

A

Accident & Health

Class of insurance under the Insurance Companies Act including two main types of business — personal accident and medical expenses. Personal accident policies will pay a lump sum or weekly benefits in the event of accidental death or injury. Medical expenses insurance will pay the costs of treatment for acute conditions.

Act of God

An event, which is not the fault of any individual. Acts of God can be insurable.

Actuary

A professional person qualified to apply mathematical principles to solving long-term financial problems, primarily in connection with pensions, life insurance and investment.

Additional Voluntary Contributions

Additional contributions made voluntarily by pension scheme members to boost their eventual retirement income.

Agent

A person who acts for one or small number of companies, particularly in selling insurance.

All Risks

Wider cover than given under a normal property insurance policy. Covers any loss or damage apart from exclusions stated in the policy.

Annual Premium

See “Yearly Premium”.

Annuity

An arrangement by which an insurance company pays someone a regular income, usually for life, in return for a lump sum premium.

Assistance

The provision by an insurer or a service company of immediate practical help to resolve an insured problem (e.g. arranging medical treatment abroad/organising a roadside repair).

Assurance

See “Insurance”.

AVCs

See “Additional Voluntary Contributions”.

Average

A policy condition that requires the amount of a claim payment to be reduced proportionately if the policyholder has not insured his property for the full amount of its value or replacement cost.

B

Benefit

The money paid by the life insurance company when a claim is made.

Betterment

The principle by which a claimant has to make a payment towards the cost of the claim because his or her property will be in better condition after repair than before the loss or damage occurred.

Bonus

Amount of money added to the sum insured of a “with-profits” policy. It may be added during the term of the policy (reversionary) or when the policy matures (terminal), or both.

Broker

A registered “intermediary” agent.

Buildings Insurance

A policy covering the structure of a house or other building against a number of different risks.

Business Interruption

See “Consequential Loss”.

C

Capacity

Capacity is the measure of an insurer’s ability to write new business. It depends on the maintenance of adequate reserves.

Captive Insurer

An insurance company set up by an industrial or commercial company, for example an oil company, to provide insurance to that company only.

Certificate

Document issued by insurers as evidence that insurance is in force to meet the requirements of the law (notably for motor and employers’ liability insurance).

Claim

When a policyholder or beneficiary seeks payment or settlement under the terms of a policy.

Co-Insurance

An arrangement whereby a number of separate insurance companies share in the cover of one particular risk.

Collective Life Policies

Group life policies, which do not relate to schemes established by an employer for the benefit of employees. Commonly used by credit companies to cover loans made.

Commercial Business

Any policy taken out by a company, partnership or organisation to cover their business. Would include fleet policies for motor business.

Commission

Money paid by an insurance company to a broker/ independent intermediary/agent for selling policies.

Company Representative

An agent appointed by a life insurance company who is authorised to sell only that company’s products.

Composite Insurer

A company which transacts both life and non-life insurance.

Comprehensive Insurance

A policy covering a number of types of loss or damage. The name is used mainly in motor insurance.

Condition

Part of a policy stating that certain rules must be followed, for example, the duty to take reasonable care to protect property, or to report claims to the insurance company promptly.

Consequential Loss

Insurance covering the loss of profits of a business and certain other costs resulting from fire or other insured event (also known as Business Interruption).

A policy covering the contents of a home or other building against a number of different risks.

Contingent Annuities

Annuities paid if a certain event (events) happen.

Contribution

The principle of contribution applies where a risk is insured on more than one insurance policy (for example on a travel and household policy), and the two insurers concerned may share the cost of any claim.

Convertible Term

A term insurance policy which gives the policyholder an option to convert the policy to a whole life or endowment insurance without giving further evidence of health.

Cover Note

A document giving temporary evidence of cover while the policy and certificate are being prepared.

Critical Illness Insurance

Pays out a lump sum on the diagnosis of certain life-threatening illnesses specified in the policy.

D

Decreasing Term

A term insurance policy in which the sum insured is reduced by a fixed amount each year, decreasing to nil at the end of the term.

Deferred Annuities

Annuities that commence after a specified number of years or at a specified age (usually on retirement), usually continuing through the policyholder's life.

Direct Sources of Business

Insurance business where no intermediary is involved, including marketing sources (e.g. newspaper advertisements), telephone sales and business through branch offices.

Disability Benefit

Certain life policies will pay out if the policyholder becomes permanently disabled. No further benefit is paid on the policyholder's subsequent death. (See also "Critical Illness Insurance".)

E

Employers' Liability

A compulsory class of insurance, which most employers must have to cover them against, claims by employees who are injured at work.

Endorsement

A written amendment to an insurance policy that becomes part of it.

Endowment Policy

A life insurance policy that pays a sum of money after an agreed period of time, or on the death of the policyholder, whichever happens first.

An amount of money that the policyholder has to pay towards the cost of a claim, for example, the first £50.

Excess of Loss Policy

Covers claims costs exceeding an amount specified in the policy.

Exclusion

Specified property, person or event that the policy does not cover.

Ex Gratia Payment

Any payment made by an insurance company that is not strictly necessary, under the terms of the policy.

Export Credit Insurance

Provides cover for exporters' losses arising from non-payment.

Exposure

Whether, and the extent to which, an insurer is subject to losses arising from a particular risk.

F

Family Income Policy

A type of term insurance policy that, on the death of the life insured, pays benefits by instalments until the end of a specified period.

Fatal Accident Benefit

Certain life policies will make an additional payment - over and above the sum insured - if the policyholder dies as a result of an accident.

Fidelity Guarantee Policy

A policy covering the risk of dishonesty on the part of an employee who holds a position of trust, for example, a wages clerk.

Freestanding AVCs

Additional contributions paid voluntarily into personal pension policies by employees in occupational schemes who wish to top up their pensions, but keep the money separate from the occupational scheme.

Friendly Society

Similar to a mutual insurance company. A friendly society is owned by and established for the benefit of its members, mainly through the provision of life insurance and sickness benefit.

Fully Contracted-out

Pension policy where the only premium received is the DSS rebate.

G

General Insurance

Insurance of (non-life) risks where the policy offers cover for a limited period, usually one year.

General Liability

Covers the policyholder's legal liability for injury, property damage or financial loss caused to others.

Green Card

A document issued to policyholders motoring abroad as evidence that they have the minimum insurance cover required by the law of the country visited. Not essential for European travel, because minimum legal cover is automatically included in UK policies.

Group Life

A term that relates to the provision of lump sum death in service benefits for groups of employees.

Group Permanent Health Insurance

Policies arranged by employers for their employees, providing for the payment of income during a period of incapacity due to ill health or accident. The benefit is usually payable until retirement.

Group Personal Pensions

An arrangement made for the employees of a particular employer to participate in a personal pension scheme on a group basis. This is not a separate, or occupational, pension scheme, but merely a collecting arrangement.

Group Sponsored Schemes

Scheme set up by employers for the benefit of their employees to provide life cover or a pension on retiring, or both.

H

Holiday Insurance

A policy covering certain risks connected with holidays. Usually includes cover for the costs of unavoidable cancellation, personal accident, medical treatment abroad and lost or stolen luggage.

Home-foreign

Home foreign policies are issued to provide insurance where the business is written in one country, although the risk is actually situated abroad.

Home Service

The provision and servicing of life and non-life insurance by company agents calling regularly at policyholders' homes. (See also Industrial Branch)

Household Business

Includes insurance of both structure and contents, along with any "add-ons" included within the policy such as legal expenses.

Immediate Annuities

Annuities that commence immediately, or shortly after, purchase.

Impaired Lives Register

Lists individuals who have been refused, or charged more for, life insurance, for medical reasons.

Increasing Term

A term insurance policy in which the sum insured increases each year by a fixed percentage of the original sum insured. Designed to increase policyholders' life cover as their earnings increase.

Indemnity

The principle by which policyholders are put in the same financial position after a loss as they were immediately before it.

Independent Financial Adviser

A broker or other intermediary authorised to sell or advise on the policies of any life insurance company, as well as other financial products (e.g. unit trusts).

Index-linked

Insurance where the amount of cover changes automatically in line with an index. Examples are the cost of rebuilding a house or replacing its contents.

Individual Permanent Health Insurance

Policies arranged by an individual providing for the payment of income during a period of incapacity due to ill health or accident. The benefit is paid to the policyholder until he/she is able to return to work, or until retirement.

Individual Policy

Insurance taken out by an individual on his or her own life or by an individual or legal person on the life of another.

Industrial Branch

Life insurance where premiums are collected by an insurance company agent at the policyholder's home, at intervals of less than two months, often for a relatively small amount. Whole life and endowment contracts are the only types of business written in the industrial branch.

Insurable Interest

A principle of insurance which states that someone may only take out insurance if he/she stands to suffer a financial loss from an event covered by a policy. Individuals have an unlimited insurable interest in their own life and that of their spouse.

Insurance

A service that offers financial compensation for something that may or may not happen. Originally the term assurance was generally used for life insurance, but now the two words are interchangeable.

Insurance Company

A company that takes on risks under the policies it sells in return for the payment of premiums. Companies may be "mutual" (owned by the policyholders) or "proprietary" (owned by the shareholders).

Insurance Premium Tax

A tax imposed on most non-life insurance premiums.

Insured

A person covered by an insurance policy.

Insurer

See "Insurance Company"/"Lloyd's".

Intermediary

Person or organisation that offers advice and arranges policies for clients. Intermediaries may be either "tied" - representing one company in the case of life business or a limited number of companies for general business, or "independent" - with no limit on the number of companies with which they can deal.

Investment

The act of allowing someone else to have use of your money in return for payment of interest and/or a share in profits that may be made.

Investment Income

Income earned on the money held by insurers on behalf of policyholders, having been received in premiums but not yet paid out on claims.

K

Key Person Insurance

In the event of the death of a key employee on whom the business depends for its continued profitability, or even existence, this type of cover provides a sum of money which can be used to pay for the cost of finding and training a successor, and to compensate for reduced profitability.

Knock-for-Knock

An agreement whereby each motor insurer paid for damage to its policyholder's car, regardless of which driver was to blame, providing the policy covered damage to the policyholder's own car. Currently rarely applies.

L

Legal Expenses Insurance

Covers the cost of legal proceedings in circumstances defined in the policy.

Level Premium

The same premium paid throughout the term of a policy.

Liability

Legal responsibility for causing loss to someone else by injuring him or her or damaging their property.

Life Assurance Premium Relief

Tax relief on life insurance premiums. Applies only to policies taken out before 14 March 1984.

Life Expectancy

The average length of time people are likely to live, taking into account such factors as their present age, health and occupation.

Life Fund

The pool of money, maintained by an insurance company, into which all its life insurance policyholders' premiums are paid and out of which all claims are paid.

Linked

Describes any savings product where the saver's money buys, or is deemed to buy, "units" in an investment fund and the value of the saver's fund is thus linked to the value of the units.

Lloyd's Members

Individuals on whose behalf Lloyd's policies are issued. They pledge all their personal wealth to pay losses. Corporate members were also introduced in 1994.

Lloyd's of London

An insurance market organised into syndicates, which underwrites most types of policy.

Loading

The extent to which an individual is charged more than the "average" for his/her insurance.

Long-Term Care Insurance

Provides for the cost of long-term care. Intended mainly to cover the costs of elderly people being looked after either at home or in residential care.

Long-Term Insurance

Insurance of risks where cover extends over a period of more than a year, and where predetermined premiums are often paid on

a regular basis over a long period. Frequently, these insurance contracts are intended to provide an investment vehicle as well as risk insurance, e.g. endowment policies.

Loss Adjuster

A person, independent of an insurance company but engaged and paid by it, who checks that a claim is covered and negotiates with the policyholder the amount payable for a claim.

Loss Assessor

A person who negotiates claims on behalf of policyholders.

M

Managed Funds

Schemes by which the pension funds for a group of employees buy units in various funds managed by an insurance company.

Marine Aviation and Transport

The class of insurance which embraces damage to the hull and cargo of ships and aeroplanes, and liability for property damage, injury and death to passengers and others.

Maturity

An agreed date when an endowment policy comes to an end, and the sum insured plus any bonuses earned is payable.

Mechanical Breakdown Insurance

Covers against the cost of breakdowns of household appliances or motor vehicles.

Mortgage Indemnity Insurance

Provides cover for a mortgage lender for any loss they might suffer as a result of a property on which they provided a loan being sold for less than the amount of the loan.

Mortgage Payment Protection Policy

Cover for monthly mortgage repayments in the event of accident, sickness or unemployment

Mortgage Protection Policy

A life insurance policy that covers the outstanding amount of mortgage if the policyholder dies before the loan is repaid.

Mortgage-Related Policies

Policies used both to provide protection for a mortgage loan and as a savings vehicle to repay the loan at maturity.

Motor Insurance

Covers legal liabilities arising from the use of a motor vehicle. Comprehensive policies also cover damage to the vehicle.

Mutual

An insurance company that is owned by its policyholders.

N

New-For-Old

Cover for property where an item lost or destroyed would be replaced with a brand new one, with no deduction for wear and tear. Also called "replacement as new".

No Claim Discount (or Bonus)

A reduction in a renewal premium to reflect a claim-free record; used most often in motor insurance.

Non-Motor

Non-motor includes all business written under the accident and health, general liability, pecuniary loss and property damage classes. Also known as Fire and Accident.

O

Occupational Pensions

Pension scheme provided by an employer for its employees. Contributions will be paid by the employer and often by employees also.

Schemes may be either "defined benefit" where the pension entitlement of an employee is determined by, for example, number of years' service and salary; or "defined contribution" whereby an employee's pension entitlement depends only on how much has been paid into the scheme in the form of contributions on his/her account, and the value at retirement of the sum thus accumulated.

Employers may delegate responsibility for the running of their pension scheme to an insurance company.

Ordinary Branch

Life insurance and pensions business where the premiums are usually paid through the banking system by cheque, standing order or direct debit.

Outgo

The total expenditure of an insurer in relation to any class of insurance business, comprising the cost of claims and the insurer's business expenses, including any commission paid to sales staff, brokers or intermediaries.

P

Pecuniary Loss

Covers any financial loss that may have been incurred, e.g. business interruption and mortgage indemnity policies.

Pension

A regular income paid to a person when he/she retires from work. A life company pays an insured pension from funds built up

from contributions paid while working.

Pension Annuities

Annuities which become payable on the vesting of pension policies.

Permanent Health Insurance

A policy that pays an income for as long as the policyholder is unable to work as a result of accident or illness. The benefit is usually payable until retirement date.

Persistency

The rate at which policyholders keep their policies with a life insurer.

Personal Accident Insurance

A policy that pays specified amounts of money if the policyholder is injured in an accident. Depending on the type of disability, the payments may be made weekly, for a set period, or as a lump sum.

Personal Lines of Business

Any policy taken out by an individual in his/her private capacity.

Personal Pensions

Contracts under which payments are made to an insurance company by an individual policyholder during his/her working life, in return for a regular income, to be paid after retirement.

Pluvius Insurance

Covers against losses arising as a result of bad weather.

Policy

The document providing full details of the contract between the insurer and the policyholder.

Policyholder

Person or organisation to which the insurer issues the policy. Normally the person to whom benefits are payable.

Pool Re

A Government-backed reinsurance scheme that meets the cost of claims over £100,000 occurring as a result of terrorist attacks in Great Britain.

Premium

The amount paid by the policyholder for insurance.

Private Medical Insurance

A policy that covers the cost of private medical treatment.



Product Liability Policy

Protects businesses against liability claims resulting from defects in the products they sell.

Professional Indemnity Insurance

Protects professionals against liability claims resulting from negligent work.

Property Damage

Property policies cover specified property that may be damaged or destroyed by events or perils, such as fire, storm or theft.

Proposal Form

An application for insurance cover.

Proposer

Person or company who applies to take out insurance.

Public Liability Policy

Covers legal liability for injury or damage caused to others.

R

Rate

The price of insurance, usually expressed as the cost of a unit of cover, e.g. £x per £1,000.

Reinsurance

Reinsurance is the cover insurance companies can purchase to protect themselves against large losses.

Renewable Single Premium Policy

Policies under which additional premiums can be paid later to provide increased benefits; these are at the policyholder's discretion and are non-contractual.

Renewable Term

A term insurance policy that gives the policyholder the option, after a specified period, to take out a further term policy without the need for any further evidence of health, providing the policy will not continue beyond age 65.

Renewal Notice

Notice sent to the policyholder inviting him/her to renew a policy for a further period and stating the premium payable.

Replacement-as-New

See "New-for-Old".

Reversionary Bonus

A bonus that is added to the policyholder's investment during the course of the policy.

S

Savings Policies

Policies used as a savings vehicle.

Single Premium Policy

A long-term insurance policy where the premium is paid in a single lump sum.

Solvency Margin

The solvency margin is the excess of the reserves the insurance company holds over its liabilities.

Subrogation

The right of an insurer who has indemnified a policyholder to take over any legal rights the policyholder may have had in respect of that particular claim.

Sum Insured

The amount for which property is insured, and the maximum amount which the insurance company will pay for any claim. In life insurance, the amount which is guaranteed to be paid and to which bonuses may be added.

Surrender Value

The amount of money paid to the policyholder when certain types of life policy are discontinued before the full benefit becomes payable. Not all life policies have a surrender value.

Syndicate

Group of underwriters at Lloyd's.

T

Temporary Policy

See "Term Policy".

Terminal Bonus

A bonus paid on certain life insurance policies either at maturity, or if a claim is made.

Term Policy

Life cover provided for a specified number of years. The insurer only pays out if the policyholder dies within this time.

Third Party

Someone involved in a claim who is neither the policyholder nor the insurer.

Trading Result

An insurer's overall profit/loss calculated as the underwriting result plus investment income.

U

Underinsurance

When the sum insured is not enough to

cover the maximum possible loss or damage.

Underwriter

Person who decides whether to accept a risk and calculates the premium to be charged.

Uninsurable Risk

A risk where loss is either inevitable (e.g. a house already on fire or a person suffering from a terminal illness). Also applies where damage is gradual e.g. rust and corrosion.

Unitised With-Profit

Contracts where premiums are invested in units, either in the with-profits fund or in linked funds or in a mix of both.

Unit-Linked

See "Linked".

Utmost Good Faith

The principle of insurance that requires proposers to give all relevant information to the insurer.

W

Waiver of Premium

An optional extra on a life policy that means that the insurance company will pay the premiums if the policyholder is unable to because of illness or injury.

Warranty Insurance

This type of insurance provides cover against the cost of repairs to broken down household appliances.

Whole Life Policy

A policy where premiums are paid for the rest of an individual's life, or up to a specified advanced age, and benefit is paid on the death of the person insured, whenever that occurs.

With-Profit Bonds

A single premium policy where a lump sum is paid into a with-profits fund made up of investments like company shares, fixed interest securities, commercial property and money.

Write-Off

A damaged vehicle which is not repairable, or one that would cost more to repair than the car was worth before the damage occurred. Also known as a "total loss".

Y

Yearly Premium

Recurring premiums paid over the term of the policy, at intervals specified in the policy.