

## Appendix D

### Glossary

This appendix lists terms that are used in a defined sense in this Issues Paper. For these terms, the glossary states the paragraph number of the first or main use of the term in this Issues Paper. The appendix also includes a number of other terms related to insurance accounting. It is not intended to be comprehensive list of all insurance accounting terms.

<b>Accrual basis of accounting</b>	The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are reported in the financial statements of the periods to which they relate	122
<b>Acquisition costs</b>	Incremental costs to sell, underwrite, and initiate a new insurance contract	318
<b>Active claims</b>	See <b>reported claims</b>	294
<b>Actuarial gains and losses</b>	<b>Experience adjustments</b> (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions	247
<b>Adjustment premium</b>	A premium determined after the contract expires, based on the declaration of details such as wages, inventory values, or the losses experienced under the contract	
<b>Allocation</b>	An amount distributed to policyholders and stockholders under the terms of a <b>participating contract</b> (sometimes called <b>distribution, dividend</b> or <b>bonus</b> )	435, A90
<b>Annual basis</b>	See <b>periodic models</b>	278
<b>Annuitant</b>	The holder of an <b>annuity</b>	
<b>Annuity</b>	A periodic payment (usually monthly) made from a stated or contingent date and continued for a fixed period, or for as long as the annuitant(s) live(s)	A44
<b>Anti-selection</b>	The tendency whereby policyholders who exercise an option in an insurance contract are likely to be those for whom the exercising the option is most favourable	A102
<b>Appraisal value</b>	A measure of the present value of future cash flows available to an insurer from both insurance contracts in force at the balance sheet date and future contracts	692
<b>Asset</b>	A resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise	128

<b>Asset and liability measurement approach</b>	An accounting model that emphasises measurement of <b>assets</b> and <b>liabilities</b> that arise from insurance contracts (contrast with <b>deferral and matching approach</b> )	157
<b>Assumption reinsurance</b>	A transfer that legally relieves the original insurer of liability under an insurance contract (sometimes known as <b>novation</b> )	509
<b>Best estimate</b>	Refers to assumptions about future experience that are neither deliberately overstated nor deliberately understated. Sometimes (not in this Issues Paper) used as a synonym for <b>expected value</b>	228
<b>Bid bond</b>	A contract under which the issuer undertakes to make a payment if another party fails to satisfy obligations undertaken in bidding for a contract.	25.9
<b>Block (or book) of insurance contracts</b>	A group of similar <b>insurance contracts</b>	184
<b>Bonus</b>	See <b>allocation</b>	435
<b>Captive (insurer)</b>	An insurer that insures only risks of a single enterprise or group (Some definitions include insurers that started as captives but now also write a limited amount of business for other enterprises or groups.)	90
<b>Cash value</b>	The amount payable to a policyholder who surrenders an insurance contract (see also <b>surrender value</b> )	386
<b>Catastrophe bond</b>	A bond that pays reduced payments of principal and/or interest if a specified event occurs (for example aggregate losses of \$X billion from an earthquake)	61
<b>Catastrophe premium</b>	Part of a premium designed to provide for events that are not expected, on average, to occur in any single contract period, but are expected to occur over an entire cycle of several contract periods	353
<b>Catastrophe provision (cat provision)</b>	A provision to cover future claims for catastrophic losses from high-severity, low-frequency events	351, A39
<b>Catch-up approach</b>	Changing the carrying amount of an item in the current period to recognise the effect of a change in estimate	251
<b>Ceding insurer</b>	The purchasing insurer in a <b>reinsurance contract</b>	35
<b>Claim handling expenses</b>	Expenses that will be incurred in processing and resolving claims, including legal and adjuster's fees and internal costs of processing claim payments	294
<b>Claim recoveries</b>	Amounts recovered by an insurer from reinsurers	504

<b>Claims development</b>	A comparison of the latest estimate of an insurer's <b>claim liabilities</b> to an earlier projection	
<b>Claims expense</b>	The amount recognised as an expense in the period for current or expected claims by policyholder	
<b>Claims Incurred But Not Reported (IBNR)</b>	Claims resulting from events that have occurred but have not yet been reported to the insurer.	
<b>Claims payable</b>	The liability for insured events that have already occurred, including claims <b>incurred but not reported (IBNR)</b> and related <b>claim handling expenses</b>	274
<b>Claims-made insurance contract</b>	An insurance contract that: (a) covers claims for events discovered during the term of the contract, even if the event occurred before the inception of the contract; and (b) does not cover events discovered after the end of the contract term, even if the events occurred during the contract term (contrast with <b>occurrence-based insurance contract</b> )	25.3, A11
<b>Closed book</b>	Contracts that exist at the reporting date, possibly including estimated renewals of those contracts (opposite: <b>open book</b> )	188
<b>Co-insurance</b>	An arrangement whereby two or more insurers enter into a single contract with the policyholder to cover a risk (and receive the related premium) in agreed proportions	91
<b>Commutation</b>	A transaction in which policyholders surrender all rights under an insurance contract in exchange for a single current payment.	583
<b>Constructive obligation</b>	An <b>obligation</b> that derives from the enterprise's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, it has indicated to other parties that it will accept certain responsibilities; and (b) as a result, it has created a valid expectation on the part of those other parties that it will discharge those responsibilities	353
<b>Contingent assets</b>	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise	Table 1
<b>Contingent liability</b>	(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or	Table 1

	(b) A present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability	
<b>Corridor approach</b>	An approach that permits or requires an enterprise not to recognise <b>actuarial gains and losses</b> that fall within certain limits	269
<b>Cost recovery model</b>	See <b>zero-balance model</b>	280
<b>Current premium period</b>	The period covered by premiums already paid	390
<b>Deductible</b>	See <b>excess</b>	
<b>Deferral and matching approach</b>	An accounting model that emphasises matching of income and expense (contrast with <b>asset and liability measurement approach</b> )	154
<b>Deferred acquisition costs (DAC)</b>	Under a <b>deferral and matching approach</b> , the unamortised portion of the acquisition costs that relate to contracts in force at the balance sheet date. This is recognised as an asset in the balance sheet, for amortisation as an expense against future margins from existing insurance contracts.	318
<b>Deferred annual accounting</b>	A method in which the premium and claim information in the financial statements relates to a twelve month period that wholly or partly precedes the reporting enterprise's own financial year. Sometimes used in reinsurance because of delays in receipt of information.	481
<b>Deferred models</b>	See <b>open-year models</b>	279
<b>Deferred premium models</b>	See <b>periodic models</b>	278
<b>Deposit accounting</b>	The method that banks and other financial institutions use to account for deposits received from other parties	35
<b>Derecognition</b>	Removing an asset or liability from the balance sheet	509
<b>Derivative</b>	A financial instrument: (a) whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable (sometimes called the "underlying") (b) that requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions; and (c) that is settled at a future date	18

<b>Deterministic approach</b>	An approach that reflects a single point estimate of the outcome of an uncertain future event (as opposed to a <b>stochastic approach</b> )	195
<b>Development risk</b>	The risk that the amount of an insurer's obligation may change after the end of a contract period. Such changes may result from late identification of insured events that occurred during the contract period, the possibility that claims will settle more quickly or in amounts greater than expected, that courts may interpret the insurer's liability differently than expected, and other factors that may change the insurer's initial estimate of settling claims.	25.5, A10
<b>Direct insurance</b>	Insurance that is not <b>reinsurance</b>	26
<b>Distributions</b>	See <b>allocations</b>	435
<b>Diversifiable risk</b>	Uncertainties that are particular to individual assets or liabilities and can be eliminated by combination with other assets or liabilities that have different risk profiles (also known as <b>specific risk</b> or <b>idiosyncratic risk</b> )	614
<b>Dividend</b>	See <b>allocation</b>	435
<b>Earned Premium</b>	The portion of premium that is attributable to risk assumed by the insurer during the accounting period	
<b>Elements of financial statements</b>	The <b>Framework</b> identifies five elements: <b>assets</b> , <b>liabilities</b> and <b>equity</b> (balance sheet) and <b>income</b> and <b>expenses</b> (income statement)	127
<b>Embedded derivative</b>	A derivative that is embedded in a financial instrument (the <b>host contract</b> ) and has economic characteristics and risks that are not closely related to the characteristics and risks of the host contract	53
<b>Embedded-value methods</b>	Prospective methods that combine: (a) measurement of liabilities using a basis required by regulatory authorities; with (b) the recognition of an asset ( <b>embedded value</b> ) that represents the right to future compensation for services provided under contracts in force at the balance sheet date and from earnings from investments related to those contracts. The asset is measured at the present value of future profits that will be released for other uses as experience unfolds and policyholder liabilities are paid.	606, 632, A74
<b>Endowment contract</b>	A life insurance contract that pays a sum of money after an agreed period of time, or on death, if earlier	
<b>Entity-specific measurement</b>	The value of an asset or liability to the enterprise that holds it, which may reflect factors that are not available (or not relevant) to other market participants	170, 545

<b>Entry value</b>	The price of a transaction in which the insurer issues a new contract, or the price at which it would issue an existing contract based on current market conditions	581
<b>Equalisation provision / equalisation reserve</b>	A <b>provision</b> or <b>reserve</b> to cover random fluctuations of claim expenses around the expected value of claims, and so equalise losses or loss ratios over the underwriting cycle. The insurer adds to the provision or reserve in profitable underwriting years. Withdrawals from the reserve are made when losses or loss ratio exceed a predetermined amount.	352, A39
<b>Equity</b>	The residual interest in the <b>assets</b> of an enterprise after deducting all its <b>liabilities</b>	128
<b>Equity instrument</b>	Any contract that evidences a residual interest in the <b>assets</b> of an enterprise after deducting all of its <b>liabilities</b>	13
<b>Excess</b>	A contract condition whereby the insured is required to pay a portion of a loss (also known as <b>deductible</b> )	
<b>Excess of loss insurance</b>	Insurance in which the insurer agrees to pay the portion of claims that exceed a certain amount	479
<b>Exit value</b>	The price that the insurer would pay to settle existing contracts in a current transaction	581
<b>Expected value</b>	The estimated probability-weighted average of all possible outcomes, without considering any adjustment that a risk-averse investor would make for risk and uncertainty (also known as the <b>mean</b> )	228
<b>Expense loading</b>	That portion of the annual premium which is intended to cover expenses such as sales expense, taxes, general administration, salaries, underwriting profit, etc.	
<b>Expense risk</b>	The possibility that expenses of servicing a book of insurance contracts may exceed the amounts expected in setting the premiums	A43
<b>Expenses</b>	Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants	788
<b>Experience Adjustments</b>	The effect of differences between previous actuarial assumptions and what has actually occurred	
<b>Explicit approach</b>	An approach in which each significant assumption is meaningful in its own right (opposite: <b>implicit approach</b> )	194

<b>Face amount</b>	The amount stated on the face of an insurance contract that will be paid at death or maturity provided all required premiums have been paid	
<b>Factor method</b>	A convention used to adjust the insurer's liability as actual experience emerges. The insurer computes the liability that would have been recorded if actual experience was the same as the assumptions. It then selects a contract feature and computes a ratio between an assumed amount and the actual amount at year end.	A64
<b>Facultative Reinsurance</b>	<b>Reinsurance</b> bought or sold on an individual account basis. That is, the reinsurer looks at each individual risk and determines whether to share in the potential profits or losses for that risk.	
<b>Fair value</b>	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction	167, 520
<b>Financial asset</b>	Any asset that is: (a) cash; (b) a contractual right to receive cash or another <b>financial asset</b> from another enterprise; (c) a contractual right to exchange <b>financial instruments</b> with another enterprise under conditions that are potentially favourable; or (d) an <b>equity instrument</b> of another enterprise	13
<b>Financial guarantee</b>	A contract that require payments to be made: <ul style="list-style-type: none"> <li>(a) in response to changes in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or similar variable;</li> <li>(b) if a debtor fails to make payment when due; or</li> <li>(c) if a debtor's income is reduced by specified adverse events such as unemployment or illness, even if the debtor continues to pay off the loan when due.</li> </ul>	65
<b>Financial instrument</b>	Any contract that gives rise to both a <b>financial asset</b> of one enterprise and a <b>financial liability</b> or <b>equity instrument</b> of another enterprise	13
<b>Financial liability</b>	Any liability that is a contractual obligation: (a) to deliver cash or another <b>financial asset</b> to another enterprise; or (b) to exchange <b>financial instruments</b> with another enterprise under conditions that are potentially unfavourable	13
<b>Financial reinsurance</b>	Transactions that have the legal form of reinsurance contracts but do not transfer significant amounts of insurance risk	37, 480

<b>Financial risk</b>	The possibility that the insurer will not earn as much as expected from investing premiums during the period from receipt to payment of benefits. It includes the possibility of duration mismatch and liquidity risk.	25.6, A10, A43
<b>Framework</b>	IASC's Framework for the Preparation and Presentation of Financial Statements	119
<b>Fresh-start approach</b>	Remeasuring an item using current information and assumptions	251
<b>Fund for future appropriations</b>	A fund used to record surplus that has not yet been allocated finally between policyholders and stockholders. Sometimes considered to be an intermediate category between <b>equity</b> and a <b>liability</b> , or a mixture of an <b>equity</b> component and a <b>liability</b> component	459, A94
<b>Fund models</b>	See <b>open-year models</b>	279
<b>Gains</b>	Income other than <b>revenue</b>	
<b>General insurance</b>	Insurance against risks that do not relate to human mortality (sometimes known as <b>property and casualty insurance</b> or <b>short-term insurance</b> ). In this Issues paper, general insurance is defined as insurance that commits the insurer to a pricing structure for not more than twelve months	76, 84
<b>General purpose financial statements</b>	Financial statements directed toward the common information needs of a wide range of users	121
<b>Going concern basis</b>	The basis that an enterprise will continue in operation for the foreseeable future and has neither the intention nor the need to liquidate or curtail materially the scale of its operations	122
<b>Horizontal group</b>	Two or more insurers (or other enterprises) that are managed on a unified basis	698
<b>Host contract</b>	A contract that includes an <b>embedded derivative</b>	53
<b>Idiosyncratic risk</b>	See <b>diversifiable</b> risk	614
<b>Implicit approach</b>	An approach in which assumptions are selected in combination with the aim of developing a meaningful measurement overall. However, individual assumptions need not be meaningful when considered in isolation. (opposite: <b>explicit approach</b> )	194
<b>Income</b>	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants	788

<b>Incurred but not reported (IBNR)</b>	Claims that will be reported in the future for events that have already occurred	294
<b>Indemnity reinsurance</b>	Reinsurance that does not relieve the original insurer of liability to policyholders	509
<b>Insurable interest</b>	A contractual, or other legal, requirement that a policyholder must have an interest in the event covered by an insurance contract	21
<b>Insurance contract</b>	A contract under which one party (the <b>insurer</b> ) accepts an insurance risk by agreeing with another party (the <b>policyholder</b> ) to make payment if a specified uncertain future event occurs (other than an event that is only a change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or similar variable)	25
<b>Insurance risk</b>	The risk present in an insurance contract, including <b>occurrence risk</b> , <b>severity risk</b> and <b>development risk</b> , but excluding <b>price risk</b> and other forms of <b>financial risk</b>	25.5
<b>Insured</b>	See <b>policyholder</b>	
<b>Insurer</b>	The issuer of an <b>insurance contract</b>	25
<b>Investment-linked contracts</b>	Insurance products that make payments to the policyholder based wholly or partly on actual or notional investment returns	78, 674
<b>Joint Working Group (JWG) on financial instruments</b>	An international working group formed by IASC and various national standard setters to pursue the objective of measuring all financial instruments at fair value	99, 791
<b>Lapse</b>	The termination of a life contract because of non-payment of premiums	
<b>Lapse Risk</b>	The possibility that policyholders may terminate contracts sooner than expected or with greater frequency	A43
<b>Liability</b>	A present <b>obligation</b> of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits	128
<b>Liability for policyholder benefits</b>	The present value of future benefit payments to policyholders	417
<b>Life insurance (life assurance)</b>	Insurance against risks that relate to human mortality. (sometimes known as <b>long-term insurance</b> or <b>life assurance</b> ) In this Issues paper, life insurance is defined as insurance that commits the insurer to a pricing structure for more than twelve months.	76, 78, 84

<b>Loading</b>	Amounts or percentages added to the “pure premium” of in pricing an insurance contract, to provide for expenses, contingencies, or profit, or to adjust the premium rate for special situations	
<b>Lock-in approach</b>	Recognising no change in either the item or the allocation pattern so that the effect of a change in estimate is recognised only as events occur	251
<b>Long-tail</b>	Those general insurance contracts (such as product liability, marine and professional indemnity insurance) under which claims are typically settled long after an insured event occurs	77
<b>Long-term insurance</b>	See <b>life insurance</b>	76
<b>Margin-driven</b>	A description of the pattern of reported income produced by a <b>policyholder-deposit approach</b>	A78
<b>Market value</b>	The amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market	167
<b>Market-value margin</b>	The premium that marketplace participants would demand (in an arm's length transaction between knowledgeable, willing parties) for bearing the uncertainty inherent in estimated future cash flows	613, 619
<b>Materiality</b>	Information is material if its non-disclosure could influence the economic decisions of users taken on the basis of the financial statements	839
<b>Mean</b>	See <b>expected value</b>	
<b>Mismatch risk</b>	The risk that arises when assets and liabilities do not respond equally to economic events, such as changes in interest rates	176, 886
<b>Mortality Risk</b>	The possibility that policyholders may die sooner or later than expected	A43
<b>Most likely amount</b>	The single most-likely result of an uncertain future event	228
<b>Mutual insurer</b>	An insurer owned by its policyholders	88
<b>Non-adjusting event after the balance sheet date</b>	Events that are indicative of conditions that arose after the balance sheet date	224, 458
<b>Nonforfeiture benefit</b>	The payment that an insurer is required to make if a policyholder terminates an insurance contract	A41
<b>Non-proportional Reinsurance</b>	Reinsurance whereby the reinsurer accepts the whole or a proportion of the liability for an individual claim or group of claims incurred by the ceding insurer above an agreed amount, normally subject to an upper limit	

<b>Novation</b>	The transfer of an insurance contract in a manner that legally relieves the original insurer of liability under the policies (sometimes known as <b>assumption reinsurance</b> )	509
<b>Obligating event</b>	A past event that leads to a present <b>obligation</b>	353
<b>Obligation</b>	A duty or responsibility to act or perform in a certain way as a consequence of a binding contract or statutory requirement or from normal business practice, custom or a desire to maintain good business relations or act in an equitable manner (see <b>Framework</b> , paragraph 60)	128
<b>Occurrence risk</b>	The possibility that the number of insured events will differ from the number expected	25.5, A10
<b>Occurrence-based insurance contract</b>	An insurance contract that covers events that occur during the term of the contract, even if those losses are discovered after the end of the contract term (contrast with <b>claims-made insurance contract</b> )	25.3, A11
<b>Onerous contract</b>	A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it	311
<b>Open book</b>	Existing and future contracts (opposite: <b>closed book</b> )	188
<b>Open-year models</b>	Models that recognise premium revenue and claims expense at a predetermined time (for example, three years) after the end of the underwriting year, or as soon as premiums, claims, and expenses can be reliably measured. Until that time, premiums received (less claims and expenses paid) are reported in the balance sheet as a fund. If the fund is deficient, the loss is recognised immediately. (also known as <b>fund models</b> or <b>deferred models</b> )	279, A26, A22
<b>Orphan estate</b>	<b>Divisible surplus</b> of uncertain ownership	456
<b>Participating contract</b>	An insurance contract that entitles policyholders to <b>allocations</b> (sometimes called <b>distributions</b> , <b>dividends</b> or <b>bonuses</b> ) of part of the insurer's profits or of the surplus generated by a specific fund or a specific group of contracts (sometimes called a <b>with-profits contract</b> )	435, A90
<b>Performance bonds</b>	A contract under which the issuer undertakes to make a payment if another party fails to satisfy a contractual obligation, such as an obligation to construct a building	25.9
<b>Periodic models</b>	Accounting models in which premiums and claims are <b>recognised</b> in financial statements as they arise (also known as <b>deferred premium models</b> or the <b>annual basis</b> )	278, A26

<b>Pipeline premiums</b>	Premiums written, but not reported to the insurer, by the balance sheet date	
<b>Policyholder</b>	The purchaser, holder or beneficiary of an <b>insurance contract</b> (also known as the <b>insured</b> )	25
<b>Policyholder-benefits models</b>	Models that measure the <b>liability for policyholder benefits</b> by focusing on the present value of future premium inflows and outflows for policyholder benefits and expenses. Premiums written are reported as revenue with a corresponding entry to record a liability for policyholder benefits and an expense. (also known as <b>prospective models</b> ; contrast with: <b>policyholder-deposit models</b> )	416, A53
<b>Policyholder-deposit models</b>	Models that measure the liability to policyholders based on the accumulation of past transactions between the insurer and policyholders. Premiums written are reported as increases in a deposit liability rather than as revenue. (also known as <b>retrospective models</b> ; contrast with: <b>policyholder-benefit models</b> )	416, A53
<b>Pool</b>	A group of insurers that pool their underwriting capacity, often for extremely large risks, such as aviation	91
<b>Premium</b>	A payment that an insurer receives as consideration for undertaking obligations under an <b>insurance contract</b>	24
<b>Premium deficiency (provision for)</b>	Additional provision recognised under a deferral-and-matching approach if the present value of estimated future claim payments arising from future events insured under existing insurance contracts exceeds the <b>unearned premium provision</b>	297
<b>Premiums ceded</b>	The portion of the premium that a <b>ceding insurer</b> passes on to a <b>reinsurer</b>	504
<b>Premiums, written</b>	Premiums that fall due for payment in the accounting period	
<b>Present value of in-force business</b>	The present value of future profits that will emerge from existing insurance contracts. Also known as <b>Value of Business Acquired</b> (VOBA), as in some accounting models this present value is recognised as an asset only when an insurer acquires another insurer or acquires a block of insurance contracts	
<b>Price risk</b>	The risk present in a <b>derivative</b> financial instrument	18, 25.5
<b>Primary Insurer</b>	The <b>direct insurer</b> indemnified by the <b>reinsurer</b> in a <b>reinsurance contract</b>	

<b>Pro Rata (or proportional) Reinsurance</b>	Reinsurance in which the <b>primary insurer</b> and the <b>reinsurer</b> participate in a fixed proportion in the premiums and losses on every risk that comes within the scope of the contract.	
<b>Profit carrier</b>	A financial indicator of the extent to which an insurer has provided services under an insurance contract or has earned related income (also known as <b>source of earnings</b> )	429
<b>Profit commission</b>	A refund to the policyholder if claims are less than a specified amount	341, 514
<b>Property and casualty insurance</b>	See <b>general insurance</b>	76
<b>Prospective approach</b>	Changing the allocation pattern to allocate the effect of a change in estimate over the remaining life of the item	251
<b>Prospective models</b>	See <b>policyholder-benefits</b> models	416
<b>Prospective reinsurance</b>	Reinsurance of claims related to events that have yet to occur (contrast with <b>retroactive reinsurance</b> )	479
<b>Provision</b>	A liability of uncertain timing or amount	Table 1
<b>Provision (or fund) for future dividends</b>	See <b>fund for future appropriations</b> (sometimes known as provision (or fund) for future distributions)	459, A94
<b>Provision for adverse deviation</b>	See <b>provision for risk and uncertainty</b>	
<b>Provision for premium deficiency</b>	See <b>premium deficiency</b>	297
<b>Provision for risk and uncertainty</b>	An explicit adjustment for the risks and uncertainties inherent in an insurance activity (sometimes known as a <b>provision for adverse deviation</b> or a <b>risk load</b> )	227
<b>Provision for unexpired risk</b>	See <b>unexpired risk</b>	297-8
<b>Prudence</b>	The inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses.	141
<b>Quota share reinsurance</b>	Reinsurance in which the reinsurer receives a portion of all premiums and agrees to assume a portion of all claims from a particular class of <b>insurance contracts</b>	479

<b>Recognition</b>	The process of incorporating an item in the balance sheet or income statement	129
<b>Reinstatement premium</b>	An extra premium that the policyholder pays under certain contracts after a claim has occurred, so that the policy will continue to cover claims for the rest of the original contract term	341, 514
<b>Reinsurance contract</b>	An <b>insurance contract</b> between two insurers (the <b>reinsurer</b> and the <b>ceding insurer</b> ) to indemnify the ceding insurer against losses on another insurance contract	41, 478
<b>Reinsurer</b>	An insurer that issues a <b>reinsurance contract</b> to another insurer	26
<b>Reported claims</b>	Claims that have been reported by policyholders but not yet paid (sometimes known as <b>active claims</b> )	294
<b>Reserve</b>	In some countries, a portion of <b>equity</b> that is not a <b>liability</b> (as defined in International Accounting Standards) but is segregated for a particular purpose. In insurance accounting, sometimes used as a synonym for <b>provision</b>	
<b>Retroactive reinsurance</b>	Reinsurance covering the development of claims that have not yet been settled but that relate to events that have occurred (contrast with <b>prospective reinsurance</b> )	479
<b>Retrocession</b>	The reinsurance outwards to another reinsurer (the <b>retrocessionaire</b> ) of risks previously accepted by the insurer as reinsurance inwards	
<b>Retrospective approach</b>	Changing the carrying amount of an item to recognise the effect of a change in estimate as if the new information had been known on inception	251
<b>Retrospective models</b>	see <b>policyholder-deposit</b> models	416
<b>Retrospectively-rated contract</b>	An insurance contract that allows the insurer to charge an additional premium ( <b>retrospective premium</b> or <b>adjustment premium</b> ) if a policyholder's claims exceed a specified amount, or that pays a refund to the policyholder (sometimes known as <b>profit commission</b> ) if claims are less than a specified amount	341, A13
<b>Return Premium</b>	A premium refund due to the policyholder, arising from an endorsement or cancellation	
<b>Revenue</b>	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, other than increases relating to contributions from	Table 1

	equity participants	
<b>Risk</b>	The possibility that actual experience will vary from assumptions made by the insurer in setting the premium	A10, A43
<b>Risk load</b>	See <b>provision for risk and uncertainty</b>	
<b>Salvage</b>	An insurer's right to sell (usually damaged) property acquired in settling the claim	335
<b>Self-insurance</b>	An enterprise's decision to retain a risk that could have been covered by insurance	93
<b>Separate account</b>	See <b>unit-linked contracts</b>	
<b>Severity risk</b>	The possibility that the cost of insured events will differ from expected cost	25.5, A10
<b>Short-tail</b>	General insurance contracts under which claims are typically shortly after (for example, within one year) the insured event	77
<b>Short-term insurance</b>	See <b>general insurance</b>	76
<b>Source of earnings</b>	See profit carrier	A69
<b>Specific risk</b>	See <b>diversifiable risk</b>	614
<b>Statutory Fund</b>	A pool of assets into which an insurer is required by regulatory or contractual requirements to pay premiums received. The assets are segregated from the insurer's general assets for the benefit of policyholders. The insurer's other creditors generally have no, or limited, access to the assets held in the fund.	663
<b>Stochastic approach</b>	An approach that considers a range of possible outcomes for an uncertain future event (as opposed to a <b>deterministic approach</b> )	195
<b>Subrogation</b>	An insurer's right to stand in the place of the policyholder and pursue third parties for payment of costs incurred in settling a claim	335
<b>Surety bonds</b>	An insurance contract that covers financial losses arising from the failure of the policyholder (or another party) to perform a specified act (for example, completion of a construction project)	
<b>Surrender value</b>	See <b>cash value</b>	
<b>Systematic risk</b>	See <b>undiversifiable risk</b>	614
<b>Term life insurance</b>	Life insurance that requires the insurer to make a payment only if the policyholder dies during the term of the contract	78

<b>Terminal Bonus</b>	A bonus declared on contracts on which a claim has been made or which are approaching maturity	
<b>Title insurance</b>	Insurance against the discovery of defects in title to land that were not apparent when the insurance contract was written	
<b>Unallocated divisible surplus</b>	The cumulative amount that is available for allocation to current or future policyholders (and, where applicable, stockholders) but remains unallocated	440
<b>Unbundling</b>	Splitting a insurance contract for accounting purposes (for example, into an insurance element and an investment element, or into a <b>host contract</b> and an <b>embedded derivative</b> )	48
<b>Underwriting</b>	The act or process of accepting an <b>insurance risk</b> .	
<b>Underwriting pools</b>	A vehicle for jointly insuring particular risks or types of risks. In such arrangements, insurers or reinsurers usually share premiums, claims and expenses in agreed ratios.	91
<b>Undiversifiable risk</b>	Uncertainty that cannot be diversified (also known as <b>systematic risk</b> )	614
<b>Unearned premiums</b>	The amount of premium deferred under a deferral-and-matching approach and treated as a liability, on the grounds that it relates to coverage of insured events that may occur after the balance sheet date	297
<b>Unexpired risk (provision for)</b>	The present value of estimated future claim payments arising from future events insured under existing insurance contracts (sometimes refers to a provision for <b>premium deficiency</b> )	297-298
<b>Unit-Linked Contracts</b>	A type of <b>investment-linked</b> contract in which payments to policyholders are linked directly to assets held in a <b>separate account</b> or to the price of units in a collective investment fund.	
<b>Universal life contract</b>	A life insurance contract that allows the policyholder to vary the level of premiums and death benefits and in which interest credited, and expenses charged, to the policy are disclosed explicitly to the policyholder.	A48, 404
<b>Unwinding of discount</b>	The change in a present value with the passage of time (if discount rates remain unchanged and previous assumptions about cash flows remain valid) – similar to interest	811
<b>Value at risk</b>	The maximum loss that an enterprise expects to loss over a given period at a given confidence level	884

<b>Value in use</b>	The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life (a form of <b>entity-specific measurement</b> )	170
<b>Value of Business Acquired</b>	See <b>Present value of in-force business</b>	
<b>Weather derivatives</b>	Contracts that require a payment based on climatic, geological or other physical variables	25.9 536
<b>Whole-life insurance</b>	Life insurance that requires the insurer to make a payment whenever the policyholder dies, regardless of when the policyholder dies, provided that policyholder has paid all premiums due	78
<b>With-profits contract</b>	See <b>participating contract</b>	435
<b>Zero-balance model</b>	A model that reports an underwriting profit of zero in the current period by increasing <b>claims expense</b> in the current period, and reducing claim expense in some future period to allow recognition of underwriting profit in that period (sometimes known as <b>cost recovery model</b> )	280, A26, A24
<b>Zillmerisation (Zillmer adjustment)</b>	An adjustment to the benefit liability to compensate for the uneven incidence of expenses in a net premium	A66

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