# Glossary of Insurance Terms

*Expert knowledge means success*

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# Introduction

We have compiled this glossary of terms to assist you to understand the "jargon" which is used in insurance. This glossary is limited to Insurance Terms but we publish several other glossaries as well – check our website or call us for details.

# Insurance Terms

With acknowledgement to the Association of British Insurers – www.abi.org.uk)

- **Accident and Health -** Including two main types of business - personal accident and medical expenses. Personal accident policies will pay a lump sum or weekly benefits in the event of accidental death or a specified injury e.g. loss of arm. Medical expenses insurance will pay the costs of treatment for acute conditions.
- **Act of God -** An event that is not the fault of any individual. Acts of God can be insurable.
- **Actuary -** A professional person qualified to apply mathematical principles to solving long-term financial problems.
- **Additional Premium -** A further premium payable by the insured as a result of policy endorsement that may have increased the risk or amended the policy conditions or sum insured.
- **Additional Voluntary Contribution (AVC) -** An additional contribution made voluntarily by a pension scheme member to boost his/her eventual retirement income. See also **Free-standing AVC.**
- **Advance Profits Insurance - Business interruption** insurance of the expected profits of a new enterprise or an extension to an existing business.
- **Agent -** A person who acts for one or small number of companies, particularly in selling insurance.
- **Aggregate Limit of Indemnity -** The maximum amount an insurer will pay under a policy in respect of all accumulated claims arising within a specified period of insurance.
- **All Risks -** Wider cover than given under a normal property insurance policy. Covers any loss or damage apart from exclusions stated in the policy.
- **Annual Business -** Business written and renewable on an annual basis
- **Annual Premium -** See **Regular Premium**
- **Annuity -** An arrangement by which a life company pays someone a regular income, usually for life, in return for a lump sum payment. See also **Contingent Annuity**, **Deferred Annuity**, **Purchased Life Annuity** and **Pension Annuity**.
- **Appointed Representative** - A firm or person who acts as agent for a 'principal' that is itself authorised by the FSA and that accepts responsibility for the representative's activities.
- **Assets -** Your money, and things that you own which are worth money, such as house or shares.
- **Assistance -** The provision by an insurer or a service company of immediate practical help to resolve an insured problem (e.g. arranging medical treatment abroad/organising a roadside repair).
- **Assurance -** See **Insurance**.
- **Authorised Insurer -** An insurance company authorised under the Insurance Companies Act 1982 to carry on one or more classes of insurance business in the UK, and supervised by FSA.
- **AVC -** See **Additional Voluntary Contribution**.
- **Average -** A policy condition that requires the amount of a claim payment to be reduced proportionately if the policyholder has not insured his property for the full amount of its value or replacement cost.
- **Banks/Building Societies -** Banks and building societies often provide insurance policies that may be underwritten by either themselves or by an established insurer.
- **Base rate -** The interest rate set by the Bank of England to which loan and mortgage rates may be linked.
- **Basic rate tax -** The basic rate of income tax, currently 20%.
- **Beneficiary -** Someone who benefits from a will, a trust, a pension fund or a life insurance policy.
- **Benefit -** The money paid by the life insurance company when a claim is made.
- **Betterment -** The principle by which a claimant has to make a payment towards the cost of the claim because his or her property will be in better condition after repair than before the loss or damage occurred.
- **Bid price -** The price you get when you sell units in an investment fund.

- **Bid / offer spread -** Customers buying units in an investment fund pay the 'offer' price. Customers selling units get the lower 'bid' price. The difference between the two prices is the charge the manager makes.
- **Bonus -** Amount of money added to the guaranteed part of the sum insured of a **With Profit Insurance** policy. It may be added during the term of the policy (yearly or reversionary) or when the policy matures (final or terminal), or both.
- **Broker -** An insurance intermediary who advises his clients and arranges their insurances or investments.
- **Buildings Insurance -** A policy covering the structure of a house or other building against a number of different risks.
- **Business Interruption -** See **Consequential Loss**.
- **Cancellation -** The process whereby units are cancelled to pay for certain expenses of unit linked funds.
- **Capacity -** The measure of an insurer's ability to write new business. It depends on the maintenance of adequate reserves to service its financial liabilities.
- **Captive Insurer -** An insurance company set up by an industrial or commercial company, for example an oil company, to provide insurance to that company only.
- **Cash-in value -** The amount you might get if you cash in an investment.
- **CAT Standards -** CAT stands for Charges, Access and Terms. CAT standards were introduced by the Government on **ISA**s in order to help customers choose some financial products.
- **Certificate -** Document issued by insurers as evidence that insurance is in force to meet the requirements of the law (notably for motor and employers' liability insurance).
- **Chain Brokers & Telebrokers -** Brokers with a chain of offices (more than 10) and/or an intermediary service using the telephone as the primary means of contact with the customer.
- **Claim -** When a policyholder or beneficiary seeks payment or settlement under the terms of a policy.
- **Claim Frequency -** The number of claims made per policy year.
- **Claims and Underwriting Exchange -** Computerised register of information from proposal, claims and renewal forms, shared by insurers as part of their efforts to combat fraud.
- **Claims Equalisation Reserves -** Funds set aside by insurers to cover the extra claims made during years when losses are severe.
- **Claims Incurred -** The amounts paid during the year plus the amounts outstanding at the end of the year, less amounts outstanding at the start of the year. The claims incurred figure shown in the revenue account tables is net of reinsurance recoveries.
- **Claims Ratio -** See **Operating Ratio**.
- **Co-Insurance -** An arrangement whereby a number of separate insurance companies share in the cover of one particular risk.
- **Collective Investment Scheme** - The name given to schemes such as unit trusts, investments trusts and OEICS, where investors' money is pooled. The aim of collective investment is to give investors an interest in a wider range of securities than would be available to them if they were to invest individually.
- **Collective Life Policy -** A group life policy that does not relate to a scheme established by an employer for the benefits of employees. Commonly used by credit companies to cover loans made.
- **Commercial Business -** Any policy taken out by a company, partnership or organisation to cover their trade, business or profession.
- **Commission** - Money paid by an insurance company to a broker/intermediary/agent for selling policies.
- **Common Law -** The common law consists of the ancient customs and usages of the land, which have been recognised by the courts and given the force of law. It is in itself a complex system of law, both civil and criminal, although it is greatly modified and extended by statute law and equity. It is unwritten, and has come down in the recorded judgements of judges who for hundreds of years have interpreted it.
- **Company Agents –** Any persons selling insurance on behalf of one or a small number of companies, but not necessarily employed by the company.
- **Company Representatives –** Agents appointed by a life insurance company who are authorised to sell only that company's products.
- **Company Staff -** All employees of insurance companies acting as company agents, including agents of home service offices.
- **Composite Insurer -** A company that transacts both life and non-life insurance.

- **Comprehensive Cover -** A policy covering a number of types of loss or damage. The term is used mainly in motor insurance, where it means that, in addition to third party cover (see **Non-comprehensive Cover**), the policy provides compensation to the policyholder if the insured vehicle is destroyed or damaged by accidental means. Policies may also offer additional benefits such as medical expenses and legal costs.
- **Concealment -** Deliberate suppression by a proposer for insurance of a material fact relating to the risk, usually making the contract null and void.
- **Condition -** Part of a policy stating that certain rules must be followed, for example, the duty to take reasonable care to protect property, or to report claims to the insurance company promptly.
- **Consequential Loss -** Insurance covering the loss of profits of a business and certain other costs resulting from fire or other insured events. Also known as **Business Interruption**.
- **Construction & Engineering -** Business covering Contractors All Risks, Engineering All Risks, Computer policies and Inspection.
- **Contents Policy -** A policy covering the contents of a home or other building against a number of different risks.
- **Contingent Annuity -** An annuity paid if a certain event (or events) happens.
- **Contracted-out -** Someone who is contracted out of the State Second Pension (S2P), formerly known as the State Earnings-Related Pension Scheme (SERPS).
- **Contribution -** The principle of contribution applies where a risk is insured on more than one insurance policy (for example on a travel and household policy), and the two insurers concerned may share the cost of any claim.
- **Convertible Term** - A term insurance policy which gives the policyholder an option to convert the policy to a whole life or endowment insurance without giving further evidence of health.
- **Cover Note -** A document giving temporary evidence of cover while the policy and certificate are being prepared.
- **Credit Insurance -** A form of protection to traders and manufacturers against financial losses caused by the insolvency or default of their customers to whom credit has been granted for either the sale of goods or for the completion of work.
- **Creditor -** A policy providing protection against the inability to repay a loan, a credit card balance or a mortgage.
- **Critical Illness Insurance** - A policy where the insurer pays the sum insured in the form of a lump sum to the policyholder in the event of diagnosis of a life threatening disease e.g. certain cancers or heart disease. This type of cover can exist as a **Rider Benefit** or as a stand-alone policy.
- **Death in Service Benefit -** A policy taken out by an employer to pay a benefit to the estate of an employee if they were to die during their employment.
- **Decreasing Term -** A term insurance policy in which the sum insured reduces steadily every year, decreasing to nothing at the end of the term.
- **Deductible -** The specified amount a loss must exceed before a claim is payable. Only the amount that is in excess of the deductible is recoverable.
- **Deferred Annuity –** An annuity which starts after a specified number of years or at a specified age (usually on retirement), usually continuing through the policyholder's life.
- **Defined Benefit Scheme -** A scheme where pension benefits are usually a fixed proportion of final salary and calculated using number of years in 'pensionable service'. Also known as a **Final Salary Scheme**.
- **Defined Contribution Scheme -** A scheme where pension contributions are at agreed rates, the final benefit being dependent on the value of the fund built up by the contributions paid. The fund is then used to purchase a pension annuity on retirement. Also known as a **Money Purchase Scheme**.
- **Direct -** Insurance sold without the intervention of an intermediary. Included in this category are sales via newspaper advertisements, telephone sales and business through branch offices.
- **Disability Benefit -** Certain life policies will pay out if the policyholder becomes permanently disabled. No further benefit is paid on the policyholder's subsequent death. See also **Critical Illness Insurance**.
- **Distribution Bond -** A single premium investment policy. The funds are invested in equities and gilts and an income is paid each year to the policyholder, dependent on the performance of the investments.
- **Domestic Business -** See **Personal Lines**.

- **DSS (or DWP) Rebate -** A contribution paid into a **Personal Pension** scheme (or a **Free-standing AVC** scheme) by the DSS (or DWP), consisting of a partial rebate of National Insurance contributions by employers and employees, together with tax relief on the employees' portion.
- **Earned Premium -** The amount of the premium that relates to the proportion of the policy term that has already run its course.
- **Employers' Liability -** A compulsory class of insurance that all employers must have to cover them against claims by employees who are injured at work.
- **Endorsement -** A written change to an insurance policy which becomes part of it.
- **Endowment Policy -** A life insurance policy which pays a sum of money after an agreed period of time, or on the death of the life insured, whichever happens first.
- **Equalisation Reserves -** Funds set aside by insurers to cover the extra claims made during years when losses are severe.
- **Equities** - Shares in a company that entitle the owner to some of the profits or earnings the company makes. Equities may or may not be listed on the stock exchange.
- **Ex Gratia Payment -** Any payment made by an insurance company which is not strictly necessary, under the terms of the policy.
- **Excess -** An amount of money that the policyholder has to pay towards the cost of a claim, for example, the first £50.
- **Excess of Loss Policy -** Covers claims costs exceeding an amount specified in the policy.
- **Exclusion -** Specified property, person or event that the policy does not cover.
- **Executive Pension Plan -** A pension plan where each premium paid is identifiable to an individual employee, and where an employer has discretion as to whether a pension arrangement is made for a particular employee and to the level of contribution or target benefit under the policy.
- **Expenses -** Costs incurred in the running of the business, including commission paid to sales staff.
- **Expenses Ratio -** See **Operating Ratios**.
- **Export Credit Insurance -** A policy providing cover for exporters' losses arising from non-payment.
- **Exposure -** Whether, and the extent to which, an insurer is subject to losses arising from a particular risk.
- **Extended Warranty Insurance -** A policy that allows the manufacturer's warranty on a product to be extended for a further period of time.
- **Facultative Reinsurance -** Reinsurance that is individually arranged on a particular risk. The terms on which it is accepted are subject to negotiation and the reinsurer is thus able to accept or reject the risk offered.
- **Family Income Policy** - A type of term insurance policy which, on the death of the life insured, pays out a regular amount until the end of a specified period.
- **Fatal Accident Benefit -** Certain life policies will make an additional payment - over and above the sum insured - if the policyholder dies as a result of an accident.
- **Fidelity & Contract Guarantee –** Insurance which provides cover to businesses to reimburse them for theft or other misappropriation of money or stock by staff. Contract Guarantee provides cover for financial loss caused by failure to complete a contract on time.
- **Final Salary Schemes -** See **Defined Benefit Schemes**.
- **Financial Ombudsman Service** - An organisation established by major insurance companies to settle disagreements between customers and companies. The service oversees the interests of policyholders whose complaints remain unsolved through normal company channels of communication. The service is available to all those holding personal cover. The decision of the Ombudsman is binding on the insurer, although the insured may appeal to the court if he so wishes.
- **Financial Services Authority** - The Financial Services Authority (FSA) is an independent non-governmental body, given legal powers by the Financial Services and Markets Act 2000 to regulate the financial services industry in the UK.
  Also see the FSA's **Glossary of Definitions** for their handbook.
- **Financial Services Compensation Scheme (FSCS)** – the FSCS is the compensation fund of last resort for customers of authorised financial services firms. The FSCS deals with claims against authorised firms (those regulated by the Financial Services Authority (FSA)) that are unable, or likely to be unable, to pay claims against them. The maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is £50,000 per person per firm. The maximum level of compensation for claims against firms declared in default

before 1 January 2010 is 100% of the first £30,000 and 90% of the next £20,000 up to £48,000 per person per firm.

- **Fire Claim -** A claim arising from damage caused by fire and explosion following fire.
- **First Loss Insurance -** Insurance where the sum insured is accepted to be less than the value of the property but the insurer undertakes to pay claims up to the sum insured, without application of average.
- **Foreign Controlled Company –** a company whose ultimate parent (by-passing the existence of a UK holding company) owns more than 50% of the UK company or subsidiary.
- **Free Reserves -** Money which companies have available which is not ear-marked for any specific known liability, and so would be available to meet unexpected occurrences.
- **Free-standing AVCs (FSAVCs) -** Additional contributions paid voluntarily into policies similar to personal pensions by employees in occupational schemes, who wish to top up their pensions, but keep the money separate from the occupational scheme.
- **Freedom of Services -** This European Directive gives the freedom to insurance companies and their branches (UK or overseas) authorised in one EEA country to write business in any other EEA country without having to receive authorisation from the supervisory authority in that country.
- **Friendly Society** - Similar to a **Mutual** insurance company. A friendly society is owned by and established for the benefit of its members, mainly through the provision of life insurance and sickness benefit.
- **Fully Contracted-out** - See **Rebate Only**.
- **Funded Business -** Business written under a system of accounting whereby each year's risks are allowed to run off for typically 3 years (but may be 2, 4 or even 5 years), after which the account is closed, and an amount transferred to the **Profit & Loss Account**.
- **General Insurance -** Insurance of (non-life) risks where the policy offers cover for a limited period, usually one year.
- **General Liability -** Liability insurance covers the policyholder's legal liability for injury, property damage or financial loss caused to others.
- **Green Card -** A document issued to policyholders motoring abroad as evidence that they have the minimum insurance cover required by the law of the country visited. No longer required for European travel, because minimum legal cover is now automatically included in UK policies.
- **Gross Premium -** Generally defined as a premium quoted gross of reinsurance ceded, but net of reinsurance accepted. The exception to this is for Non-MAT Reinsurance data where Gross Premium is inclusive of **reinsurance** accepted.
- **Group Income Protection -** As for **Income Protection**, but the premiums are paid for by the employer. Also known as **Group Permanent Health Insurance**.
- **Group Life -** A term that relates to the provision of lump sum **Death in Service Benefit** for groups of employees.
- **Group Permanent Health Insurance -** See **Group Income Protection**.
- **Group Personal Pension -** An arrangement made for the employees of a particular employer to participate in a personal pension scheme on a group basis. This is merely a collecting arrangement and not a separate, or occupational, pension scheme.
- **Group Sponsored Scheme -** A scheme set up by an employer for the benefit of their employees to provide life cover or a pension, on retiring, or both. It includes **Defined Benefit Schemes**, **Defined Contribution Schemes**, **Group Life Schemes** and **Executive Pension Plans**.
- **Guaranteed Bond -** Most guaranteed bonds are based on single premium, non-qualifying, without-profit endowment policies. A policyholder pays a lump sum into a guaranteed income fund and receives a guaranteed sum at the end of each year for a specified number of years.
- **Guaranteed Equity Product -** A single premium investment policy where the funds are linked to the equity index. "Lock-in" points are often incorporated into the policy, so that once a fund reaches a particular level (e.g. 10% dividend), the policyholder is guaranteed that dividend at the end of the term.
- **Holiday Insurance -** A policy covering certain risks connected with holidays. Usually includes cover for the costs of unavoidable cancellation, personal accident, medical treatment abroad and lost or stolen luggage.
- **Home Foreign Policy -** A policy that provides insurance cover where the business is written in one country, although the risk is actually situated abroad.
- **Home Service Business -** See **Industrial Branch**.

- **Household Business -** Includes insurance of both domestic structure and contents, together with any 'add-ons' included within the policy such as legal expenses and public liability.
- **Illustration** - An estimate of how much a particular investment may be worth in the future.
- **Immediate Annuity -** See **Purchased Life Annuity**.
- **Impaired Life Annuity** – An annuity payable to someone with a significant impairment which reduces their life expectancy. An impaired annuity pays out a higher regular amount than a normal annuity.
- **Impaired Lives Register -** Lists individuals who have been refused, or charged more for, life insurance, for medical reasons.
- **Inception Date** - The date when cover under a policy starts.
- **Income drawdown** - A way of taking regular income directly from a pension fund instead of buying an **annuity** straight away.
- **Income Protection Insurance** - A policy which pays an income for as long as the policyholder is unable to work as a result of accident or illness. The cover usually lasts until retirement. Also known as **Permanent Health Insurance**.
- **Increase in Cost of Working -** Under a business interruption policy some cover is provided for additional expenditure incurred by the insured solely for the purpose of reducing the shortage in production following an insured event.
- **Increasing Term -** A term insurance policy in which the sum insured increases each year by a fixed percentage of the original sum insured. Designed to increase policyholders' life cover as their earnings increase.
- **Indemnity -** The principle by which policyholders are put in the same financial position after a loss as they were immediately before it.
- **Independent Financial Adviser** - Adviser authorised to recommend or sell the products of any insurance or investment firm.
- **Independent Intermediary -** See **Intermediary**.
- **Index-linked** - Insurance where the amount of cover changes automatically in line with an index. Examples are the cost of rebuilding a house or replacing its contents.
- **Individual Policy** - Insurance taken out by an individual on his or her own life or by an individual or legal person on the life of another.
- **Individual Savings Account (ISA)** - A savings vehicle that allows customers to invest in equities, life assurance policies or save in cash without having to pay tax on the returns gained from them.
- **Industrial Branch -** Life insurance where premiums are collected by an insurance company agent at the policyholder's home, at intervals of less than two months, often for a relatively small amount. Whole life and Endowment contracts are the only types of business written in the Industrial Branch. Also known as **Home Service Business.**
- **Insurable Interest** - A principle of insurance which states that you may only take out insurance if you would suffer a financial loss if the event covered by the policy happens. Individuals have an unlimited insurable interest in their own life and that of their husband or wife.
- **Insurance** - A service that offers financial compensation for something that may or may not happen. Originally the term 'assurance' was generally used for life insurance, but now the two words are interchangeable.
- **Insurance Company** - A company that takes on risks under the policies it sells in return for the payment of premiums. Companies may be 'mutual' (owned by the policyholders) or 'proprietary' (owned by the shareholders).
- **Insurance Premium Tax (IPT) -** A tax imposed on most non-life insurance premiums.
- **Insured** - A person covered by an insurance policy.
- **Insured Turnover -** The amount of turnover that a company has insured.
- **Insurer** - See **Insurance Company** and **Lloyd's of London**.
- **Intermediary** - Person or organisation that doesn't offer their own products but advises on or sells products from product providers such as insurance or investment firms.
- **Investment -** The act of allowing someone else to have use of your money in return for payment of interest and/or a share in profits that may be made.
- **Investment Income -** Income earned on the money held by insurers on behalf of policyholders, having been received in premiums but not yet paid out on claims.
- **Investment Company with Variable Capital (ICVC)** - Another name for an **Open Ended Investment Company (OEIC)**.
- **Investment Funds** - The general name for life funds used for savings and investment plans.

- **Investment Trusts** - A type of **Collective Investment Scheme**. Investment trusts differ from **Unit Trusts** in that they can take on debt in order to buy more assets to try to exploit upward movements in the market. Of course, this can work the other way if the market goes down.
- **Invisibles -** Income received by a nation from trading in services rather than goods.
- **Joint Life** - Where a plan covers two or more people. Payment of the benefits may depend on what happens to just one of them, or to all of them.
- **Joint Life Annuity -** An annuity that will pay out to a partner after the policyholder's death.
- **Key Features** - A document that insurance and investment firms must produce, by law, that sets out the main features of the plan.
- **Key Person Insurance -** In the event of the death of a key employee on whom the business depends for its continued profitability, or even existence, this type of cover provides a sum of money which can be used to pay for the cost of finding and training a successor, and to compensate for reduced profitability.
- **Lapse** - The non-renewal of a policy for any reason.
- **Latent Disease -** An illness that lies dormant for some years before manifesting itself.
- **Legal Expenses Insurance -** Covers the cost of legal proceedings in circumstances defined in the policy.
- **Level Premium** - Premium that stays at the same amount throughout the term of a policy.
- **Liability -** Legal responsibility for causing loss to someone else by injuring them or damaging their property.
- **Life Assurance Premium Relief** - Tax relief on life insurance premiums. Applies only to policies taken out before 14 March 1984.
- **Life Expectancy** - The length of time a person is likely to live, taking into account such factors as their present age, gender, health and occupation.
- **Life Fund** - The pool of money, maintained by an insurance company, into which all its life insurance policyholders' premiums are paid and out of which all claims are paid.
- **Life Insurance - Long-term** policies which pay out on death or, in some cases, on earlier maturity of the policy, eg **Endowment**, **Term**, or **Whole Life** policies.
- **Linked** - Describes any plan where the value of you insurance, savings or investment goes up or down in line with the price of units in a fund.
- **Lloyd's Members -** Individuals on whose behalf Lloyd's of London policies are issued. They pledge all their personal wealth to pay losses. Corporate members were also introduced in 1994.
- **Lloyd's of London -** An insurance market organised into syndicates, which underwrites most types of policy.
- **Loading** - An extra premium you are charged because of a higher risk such as poor health or dangerous job.
- **London Market -** A distinct, separate part of the UK insurance and reinsurance industry centred on the City of London. It comprises insurance and reinsurance companies, Lloyd's syndicates, protection and indemnity clubs (originally created to serve the marine industry), and brokers who handle most of the business. There is general agreement that the core of its activity is the conduct of internationally traded insurance and reinsurance business.
- **Long Term Care Insurance** - Pays for some or all of the agreed costs of long-term care. Intended mainly to cover the costs of elderly people being looked after either at home or in residential care.
- **Long-term Insurance** - Life insurances and pension plans that can last for many years.
- **Loss -** Another term for a **Claim**.
- **Loss Adjuster -** A person, independent of an insurance company but engaged and paid by it, who checks that a claim is covered and negotiates with the policyholder the amount payable for a claim.
- **Loss Assessor -** A person who negotiates claims on behalf of policyholders.
- **Managed Funds** - Investment funds, that can also be used for life insurance and pension plans, where the managers spread the investments across a range of assets including company shares, government stocks and property.
- **Marine, Aviation & Transport (MAT) -** The class of insurance which covers damage to both the hull and cargo of ships or aeroplanes, along with the liability for property damage, injury and death to passengers and others. Indemnities are also provided for the goods that may be lost or damaged whilst in transit.

- **Market Value Excess of Investments -** This is the difference between the market value and the book value of a company's investments.
- **Market Value Reduction**- A reduction in the value of a claim on a Unitised With-Profits Policy in order to reflect fairly the movement of assets underlying the policy.
- **Material Fact** - A fact that would influence an insurer's decision on whether to issue a policy, and on what terms and conditions. You must state any material facts when you apply for cover.
- **Maturity** - An agreed date when a life or pension policy comes to an end and the value is paid out.
- **Mechanical Breakdown Insurance -** Covers against the cost of breakdowns of household appliances or motor vehicles.
- **Minimum Income Guarantee (MIG)** - This was a means-tested benefit that helped individuals on low incomes at retirement. It has now been replaced by the Pension Credit.
- **Money Purchase Schemes -** See **Defined Contribution Schemes**.
- **Mortgage Indemnity Insurance -** Provides cover for a mortgage lender for any loss they might suffer as a result of a property on which they provided a loan being sold for less than the amount of the loan.
- **Mortgage Payment Protection Policy -** A type of **Creditor** insurance that covers the policyholder against the inability to make repayments due to accident, sickness and/or unemployment
- **Mortgage Protection Policy** - Life insurance designed to pay off the outstanding mortgage if you die before the end of the mortgage term.
- **Mortgage-Related Policy -** A policy used both to provide protection for a mortgage loan and as a savings vehicle to repay the loan at maturity.
- **Motor -** Motor policies cover the legal liabilities arising from the use of a motor vehicle. Private car, motorcycle, commercial vehicles and fleets are all included within this category. **Comprehensive** policies also cover damage to the vehicle.
- **Motor Insurance Anti-Fraud and Theft Register -** Computerised record of claims for stolen or written-off vehicles. Used by insurers to detect multiple, and therefore fraudulent, claims.
- **Mutual** - An insurance company which is owned by its policyholders.
- **National Brokers -** Intermediaries with a national presence, whose clients are often corporate bodies and have departments specialising in different sectors of the market.
- **Negligence -** Perhaps the most common form of tort. In Blyth v Birmingham Waterworks Co. (1856) it was defined as 'the omission to do something which a reasonable man guided by those considerations which ordinarily regulate the conduct of human affairs would do, or doing something which a prudent and reasonable man would not do'. Gives rise to civil liability.
- **Net Assets -** The excess of an insurer's assets over its liabilities.
- **Net Premium -** A premium net of reinsurance ceded but gross of commission, and excluding premium tax.
- **Net Relevant Earnings** - Are used to determine the maximum contributions to a Retirement Annuity or Personal Pension.
- **New-For-Old -** Cover for property where an item lost or destroyed would be replaced with a brand new one, with no deduction for wear and tear. Also called **Replacement-as-New**.
- **No Claim Discount (or Bonus) -** A reduction in a renewal premium to reflect a claim-free record; used most often in motor insurance.
- **Non-comprehensive Cover -** A policy covering a limited number of types of loss or damage. The term is mainly used in motor insurance, where a vehicle may have RTA cover – the minimum cover provided by the Road Traffic Act; third party cover, which indemnifies the policyholder for damage caused to other people's property and injury that may be caused to others; or third party, fire and/or theft cover which additionally provides compensation to the policyholder if the insured vehicle is destroyed or damaged by fire and/or theft.
- **Non-Disclosure** - Where you or anyone acting for you, fails to state a **material fact** when applying for insurance.
- **Non-Linked -** Life insurance policies that are non-linked receive their investment income in the form of "bonuses", paid out of the total income earned by the insurance company on its pooled fund, and are also known as "with-profits". The value of the saver's fund thus depends on the amount he/she has bought and the amount of bonuses added. Once added, bonuses cannot be taken away, making these policies generally less volatile than linked policies.

- **Non-proportional Treaty Reinsurance -** This relates to the whole of a certain class of business and is a way of limiting the loss made by the ceding office.
- **Not Contracted-out -** Someone who is not contracted out of the State Earnings-Related Pension Scheme (SERPS).
- **Occupational Pension Scheme -** A scheme set up by employers for the benefit of their employees. Contributions will be paid by the employer, and often by employees, and employers may delegate responsibility for the running of their pension scheme to an insurance company. See also **Defined Benefit Schemes** and **Defined Contribution Schemes**.
- **One/Three Year Account -** Insurance cover is provided for a period of time agreed in the policy, in the case of general insurance, usually one year. Where all claims arising from a policy are quickly identified and dealt with, the insurer can close the books on that policy soon after the period of cover has ended and calculate the underwriting profit or loss made. This business can then be accounted for on a one-year basis. Where claims are not identified and dealt with so quickly, as is typical for marine, aviation and transport (MAT) and reinsurance, the business may be accounted for on a two or three year basis.
- **Open-Ended Investment Company (OEIC)** - A type of **Collective Investment**, similar to a **Unit Trust**.
- **Open Market Option** - An option to move the value of your pension fund at retirement to another company or pension provider - usually to purchase a higher amount of pension income known as an Annuity.
- **Operating Ratios -** Figures showing ratios of claims, expenses and underwriting in relation to premium income.
- **Ordinary Branch -** Life insurance and pensions business where the premiums are usually paid through the banking system by cheque, standing order or direct debit.
- **Other' Company Agents -** Company agents, other than company staff, as defined in the ABI code for general insurance, whether they sell the products of one company, or up to six companies.
- **Other' Independent Agents -** For the purpose of data in this report, any 'non-IBRC registered' independent intermediary as defined in the ABI Code for General Insurance.
- **Other Intermediaries & Brokers -** Intermediaries selling insurance products of seven or more insurers for a particular class of business.
- **Outgo -** The total expenditure of an insurer in relation to any class of insurance business, comprising the cost of claims and the insurer's business expenses, including any commission paid to sales staff, **Brokers** or **Intermediaries**, together with amounts set aside for **Reserves**.
- **Partially Contracted-out -** Pension policy that receives both a premium from the policyholder and a DSS (DWP) rebate.
- **Pecuniary Loss -** This class of business loss relates to financial losses that may have occurred, e.g. **Consequential Loss** and **Mortgage Indemnity** policies.
- **Pension** - Regular income you get after you retire.
- **Pension Annuity -** An annuity which become payable on the maturity of a pension policy. A pension annuity converts a pension fund into pension income ie the income to be paid until death. You buy an annuity with your pension fund from an insurance company.
- **Permanent Health Insurance -** See **Income Protection**.
- **Persistency** - The rate at which policyholders keep their policies with a life insurer.
- **Personal Accident Insurance -** A policy that pays specified amounts of money if the policyholder is injured in an accident. Depending on the type of disability, the payments may be made weekly, for a set period, or as a lump sum.
- **Personal Equity Plan (PEP) -** An arrangement that allows a policyholder to pay money into a plan managed by a fund manager who then invests the money in equities on behalf of the policyholder. (no longer available)
- **Personal Lines -** Any policy taken out by an individual in his/her private capacity.
- **Personal Pension** - Savings plan, with tax advantages that builds up a fund to give you a regular income when you retire. You can pay in regular amounts, one-off occasional amounts, or both.
- **Pluvius Insurance -** Covers against losses arising as a result of bad weather.
- **Policy** - The document giving full details of the contract between the insurer and the policyholder.

- **Policyholder** - Person or organisation to whom the insurer issues the policy. Normally the person to whom benefits are payable.
- **Pool Re -** A Government-backed reinsurance scheme that meets the cost of claims over £100,000 occurring as a result of terrorist attacks in Great Britain.
- **Premium** - The amount paid by the policyholder for insurance.
- **Private Medical Insurance -** A policy that covers the cost of private medical treatment.
- **Product Liability Policy -** Protects businesses against liability claims resulting from defects in the products they sell.
- **Professional Indemnity -** Provides protection to businesses against errors cause in their professional capacity e.g. solicitors who incorrectly advise clients.
- **Profit & Loss Account -** The financial statement bringing together the **Revenue Account** profit and loss for each class of business, together with investment income and taxation, and shows the company profits to be distributed.
- **Property Damage -** Property policies cover specified property that may be damaged or destroyed by events or perils such as fire, storm or theft.
- **Proportional Treaty Reinsurance -** Agreements in which the reinsured and the reinsurer participate in premiums and losses in a fixed proportion. It can apply to both facultative and treaty reinsurance.
- **Proposal Form** - An application for insurance cover.
- **Proposer** - Person or company who applies to take out insurance.
- **Proprietary Companies -** Those that are owned by shareholders.
- **Provision of Services -** See **Freedom of Services**.
- **Provisions -** See **Reserves**.
- **Public Liability -** The insurance of liability for accidental bodily injury or damage to the property of third parties.
- **Purchased Life Annuity -** A life annuity which commences immediately on, or shortly after, purchase. Also know as an **Immediate Annuity**.
- **Quote -** A statement by an insurer of the premium he will require for a particular insurance.
- **Rate -** The price of insurance, usually expressed as the cost of a unit of cover, e.g. £x per £1,000.
- **Rebate Only** - Personal pension policy where the only premium received is the Inland Revenue rebate paid for contracting out of additional State pension. Also called **Fully Contracted Out**.
- **Regular Premium -** A recurring premium paid over the term of the policy, at intervals specified in the policy, usually monthly.
- **Reinstatement -** Making good. Where insured property is damaged, it is usual for settlement to be effected through the payment of a sum of money, but a policy may give either the insured or insurer the option to restore or rebuild instead.
- **Reinsurance -** Reinsurance is the cover insurance companies can purchase to protect themselves against large losses or an unexpected aggregation of losses.
- **Renewable Single Premium Policy -** Policies under which additional premiums can be paid later to provide increased benefits; these are at the policyholder’s discretion and are non-contractual.
- **Renewable Term** - A term insurance policy which gives the policyholder the option to take out a further term policy without the need for any further evidence of health.
- **Renewal Notice** - Notice sent to the policyholder inviting him/her to renew a policy for a further period and stating the premium payable.
- **Replacement-as-New -** See **New-for-Old**.
- **Reserves -** Money put aside by insurers to meet known or possible future liabilities. They can broadly be divided into **Technical Reserves** and **Free Reserves**.
- **Revenue Account -** The financial statement containing the underwriting results. It usually shows premiums, claims incurred, commission, expenses and the transfer to/from the **Profit & Loss Account.**
- **Reversionary (or Regular) Bonus** - Bonus for with-profits policies, usually added at yearly intervals, during the term of the policy.
- **Risk Management -** The identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
- **Salvage -** A recovery of all or part of the value of an insured item on which a claim has been paid. The insurer will normally dispose of the item and apply the proceeds to reduce the cost of the claim.

- **Savings Policy** - Plan where you make regular payments to build up a lump sum.
- **Schedule** - The part of a policy containing information peculiar to that particular risk. The greater part of a policy is likely to be identical for all risks within a class of business covered by the same insurer.
- **Section 226 Policy -** An 'old style' personal pension that was available only to the self-employed prior to the introduction of **Personal Pensions** in 1988.
- **Segregated Funds -** Assets which do not belong to the insurer and which are excluded from the investment funds. The assets are managed on behalf of the client and normally belong to the trustees of a pension fund.
- **SERPS** - Part of an employee's National Insurance contributions goes into SERPS (State Earnings-Related Pension Scheme), which is paid on top of the Basic State Pension on retirement. The SERPS pension, payable when you reach State pension age, depends on you earnings while you were in employment and the National Insurance contributions paid. SERPS is paid in addition to the Basic State Pension. This was replaced by the **State Second Pension** in April 2002.
- **Services Business -** Business written under **Freedom of Services**.
- **Single Life Annuity** - Annuity based on the life of just one person.
- **Single Premium Policy** - A **Long-term Insurance** policy where the premium is paid in a single lump sum.
- **Solvency Margin -** The excess determined in accordance with the insurance supervisory rules of the insurer's assets over its liabilities. Under those rules, this is required to be not less than a prescribed minimum.
- **Solvency Ratio -** The ratio of the net assets of a non-life insurer to its annual net written premiums.
- **Sponsored Individual Scheme -** One where each premium paid is identifiable to an individual employee and where, in addition, the rules allow the employer discretion both as to whether the pension arrangement was made for that employee and to the level of contribution or target benefit under the policy.
- **Stakeholder Pension** - A type of personal pension introduced by the Government in 2001 in order to make it easier for people to save for their retirement. Stakeholder pensions are designed to be simple, cheap and flexible.
- **Stand-alone Critical Illness -** See **Critical Illness**. These are policies where critical illness cover is the primary element of the policy as opposed to being a **Rider Benefit**.
- **State Second Pension (S2P)** - Extra state pension that replaced SERPS in 2002. It is linked to your earnings while you were employed, but only up to a limit that can change from time to time.
- **Statute Law -** Presently the most important source of law is statute law, otherwise known as Acts of Parliament, which may create entirely new law, over-rule, modify, or extend existing principles of common law and equity, and repeal or modify existing Statute law.
- **Subject to Survey -** Phrase used by an insurer to signify provisional acceptance of an insurance pending inspection by a surveyor whose report is necessary to determine the rate and conditions applicable.
- **Subrogation -** The right of an insurer who has indemnified a policyholder to take over any legal rights the policyholder may have had in respect of that particular claim.
- **Subscriber -** A person enrolled in a scheme where a subscription is paid for himself/herself alone or including dependants. For personal business it should relate to the policyholder, and for corporate business, the subscriber is the member, ie the employee within a group scheme.
- **Subsidence Claim -** A claim arising from subsidence, heave and landslip.
- **Sum Insured -** The amount for which property is insured, and the maximum amount that the insurance company will pay for any claim. In life insurance, the amount that is guaranteed to be paid and to which bonuses may be added.
- **Surety Bond -** A guarantee to pay the direct loss and damage suffered as a result of a breach of contractual obligations.
- **Surrender Value** - What you get back if you cash in a life policy before it matures. Not all life policies have a surrender value.
- **Syndicate -** Group of underwriters at Lloyd's.
- **Technical Reserves -** Money put aside to meet specific items, usually for events that have already happened. The four main types of technical reserves are for unearned premiums, unexpired risks, unreported claims and outstanding claims.
- **Temporary Insurance -** See **Term Insurance**.

- **Term Insurance -** Life cover provided for a specified number of years. The insurer only pays out if the policyholder dies within this time.
- **Terminal (or Final) Bonus** - Extra bonus that may be paid for with-profits policies at maturity or if a claim is made.
- **Term Assurance** - Life cover provided for a specified number of years. The insurer only pays out if the policyholder dies within this time.
- **Theft Claim -** One arising from burglary, robbery and theft under the Theft Act 1968 in England and Wales, and burglary, robbery, housebreaking and larceny in Scotland and Northern Ireland.
- **Third Party -** Someone involved in a claim who is neither the policyholder nor the insurer.
- **Third Party Administrator** - An organisation to which an insurance company contracts out administration.
- **Tied agent** - A sales person who sells the policies of only one insurance company. Some sales people are tied to several companies - this is known as a multi-tie.
- **Total Loss -** See **Write-Off**.
- **Trading Result -** An insurer's overall profit/loss calculated as the **Underwriting Result** plus **Investment Income**.
- **Transfer Value -** The amount of the transfer payment which the trustees of a pension scheme allow members to take with them to another scheme or personal pension.
- **Travel Insurance -** A policy that covers a combination of loss of baggage, medical expenses, legal fees, and change in travel arrangements.
- **Treaty Reinsurance -** An agreement between offices whereby the ceding company is bound to cede and the reinsurer bound to accept a share of all risks defined in the treaty.
- **Trust** - An arrangement whereby control over an **Asset** is transferred to a person or organisation (known as the "trustee") for the benefit of someone else (known as "the beneficiary").
- **Trustee**- A person appointed to manage and safeguard the assets of a trust.
- **Underinsurance -** When the sum insured is not enough to cover the maximum possible loss or damage.
- **Underwriter** - Person who decides whether to accept a risk and calculates the premium to be charged.
- **Underwriting Ratio -** See **Operating Ratios**.
- **Underwriting Result -** The profit or loss achieved by an insurer on insurance underwriting activity, calculated as premium income less the cost of claims and the insurer's expenses in connection with that business (ie "outgo"). It has been common for insurers to make underwriting losses since they also receive investment income which generally offsets the underwriting loss.
- **Uninsurable Risk -** A risk where loss is either inevitable (e.g. a house already on fire or a person suffering from a terminal illness) or gradual (e.g. rust and corrosion).
- **Unit Trust -** A trust into which a small investor may buy by acquiring units. The capital collected is invested in various securities in a wide range of markets.
- **Unitised With-Profit** - Contracts where premiums are invested in units, either in the with-profits fund or in linked funds or in a mix of both.
- **Unit-Linked** - See **Linked**.
- **Unit trust** - Investment fund that pools the payments of many individual investors. The fund is split into units of equal value. The unit prices move up and down in line with the value of the fund's investments.
- **Utilities / Retailers / Affinity Groups -** Institutions which sell insurance policies to their customers but it is not their primary product or service. These policies are underwritten by established insurers.
- **Utmost Good Faith** - The principle of insurance which requires proposers to give all relevant information to the insurer and requires insurers to deal openly and honestly with policyholders.
- **Waiver of Premium** - An optional extra on a life, protection or pension policy which means that the insurance company will pay the premiums if the policyholder is unable to because of illness or injury.
- **Warranty Insurance -** This type of insurance provides cover against the cost of repairs to broken down household appliances.
- **Wear and Tear -** This is the amount deducted from claims payments to allow for any depreciation in the property insured that is caused by its usage.
- **Weather Claim -** One arising from burst pipes, storm and weather damage.
- **Whole Life Policy** - A policy where premiums are paid for the rest of an individual's life, or up to a specified advanced age, and benefit is paid on the death of the person insured, whenever that occurs.

- **With Profit Insurance -** Life insurance policies that receive their investment income in the form of "bonuses", paid out of the total income earned by the insurance company on its pooled fund. The value of the saver's fund thus depends on the amount he/she has bought and the amount of bonuses added. Once added, bonuses cannot be taken away, making these policies generally less volatile than linked policies.
- **With-Profit Bonds** - A fund made up of investments like company shares, fixed interest securities, commercial property and money. Policies can be single premium (with-profits bonds) or bought with regular premiums to save for pensions or general savings. With-profits policies usually have regular bonuses added and the eventual payout is usually smoothed to reduce the peaks and troughs of investment performance.
- **With-Profits -** See **Non-Linked**.
- **Write-Off -** A damaged vehicle which is not repairable, or one which would cost more to repair than the car was worth before the damage occurred. Also known as a **Total Loss**.
- **Written Premium -** Premium income due to the insurer on the risks accepted during the year.
- **Yearly Premium** – See **Regular Premium**.

# Further Information

If what you were looking for isn't here, try the business dictionary and business glossary directory at:
www.glossarist.com/glossaries/business/

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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## Important Notice



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