholder surplus. 2. A designation of a reinsurance the main purpose of which is to finance new or inforce business, or both.

SURPLUS TREATY REINSURANCE: A proportional treaty under which an insurer cedes, in respect of each risk covered by the treaty, the amount surplus to the specified retention.

Ceding companies very frequently have several layers of surplus treaties so that they may accommodate very large risks, as the reinsurer's participation in any one surplus treaty is usually limited to a certain multiple of the ceding company's retention. Premiums and claims are shared by the reinsurer and the ceding company on a pro-rata basis in proportion to the amount of the risk insured or reinsured by each. This is one of the oldest forms of treaty reinsurance and is still in common use in fire reinsurance.

SYNDICATE: A grouping of Lloyd's underwriters. Each syndicate has an active underwriter who is authorised to accept business on behalf of each underwriting member participating therein. A member of a syndicate is still a principal in his own right and is personally liable for his agreed share of each risk that is accepted by the syndicate. He is not liable for the debts of other syndicate members and thus the liability is several but not joint.

TAKAFUL: the Islamic version of insurance. The buying of conventional insurance is largely forbidden under *Shariah* law: some property insurance is not clearly outlawed, but the concept of life assurance is deemed to be "against providence". *Takaful* operates on a similar principle to a mutual guarantee or indemnification fund, with a number of members sharing risk on a co-operative basis. The greatest difference between it and conventional insurance is that *takaful* operators are prohibited from investing in certain economic ventures, most notably gambling and the production of alcohol or the manufacture of pork products. The system works as a company run by and for policyholders, with profits distributed to members, much in the way a mutual would operate. Claims are treated as charitable donations from the policyholders' fund to the claimants. The company receives a fee from the policyholders for administering the fund and all share in the surplus.

TECHNICAL RESERVES: A collective term for the amounts set aside in respect of underwriting liabilities: unearned premium reserves, unexpired risk reserves, claims outstanding and the funds held for three-year and treaty business.

TERM: (1) A period of insurance; (2) The time for which anything lasts; (3) A word used in an understood or defined sense; (4) A condition or stipulation in a contract

THIRD PARTY: A person claiming against an insured. In insurance terminology the first party is the insurer and the second party is the insured.

THIRD PARTY LIABILITY: The indemnity against all sums which an insured shall become legally liable to pay to third parties upon injury, loss or damage that is accidentally caused.

THREE-YEAR BUSINESS: A statistical or accounting system whereby an account is held open for three years before its result is calculated and published. Lloyd's uses this system.

THRESHOLD (NO-FAULT): The point, measured in money, time or other ways, beyond which tort liability can be established. Until that point is reached, reparations must be paid within the provisions of the no-fault plan, with no recourse to the courts.

TIME ON RISK: A period, during which insurance has applied, used for the calculation of premium when for some reason the insurance has been discontinued.

TOP LAYER: A layer of excess of loss reinsurance arranged to protect the reinsured against the occasional exceptionally large loss.

TORT: A civil wrong, other than a breach of contract, for which a court of law will afford legal relief, i.e. harming another by an act of negligence in driving an auto.

TOTAL LOSS: (1) A loss of the subject matter of insurance such that it is totally lost, destroyed or damaged beyond economic repair; (2) A loss that gives rise to payment of the full sum insured.

TOTAL MANAGED CAT PREMIUM: The total catastrophe reinsurance premiums written on a gross basis by our managed catastrophe joint ventures as well as by our wholly owned subsidiaries.

TRANSFER OF PORTFOLIO: The substitution of a new insurer for the original one in respect of all insurance business of a particular class.

TREATY: A reinsurance agreement between the ceding company and the reinsurer, usually for one year or longer, which stipulates the technical particulars applicable to the reinsurance of some class or classes of business.

Reinsurance treaties may be divided into two broad classifications: 1. The participating type that provides for sharing of risks between the ceding company and the reinsurer; and 2. The excess type that provides for indemnity by the reinsurer only for loss which exceeds some specified predetermined amount. For different forms, see Quota Share, Excess of Loss, First Surplus, Second Surplus, Stop Loss, Catastrophe.

TREATY REINSURANCE: A standing agreement between reinsured and reinsurer for the cession and assumption of certain risks as defined in the treaty. While most treaty reinsurance provides for automatic cession and assumption, it may be optional or semi-obligatory and is not necessarily obligatory.

TRENDING: The necessary adjustment of historical statistics (both premium and losses) to present levels or expected future levels in order to reflect measurable changes in insurance experience over time, which are caused by dynamic economic and demographic forces, and to make the data useful for determining current and future expected cost levels.

TWENTY-FOURTHS M 0: A basis for calculation of unearned premiums involving the assumption that the average date of issue of all policies written during a month is the middle of that month.

UBERRIMA FIDEI: 'utmost good faith'. A contract of insurance is a contract based on the principles of utmost good faith. It requires proposers to give all relevant information to the insurer and requires insurers to deal openly and honestly with policyholders.

ULTIMATE LOSS RATIO: "Ultimate Loss Ratio" the ratio on net losses to net premiums assessed quarterly in respect of the open years for all lines of Business representing the ratio anticipated when all premiums are earned and all expired.

ULTIMATE NET LOSS: The total loss suffered by an insurer or reinsurer after all recoveries have been made.

ULTRA VIRES: beyond the legal power

UMBRELLA COVER: (1) Cover providing excess limits over the normal limits of liability policies and giving additional excess cover for perils not insured by the primary liability policies; (2) In reinsurance, cover against an accumulation of losses under one or more classes of insurance arising out of a single event

UMBRELLA LIABILITY: Insures losses in excess of amounts covered by other liability insurance policies; also protects the insured in many situations not covered by the usual liability polices.

UNDERINSURANCE: Insurance that is not adequate in terms of the sum insured to provide for full payment of a loss.

UNDERLYING PREMIUM: The ceding company's premiums (written or earned) to which the reinsurance premium rate is applied to produce the reinsurance premium. Also known as SUBJECT PREMIUM.

UNDERWRITING CAPACITY: The maximum amount of money an insurer or reinsurer is willing to risk in a single loss event on a single risk or in a given period. The limit of capacity for an insurer or reinsurer that may also be imposed by law or regulatory authority

UNDERWRITERS: (1) Insurers (e.g. companies of Lloyd's syndicates or Names); (2) Those individuals performing the underwriting for a company, or underwriting agency (the active underwriters); (3) A person soliciting business on behalf of an insurer (US).

UNDERWRITING: The acceptance of insurance business by an underwriter.

UNDERWRITING AGENT: (1) A person authorised to accept insurances on behalf of an insurance company as its agent; (2) An agent appointed by a Name under the terms of an underwriting agency agreement to manage his underwriting affairs at Lloyd's on his behalf. There is a distinction between a managing agent (who manages one or more syndicates) and a members' agent (who acts for his Names in other capacities and may place them on syndicates run by a managing agent), although many agents undertake both functions. An underwriting agent must have complied with the requirements of the Council of Lloyd's for conducting an underwriting agency at Lloyd's (see Agent - Lloyd's Underwriting").

UNDERWRITING CAPACITY: The maximum amount that an insurance company can underwrite. The limit is generally determined by the company's retained earnings and investment capital. Reinsurance serves to increase a company's underwriting capacity by reducing its exposure from particular risks.

UNDERWRITING EXPENSE RATIO: The ratio of the sum of the acquisition expenses and operational expenses to net premiums earned, determined in accordance with US GAAP

UNDERWRITING EXPENSES: The aggregate of policy acquisition costs, including commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.

UNDERWRITING INCOME: The excess of premiums earned by a reinsurer during any reporting period over the combined total of expenses and losses incurred by the reinsurer during the same period

UNDERWRITING PROFIT: The profit derived from the transaction of insurance or reinsurance exclusive of interest or capital gains on investments.

UNDERWRITING YEAR: The calendar year to which business is allocated for the purpose of monitoring underwriting statistics.

UNEARNED PREMIUM RESERVE: The fund set aside as at the end of the financial year by a non-life insurer out of premiums in respect of risks to be borne by the company after the end of that year under contracts of insurance entered into before the end of that year.

UNEARNED PREMIUM: The proportion of a premium which relates to the portion of a risk which has not yet expired.

UNEXPIRED RISKS RESERVE: The amount set aside as at the end of a financial period in addition to unearned premium in respect of risks to be borne by the company after the end of that year under contracts of insurance entered into before the end of that year, in order to provide for additional costs of claims. This may be necessary because certain business is expected to be loss making, or for example. to cover claims whenever they may arise in the future under contingency insurances paid for by single premiums.

UNINSURABLE RISK: One not acceptable for insurance due to excessive risk

UTMOST GOOD FAITH: The insured should disclose all known material facts to the insurer at time of insurance enquiry.

VOLUNTARY EXCESS: An excess which the insured agrees to bear in consideration of a reduction in premium.

WARRANTY: a statement made by the insured as true. Also a very strict condition in a policy.

WAIVER: an agreement attached to a policy which exempts from coverage certain disabilities or injuries that otherwise would be covered by the policy.

WAIVER OF PREMIUM: a provision in some policies to relieve the insured of premium payments falling due during a period of continuous total disability that has lasted for a specified length of time, such as three or six months.

WARRANTED NO KNOWN OR REPORTED LOSSES (WNKORL): A statement made on application for excess or catastrophe reinsurance, which is being back-dated, to protect the reinsurer from placement of reinsurance after a loss has occurred.

WHOLE ACCOUNT: an excess of loss treaty arranged to cover all or some of the types of Accident, Fire, marine or Aviation business written by a ceding company (either from one branch of business, or more than one).

WORKING EXCESS: A contract covering an area of excess reinsurance in which loss frequency is anticipated, as opposed to loss severity. Thus, a working cover would usually have a low indemnity and would attach above a relatively low retention

WORKING LAYER: a layer of excess of loss reinsurance in which frequent claims are likely to arise.

WRITTEN PREMIUM: the cumulative amount of premium income due to be received by an insurer.

XPIRED RISKS RESERVE: The amount set aside as at the end of a financial period in addition to unearned premium in respect of risks to be borne by the company after the end of that year under contracts of insurance entered into before the end of that year, in order to provide for additional costs of claims. This may be necessary because certain business is expected to be loss making, or for example, to cover claims whenever they may arise in the future under contingency insurances paid for by single premiums.

YEAR FREE OF PREMIUM: some insurers offer insurance, especially household, under which a free year is granted from time to time, usually as a no claims bonus.

YEAR – BOOKED: see Entered Year.

YEAR – CALENDAR: premium and loss transactions occurring during the twelve calendar months.

YEAR – CLOSED: the calendar year in which the premium is first advised to the company by a broker irrespective of the year or period time when the policy incepted. (Also known as closing year).

YEAR – ENTERED: year during which premiums are entered on the company's books. Losses are recorded within the same year. (Booked, Closed and Signed are all synonymous).

YEAR – INCEPTION: the calendar year in which a risk commences to run.

YEAR OF ORIGIN: the financial year in which a claim made against a company is known to have originated.

YEAR – POLICY: the year commencing with the effective date of the policy or with an anniversary of that date.

YEAR – OPEN: an insurance year of account which is not closed or finalised, common with Lloyds who keep a year of account open until the 36th month.

YEAR – SIGNED: see Entered Year.

ZERO OR NO-COST CLAIMS: Claims which are settled or closed without indemnity payment to the Insured or Claimant except for possible service fees.