AGRiP Glossary of Insurance and Pooling Terms

(Compiled by AGRIP from works by Dan Klaff, Chief Executive Officer of the Association of California Water Agencies/JPIA, Captive Insurance Companies Association, "*defines reinsurance*" provided by AmRe, and other sources.)

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ACAS – Associate of the Casualty Actuarial Society (Casualty Actuarial Society).

Active Negligence - The party that was negligent took an active part in doing whatever caused the damage. For example, digging a hole and someone falls in.

ACV - Actual Cash Value. Value of property at the time of its loss or damage, determined by subtracting depreciation of the item from its replacement cost. Applies to vehicles and mobile (contractor's) equipment and other property subject to a higher rate of depreciation than the typical property types.

Admitted Reinsurance - Reinsurance provided by a reinsurer licensed or authorized in the jurisdiction in question. A company is "admitted" when it has been licensed and accepted by appropriate insurance governmental authorities of a state or country.

Aggregate - The term used to describe the cumulative amount of all losses for a period of time.

Aggregate Excess of Loss Reinsurance - A form of excess of loss reinsurance that indemnifies the reinsured against the amount by which the reinsured's losses incurred (net after specific reinsurance recoveries) during a specific period (usually 12 months) exceed either an agreed upon amount or an agreed upon percentage of some other business measure, such as aggregate net premiums over the same period or average insurance in force for the same period. This form of reinsurance also is known as STOP LOSS REINSURANCE, STOP LOSS RATIO REINSURANCE, or EXCESS OF LOSS RATIO REINSURANCE.

AGRiP - Association of Governmental Risk Pools. The national membership association of public entity pools. Formed for educational, information gathering and advocacy purposes, "to unite the pooling community to achieve excellence in pooling management, operations and services".

AIS - Associate in Insurance Services (American Institute for CPCU and Insurance Institute for America).

ALCM - Associate in Loss Control Management (American Institute for CPCU and Insurance Institute for America).

Alien Company - An insurer or reinsurer domiciled outside the U.S. but conducting an insurance or reinsurance business within the U.S.

Arbitration Clause - A clause within a reinsurance agreement providing that if the ceding company and the reinsurer fail to agree, then they select neutral arbitrators with the authority to bind both parties to a solution. Resolving differences without litigation.

ARe – Associate in Reinsurance (American Institute for CPCU and Insurance Institute for America).

ARM - Associate in Risk Management (American Institute for CPCU and Insurance Institute for America).

ARM-P - Associate in Risk Management – Public (American Institute for CPCU and Insurance Institute for America).

ARPM - Associate in Risk Pool Management (Insurance Education Association).

Association Captive Insurance Company - A captive insurance company established by members of an association to underwrite their own collective risks. An association captive usually only insures members of the sponsoring association.

Assumed Portfolio - The transfer of in-force insurance liability by an insurer to a reinsurer (or vice versa) by the payment of the unearned premium reserve on those policies alone, or by the concurrent transfer of liability for outstanding losses under those policies by the payment of the outstanding loss reserve by the insurer to the reinsurer (or vice versa). The former is a premium portfolio, the latter a loss portfolio.

Attachment Point - The dollar amount of a loss where the next layer of insurance begins to pay for the loss.

Automobile Liability - Designed to afford bodily injury and property damage liability coverage associated with owned, nonowned and hired vehicles. May include medical payments, uninsured/underinsured motorists' liability coverages.

Automobile Physical Damage - Usually a first party coverage; however, some entities have "Bailment" or "care, custody and control" liability exposures such as garages, maintenance facilities that service vehicles of others, and parking lots.

Bordereau - A report providing premium or loss data with respect to identified specific risks, which is furnished the reinsurer by the reinsured. This report typically includes the insured's name, premium basis, premium and the amount of coverage.

Burning Cost - The premium needed to cover losses based on historical experience for a proposed reinsurance agreement.

CAJPA - (Pronounced ka jaup' a.) California Association of Joint Powers Authorities. Performs regulatory and legislative lobbying as well as accreditation of Joint Powers Authorities to promote the financial stability of JPAs in California.

Cancellation - Run-off basis means that the liability of the reinsurer under policies, which became effective under treaty prior to the cancellation date of such treaty, shall continue until the expiration date of each policy; **Cut-off basis** means that the liability of the reinsurer under policies, which became effective under treaty prior to the cancellation date of such treaty, shall cease with respect to losses resulting from accidents taking place on and after said cancellation date. Usually the reinsurer will return to the company the unearned premium portfolio, unless the treaty is written on an earned premium basis.

Capacity - The maximum limit an insurer or reinsurer will make available, per policy, based on its current underwriting standards. It is a reflection of its surplus condition, its reinsurance or retrocession treaties, and also an expression of not just how much it has available, but how it wants to allocate its risk financing strength across various classes of business, coverage lines, or individual risks".

Captive Insurance Company - A risk-financing method or form of self-insurance involving the establishment of a subsidiary corporation or association organized to write insurance. Captive insurance companies are formed to serve the insurance needs of the parent organization and to escape uncertainties of commercial insurance availability and cost. The insureds have a direct involvement and influence over the company's major operations, including underwriting, claims, management policy, and investments.

Catastrophe Reinsurance - A form of reinsurance that provides coverage for losses resulting from a catastrophic event such as conflagration, earthquake or windstorm. Catastrophe loss generally refers to the total loss of an insurance company arising out of a single catastrophic event. These losses typically must exceed a specified amount and number of insurers and locations.

CEBS – Certified Employee Benefit Specialist (co-sponsored by The International Foundation of Employee Benefit Plans (IFEBP) and the Wharton School of the University of Pennsylvania)

Cede - When a company transfers risk to another company.

Ceding Commission - An amount paid by a reinsurer to the ceding company to cover the ceding company's acquisition and other expenses. The cedent's acquisition costs and overhead expenses, taxes, licenses and fees, plus a fee representing a share of expected profits - sometimes expressed as a percentage of the gross reinsurance premium.

Ceding Company or Cedent - The original or primary insurer; the insurance company that transfers its risk to a reinsurer.

CIH - Certified Industrial Hygienist (American Board of Industrial Hygiene).

CIPRA - California Institute for Public Risk Analysis. Organized to develop, analyze and disseminate information on risk management in California's public sector, especially self-insured entities and Joint Powers Authorities.

Claim - A demand of a right. In general a demand for compensatory damages resulting from the actions of another.

Claims Made Basis - The provision in a contract of insurance or reinsurance that coverage applies only to losses that occur and claims that are made during the term of the contract. (Losses occurring before the contract term are sometimes covered by the addition of "prior acts" coverage to the contract. Losses reported after the contract term are sometimes covered by the addition of "tail" coverage.) Once the policy period is over in claims-made covers, the approximate extent of the underwriter's liability is known. On the other hand, the traditional "occurrence" liability insurance method provides coverage for losses from claims that occurred during the policy period, regardless of when the claims are assessed. With the traditional "occurrence" liability coverage method, the underwriter may not discover the extent of liability for years to come from losses asserted to have occurred within the policy period. With claims-made covers that are renewed, however, losses that occurred during any period when the policy was in force are again covered if reported during the renewal term. In summary, the traditional method is similar to claims-made if the latter has added to it both "prior acts" and "tail" coverage.

Clash Cover - (also known as **Casualty Catastrophe Cover**). Reinsurance that is not exposed on a policy limit basis, i.e., the deductible on the treaty is equal to or exceeds the reinsured's maximum net exposure on any one policy. Therefore, such treaties protect against the infrequent loss involving two or more insured's in the same loss occurrence. Stated another way, it is a casualty excess of loss agreement with a retention higher than the limits on any one reinsured policy. The agreement is thus only exposed to loss when two or more casualty policies (perhaps from different lines of business) are involved in a common occurrence in an amount greater that the clash cover retention. (See also "Contingency Cover").

CLU - Chartered Life Underwriter (Chartered Life Underwriter Institute).

Commutation Clause - A clause in a reinsurance agreement, which provides for estimation, payment and complete discharge of all future obligations for reinsurance losses incurred regardless of the continuing nature of certain losses.

Contingency Cover - Reinsurance protection against an unusual combination of losses. (See also "Clash Cover").

Contingent Commissions - A payment to the ceding company in addition to the normal ceding commission allowance. It is a fixed percentage of the reinsurer's net profits after a charge for the reinsurer's overhead, derived from the subject treaty.

Contributing Excess - Where there is more than one reinsurer sharing a line of insurance on a risk in excess of a specified retention, each reinsurer contributes towards any excess loss in proportion to his original participation in such risk.

Cost of Defense Settlement - Public entities are frequently sued without a clearly stated cause of action. They are brought into litigation with the hope that they will pay something to avoid the costs of litigation, hence the term cost of defense settlement.

CPCU - Chartered Property and Casualty Underwriter (American Institute for CPCU and Insurance Institute for America).

CRM - Certified Risk Manager (The National Alliance for Insurance Education & Research).

CSP - Certified Safety Professional (Board of Certified Safety Professionals).

Cumis Counsel - Cumis refers to a lawsuit against the Cumis Insurance Society in which they were found to have controlled the defense attorney to the detriment of their insured. The court determined that the Society should have assigned separate counsel to represent the exclusive interests of the insured. The need for *cumis counsel* arises in situations where there are significant coverage issues and defense counsel is conflicted between his duty to his client and the obligations to the insurance carrier.

Data Warehouse - copy of transaction data stored on a server specifically structured for query and reporting.

Deductible - That portion of any claim for which the insured is obligated to reimburse the insurer, or to pay in a first party loss.

Defense - A defendant's denial to a complaint or cause of action.

Deposit Premium - Premium required at the beginning of a policy period based on estimated costs.

DIC - Difference In Conditions. A specialized property insurance policy written to provide coverage for perils not covered in a standard property policy. In particular, it is most often used to provide coverage for earthquake and/or flood losses.

Directors, Officers and Trustees Liability - Intended to protect nonprofit board members, officers, and directors for faulty decisions, which imperil the entity. Usually written to include entity reimbursement for legal actions and personal liability of specific wrongdoers.

Domestic Company - An insurer conducting business in its domiciliary state from which it received its charter to write insurance. (As opposed to a foreign company, an insurer conducting business in a state other than its domiciliary state; or an alien company, one domiciled outside the U.S. but conducting business within the U.S.)

Employers' Liability - Included as part of a worker's compensation insurance policy. Covers liability for losses arising out of injuries to employees that are not covered by statutory workers' compensation benefits.

Employment Practices Liability - Written to protect an entity from liabilities arising from allegations of discrimination, failure to promote or hire, harassment, ADA responsibilities, wrongful termination, etc.

Environmental Impairment Liability - Also referred to as “Pollution” and “Pollution Legal” Liability; can be written to protect an entity from actions resulting from contamination of air, water, and property. First-party (damage to owned property) and third-party (liability for damage to others) protection can often be combined.

Errors and Omissions Clause - A provision in insurance agreements which is intended to neutralize any change in liability or benefits as a result of an inadvertent error by either party. To the extent possible the parties are placed in the position they would have been if the error had not occurred.

Errors and Omissions Liability - Damages, other than bodily injury or property damage, caused by protection for the misfeasance, malfeasance or nonfeasance of public officials, employees and volunteers. May also include incidental medical personnel (paramedics), police and fire personnel, architects and plan checkers, engineers, and on-staff attorneys.

Ex Gratia Payment - A payment made for which the company is not liable under the terms of its policy. Usually made in lieu of incurring greater legal expenses in defending a claim.

Excess Insurance - Insurance that is purchased to provide higher limits than the primary policy provides.

Excess Loss - The portion of a loss that is allocated to, or paid by, excess insurance.

Excess of Loss Reinsurance - A generic term describing reinsurance which, subject to a specified limit, indemnifies the ceding company against all or a portion of the amount in excess of a specified retention. The term includes various types of reinsurance, such as catastrophe reinsurance, per-risk reinsurance, per-occurrence reinsurance, and aggregate excess of loss reinsurance. It should never be confused with “surplus share,” which always refers to a pro rata form of reinsurance. Also known as NON-PROPORTIONAL REINSURANCE.

Expense Ratio - The percentage of premium used to pay all the costs of acquiring, writing and servicing insurance and reinsurance.

Experience - The loss record of an insured or of a class of coverage. Classified statistics of events connected with insurance, of outgo, or of income, actual or estimated. What figures show to have happened in the past.

Extra Contractual Obligations (ECO) - When used in reinsurance agreements, refers to damages awarded by a court against an insurer which go beyond the coverages of the insurance policy, typically due to the insurer’s bad faith, fraud, or gross negligence in the handling of a claim.

Facultative Reinsurance - The reinsurance of part or all of (the insurance provided by) a single policy, with separate negotiation for each cession. The word “facultative” connotes that both the primary insurer and the reinsurer have the faculty or option of accepting or rejecting the individual submission (as distinguished from the obligation to cede and accept, to which the parties agree in treaty reinsurance).

Facultative Treaty - A reinsurance contract that describes how individual facultative reinsurances shall be handled.

FASB - Financial Accounting Standards Board.

FCAS – Fellow of the Casualty Actuarial Society (Casualty Actuarial Society).

Fidelity Bonds - Written as financial guarantees of employees’ honesty. Personnel with money-handling responsibilities are considered exposures to loss.

Fiduciary Liability - Covers board members, executives and other decision-making personnel with responsibilities for pension funds, retirement plans and employee benefit monies for negligent decisions that result in losses to such funds.

Financial Reinsurance - A form of reinsurance which considers the time value of money and has loss containment provisions, and is transacted primarily to achieve financial goals, such as capital management, tax planning, or the financing of acquisitions.

Flat Rate - A percentage rate applied to a ceding company’s premium writings for the classes of business reinsured to determine the reinsurance premiums to be paid the reinsurer.

Following the Fortunes - The clause stipulating that once a risk has been ceded by the reinsured, the reinsurer is bound by the same fate thereon as experienced by the ceding company.

Foreign Reinsurer - A U.S. reinsurer conducting business in a state other than its domiciliary state, where it is known as a domestic company (as opposed to a alien reinsurer: one domiciled outside the U.S. but conducting business within the U.S.).

Fronting - Most commonly refers to the practice of a non-admitted insurer (or an insured with a captive insurance company) contracting with a licensed insurer to issue an insurance policy for regulatory or certification purposes. This fronting insurer assumes little or no loss exposure; instead, financial arrangements are made to guarantee claims administration and payments. The fronting insurer is usually paid a percent of the premium.

Full Value - A term used to provide "guaranteed" replacement cost coverage, which will pay the full cost to replace damaged property regardless of the "limit" carried. Applies to buildings and personal property.

GAAP - Generally Accepted Accounting Principles.

GASB - Governmental Accounting Standards Board.

General Liability - Written to protect the member's assets against liability for property damage of or bodily injury to third parties.

IBNR - Incurred But Not Reported. That part of the total claims that is unknown at any point in time.

Incurred Loss - This is the ultimate expected total value of any claim. It includes the amount already paid, plus the estimated amount yet to be paid (reserves).

Incurred Loss Ratio - The percentage of losses incurred to premiums earned.

Inflation Factor - A loading to provide for increased medical costs and loss payments in the future due to inflation.

Intergovernmental Risk and/or Benefits Pool - (A) "…a cooperative group of governmental entities joining together to finance an exposure, liability or risk" (GFOA); (B) "An organization of public entities joined together to provide alternative risk financing/transfer mechanisms to themselves and other public entities through which particular types of risk are underwritten with contributions (premiums), losses and expenses shared in agreed rations. Intergovernmental Risk Pool includes, but is not limited to pools, authorities, joint power authorities, associations, agencies and trusts" (AGRiP Bylaws). (C). "A pool is a separate and distinct legal entity composed of public entity members that have joined together to finance an exposure, liability or risk" (AGRiP Public Entity Risk and Benefits Pool Taxonomy).

Intermediary - A reinsurance broker who negotiates contracts of reinsurance on behalf of the reinsured, receiving a commission for placement and other services rendered.

Intermediary Clause - A provision in reinsurance agreements, which identifies the intermediary negotiating the agreement. Most intermediary clauses shift all credit risk to reinsurers by providing that: the cedent's payments to the intermediary are deemed payments to the reinsurer; and the reinsurer's payments to the intermediary are not payments to the cedent until actually received by the cedent.

Inverse Condemnation - The United States Constitution and state Constitutions require that a private citizen be compensated if property is "taken" by a public entity. When the property is taken proactively it is called eminent domain. When the property is taken "accidentally," without due course, it is called inverse condemnation. Negligence need not be proven. The claimant's legal expenses are payable in addition to actual damages.

Law of Large Numbers - A mathematical concept which postulates that the more times an event is repeated (in insurance, the larger the number of homogeneous exposure units), the more predictable the outcome becomes. In a classic example, the more times one flips a coin, the more likely that the results will be 50% heads, 50% tails.

Layer - A horizontal segment of the liability insured.

Lead Reinsurer - The reinsurer who negotiates the terms, conditions, and premium rates and first signs on to the slip; reinsurers who subsequently sign on to the slip under those terms and conditions are considered following reinsurers.

Letter of Credit - A financial guaranty issued by a bank that permits the party to which it is issued to draw funds from the bank in the event of a valid unpaid claim against the other party.

Limit - The most that will be paid in a loss.

Long-Tail Liability - A term used to describe certain types of third-party liability exposures (e.g., malpractice, products, errors and omissions) where the incidence of loss and the determination of damages are frequently subject to delays that extend beyond the term the insurance or reinsurance was in force. An example would be contamination of a food product that occurs when the material is packed but which is not discovered until the product is consumed months or years later.

Loss Adjustment Expense - All expenditures of an insurer associated with its adjustment, recording, and settlement of claims, other than the claim payment itself.

Loss Development - The process of change in amount of losses as a policy or accident year matures, as measured by the difference between paid losses and estimated outstanding losses at one point in time, and paid losses and estimated outstanding losses at some previous point in time. In common usage it might refer to development on reported cases only, whereas a broader definition also would take into account the IBNR claims.

Loss Event - The total losses to the ceding company or to a reinsurer resulting from a single cause.

Loss Portfolio Transfer - The transfer of incurred losses to a third party. The assuming party hopes to profit by investing the sale price it has received over the length of time it requires to settle the claims it has assumed.

Loss Ratio - Proportionate relationship of incurred losses to earned premiums expressed as a percentage.

MAAA – Member of the American Academy of Actuaries (American Academy of Actuaries).

Malfeasance – An act that is positively unlawful.
Managing General Agent – A licensed individual, partnership or corporation holding specific contractual authority to perform supervisory underwriting and/or managerial functions on behalf of insurers in a designated geographical area and whose principal source of premium volume derives from retail sub-producers not owned by the managing general agent.

Misfeasance – Doing a lawful act in an unlawful or improper manner.

NFIP – National Flood Insurance Program administered by the Federal Emergency Management Agency in the Department of Homeland Security.
Non-Admitted Insurers - Insurance companies not licensed in a state may engage in business in the state if an admitted, properly filed company issues the policy and reinsures losses to the non-admitted reinsurer.

Non-Admitted Reinsurance - Reinsurance is non-admitted when placed in a non-admitted company and therefore may not be treated as an asset against reinsured losses or unearned premium reserves for insurance company accounting and statement purposes.

Nonfeasance – Failure to do what duty requires to be done.

Occurrence - (A) An accident, event, act or omission to act which results in "damages," "bodily injury," or "property damage" neither expected nor intended from the covered parties' conduct. (B) A provision of an insurance policy that requires it to pay for a claim caused during the policy period regardless of when it is presented. With regard to limits on occurrences, property catastrophe reinsurance agreements frequently define adverse events having a common cause and sometimes within a specified time frame. (See also "Claims Made Basis").

Offset Clause - A condition in reinsurance agreements that allows each party to net amounts due against those payable before making payment.

Operating Ratio - The arithmetic sum of two ratios: incurred loss to earned premium, and incurred expense to written premium. Considered the best simple index to current underwriting performance of an insurer.

PARMA - Public Agency Risk Managers Association. A statewide association in California for risk managers in the public sector.

Participating or Pro Rata Reinsurance - Includes Quota Share, First Surplus, Second Surplus, and all other sharing forms of reinsurance where under the reinsurer participates pro rata in all losses and in all premiums.

Passive Negligence - The party that was negligent did not take part in the action that caused the damage, but was responsible for somehow allowing it to take place. For example, a district allowed a contractor to dig a hole on district property and someone fell in.

PE - Registered Professional Engineer (National Society of Professional Engineers).

Per Risk Excess Reinsurance - Retention and amount of reinsurance apply “per risk” rather than on a per accident or event or aggregate basis.

Peril - The causes of possible loss in the property field - for example: Fire, Windstorm, Collision, Hail, etc.

Plaintiff - The party who complains or sues in a personal action. A claimant becomes a plaintiff by filing suit.

Policy Year - The year commencing with the effective date of the policy or with an anniversary of that date.

Pool - A joint underwriting operation of insurance or reinsurance in which the participants assume a fixed interest in all business written.

Portfolio Reinsurance - In transactions of reinsurance, it refers to all the risks of the reinsurance transaction.

Portfolio Run-Off - Permitting premiums and losses in respect of in-force business to run to their normal expiration upon termination of a reinsurance treaty.

Premium (Written/Unearned/Earned) - Written premium is premium registered to an insurer or reinsurer at the time a policy is issued. Premium for a future exposure period is said to be unearned premium for an individual policy. Written Premium minus unearned premium equals earned premium.

Premium, Deposit - When the terms of a policy provide that the final earned premium be determined at some time after the policy itself has been written, companies may require tentative or deposit premiums at the beginning which are readjusted when the actual earned charge has been later determined.

Premium, Pure - The portion of the premium calculated to enable the insurer to pay losses and, allocated claim expenses or the premium arrived at by dividing losses by exposure and in which no loading has been added for commission, taxes, and expenses.

PRIMA - Public Risk Management Association. A national association for risk managers in the public sector. Formed for educational and information gathering purposes.

Pro Rata Reinsurance - A generic term describing all forms of reinsurance in which the reinsurer shares a proportional part of the original losses and premiums of the ceding company. Also known as PARTICIPATING REINSURANCE and PROPORTIONAL REINSURANCE.

Professional Reinsurer - Reinsurers that offer reinsurance to other than affiliate companies. The majority of professional reinsurers provide complete reinsurance and service at one source directly to the ceding company.

Profit Commission - A provision found in some reinsurance agreements that provides for profit sharing. Parties agree to a formula for calculating profit, an allowance for the reinsurer’s expenses, and the cedent’s share of such profit after expenses.

Property Insurance - This covers damage to property, sometimes called first-party coverage.

Punitive Damages - Damages awarded separately and in addition to compensatory damages, usually on account of malicious or wanton misconduct, to punish the wrongdoer and possibly others. Sometimes referred to as “exemplary damages” when intended to “make an example” of the wrongdoer.

Pure Captive Insurance Company - Any company that insures risks of its parent and affiliated companies.

Pure Premium - That portion of the premium which covers losses and related expenses, i.e. includes no loading for commissions, taxes, or other expenses.

Quota Share Reinsurance - A form of pro rata reinsurance (proportional) in which the reinsurance assumes an agreed upon percentage of each insurance being insured and shares all premiums and losses accordingly with the reinsured. Quota share reinsurance is usually arranged to apply to the insurer’s net retained account (i.e., after deducting all other reinsurance except perhaps excess of loss catastrophe reinsurance), but practice varies. A quota share reinsurer may be asked to assume a quota share of a gross account, paying its share of premium for other reinsurance protecting that gross account.

Reciprocal or Reciprocal Risk Retention Group - An unincorporated association; reciprocal insurance is that which results from an interchange among subscribers of reciprocal agreements of indemnity, the interchange being effectuated through an attorney-in-fact common to all subscribers.

Reinstatement - The restoration of the insurance limit of an excess treaty to its full amount after payment by the reinsurer of loss as a result of an occurrence.

Reinstatement Clause - When the amount of reinsurance coverage provided under a treaty is reduced by the payment of a reinsurance loss as the result of one catastrophe, the reinsurance cover is automatically reinstated usually by the payment of a reinstatement premium.

Reinstatement Premium - An additional premium paid to replenish the limit consumed in the event of a loss.

Reinsurance - The transfer of some or all of am insurance risk to another insurer. The company transferring the risk is the ceding company, and the company receiving the risk is the reinsurer.

Reinsurer - An insurance company that accepts the risk transferred from another insurance company in a reinsurance transaction.

Rent-a-Captive - Rent-a-Captives offer the benefits of a captive insurance company without the capitalization requirements, administrative costs and legal ramifications associated with establishing and operating an insurance subsidiary, and can return underwriting profits and investment income to a participant.

Replacement Cost - The cost to replace damaged property with like kind and quality, with no deduction for depreciation, but still subject to a “limit”.

Retention - The net amount of risk which the ceding company or the reinsurer keeps for its own account.

Retrocedent - The ceding reinsurer in a retrocession, where the assuming reinsurer is known as the retrocessionnaire.

Retrocession - A reinsurance of reinsurance. The transaction whereby a reinsurer cedes to another reinsurer all or part of the reinsurance it has previously assumed.

Retrocessionnaire - The assuming reinsurer in a retrocession, where the ceding reinsurer is known as the retrocedent.

Retrospective Rating Plan - A method of establishing a premium on large commercial accounts. One in which the final premium is based on the insured's actual loss experience during the policy term, subject to a minimum and maximum premium, with the final premium determined by a formula.

RIMS - Risk and Insurance Management Society. National professional organization to promote principles of risk management and assist risk managers in their daily activities.

Risk - The net negative impact of the exercise of a vulnerability, considering both the probability and the severity of occurrence.

Risk Control - Those risk management techniques designed to minimize the frequency and/or severity of claims. Risk control techniques include exposure avoidance, loss prevention, loss reduction, segregation of loss exposures, and contractual transfer to shift losses to others.

Risk Financing - Techniques for generating funds to pay for losses that risk control methods do not entirely eliminate. There are two types of risk financing techniques -- retention and transfer. Retention involves paying for losses using an organization’s own assets; transfer involves covering losses using an outside intermediary for a consideration (such as a payment of a premium).

Risk Management - One of the specialties within the general field of management, the process of managing an organization’s activities to minimize the adverse effects of accidental losses on a cost-effective basis. Risk management has two components: risk control and risk financing.

Risk Retention Group - A group self-insured program or group captive insurance company formed under provisions of the Liability Risk Retention Act of 1986, by or on behalf of businesses joined to insure their liability exposures. Such a group is exempt from most state laws, rules or regulations, except for the state in which it is domiciled.

Risks - A term used to denote the physical units of property at risk or the object of insurance protection and not Perils or Hazard. The word is also defined as chance of loss or uncertainty of loss.
RMIS - A Risk Management Information System is a systematic process for collecting, storing and analyzing data so that it can be converted into actionable information, such as key performance indicators.

Salvage and Subrogation - Those rights of the insured that, under the terms of the policy, automatically transfer to the insurer upon settlement of a loss. Salvage applies to any proceeds from the repaired, recovered, or scrapped property. Subrogation refers to the proceeds of negotiations or legal actions against negligent third parties and may apply to either property or casualty coverages.

Self-Insurance - The planned assumption of risk.

Self-Insured Retention (SIR) – An amount per occurrence, or in the aggregate, below where excess insurance attaches, for which the insured retains the responsibility for claim handling and payment.

Sliding Scale Commission - A ceding commission, which varies inversely with the loss ratio under the reinsurance agreement.

Slip - A binder often including more than one reinsurer.

Special Acceptance - The facultative extension of a reinsurance treaty to embrace a risk not automatically included within its terms.

Special Events Policy - Designed to cover sponsorship of events, such as fireworks shows, festivals, community/entity celebrations; often written to protect other policies' loss integrity. Another type of special event coverage, known as a "tenants' and users'" policy, can be issued for third parties who rent or use facilities. (See also "TULIP").

Specialty Lines Market – Both admitted (or licensed) insurers and surplus lines insurers who underwrite specialized or hard to place insurance. "Surplus lines" is short for excess and surplus lines and is also referred to as non-admitted.

Sponsored Captive - A captive insurance company in which the minimum capital and surplus required by applicable law is provided by one or more sponsors, insures the risks of separate participants through the contract, and segregates each participant's liability through one or more protected cells.

Spread Loss - A form of reinsurance under which premiums are paid during good years to build up a fund from which losses are recovered in bad years.

Statutory Accounting Principles (SAP) - Those principles required by state law that must be followed by insurance companies in submitting their financial statements to state insurance departments. Such principles differ from generally accepted accounting principles (GAAP) in some important respects, e.g., SAP requires that expenses must be recorded immediately and cannot be deferred to track with premiums as they are earned and taken into revenue.

Stop Loss - A form of reinsurance under which the reinsurer pays some or all of a cedent's aggregate retained losses in excess of a predetermined dollar amount or in excess of a percentage of premium.

Subject Premium - A cedent's premiums to which the reinsurance premium rate is applied to calculate the reinsurance premium.

Surplus - The excess of assets over liabilities. Surplus determines an insurer's or reinsurer's ability to write business.

Surplus Lines – See "Specialty Lines Market". Surplus lines insurers have freedom from rate and form filing, but are generally subject to other state insurance department rules. Generally accept business only after it is declined in the standard market. Coverage placed with surplus lines insurers is generally not protected by state guarantee funds.

Surplus Share - A form of proportional reinsurance where the reinsurer assumes pro rata responsibility for only that portion of any risk, which exceeds the company's traditional retentions.

Syndicate - An association of individuals or organizations to pursue certain insurance objectives. For example, individual underwriters in Lloyd's of London associate in separate syndicates to write marine insurance, reinsurance life insurance, etc., entrusting the administrative details of each syndicate to a syndicate manager.

Tax Reform Act of 1984 - One section of this act redefined income related to the insurance of US-based risks as US-source income instead of foreign-source income. Another section made income from the insurance of related risks in foreign countries taxable in the current year. The net effect of these two changes was to eliminate most tax advantages for an offshore single parent captive.

Tax Reform Act of 1988 - The major change imposed by this act affected offshore group captives in that the definition of a U.S. shareholder was changed from an ownership interest of 10 percent or more to any shareholding interest.

TIV - Total Insured Values. The values shown on an insured's schedule or appraisal for property coverage. Only those items shown on the schedule are covered for loss.

Treaty Reinsurance - A standing agreement between reinsured and reinsurer for the cession and assumption of certain risks as defined in the treaty. While most treaty reinsurance provides for automatic cession and assumption, it may be optional or semi-obligatory and is not necessarily obligatory. The treaty contains provisions defining the terms of the agreement including specific risk definition, data on limits and retention, and provisions for premium payment and duration.

Trending - The necessary adjustment of historical statistics (both premium and losses) to present levels or expected future levels in order to reflect measurable changes in insurance experience over time, which are caused by dynamic economic and demographic forces, and to make the data useful for determining current and future expected cost levels.

TRIA/TRIP – Terrorism Risk Insurance Act of 2002, and the Terrorism Risk Insurance Program set up in the U.S. Department of Treasury to implement the Act.

TULIP - Tenants' and Users' Liability Insurance Program. A liability insurance policy available to provide coverage for special events but sponsored or organized by parties that do not own the property and who may not have insurance. Coverage protects both the sponsor and the property owner for losses that may occur during the event.

Ultimate Net Loss - The total sum that the assured, or any company as his insurer, or both, become obligated to pay either through adjudication or compromise.

Unearned Premium - That portion of the original premium that applies to the unexpired portion of risk.

UST - Underground Storage Tanks. Refers primarily to underground fuel tanks; used most often in reference to Underground Storage Tank Pollution Liability Program. It also includes coverage for government mandated clean-up costs.

Wholesale Broker – A licensed broker providing specialized insurance products to retail insurance agents and brokers. A wholesale broker will utilize insurers who can consider accounts that the retail agent cannot place with their standard markets. These insurers underwrite specialized or hard to place insurance.

Workers' Compensation - A statutory coverage designed as the "sole remedy" for workers injured in the course and scope of their duties.

Working Layer - The first layer above the cedent's retention wherein moderate to heavy loss activity is expected by the cedent and reinsurer.