



## GLOSSARY OF ACTUARIAL AND RATEMAKING TERMINOLOGY

Term	Definition
Accident	An event or occurrence which is unintended, unforeseen and unexpected; something which could not be considered as a foreseeable occurrence and consequence of an undertaking; a casualty; mishap.
Accident Date	The date of the event which gave rise to the claim.
Accident Period	Period in which an accident occurs, regardless of when the policy covering it is written, when the occurrence is reported, or when the associated claims are closed and losses are paid.
Accident Year Case-Incurred Losses	The sum of all paid losses and case reserves for a specific accident year at a specific point in time.
Accident Year Experience	Loss experience calculated by matching the total value of all losses <u>occurring</u> during a 12-month period with premiums earned for the same period.
Acquisition Cost	The cost of selling insurance; normally the agent's and broker's commission; any cost of putting the business on the books.
Actuary	A social mathematician who uses mathematical skills to define, analyze and solve complex business and social problems involving insurance; the work of actuaries involves the various contingencies which face human beings and the financial effects which such contingencies have on various insurance programs; many of these programs involve long-range financial obligations, for which actuarial forecasts are fundamental in maintaining a sound financial basis - rate-making, premium and loss reserving, investment valuation, pension benefits, and insurance statistics, among others.
Adverse Selection (Anti-Selection, Selection of Risk)	The conscious and deliberate selection of risks, segments of risk, or coverages that appear less attractive, with a higher chance of loss, than that contemplated by the applicable rate; the selection of such risks is adverse because the rate is inadequate; a tendency towards insuring risks possessing negative characteristics.
Aggregate (Aggregate Limit)	The dollar amount of insurance coverage during one specified period, usually 12 months, for all insurance losses sustained during such period; the maximum amount of coverage under an insurance policy or funding arrangement; a limitation of the total amount of losses covered by the insurance contract or self-insurance funding during a given period.
Allocated Loss Adjustment Expense (ALAE)	A monetary payment or reserve used to cover expenses incurred in settling claims; ALAE are those expenses, such as investigative fees, court fees and outside legal counsel, directly attributable to and associated with settling a particular claim.
Annual Statement (Statutory Annual Statement, Convention Blank)	The annual report format prescribed by the NAIC and the state departments of insurance; provides a summary of the company's financial operations for a calendar year, including a balance sheet supported by detailed exhibits and schedules; is filed with the state insurance department of each jurisdiction in which the company is licensed to conduct business.
Base Rates	A manual rate applied to a class of policies or to similar characteristics of a particular risk in a given territory or classification for a basic limit of liability; price per unit of insurance.
Basic Limits	The minimum amounts of insurance for which it is the practice to quote premiums in liability insurance; additional amounts are charged for by the addition of certain percentages of the premium for the minimum (basic) limits.
Calendar Year Experience	Loss experience calculated by matching total value of all losses <u>incurred</u> during a given 12 month period with the <u>premiums earned</u> for same period.
Case Reserve	The estimated amount of a claim payment; the sum of the values assigned to specific claims by the entity's case reserving procedure.
Claim	A demand received by an insured for damages resulting from a medical incident, event or occurrence.

<b>Term</b>	<b>Definition</b>
Claimant	The individual or entity making a claim against an insured; one who has suffered a collectible loss; plaintiff.
Claims-Made (Claims-Made Coverage, Claims-Made Basis)	A coverage form that provides coverage for claims reported during the policy term or funding period which occurred subsequent to the retroactive date of the coverage, and prior to the end of the policy term or funding period; once the policy period is over, the approximate extent of the insurer's liability is known; with claims-made covers which are renewed, losses which occurred during any period when the policy was in force are covered if reported during the renewal term.
Combined Ratio (Trade Ratio)	The sum of the Incurred Loss Ratio and the Expense Ratio.
Credibility	The relative confidence ascribed to historical loss experience; the value is usually expressed in terms of specific mathematical formulas and is a number between zero and one (100%); a measure of the predictive value attached to a particular body of data; a measure of statistical reliability, credence or believability; as the body of experience increases in volume, the corresponding credibility also increases.
Discounted Reserve	The present value of the payment of outstanding losses and loss adjustment expenses in the anticipated future settlement amounts, calculated at selected interest rate(s).
Earned Exposures	The exposure units actually exposed to loss during the period.
Earned Premium	That part of premium applicable to expired portion of policies insured, or that part earned under an insurance policy; includes the short-rate premium on cancellation, the entire premium on the amount of loss paid under some policies, and the entire premium on the contract on the expiration of the policy; that portion of the insurance premium calculated on a monthly, quarterly or annual basis which is to be retained by the insurer should the policy be canceled; when a premium is paid in advance for a certain time, the company is said to "earn" the premium as the time advances, for example, a policy written for three years and paid for in advance would be one-third "earned" at the end of the first year.
Excess Insurance (Excess Program)	Refers to insurance that provides protection for losses greater than a specified amount.
Expected Loss Costs	The loss costs at the mean confidence level; those losses associated with the arithmetic mean; the expected value of the probability distribution of the amount of loss which may occur during one defined period; normal loss.
Expected Loss Development	The predicted pattern of amounts paid in the full or partial settlement of claims.
Expense Ratio (Operating Ratio)	The ratio of expenses incurred expressed as a percentage of written premium; the portion of premium used to pay all the cost of acquiring, writing and servicing a policy of insurance.
Experience	The loss record of an insured or of a class of coverage; classified statistics of events connected with insurance; the out-go or income, actual or estimated of what happened in the past; figures may be compiled on accident year basis, calendar year basis or policy year basis; for underwriting purposes, the comparison of earned premium to incurred losses; the statistics related to the events connected with the assumption of risk.
Experience Modification Factor (EMF)	The ratio of actual losses to the expected losses of an insured expressed.
Experience Period	The period of time to which historical data used for actuarial analysis pertain.
Experience Rating (Loss Rating)	An individual risk rating method in which the prospective premium is based on the actual loss experience of an insured.
Exposure	Quantity used to measure relative level of risk; unit of loss potential; risk; chance of loss; healthcare professional liability is typically measured in number of occupied beds, outpatient visits, etc.

<b>Term</b>	<b>Definition</b>
Exposure Rating (Manual Rating, Tariff Rating)	A system for premium development and risk classification where filed rates, rules and classifications are applied against premium exposures, as determined by the manuals of insurance developed independently by insurance companies or by independent rating organizations, such as the Insurance Services Office, Inc. (ISO).
Exposure Year Earned Premium	The projection of written premium to ultimate.
Filings (Rate Filing, Rule Filing, Forms Filing)	Formal documents submitted to state regulatory agencies by insurance companies and rating organizations containing rates, rate-making factors, loss development factors, and the rules for applying such rates and factors.
Frequency	The number of claims (or occurrences) per exposure unit; sometimes incorrectly used to refer to the number of claims or occurrences; a relative, not an absolute, measure.
Full-Value Reserve	An undiscounted provision for the payment of outstanding losses and loss adjustment expenses in the anticipation of future settlement.
Generally Accepted Accounting Principles (GAAP)	A method of reporting the financial results of an insurer more in accordance with the going-concern basis used by other businesses; assigns income and disbursements to their proper period, as distinguished from the more conservative requirements of statutory accounting affecting insurers.
Gross Line	The total limit of liability accepted by insurer on an individual risk.
Gross Net Premium	An insurance company's total gross premium before the deduction of any commissions or costs, but after the deduction of reinsurance costs.
Gross Premium	The written premium before deducting any premium paid for reinsurance and in some cases before paying any return premiums.
Ground-Up Loss	The total amount of loss sustained before deductions are applied for reinsurance and before the application of a deductible.
Guaranteed Cost	Premium charged on a prospective basis which may be fixed or adjustable on a specified rating basis but never on a basis of loss experience.
Homogeneity	The concept of subdividing or combining statistical data related to loss exposures into groups exhibiting similar characteristics in order to improve rate-making accuracy.
Increased Limits Factor (ILF)	The ratio applied to loss costs at a given per occurrence limit.
Incurred But Not Reported (IBNR)	The loss reserve value established in recognition of the total liability for future payments on losses which have occurred but have not yet been reported to the insurance company; expected future development on claims already reported; for claims made coverage, the term IBNR represents the liability for unpaid claims that have been incurred and reported ,but not fully developed.
Incurred Expense	A cost of administering insurance which has happened, whether or not paid.
Incurred Loss	An amount representing the losses paid plus the change in outstanding loss reserves within a given period of time; losses which have happened and which will result in a claim under the terms of an insurance policy or a self-insurance mechanism; case incurred loss includes payments and reserves for individual claims, it does not include IBNR.
Incurred Loss Ratio	The ratio of losses incurred to premiums earned.
Indemnify	To pay for loss suffered.
Indexing	A procedure which adjusts rating factors in accordance with the fluctuations of a published economic index such as wage, price, cost-of-living, etc.
Inflation Factor	A loading to provide for increased expense costs and loss payments in the future due to inflation.
In-Force Exposure	Exposure units exposed to loss at a given point in time.
Insurance	The transfer of risk from one party to another party, in which the insurer promises to pay the insured an amount of money for economic losses sustained from an unexpected event, during a period of time for which the insured makes a premium payment to the insurer.
Insured	The party protected by an insurance policy.

<b>Term</b>	<b>Definition</b>
Insurer	The insurance company, or other organization providing insurance coverage.
Investment Income	Money earned from invested assets; may include realized capital gains, or be reduced by capital losses, over the same period.
Kenney Rule	The ratio of an insurer's net premium writings to its policyholder surplus which is considered safe; for multiple line companies, the ratio is 3:1.
Law of Large Numbers	A mathematical concept which postulates that the more times an event is repeated the more predictable the outcome becomes.
Layer Rating	The prediction of loss frequency and severity within a given layer.
Liability	An obligation imposed by law or equity; money owed or expected to be owed.
Liability Insurance	Protection which pays sums that an insured is legally obligated to pay, or that the insurer has agreed to pay, as damages to others as a result of the insured's negligence.
Loading (Risk Loading)	An amount added to the pure risk rate applicable to a class of risk, either to compensate the insurer for additional hazard present with an individual risk, for the insurer's expense, or for both.
Lognormal Distribution	Probability distribution that is used as a model for claim size distribution; it is positively skewed and has a range from zero to infinity.
Long-Tail Liability	A term used to describe certain types of third-party liability exposures where the incidence of loss and the determination of damages are frequently subject to delays which extend beyond the term the insurance or reinsurance was in force; malpractice, products liability, errors and omissions.
Loss	The amount the insurer is required to pay because of a happening against which it has insured; a happening that causes the company to pay; the overall financial result of some operation, as opposed to profit; the amount suffered by a person or property, with or without insurance.
Loss Adjustment Expense (LAE, Allocated Loss Adjustment Expense, ALAE, Unallocated Loss Adjustment Expense, ULAE)	Allocated - expenses incurred by the insurance company to investigate, defend and settle claims under its policies and which it specifically allocates to claim; directly identifiable expenses distinct to a particular claim; Unallocated - includes the insurer's overhead expenses and other costs of doing business such as payments to salaried employees ; cannot be specifically designated to a particular claim.
Loss Cost (a.k.a. Pure Premium)	The portion of the premium rate that is applicable solely to loss, without provision for company expenses or profits.
Loss Development (Development, Loss Lag)	The difference, on successive valuation dates, between observed values of paid and reserved amounts on known and reported claims.--- The difference between the estimated amount of loss initially reported and the amount of an evaluation of the same loss at a later date or the amount paid in final settlement.--- The uncertainty arising out of changes over time in patterns of emergence, development, reopening, settlement and payment of claims.
Loss Development Factors (LDF)	These factors are derived by mathematical analysis, are derived from line of business loss triangles, and measure the development of losses from initial reporting and reserving to final closure or settlement; used to adjust reported losses for IBNR and future development of known cases to produce an estimate of total or ultimate loss and ALAE; tool used by underwriters to set risk premium requirements.
Loss Distribution Scale	Scales that suggest distribution of ground-up premium throughout the layers in a risk.
Loss Event (Occurrence)	The total loss to the insurance company resulting from a single cause.
Loss Multiplier	Used in retrospective reinsurance rating plans to convert losses to premium and provide for loss adjustment expense, overhead and profit margin, subject to established maximums and minimums.
Loss Ratio	Proportionate relationship of incurred losses to earned premiums expressed as a percentage.

<b>Term</b>	<b>Definition</b>
Loss Reserve	An estimate of the amount of outstanding loss remaining to be paid for the reported claim; estimated expected payments for reported and unreported claims.
Loss Trend Factor	Project known or developed ultimate losses to future cost levels for a future coverage period; primarily applied in lines of business that are adversely affected by inflation, e.g. Automobile and General Liability.
Losses	Amounts paid or payable to claimants under the terms of insurance policies.
Malpractice	Improper actions or failure to exercise proper skill by a professional.
Manual	Documents which contain rules and other information regarding underwriting rules, rates, tables for return premiums, deductibles, relativity tables, minimum premiums, etc.
Manual Excess	The premium for excess amounts of insurance, as determined by tables of factors for increased limits of liability, set forth in the manuals used by insurance companies; a logical basis for rating.
Manual Rate	A charge for a unit of insurance set forth in a manual.
Merit Rating	A system of rating in which the experience of the individual risk is a factor in determining the rate.
Minimum Premium	The lowest flat or earned policy charge for which a policy will be issued or for which coverage will be provided..
Modified Expected Losses	Refers to expected loss costs, modified for the insured's own loss experience.
Negligence	The failure to exercise the care that an ordinary prudent person would exercise.
Net Premium	The gross premium less any return premium less commission.
Occurrence	An incident, event or happening; in casualty insurance this term may be defined as continual, gradual or repeated exposure to an adverse condition that is neither intended nor expected to result in injury or damage, as contrasted with an accident or sudden happening; in property contracts; occurrence is usually defined as all losses within a specified period of time involving a particular peril; general liability policies insure liability for bodily injury or property damage that is caused by an occurrence.
Occurrence Basis (Occurrence Form)	Traditional method of insurance coverage whereby coverage is provided for losses from claims which occurred during the policy period, regardless of when the claims are reported.
Operating Income (Operating Profit)	The sum of the new investment income and net underwriting income in any reporting period.
Overhead	Fixed charges which do not vary with the amount of business done.
Paid Loss	The amount of money paid on covered claims to claimants, through a particular point in time.
Paid Loss	The sum of losses for which money has been disbursed as opposed to losses incurred, which includes losses outstanding but still unpaid.
Payback Period (Payback, Amortization Period)	The period of time required for the premium to equal a single total loss, for the underwriter to be made whole; a term used in the rating of per-occurrence excess covers and represents the number of years at a given premium level necessary to accumulate total premiums equal to the indemnity; a measure of how frequently a loss might occur under the contract.
Per Occurrence Retention	The specified maximum dollar amount that will be paid on any one event.
Permissible Loss Ratio	Expected loss ratio; underwriting loss ratio; incurred losses plus loss adjustment costs, all divided by earned premiums, which an insurer expects to achieve for a given line of insurance for a specified period if the expected loss ratio is achieved, and if the insurer's operating expenses do not exceed normal levels, the insurer earns its expected underwriting profit.
Poisson Distribution	Discrete distribution employed to analyze the incidence of claims.
Policy Period	The period between a policy's anniversary dates.
Policy Year	Refers to all claims and premiums that stem from a set of insurance policies

Term	Definition
	issued over a 12 month period; based upon the year in which the policy giving rise to exposures, premiums, claims and losses is effective.
Policy Year Experience	Experience on business commencing with the effective date of the policy irrespective of when the transactions took place; determines which losses will be included in the calculation of an adjustable premium feature.
Portfolio	A defined body of insurance policies inforce; outstanding losses; company investments.
Preferred Risk	The subject matter of an insurance policy considered to be particularly desirable.
Premium	Payment required for insurance; application of the rate(s) to the individual exposures to be covered by an insurance policy.
Premium Capacity	Refers to the aggregate premium volume an insurer can write.
Profit And Contingencies	Provisions made for expenses and profit.
Prospective Rating Plan	The formula in an insurance contract for determining premium for a specified period on the basis, in whole or in part, of the loss experience of a prior period.
Pure Premium	The portion of the premium that is allocated to enable the insurance company to pay losses, but in which no loading has been added for commission, taxes or other expenses; average loss per unit of exposure; the product of frequency per unit of exposure and severity; the average loss per unit of exposure.
Rate	The price per unit of insurance.
Rate-Making	The process of establishing rates used in insurance or other risk transfer mechanisms
Rating Plan	The structure of the various elements involved in the manual rating of a specific risk.
Relativity Factors	Factors used to develop the experience of a class of exposures relative to the base risk class; for example, a relativity factor of 5.0 for a given class of risk would indicate that class expected losses to be 5 times the expected losses of the base risk class, 1.0.
Report Date	The date the insurer receives notice of the claim.
Reported Loss	The total paid and outstanding loss for known claims; case incurred loss.
Reporting Lag	The period between the loss occurrence date and the date the loss was reported.
Reserve (Outstanding Loss)	A liability; an estimate of the amount an insurer expects to pay for reported and estimated claims.
Retroactive Date	The earliest date for which coverage is afforded under a claims-made form.
Retrospective Rating	A plan or method that provides for the adjustment of final premium on the basis of the actual loss experience under the insurance contract, subject to minimum and maximum limits; the final adjusted insurance premium is usually equal to the losses multiplied by a loss conversion factor.
Retrospective Rating	A plan under which the premium is determined after the policy has expired based on contractual factors, chiefly the loss experience of the insured during the policy term.
Risk	The uncertainty of loss; the tangible or intangible things, persons, entities, items, subject to a potential loss; the subject matter of insurance policies.
Risk Classification (Class Plan, Classification)	The process of systematically arranging risks into groups or categories according similar characteristics; the purpose is to create bases for establishing statistical experience and determining rates, and to avoid unfair discrimination; each risk should bear its fair share of the overall cost of expenses and losses in relation to its own relevant expenses and hazard; it is unfair discrimination to charge different rates for similar risks, and it is equally wrong to treat risks the same which have different costs and expenses.
Risk Margin	Provides for the risk of adverse deviation from expected losses; an amount to provide for the uncertainty in a reserve estimate.

<b>Term</b>	<b>Definition</b>
Risk-Based Capital	The theoretical amount of capital that is needed to absorb the risks of operating a business with financial obligations to customers; the amount necessary to ensure that the business has an acceptably low expectation of becoming financially insolvent.
Schedule Rating	An individual risk rating system that adjusts the manual or experience-modified premium of an insured and recognizes risk characteristics that are expected to have a material effect on the insured's experience but that are not actually reflected in that experience; the application of schedule credits and debits require considerable underwriting judgment, based on objective criteria which will result in more consistent treatment of the risk than a rating system that relies on subjective evaluation.
Selection	The process of accepting and rejecting risks in the attempt to produce a profit in underwriting.
Self-Insurance	The process of setting aside funds by an individual or organization to pay for losses for which no commercial insurance is provided; the retention of sufficient exposure units by an entity to permit the operation of the law of large numbers.
Self-Insured Retention (SIR)	The risk of loss up to a specified retention that is assumed by the insured for which no commercial insurance coverage is provided.
Self-Insurer	An individual, partnership or corporation who retains all or part of the risk for its own account.
Settlement Lag	The period between the date a loss is reported and the date the claim is paid.
Severity	Average loss per claim; can be expressed on a pure loss basis, excluding all loss adjustment expenses, or can include allocated or total loss adjustment expenses.
Statutory Accounting Principles (SAP)	Those principles required by state law which must be followed by insurance companies in submitting their financial statements to state insurance departments; expenses must be recorded immediately and cannot be deferred to track with premiums as they are earned and taken into revenue.
Surplus	The remainder after a company's liabilities are deducted from its assets.
Tail Exposure	Refers to the liability for claims incurred before, but reported after, cancellation or expiration of claims-made coverage.
Tail Liability Coverage	Provides coverage for claims incurred before, but reported after, cancellation or expiration of a claims made policy.
Tariff Rate	The insurance rate established by the rating organization having jurisdiction over the class and territory.
Term	The length of time for which a policy of insurance is written.
Trend	Prospective changes in claim costs, claim frequencies, exposures, expenses and premiums; changes over time in the valuation variables as they affect obligations.
Trend Factors	Used to adjust the past loss experience to cost levels that will be expected during the projected period; includes the effect of inflation and other factors that may affect loss frequency ( the number of claims per exposure) or severity (the average size of a claim); consideration that is given to past and prospective change in claims cost
Trending	The necessary adjustment of historical premium and loss statistics to present levels or expected future levels; used to reflect measurable changes in insurance experience over time caused by dynamic economic and demographic forces; make the data useful for determining current and future expected cost levels.
Trust Fund	Legal vehicle established by the entity to allow for the systematic payment of claims and related expenses associated with a self-insurance mechanism..
Ultimate Incurred Losses	Final value of losses incurred by the insurance company as of the evaluation date.
Ultimate Losses	Total claims payments at final settlement of all claims; prior to final



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<b>Term</b>	<b>Definition</b>
	settlement, estimates of ultimate losses include reported losses and IBNR reserves.
Ultimate Net Loss	The total sum which the insurance company becomes obligated to pay either through adjudication or compromise, for litigation, settlement, adjustment and investigation of claims and suits which are paid as a consequence of the insured loss, excluding only the salaries of the company's permanent employees.
Unallocated Loss Adjustment Expenses (ULAE)	An insurer's overhead expenses and other costs of doing business such as payments to salaried employees ; costs that cannot be specifically designated to a particular claim.
Underwriting Expenses	All expenses incurred in the underwriting of a piece of business; does not include losses, loss adjustment expenses, investment expenses, policyholder dividends, or income taxes.
Underwriting Profit	Premiums less losses, loss adjustment expenses, underwriting expenses and policyholders dividends.
Unreported Losses	Losses that have not yet been identified by the insurer.
Written Exposures	Units of exposures on policies written during the policy period in question.