

# **INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS**



## **GLOSSARY OF TERMS**

**September 2004**

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## Glossary of Terms

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### **Introductory comments**

The IAIS recognises that an effective system of insurance supervision will imply clear responsibilities and objectives for each insurance supervisor. It is important to ensure improved supervision of the insurance industry at a domestic as well as at an international level.

To this end, the Technical Committee has encouraged work on a common glossary of terms to assist in a common understanding of insurance related terms within the IAIS.

### **About the glossary**

#### ***Aim***

In the following glossary, the aim is to provide a definition of main terms used by the IAIS working parties in their work.

#### ***Scope***

At this stage, the Solvency Subcommittee has provided much of the initial structure so the definitions included are based on the substantial amount of their work. The list is, of course, developing over time and other working parties are invited to add definitions or to comment on the validity of current definitions.

#### ***Use***

It is expected that the common glossary will have two main uses. First, we expect that the working parties of the technical committee will utilise it as a common set of definitions for terms used in the development of issues papers, principles papers and standards and guidelines. Second, we believe that there is a use for the glossary as a training and educational tool for regulators.

The glossary is set up for ease of use through a series of cross references to equivalent terms and related definitions.

Synonyms are cross referenced (see “Equivalent Terms”) so that the single definition can be maintained readily in one place.

If the definition contains a term which is also defined in this paper, the term is stated in italics, eg. *General business risk*.

The format for each entry is, therefore,

A. Where an entry is for a definition:-

**The title for the particular term** - explanation. [Equivalent terms (where applicable)]  
[Related definitions (where applicable)] [Source]

B. Where an entry is a cross reference to a definition:-

**The title for the particular term** - see **defined term**. [Equivalent terms (where applicable)]  
[Related definitions (where applicable)] [Source]

In both cases, the “source” will identify the working party that is charged with the maintenance of, and usually who submitted, the definition. It is therefore proposed that the management of the glossary will include consultation with the relevant working party(ies) where there is a change proposed to the definition.

### ***Updates to the glossary***

This version of the glossary includes definitions taken from the following documents:-

- ❑ The *Issues paper on solvency, solvency assessment and actuarial issues*
- ❑ *Revised Insurance Core Principles* – draft of 21 June 2000, and *Core Principles Methodology* – draft of 21 June 2000
- ❑ Investments Subcommittee draft introduction to questionnaire
- ❑ A Glossary of Terms provided for education and training purposes.

**Abandonment** - the act of surrendering to the insurer all interest in the thing insured: it is generally conceded that property cannot be voluntarily abandoned to the insurance company—one notable exception to this general rule occurs in ocean marine, where abandonment is merely one step in proving a loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Absolute liability** - a legal doctrine under which one can be held liable even in the absence of negligence having been proven, as in the case of workers' compensation. [Related definitions: *employer's liability, workers' compensation*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Acceptance (at law)** - agreeing to terms by means of which a bargain is concluded and the parties are bound: the binding of an insurance contract by the insurer. [Related definitions: *application, automatic treaty, declination, pre-existing condition, proposal*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Accident** - an event or occurrence which is unforeseen and unintended. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Accident insurance** - a form of insurance against loss by bodily injury, incapacity and death caused by accident. [Related definitions: *accidental bodily injury*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Accident year basis** - accounting figures – for instance, claims incurred – are based on the accidents occurring within the accounting period. Other related definitions: *claims incurred*. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Accidental bodily injury** - injury to the body of the insured as the result of an accident. [Related definitions: *accident insurance, accident*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Accidental death benefit** - a provision added to an insurance policy for payment of an additional benefit in case of death by accidental means. [Equivalent terms: *double indemnity*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Accidental means** - appearing in some policies, the unexpected or undesigned cause of an accident; the "means" which caused the mishap must be accidental in order to claim policy benefits. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Accommodation risk** - insurance written for an applicant that would normally be rejected by the insurer, but which is provided as a concession to the agency or a valued insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Accumulation risk** - the risk that arises when a large number of individual risks are correlated such that a single event will effect many or all of these risks. [Related definitions: *catastrophic risk*] [Source: *Solvency subcommittee – Issues Paper March 2000*]

**Acquisition cost** - that portion of an insurance premium which represents the cost of producing the insurance business: it includes the agent's commission, the company field

expense, and other related expenses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Actual cash value** - the limit of indemnification under the Standard Fire Policy and other property contracts: in most cases it is replacement cost minus depreciation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Actual solvency margin** - see **Available solvency**. [Equivalent terms: *available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*] [Source: *Solvency subcommittee – Issues Paper March 2000*]

**Actuary** - an actuary is a professional trained in evaluating the financial implications of contingency events. Actuaries require an understanding of the stochastic nature of insurance and other financial services, the risks inherent in assets and the use of statistical models. In the context of insurance, these skills are, for example, often used in establishing premiums, technical provisions and capital levels. [Source: *Solvency Subcommittee (January 2004)*]

**Actuary's report** - written information provided by the actuary on the company's calculation of premiums and/or technical provisions etc.

**Additional interest** - one who may claim under, or is protected by, an insurance policy issued to another, as a mortgagee named in a fire policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Additional living expense insurance** - paying the extra expense involved in living elsewhere during the period of time it is impossible to remain in a dwelling which has been damaged by fire or another insured peril. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Admissible capital item** - see **Eligible capital element**. [Equivalent terms: *eligible capital element, regulatory capital element, admissible capital item*] [Source: *Solvency subcommittee – Issues Paper March 2000*]

**Adjustment bureau** - an organisation that contracts with insurers to provide loss settlement services on behalf of those insurers. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Adjustable life insurance** - a type of insurance that allows the policyholder to change the plan of insurance, raise or lower the face amount of the policy, increase or decrease the premium, and lengthen or shorten the protection period. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Adjuster** - one who settles insurance claims; may be a salaried employee or an independent operator. [Related definitions: *Adjustment bureau, Certified professional public adjuster (CPPA), Public adjuster, Senior professional public adjuster (SPPA), Staff adjuster*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Administrator (of deceased estates)** - a person authorized to administer the estate of a deceased person by the court: his or her duties are to collect assets of the estate, pay its debts,

and distribute the residue to those entitled: he or she resembles an executor, who is appointed by the will of the deceased – the administrator is appointed by the court and not by the deceased and therefore must give security for the administration of the estate, called an administration bond. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Admiralty** - involving maritime law: concerning the high seas or navigable waters. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Admitted assets** - those assets of an insurer which under state law can be taken into account in representing the financial position of the company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Admitted company** - an insurer of another state or country licensed under the laws of a state to do business in that state. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Advance premium mutual** - advance premium mutual an insurance company owned by its policyholders that charges an advance premium that is expected to cover losses and expenses; policies may be assessable or non-assessable. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Adverse selection** - the tendency of poorer risks or less desirable insureds to seek or continue insurance to a greater extent than do the better risks. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Affiliated investment risk** - the risk that an investment in a member company of the same conglomerate or group may be difficult to sell, lose its value or create a drain on the financial resources of the insurer. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Agent** - in property and casualty insurance, an individual authorised by an insurance company to create, modify, and terminate contracts of insurance or to arrange to do so or to advise on contracts of insurance for certain jurisdictions: in life insurance, a sales and service representative who is also called a 'life underwriter'. [Related definitions: *American agency system, Broker, Captive agent, Commission, Exclusive agency system, Independent agent, Local agent, Producer, Special agent*]. Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Aggregate** - the greatest amount recoverable on account of a single loss or during a policy period, or on a single project. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Agreed amount endorsement** - a provision in fire insurance whereby the coinsurance clause is suspended if the insured carries an amount of insurance specified by the company (normally 90% or more of the value). [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Alien company** - an insurance company organized under the laws of a foreign country. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Alimony insurance** - insurance designed to protect the insured against default in connection with payment of child support and alimony. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**All-risk** - a term commonly used by insurance people to describe broad forms of coverage: it is misleading because no property or liability insurance policy is truly an all-risk coverage. There is a concerted effort to eliminate use of this term and to replace it with the term open peril. [Equivalent terms: *open peril, all risk*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Allied lines** - a term that has been adopted to refer to the lines of insurance that are allied with property insurance; these coverages provide protection against perils traditionally written by fire companies, such as sprinkler leakage, water damage, and earthquake. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Allocated investment income** - allocated investment income is the investment income from prepaid premiums and payment of claims in arrears. Other related definitions: operating ratio. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**American agency system** - the term applied to the system of insurance marketing in which the agent is an independent business operator rather than an employee of the company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Amortized value (of a bond)** - the amount at a given point in time to which the purchase price of a bond purchased at a discount or premium has been increased or decreased. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Annual accounts** - financial statement of a company set up according to commercial law or generally accepted accounting principles, ie. not particularly drawn up for supervisory purposes. In some countries the annual accounts / shareholders' accounts might also be used for submission to the supervisory authority. [Equivalent terms: *Shareholder's accounts*]

**Annual statement** - an insurer's financial report to insurance departments issued at the end of the year or prepared for its financial year for certain jurisdictions. The report is required by the various state insurance departments and is made according to a form agreed upon by the supervising authorities. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Annuitant** - the person during whose life an annuity is payable, usually the person to receive the annuity. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Annuity** - a contract that provides an income for a specified period of time, such as a number of years or for life. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Annuity certain** - a contract that provides an income for a specified number of years, regardless of life or death, to the insured if living or to his or her beneficiary if deceased. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Application** - a statement of information made by a person applying for life insurance: it is used by the insurance company to determine the acceptability of the risk and the basis of the

policy contract. [Equivalent terms (to be confirmed): *Proposal*]. [Related definitions: *Acceptance*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Apportionment** - a division according to the interests of the various parties herein, as the apportionment clause in a fire policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Appraisal** - an estimate of value, loss or damage. [Related definitions: *Arbitration*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Arbitration** - the submitting of a matter in dispute to the judgement of a specified number of disinterested persons called “arbitrators”, whose decision, called an “award.” is binding upon the parties. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Arson** - the criminal act of maliciously burning or attempting to burn property. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Assault** - an intentional, unlawful threat of bodily injury to another by force, or force unlawfully directed toward the person of another, under such circumstances as create well-founded fear of imminent peril, coupled with apparent present ability to execute the attempt: battery consists of the actual execution of the act offered in an assault – hence, the placing of the victim in fear (assault) and the actual infliction of the injury (battery) constitute what is commonly referred to as assault and battery. [Related definitions: *Battery*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Assessable** - insurance to which the policyholder may be required to contribute in the event the company becomes unable to pay its losses; confined to certain mutual companies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Assessment** - a charge sometimes levied against policyholders by certain types of companies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Assessment mutual** - an insurance company owned by its policyholders that issues policies under which the policyholders may be assessed for losses and expenses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Assets/liabilities matching** - [Equivalent terms: *assets/liabilities management, assets/liabilities matching*] [Source: *Solvency subcommittee – Issues Paper March 2000*]

**Asset liability management** - refers to the management of an insurer’s assets with specific reference to the characteristics of its liabilities so as to optimise the balance between risk and return. The insurer’s policy with respect to its asset liability management processes will include measures to be used to assess the degree of risk that the insurer is assuming and constraints or boundaries on the value of these measures. Asset liability management will form part of the overall investment risk management framework and will provide direction for investment activities with reference to the demands of the insurer’s liability portfolio. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Assigned risk (plan)** - an applicant for automobile or workers’ compensation insurance declined by one or more companies: such a risk may be assigned to designated companies as



directed by recognized authority – the operation is called an “assigned risk plan”. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Assignment** - the legal transfer of one person’s interest in an insurance policy to another person. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Assured** - a person who has been insured by an insurance company or underwriter against loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Attachment** - a statutory legal remedy whereby one party may prevent removal of property belonging to another party, pending determination of a court action. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Attorney-in-fact** - one appointed to act for another: the chief administrative officer of a reciprocal insurance group, who uses his or her power of attorney to commit the members of the group as insurers of each other; also one who executes a surety bond on behalf of the company being represented. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Attractive nuisance** - a dangerous place, condition or object that is particularly attractive to children: in these cases the courts have frequently held that where “attractiveness” exists, the owner is under a duty to take steps to prevent injury to those who may be attracted and the owner may be held liable for failure to do so. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Audit premium** - the additional premium to which the company is entitled or the return premium to which the insured is entitled after an audit and refiguring of the base on which the original or deposit premium was charged. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Auditor’s report** - written information provided by the auditor on his examination of the company’s annual accounts.

**Automatic premium loan** - a provision in a life insurance policy authorizing the company to pay automatically by means of a policy loan any premium not paid by the end of the grace period. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Automatic treaty** - a reinsurance contract under which risks written by the reinsured are automatically assumed (accepted) by the reinsurer subject only to the terms and conditions of the treaty. [Related definitions: *Acceptance*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Automobile insurance plan** - a state pool in which each automobile insurer in the state accepts a portion of the undesirable automobile insurance applicants: formerly called “assigned risk plans”. [Related definitions: *Assigned risk (plan)*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Automobile liability insurance** - a form of liability insurance that is specifically designed to indemnify for loss incurred through legal liability for bodily injury and damage to property of others caused by accident arising out of ownership or operation of an automobile. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Available solvency** - surplus of assets over liabilities, both evaluated in accordance with domestic regulation (either in accordance with rules of public accounting or with special supervisory rules) and taking into account domestic requirements as regards *eligible capital elements*, i.e. the amount of capital appropriate to cover the required solvency margin in accordance with domestic law or supervisory regulations.

Let

A be the total amount of assets on the balance sheet,

Ad the amount (included in A) to be deducted for prudential reasons (e.g. intangible items, percentage of market value),

TP the total amount of technical provisions on the balance sheet evaluated in accordance with domestic regulation (either public accounting or supervisory rules),

TPd the amount included in TP representing an eligible capital element to cover the required solvency margin (e.g. the free profit reserve),

OL the total amount of other liabilities (provisions) not directly linked to obligations under insurance contracts,

OLd the amount included in OL representing an eligible capital element (to cover the required solvency margin (e.g. subordinated loans),

F the total amount of free capital (i.e. balance sheet items not belonging to TP or OL),

Fd the amount included in F to be deducted (e.g. share capital not paid up), and

I the implicit (off-balance sheet) elements eligible to cover the required solvency margin (e.g. hidden reserves, future profits estimated in accordance with domestic law).

Then the available solvency, AS, is equal to

$$AS = [A - Ad] - [(TP - TPd) + (OL - OLd)] - Fd + I. \quad (\text{the "solvency formula"})$$

As

$$F = A - TP - OL$$

by definition, the formula could be simplified to

$$AS = F - Ad + TPd + OLd - Fd + I.$$

This may be interpreted as available solvency on the balance sheet, adjusted for any off-balance sheet item, or as appropriate under supervisory rules.

[Equivalent terms: *available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*]. [Related definitions:

*Eligible capital element, Required solvency margin*]. [Source: *Solvency Subcommittee – Issues paper March 2000*]

**Available solvency margin** - see **Available solvency**. [Equivalent terms: *available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Available surplus capital** - see **Available solvency**. [Equivalent terms: *available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Average clause** - a coinsurance clause: a clause requiring an insured to purchase insurance for a stipulated portion of the entire value of the thing insured; see General Average; Particular Average. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Bailee** - one who has possession of property belonging to another. [Related definitions: *Bailment*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Bailment** - a delivery of goods or personal property by one person to another in trust for the execution of a special object upon or in relation to such goods. Bailment may be for the benefit of the bailee, for the benefit of the bailor, or for mutual benefit. In addition, bailment may be gratuitous or may be a bailment for hire. [Related definitions: *Bailee*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Bailor** - the owner of property that has been delivered to and is in the possession of another. [Related definitions: *Bailee, Bailment*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Basis risk** – the risk that yields on instruments of varying credit quality, marketability, liquidity and maturity do not move together, thus exposing the insurer to market value variation that is independent of liability values. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Battery** - any unlawful beating or other wrongful physical violence or constraint inflicted upon a human being without his or her consent. [Related definitions: *Assault*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Beneficiary** - one for whose benefit a contract is made; the person to whom a policy of insurance is payable. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Beneficiary, contingent** - the person or persons designated to receive the death benefit if the primary beneficiary dies prior to the death of the insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Beneficiary, irrevocable** - a beneficiary that cannot be altered by the insured, the insured having relinquished the right to change the beneficiary designation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Beneficiary, primary** - the person or persons designated to receive the benefits under the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Betterment** - an improvement rendering property better than mere repairs would do. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Bid** - a proposal or offer. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Binder** - a written (or sometimes oral) agreement whereby one party agrees to insure another party pending receipt of, and final action upon, the application. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Binding receipt** - in life insurance, a receipt for a premium that accompanies the application for insurance. It binds the company if issuance is approved, to make the policy effective from the date of the receipt. [Equivalent terms: *deposit premium*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Blanket** - in property and liability, used to designate insurance that extends to more than one location, or one class of property or one employee. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Blanket medical expense (accident)** - a provision for the payment of actual expense of hospital, nurse, surgical, and medical care subject to an overall maximum for all such expense. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Blind investments (or pools)** - portfolio of investments managed by an external investment manager. The pool may consist of investments whose general characteristics are known to the pool participants, but the specific holdings are not always known. It may also consist of a pool of capital not yet invested, but with a mandate to be invested by the manager in certain investment vehicles in which the manager has specialised expertise. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Blue cross** - an independent, nonprofit membership corporation providing protection against the costs of hospital care in a limited geographical area. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Blue shield** - an independent, nonprofit membership corporation providing protection against the costs of surgery and other items of medical care in a limited geographical area. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Board of directors** - refers to either the Board of Directors of a company which is incorporated in the jurisdiction or, in the case of a company which is licensed in the jurisdiction but incorporated in another jurisdiction, to a senior company official acceptable to the insurance supervisor. [Source: *Insurance Core Principles - July 2000*]

**Bodily injury** - physical injury to a person. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Boiler and machinery insurance** - coverage for loss arising out of the operation of pressure, mechanical, and electrical equipment; it may cover loss suffered by the boiler and

machinery itself and may include damage done to other property, as well as business interruption losses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Bond** - a written agreement of obligation under seal: the person to whom the undertaking is given is called “obligee”; the person liable for the undertaking is called the “obligor” or “principal”: if a third party guarantees performance of the agreement, he is called the “surety”. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Bottomry** - in the early days of marine insurance, a ship owner would borrow money on a mortgage on the ship, and the mortgage would provide that if the ship were lost, the borrower would not have to repay the loan. This was bottomry, which thus combined money lending with insurance. When cargo instead of hull was involved, it was called “respondentia”. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Branch** - a company’s establishment which is not a separate legal entity and which is situated in a jurisdiction other than the home jurisdiction of that company.

**Breach of contract** - failure to comply with the terms or conditions incorporated in an insurance policy, frequently resulting in a restriction of coverage or a voiding of a policy itself. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Break-up basis** - a method of considering the financial situation of an institution assuming that no new business is written and that the company is liquidated (i.e. the investment portfolio has to be sold at that time). [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Broker** - an individual who arranges and services insurance policies on behalf of the insurance buyer: he or she is the representative of the insured, although the broker receives compensation in the form of a commission from the company. [Related definitions: *bureau* - a cooperative ratemaking body, which is supported by member companies: the member companies agree to abide by the rates published by the bureau. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Burglary** - felonious abstraction of property from within premises by persons making felonious entry by force of which there are visible marks on the exterior. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Business interruption** - insurance covering the loss of earnings resulting from, and occurring after, destruction of property: also called “use and occupancy insurance”. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Business life insurance** - life Insurance purchased by a business enterprise on the life of a member of the firm; it is often bought by partnerships to protect the surviving partners against loss caused by the death of a partner, or by a corporation to reimburse it for loss caused by the death of a key employee. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Business owners’ policy** - a multiple line package policy for small businesses which includes property and liability coverages. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Calendar-year deductible** - in health insurance, the amount of expense that must be borne by the insured during a calendar year before the health insurance policy makes payment for loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Capital funding risk** - the risk that the insurer will not be able to obtain sufficient outside funding at the time it needs it (for example, to meet an unanticipated large claim). [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Capital subscribed by members (of mutual societies)** – see **Equity capital**. [Equivalent terms: *equity capital, share capital, subscribed capital, paid-in capital, capital subscribed by shareholders or members of mutual societies, hidden reserves*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Capital sum** - capital Sum a lump sum payable for dismemberment and sight losses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Capital test** – see **Solvency test**. [Equivalent terms: *solvency test, capital test*]. [Source: *Solvency Subcommittee – Issues Paper march 2000*]

**Captive agent** - an agent who, by contract, represents only one company and its affiliates. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Captive insurer** - an insurance company established by a parent firm for the purpose of insuring the exposures of the parent or its affiliates. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Cash surrender value** - the amount available in cash upon voluntary termination of a policy before it becomes payable by death or maturity. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Cash value accumulation test** - one of two tests used in determining if a contract is a life insurance policy for the purpose of the Internal Revenue Code. [Related definitions: *cash value corridor test*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Cash value corridor test** - one of two tests used for determining if a contract is a life insurance policy for the purpose of the US Internal Revenue Code. [Related definitions: *cash value accumulation test*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Casualty insurance** - a classification of insurance coverages used in the monoline era consisting of workers' compensation, liability, crime, glass, and boiler coverages, used to distinguish such coverages from "fire" or property coverages. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Catastrophe loss** - a loss of unusual size; a shock loss: a very large loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Catastrophic risk** - the risk that a single event of major magnitude leads to a significantly higher than usual number and/or amount of claims on an insurer. [Related definitions: *Accumulation risk*]. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Ceding company** - a company which has placed reinsurance as distinguished from the company which has accepted the reinsurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Central estimates** - when considering an estimate, most usually for the claims provision, the central estimate is taken to be an estimate that neither overstates or understates the expected outcome. As a result, it can be considered the estimate that is, in a statistical sense, the mean of the distribution. [Source: *Solvency Subcommittee*]

**Certified professional public adjuster (CPPA)** - professional designation granted to public adjusters who pass a rigorous examination and meet specified eligibility requirements. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Cession** - the amount of a risk which the insurance company reinsures: the amount passed on to the reinsurer. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Change of occupation clause** - standard provision in health insurance policies which reduces benefit if the insured changes to a more hazardous occupation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Chartered life underwriter (CLU)** - professional designation granted to persons in the life insurance field who pass a series of rigorous examinations and meet specified eligibility requirements. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Chartered property casualty underwriter (CCU)** - professional designation granted to persons in the property and liability insurance field who pass a series of rigorous examinations and meet specified eligibility requirements. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Claim** - notification to an insurance company that payment of an amount is due under the terms of a policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Claims development triangle** - the triangle shows the insurer's estimate of the cost of claims (claims provisions and claims paid) as of the end of each accident year/underwriting year and how this estimate develops over time. Other related definitions: claims provision, accident year basis, underwriting year basis. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Claims fluctuation reserve** – see **Equalisation provision**. [Equivalent terms: *equalisation provision, fluctuation provision, (claims) fluctuation reserve, stabilisation reserve*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Claims incurred** - an insurer's total liability arising from insurance events related to an accounting period either on an accident year basis or on an underwriting year basis. Other related definitions: loss ratio, accident year basis, underwriting year basis. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Claims-made form** - a liability insurance policy under which coverage applies to claims made during the policy period: see Occurrence Form. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Claims provision** - amount set aside on the balance sheet to meet the total estimated ultimate cost to an insurer of settling all claims arising from events which have occurred up to the end of the reporting period, whether reported or not, less amounts already paid in respect of such claims. [Equivalent terms: *claims provision, provision for outstanding claims/claims outstanding, claims reserve, total claim liability*] [Source: *Solvency Subcommittee (December 2002)*]

**Claims reserve** - see **Claims provision**. [Equivalent terms: *claims provision, provision for outstanding claims/claims outstanding, claims reserve, total claim liability*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Class rating** - an approach to ratemaking in which a price per unit of insurance is computed for all applicants with a given set of characteristics. For example, the rate may apply to all persons of a given age and sex, to all buildings of a certain type of construction, or to all businesses of a certain type. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Coinurance** - in property and casualty insurance, clause or provision in an insurance policy requiring a specified amount of insurance based on the value of the property insured; normally, there is a premium reduction for purchasing insurance to some percentage of the value of the property – if the insured fails to comply with the clause, he or she will suffer a penalty in the event of partial loss.

In health insurance, a policy provision requiring the insured to share a given percentage of the loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Collateral** - Assets held as security in support of a promise to the payment of a debt or performance of a contract. [Source: *Enhanced Disclosure Subcommittee, Standard on disclosures, October 2004*]

**Collateral source rule** - a legal principle applicable in the area of tort liability, which holds that the plaintiff's measure of damage should not be mitigated by payments received from sources other than the tortfeasor. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Collusion** - a compact between persons usually to the detriment of other persons or for some improper purpose. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Combined ratio** – the sum of the loss ratio (claims ratio) and the expense ratio. Gives a rough indication of the profitability of an insurer's underwriting operations. Other related definitions: loss ratio (claims ratio), expense ratio. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Commercial** - the opposite of personal: of a business nature, usually mercantile or manufacturing. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Commercial paper insurance** - a form of credit enhancement insurance that guarantees the timely payment of principal and interest on commercial paper issued by corporations. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]



**Commission** - the fee paid by the insurance companies to agents and brokers for the sale of policies. [Related definitions: *agent, broker*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Commodity risk** – the risk of exposure to losses resulting from movements of market values of commodities, either physical commodities themselves or derivatives that have commodities as the underlying instruments. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Common carrier** - a firm that offers to transport merchandise for hire and must accept shipments from anyone who wishes to use its services. Different laws and rules govern common carriers than do private or contract carriers that only transport the goods of those with whom they have made agreements. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Common law** - distinguished from law created by enactment of statutes; common law comprises the body of principles and rules of action, relating to the government and security of persons and property, which derive their authority solely from usages and customs of immemorial antiquity, or from the judgments and decrees of the courts. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Comparative negligence** - a modification of the principle of contributory negligence. In those jurisdictions which follow the principle of comparative negligence, negligence on the part of the injured party will not necessarily defeat the claim, but will be considered in determining the amount of damages. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Compensation** - wages, salaries, awards, fees, commissions, financial returns of any kind. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Complete risk-return profile** - the establishment of a well defined risk tolerance and desired target return that the insurer may wish to achieve in its overall operations or in some specific aspect (for example, product line) of its operations. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Completed operations** - A commercial liability insurance coverage applicable to liability arising out of work performed by the insured after such work has been finished. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Composite (insurance company)** - an insurance company which deals simultaneously with both life and non-life insurance business.

**Comprehensive** - a loosely used term signifying broad or extensive insurance coverage. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Comprehensive general liability (CGL)** - a business liability policy that covers a variety of exposures in a single contract. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Comprehensive major medical insurance** - a policy designed to give the protection offered by both a basic and major medical health insurance policy: it is characterized by a low

“deductible” amount coinsurance feature, and high maximum benefits – usually \$100,000-250,000. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Comprehensive personal liability insurance** - a type of insurance that reimburses the policyholder if he or she becomes liable to pay money for damage or injury he or she has caused to others; this form does not include automobile liability but does include almost every activity of the policy holder except business operations. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Concealment** - deliberate failure to reveal material facts that would affect the validity of a policy of insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Concentration risk** - the risk of increased exposure to losses due to concentration of investments in a geographical area, economic sector or individual investments. Concentration risk may exist at either the legal entity level or the group level (after the holdings of all legal entities have been consolidated) or both [Related definitions: *conglomerate risk*, *contagion*, and *risk concentration*]. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Concurrent** - covering the same kind of property at the same location under the same terms and conditions, with the same types of coverage, as two or more insurance policies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Concurrent causation** - a legal doctrine in property insurance that makes the insurer liable for damage when property is damaged by two causes, one of which is excluded and the other covered. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Conditionally renewable** - a continuation provision in health insurance under which the insurer may not cancel the policy during its term but can refuse to renew under specified circumstances. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Conditions** - those provisions in insurance contracts that qualify the insurer’s promise of indemnity or impose obligations on the insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Confining sickness** - that which confines an individual to his or her home or a hospital (visits to physicians and hospitals are generally considered as not terminating confinement). [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Conglomerate** - a group of corporations engaged in widely varied activities. In the insurance industry a conglomerate refers to a group of companies with noninsurance interests that purchases an insurance company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Conglomerate risk** - insurance companies that are participants in financial groups can be exposed to some additional sources of risk. For example:

- Intragroup exposures;
- Contagion;
- Risk concentration.

These are but three examples. There is a great deal of work being carried through on the issue of conglomerate supervision by other parts of the IAIS as well as the Joint Forum on Financial Conglomerates. [Related definitions: *intragroup exposures, contagion, risk concentration*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Consequential loss** - loss occurring after, and as a result of, some other loss, as loss of profits resulting from a fire or a loss of frozen foods resulting from electrical failure. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Consideration** - price, token, or other matter used as an inducement for the completion of a contract, as an insurance premium. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Consolidated supervision** - refers to a supervisory group approach that focuses on the total of individual entities (licensed or not) of a group, consolidated at the level of the top insurance or holding company. [Source: *Supervisory standard on group coordination, 10 October 2000*]

**Constructive total loss** - a loss of sufficient amount to make the cost of salvaging or repairing the property equal to or greater than the value of the property when repaired. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Contagion** - as part of a group or conglomerate, and aside from intragroup exposures of a financial nature, there may be a risk that the support of the insurer by internal or external parties may suffer if there is a concern about another part of the group of which it is a part. [Related definitions: *conglomerate risk, intragroup exposures, risk concentration*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Contingent** - conditional; depending upon another happening – a contingent beneficiary is one next in line after the first named. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Contingent beneficiary** - in life insurance, a beneficiary who is entitled to receive proceeds if the primary beneficiary has died. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Contract bond** - a surety bond issued to support the obligation of one who is engaged to perform under a contract. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Contractual liability** - legal liability assumed under contract. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Contribution** - a participation, as two insurance policies in the same loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Contribution by equal shares** - an “other insurance” provision under which two or more policies share equally in a loss until the limit of one policy is exhausted, with the unexhausted policy paying the loss in excess of this amount. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Contributory negligence** - the lack of ordinary care on the part of an insured person, which combined with the defendant's negligence and contributed the injury as a proximate cause. In some jurisdictions, contributory negligence on the part of an injured party will defeat his or her claim. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Control level** - a threshold value that requires intervention of the supervisor or imposes certain restrictions on the insurer if its available solvency margin falls short of this amount. A system of solvency requirements may have more than one control level for different types of regulatory action. [Equivalent terms: *control level, regulatory control level, trigger amount, trigger point, intervention level, impairment level, regulatory action level*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Convention blank** - a report form developed by the National Association of Insurance Commissioners and required by all states, on which insurers file an annual statement of their financial condition with the state regulatory authorities. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Conversion** - wrongful appropriation to one's own use of property belonging to another. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Convertible term insurance** - term insurance which can be exchanged, at the option of the policyholder and without evidence of insurability, for another plan of insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Coordination of benefits provision** - a group health insurance policy provision designed to eliminate duplicate payments and provide the sequence in which coverage will apply when a person is insured under two contracts. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Corporate governance** - a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

**Correlation risk** – the risk of increased exposure to losses due to the level of, or movement in, the correlation of investments in or across geographical areas, economic sectors or individual investments or with and between liabilities. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Corridor deductible** - in health insurance, a deductible under a major medical policy that applies after coverage under a base plan is exhausted. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Cosurety** - a personal or corporate guarantor of a surety obligation on which one or more of the sureties are directly responsible for the same obligation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Counterparty credit risk** - the risk that a counterparty is not able or willing to pay amounts owing to the insurer as they fall due. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Counter signature** - an additional signature required in most states to comply with resident agency laws; applies when a producer in one state controls business located in, or operating in, another state. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Coverage** - the insurance afforded by the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Credit enhancement insurance** - a form of coverage in which the insurer guarantees the payment of interest and/or principal of the insured in connection with debt instruments issued by the insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Credit insurance** - a form of guarantee to manufacturers and wholesalers against loss resulting from default on the part of debtors. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Credit life insurance** - term life insurance issued through a lender or lending agency to cover repayment of a specific loan, instalment purchase, or other obligation in case of the debtor's death. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Credit rating assignment** - the credit rating assigned to a particular issuer of debt instruments, or to a specific debt instrument. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Credit ratings** - assessments of the abilities of debtors (e.g. bond issuers) to pay amounts owing to investors as they fall due. [Related definitions: *credit rating assignment, rating agency, rating grade, rating model, rating process, rating system*]. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Credit risk** - the risk of financial loss resulting from default or movements in the credit rating assignment of issuers of securities (in the company's investment portfolio), debtors (e.g. mortgagors), or counterparties (e.g. on reinsurance contracts, derivative contracts or deposits) and intermediaries, to whom the company has an exposure. Credit risk includes default risk, downgrade or mitigation risk, indirect credit or spread risk, concentration risk and correlation risk. Sources of credit risk include investment counterparties, policyholders (through outstanding premiums), reinsurers, and derivative counterparties. [Related definitions: *reinsurance credit risk*]. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Crime** - a wrong against public laws or customs punishable by fine, imprisonment, or death after trial in a criminal court. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Crop-hail insurance** - protection for monetary loss resulting from hail damage to growing crops. [Equivalent terms: *crop insurance*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Cross border provision of services** - refers to provision of insurance or reinsurance on a services basis (without local establishment) in a jurisdiction other than the company's home jurisdiction. This term does not always apply in the sense given here when jurisdictions within states with a federal structure are concerned. In such cases cross border refers to crossing the

borders surrounding the jurisdictions of the federal structure but not inside it. [Source: *Supervisory standard on licensing, 1 October 1998*]

**Currency risk** - the risk that arises from movements in foreign currency exchange rates. This can arise if the assets and liabilities of an insurer are not in the same currency, or if contracts for administrative and other services are contracted in a currency different to the currency implied in the premium determination. Also, in some jurisdictions, the sale of contracts in other than the local currency leads to an impact on rates of persistency / discontinuance in the event that the policyholders are exposed to a mismatch. [Equivalent terms: *foreign exchange risk*] [Source: *Solvency Subcommittee*]

**Currently insured (under OASDHI)** - under OASDHI, the status of a worker who has at least six quarters of coverage out of the last thirteen quarters and whose beneficiaries are entitled to “currently insured” benefits. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Custody risk** - the risk arising from the failure to hold secure custody of assets or to incur loss in failing to obtain or release the correct secure custody when conducting purchase and sale transactions. [Related definitions: *operational risk, non-technical risks*]. [Source: *Solvency Subcommittee*]

**Daily report** - a copy of that portion of an insurance contract dealing with the description of the risk and the amount of insurance, which is sent to the home office of the insurance company and retained in the agent’s files. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Damages** - the amount claimed or allowed as compensation for injuries sustained or property damaged through the wrongful acts or the negligence of another; an award. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Declarations** - that part of an insurance policy containing the representations of the applicant. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Declination (at law)** - the rejection by a life insurance company of an application for life insurance, usually for reasons of the health or occupation of the applicant. [Related definitions: *Acceptance (at law)*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Deductible** - a provision whereby an insured may be required to pay part of a loss, the insurance being excess over the amount of the deductible. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Default risk** - the risk that an insurer will not receive the cash flows or assets to which it is entitled because a party with which the insurer has a bilateral contract defaults on one or more obligations. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Deferred annuity** - an annuity providing for the income payments to begin at some future date, such as in a specified number of years or at a specified age. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Deferred group annuity** - a type of group annuity providing for the purchase each year of a paid-up deferred annuity for each member of the group, the total amount received by the member at retirement being the sum of these deferred annuities. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Defined benefit plan** - a pension plan in which the retirement benefit is defined and in which the employer's contribution is a function of that benefit. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Defined contribution plan** - a pension plan under which the payments into the plan are fixed, but the retirement benefit is variable: also called a money purchase plan. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Dental insurance** - a type of health insurance that covers dental care expenses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Dependency period** - the period during which children will be dependent on a surviving parent. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Deposit administration** - a type of group annuity providing for the accumulation of contributions in an undivided fund out of which annuities are purchased as the individual members of the group retire. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Deposit premium** - an original premium paid by the insured at the inception date of the policy: estimated premium, subject to later adjustment. [Related definitions: *Audit premium*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Depreciation** - the lessening of value through age, deterioration, and obsolescence. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Depreciation risk** - the risk associated with a depreciation of the value of investments due to various changes in the capital markets, to changes in exchange rates or to the non-payment by the debtors of the insurer (e.g. the credit and market risks). [Related definitions:

**Deviate** - to file or use a rate which is based upon but which departs from a standard bureau rate. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Deviation risk** - the risk emerging when the actual development of claims frequencies, mortality, interest rates, inflation etc. does not correspond to the bases of premium calculations. [Related definitions: *Evaluation risk*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Difference in conditions (DIC) insurance** - a broad form of open peril property insurance written as an adjunct to two or more policies that cover named perils, to ensure continuity of cover which might otherwise be excluded by the differences in conditions between the policies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Direct loss** - loss resulting directly and immediately from the hazard insured against. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Direct writer** - an insurance carrier that deals directly with the insured through a salaried representative, as opposed to those carriers which use agents (also used to refer to carriers which operate through exclusive agents); in reinsurance, the company that originally writes the business. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Disability** - inability to perform all or part of one's occupational duties because of an accident or illness: see Total Disability and Partial Disability. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Disability benefit** - a provision added to a life insurance policy for waiver of premium, and sometimes payment of monthly income, if the insured becomes totally and permanently disabled. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Disability income insurance (DII)** - a form of health insurance that provides periodic payments to replace lost income when the insured is unable to work because of illness or injury. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Discovery period** - the period after termination of an insurance policy or bond, or after the occurrence of a loss, within which the loss must be discovered to be covered. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Dismemberment** - accidental loss of limb or sight. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Distress carrier** - an insurance company specializing in substandard risk, usually in the field of automobile insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Dividend addition** - an amount of paid-up insurance purchased with a policy dividend and added to the face amount of the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Dividend (in insurance contracts)** - the refund of a part of the premium paid at the beginning of a year which still remains after the company has made deductions for losses, expenses, and additions to reserves. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Domestic company** - a name given to a company in the state of its incorporation, as an Iowa company is domestic in the state of Iowa, foreign as to all other states, and alien as to all other countries. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Double indemnity** – see **Accidental death benefit**. [Equivalent terms: *Accidental death benefit, Double indemnity*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]



**Downgrade or migration risk** - the risk that changes in the probability of a future default by an obligor will adversely affect the present value of the contract with the obligor today. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Dread disease policy** - a limited form of health insurance that pays for treatment of specified diseases such as cancer. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Dram-shop law** - a state statute that imposes liability on sellers of alcoholic beverages in the event that the buyer causes bodily injury to another or in some cases, to himself or herself. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Dynamic financial analysis** – see **Stress testing**. [Equivalent terms: *stress testing, dynamic financial analysis, pessimistic scenario test, adverse scenario test*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Earned premium** - premium for which protection has been provided. When a premium is paid in advance for a policy period, the company “earns” a portion of that premium only as time elapses during that period. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Economic group** - refers to a cohering complex of companies under (almost) common governance.

**Effective date** - the date upon which the policy is put in force, the inception date. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Effective benefit** - a benefit payable in lieu of another (e.g. a lump sum benefit may be allowed for specified fractures or dislocations in lieu of weekly indemnity). [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Eligibility period** - in group insurance, a period during which group members may enrol in the plan without providing evidence of insurability. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Eligible capital** – see **Available solvency**. [Equivalent terms: *available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Eligible capital element** - on or off-balance sheet element which, in accordance with domestic regulations, is suitable to cover the required solvency margin (i.e. eligible for inclusion in the available solvency or regulatory capital, i.e. allowable for solvency purposes). As a general rule, these elements are either assets free of all foreseeable liabilities, or, if they represent liabilities, the latter should be subordinated to any other liabilities, i.e. in the event of a winding-up or bankruptcy, they are to be paid only after the claims of all other creditors have been satisfied. The eligible capital elements correspond to items in TPd, OLd or I in the solvency formula. [Equivalent terms: *eligible capital element, regulatory capital element, admissible capital item*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Elimination period** – see **Waiting period**. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Employee retirement income security act (ERISA)** - a 1974 federal United States statute that establishes minimum standards for pension plans. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Employer's liability** - legal liability imposed on an employer making him or her responsible to pay damages to an employee injured by the employer's negligence. Generally, replaced by "workers compensation", which pays the employee whether the employer has been negligent or not. [Related definitions: *Workers' compensation*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Endorsement** - a written amendment affecting the declarations, insuring agreements, exclusions, or conditions of an insurance policy: a rider. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Endowment insurance** - insurance payable to the insured if he or she is living on the maturity date stated in the policy, or to a beneficiary if the insured dies prior to that date. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Environmental impairment liability (EIL)** - liability arising out of pollution. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Equalisation provision** - amount set aside on the balance sheet in compliance with legal or administrative requirements to equalise fluctuations in loss ratios in future years or to provide for special risks. It depends on the purpose of this amount if the term "reserve" or "provision" is used. Amounts set aside for specified types of business (e.g. hail, pollution liability or credit insurance) may be referred to as "provisions", whereas amounts set aside to cover fluctuations of the entire portfolio may be referred to as "reserve". This item may include catastrophe provisions. [Equivalent terms: *equalisation provision, fluctuation provision, (claims) fluctuation reserve, stabilisation reserve*]. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Equipment value insurance (EVI)** - insurance assigned to protect businesses against a decline in the value of certain types of property. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Equity and real estate risk** - the risk of exposure to losses resulting from movements of market values of and income from equities and real estate. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Equity capital** - potential surplus resulting from an evaluation based on the principle of lower-of-cost-or-market-value as long as the market values exceed the purchase prices of the assets. This item may correspond to the revaluation reserve if assets are valued on the basis of the current market price. [Equivalent terms: *equity capital, share capital, subscribed capital, paid-in capital, Capital subscribed by shareholders or members of mutual societies, hidden reserves*]. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Equivalent level annual dividend** - the average of annual life insurance policy dividends for a specified period, adjusted for interest at a specified rate. [Related definitions: *Dividend (in*

insurance contracts), Dividend addition]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Errors and omissions insurance** - professional liability insurance for individuals in professions such as accounting, insurance, law, or real estate, where the exposure is primarily a property damage one as opposed to bodily injury. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Estate** - possessions of a deceased person; possessions of a minor or incompetent person; possessions of a bankrupt person or corporation; worldly goods of anyone. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Estoppel** - an admission or declaration by which a person is prevented from proving the contrary. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Evaluation risk** - the risk of invalid evaluation of balance sheet items. When relating to assets / investment risk this is that investments are being evaluated at a disproportionately high price. When related to technical risks then it would be the risk of technical provisions being insufficient to meet the liabilities of the insurer. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Excess** - that which goes beyond, as excess insurance, over and above a primary amount. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Excess of loss reinsurance** - a form of reinsurance whereby the reinsuring company reimburses the ceding company for the amount and only the amount of loss the ceding company suffers over and above an agreed aggregate sum in any one loss or in a number of losses arising out of any one event. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Exclusion** - that which is expressly eliminated from the coverage of an insurance policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Exclusive agency system** - an insurance marketing system under which the agent represents a single company or company group. [Related definitions: agent]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Expectation of life (life expectancy)** - the average number of years of life remaining for persons of a given age according to a particular mortality table. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Expected loss ratio** - the percentage of the final rate allocated for the payment of losses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Expense ratio** - the ratio of expenses to earned premiums. Expenses are the sum of commissions, administrative expenses and other technical charges. Other related definitions: earned premiums. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Expense risk** see **Operating expenses risk**. [Equivalent terms: *operating expenses risk, expense risk*]. [Source: *Solvency Subcommittee*]

**Experience rating** - an insurance pricing system in which the insured's past experience determines the premium for the current protection. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Expiration** - the date upon which an insurance policy terminates unless continued or renewed by an additional premium. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Exposure** - unit of measurement to which an insurance rate is applied. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Extended coverage insurance** - protection for the insured against loss or damage of his property 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. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Extended term insurance** - a form of insurance available as a nonforfeiture option; it provides the original amount of insurance for a limited period of time. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Extended unemployment insurance benefits** - additional unemployment benefits under a state-federal programme payable during periods of high unemployment to workers who have exhausted their regular benefits. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Extra expense insurance** - a form of indirect loss property insurance that pays for the increased costs of continuing operations following damage to property by an insured peril. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Face amount** - the amount stated on the face of a life insurance policy that will be paid in case of death or at the maturity of the contract; it does not include dividend additions, or additional amounts payable under accidental death or other special provisions. [Equivalent terms: *sum insured*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Factory mutuals** - a group of mutual companies, principally located in New England, specializing in the insurance of manufacturing properties. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Facultative reinsurance** - reinsurance effected item by item and accepted or declined by the reinsuring company after scrutiny as opposed to reinsurance effected by treaty. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fair access to insurance requirements (FAIR) plan** - state pools designed to provide insurance to property owners who are unable to obtain property insurance because of the location of their property or other factors over which they have no control. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Family income policy** - a life insurance policy, combining whole life and decreasing term insurance, under which the beneficiary receives income payments to the end of a specified period if the insured dies prior to the end of the period, and the face amount of the policy either at the end of the period or at the death of the insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Family maintenance policy** - life insurance which pays, in addition to the face of the policy, a monthly income for a period commencing with the insured's death and continuing for the number of years specified; the period is most often 10, 15, or 20 years. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Family policy** - a life insurance policy providing insurance on all or several family members in one contract, generally whole life insurance on the wage earner and smaller amounts of term insurance on the spouse and children, including those born after the policy is issued. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Family purpose doctrine** - a legal doctrine that imposes vicarious liability on the head of the family for operation of a family car by family members. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Federal crime insurance program** - a programme administered by the Federal Insurance Administration which provides for the sale of Federal Crime insurance in any state where adequate and affordable crime insurance is not available. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Federal flood insurance** - a federally subsidized flood insurance programme enacted in 1968 under which flood insurance is available in areas that meet specific conditions. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Federal insurance administration** - a government office responsible for the supervision of insurance programmes such as the Federal Riot Reinsurance Programme, Federal Flood Insurance Plan, and Federal Crime Insurance Program. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fellow servant** - one who serves and is controlled by the same employer; also those engaged in the same common pursuit under the same general control. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fellow servant rule** - rule that a master is not liable for injuries to a servant caused by the negligence of a fellow servant engaged in the same general business and where the master has exercised due care in the selection of servants. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fidelity bond** - a contract of fidelity insurance: a guarantee of personal honesty of the person furnishing indemnity against defalcation or negligence; a form of insurance or suretyship which protects a party against loss from the dishonesty of employees. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fiduciary** - a person or corporation having the duty created by undertaking to act primarily for another's benefit in matters connected with such undertaking, or an agent handling the business

of another when the business he or she transacts or the money or property being handled is not his or her own or for his or her own benefit. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Field supervisor** - a salaried employee of an insurance company whose responsibilities are (a) production of new business through existing agents, (b) the appointment of new agents, (c) general supervision of the company's affairs in his territory. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**File and use law** - a system of rate regulation in which rates may be used immediately by an insurer once they are filed with the state regulatory authority. The supervisory authority may later disapprove and rescind the rates. [Equivalent terms: *file and write*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Financial conglomerate** - refers to any group of companies under common control whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (eg. banking, securities, insurance). [Source: *Supervisory standard on group coordination, 10 October 2000*]

**Financial derivatives (risk related to)** - that part of the *investment risk* that relates in particular to the credit risk, market risk and liquidity risks associated with these instruments. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Financial group** - refers to an economic group structure of which the constituent entities are predominantly involved in (licensed) financial activities. [Source: *Supervisory standard on group coordination, 10 October 2000*]

**Financial guarantee insurance** - a form of coverage in which the insurer guarantees the payment of interest and/or principal of the insured in connection with debt instruments issued by the insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Financial health** see **Solvency**. [Equivalent terms: *solvency, solvability, capital adequacy, financial health*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Financial institution** - a legal entity which is predominantly involved in financial activities.

**Financial reports** - refers to accounting statements, financial returns, and statutory reports, including the balance sheet, the income statement and any other numerical reports prepared for disclosure to policyholders, investors, or insurance supervisors. It does not refer to reports prepared for other purposes. [Source: *Insurance Core Principles - July 2000*]

**Financial returns** - report prepared for the supervisory authority giving detailed information on the company's financial situation. [Equivalent terms: *supervisory returns*]

**Financial responsibility law** - a statute which requires motorists to show evidence of financial responsibility following an accident which involves bodily injury or property damage in excess of some amount: normally, proof of financial responsibility is given through a valid policy of insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fire (as used in insurance contracts)** - combustion proceeding at a rate rapid enough to generate a flame, glow, or incandescence. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fire insurance** - coverage for losses caused by fire and lightning, as well as the resultant damage caused by smoke and water. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fire legal liability** - a form of liability insurance that covers damage to leased or rented property caused by fire or other specified perils. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fit and proper requirements** - specific requirements concerning the personal or professional qualification of shareholders, members of the board of directors, other managers, etc.

**Fleet** - a group, as of automobiles. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Floater** - a marine or fire policy, the coverage of which follows the movement of the property insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Flood** - overflow of water from its natural boundaries. More specifically defined by the National Flood Act of 1968 as “a general and temporary condition of partial or complete inundation of normally dry land areas from (1) the overflow of inland or tidal waters or (2) the unusual and rapid accumulation or runoff of surface waters from any source”. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fluctuation provision / fluctuation reserve** - see **Equalisation provision**. [Equivalent terms: *equalisation provision, fluctuation provision, (claims) fluctuation reserve, stabilisation reserve*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Foreign company** - a legal entity whose head office is outside the jurisdiction concerned.

**Foreign insurer** - an insurance company that is chartered in another state. [Related definitions: *Domestic company*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Franchise insurance** - a class of life insurance in which individual policies are issued to members of a group, with an employer or other body collecting and/or remitting the premiums. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fraternal insurance** - certain fraternal organisations have a form of cooperative life or disability insurance that is available to members of the fraternal organisation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Free capital** – see **Available solvency**. [Equivalent terms: *available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital,*

*eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Friendly fire** - a fire confined to the place it is supposed to be in (e.g. in a stove or similar place). [Related definitions: *Fire (as used in insurance contracts), Hostile fire*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Fully insured (under OASDHI)** - the status of a worker who has 40 quarters of coverage or one quarter of coverage for each year after 1950 or after age 21, if later, and who is entitled to “fully insured” benefits. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**General average (in marine insurance)** - a loss that must be borne partly by someone other than the owner of the goods that were lost or destroyed: for example, if it is necessary to jettison cargo to save a ship, the owners of the ship and the rest of the cargo that is saved will share in the loss of the goods that were intentionally sacrificed. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**General business risk** - unexpected changes to the legal conditions to which insurers are subject, changes in the economic and social environment, as well as changes in business profile and the general business cycle. [Related definitions: *non-technical risks*]. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**General damages** - amounts awarded in litigation to compensate for pain and suffering and other non-economic loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Going-concern basis** - a method of considering the financial situation assuming that the company will continue to operate and that future business will be written. [Related definitions: *Break-up basis*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Grace period** - the period of time following the due date of a policy premium during which the payment of the premium will continue the policy and during which the policy is in full force and effect. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Graded commission** - a reduced commission justified by the size of the premium. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Graded expense** - a reduced expense item for the insurance company justified by the size of the premiums. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Granularity** - the level of detail that investment policy includes in setting market exposure limits. At a high level, limits may be set with respect to asset class exposure. At a more detailed level, limits regarding specific industries, geographic areas, or even specific issuers may be considered. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Gross premium** - the premium for insurance that includes the provision for anticipated losses (the pure premium) and for the anticipated expenses (loading). [Equivalent terms: *office premium*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]



**Group annuity** - a pension plan providing annuities at retirement to a group of persons under a single master contract, with the individual members of the group holding certificates stating their coverage; it is usually issued to an employer for the benefit of employees – the two basic types are “deferred” and “deposit administration” group annuities. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Group insurance** - any insurance plan under which a number of employees and their dependants are insured under a single policy, issued to their employer, with individual certificates given to each insured employee; the most commonly written lines are life and accident and health. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Guaranteed renewable policy** - a policy which the insured has the right to continue in force by the timely payment of premiums to a specified age (usually age 50), during which period the insurer has no right to make unilaterally any change in any provision of the policy while the policy is in force, but may make changes in premium rates by policyholder class. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Guest laws** - state statutes which limit the right of action of an injured guest passenger in an automobile against the driver to instances of gross negligence or wilful and wanton negligence. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Hazard** - a condition that creates or increases the probability of a loss. [Related definitions: *moral hazard*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Health insurance** - a generic term applying to all types of insurance indemnifying or reimbursing for losses caused by bodily accident or sickness or for expenses of medical treatment necessitated by sickness or accidental bodily injury. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Health Insurance Association of America** - a voluntary, nonprofit association of companies organized for the purpose of promoting “the development of voluntary health insurance providing sound protection against loss of income and other financial burdens resulting from sickness or accidental bodily injury”. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Health Maintenance Organization (HMO)** - a prepaid medical group practice plan for the provision of health care, in which individual subscribers pay an annual fee in return for entitlement to a wide range of health services. HMOs are both insurers and providers of health care. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Hedge** - to invest in a manner that reduces the risk having regard to the underlying assets or liabilities. A hedging strategy will take into account the risks, return required and the projected cash flow of the assets or liabilities, including the existence of policyholder options which may be exercised. Risks to be considered will include market and credit risk. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Heterogeneous financial group** - refers to an economic group with a mixed character, consisting of different financial entities, such as banks, insurance companies, securities houses, investment firms, pension funds, etc. [Source: *Supervisory standard on group coordination, 10 October 2000*]

**Hidden reserves** – see **equity capital**. [Equivalent terms: *equity capital, share capital, subscribed capital, paid-in capital, capital subscribed by shareholders or members of mutual societies, hidden reserves*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Hold-harmless agreement** - a contract usually written whereby one party assumes legal liability on behalf of another party. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Home jurisdiction** - a home jurisdiction is one in which the parent insurer is incorporated, or in which the head office of a branch is incorporated. Host jurisdictions / supervisors must be aware of the distinctions between immediate and higher level home jurisdictions / supervisors, taking account of the hierarchical corporate structures of many international insurers and insurance groups. Except where specified, the terms home jurisdiction / supervisor where they appear cover both immediate and higher levels. [Source: *Insurance Core Principles - July 2000*]

**Homogeneous financial group** - refers to an *economic group*, consisting of (predominantly) financial licensed entities which essentially have the same sectoral character, eg. a group consisting of life and/or non-life insurance companies. An economic group is defined as a cohering complex of companies under (almost) common governance. [Source: *Supervisory standard on group coordination, 10 October 2000*]

**Hostile fire** - a fire burning where none is intended. [Related definitions: *Fire (as used in insurance contracts), Friendly fire*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Host jurisdiction** - a host jurisdiction is one in which a branch of a foreign insurer is located; or in which a subsidiary or joint venture of a foreign parent insurer is incorporated. [Source: *Insurance Core Principles - July 2000*]

**Hull insurance (in ocean marine and aviation insurance)** - coverage for physical damage to a vessel or aircraft. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**IBNR provision** - provision for claims incurred but not reported by the balance-sheet date. That is, it is anticipated that there would be a number of policies that have, but for the advice of the claim to the insurer, occurred and therefore are likely to result in a liability on the insurer.

The magnitude of this provision can be expected to reduce as the time since the insurance risk on the contract expired extends. The magnitude is also likely to vary depending on the type of insurance risk covered by any particular class of insurance contract. [Related definitions: *Losses incurred but not reported*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Immediate participation guarantee (IPG) plan** - a type of insured pension plan under which gains and losses from mortality or investments are segregated from the rest of the insurer's operations and credited directly to the employer's account. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Impairment level** – see **Control level**. [Equivalent terms: *control level, regulatory control level, trigger amount, trigger point, intervention level, impairment level, regulatory action level*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Improvements and betterments insurance** - insurance that protects a tenant against loss to improvement made by him or her to property in which he or she is a tenant. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Incontestable clause** - a provision that prevents the carrier from challenging the coverage because of alleged misstatements by the insured after a stipulated period has passed, usually two or three years. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Incurred losses** - losses actually sustained during a fixed period, usually a year. Incurred losses are customarily computed by the formula: losses paid during the period, plus outstanding losses at the end of the period, less outstanding losses at the beginning of the period. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Indemnity principle** - of a general legal principle related to insurance which holds that the individual recovering under an insurance policy should be restored to the approximate financial position he or she was in prior to the loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Independent adjuster** - one who adjusts losses on behalf of companies but is not employed by any one. He or she is paid by fee for each loss adjusted. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Independent agent** - a person operating under the American Agency System, representing several property and liability insurers, and dividing the policies he or she writes among the various companies represented. [Related definitions: *Agent, American agency system*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Independent contractor** - one who performs work for another in his or her own manner and method, and who is not subject to the control or direction of the party for whom the work is performed: he or she is not an employee of the party for whom the work is performed. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Indeterminate premium life insurance** - life insurance in which the premium may be adjusted upward or downward after inception, subject to a maximum premium stated in the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Indirect contingent** - that which happens only after something else has occurred. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Indirect credit or spread risk** - the risk due to movements in market perception or appetite for risk on either a macro or micro basis. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Individual policy pension trust** - a type of pension plan, frequently used for small groups, administered by trustees who are authorized to purchase individual level premium policies or annuity contracts for each member of the plan: the policies usually provide both life insurance and retirement benefits. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Individual retirement account (IRA)** - a tax sheltered retirement plan established by an individual under which earnings accumulate tax free until distributed. Contributions up to \$2,250

are deductible for some persons. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Industrial development bond insurance** - insurance designed to guarantee prompt payment of principal and interest on industrial development bonds. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Industrial life insurance** - life insurance issued in small amounts, usually less than \$1,000, on a single life exclusive of additional benefits, with premiums payable on a monthly or more frequent basis, and generally collected at the insured's home by an agent of the company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Inherent vice** - a characteristic depreciation such as the fading of ink, a cracking of parchment, the greying of hair. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Initial capital requirement** - minimum capital required to set up an insurance company. [Equivalent terms: *initial solvency requirement*]

**Initial solvency requirement** - see [Initial capital requirement](#). [Equivalent terms: *initial capital requirement*]

**Inland marine insurance** - a broad type of insurance, generally covering articles that may be transported from one place to another; the essential condition is that the insured property be movable, though bridges, tunnels, and similar instrumentalities of transportation are also considered inland marine: this form of insurance was developed originally by marine underwriters to cover goods while in transit by other than ocean vessels: it now includes any goods in transit (generally excepting transocean) as well as numerous "floater" policies such as personal effects, personal property, jewellery, furs, fine arts, and others. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Insolvency fund** - state plans created by law to guarantee payment of liabilities of insolvent insurers. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Inspection** - an examination by those having authority: right usually reserved by an insurance company with respect to any property it insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Insurable interest** - an interest which might be damaged if the peril insured against occurs: the possibility of a financial loss to an individual which can be protected against through insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Insurance** - an economic device whereby the individual substitutes a small certain cost (the premium) for a large uncertain financial loss (the contingency insured against) which would exist if it were not for the insurance contract: an economic device for reducing and eliminating risk through the process of combining a sufficient number of homogeneous exposures into a group in order to make the losses predictable for the group as a whole. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Insurance company** - a licensed legal entity which underwrites insurance.

**Insurance entities** - any corporate body or individual which is operating as an insurer, reinsurer or insurance intermediary and which is subject to insurance regulation. [Source: *Guidance paper for fit and proper principles and their application (Butterworth)*]

**Insurance group** - a group structure which contains two or more insurers. The structure of international insurance groups may derive from an ultimate holding company which is not an insurer. Such a holding company can be an industrial or commercial company, another financial institution (for example a bank), or a company the majority of whose assets consist of shares in insurance companies (and/or other regulated financial institutions). [Source: *Insurance Core Principles - July 2000*]

**Insurance intermediary** - any natural person or legal entity that engages in insurance intermediation (in any medium). Intermediaries are generally divided into separate classes. (The most common types are “independent intermediaries” who represent the buyer in dealings with the insurer (also known as “independent brokers”) and “agents” (which generally include multiple agents and sub-agents) who represent the insurer.) [Related definitions: *Agent, American agency system, Broker, Captive agent, Commission, Exclusive agency system, Independent agent, Insurance intermediation, Local agent, Producer, special agent*]

**Insurance intermediation** - the business activity to promote or facilitate an insurance contract between an insurer and a purchaser; selling or attempting to sell insurance on behalf of an insurer, asking or urging potential purchaser to apply for a particular insurance product, conferring with or giving advice to a potential purchaser concerning particular insurance product by a person or entity who sell or arrange the insurance contract. Activities by an insurer are not included. [Related definitions: *insurance intermediary*]

**Insurance product** - an insurance product is defined as a product that is provided by an insurance company. [Source: *Solvency Subcommittee - February 2001*]

**Insurance purchasing group** - a group of firms or other organisations that band together under the provisions of the Risk Retention Act of 1986 for the purpose of buying insurance collectively. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Insurance regulatory information system (IRIS)** - a computerized model designed by the National Association of Insurance Commissioners for the detection of potential insurer insolvencies before they occur through analysis of selected audit ratios. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Insurance risk** – see **Technical risks**. [Equivalent terms: *technical risks, insurance risk*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Insurance services office (ISO)** - insurance Services Office (ISO) the principal ratemaking organisation for property and liability insurers. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Insurance supervisor** - refers, as appropriate, to either the insurance regulator or the insurance supervisor in a jurisdiction. [Source: *Insurance Core Principles - July 2000*]

**Insured** - in life insurance, the person on whose life an insurance policy is issued: in property and liability insurance, the person to whom or on whose behalf benefits are payable under the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Insurer / insurance company** - a licensed legal entity, which underwrites insurance, including a mutual insurance company (but note the exemption of pure reinsurers). [Source: *Insurance Core Principles - July 2000*]

**Interest-adjusted method** - a means of measuring differences in cost among life insurance policies that considers the time value of money. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Interest rate risk** - the risk of exposure to losses resulting from movements in interest rates. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Internal controls** - the means by which compliance with the insurer's risk management policies is maintained. Regular reporting, including the use of measurements and metrics required to be within limits specified by the risk management policies, may be used to verify compliance. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Intervention level** – see **Control level**. [Equivalent terms: *control level, regulatory control level, trigger amount, trigger point, intervention level, impairment level, regulatory action level*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Intestate** - leaving no will at death. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Intragroup exposures** - exposures to risk that result from transactions conducted between members of the one corporate group, e.g. the risk that the company guarantees another part of the group implicitly or explicitly. [Related definitions: *Conglomerate risk, Contagion, Intragroup exposures*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Investment management** - the activity of making and controlling investment decisions [Related definitions: *investment policy, investment risks, investment risk management, investment risk management policy, investment risk management framework, investment risk management function, investment risk exposures, investments risk limits*]. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Investment policy** - the insurer's policy with respect to the overall characteristics for an investment portfolio or for the investments of the insurer as a whole. A statement of a portfolio's investment policy will normally include the objectives of the portfolio, its risk tolerance, constraints to be obeyed in the management of the portfolio, such as minimum liquidity requirements, and a list of eligible assets or asset classes in which the portfolio may be invested, along with a target asset mix and limits on how much the portfolio may diverge from the target. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Investment risks** - the various kinds of risk which are directly or indirectly associated with the insurers' investment management. They concern the performance, returns, liquidity and structure of an insurer's investments. Such risks can have a substantial impact on the asset side of the balance sheet and the company's overall liquidity, and potentially can lead to the company being over indebted or insolvent. The investment risks include: market risk, credit risk, liquidity risk, operational risk. [Source: *Guidance paper on investment risk management – October 2004*]

**Investment risk management** - the process an insurer uses to identify investment risk exposures, and to monitor, measure, report, and mitigate this risk. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Investment risk management policy** - the insurer's policy with respect to investment risk management including definition of the investment risk exposures that are present in an insurer's operations, a description of the investment risk management process, and assignment of the investment risk management function within the insurer's structure. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Investment risk management framework** - the strategies, policies, procedures, methodology and the organisational structure that an insurer uses to perform its investment risk management function. The investment risk management function is normally separate and distinct from the investment management function, to the extent that this is practical for the insurer. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Investment risk management function** - the committees, departments, or persons charged with the responsibility to ensure that the insurer complies with its investment risk management policy and the activities that they carry out, including the oversight of timely corrective action when investment policy constraints are breached and other mitigating action. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Investment strategy** - the overall direction by the insurer's investment management governing the insurer's investment policy and investment risk management policy. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Investments risk exposures** - measures of the amounts by which an insurer's financial position may vary adversely. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Investments risk limits** - the maximum amount of risk exposure that an insurer is prepared to accept. Limits are normally included in the insurer's risk management policy, and monitoring of compliance with these limits is part of the risk management function. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Invitee** - a person having an express or implied invitation to enter a given location. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Irrevocable beneficiary** - a beneficiary designation that may be changed only with the consent of the beneficiary. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Joint insured** - one of two or more persons whose names or interests are insured under the same or identical contracts. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Joint-and-last survivor annuity** - an annuity issued on two lives under which payments continue in whole or in part until both have died. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Joint-life annuity** - an annuity issued on two lives under which payments cease at the death of either of the two persons. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Joint underwriting association (JUA)** - a loss sharing mechanism used in some states to provide insurance to high-risk drivers. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Judgement** - the decision of a court or the reason for such decision. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Judgement rating** - the process of determining the rate for a coverage without the benefit of extensive loss experience or statistical information. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Judicial bond** - a surety bond required in court proceedings. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Jumbo risk** - a risk requiring exceptionally high benefit limits. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Jumping juvenile insurance** - permanent life insurance on children under which the face amount automatically increases to a multiple of the initial amount when the child reaches a specified age. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Jurisdiction** - a country, state, province, or other territory with legally enforceable local insurance laws that relate to the incorporation or operation of insurance companies. [Related definitions: *Insurer / insurance company*] [Source: *Insurance Core Principles - July 2000*]

**Keogh plan** - a tax-qualified retirement plan for self insured individuals similar in most respects to qualified corporate pensions. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Key-persons insurance** - a life insurance programme designed to cover the key employees of an employer; it may be written on a group or individual policy basis. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Lapse** - termination of a policy due to failure by the insured to pay the premium as required [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Lapsed policy** - a policy discontinued for nonpayment of premiums: the term is technically limited to a termination occurring before a life insurance policy has a cash or other nonforfeiture value [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]



**Last clear chance** - an exception to the doctrine of contributory negligence that makes a person who has a final opportunity to avoid an accident and fails to do so legally liable. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Law of large numbers** - theory of probability that is the basis for insurance; the larger the number of exposure units, the more closely will the actual results obtained approach the probable results expected from an infinite number of exposures. [Equivalent terms: *central limit theorem*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Leasehold interest** - an intangible use interest that exists when the provisions of a lease stipulate a rental that is greater or less than the prevailing market price of renting similar facilities. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Legal reserve life insurance company** - a life insurance company operating under state insurance laws specifying the minimum basis for the reserves the company must maintain on its policies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Level premium insurance** - life insurance for which the cost is distributed evenly over the premium paying period; the premium remains constant from year to year, and is more than the actual cost of protection in the earlier years of the policy and less than the actual cost in the later years – the excess paid in the early years accumulates the reserve. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Liability** - a debt or responsibility: an obligation which may arise by a contract made or by a tort committed. [Related definitions: *Technical liabilities, Technical provision*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Licence and permit bond** - a surety bond required of persons who obtain certain licences and permits which guarantees that the individual will comply with laws and regulations pertaining to the licence or permit.

Licensee a person on one's property with stated or implied permission but not to further the purposes of the landholder. The property owner is obligated to warn a licensee of any dangers the licensee might not be expected to know about. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Licensee** - a person on one's property with stated or implied permission but not to further the purposes of the landholder. The property owner is obligated to warn a licensee of any dangers the licensee might not be expected to know about. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Licensing** - the incorporation of a company in the jurisdiction or the approval given to a company to underwrite insurance in the jurisdiction. These are recognised to be separate approvals and may be made in separate jurisdictions. [Source: *Insurance Core Principles - July 2000*]

**Life annuity** - a contract that provides an income for the life of the annuitant. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Life assurance provisions** - amount on the balance sheet which comprises the actuarially estimated value of an insurer's liabilities for future benefit payments including bonuses already declared and after deduction of the actuarial value of that component of future premiums attributable to meeting those liabilities. [Equivalent terms: *life assurance provisions, mathematical provisions, policy liabilities, policy reserves*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Lifetime disability benefit** - a benefit for loss of income payable as long as the insured is totally disabled, even for life. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Limited payment life insurance** - a form of whole life insurance on which premiums are payable for a specified number of years less than the period of protection, or until death if death occurs before the end of the specified period. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Limited policies** - policies that cover specified accidents or sickness. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Limits** - the value or amount of a policy: the greater amount that can be collected under the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Liquidation risk** - the risk that an insurer's funds are not sufficient to meet all liabilities in cases of discontinuation or run-off of major parts or the whole business (previously written by the company). [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Liquidity risk** - the risk emerging when the insurer fails to make investments (assets) liquid in a proper manner as its financial obligations fall due. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Livery** - in automobile insurance, the carrying of passengers for hire. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Lloyds** - a voluntary unincorporated association of individuals organized for the purpose of writing insurance; normally refers to Lloyds of London, a group of individual underwriters and syndicates that underwrite insurance risks severally, using facilities maintained by the Lloyds of London Corporation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Loading** - that part of an insurance rate designed to cover expenses, profit, and a margin for contingencies. In some instances, an additional amount added to an insurance rate because of some extraordinary hazard or expense. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Local agent** - a producer of insurance whose activities are purely of local extent. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Long-tailed business** - Insurance business whose uncertainty about the amount and timing of claims payments typically takes more than one year to resolve. (Related definitions: Short-tailed business). (Source: Enhanced Disclosure Subcommittee, *Standard on disclosures, October 2004*).

**Long-term disability** - a generally accepted period of time for more than two years – can vary according to company standards. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Loss** - the unintentional decline in, or disappearance of, value due to a contingency. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Loss frequency** - the number of claims on a policy during a premium period. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Loss ratio (claims ratio)** - refers to the ratio of claims incurred to earned premiums. Other related definitions: claims incurred, earned premiums. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Loss reserves** - an estimated liability in an insurer's financial statement, indicating the amount the insurer expects to pay for losses that have taken place but which have not yet been paid. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Losses incurred but not reported** - losses resulting from accidents which have taken place but on which the company has not yet received notice or report of the loss. [Related definitions: *IBNR provision*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Major medical expense insurance** - policies especially designed to help offset the heavy medical expenses resulting from catastrophic or prolonged illness or injury: they provide benefit payments for 75-80% of all types of medical treatment by a physician above a certain amount first paid by the insured person and up to the maximum amount provided by the policy – usually \$100,000, \$250,000, or higher. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Malpractice** - alleged professional misconduct or lack of ordinary skill in the performance of a professional act. A practitioner is liable for damage or injuries caused by malpractice. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Management risk** - the risk associated with an incompetent management or a management with criminal intentions. As such they would include, for example, matters wilfully caused by management. [Related definitions: *non-technical risks*]. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Manual** - a book of rates, rules, and coverages usually available for each kind of insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Marine** - pertaining to the sea or to transportation: usually divided as to "ocean marine" and "inland marine"; the insurance covering transportation risks. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Market risk** - the risk to an insurer's financial condition arising from movements in the level or volatility of market prices. Market risk involves the exposure to movements of financial variables such as equity prices, interest rates, exchange rates or commodity prices. It also includes the exposure of derivatives to movements in the price of the underlying instrument or risk factor. Market

risk also involves the exposure to other unanticipated movements in financial variables or to movements in the actual or implied volatility of asset prices and options. Market risk incorporates general market risk (on all investments) and specific market risk (on each investment). [Related definition: *matching risk*]. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Mass merchandising** - the sale of group property and liability insurance, generally through an employer. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Matching risk** - the risk emerging when the future cash flows generated by assets do not coincide with (or do not cover) the cash flow demands of the corresponding liabilities in a suitable manner.

This would include Currency Risk, as well as the risk that the timing of cash flows is not matched and therefore leads to a risk associated with movements in interest rates (Interest Rate Risk and Reinvestment Risk). [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Material fact** - information about the subject of insurance that if known would change the underwriting basis of the insurance, and which would cause the insurer to refuse the application or charge a higher rate. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Mathematical provisions** - see **Life assurance provisions**. [Equivalent terms: *life assurance provisions, mathematical provisions, policy liabilities, policy reserves*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Medical Information Bureau (MIB)** - an organisation to which life insurers report health impairments of applicants for life insurance; the information is then available to member companies for underwriting purposes. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Medical payments** - an additional coverage included in some liability contracts under which the insurer agrees to reimburse injured persons for medical expenses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Medicare** - hospital and medical expense insurance provided under the Social Security system. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Miscellaneous hospital expense** - a provision for the payment on a blanket basis or schedule basis of hospital services (other than room and board, special nursing care, and doctors' fees) up to a stipulated maximum amount. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Mispricing risk** - the risk that miscalculations have led to premiums that are too low to cover the insurer's expenses related to claims, claims handling and administration. [Equivalent terms: *mispricing risk, risk of insufficient tariffs, product design and pricing risk*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Misrepresentation** - a misstatement: if done with intent to mislead, it may void the policy of insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Misstatement of age clause** - in life and health insurance, a policy provision requiring an adjustment in the amount of insurance when the insured has misstated his or her age. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Modified whole life** - a form of whole life insurance with a lower than usual initial premium that increases after three to five years. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Money market fund insurance** - private insurance that protects insured investors in a money market mutual fund against loss in the event the fund fails or the issuers of investments held by the fund default. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Moral hazard** - a careless attitude on the part of an insured that increases the chance of loss or causes losses to be greater than would otherwise be the case. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Morbidity tables** - actuarial statistics showing the incidence and duration of disability. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Mortality table** - a statistical table showing the probable rate of death at each age, usually expressed as so many per thousand. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Mortgage** - a deposit or conditional transfer to secure the performance of some act: the person who makes the transfer is called the “mortgagor”, the other party, the “mortgagee”; sometimes an intermediary called a “trustee” is appointed. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Multiple-line insurance** - policies that combine many perils previously covered by individual policies of fire and liability companies: the homeowner’s policy is one example: other examples are the commercial property policy, the farmowner’s policy, and the special multiperil policy, for motels and apartments. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Municipal bond guarantee insurance** - a form of coverage sold to municipalities under which the insurer guarantees the payment of interest and principal on bonds issued by the municipality. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Municipal lease insurance** - a form of coverage sold to municipalities that assures the municipality’s lessors the prompt payment of principal and interest on municipal lease financing. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Mutual insurance company** - a nonprofit insurance carrier, without capital stock, that is owned by the policyholders: it may be incorporated or unincorporated. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Named insured** - the person designated in the policy as the insured as opposed to someone who may have an interest in a policy but not be named. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Named peril coverage** - property insurance that covers losses that result from specifically named causes. [Equivalent terms: *defined events coverage*] [Related definitions: *Open peril*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**National Association of Insurance Commissioners** - a national organisation of state officials who are charged with the regulation of insurance: although the organisation has no official power it exerts a strong influence through its recommendations. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Nationwide marine definition** - a classification of insurance coverages developed by the National Association of Insurance Commissioners to delineate marine insurance from other lines or insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Negligence** - failure to exercise the degree of care that would be expected from a reasonable and prudent person. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Net payment cost index** - in life insurance a measure of cost of a life insurance maintained in force until death, with allowance for interest at some rate. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Net retention** - the final amount of insurance retained by the company after reinsuring such amounts as it did not wish to retain. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**No fault insurance** - a form of first party insurance written in conjunction with a no fault law. Under a no fault law, the person causing injury is granted immunity from tort action and the person injured must collect for his or her loss from his or her own insurer. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Nonadmitted carriers** - an insurer that has not been licensed to write insurance in a given jurisdiction. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Noncancellable or noncancellable and guaranteed renewable policy** - a continuous term health insurance policy that guarantees the insured the right to renew for a stated number of years or to a stated age (usually 60 or 65), with the premium at renewal guaranteed. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Nonconcurrency** - a condition that exists when two or more policies covering the same property are written subject to different provisions. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Nonconfining sickness** - a sickness that does not confine the insured to his or her home or a hospital. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Noncontributory plan** - a group insurance or pension programme under which the employer pays the entire cost. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Nondisabling injury** - an injury which does not cause total or partial disability. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Nonforfeiture option** - privilege available to the policyholder based upon his or her interest in the contract or once cash value has been created. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Nonoccupational policy** - one that does not cover loss resulting from accidents or sickness arising out of or in the course of employment or covered under any worker's compensation law. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Nonparticipating insurance** - policy insurance on which the premium is calculated to cover as closely as possible the anticipated cost of the insurance protection and on which no dividends are payable to the insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Non-proportional reinsurance** - A form of reinsurance arrangement in which a reinsurer assumes the part of the ceding insurer's claims that exceeds a certain amount against payment of a specially calculated premium. [Related Definitions: *reinsurance, proportional reinsurance*]. [Source: Enhanced Disclosure Subcommittee, *Standard on disclosures*, October 2004).

**Non-technical risks** - non technical risks represent the various kinds of risk which cannot in any suitable manner be classified as either technical risks or investment risks.

Insurance supervisors will also be concerned about these risks, (although the list should not be seen as exhaustive):

- *management risk*
- *risks connected with guarantees in favour of third parties*
- *general business risk*

There can be debate about the inclusion of what some define as *operational risk* in this category. Depending on your definition, operational risk can be added or can be included in this list. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Obligee** - the person in favour of whom some obligation is contracted, whether such obligation be to pay money, or to do, or not do something: the party to whom a bond is given. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Obligor** - the person who has engaged to perform some obligation: one who makes a bond: the bonding company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Occupational disease** - a disease or condition of health resulting from performance of an occupation such as psittacosis, mercury poisoning, dust collection in the lungs, and the like: in most states occupational disease is now covered as part of the workers' compensation exposure. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Occupational Safety and Health Act of 1970 (OSHA)** - a federal statute establishing safe and healthy working conditions on a nationwide basis. The act sets job safety and health standards enforced by Labor Department safety inspectors and also provides for compilation of relevant statistics on work injuries and illnesses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Occurrence** - a happening that occupies some length of time, such as an individual catching cold after sitting in a draught in a theatre all evening; sometimes a series of accidents; see *accident*. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Occurrence form** - a liability insurance policy under which coverage applies to injuries or damage sustained during the policy period, regardless of when the claim is made; see *claims-made form*. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Ocean marine insurance** - coverage on all types of vessels, including liabilities connected with them, and on their cargoes: the cargo coverage has been expanded to protect the owners from warehouse to warehouse, inclusive of all intermediate transit by rail, truck, or otherwise. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Omnibus clause** - archaic term formerly used to refer to a provision in liability contracts that extends coverage to other persons not named in the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Open form** - a continuous policy written on a reporting basis. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Open peril** - open peril a term used to describe a broad form of property insurance in which coverage applies to loss arising from any fortuitous cause other than those perils or causes specifically excluded. This is in contrast to other policies which name the peril or perils insured against.

Note that the term “All-Risk” is sometimes used but there is a concerted effort to eliminate the use of this term as it is misleading because no property or liability insurance policy is truly an all-risk coverage. [Equivalent terms: *open peril, all risks*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Operating expenses risk** - the risk of actual or future expenses exceeding – to a considerable degree – the corresponding amount as estimated by using the bases of calculation. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Operating ratio** – the operating ratio is the combined ratio adjusted by the addition of allocated investment income to earned premiums. Other related definitions: combined ratio, allocated investment income. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Operational risk** - the risk arising from failure of systems, internal procedures and controls leading to financial loss. Operational risk also includes custody risk. [Related definitions: *non-technical risks*]. [Source: *Solvency Subcommittee*]

**Optionally renewable (in health insurance)** - a contract in which the insurer reserves the right to terminate coverage at an anniversary or premium-due date. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Ordinary life insurance** - a form of whole life insurance usually issued in amounts of \$1,000 or more with premiums payable on an annual, biannual, quarterly, or monthly basis to the death of the insured or to the end of the mortality table employed, whichever occurs first and at which



time (benefits) proceeds are due; the term is also used to mean straight life insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Outage insurance** - a boiler and machinery consequential loss coverage covering loss during the period a specified object is inoperable as a result of an accident. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Ownership of expiration** - exclusive right on the part of a property and casualty insurance agent operating under the American Agency System to the records of dates and details of expiring policies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**P & I insurance** - see **Protection and Indemnity (P & I) insurance**. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Package policy** - a combination of the coverages of two or more separate policies into a single contract. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Paid-in capital – Equity capital**. [Equivalent terms: *equity capital, share capital, subscribed capital, paid-in capital, capital subscribed by shareholders or members of mutual societies, hidden reserves*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Parol evidence rule** - when the parties to a contract have purported to embody their contract in writing, that writing is the contract and all of the contract; therefore no evidence is admissible to prove any terms of the contract different from, or in addition to, those set forth in writing. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Partial disability** - a provision generally found in accident and occasionally in sickness policies designed to offer some weekly or monthly indemnity benefit if the insured cannot perform all the important daily duties of his occupation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Participating insurance** - policies that entitle the policyholder to receive dividends reflecting the difference between the premium charged and the actual operating expenses and mortality experience of the company; if expenses and mortality are better than anticipated so that an excess of premium has been collected, a portion of the excess then so available is returned to the insured in the form of dividends – the premium is calculated to provide some margin over the anticipated cost of the insurance protection. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Participation risk** - the risk related to the holding of an ownership or a financial interest in other companies and the possibilities of being affected by financial difficulties within the latter companies. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Particular average** - a term meaning an accidental and usually a partial loss suffered by one interest and not chargeable against others. [Related definitions: *General average (in marine insurance)*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Paul vs. Virginia** - a U.S. Supreme Court decision of 1869 in which the court ruled that insurance was not commerce and therefore not interstate commerce, thereby exempting the industry from federal control. This decision was reversed in the South Eastern Underwriters

Association case of 1944. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Payor benefit** - a provision generally included in juvenile life insurance policies waiving future premiums if the payor (usually the parent who pays the premium on the policy) becomes disabled or dies before maturity of the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Penalty** - the limit of an insurer's or surety's liability under a fidelity or surety bond. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Percentage participation clause (in health insurance)** - a provision that requires the insured to bear a percentage of expenses in excess of the deductible; also called coinsurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Peril** - the event insured against; the cause of possible loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Permanent life insurance** - a phrase used to cover any form of life insurance except term; generally insurance, such as whole life or endowment, that accrues cash value. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Permissible loss ratio** - the maximum percentage of premium income that can be expended by the company to pay claims without loss of profit. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Personal auto policy** - a simplified language automobile policy designed to insure private passenger automobiles and certain types of trucks owned by an individual or husband and wife. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Personal injury** - in law, a term used to embrace a broad range of torts that includes bodily injury, libel, slander, discrimination and similar offences. Also a standard insurance coverage that protects against a more limited group of torts (false arrest, detention or imprisonment, malicious prosecution, wrongful entry or eviction, and libel, slander, or defamation). [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Physical hazard** - a condition of the subject of insurance which creates or increases the chance of loss, such as structural defects, occupancy, or similar conditions. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Plaintiff** - a party to a lawsuit who brings charges against another party called the defendant. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Policy** - the written contract of insurance that is issued to the policyholder insured by the company insurer. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Policy dividend** - a refund of part of the premium on a participating life insurance policy reflecting the difference between the premium charged and actual experience. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Policy fee** - an additional charge placed on the initial premium designed to offset a portion of the expense of policy issuance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Policyholder surplus** – see **Available solvency**. [Equivalent terms: *Available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*]. [Source: *Solvency Subcommittee – Issues paper March 2000*]

**Policy liabilities** – see **Live assurance provisions**. [Equivalent terms: *life assurance provisions, mathematical provisions, policy liabilities, policy reserves*]. [Source: *Solvency Subcommittee – Issues Paper arch 2000*]

**Policy loan** - a loan made by an insurance company to a policyholder on the security of the cash value of his policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Policy period** - the term for which insurance remains in force, sometimes definite, sometimes not. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Policy reserves** - the amounts that a life insurance company allocates specifically for the fulfilment of its policy obligations: reserves are so calculated that, together with future premiums and interest earnings, they will enable the company to pay all future claims. [Equivalent terms: *life assurance provisions, mathematical provisions, policy liabilities, policy reserves*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Pollution** - the contamination of the environment that includes air pollution, noise pollution, water pollution, and disposal of waste materials. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Pool** - a risk sharing mechanism in which the members of a group agree to be collectively responsible for losses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Postselection underwriting** - an insurer's practice of re-evaluating the desirability of insureds at or prior to the renewal of their policies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Preauthorized cheque plan** - a plan by which a policyholder arranges with his bank and insurance company to have his premium payments drawn, usually monthly, from his current account. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Pre-existing condition** - a physical condition that existed prior to the effective date of the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Preferred Provider Organization (PPO)** - a health care delivery organisation composed of physicians, hospitals, or other health care providers that contracts with subscribers to provide health care services at a reduced fee. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Premises and operations** - a commercial liability coverage that protects against liability arising out of the ownership or maintenance of premises or out of the activities of employees away from the premises. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Premium** - the payment, or one of the periodical payments, a policyholder agrees to make for an insurance policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Premium deficiency reserve** - see **Provision for unexpired risks**. [Equivalent terms: *provision for unexpired risks, premium deficiency reserve*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Premium loan** - a policy loan needed for the purpose of paying premiums. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Premium period** - the length of time covered by the premium, usually identical with the policy period but frequently not. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Prepaid group practice plan** - a plan under which a person pays in advance for the right to specified health services performed by participating physicians and institutions. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Pricing risk** – see **Mispricing risk**. [Equivalent terms: *Mispricing risk, risk of insufficient tariffs, product design, pricing risk*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Primary** - basic, fundamental: an insurance policy which pays first with respect to other outstanding policies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Primary beneficiary** - the individual first designated to receive the proceeds of an insurance policy: see *contingent beneficiary*. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Principal** - the applicant for, or subject of, insurance; the one from whom an agent derives his or her authority. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Principal sum** - a term used to refer to the lump sum amount payable for accidental death, dismemberment, or loss of sight. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Prior approval law** - a system of rate regulation in which rates must be filed with the state regulatory authority and approved before they may be used. [Related terms: *File and use law*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Private insurance** - voluntary insurance programmes available from private firm or from the government by which an individual may obtain protection against the possibility of loss due to a contingency. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Pro rata apportionment** - a division of loss according to the interest of the various companies providing insurance: thus, if Company A has insured the property involved for \$10,000 and

Company B has insured the property for \$20,000, Company A will pay one-third of any loss and Company B will pay two-thirds. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Pro rata cancellation** - cancellation with a return of premium charged for the period of time the policy was in force equal to the ratio of the total premium to the total policy period; see *short rate cancellation*. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Pro rata distribution clause** - a clause that provides that the face amount of the insurance will be divided between the objects insured in the proportion that the value of each bears to the value of all. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Probationary period** - a period of time from the policy date to a specified date, usually 15-30 days, during which no sickness coverage is effective: it is designed to eliminate a sickness actually contracted before the policy went into effect - occurs only at the inception of a policy. [Equivalent terms: *waiting period, elimination period, probationary period*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Producer** - an agent for an insurance company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Product design risk** – see **Mispricing risk**. [Equivalent terms: *Mispricing risk, risk of insufficient tariffs, product design, pricing risk*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Prohibited risks** - those not written by a company because of an unusual occupational exposure or uninsurable physical or moral conditions. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Proof** - the act of substantiating another act, such as a claim for insurance payment. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Proportional reinsurance** - A type of reinsurance arrangement whereby the ceding insurer and assuming reinsurer share an agreed portion or percentage of the original premiums and subsequent losses from the reinsured business. (Related Definitions: Reinsurance, non-proportional reinsurance). [Source: *Enhanced Disclosure Subcommittee, Standard on disclosures, October 2004*).

**Proposal** - an application for insurance or the facts contained in it; a recommendation. [Equivalent terms: *Application*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Prorate clause** - in health insurance, an optional policy provision designed to protect the company when an insured changes to a more hazardous occupation and does not have his or her policy amended accordingly: the company may pay out such portion of the indemnities provided as the premium paid would have purchased at the higher classification, subject to the maximum limits filed by the company for such more hazardous occupation; it also protects the insured when he or she changes to a less hazardous occupation by providing for a return premium. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Protection and Indemnity (P & I) insurance** - liability insurance coverage in an ocean marine policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Profit reserve** - amounts, i.e. bonuses and rebates, that are intended for policyholders or contract beneficiaries if such amounts have not been credited to policyholders or contract beneficiaries or included in a fund for future appropriations. [Equivalent terms: *profit reserve, provision for bonuses and rebates*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Provision for bonuses and rebates** - see Profit reserve. [Equivalent terms: *profit reserve, provision for bonuses and rebates*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Provision for claims outstanding** – see **Claims provision**. [Equivalent terms: *claims provision, provision for outstanding claims / claims outstanding, claims reserve, total claim liability*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Provision for outstanding claims** – see **Claims provision**. [Equivalent terms: *Claims provision, provision for outstanding claims / claims outstanding, claims reserve, total claim liability*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Provision for unearned premiums** - amount on the balance sheet representing that part of premiums written which is to be allocated to the following financial year or to subsequent financial years. [Equivalent terms: *provision for unearned premiums, unearned premium reserve*] [Related definitions: *provision for unexpired risk*] [Source: *Solvency Subcommittee (December 2002)*]

**Provision for unexpired risks** - amount set aside on the balance sheet in addition to unearned premiums with respect to risks to be borne by the insurer after the end of the reporting period, in order to provide for all claims and expenses in connection with insurance contracts in force in excess of the related unearned premiums and any premiums receivable on those contracts. [Equivalent terms: *provision for unexpired risks, premium deficiency reserve*] [Related definitions: *provision for unearned premiums*] [Source: *Solvency Subcommittee (December 2002)*]

**Provisions** - the terms or conditions of an insurance policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Proximate cause** - the immediate or actual cause of loss under an insurance policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**‘Prudent person’ approach** - the ‘prudent person’ approach requires the insurer to act in the way that a prudent person would, eg. by considering the risks involved, obtaining and acting upon appropriate professional advice and suitably diversifying the investments.

**Public adjuster** - one who represents the policyholder instead of the company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Public guarantee insurance programmes** - compulsory quasi-social insurance programmes designed to protect lenders, investors, or depositors against loss in connection with

the failure of a financial institution or other type of fiduciary: for example. the Federal Deposit Insurance Corporation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Public Law 15** - an historic piece of legislation passed by Congress in 1945 whereby insurance was exempted from the operation of federal antitrust laws “to the extent that it is regulated by the various states.” Certain other restrictions were added such as a prohibition of coercion: also known as the “McCarran Act”. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Punitive damages** - damages awarded separately and in addition to the compensatory damages, usually on account of malicious or wanton misconduct, to serve as a punishment for the wrongdoer and possibly as a deterrent to others. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Pure premium** - that part of the premium which is sufficient to pay losses and loss adjustment expenses but not including other expenses. Also, the premium developed by dividing losses by exposure disregarding any loading for commission, taxes and expenses. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Pure risk** - a condition in which there is the possibility of loss or no loss only. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Qualifying participation** - a participation held directly, or indirectly through one or several subsidiaries, by a natural person, of at least X % in the company, or – also in the case of a lower percentage – a participation enabling the shareholder to substantially influence the company’s management. X is defined in accordance with domestic law (10% or 20% are common threshold values). [Source: *Insurance Core Principles Methodology - June 2000*]

**Quota share reinsurance** - a reinsurance contract which reinsures an agreed fraction of every risk of the kind described in the contract, which the ceding company writes. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Rate** - the cost of a unit of insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Rated policy** - an insurance policy issued at a higher than standard premium rate to cover the extra risk involved in certain instances where the insured does not meet the standard underwriting requirements; for example, impaired health or a particularly hazardous occupation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Rating agency** - entity that specialises in assigning credit ratings to borrowers. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Rating bureau** - an organisation that makes rates that companies charge for their policies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Rating grade** - an assessment of credit risk satisfying a specified and distinct set of rating criteria. The grade definition should include both a description of the degree of credit risk typical for credits assigned the grade and the criteria used to distinguish that level of credit risk. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Rating model** - a systematic approach to determining one or more of the risk characteristics of a potential, or an existing, investment in a consistent manner with other investments to facilitate comparison. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Rating process** - the steps used to determine an appropriate rating for a potential or existing investment. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Rating system** - comprises all of the principles, methods, processes, controls, data collection and information systems that support the insurer's or credit rating agencies assessment of credit risk, the assignment of risk ratings, and the quantification of default and loss estimates. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Realty** - real property: real estate. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Rebate** - the improper return of part or all of a premium to a policyholder. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Reciprocal exchange** - an association of individuals who agree to exchange insurance risks – each member of the association insures each of the other members and in turn is insured by each of the other members: see *attorney-in-fact*. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Recurring clause** - a period of time during which a recurrence of a condition is considered as being a continuation of a prior period of disability or hospital confinement. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Reduced paid-up insurance** - a form of insurance available as a nonforfeiture option: it provides for continuation of the original insurance plan, but for a reduced amount. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Refund annuity** - an annuity that provides that the difference between the original cost and payments made to the annuitant will be paid to a beneficiary. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Regional agent** - a district agent: the grade between local and general agent. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Regular medical expense insurance** - coverage for services such as doctor fees for nonsurgical care in the hospital or at home, X-rays or laboratory tests. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Regulatory capital** - see **Available solvency**. [Equivalent terms: *Available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]



**Regulatory capital element** – see **Eligible capital element**. [Equivalent terms: *eligible capital element, regulatory capital element, admissible capital item*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Regulatory control level** – see **Control level**. [Equivalent terms: *control level, regulatory control level, trigger amount, trigger point, intervention level, impairment level, regulatory action level*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Reimbursement benefits** - those for which the insured is reimbursed on an actual expense incurred basis. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Reinstatement** - the restoration of a lapsed policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Reinsurance** - a reinsurance contract is an insurance contract between one insurer or pure reinsurer (the reinsurer) and another insurer or pure insurer (the cedant) to indemnify against losses on one or more contracts issued by the cedant in exchange for a consideration (the premium). [Source: *Reinsurance Subcommittee, March 2004*]

**Reinsurance basis risk** - the reinsurance cover might prove insufficient to adequately handle the risk in question because reinsurance needs have not been precisely identified. This might result in relevant clauses of the reinsurance contract being inappropriate. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Reinsurance credit risk** - a reinsurer might prove to be unable or unwilling to pay its part of the liabilities or the claims incurred which can put the insurer's liquidity at risk and even cause its bankruptcy. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Reinsurance risk** - the risk of insufficient reinsurance covers or a failure of reinsurers to pay their part of the overall liabilities (or incurred claims) evaluated on a gross basis.

This risk can be further separated between:

- *Reinsurance basis risk*, and
- *Reinsurance credit risk*.

[Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Relation of earnings to insurance clause** - in disability insurance, a provision that reduces payment to the proportion of policy benefits that the insured's earnings at the time of disability (for average earnings for two years prior to disability) bear to total disability benefits under all policies: also called the average earnings clause. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Release** - a discharge, as from further liability under an insurance policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Renew** - to continue; to replace, as with new policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Renewable at insurer's option** - in health insurance, a continuance provision that reserves to the insurer the right to refuse to renew the contract. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Renewable term insurance** - term insurance that can be renewed at the end of the term, at the option of the policyholder, and without evidence of insurability, for a limited number of successive terms; the rates increase at each renewal as the age of the insured increases. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Rental value insurance** - insurance arranging to pay the reasonable rental value of property which has been rendered untenable by fire or some other peril insured against, for the period of time that would be required to restore the property to tenantable condition. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Replacement cost insurance** - property insurance that pays for damaged or destroyed property without a deduction for depreciation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Reporting form** - insurance that depends upon regular reports from the insured to determine the amount of insurance or the premium or both. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Representation** - statements made by an applicant in the application that he represents as being substantially true to the best of his or her knowledge and belief, but which are not warranted as exact in every detail. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Required solvency margin** - the minimum amount of solvency margin as defined above, stipulated by domestic law.

If we denote the required solvency margin by RS and refer to the solvency formula, this would mean that  $AS \geq RS$ . The required solvency margin should have a level that ensures with a high probability the insurer's ability to meet its obligations over a certain period of time or sets the expected policyholder deficit to an acceptable low level. However, the views as to which level is acceptable may differ from jurisdiction to jurisdiction. [Equivalent terms: *required solvency margin, required minimum margin, statutory minimum solvency margin, minimum capital requirement, required surplus, regulatory capital requirement*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Res ipsa loquitur** - (the thing speaks for itself) Rebuttable presumption that the defendant was negligent: the presumption arises upon proof that the instrumentality causing the injury was in the defendant's exclusive control, and that the accident is one which ordinarily does not happen in the absence of negligence. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Reserve** - amounts set aside to meet unforeseeable liabilities (i.e. an obligation that has not yet materialised) or statutory requirements, and stemming either from shareholders' capital or, in the case of mutuals, members' contributions and from accumulated surplus. Reserves are part of the own funds (in contrast to provisions that support liabilities to parties other than shareholders)

or other owners). [Equivalent terms: *reserve, appropriated surplus, segregated surplus, contingency reserve*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Residual disability benefit** - a provision in disability income policies that grants benefits based on a reduction in earnings, as opposed to inability to work full time. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Residual market plan** - a mechanism through which high-risk insureds who cannot obtain insurance through normal market channels are insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Residuary** - the balance remaining, as in an estate after specific bequests and debts have been paid. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Resilience reserve** - a reserve for adverse movements in the capital markets to the extent that these movements will not be matched by a corresponding movement in the liabilities. [Equivalent terms: *resilience reserve, mismatch reserve, additional reserve for cash flow testing*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Respondeat superior** - (let the master answer) The principal is liable in certain cases for the wrongful acts of his agent; the doctrine does not apply where the injury occurs while the servant is acting outside the legitimate scope of his or her authority. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Respondentia** - an early form of marine insurance on cargo; similar to bottomry, the equivalent on hulls. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Restoration** - reinstatement, as the amount of coverage after a loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Retention** - the act of retaining an exposure to loss; also that part of the exposure that is retained. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Retroactive conversion** - conversion of term life insurance into whole life insurance at the insured's original age at issue rather than at the insured's attained age at conversion. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Retrocession** - the amount of risk that a reinsurance company reinsures; the amount of a cession which the reinsurer passes on. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Retrospective rating** - the process of determining the cost of an insurance policy after expiration of the policy, based on the loss experience under the policy while it was in force. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Return premium** - an amount due the insured upon cancellation of a policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Revaluation reserve** - amount set aside in the balance sheet representing the difference (or a portion thereof) between purchase price and current market price if assets (investments) are

valued on the basis of the current market price (market value). [Equivalent terms: *revaluation reserve, asset fluctuation reserve*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Revival** - the reinstatement of a lapsed policy by the company upon receipt of evidence of insurability and payment of past due premiums with interest. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Revocable beneficiary** - a beneficiary designation that may be changed by the policyowner without the consent of the existing beneficiary. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Rider** - a document which amends the policy: it may increase or decrease benefits, waive a condition or coverage, or in any other way amend the original contract – the terms rider and endorsement are often used interchangeably. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Risk** - in the abstract, used to indicate a condition of the real world in which there is a possibility of loss; also used by insurance practitioners to indicate the property insured or the peril insured against. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Risk concentration** - a risk concentration refers to an exposure with the potential to produce losses large enough to threaten an insurer's health or ability to maintain core operations. Other related definitions: *Conglomerate risk, Contagion*. [Source: *Enhanced Disclosure Subcommittee Guidance paper, February 2004*]

**Risk of error** - the risk depending on the quality of the basis of computation and arising due to the lack of knowledge about the development of the expected insured risk. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Risk of excessive or uncoordinated growth** - the risk that the growth of the company will lead to pressure of undercapitalisation or inadequacy of other infrastructure. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Risk of insufficient tariffs** – see **Mispricing risk**. [Equivalent terms: *mispricing risk, risk of insufficient tariffs, product design and pricing risk*]. [Source: *Solvency Subcommittee – Issues paper March 2000*]

**Risks connected with guarantees in favour of third parties** - the potential strain on the economic capacity of an insurer caused by a call on a guarantee furnished for the purpose of the financial commitments of a third party. [Related definitions: *non-technical risks*]. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Risk management** - a scientific approach to the problem of dealing with the pure risks facing an individual or an organisation in which insurance is viewed as simply one of several approaches for dealing with such risks. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Risk retention act** - a 1986 federal statute that exempts risk retention groups and insurance purchasing groups from a substantial part of state regulation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Risk retention group** - group-owned insurer formed under Risk Retention Act of 1986, whose primary activity consists of assuming and spreading the liability risks of its members. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Risk tolerance** - an insurer's risk tolerance is a statement of the nature and amount of risk exposure that the insurer is willing to accept. The risk tolerance will dictate the risk limits that are established as part of the insurer's risk management policy. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Robbery** - the unlawful taking of property by violence or threat of violence. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Run-off basis** - a method of considering the financial situation assuming that no new business will be written but that the company will continue to operate with underwritten insurance contracts until the end of the term set by the policy conditions (e.g. the renewal date, the end of a fixed term, death of the insured person) including the settling of claims eventually arising during this period. [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Run-off result** - the run-off result is the difference between:

- a provision made at the beginning of the financial year and
- the sum of the payments made during the year on account of that provision and the provision for the same claims shown at the end of the year.

Other related definitions: claims provision, claims incurred. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Salvage** - value recoverable after a loss: that which is recovered by an insurance company after paying a loss; see *subrogation*. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Schedule** - a list of coverages or amounts concerning things or persons insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Schedule rating** - a system of rating in which debits and credits are added and subtracted from a base rate to determine the final rate for a particular insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Second-injury fund** - in workers' compensation, a state fund that pays the increased benefits when a second work-related injury combined with a previous injury results in greater disability than would be caused by the second injury only. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Self-insurance** - a risk retention programme that incorporates elements of the insurance mechanism. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Senior Professional Public Adjuster (SPPA)** - professional designation granted to public adjusters with 10 years' experience who pass a rigorous examination and meet other specified eligibility requirements. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Separate account** - funds held by a life insurer that is segregated from the other assets of the insured and invested for pension plans. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Settlement option** - one of the ways other than immediate payment in a lump sum, in which the policyholder or beneficiary may choose to have the policy proceeds paid. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Settlement risk** - the risk that the completion or settlement of a financial transaction will fail to take place as expected. It includes elements of market, credit, liquidity and operational risks. The level of risk is determined by the particular arrangements for settlement. Factors in such arrangements that have a bearing on credit risk include the timing of the exchange of value, payment and settlement finality, and the role of intermediaries. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Share capital** see **Equity Capital**. [Equivalent terms: *equity capital, share capital, subscribed capital, paid-in capital, capital subscribed by shareholders or members of mutual societies, hidden reserves*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Short rate cancellation** - cancellation with a less than proportionate return of premium: see Pro Rata Cancellation. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Short-tailed business** - Insurance business whose uncertainty about the amount and timing of claims payments is typically resolved within one year. (Related definition: Long-tailed business). [Source: *Enhanced Disclosure Subcommittee, Standard on disclosures, October 2004*).

**Short-term disability** - a generally accepted period of time for two years or less: can vary according to company standards. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Sickness insurance** - a form of health insurance against loss by illness or disease. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Single premium whole life** - a whole life policy in which the initial premium, together with interest earnings, is sufficient to pay the cost of the policy over its lifetime. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Single premium deferred annuity** - an annuity under which the initial premium accumulates together with investment income to create a fund that will be paid out to the annuitant at some time in the future. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Social insurance** - insurance forming part of a statutory system of social security. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Solo supervision** - refers to the supervision of a licensed financial entity by the supervisor in the jurisdiction where the licensed financial entity is incorporated, whereby the supervised entity is treated as a 'stand-alone' entity. The solvency requirements are applied on a stand-alone basis. Under solo supervision there can be no automatic assumption that the entity in question

will receive additional financial support from a parent institution, or that it - in turn - will have moral or commercial obligations to support other insurers in which it has invested beyond the extent of those investments, or other contractual obligations (eg. guarantees). The concept of solo supervision is not in any way intended to exclude the possibility of supervision of a branch by a host jurisdiction. [Source: *Principles applicable to the supervision of international insurers and insurance groups and their cross-border business operations*, 8 December 1999 and *Supervisory standard on group coordination* 10 October 2000]

**Solvency** - ability of an insurer to meet its obligations (liabilities) under all contracts at any time. Due to the very nature of insurance business, it is impossible to guarantee solvency with certainty. In order to come to a practicable definition, it is necessary to make clear under which circumstances the appropriateness of the assets to cover claims is to be considered, e.g. is only written business (run-off basis, break-up basis) to be considered, or is future new business (going-concern basis) also to be considered. In addition, questions regarding the volume and the nature of an insurance company's business, which time horizon is to be adopted, and what is an acceptable degree of probability of becoming insolvent should be considered. [Equivalent terms: *solvency*\*, *solvability*, *capital adequacy*\*, *financial health*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

\* In the Australian life insurance context these terms "solvency" and "capital adequacy" are not used like synonyms: solvency is used assessing financial health on a *runoff basis* while capital adequacy is used assessing financial health on a *going-concern basis*.

**Solvency margin** - surplus of assets over liabilities. (Because these terms are frequently used in an imprecise manner, the glossary refers to available solvency (margin) or available surplus capital and required solvency margin or required surplus.) [Equivalent terms: *solvency margin*, *surplus capital*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Solvency requirements** - the whole set of statutory requirements or rules as regards the required solvency margin (RS) and eligible capital elements to cover the margin, and includes the performance of the solvency test to prove compliance with these requirements. [Equivalent terms: *solvency requirements*\*, *statutory solvency rules*, *regulatory capital requirements*, *required solvency*, *required capital adequacy*, *surplus requirements*, *risk based capital requirements*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

\* In the Australian life insurance context, the term solvency requirement refers to the amount of assets needed to meet the solvency test. Similarly, the term capital adequacy requirement refers to the amount of assets needed to meet the capital adequacy test.

**Solvency test** - the test showing compliance with domestic solvency requirements at a certain point in time (e.g. as of the balance sheet date), either by following a static approach, i.e. by comparing available solvency margin with required solvency margin (i.e. the test must show AS  $\geq$  RS), or by following a dynamic approach, i.e. an actuarial test based on certain assumptions as to the risk parameters of the existing and potential future portfolio (e.g. mortality, investment yield, distribution of losses, expenses). [Equivalent terms: *solvency test*, *capital test*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**South-Eastern Underwriters Association (S.E.U.A) case** - U.S. Supreme Court decision in 1944 that reversed the decision in *Paul v. Virginia* and held that insurance is interstate commerce. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Special agent** - a representative of an insurance company who travels about a given territory dealing with agents and supervising the company's operations there. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Special damages** - amount awarded in litigation to compensate for specific identifiable economic loss. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Speculative risk** - a condition in which there is a possibility of loss or gain. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Split funding** - a technique in which a part of the contributions to a pension plan is paid to a life insurer and a part is invested separately under a pension trust. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Sprinkler leakage insurance** - insurance against loss from accidental leakage or discharge from a sprinkler system due to some cause other than a hostile fire or certain other specified causes. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Stabilisation reserve** – see **Equalisation provision**. [Equivalent terms: *Equalisation provision, fluctuation provision, (claims) fluctuation reserve, stabilisation reserve*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Staff adjuster** - one who adjusts losses and is paid a salary by one company for all his time. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Standard provisions (health insurance)** - a set of policy provisions prescribed by law setting forth certain rights and obligations of both the insured and company: these were originally introduced in 1912 and have now been replaced by the Uniform Provisions. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Statutory accounting** - accounting prescribed by regulatory authorities for insurance companies. Under the statutory account system, GAAP (Generally Accepted Accounting Principles) are not followed, but statutory conventions replace GAAP. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Statutory profit** - the profit of an insurer computed under the statutory system of accounting. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Statutory solvency margin** – see **Available solvency**. [Equivalent terms: *Available solvency, available solvency margin, actual solvency margin, statutory margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Statutory surplus** – see **Available solvency**. [Equivalent terms: *Available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]



**Stock insurance company** - an insurance company owned by stockholders, usually for the purpose of making a profit. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Stop loss** - An arrangement where the company accepting the reinsurance risk indemnifies the ceding company for an aggregate or cumulative amount of losses in excess of a contractually specified aggregate. Such aggregate can be defined as an amount or as a loss ratio. [Source: Enhanced Disclosure Subcommittee, *Standard on disclosures*, October 2004).

**Straight life insurance** - whole life insurance on which premiums are payable for life. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Stress testing** - the method of solvency assessment that provides for the consideration of the impact (current and prospective) of a particular defined set of alternative assumptions or outcomes that are adverse. Consideration is given to the effect on the insurance company assets, liabilities and operations of a defined adverse scenario. [Equivalent terms: *stress testing, dynamic financial analysis, pessimistic scenario test, adverse scenario test*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Subordinated loans** - loans (liabilities) that rank after the claims of all other creditors and to be paid, in the event of liquidation or bankruptcy, only after all other debts have been met. These items may be part of OLD in the solvency formula. [Equivalent terms: *subordinated loans, subordinated liabilities, subordinated debt, subordinated debenture*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Subrogation** - an assignment or substituting of one person for another by which the rights of one are acquired by another in collecting a debt or a claim, as an insurance company stepping into the rights of a policyholder indemnified by the company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Subscribed capital** – see **Equity capital**. [Equivalent terms: *equity capital, share capital, subscribed capital, paid-in capital, capital subscribed by shareholders or members of mutual societies, hidden reserves*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Substandard (impaired risk)** - risks that have some physical impairment requiring the use of a waiver, a special policy form, or a higher premium charge. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Suicide clause** - life insurance policy provision that limits the insurer's liability to the return of premiums if the insured commits suicide during the first two years of the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Superfund** - a federal environmental cleanup fund created principally from taxes on the chemical industry intended for use in cleaning up waste dumps. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Supervisory law** - rules and regulations being applied by the insurance supervisor / insurance supervisory authority to insurance companies and/or reinsurance companies. [Equivalent terms: *supervisory legislation, supervisory regulation*]

**Supervisory legislation** - see **Supervisory law**. [Equivalent terms: *supervisory law*]

**Supervisory regulation** - see **Supervisory law**. [Equivalent terms: *supervisory law*]

**Supervisory returns** - see **financial returns**. [Equivalent terms: *financial returns*]

**Supplementary contract** - an agreement between a life insurance company and a policyholder or beneficiary by which the company retains the proceeds payable under an insurance policy and makes payments in accordance with the settlement option chosen. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Supplementary Medical Insurance (SMI)** - optional insurance under the Medicare programme that covers physicians' fees and other specified medical services. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Surety** - a guarantor of a duty or obligation assumed by another. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Surety bond** - an agreement providing for monetary compensation should there be a failure to perform certain specified acts within a stated period: the surety company, for example, becomes responsible for fulfilment of a contract if the contractor defaults. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Surplus capital** - see **Solvency margin**. [Equivalent terms: *solvency margin, surplus capital*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Surplus line** - commonly used to describe any insurance for which there is no available market to the original agent or broker, and which is placed in a nonadmitted insurer in accordance with the Surplus or Excess Line provisions of state insurance laws. [Related definitions: *Nonadmitted carriers*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Surrender cost index** - in life insurance, a measure of the cost of a policy, including interest forgone, if the policy is surrendered for its cash value at the end of a specified period. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Tail coverage** - an extended reporting period extension under claims-made liability policies that provides coverage for losses that are reported after termination of the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Technical liabilities** - see **Technical provision**. [Equivalent terms: *technical provision, technical liabilities, (technical) reserves*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Technical provision** - amount set aside on the balance sheet to meet liabilities arising out of insurance contracts, including claims provision (whether reported or not), provision for unearned

premiums, provision for unexpired risks, life assurance provision and other liabilities related to life insurance contracts (e.g. premium deposits, savings accumulated over the term of with-profit policies). [Equivalent terms: *technical provision, technical liabilities, (technical) reserves*].

[Related definitions: *Reserve, Liability*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Technical risks** - technical risks (liability risks) represent the various kinds of risk that are directly or indirectly associated with the technical or actuarial bases of calculation for premiums and technical provisions in both life and non-life insurance, as well as risks associated with operating expenses and excessive or uncoordinated growth.

Technical risks result directly from the type of insurance business transacted. They differ depending on the class of insurance. Technical risks exist partly due to factors outside the company's area of business activities, and the company often may have little influence over these factors. The effect of such risks – if they materialise – is that the company may no longer be able to fully meet the guaranteed obligations using the funds established for this purpose, because either the claims frequency, the claims amounts, or the expenses for administration and settlement are higher than expected.

When considering the technical risks, the issues paper proposes distinguishing between “current risks” and “special risks”. Current risks consist of the following elements:

- *risk of insufficient tariffs,*
- *deviation risk,*
- *risk of error,*
- *evaluation risk,*
- *reinsurance risk,*
- *operating expenses risk, and*
- risks associated with major or *catastrophic losses* or *accumulation of losses* caused by a single event.

As to the special risks, they can be considered to consist of the following:

- *risk of excessive or uncoordinated growth,* leading to a rapidly increasing claims ratio or an aggravated expenses ratio, and
- *liquidation risk.*

[Equivalent terms: *technical risks, insurance risk*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Tender offer defence expense insurance** - insurance designed to reimburse a publicly held corporation for defence expenses in resisting takeover attempts. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Term** - the length of time covered by a policy or a premium. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Term insurance** - insurance payable to a beneficiary at the death of the insured, provided death occurs within a specified period, such as 5 or 10 years, or before a specified age. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Theft** - the unlawful taking of property of another: the term includes such crimes as burglary, larceny, and robbery. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Third party** - someone other than the insured and insuring company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Third party insurance** - liability insurance, so called because it undertakes to pay to a third party sums which the insured becomes legally obligated to pay. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Title insurance** - insurance that indemnifies the owner of real estate in the event his clear ownership of property be upset by the discovery of faults in his title; largely written by companies specializing in this class alone. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Top-5-(reinsurance) concentration ratio** – refers to the reinsurance premium paid to the five largest reinsurers of the insurer as a ratio of the total reinsurance premium paid to reinsurers. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Tort** - an injury or wrong committed against an individual. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Total adjusted capital** – see **Available solvency**. [Equivalent terms: *available solvency, available solvency margin, actual solvency margin, statutory solvency margin, available surplus capital, eligible capital, regulatory capital, free capital, total adjusted capital, policyholder surplus, statutory surplus*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Total claim liability** - see **Claims Provision**. [Equivalent terms: *Claims provision, provision for outstanding claims / claims outstanding, claims reserve, total claim liability*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Total disability** - disability which prevents the insured from performing all the duties of his occupation or any occupation; the exact definition varies among policies. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Travel accident policies** - those that are limited to paying for loss arising out of accidents occurring while travelling. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Trespasser** - one who enters property of another without permission. A property owner generally is obligated to avoid intentional injury to trespassers. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Trigger amount** – see **Control level**. [Equivalent terms: *control level, regulatory control level, trigger amount, trigger point, intervention level, impairment level, regulatory action level*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Trigger point** – see **Control level**. [Equivalent terms: *control level, regulatory control level, trigger amount, trigger point, intervention level, impairment level, regulatory action level*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Trust** - transfer of property right to one person called a “trustee” for the benefit of another called a “beneficiary”. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Trust fund plan** - a pension plan administered by a trustee rather than by an insurance company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Twisting** - the act of switching insurance policies from one company to another, to the detriment of the insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Uberrimae fidel** - literally, “of the utmost good faith”. The basis of all insurance contracts – both parties to the contract are bound to exercise good faith and do so by a full disclosure of all information material to the proposed contract. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Umbrella liability insurance** - a form of excess liability insurance available to corporations and individuals protecting them against claims in excess of the limits of their primary policies or for claims not covered by their insurance programme. This later coverage requires the insured to be a self-insurer for a substantial amount (\$10,000-\$25,000). [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Underinsured motorist coverage** - a form of automobile coverage that pays for bodily injury to insured persons by a motorist who has insurance that meets the requirements of the financial responsibility law, but is insufficient to cover the loss sustained by the insured. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Underwriting** - the process by which an insurance company determines whether or not and on what basis it will accept an application for insurance. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Underwriting year basis** - accounting figures – for instance, claims incurred – are based on the contracts underwritten in the accounting period. Other related definitions: claims incurred. [Source: *Enhanced Disclosure Subcommittee Guidance Paper, February 2004*]

**Unearned premium** - that portion of the original premium for which protection has not yet been provided because the policy still has some time to run before expiration. A property and liability insurer must carry unearned premiums as a liability on its financial statement. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Unearned premium reserve** - see **Provision for outstanding claims** – see **Claims provision**. [Equivalent terms: *Claims provision, provision for outstanding claims / claims outstanding, claims reserve, total claim liability*]. [Source: *Solvency Subcommittee – Issues Paper March 2000*]

**Provision for unearned premiums**. [Equivalent terms: *provision for unearned premiums, unearned premium reserve*] [Source: *Solvency Subcommittee - Issues Paper March 2000*]

**Uniform provisions** - statutory policy provisions which specify the rights and obligations of the insured and company. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Uninsured motorist coverage** - uninsured motorist coverage a form of automobile insurance that pays for bodily injury to an insured person by a motorist who is uninsured, a hit and-run driver, or a driver whose insurer becomes insolvent. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Universal life insurance** - a flexible premium life insurance policy under which the policyholder may change the death benefit from time to time (with satisfactory evidence of insurability for increases) and vary the premium payments. Premiums (less expense charges) are credited to a policy account from which mortality charges are deducted and to which interest is credited at rates which may change from time to time. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Unsatisfied judgement fund** - a state fund created to reimburse persons injured in automobile accidents who cannot collect damages awarded to them because the responsible party is either insolvent or uninsured. Such funds are often financed by an addition to the regular automobile registration fee and will only pay unsatisfied judgments up to fixed limits. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Usual, Customary, and Reasonable (UCR) charges** - in health insurance. an approach to benefits under which the policy agrees to pay the “usual, customary and reasonable” charges for a procedure, rather than a stipulated dollar amount. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Value at risk** - A measure of the potential financial loss in the investment portfolio or on the whole balance sheet. Value at risk provides an estimate of the worst expected loss over a certain period of time at a given confidence level. For example, a 12 month value at risk with a 95% confidence level of \$1 million means that an insurer would only expect to lose more than \$1 million 5% of the time or once in 20 years. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Value at risk (VaR) models** - systems which use statistical approaches to determine the value at risk of all or part of an insurer's operations. [Source: *Investments Subcommittee Guidance paper on investment risk management – October 2004*]

**Valued policy** - an insurance contract in which the value of the thing insured and the amount to be paid in case of total loss is settled at the time of making the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Valued policy law** - a state statute that specifies that in the event of a total loss, the insured shall receive in payment the full amount of the policy, regardless of the principle of indemnity. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Vanishing premium policy** - a participating whole life policy on which dividends are allowed to accumulate until accumulated dividends plus future dividends are sufficient to pay all future premiums under the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Variable annuity** - an annuity contract under which the amount of each periodic payment fluctuates according to the investment performance of the insurer. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Variable life insurance** - life insurance under which the benefits are not fixed but relate to the value of assets behind the contract at the time the benefit is paid. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Variable universal life** - a form of life insurance (also called Universal Life II) that combined the flexible premium features of universal life with the investment component of variable life. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Vesting** - a provision that a participant in a pension plan will, after meeting certain requirements, retain the right to the benefits he or she has accrued. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Vicarious liability** - in law, liability arising out of imputed negligence. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Void** - of no force or effect: null. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Waiting period** - a provision designed to eliminate disability claims for the first number of days specified for each period of disability: the waiting period may run from three days to as long as one year: this term is also sometimes used to refer to a period of time after policy issuance during which specified conditions are not covered. [Equivalent terms: *elimination period, probation period*] [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Waiver** - the voluntary relinquishment of a known right. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Waiver of premium (benefit)** - a provision which waives payment of the premium which becomes due during a period of covered total disability which has lasted for a specified period of time, usually, three to six months. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Warranty** - a statement concerning the condition of the item to be insured which is made for the purpose of permitting the underwriter to evaluate the risk; if found to be false, it provides the basis for voidance of the policy. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Whole life insurance** - insurance payable to a beneficiary at the death of the insured wherever that occurs: premiums may be payable for a specified number of years (limited-payment life) or for life (straight life). [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Withdrawal (of a license)** - removal of a license by the insurance supervisory authority.

**Workers' compensation** - a system of providing for the cost of medical care and weekly payments to injured employees or to dependants of those killed in industry in which *Absolute liability* is imposed on the employer, requiring him or her to pay benefits prescribed by law. [Related definitions: *Absolute liability, Employer's liability*]. [Source: *Training Manual Original Glossary (Butterworth – July 2000)*]

**Written premiums** - the premiums on all policies which a company has issued in some period of time, as opposed to “earned premiums”. [Source: *Training Manual Original Glossary* (Butterworth – July 2000)]

**Zillmerisation** - a modification of the net premium method for valuing a life assurance policy which increases the future premiums valued to take account of acquisition costs incurred.