

Glossary definitions

Note: the ICP material will contain links to glossary definitions

Term	Revised Glossary definition
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.
Actuarial report	A written report provided by the actuary on one or more aspects of the company's operations (for example, the company's calculation of premiums and/or technical provisions etc).
Aggregate excess of loss reinsurance (Stop-loss)	This method of reinsurance provides reinsurer indemnification to the ceding company for the aggregate amount of losses during a specific time frame up to a predetermined limit or percentage. For these situations, the ceding company will be expected to provide documentation to the reinsurer of the premiums collected and the losses sustained.
Alternative risk transfer (ART)	Any form of risk transfer that includes at least an element of insurance risk, rather than purely financial risk. Possible features of ART include, but are not restricted to: <ul style="list-style-type: none"> • Tailor-made solutions • Multi-year policies • Often the coverage of risks that the conventional market would regard as uninsurable • Often the inclusion of some form of risk transfer of non-insurance risk The definition of ART includes, but is not restricted to, finite reinsurance and securitisation of insurance risks. [Related definitions: <i>Reinsurance</i>]
Asset-liability management (ALM)	The practice of managing an insurer so that decisions and actions taken with respect to assets and liabilities are coordinated through the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve an insurer's financial objectives, given its risk tolerances and other constraints
Auditor's report	Written opinion expressed by the auditor on his/her examination of the company's general purpose financial reports.
Automatic life reinsurance	Similar to non-life "treaty" reinsurance. In automatic reinsurance, the ceding company is able to bind the reinsurer on a risk without submitting an application for reinsurance provided certain conditions are met. These conditions vary by agreement, but typically obligate the ceding company to keep retention on the life, limit the amount of insurance on a life that may be ceded, and limit the overall amount of insurance that may be in force on the life issued by all life insurers. The ceding company may be required to notify the reinsurer of automatic reinsurance arrangements through specific cessions (i.e., "cession reporting"), otherwise it is called "bordereau reporting." This type of reinsurance will be typically offered to broad segments of a insurer's business, such as all issues of a specified policy form.

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Back-testing	A process of comparing the predictions from a model with actual experience in order to determine whether actual results, over a reasonable period of time are within the expected range produced by the model.
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.
Board of Directors (Board)	A body of elected or appointed individuals ultimately responsible for the governance and oversight of the company.
Calibration test	A test to demonstrate that the regulatory capital requirement determined by the internal model satisfies the specified modelling criteria.
Capital	The financial resources of an insurer and different variation/calculations of capital may be referred to as equity capital (i.e. paid-up, share, subscribed), economic capital and regulatory capital.
Capital add-on	An additional capital requirement imposed by the supervisor to address, for example, any indentified weaknesses in an internal model or other more tailored approach as a condition on its use or in the context of a review of the ongoing validity of an internal model for regulatory capital purposes.
Capital adequacy	The adequacy of capital resources relative to regulatory capital requirements.
Capital resources	Financial resources that are capable of absorbing losses.
Captive insurer	<p>An insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties. In practice, supervisors in captive jurisdictions tend to use the following classifications:</p> <ul style="list-style-type: none"> • Pure captives: single parent companies writing only the risks of their owner and/or affiliates; • Group and/or association captives: multi-owned insurance companies writing only the risks of their owners and/or affiliates, usually within a specific trade or activity; • Rental captives: insurers specifically formed to provide captive facilities to unrelated bodies for a fee. They are used by entities that prefer not to form their own dedicated captive; • Diversified captives: captives writing a limited proportion of unrelated business in addition to the risks of their owner and/or affiliates. Some jurisdictions consider that an insurance company writing any unrelated party business cannot be classified as a captive.”

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Catastrophe reinsurance (life and health)	This provides for payment by the reinsurer when the ceding company's aggregate net retained claims resulting from a single accidental event exceed the insurer's retention under the reinsurance agreement. Commonly the reinsurer pays something less than 100% of such excess, the balance being retained by the insurer, and a limit is placed on the amount the reinsurer will pay on any one catastrophe. An annual limit may also be placed on the total amount to be paid by the reinsurer. The coverage may be purchased on the ceding company's entire portfolio of retained risks or on any readily definable category, such as all retained individual risks, a particular group case, a category of group cases, etc. Normally, both the regular life insurance risk and the accidental death risk will be included.
Churning	The practice of selling insurance policies to a policyholder which unnecessarily replace existing policies, for the purpose of increasing turnover – usually to generate commission.
Claims development triangle	The triangle showing 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. [Related definitions: <i>Claims provision, Underwriting year basis.</i>]
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. [Related definitions: <i>Loss ratio, Underwriting year basis.</i>]
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: <i>Claim reserves,</i>] [Related definitions: <i>Claims development triangle, Underwriting year basis</i>]
Claim reserves	see Claims provision
Coinsurance basis	This type of reinsurance is considered to be the most comprehensive basis since it usually involves transfer of a portion of all the risks inherent in the original business on a quota share or excess of retention basis from the ceding company to the reinsurer. In this type of reinsurance, the insurer and the reinsurer share a portion of the risks under the original insurance policy. The reinsurer receives a portion of the gross paid policy premiums based on the amount of risk assumed and establishes a correlating reserve. In addition to fulfilling the assumed portion of the claim, the reinsurer is also required to reimburse the insurer for any other benefits provided under the policy (i.e., policy dividends, commissions, premium taxes, etc.). The reinsurer also provides the ceding insurer with a commission to cover the marketing, underwriting and distribution aspects of the policy.
Coinsurance with funds withheld	A slight variation of the coinsurance basis method may occur if assets are retained by the insurer. Under this method, the insurer withholds assets supporting the reserves on the ceded portion of the business and the insurer sets up an interest bearing amount payable to the reinsurer. Under these circumstances, the ceding company may wish to retain control of the funds arising from its own policies either to maximise its own investment returns, or as security against the event that the reinsurer's ability to discharge its obligations to the ceding insurer becomes impaired.
Collateral	Assets held as security in support of a promise to the payment of a debt or performance of a contract.

Term	Revised Glossary definition
Combined ratio	The sum of the loss ratio (claims ratio) and the expense ratio.
Consumer	The universe of all actual and potential customers for insurance products.
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 definition: <i>Risk concentration</i>]
Continuity analysis	An analysis of an insurer's ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements.
Continuum-based approach	Involves the setting of characteristics against which individual capital elements can be assessed as to their quality; instruments are ranked against other instruments to determine whether they are included as capital resources. Where a categorisation approach is used, the criteria will be used to determine the category of capital resources in which a capital element is included.
Control functions	Refers to properly authorised functions, whether in the form of a person, unit or department, serving a control or checks and balances function from a governance standpoint and which carry out specific activities including risk management, compliance, actuarial matters, and internal audit.
Control level	A threshold solvency level that requires intervention of the supervisor or imposes certain restrictions on the insurer if the actual solvency level falls below this level.
Corporate governance	Refers to systems (such as strategies, policies, processes and controls) through which an entity is managed and controlled.
Counterparty	The other party with whom a transaction is made.
Counterparty credit risk	The risk that a counterparty is not able or willing to pay amounts owing to the insurer as they fall due
Credit default risk	The risk that an insurer will not receive the cash or assets to which it is entitled because a party with which the insurer has a bilateral contract defaults on one or more obligations.
Credit ratings	Assessments of the abilities of debtors (e.g. bond issuers) to pay amounts owing to investors as they fall due. [Related definition: <i>Rating agency</i>]
Credit risk	The risk of financial loss resulting from default or movements in the credit rating assignment of issuers of securities (in the insurer'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 migration risk, indirect credit or spread risk, concentration risk and correlation risk. Sources of credit risk include investment counterparties, policyholders (through outstanding premiums), reinsurers, intermediaries and derivative counterparties.
Cross border provision of services	Provision of insurance on a services basis (without local establishment) in a jurisdiction other than the company's home jurisdiction.

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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.
Current estimate	The probability weighted average of the range of present values of the cash flows associated with fulfilling an insurer's obligations under an insurance policy. For some types of insurance liability, it may be considered that the projection of future cash flows is unrealistic, and therefore presents a spurious level of accuracy in the estimate. For such examples the alternative estimate should be arrived at using similar considerations regarding the obligations of the contract as for those examples where projected cash flows are realistic. [Related terms: <i>Margin over the Current Estimate (MOCE)</i> , <i>Technical provision</i>]
Customer	Policyholder or prospective policyholder with whom an insurer or insurance intermediary interacts, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy.
Derivative	A derivative is a financial asset or liability whose value depends on (or is derived from) other assets, liabilities or indexes (the "underlying asset"). Derivatives are financial contracts and include a wide assortment of instruments, such as forwards, futures, options, warrants, swaps and composites.
Deterministic scenario	An event, or a change in conditions, with a set probability in which the underlying assumptions are fixed. [Related definitions: <i>Stress test</i> , <i>Scenario test</i> , <i>Stochastic modelling</i>]
Direct approach	A supervisory approach to non-regulated entities which entails licensing or authorisation of entities in an insurance group which do not themselves provide insurance services.
Double gearing	Used to describe a situation where the same capital is used simultaneously as a buffer against risk in two or more legal entities of a conglomerate.
Duration	A measure of interest rate risk on the sensitivity of the value of an asset to changes in interest rates.
Economic capital	The capital needed by the insurer to satisfy its risk tolerance and support its business plans and which is determined from an economic assessment of the insurer's risks, the relationship between them and the risk mitigation in place.
Effect horizon	The period over which the shock that is applied to a risk will impact the insurer. [Related definition: <i>Shock period</i>]
Enterprise Risk Management (ERM)	The process and activities of identifying, assessing, measuring, monitoring, controlling and mitigating risks in respect of the insurer's enterprise as a whole.
Excess per risk reinsurance	This reinsurance method provides indemnification to the ceding company for each covered risk up to a predetermined limit. The ceding company is required to meet the obligations of the claim up to a preset dollar amount before the reinsurer becomes liable.
Expense ratio	The ratio of expenses to earned premiums.

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Facultative obligatory reinsurance	An arrangement (also known as “open cover”) pursuant to which the cedant may, at its option, cede certain defined risks to the reinsurer, which the reinsurer must assume, subject to the cedant’s retention. This arrangement has both treaty and facultative elements. It is normally used to provide cover for risks that are irregular in incidence or to supplement a treaty that has limited capacity.
Facultative reinsurance	Not obligatory with respect to either the cedant or the reinsurer. Facultative reinsurance involves the reinsurance of the exposures covered by a single policy, or sometimes only specific portions of a policy.
Feedback loop	The process of assessing the effect, within the ERM framework, of changes in risk leading to changes in risk management policy, tolerance limits and risk mitigating actions.
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).
Financial health	see Solvency
Financial reports	Refers to both "general purpose financial reports" and "supervisory financial reports". (See separate definitions.)
Finite reinsurance	Also known in some jurisdictions as financial reinsurance, structured reinsurance, non-traditional reinsurance, loss mitigation reinsurance. A generic term that is used to describe an entire spectrum of reinsurance arrangements that share limited risk for a limited amount of premium. In some jurisdictions finite reinsurance is a specialised form of limited liability reinsurance whereby the financial and strategic motivations of the reinsured to effect the transaction take precedence over the insurance risk transfer motivation. Although there is no accepted global definition of “finite reinsurance,” a typical transaction may include, but not be limited to provisions for aggregating risk, for aggregating limits of liability, for aligning the interests of the insurer and reinsurer, and for explicitly recognising the time value of money. A detailed review of the entire reinsurance contract and any side agreements is necessary to determine if contracts containing such clauses do transfer risk and are in fact reinsurance contracts when considered in their totality.
Four eyes principle	The principle describing the involvement of more than one person in decision-making or other material activities for reasons such as validation, good governance, transparency and control”.
Fraud	A deceptive act or omission intended to gain advantage for a party committing the fraud (the fraudster) or for other parties.
Fronting arrangements	Fronting is a term that describes a particular form of reinsurance frequently employed by captive insurers. Commonly, a commercial insurer licensed in the jurisdiction from which the risk emanates issues a policy to the insured. Subsequently, the risk is transferred to a captive insurance company by way of a reinsurance contract also known as a fronting agreement. The insured receives a policy written by the licensed commercial insurer, but the economic risk of that policy resides in the captive insurance company, although the ultimate liability remains with the fronting insurer. In some jurisdictions, it is a legal requirement for either all, or certain classes’ of business, to be written by a local insurer. Hence, if the captive is established in a domicile other than that where the risk resides, then fronting arrangements are mandatory.
General purpose financial reports	Financial reports prepared according to generally accepted accounting principles within the relevant jurisdiction to meet the common financial information needs of a wide range of users including policyholders and investors.

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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.
Going-concern capital	Capital which achieves both the objectives of reducing the probability of insolvency by absorbing losses on a going-concern basis, or in run-off, and of reducing the loss to policyholders in the event of insolvency or winding-up.
Group-wide internal models	A risk measurement system a group uses to analyse and quantify risks to the group as a whole as well as risks to the various parts of the group, to determine the capital resources needed to cover those risks and to allocate capital resources across the group. Group-wide internal models may include partial models which capture a subset of the risks to the group and/or all the risks of a subset of the group. Group-wide internal models may also include combinations of models in respect of different parts of the group. An insurer's internal model may be part of a broader group-wide model rather than a standalone model.
Group-wide supervision	The supervisory approach to an insurance group which considers the group structure, any regulated or non-regulated entities.
Group-wide supervision framework (GSF)	A supervisory framework for insurance groups that sets out the preconditions for group-wide supervision, group-wide regulatory requirements and group-wide supervisory review and reporting.
Group-wide supervisor	The supervisor(s) responsible for promoting effective and coordinated supervision of an insurance group including coordinating the input of insurance legal entity supervisors in undertaking the supervision of an insurance group on a group-wide basis, as a supplement to insurance legal entity supervision.
Head of the group (or parent)	The head of the group or parent, whether regulated or non-regulated, is typically the legal entity that is at the top of the group structure and has a significant influence over the activities of the group as a whole. Often this would be a non-operating holding company but it could also be an insurance legal entity, among others.
Hedging	Actions taken to offset the impact of risks materialising.
Home jurisdiction	The jurisdiction in which an insurer is incorporated or its head office is located, as applicable.
Home supervisor	The supervisor from the home jurisdiction. (see: home jurisdiction)
Host jurisdiction	Any jurisdiction other than the home jurisdiction in which an insurer conducts insurance activities.
Host supervisor	Any supervisor from a jurisdiction other than the home jurisdiction. (see: host jurisdiction)
Hybrid approach	A supervisory approach to non-regulated entities which is a mix of different combinations of direct and indirect approaches for different aspects of supervision
IAIS MMoU	A formal multilateral agreement established by the IAIS for cooperation and information exchange between IAIS Members who are Signatory Authorities regarding the supervision of insurers where cross-border aspects arise. It includes procedures for requesting and providing information on operations of insurers supervised by all Signatory Authorities having a legitimate interest. This MMoU covers all issues related to the supervision of insurers such as licensing, ongoing supervision and winding-up processes (where necessary).
IBNER provisions	Incurred but not enough reported (IBNER) provisions: additional provisions for claims incurred but for which not enough has been reserved.

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IBNR provision	Incurred but not reported (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.
Indirect approach	A supervisory approach to non-regulated entities which relies on exercise of supervisory powers through a regulated entity in the group.
Indemnity reinsurance agreement	The ceding entity remains legally responsible for all policyholder obligations of the reinsured policies. The assuming entity indemnifies, or protects, the ceding entity against one or more of the risks in the reinsured policies.
Insurance group	A group is considered to be an insurance group for the purpose of group-wide supervision if there are two or more entities of which at least one is an insurer and one has significant influence on the insurer. The significance of influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or intra-group transactions and exposures.
Insurance intermediary	Any natural person or legal entity that engages in insurance intermediation.
Insurance intermediation	<p>The activity of soliciting, negotiating or selling insurance contracts through any medium¹.</p> <p>Where:</p> <ul style="list-style-type: none"> • "Solicit" means attempting to sell insurance or asking or urging a person to apply for a particular kind of insurance from a particular company for compensation. • "Negotiate" means the act of conferring directly with, or offering advice directly to, a purchaser or prospective purchaser of a particular contract of insurance concerning any of the substantive benefits, terms or conditions of the contract, provided that the person engaged in that act either sells insurance or obtains insurance from insurers for purchasers. • "Sell" means to exchange a contract of insurance by any means, for money or its equivalent, on behalf of an insurance company. <p>¹ In some jurisdictions certain supplemental functions are included in the definition of intermediation.</p>
Insurance legal entity	Denotes either a stand-alone insurer or an insurer which is a member of an insurance group.
Insurance risk	see Technical risks
Interest rate risk	The risk of exposure to losses resulting from movements in interest rates.
Internal controls	The various operational procedures by which an insurer maintains compliance with Board and management policies. Such procedures include the regular reporting of key financial statistics, the adherence to tolerance limits, and the use of feedback loops. The internal controls should address checks and balances such as cross checking, dual control of assets and double signatures.
Internal models	The model which an insurer uses to calculate its regulatory capital which appropriately reflects its risk profile, based on accurate and appropriate data and adequate actuarial and statistical techniques that are commensurate with the nature, scale and complexity of its business.

Term	Revised Glossary definition
Investment management	The process of managing an insurer's investment portfolio given its investment strategies and risk tolerances. [Related definitions: <i>Investment policy, Investment risk management, Investment risks, Investment strategy, Investment risk exposures.</i>]
Investment policy	An insurer's policy with respect to the overall characteristics for an investment portfolio or for the investments of the insurer as a whole.
Investment risk management	The process an insurer uses to identify investment risk exposures, and to monitor, measure, report, and mitigate this risk.
Investment risks	The various kinds of risk which are directly or indirectly associated with the insurers' investment policy and management. (These are usually categorised as market risk, credit risk, liquidity risk, operational risk.)
Investment strategy	The overall direction by the insurer's investment management which governs and implements the insurer's investment policy and investment risk management policy.
Investment risk exposures	Measures of the amounts by which an insurer's financial position may vary adversely as a result of its investment policy and management.
Involved supervisors	Supervisors engaged in the supervision of an insurance group. Depending on the circumstances of the particular insurance group and the jurisdictions in which it operates, it could include all supervisors engaged in the supervision of entities within the insurance group.
Key functionaries	Individuals defined by legislation, such as board members and senior management, who must meet suitability requirements. The key functionaries identified may differ depending on the legal form and governance structure.
Key persons in control functions	Persons responsible for heading control functions. [See <i>Control functions</i>]
Leverage	The ability to influence a system in a way that multiplies the outcome of one's efforts without a corresponding increase in the consumption of resources. This implies that leverage is the advantageous condition of having a relatively small amount of cost, which could yield a relatively high level of returns. "Financial leverage" refers to the use of borrowed money to increase the production volume and thus the net earnings. It is measured as the ratio of total debt to total assets. The greater the amount of debt, the greater the financial leverage.
Licensing	The formal authority given to an entity to conduct insurance activities under the applicable insurance legislation.
Liquidity risk	The risk that an insurer is unable to realise its investments and other assets in a timely manner in order to settle its financial obligations as they fall due.
Loss ratio (claims ratio)	The ratio of claims incurred to earned premiums. Gives an indication of how well the pricing of an insurer matches the risks taken in the insurance contracts. [Related definitions: <i>Claims incurred, Underwriting year basis</i>]
Margin over current estimate (MOCE)	A margin that exceeds the Current Estimate in valuation of technical provisions to cover the inherent uncertainty of those obligations. [Related definitions: <i>Current Estimate, Technical provision.</i>]
Market-consistent valuation	An economic valuation of an insurer's assets and liabilities that is consistent with either the assessment of their risk and value by market participants ("mark-to-market" valuation) or, in the absence of a direct market evaluation, the valuation principles, methodologies and risk parameters that market participants would expect to be used ("mark-to-model" valuation).
Market risk	The risk to an insurer's financial condition arising from movements in the level or volatility of market prices of assets, liabilities and financial instruments, whether on all investments as a whole (general market risk) or on an individual investment (specific market risk).

Term	Revised Glossary definition
Memorandum of understanding	A formal agreement between supervisory authorities which includes compliance with a strict confidentiality regime. In such agreements, the parties acknowledge that each may only provide information under the agreement to the extent permitted or not otherwise prevented under their respective jurisdictional laws, regulations and requirements.
Minimum Capital Requirement (MCR)	In the context of a legal entity's capital adequacy assessment, the level of solvency at which, if breached, the supervisor would invoke its strongest actions, in the absence of appropriate corrective action by the insurer.
Mismatching 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).
Modified coinsurance basis	Modified coinsurance, or 'modco', differs from coinsurance and coinsurance with funds withheld agreements, in that the portion of policy assets and reserves normally entitled to the reinsurer are actually retained by the ceding company. In addition to the transactions required in a coinsurance arrangement, a "reserve adjustment" must be calculated. For each accounting period, the change in reserves is first determined. If these have increased, the amount of the increase, less interest on the reserve for the period, if positive, will be payable to the ceding company. If negative, the amount of the decrease, plus interest on the reserve, will be payable by the cedant to the reinsurer. The rationale for this procedure is that the ceding company holds the policy reserves and the corresponding assets on the reinsured business and, therefore, is responsible for the portion of the reserve increase derived from interest on the policy assets. Any other fluctuations in the reserve would be the responsibility of the reinsurer. Establishing the reserve adjustment interest rate is a complex part of the treaty negotiations. The formula for calculating the interest rate is typically set forth in the reinsurance agreement.
Money laundering	The processing of the proceeds of crime to disguise their illegal origin.
Multiple gearing	Arises where the same capital is used simultaneously as a buffer against risk in two or more regulated entities.
Non-regulated entities	Either non-operating holding companies (NOHCs) or operating entities which are not subject to any form of direct prudential supervision (non-regulated operating entities or NROEs).
Operating ratio	The combined ratio adjusted by the addition of allocated investment return to earned premiums.
Operational risk	The risk arising from the inadequacy or failure of internal systems, personnel, procedures or controls leading to financial loss. Operational risk also includes custody risk.
Option	The contractual right, but not the obligation, to buy or sell a specified amount of a given financial instrument, asset or liability, at a fixed price before or at a designated future date. A call option involves the right to buy the financial instrument. A put option involves the right to sell the financial instrument.
Outsourcing	An arrangement of any form between an entity and a service provider by which that service provider performs a process, a service or an activity which would otherwise be undertaken by the entity itself.

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Per occurrence (catastrophe) excess of loss	This reinsurance method is identical to the 'Excess per Risk of Reinsurance', except that the policies are designed to account for an accumulation of losses from a single catastrophic event. As catastrophic events can result in significant losses, the insurer may find it necessary to cede parts of the risk to different reinsurers, or the assuming reinsurer may cede some of the assumed risk to others (retrocession). In non-proportional reinsurance the reinsurer does not assume responsibility for a proportional share of all losses. Therefore the distribution of premium will not be on a proportional basis. Non-proportional reinsurance is commonly arranged in a series of layers, the first of which attaches immediately to the excess of the insurer's retention, followed by as many additional layers as are necessary to generate the required total amount of capacity (per risk), or to afford such catastrophe (per occurrence) or aggregate (net retained loss) protection as deemed prudent and sufficient, given the size, geographic distribution and nature of the insurer's portfolio of business.
Policy liabilities	see Technical provision
Premium deficiency reserve	see Provision for unexpired risks
Producer owned reinsurance companies (PORCs)	Captives, or cells of protected cell companies, that are beneficially owned by the producers of the business that is ultimately reinsured into the company through an independent fronting insurer. There are additional risks associated with these companies since the producer could be in a position to influence the placing of business with its own captive and could control the level of premiums or commissions that apply.
Proportional reinsurance (pro-rata)	Under proportional reinsurance the insurer and the reinsurer share in an agreed ratio all premiums, losses, and loss expenses arising out of the original business covered under the reinsurance agreement. There are two forms of proportional reinsurance in the non-life business: Quota Share and Surplus Share. As a general rule, life insurance companies establish limits of retention. These limits, which may vary by age at issue, plan, or substandard classification, are the amounts which the insurer has decided it can safely retain at its own risk for newly issued policies. A schedule of limits of retention also includes limits for supplemental benefits such as disability and accidental death. These limits may or may not be independent of the limits for life insurance benefits. With these limits of retention established for all the forms of coverage issued, an insurer makes reinsurance arrangements with one or more reinsurers to take care of those applications on which the amounts are in excess of the established retention. In life business, proportional reinsurance comprises the following: Yearly Renewable Term (YRT) or Risk Premium Reinsurance Basis, Coinsurance Basis, Coinsurance with Funds Withheld and Modified Coinsurance Basis.
Prospective cover	Reinsurance cover that serves to reduce volatility in current and future premiums and claims patterns.
Protected Cell Company (PCC)	A single company consisting of a core and an indefinite number of cells, which are kept legally separate from each other. Each cell has assets and liabilities attributed to it, and its assets cannot be used to meet the liabilities of any other cell. The company will also have non-cellular (core) assets, which may be available to meet liabilities that cannot be attributed to a single cell. A PCC can create and issue shares ('cell shares') in respect of any of its cells but the company is managed by a single Board. [Equivalent terms: <i>Segregated Account Company (SAC)</i> , <i>Segregated Portfolio Company (SPC)</i>]

Term	Revised Glossary definition
Provision for unearned premiums	Amount on the balance sheet representing that part of premiums written on unexpired policies to be allocated to the following financial year, or to subsequent financial years. [Equivalent term: <i>Unearned premium reserve</i>] [Related definition: <i>Provision for unexpired risks</i>]
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 term: <i>Premium deficiency reserve</i>] [Related definition: <i>Provision for unearned premiums</i>]
Quota share reinsurance	This type of reinsurance was the earliest form of proportional reinsurance and is still widely used wherever appropriate. Quote share reinsurance arrangements agreement represent a sharing of all business in a fixed ratio, or proportion. A 50% quota share agreement is one in which premiums, losses, and loss expenses are shared equally, half being retained by the insurer and half being ceded to the reinsurer. A 70% quota share would involve a 70% share ceded to the reinsurer, with the remaining 30% retained by the insurer. The insurer's needs and objectives, and the amount of proportional capacity available in the reinsurance marketplace at the time of placement, will determine the percentage share it will retain for its own account. Quota share treaties are invariably obligatory contracts. The contract will contain a stipulated limit of liability with respect to any single original policy. There will ordinarily be certain forms of coverage or classes of business that are excluded under the terms of the contract. These may not be ceded to the reinsurer without prior review and approval (usually referred to as a special acceptance) by the reinsurer. The reinsurance premium is simply the reinsurer's proportional share of the insurer's original premium for all business ceded. The reinsurer's share of the insurer's acquisition costs and general operating expenses associated with the ceded business is recovered by the insurer via a ceding commission allowance, a deduction from the reinsurer's share of the gross original premium.
Rating agency	Entity that specialises in assigning credit ratings to borrowers.
Regulatory capital	Surplus of assets over liabilities, evaluated in accordance with regulation in a particular jurisdiction.
Regulatory capital requirements	Financial requirements that are set as part of the solvency regime and relates to the determination of amounts of capital that an insurer must have in addition to its technical provisions and other liabilities.
Reinsurance	An insurance contract between one insurer or reinsurer (the reinsurer) and another insurer (the cedant) to indemnify against losses on one or more contracts issued by the cedant in exchange for a consideration (the premium).
Reinsurer	An insurer that offers protection through the sale of a reinsurance contract to a risk-transferring policyholder who is an insurer. If the risk-transferring policyholder is a (re)insurer itself, the risk-assuming insurer is called the reinsurer, and the risk transfer is known as retrocession.
Resolution	Any action by an authority, with or without private sector involvement to deal with serious problems in an insurer or insurance group that imperil the viability of the insurer or the insurance group.
Retakaful	Reinsurance undertaken in accordance with Islamic Takaful principles. [Related definition: <i>Takaful</i>]
Retrospective cover (or adverse loss contract)	Reinsurance contract that provides protection against an unexpected deterioration of prior year reserves than expected.

Term	Revised Glossary definition
Risk appetite	The amount of risk an insurer is willing to accept in the aggregate, relative to financial capacity to assume losses, and to align with and support its strategic and financial objectives. [Related definition: <i>Risk tolerance</i>]
Risk concentration	An exposure with the potential to produce an accumulation of losses large enough to threaten an insurer's financial condition or ability to maintain core operations. [Related definitions: <i>Concentration risk, Contagion</i>].
Risk gap	A key measure of the adequacy of a captive's capital and reserves is the risk gap. This is defined as the projected total of a captive's net retained liability less year one premiums net of expenses, capital, profit and loss account balance and any other free reserves. Captive owners and managers are required to demonstrate how the captive manages the risk gap. Protection strategies may include guarantees of additional capital or premiums, LOCs, or other alternatives in a form acceptable to the supervisor.
Risk management	Risk management is the process whereby the insurer's management takes action to assess and control the impact of past and potential future events that could be detrimental to the insurer. These events can impact both the asset and liability sides of the insurer's balance sheet, and the insurer's cash flow.
Risk tolerance	The term "risk tolerance" is used to include the active retention of risk that is appropriate for an insurer in the context of its strategy, financial strength, and the nature, scale and complexity of its business and risks. Risk tolerance is typically a percentage of the absolute risk bearing capacity for an insurer. [Related definition: <i>Risk appetite</i>]
Scenario test	A complicated type of test, which contains simultaneous moves in a number of risk factors and is often linked to explicit changes in the view of the world. Scenario tests often examine the impact of catastrophic events on an insurer's financial condition, particularly in a defined geographical area, or simultaneous movements in a number of risk categories affecting all of the insurer's business lines or trading operations, e.g., underwriting volumes, equity prices and interest rate movements. There are two basic types of scenarios: historical and hypothetical. Historical scenarios reflect changes in risk factors that occurred in specific historical episodes. Hypothetical scenarios use a structure of shocks that is thought to be plausible, but has not yet occurred. Each type of scenario has its benefits. Depending on the risks, both approaches could be of value and should thus be used. [Related definitions: <i>Deterministic scenario, Stochastic modelling, Stress testing</i>]
Securitisation	Involves a simple financial concept: the future cash flows that can be expected from a particular source (e.g., receivables or loan repayments) serve to back up a financial instrument for sale to an investor. When a business entity (originator) engages a securitisation, it first transforms the cash flows into a tradable instrument and then transfers the attendant risk from the entity to capital market investors who, in turn, expect a return commensurate with the risks.
Semi-automatic facultative reinsurance	Requires the reinsurer to accept certain defined risks of the reinsured, subject to the right of the reinsurer to reject liability for any of such risks within a stated period after submission. Like facultative obligatory reinsurance, semiautomatic facultative reinsurance is also a hybrid of both treaty and facultative reinsurance.
Senior management	The individuals or body responsible for managing the business on a day-to-day basis in accordance with strategies, policies and procedures set out by the Board.

Term	Revised Glossary definition
Sensitivity tests	Examines the effect of changing one or a few variables rather than considering a full alternative scenario.
Shock period	The period over which a shock is applied to a risk. [Related definition: <i>Effect horizon</i>]
Significant influence	For the purpose of group-wide supervision, this represents a level of direct/indirect control or effect over the strategic operating, investing, and financing policies of an insurer.
Significant owner	A significant owner is defined as a person (legal or natural) that directly or indirectly, alone or with an associate, exercises control over the entity.
Solvency	Ability of an insurer to meet its obligations to policyholders when they fall due. Solvency includes capital adequacy but also involves other aspects of a solvency regime, for example, technical provisions, qualitative aspects (such as would be addressed in an enterprise risk management framework), supervisory review and supervisory reporting. [Equivalent term: <i>Financial health</i>]
Solvency assessment	A process for measuring the current and possible future solvency of an insurer relative to the level of policy holder protection required by the solvency regime. It encompasses the assessment of the effectiveness of an insurer's enterprise risk management within the constraints placed on the insurer's operation and the adequacy of the insurer's financial resources, including capital resources.
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 term: <i>Surplus capital</i>]
Solvency requirements	The whole set of requirements set by the solvency regime.
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).
Special Purpose Entity	A corporation, trust, or other entity organised by an insurer for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the insurer from the risks of the said activities. As part of its risk mitigation strategy, an insurer may transfer some of the risk on its balance sheet to an off-balance sheet structure, variously referred to as Special Purpose Entity (SPE), Special Purpose Vehicle (SPV), Special Purpose Reinsurance Vehicle, Special Purpose Insurer, etc. The term SPE is used throughout the ICPs, standards and guidance to cover all such entities.
Statistical quality test	A test to assess the base quantitative methodology of the internal model, which demonstrates the appropriateness of the model inputs and parameters and justifies the assumptions underlying the model.
Stochastic modelling	A methodology which aims at attributing a probability distribution to financial variables of interest. It sometimes uses closed form solutions, often involves simulating large numbers of scenarios in order to reflect the distributions of the capital required by, and the different risk exposures of, the insurer. [Related definitions: <i>Scenario test, Stress testing</i>]

Term	Revised Glossary definition
Stop-loss reinsurance (life and health)	Commonly used to describe coverage for a collection of insurance risks under which, once the ceding company pays the total amount of all claims in a specified period, usually a calendar year, up to a total aggregate limit determined in advance for the period, the reinsurer will reimburse a specified proportion (e.g. 90%) of the amount in excess of the aggregate retention for the period, subject to a maximum reinsurance limit. In practice, the maximum amount of claim on any one life is usually "warranted" by the ceding company. Any policy amounts issued in excess of the warranted maximum are reinsured conventionally.
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. [Related definitions: <i>Deterministic scenario</i> , <i>Scenario test</i> , <i>Stochastic modelling</i>]
Subgroup college	A supervisory college established at the level of a subgroup of an insurance group.
Subordinated loans	Loans (liabilities) that rank after the claims of all other creditors and which are to be paid, in the event of liquidation or bankruptcy, only after all other debts have been met.
Suitability	Necessary qualities that must be exhibited by a person performing the duties and carrying out the responsibilities of his/her position with an insurer. Depending on his or her position or legal form these qualities could relate to a proper degree of integrity in attitude, personal behaviour and business conduct, soundness of judgment, degree of knowledge, experience and professional qualifications and financial soundness.
Supervisory college	A forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group.
Supervisory financial reports	Financial reports prepared according to accounting principles set out by the supervisor and may wholly or partially be based on general purpose financial reporting.
Surplus capital	see Solvency margin

Term	Revised Glossary definition
Surplus relief	<p>A method of deferring losses or accelerating future profits on a block of in-force or new insurance business. This can be done in three ways:</p> <ul style="list-style-type: none"> i) reinsurer pays an amount equal to its best estimate value of all future margins and takes all future income, however there is no experience refund. This is a traditional risk transfer in that the reinsurer is taking a risk that the profit may not emerge as projected. ii) reinsurer pays initial expenses, has a charge over all emerging surplus and returns excess surplus through the experience account. In this situation the reinsurer will suffer a loss if the profits do not emerge as projected. The reinsurance agreement does not limit the loss exposure to the reinsurer. If the profits are over a certain level, these are returned to the cedant via the experience account, which caps the reinsurer's potential for profit. This is a finite reinsurance transaction. iii) reinsurer pays an upfront amount, takes a charge over future margins, however if the margins do not emerge the cedant has an obligation to make payments from sources outside the reinsured business. This should be treated as a loan.
Surplus share reinsurance	<p>This type of proportional reinsurance is a variation on the quota share concept. Instead of sharing every policy on the basis of a never-changing fixed ratio, a surplus agreement permits the insurer to cede varying amounts or percentage shares of each original policy to the reinsurer. The amounts ceded are still subject to a stipulated minimum retention and maximum cession. Once a cession has been made to the surplus treaty, premiums, expenses and losses will be shared proportionally between the insurer and the reinsurer.</p>
Swap	<p>A financial transaction in which two counterparties agree to exchange streams of payments over time according to a predetermined rule. The most common form of swap is a "vanilla" interest rate swap. With that structure, one party pays interest at a fixed rate while the other pays according to a floating rate such as LIBOR</p>
Tail Value at Risk (TVaR or Tail VaR)	<p>Value at risk (VaR) plus the average excess over the VaR if such excess occurs over a specified amount of time. Sometimes also called "Conditional value at risk", it asks the question "If things do get bad, how much can we expect to lose?"</p>
Takaful	<p>Insurance conducted according to relevant Islamic principles.</p>
Technical liabilities	<p>see Technical provision</p>
Technical provisions	<p>The amount that an insurer sets aside to fulfil its insurance obligations and settle all commitments to policyholders and other beneficiaries arising over the lifetime of the portfolio, including the expenses of administering the policies, reinsurance and of the capital required to cover the remaining risks. [Equivalent terms: <i>Policy liabilities, Technical liabilities</i>]</p>

Term	Revised Glossary definition
Technical 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. [Equivalent term: <i>Insurance risk</i>]
Terrorist financing	The wilful provision or collection of funds, by any means, directly or indirectly, with the unlawful intention that the funds should be used, or in the knowledge that they are to be used, in whole or in part: <ul style="list-style-type: none"> • to carry out a terrorist act(s) • by a terrorist organisation, or • by an individual terrorist.
Tolerance limits	The level of risk to which the insurer is prepared to be exposed. The risk measure might be a supervisory one or an internal one or a combination of both.
Total balance sheet approach	A concept which recognises the interdependence between all assets, all liabilities, all regulatory capital requirements and all capital resources. A total balance sheet approach should ensure that the impacts of all relevant material risks on an insurer's overall financial position are appropriately and adequately recognised. It is noted that the total balance sheet approach is an overall concept rather than implying use of a particular methodology.
Treaty reinsurance (non-life)	Usually automatic arrangements in that the insurer does not have to make specific cessions in order to activate reinsurance protection. Exceptions to this general rule are special acceptances, a procedure by which risks that do not qualify for coverage under the terms and conditions of the treaty may be submitted to the reinsurer for specific underwriting evaluation and determination of any additional premium charge. Treaties are also usually obligatory, in that the cedant is obligated to cede all business defined by the reinsurance agreement, and the reinsurer is obligated to accept all such business, subject to the terms and conditions of the contract. Surplus treaties are sometimes non-obligatory from the insurer's standpoint as the insurer may elect not to cede a specific risk, or to cede something less than the maximum cession permitted under the contract provisions. Treaty reinsurance usually applies to a broad segment of the insurer's overall book of business (e.g., all Workers' Compensation business, all Commercial Property business, all Accident & Health business, all Aviation business, etc.). All sorts of segregations are possible, but the idea is to group together entire lines or classes of business. As long as the business to be reinsured is reasonably homogeneous in nature or exposed to loss arising from a common cause and written in sufficient volume it can be considered for treaty reinsurance. A sufficient volume of reinsurance is necessary in order to satisfy the reinsurers' need to collect reinsurance premiums that bear a reasonable relationship to the assumed liabilities. Treaty reinsurance is considered to be the most efficient and least expensive way of arranging for such transfers.
Unbundling (Bifurcation)	For accounting purposes, unbundling is the separation of a contract into financing and risk transfer components.

Term	Revised Glossary definition
Underwriting year basis	Accounting figures – for instance, claims incurred – are based on the contracts underwritten in the accounting period. [Related definitions: <i>Claims development triangle, Claims provision</i>]
Underwriting risk	Includes claims, expense and reserving risks and the risks associated with guarantees and options embedded in policies.
Use test	A supervisory process to access whether the internal model, its methodologies and results, are appropriately embedded into the insurer's risk strategy, risk management, and operational processes.
Value at risk (VaR)	An estimate of the worst expected loss over a certain period of time at a given confidence level.
Whistle blowing	The exposure and reporting of misconduct carried out by a member of the public or within an insurer by a Board Member, Senior Manager or other member of staff.
Wrong way risk	The risk that occurs when exposure to counterparties, such as financial guarantors, is adversely correlated to the credit quality of those counterparties.
Yearly renewable term (YRT) or Risk premium reinsurance basis	Reinsurance arrangements written on this basis transfer the mortality risk to the reinsurer. For every age, plan, and policy year, there is a certain reserve per \$1,000 of insurance. In calculating the insurer's available surplus capital, this is the liability that is deducted from assets to arrive at the insurer's available surplus capital. Since this reserve amount is already in the insurer's liabilities, it is clear that if the insurer is called upon to pay more than this amount, only the excess over the reserve needs to be taken from the insurer's available surplus capital. In the event of a death claim, assets are reduced by the face amount paid, liabilities are reduced by the reserve amount, and the excess of the face amount over the reserve comes from its available surplus capital. This excess is called the "policy net amount at risk." In the reinsurance agreement the ceding company and the reinsurer agree upon how the policy net amount at risk will be apportioned between them. The ceding company would prepare a schedule of the net amounts at risk for each policy year. The reinsurer would develop a schedule of yearly renewable term premium rates for reinsurance on the ceding company's schedule. The ceding insurer would pay the reinsurer the established premiums for the appropriate net amounts at risk each year. In the occurrence of a claim, the reinsurer would remit payment for the assumed portion of the policy's net amount at risk. Although the policy net amount at risk will decline over time as the policy reserves increase, it is common for the parties to agree to make adjustments only at agreed intervals to ease administration and lower processing costs. This reinsurance method is widely used because it reduces reinsurance to its fundamentals and provides a very flexible mechanism for satisfying the insurer's reinsurance needs.