



Reinsurance Glossary of Terms

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Accident Year

Also: Year of occurrence. Loss payments and reserves are allocated to the year in which the loss has occurred (accident year). The development of loss payments and reserves for losses in a given accident year are monitored by development year until all losses are finally settled. The losses allocated to a given accident year are measured against the earned premium income of the same period. Statistics on an accident year basis can be an important consideration in underwriting decisions. See Calendar Year and Policy Year.

Accumulation

See Catastrophe Exposure and Cumulative Liability.

Advance Premium

See Deposit Premium.

Aggregate Excess-of-loss Reinsurance

See Stop Loss Reinsurance.

Annual Aggregate Deductible

A provision in some non-proportional reinsurance contracts stipulating that the reinsured will retain, in addition to its retention per risk or per occurrence, an annual aggregate amount that would otherwise be recoverable from the reinsurer. The annual aggregate deductible is usually expressed as an amount or a percentage of the reinsured's subject premium for the period.

Arbitration Clause

A clause in the reinsurance contract providing a non-litigation form of alternative dispute resolution. Depending on the wording of the clause, each party usually appoints its own arbitrator and the both then select a third arbitrator or umpire. The majority decision of the three arbitrators is binding.

Attachment Point

The value or amount at which excess-of-loss reinsurance protection responds.

Automatic Capacity

Capacity provided by treaty reinsurance.

Base Premium

See Subject Premium.

Best's Rating

The Best's rating system (developed by rating agency A. M. Best Company) provides a weighted relative measure of an insurer's financial strength, operating performance, competitive market position and ability to meet its current and future obligations to policyholders.

Bordereau (Plural: Bordereaux)

Used mostly in pro rata reinsurances (treaty or facultative). At pre-determined periods, the cedant provides a detailed list of premium and loss data and other policy information on risks covered under the reinsurance.

Broker

An intermediary that negotiates contracts of insurance/reinsurance between an insured and insurer/reinsured and reinsurer on behalf of the insured/reinsured.

Brokerage

That portion of the reinsurance premium payable to the broker to compensate costs incurred in the course of placing and servicing the reinsurance business.

Burning Cost

The ratio of incurred losses falling on the reinsurer to the reinsurance Subject Premium Income over a period of time, usually one year.

Calendar Year

All loss payments made and all reserve movements that take place during the same year are allocated to the calendar year, irrespective of the year in which the losses occurred. (Loss payments and reserves under one calendar year can relate to losses that have occurred in different accident years.) Losses allocated to a given calendar year are measured against the earned premium income of the same annual period. As a true measure of treaty results, calendar year statistics, even for short-tail business, can be highly misleading. See Accident Year and Policy Year.

Cancellation

Subject to the fulfillment of certain criteria, either or both of the parties to a contract can end their involvement, prior to the end of the contract period. See Termination.

Capacity

1. The measure of an insurer's/reinsurer's financial ability to issue contracts of insurance, usually determined by the largest amount the insurer/reinsurer is able to accept on a given risk or by the maximum volume of business it is prepared to accept.

2. The ability of the market as a whole to accept reinsurance risks.

Captive Insurer

An insurance company, usually domiciled in a tax-efficient environment, that is wholly owned by one or more entities (parent organizations), the main purpose of which is to insure the risks of the parent organizations.

Captive Reinsurer

A reinsurance company, often located offshore, that is owned by a corporation or association and provides reinsurance capacity for insurance policies taken out by the corporation or the association's members. Direct insurance may be placed domestically and then ceded to the captive reinsurer. Occasionally, such arrangements involve a domestic Fronting Company.

Catastrophe Exposure

1. Aggregate sum insured written in a geographic area exposed to a natural peril.
2. The amount of potential loss to which an insurer is exposed from a single catastrophic event (e.g., earthquake or hurricane). See also Estimated Maximum Loss.

Cedant

The insurer protected by pro-rata reinsurance. Risks are "ceded" to the reinsurer under the terms of the contract. See Reinsured for non-proportional treaty reinsurance.

Cede

The process of distributing the sums insured, premiums and losses between reinsurer and reinsured in respect of risks ceded under pro-rata reinsurances.

Cession

The portion of the sum insured of a risk ceded to a reinsurer by the Cedant.

Cession Limit

The maximum aggregate sum insured limit that can be ceded under a pro-rata reinsurance contract.

Claim

A demand by the reinsured for payment under the reinsurance contract. Payment by the reinsurer is subject to the loss, injury, damage or liability resulting from a reinsured peril, not excluded and within the contract limits.

Claims Cooperation

In the reinsurance contract, this clause requires consultation of and co-operation with the reinsurer in the handling and settlement of claims that may affect the reinsurer.

Claims-Made Reinsurance

A liability reinsurance contract covering all claims advised during the term of the reinsurance contract, regardless of when the loss itself was sustained. This avoids difficulties that may be encountered in ascertaining exactly when a loss has occurred. See also Losses Occurring Reinsurance.

Clash Cover

A non-proportional liability contract in which the reinsured's retention is higher than the limits on any one reinsured policy. The contract only responds when two or more liability policies are involved in the same occurrence with an amount greater than the clash cover retention.

Class of Business

See Line of Business.

Clean Cut

A pro-rata reinsurance accounting method providing, upon cancellation, for cessation of the reinsurer's rights to receive premiums or his liability to pay losses.

Combined Ratio

The total of the incurred loss ratio (the ratio of losses incurred expressed as a percentage of net Earned Premium) and the expense ratio (the ratio of expenses incurred to net Earned Premium. (Occasionally the combined ratio can be based on written premium.)

Commission

A deduction allowed by the reinsurer on the premium received from the reinsured. Originally intended to compensate the reinsured for direct commission paid to its agents, plus taxes and administration expenses, in softer market conditions, it takes on the character of a pricing element. Types of commission are Fixed Commission, Profit Commission and Sliding Scale Commission.

Common Account

A reinsurance contract that protects both reinsured and reinsurers.

Commutation

The process of settling current outstanding and expected future obligations under a reinsurance contract, usually involving long-tail business.

Commutation Clause

A clause in reinsurance contracts that provides, by payment of a lump sum, for the complete discharge of all future obligations for reinsurance losses incurred.

Contingent Commission

Commission that is determined by the result of a pro-rata contract. Profit Commission and Sliding Scale Commission are examples.

Continuous Contract

A reinsurance contract that remains in effect until both parties mutually agree to terminate it or one of the parties sends the other a notice of cancellation. A typical contract will allow the parties to terminate on anniversary with three months' prior written notice or at any time under certain conditions.

Co-Reinsurance

The reinsured retains net an unprotected share of a reinsurance layer or program. Often reinsurers impose this condition to maintain an interest by the reinsured in losses exceeding the deductible.

Cover Note

A document that provides initial evidence of the insurance or reinsurance coverage.

Cumulative Exposure

The liability potential for multiple policies issued over multiple years by a single company to a single insured applying to continuing injury or damage. This has been a recent problem for insurers and reinsurers with asbestos injury and pollution liability. Also referred to as Multi-Year Stacking of Limits.

Cumulative Liability

Many insurance policies issued to different insureds covering different lines of insurance may be involved in a common event or disaster. The resultant accumulation of liability, which is unknown to the reinsurer, can be a major exposure.

Cut-Through Clause

The cut-through clause provides that the reinsurance claim payment "cuts through" the usual route of payment to the reinsured, substituting instead the route of reinsurer-to-insured. It stipulates that, in the event of the liquidation of the reinsured, payment to the insured is to be a complete discharge of the reinsurer's obligation to the reinsured in relation to the insured's loss, so that the reinsurer faces no further action by the reinsured's liquidator. The effect is to revise the route of payment only, and there is no intent of increased risk to the reinsurer. The insured's loss must be covered under the terms of the original insurance policy. Cut-through clauses are enforceable under US and German law, but in jurisdictions adhering to the doctrine of privity, cut-through clauses might not be sufficient to create rights in favor of the original insured (the party the clause is attempting to protect) in the event of the reinsured's liquidation. The reinsurer is authorized to pay sums owing to the reinsured directly to the insured. See Insolvency Clause.

Deductible

1. An insurance policy may contain an excess clause, by which the insurer is to be liable for sums above an agreed figure, the insured bearing any loss below that agreed figure. See Franchise.
2. The amount of loss the reinsured assumes for its own account in non-proportional treaty reinsurance. (The terms "priority" and "retention" are also used.)

Deficit

A term sometimes used in formulas for calculating Adjustable Features. It refers to the amount by which losses, expenses and profit margin exceed premiums at the end of any accounting period. The deficit becomes a charge in the calculation made in the following period.

Deficit Carry-Forward

See Loss Carry-Forward.

Deposit

For solvency reasons, many national regulatory authorities require insurance companies to lodge deposits for Premium and Loss Reserves. In pro-rata reinsurance treaties, reinsurers may agree to deposit such reserves with insurers if this is mandatory under local supervisory legislation.

Deposit Premium

Often the reinsurance premium for an excess-of-loss cover is calculated by applying a percentage rate to the premium income written or earned by the reinsured during the period of cover ("subject premium"). The actual reinsurance premium cannot be determined until the period of reinsurance cover has expired and thus reinsurers require a deposit premium at the beginning of the reinsurance period. This is then adjusted (often subject to a minimum premium) once the final subject premium is known. Also called Provisional Premium or Advance Premium.

Direct Reinsurer

A reinsurer that deals with ceding companies through its own marketing or underwriting employees, without the use of a reinsurance intermediary.

Earned Premium

Premium earned under an insurance policy is that proportion relating to the period of insurance that has already expired. The premium earned under a reinsurance contract is the sum of the reinsurer's share of the premium earned under those original policies covered by the reinsurance.

Errors and Omissions Clause

Originally found in pro-rata treaties with a follow the fortunes provision, it has also been introduced into non-proportional treaties. The intention is to ensure that the reinsurer is not relieved of its liability should the reinsured make an inadvertent error, subject to the reinsured correcting any such error as soon as reasonably practicable.

Estimated Maximum Loss (EML)

1. A concept related to PML. See Probable Maximum Loss.
2. This expression can also be used for catastrophe reinsurance in respect of a loss amount that will only be exceeded within a specified probability range (e.g., once every 200 years).

Estimated Premium Income

The volume of premium estimated during the period.

Event

Some excess-of-loss covers are arranged on an "any one event" basis. The function of this phrase is to identify those losses that may be aggregated together to form an ultimate net loss from which a claim may be made. See also Occurrence, Hours Clauses.

Excess-of-Loss Reinsurance

A form of reinsurance that, subject to a specified limit, indemnifies the reinsured for that portion of a loss (arising out of a peril covered under one or more original policies) that exceeds the deductible.

Exclusions

Those risks, perils or classes of insurance for which the reinsurer will not pay losses or

provide reinsurance. (Usually specified in the contract.)

Ex Gratia Payment

A payment made by the reinsured, although not liable under the terms of the original policy (as a gesture of goodwill). Unless otherwise expressly agreed, such payments are not covered under a reinsurance contract.

Expense Ratio

The portion of premium used to pay all the costs of acquiring, writing and servicing insurance and reinsurance, expressed as a percentage of either gross written or gross earned premium.

Experience Rating

Pricing technique, based on the past loss and premium experience, used to develop a premium rate for non-proportional reinsurance contracts. See Reverse Rating.

Exposure Rating

Pricing technique used to develop a premium rate for non-proportional reinsurance contracts in which the original risk premium is allocated between the reinsured's deductible and the reinsurance cover. The exposure can be evaluated from risk profiles and the premium allocation from an Exposure Curve.

Exposure Curves

Curves or scales based on past loss experiences used in the distribution of premium throughout the strata of a risk.

Extended Expiration Clause

Provides in the event that the reinsurance should expire whilst a loss is in progress, the reinsurers should pay their proportion of the entire loss, providing the loss commenced before expiry of the cover. (Only applies to non-proportional treaties written on a "losses occurring" basis.)

Facultative Obligatory Contract

A reinsurance contract with characteristics of both facultative and treaty reinsurance. It allows the reinsured to choose to cede risks, within the defined criteria, that the reinsurer is obliged to accept. Often referred to as "fac-oblig".

Facultative Reinsurance

The reinsurance of part or all of the insurance covered under a single policy. Each reinsurance is negotiated individually, implying that both the original insurer and the reinsurer have the option of placing/retaining and accepting/rejecting the individual risk. Facultative reinsurance can be conducted either on a pro-rata or non-proportional basis.

Financial Reinsurance

A specialized form of limited liability reinsurance in which the reinsured's financial and strategic motivations transcend the risk transfer motivation. Also known as finite-risk reinsurance or non-traditional reinsurance.

Fixed Commission

A fixed percentage commission applied to premiums ceded irrespective of loss ratio. See Commission.

Fixed Rate

Premium for a non-proportional reinsurance contract, based on a fixed percentage of the reinsured's subject premium. Subject premium growth is included but the rate remains fixed irrespective of loss experience. See Subject Premium, Variable Rate, Flat Rate.

Flat Premium

Premium for a non-proportional reinsurance contract, based upon a fixed absolute amount, irrespective of loss experience or portfolio development. See also Fixed Rate, Variable Rate.

Flat Rate

See Fixed Rate.

Following Reinsurer

See Leading Reinsurer.

Follow the Fortunes Clause

The original purpose was to protect against possible consequences of the reinsured's failure to provide the reinsurer with documentation required under pro-rata treaties. Today interpreted in the sense that the reinsurer follows the reinsured's results arising under insurance policies subject to the exclusions and limitations of the reinsurance contract. See also Follow the Settlements Clause.

Follow the Settlements Clause

Reinsurance contracts indemnify the reinsured for its liabilities under the original policy. The reinsurer is not obliged to pay if the reinsured is not liable under the original policy or if the loss is excluded by the terms of the reinsurance contract. The "follow the settlements clause" modifies this situation by obliging the reinsurer to pay its share of the reinsured's settlements. See also: Follow the Fortunes Clause.

Franchise

The insurer becomes liable for the full amount of the claim as soon as the specified sum (or franchise) is exceeded. Any loss below the franchise is met in its entirety by the insured.

Fronting Arrangement

A policy issued by one insurer on behalf of another, usually because the other insurer is not licensed or admitted in the state of jurisdiction for the line of business written. The first insurer actually issues the policy to the insured, but is usually reinsured by the second insurer.

Gross Net Earned Premium Income

The usual rating base for non-proportional treaty reinsurance. It represents the reinsured's total earned premiums for the classes of business covered, after cancellations, refunds and

premiums paid for any reinsurance which inures to the benefit of the non-proportional treaty reinsurance, but on the basis of the original premium charged by the reinsured.

Gross Net Written Premium Income

As Gross Net Earned Premium Income, except premiums are written instead of earned.

Ground-Up Loss

The total amount of loss sustained by the reinsured before the application of any reinsurance recoveries.

Hours Clause

Used in catastrophe excess-of-loss deal with the application of the terms "event" or "occurrence" to multiple losses occurring over a period of time resulting from the same phenomenon. The reinsurer provides an indemnity in respect of a proportion of each and every loss occurrence exceeding the deductible. However, the duration and extent of any loss occurrence is limited to a consecutive period of time. The reinsured is permitted to choose the date and time when any period of consecutive hours commences provided that no such period commences earlier than the time of the first recorded individual insured loss. Usually the specified period can be divided into two or more loss occurrences, provided no two periods overlap.

Incurred But Not Reported

The liability for future payments on losses that have already occurred, but have not yet been reported, either to the reinsured or to the reinsurer. Under some reinsurance contracts, this definition may be extended to include expected future development of claims already reported. See Loss Development.

Indexing

A procedure that adjusts the reinsured's retention and limit under excess-of-loss reinsurance contracts in accordance with the fluctuations of published economic indices, such as wage, price, cost-of-living, etc. The reinsurance limit may be adjusted by the same index, sit on top of the indexed retention or be reduced by the same amount as the increase in retention.

Insolvency Clause

A clause that may be required by state insurance law or regulation, under which the reinsurer agrees that reinsurance proceeds will be paid directly to the liquidator of an insolvent insurer on claims allowed in the insolvency proceedings. See Cut-Through Clause.

Intermediary

See Broker. In some markets, intermediaries may only call themselves brokers, when registered. To become registered, certain criteria must be observed, such as evidence of technical know-how and professional indemnity cover.

Layer

Term used to denote a stratum of cover, e.g., for the part of a loss between 50,000 and 150,000, or between 150,000 and 450,000.

Leading Reinsurer

Term used when two or more reinsurers participate in a reinsurance contract. The leading reinsurer usually has the largest participation and sets the terms. The following reinsurers generally agree to be bound by the lead terms.

Letter of Credit

A financial instrument provided by a bank that guarantees the availability of funds to be collected in the future under a reinsurance contract.

Limit

Used in two different contexts:

1. The limit of indemnity or maximum sum that an excess-of-loss reinsurer will pay for any event, occurrence, accident or in the aggregate any one year;
2. The capacity made available to the cedant by a surplus treaty;
3. The maximum gross sum insured, after facultative reinsurance, the cedant may write on a policy to be ceded to a quota share.

Line

This has a number of different meanings:

1. In surplus reinsurance, the amount of risk or liability equal to that which the reinsured retains for its own account.
2. The limit of insurance fixed by the reinsured on a class of risk (line limit) or the actual amount that it has accepted on a single risk or other unit.

Line of Business

A class or type of insurance or reinsurance (e.g., property, casualty). See also Class of Business.

Line Slip

An arrangement whereby insurers/reinsurers and a reinsured/broker agree, for specified types of risk, that the reinsured/broker need approach only the leading insurer/reinsurer for acceptance or rejection of the individual risk on behalf of all the signatories.

Lloyd's of London

Lloyd's is a market comprising Syndicates that write insurance on behalf of Names (the individuals or corporations that provide the financial backing to the Syndicates). Underwriting is performed by Syndicate Underwriting Managers (on behalf of Names) at Lloyd's Corporation in London, which provides the service facilities for the underwriters.

LMX Spiral

The "London market excess-of-loss spiral" arose out of the practice of London market reinsurers - in both Lloyd's and company markets - reinsuring each other, usually as part of a chain of reinsurers. It led to reinsurers accumulating liabilities far in excess of their

expectations.

Loading

Part of the reinsurance premium over and above the pure loss or burning cost. This applies to premium paid by the insured and to reinsurance premium of a non-proportional contract.

London Market

The international insurance and reinsurance business written in London, consisting of:

1. International reinsurance;
2. Marine and aviation;
3. US excess and surplus lines business;
4. Direct overseas business written in the UK (home foreign).

Long Tail Business

A characteristic of certain classes of business is that losses can take a long time to be notified or to be settled. Classes of business that can produce a "run-off" of 10 years and more are referred to as "long-tail".

Loss

An event giving rise to a claim under the reinsurance/insurance contract.

Loss Carry-Forward

The transfer of losses or deficits from one accounting period (as defined within a reinsurance contract) to the following accounting period, usually for the purpose of calculating the profit commission payable. See Profit Commission.

Loss Corridor

See Loss Participation.

Loss Cost

That portion of the premium rate that relates solely to loss, that is, without provision for company expenses or profits. Referred to also as risk premium.

Loss Development

The difference between the current value of a loss and the ultimate value at time of the final settlement. This can be a difficult issue for reinsurers, but does allow investment income potential as premiums are held for several years before claims are finally settled.

Losses Occurring Reinsurance

Reinsurance cover provided on the basis that all losses occurring during the term of the reinsurance contract are covered, no matter when the loss is notified. See Claims-Made Reinsurance.

Loss Participation

A price component used in pro-rata treaty reinsurance. In a similar way that the cedant is

paid a predetermined percentage of the profit realized by the reinsurer on the business ceded (Profit Commission), a participation by the cedant in losses may be stipulated in the contract (Loss Corridor). The cedant will bear a share of the losses exceeding a specified ratio.

Loss Portfolio Entry

At the inception of a reinsurance contract, the reinsurer can be credited with its share of a proportion of the outstanding losses from the previous period. In return, the reinsurer will be obliged to pay for losses that have occurred prior to commencement of the reinsurance treaty but unsettled at the end of the previous contract period. See Clean-Cut.

Loss Portfolio Withdrawal

At the end of a reinsurance period or at cancellation, the reinsurer can be relieved of liability for losses outstanding by paying to the reinsured its share of a proportion of the outstanding losses. See Loss Portfolio Entry.

Loss Reserves

An amount set aside as a provision for outstanding claims, both reported and unreported. See also Deposit.

Market

A group of buyers and sellers; can be used to describe a geographical unit ("Asia", "Eastern Europe", "Japan"), certain organizations and entities ("the reinsurance market", "the London market", etc.) or lines of business ("the motor market").

Maximum Aggregate Amount

The reinsurer's maximum liability under an excess-of-loss cover during any one reinsurance period, based upon both the occurrence limit and the number of reinstatements and. See Reinstatement.

Mid-Tail Business

Any class of business that has a "run-off" of more than three years but less than ten years.

Minimum Premium

Used in excess-of-loss treaty reinsurance to ensure that the final adjusted premium is not less than a pre-determined amount.

Multi-Year Reinsurance

Reinsurance where the contract period is two or more years and contains cancellation restrictions for the reinsured and/or the reinsurer.

Net Line

The amount of insurance that a reinsured (or reinsurer) has at risk after deducting reinsurance (or retrocession recoveries) from its gross line.

Net Loss

The loss amount sustained after deducting all recoveries, salvage, and reinsurance.

Net Retention

The amount of liability that the reinsured/reinsurer retains for its own account after co-insurance, pro-rata or facultative reinsurance.

No Claims Discount/Bonus

A premium discount provided to the reinsured under excess-of-loss contracts, applicable after a loss-free period.

Non-Proportional Reinsurance

A form of reinsurance whereby the reinsurer makes loss payments to the reinsured only in the event that the reinsured's loss exceeds a pre-determined limit, subject usually to a maximum pre-determined limit. See also Excess-of-Loss Reinsurance.

Non-Traditional Reinsurance

See Financial Reinsurance.

Obligatory Reinsurance

Also: Treaty Reinsurance. The reinsured is obliged to cede and the reinsurer obliged to accept an entire category of risk, subject to the terms and conditions of the reinsurance contract.

Occurrence

The term is used to describe the trigger of coverage. Per occurrence cover permits all losses arising out of one event to be aggregated. In casualty business the term occurrence is broadly defined as a sudden happening that results in bodily injury or damage and which is neither expected nor intended. In property reinsurance, the term "occurrence" is usually defined as all losses from a single event that arise during a specified period of time. See Event, Hours Clauses.

Occurrence Limit

A provision in property Per Risk Reinsurance contracts that limits the reinsurer's liability for all risks involved in one occurrence. See Occurrence.

Offset Clause

A contractual accounting provision under which the reinsured and reinsurer agree that debits and credits between the parties may be set off against each other. For example, premiums due to the reinsurer may be set off against loss payments due to the reinsured. Offset may be permitted under all contracts between the parties or only under a specific contract.

Open Cover

Used in marine insurance. When there is regular transportation of goods, an open cover is arranged to avoid the necessity of separate policies for each transport. All cargo shipments within a given time are insured with a maximum limit on the value of each individual shipment.

Overriding Commission

Commission paid by the reinsurer that in addition to the basic commission required to

cover for the original acquisition costs and management expenses.

Over-Subscribed

Used to describe an over-placement (over 100%) of a reinsurance contract.

Pay back

The number of years it would take to repay a loss exhausting the reinsurance limit, assuming unchanged premium level. Compare Rate on Line.

Peril

Refers to the potential causes of losses to property insurance, such as fire, flood, earthquake, etc.

Per Occurrence Excess-of-Loss Clause

A clause in the reinsurance contract that defines how retained losses arising out of a single occurrence should be aggregated for the purpose of a reinsurance recovery.

Per Risk Reinsurance

A form of excess-of-loss reinsurance where the cover responds on a risk by risk basis, rather than on a per accident, event or aggregate basis.

Policy

The document that sets out the terms upon which the insurance or reinsurance is based.

Policy Year

Refers to all claims and premiums originating from insurance policies issued within a twelve-month period.

Pool

A joint underwriting operation of insurance and/or reinsurance in which the participants form a collective capacity to accept certain classes of risk, each participant being liable for its share. Pools can be formed to share in new or specialty lines that require particular expertise or to deal with market catastrophe exposure.

Portfolio Run-Off

When a reinsurance contract is cancelled, the reinsurer may remain liable until the premiums have been earned and all losses have been settled, that is, until the portfolio has run off. See also Run-Off.

Possible Maximum Loss

See Probable Maximum Loss.

Premium

The consideration paid or payable by the insurer/reinsurer in return for the cover provided.

Premium Portfolio Entry

At the inception of a reinsurance contract or commencement of a reinsurance period, the reinsurer may assume responsibility for policies still in force from the previous period by

being paid its share of the premiums relating to those unexpired policies.

Premium Portfolio

Withdrawal At the end of a reinsurance period or upon cancellation, the reinsurer can be relieved of its responsibility for risks still in force by returning to the reinsured that proportion of premium relating to unexpired policies. The reinsurer will then have no liability for any losses under those policies after that date.

Premium Reserves

A reinsurer may agree to deposit a proportion of the reinsurance premium as a reserve for unearned premiums, which is then set aside by the cedant for future liabilities and gradually released in account until fully earned. In return, the cedant may pay to the reinsurer interest on the reserve withheld. See also Deposit.

Premium Warranty

A guarantee given by the reinsured to pay the premium within a certain period of time. Any breach of the warranty may result in termination of the reinsurance contract and in the reinsurer not being liable for losses occurring after the due date.

Probable Maximum Loss

(Also: possible maximum loss) In fire or engineering insurance, the amount (as opposed to the sum insured or total insured value of a risk) that can be destroyed by a fire with a reasonable probability. This amount is often taken as a basis for capacity allocation and retention fixing both in facultative and in pro rata reinsurance. See also Estimated Maximum Loss.

Profit Carry-Forward

The transfer of credit or profit from one accounting period (as defined within a reinsurance contract) to the next accounting period.

Profit Commission

An additional commission paid by the reinsurer to the cedant based on a predetermined percentage of the profit realized under the contract. Granted as an incentive to the cedant to exercise caution in selection of risks ceded to the treaty.

Proportional Reinsurance

A type of reinsurance in which the reinsurer accepts a proportionate share of each risk ceded and bears the same share of any claims that occur. See also Pro-Rata Reinsurance.

Pro-Rata Reinsurance

All forms of reinsurance in which the reinsurer shares a proportional part of the original premiums and losses. Includes Surplus, Quota Share and all other sharing forms of reinsurance in which the reinsurer participates pro rata in all losses and premiums. Also known as Proportional Reinsurance.

Provisional Notice of Cancellation

Reinsurance contracts are often written on a continuous basis and may be cancelled by either party only on the anniversary date of the contract with prior written notice. Under such contracts, reinsurers may issue a provisional cancellation notice that will be

rescinded if both parties agree to continue the reinsurance beyond the anniversary date.

Provisional Premium

In excess-of-loss on a retrospectively-rated basis, the reinsured pays the reinsurer a provisional premium that is frequently a flat rate applied to the reinsured's premium base. This provisional premium can be paid quarterly, half-yearly or annually in advance and later adjusted in accordance with the rating formula. See Retrospective Rating, Deposit Premium.

Provisional Rate

See Retrospective Rating.

Quota

Share A form of pro-rata reinsurance whereby the reinsurer receives an agreed proportion of all business in a defined category of business, receives the same proportion of premium and pays the same proportion of claims. The participation in each risk is fixed and certain. See Pro Rata Reinsurance, Surplus.

Rate on Line

A method used to evaluate the rating of an excess-of-loss cover, where the reinsurance premium is expressed as a percentage of the reinsurance limit. Compare Pay Back.

Reassured

Used in life reinsurance. See Reinsured.

Reinstatement

When the reinsurance limit (amount of cover) under an excess-of-loss contract is reduced by a loss payment, the reinsurance cover is automatically reinstated to the level prior to the occurrence of that loss. Usually reinstatement is subject to the payment of a specified reinstatement premium. The number of reinstatements (unlimited or specific number) allowed is usually negotiated when the contract is placed (automatic reinstatements). The annual amount available for reinstatements under a treaty is limited by the Maximum Aggregate Amount.

Reinstatement Premium

A premium that charged for reinstating the amount of reinsurance coverage reduced as the result of a reinsurance loss payment under an excess-of-loss cover. See Reinstatement.

Reinsurance

The practice whereby one party, the reinsurer, in consideration of premium paid, agrees to indemnify another party, the reinsured, for part or all of the liability assumed by the reinsured under a policy (or policies) of insurance.

Reinsurance Contract

An agreement between a reinsurer and a reinsured for the cession and assumption of certain risks as defined in the contract.

Reinsured

Usually used in non-proportional reinsurance, an insurance company that buys reinsurance cover from a reinsurer. In Pro Rata Reinsurance called Cedant.

Reinsurer

The company who assumes all or part of the risk written by an insurance company by way of reinsurance.

Reserves

See Loss Reserves.

Retention

The amount of risk or loss that the reinsured or the reinsurer keeps for its own account or that of specified others. The Reinsurer becomes only liable for the amount of loss that exceeds the retention. In other words: the retention is the maximum amount that the reinsured is prepared to pay on any loss affecting a policy, risk or group of risks. It ensures that the reinsured has a genuine and adequate interest in the risk.

Retroactive Reinsurance

A plan or method that provides for the adjustment of final reinsurance ceding commission or premium on the basis of the actual loss experience under the reinsurance contract, subject to minimum and maximum limits. The final adjusted reinsurance premium is usually equal to the reinsurance losses multiplied by a loss conversion factor. See Provisional Premium.

Retrocession

The transaction whereby a reinsurer reinsures all or part of the reinsurance it has previously assumed.

Retrospective Rating

Reinsurance in which the ultimate premium paid by the reinsured is based upon the ultimate liabilities assumed by the reinsurer under the contract.

Reverse Rating

An experience rating where the reinsured pays higher reinsurance premium in profitable years and lower premium in unprofitable years. See Experience Rating.

Risk

1. Uncertainty of loss.
2. A term used in property insurance to describe the physical units of property at risk. Traditionally, reinsurance permits each insurance company to frame its own rules for defining units of risk.

Risk Premium

That portion of the premium allocated to enable the reinsured to pay losses (and, in some cases, claim expenses), but for which no loading has been added to cover commission, profit, taxes or other expenses.

Risk Transfer

The extent to which insurance risk is shifted from the reinsured to the reinsurer. In order for a reinsured to receive statutory and GAAP credit for reinsurance, a threshold of risk transfer must be achieved.

Run-Off

A termination provision in a reinsurance contract stipulating that the reinsurer will remain liable for losses under reinsured policies in force at the date of termination, resulting from occurrences taking place after the date of termination. See Clean Cut.

Short-Tail Business

A term that describes insurance business where it is known that claims will generally be notified and settled quickly.

Sliding Scale Commission

The remuneration payable by the reinsurer to the cedant on premiums ceded that is, within limits, directly related to the loss ratio of the treaty. Usually the reinsurer pays a provisional rate of commission on the premium ceded. At year-end, the loss ratio is calculated and applied to a predetermined sliding scale to arrive at the actual rate of commission to be paid. The lower the loss ratio the higher will be the commission payable.

Slip

A document containing details of the risk proposed for reinsurance, the premium and the participation of the reinsurer. When signed by both parties, it becomes a binding contract.

Solvency Margin

The margin by which assets surpass liabilities. The relevant supervisory authority usually regulates the solvency margin criteria.

Special Acceptance

The facultative extension of a reinsurance treaty to cover a risk not automatically included within its terms.

Standard & Poor's Claims Paying Ability Rating

Standard & Poor's opinion on the financial capacity of an operating insurance company and its ability to meet the obligations of its insurance policies in accordance with their terms. There are two ranges of ratings: (1) secure range: AAA to BBB; and (2) vulnerable range: BB to CCC.

Stop Loss Reinsurance

A type of non-proportional reinsurance where the reinsurer reimburses the reinsured for that amount by which the reinsured's aggregate losses for a specified class of business exceed a pre-determined loss ratio or amount. Used in classes of insurance subject to wide fluctuation in losses from year to year, such as hail insurance. Also known as Aggregate Excess-of-loss Reinsurance.

Subject Premium Income

That portion of the reinsured's premium to which the reinsurance premium rate is applied in order to determine the reinsurance premium due under non-proportional contracts. The subject premium may be the reinsured's written or earned premium, depending on the specific reinsurance contract.

Sudden Death

An immediate termination provision in a reinsurance contract to allow cancellation of the contract should certain events occur, such as one party going into liquidation, outbreak of war involving the reinsured's country of domicile. Special provision may be made for termination of obligations in such circumstances.

Sunrise Clause

A clause occasionally found in casualty reinsurance contracts that provides coverage for losses reported to the reinsurer during the term of the current reinsurance contract, but resulting from occurrences that took place during a prior period. Sunrise clauses are used to reactivate coverage that no longer exists due to the existence of a sunset clause. See Sunset Clause.

Sunset Clause

A clause occasionally found in casualty reinsurance stipulating that the reinsurer will not be liable for any loss not reported to the reinsurer within a specified period of time after the expiration of the reinsurance contract.

Surplus Relief

The use of admitted reinsurance on a portfolio basis to offset unusual drains against policyholders' surplus. The reinsured recaptures equity in unearned premium reserves on the business ceded through the ceding commission allowed by the reinsurer against the gross premiums ceded.

Surplus Treaty

A type of treaty reinsurance common in property reinsurance. The reinsured only reinsures in those cases where the sum insured is more than it wishes to retain. The proportion ceded varies depending on the original sum insured and the retention fixed by the reinsured. The proportion retained by the cedant is defined as a percentage of its maximum retention (or one line) to the sum insured of the risk. The maximum cession to the surplus treaty is usually expressed in numbers of lines. See Pro Rata Reinsurance.

Syndicate

A group of members at Lloyd's who pledge their financial means to underwrite insurance/reinsurance business written on their behalf by an active underwriter. Each member is financially liable for the insurance business written on its behalf.

Termination

Natural expiration of a (re-)insurance contract by lapse of time. Compare Cancellation.

Total Insured Value

The total values for insured perils and coverages for a particular risk, whether or not

insurance limits have been purchased to that amount.

Traditional Reinsurance

Reinsurance where the primary motivation is insurance risk transfer. See Risk Transfer.

Treaty

In the legal sense: a contract between two or more nations (e.g. "Treaties of Rome"). In reinsurance, it refers to coverage that is provided automatically (contrast to Facultative Reinsurance).

Treaty Reinsurance

Also: Obligatory Reinsurance. An agreement between reinsured and reinsurer(s) for the cession or assumption of certain risks as defined in the contract. Treaty reinsurance can be divided into two broad classifications:

1. the participating type which provides for sharing of risks between the cedant and the reinsurer (see Pro Rata Reinsurance); and
2. the excess-of-loss type which provides for indemnity by the reinsurer only for loss which exceeds some specified predetermined amount (see Non-Proportional Reinsurance).

Two Risk Warranty

A clause used to ensure that reinsurance coverage only responds when the reinsured sustains a loss from two or more original risks involved in the same loss occurrence.

Ultimate Net Loss

In non-proportional reinsurance, the reinsurer is liable for its share of a specified amount in excess of a certain sum, based on the reinsured's ultimate net loss. This is the sum actually paid by the reinsured in settlement of its contractual liability for losses or claims arising out of one event/risk/loss occurrence. Reasonable expenses incurred in the adjustment of such loss or claim are included, although office expenses and salaries of the employees of the reinsured are excluded. Any recoveries and salvages and sums recoverable under other reinsurances are deducted.

Underwriter

1. An employee of an insurer or reinsurer empowered to negotiate, accept or reject the terms of the (re-)insurance on behalf of his employer.
2. Sometimes used to describe an insurer
3. At Lloyd's, a representative of the underwriting members of a Syndicate; sometimes used as a shortened version of underwriting agent or underwriting manager.

Underwriting Territory

This relates to the geographical area in which original policies covered under the reinsurance agreement are written.

Underwriting Year Basis

Loss payments and reserves for claims arising under an original policy are allocated to the

year in which that policy incepted or renewed. The development of loss payments and reserves that have been allocated to a given underwriting year are monitored until all losses are finally settled. Losses allocated to a given underwriting year are measured against the written (or earned) premium for the policies commencing during that year. The development of the written (or earned) premium income is monitored in the same fashion. Underwriting year statistics allow the performance of all policies underwritten (new and renewal) during one year to be monitored accurately.

Variable Rate

The percentage or factor applied to the reinsured's subject premium to produce the reinsurance premium on non-proportional reinsurance, subject to a minimum and maximum rate, depending upon loss experience. See also Fixed Rate, Flat Rate.

Withholding Tax

Also: Premium tax. The reinsured agrees that - should any type of taxes on interest or other investment income of a withholding or similar nature be imposed in either country of residence of the reinsurer or the reinsured - the reinsurer shall receive from the reinsured full compensation for the effects of such taxes.

Working Layer

A type of excess-of-loss that is expected to be impacted by loss. Rating may be on a retrospective basis or subject to a contingent or sliding scale commission. See Retrospective Rating, Contingent Commission and Sliding Scale Commission.

Written Premium

Premium income in respect of business written (new or renewed) during an annual period.