INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

IAIS Glossary

The IAIS Glossary provides definitions of terms used by the IAIS and is aimed to facilitate the reading of IAIS supervisory material.

The IAIS Glossary generally includes terms which are used in more than one ICP and/or have a specific meaning in insurance or in IAIS supervisory material. General finance terms and commonly understood terms have generally not been included.

Terms related to ICPs 14 and 17 are marked with an asterisk to indicate that these were not updated in 2019 but will be reviewed together with the review and revision of ICPs 14 and 17.

Term	Definition
Alternative risk transfer	A form of risk transfer of insurance liabilities through the capital markets.
Asset concentration risk	The risk of adverse changes in the value of capital resources due to the lack of diversification in the asset portfolio.
Asset-liability management (ALM)	An insurer's coordination of decisions and actions taken with respect to assets and liabilities through the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve the insurer's financial objectives, given the risk appetite and other constraints.
Back-testing	A process of comparing the predictions from a model with actual experience to determine whether actual results are within the expected range produced by the model over a reasonable period of time.
Basis risk	The risk that returns on instruments of varying types, credit quality, marketability, liquidity and/or maturity do not move together, thus exposing an insurer to market value variation of assets and/or hedges that can be independent of liability values. In respect to reinsurance transactions, basis risk is the risk that the actual loss experience of an insurer does not move together with the risk transferred to a reinsurer.
Board of Directors (Board)	A body of elected or appointed individuals ultimately responsible for the governance and oversight of an insurer.
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 identified 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	An insurance or reinsurance legal entity owned, directly or indirectly by one or more industrial, commercial or financial entities for the purpose of providing insurance or reinsurance cover for risks of the legal entity or entities to which it belongs, or for legal 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.
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.
Claims provision	Amount set aside on the balance sheet of an insurer to meet the total estimated ultimate cost to settle 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.
Collateral	Assets held as security in support of a promise to pay a debt or perform other obligations under a contract.
Combined ratio	The sum of the loss ratio (claims ratio) and the expense ratio.
Concentration risk	The risk of adverse changes in the value of capital resources due to the lack of diversification in the risk exposures.
Conduct risk	The risk of financial loss or other adverse consequences that arises from insurers and/or intermediaries conducting their business in a way that treats customers unfairly or results in harm to customers.
Consumers	The universe of actual and potential customers for insurance products.
Contagion risk	The risk that an event, whether internal or external, has a negative impact on one legal entity or part of a group and spreads to other legal entities or parts of the group.
Contingency plan	A plan developed by an insurer that describes in advance the necessary actions and resources to limit business disruption and losses resulting from adverse financial or operational events.
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 Function	Function (whether in the form of a person, unit or department) that has a responsibility in an insurer to provide objective assessment, reporting and/or assurance; this includes the risk management, compliance, actuarial and internal audit functions.
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 Culture	The set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities.

Corporate Governance framework	The strategies, policies and processes through which an insurer is managed and controlled.
Counterparty risk	The risk that a counterparty does not comply with its contractual obligations. This includes components of credit risk.
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 rating	A category or classification that is assigned to an issuer of debt or a debt instrument based on an evaluation of its creditworthiness.
Credit rating agency	An entity that evaluates and assigns credit ratings to an issuer of debt or a debt instrument.
Credit risk	The risk of adverse changes in the value of capital resources due to unexpected changes in the actual default as well as in the deterioration of an obligor's credit worthiness short of default, including migration risk, and spread risk due to defaults.
Currency risk	The risk of adverse change in the value of capital resources due to unexpected changes in the level or volatility of currency exchange rates.
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.
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 financial instrument whose value depends on (or is derived from) other assets, liabilities or indexes.
Deterministic scenario*	An event, or a change in conditions, with a set probability in which the underlying assumptions are fixed.
Direct powers	Powers a supervisor has, in the context of group-wide supervision, over the parent and other legal entities in the insurance group enabling the supervisor to impose supervisory measures directly on those legal entities, including non-regulated legal entities, to address all relevant group-wide risks.
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 that could be used to estimate the sensitivity of the value of an asset or a liability to changes in interest rates.
Economic capital	The capital needed by an insurer to satisfy its risk appetite 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.
Enterprise risk management (ERM)	The strategies, policies and processes of identifying, assessing, measuring, monitoring, controlling and mitigating risks in respect of the insurer's enterprise as a whole.
Expense ratio	The ratio of expenses to earned premiums (may be reported either gross or net of reinsurance).
Facultative reinsurance	Reinsurance for a single risk or a defined package of risks. The ceding insurer is not compelled to submit the risks to the reinsurer, but neither is the reinsurer compelled to provide reinsurance.
Financial conglomerate	Two or more legal entities, at least one of which is an insurance legal entity and one a regulated legal entity in the securities or banking sectors, where one has control over one or more insurance legal entities or one or more regulated legal entities in the securities or banking sectors and possibly other non-regulated legal entities, whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (banking, securities, insurance).
Finite 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. Also known as financial reinsurance.
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.
Going concern basis	An approach for considering an insurer's financial situation assuming it 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 risk	The risk that the financial condition of a group or a legal entity within the group may be adversely affected by a group-wide event, an event in a legal entity, or an event external to the group. Such an event may either be financial or non-financial (such as a restructuring).
Group-wide supervisor	The supervisor(s) responsible for effective and coordinated supervision of an insurance group including coordinating with other relevant 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 financial conglomerate	The legal entity that controls the financial conglomerate.
Head of the group (or parent)	The legal entity that controls the activities of the group as a whole.
Head of the IAIG	The Head of the IAIG is a legal entity identified by the group-wide supervisor as controlling all of the insurance legal entities within the group and non-insurance legal entities which pose risk to the insurance operations

Head of the insurance group	The legal entity that controls the insurance group.
Hedging*	Actions taken to offset the impact of risks materialising.
Home jurisdiction	The jurisdiction in which either • an insurance legal entity is incorporated or its head office or principal place of management is located; or • the head of an insurance group is incorporated or its head office or principal place of management is located.
Home supervisor	The supervisor of the home jurisdiction.
Host jurisdiction	Any jurisdiction other than the home jurisdiction in which the insurance legal entity has operations or the insurance group has operations.
Host supervisor	Any supervisor from a 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
IAIG Board	The Board of the Head of the Internationally Active Insurance Group.
IAIS Memorandum of Understanding (MMoU)	A multilateral memorandum of understanding established by the IAIS for cooperation and information exchange between IAIS Members who have been approved as signatories.
Indirect powers	Powers which a supervisor, in the context of group-wide supervision, has over one or more insurance legal entities in a group that are used to address all relevant group-wide risks posed by other legal entities in the group including non-regulated legal entities.
Insurance group	Two or more legal entities, at least one of which is an insurance legal entity, where one has control over one or more insurance legal entities and possibly other non-regulated legal entities, and whose primary business is insurance. “Insurance group” includes insurance-led financial conglomerates.
Insurance intermediary	Any natural person or legal entity that engages in insurance intermediation.
Insurance intermediation	The activity of soliciting, negotiating or selling insurance contracts through any medium where: • “Solicit" means attempting to sell insurance or asking a person to apply for a particular kind of insurance from a particular insurer 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 insurer.
Insurance legal entity	A legal entity, including its branches, that is licensed to conduct insurance, regulated and subject to supervision.
Insurance risk	The risk of adverse change in the value of capital resources due to unexpected changes in the assumptions of pricing or reserving

	such as severity, frequency, trend, volatility or level of occurrence rates.
Insurance-led financial conglomerate	A financial conglomerate in which the head of the insurance group is also the head of the financial conglomerate.
Insurer	Insurance legal entity or insurance group..
Interest rate risk*	The risk of exposure to losses resulting from movements in interest rates.
Internal controls	A set of processes, policies and activities governing an insurer's organisational and operational structure, including reporting and the control functions.
Internal model	A model which an insurer either develops internally or, in the case of an externally-developed model, customises for its own use in the calculation of economic and regulatory capital, measurement of risks, or valuation of balance sheet items.
Investment risk	The risk directly or indirectly associated with or arising from the insurers' investment activities.
Involved supervisors	Supervisors engaged in the supervision of an insurance group.
Key Persons in Control Functions	Persons responsible for heading control functions.
Legal risk	The risk that an insurer may be adversely affected due to legal uncertainty that can arise from unenforceable contracts, change in laws or regulations, or failure to properly comply with legislation.
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.
Licence	The formal authority given to conduct insurance activities or insurance intermediation, within a jurisdiction, under the applicable legislation.
Liquidation	A process to terminate operations and corporate existence of the entity through which the remaining assets of the insurer will be distributed to its creditors and shareholders according to the liquidation claims hierarchy. Branches can also be put into liquidation, separately from the insurance legal entity they belong to.
Liquidity risk	The risk that an insurer is unable to realise its investments and other assets in a timely manner in order to meet its financial obligations, including collateral needs, as they fall due.
Loss ratio (claims ratio)	The ratio of claims incurred to earned premiums that provides an indication of how well the pricing of an insurer matches the risks taken in the insurance contracts (may be reported either gross or net of reinsurance).
Macroeconomic exposure	Exposure of an insurer or the insurance sector as a whole to macroeconomic risk factors resulting in their financial position

	being highly correlated with the broader financial markets and/or real economy and with each other.
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.
Market risk	The risk of adverse change in the value of capital resources due to unexpected changes in the level or volatility of market prices of assets and liabilities.
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).
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 that the future cash flows generated by assets do not match the cash flow demands in magnitude or timing of the corresponding liabilities in a suitable manner.
Multiple gearing	Using the same capital simultaneously as a buffer against risk in two or more legal entities of a group. This includes double gearing.
Non-regulated legal entity	A legal entity which is not subject to any financial sector supervision.
Operating ratio	The combined ratio adjusted by the addition of allocated investment return to earned premiums.
Operational risk	The risk arising from inadequate or failed internal processes or systems, behaviour of personnel, or from external events. Operational risk includes legal risk and the portion of custody risk that impacts insurers, but excludes strategic and reputational 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 between an insurer and a service provider, whether internal within a group or external, for the latter to perform a process, service or activity which would otherwise be performed by the insurer itself.
Political risk	The risk an insurer faces as a result of political changes or instability in a country.
Portfolio transfer	Transfer of one or more policies together with, when relevant, the assets backing those liabilities.
Recovery plan	A plan developed by an insurer that identifies in advance options to restore its financial condition and viability under severe stress.
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.
Reinsurer	An insurer that assumes the risks of a ceding insurer in exchange for a premium.
Reputational risk	The risk of potential negative publicity regarding an insurer's business practices will cause a decline in the customer base or brand value, costly litigation, or revenue reductions.
Resolution	Actions taken by a resolution authority towards an insurer that is no longer viable, or is likely to be no longer viable, and has no reasonable prospect of returning to viability.
Resolution authority	A person that is authorised by law to exercise resolution powers over insurers.
Resolution plan	A plan that identifies in advance options for resolving all or part(s) of an insurer to maximise the likelihood of an orderly resolution, the development of which is led by the supervisor and/or resolution authority in consultation with the insurer in advance of any circumstances warranting resolution.
Retrocession	Reinsurance ceded by reinsurers to assuming reinsurers in exchange for a premium.
Risk appetite	The aggregate level and types of risk an insurer is willing to assume, within its risk capacity, to achieve its strategic objectives and business plan.
Risk capacity	The maximum level of risk an insurer can assume given its current level of resources taking into account regulatory capital requirements, economic capital, liquidity needs, the operational environment (eg technical infrastructure, risk management capabilities, expertise) and obligations to policyholders, shareholders and other stakeholders.
Risk culture	The set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities related to risk awareness, risk taking and risk management and controls.
Risk limit	Quantitative measure based on an insurer's risk appetite which gives clear guidance on the level of risk to which the insurer is prepared to be exposed and is set and applied in aggregate or individual units such as risk categories or business lines.
Risk limits Structure	The aggregate set of an insurer's self-imposed limits on its material risks and their interdependencies, as part of its ERM framework.
Risk management	The process through which risks are managed allowing all risks of an insurer to be identified, assessed, monitored, mitigated (as needed) and reported on a timely and comprehensive basis.
Risk profile	Point in time assessment of the insurer's gross and, as appropriate, net risk exposures aggregated within and across each relevant risk category based on forward looking assumptions.
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.

Run-off	A process under which an insurer ceases to write new business and administers existing contractual obligations. A 'solvent run-off' is the process initiated for an insurer who is still able to pay debts to its creditors when the debts fall due. An 'insolvent run-off' is the process initiated for an insurer who is no longer able to pay debts to its creditors when the debts fall due.
Scenario analysis	A method of assessment that considers the impact of a combination of circumstances to reflect historical or other scenarios which are analysed in light of current conditions. Such analysis may be conducted deterministically or stochastically.
Senior Management	The individuals or body responsible for managing an insurer on a day-to-day basis in accordance with strategies, policies and procedures set out by the Board.
Shock period*	The period over which a shock is applied to a risk.
Significant owner	A person (legal or natural) that directly or indirectly, alone or with another person (legal or natural), exercises control over an insurer.
Solvency	Financial soundness of an insurer including the ability to meet its obligations to policyholders when they fall due. Solvency includes capital adequacy, liquidity, technical provisions, and other aspects addressed in an enterprise risk management framework.
Solvency assessment	A process for measuring the current and possible future solvency of an insurer relative to the level of policyholder protection required by the solvency regime. This process includes assessing 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.)
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 (SPE)	A dedicated legal entity or a legally ring-fenced arrangement, specifically constituted to carry out the transfer of risk.
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 certain financial variables. 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.
Strategic risk	The risk created by an insurer's business strategy. Strategic risk includes risks arising from poor business decisions, substandard

	execution of decisions, inadequate resource allocation, or a failure to respond well to changes in the business environment.
Stress testing	A method of assessment that measures the financial impact of stressing one or more factors which could severely affect the insurer.
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.
Supervisory college	A type of coordination arrangement to foster cooperation and coordination between involved supervisors with regard to the supervision of an insurance group, as well as to promote common understanding, communication and information exchange.
Surplus capital*	See “solvency margin”
Swap	A type of derivative in which two counterparties agree to exchange streams of payments over time according to a predetermined rule.
Tail Value at Risk (TVaR or Tail VaR)*	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?”
Technical provisions*	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.
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.
Underwriting risk	The risk that is part of insurance risk other than claim reserve risk.
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.
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.