

Glossary of Selected Terms Used at Insurance Carriers

- ▶ Customer Analysis:
 - Financial Strength/Brand: Financial strength and corresponding ratings assigned by independent rating brokers such as AM Best, Moody's, etc.
- ▶ Product Detail:
 - Earned Premium: Premiums written that have been earned for coverage provided over a period of time. Earned premiums are recognized as revenues.
 - Loss Ratio: The ratio of incurred losses and loss adjustment expenses to net earned premiums.
 - Expense Ratio: The ratio of underwriting expenses to written premiums.
 - Gross Combined Ratio: The sum of the loss ratio and the expense ratio.
 - Gross Underwriting Profit: $\text{Gross UW Profit} = \text{Earned Premiums} - \text{Incurred Losses} - \text{All Expenses (none deferred)}$.
 - Loss Tail: The average length of time by year beyond the policy year that it takes for claims to be settled and paid.
- ▶ Carrier Underwriting:
 - Net Written Premium (NWP): The sum of premiums written by an insurance company over a period of time, less premiums ceded to reinsurance companies, plus any reinsurance assumed.
 - Surplus: Statutory equivalent of GAAP Shareholders' Equity. Defined as Net Admitted Assets less Liabilities.
 - Net Written Premiums to Surplus: Net Written Premium as a Percent of Surplus.
 - Reinsurance Methods:
 - Quota Share: Premiums and Losses are divided proportionally between the primary insurer and the reinsurance company. Can help a company grow when capital is limited.
 - Excess of Loss: Reinsurance is provided when losses are in excess of a retained layer (similar to a deductible). This option can help control losses from unusual or extreme risks.
 - Reinsurance Charge: The charge incurred for a reinsurance option as a Percentage of Gross Written Premium.
 - Net Claims % of EP: Claims incurred as a percent of Earned Premium.
- ▶ Carrier Customer Service and Claims:

- Invested Assets: Investments in government and corporate bonds, public stock, real estate, etc.
 - Claims Service Speed: The length of time it takes for a carrier to settle a claim.
- ▶ Carrier Talent Management, Investment, KPIs:
- Investment Income: Income generated from the firm's Invested Assets.
 - Investment Expenses: Expenses incurred in managing the firm's investments.
 - Current Rate of Return: The gain or loss on an investment over a specified time period, expressed as a percentage of the investment's cost.
 - Solvency Ratio: The Solvency Ratio is the core metric used in the European Union as part of Solvency II, a regulatory program begun in 2016 to assess whether an insurance company is holding enough capital to cover its exposure to extreme risks. The Solvency Ratio is defined as the market value of an insurance company's "Own Funds" (Surplus), divided by the Solvency Capital Requirement (SCR), and should be above 100%. The SCR represents an almost "worst possible case" level of capital that would cover a 1-in-200 year shock occurring in the following 12-months.
 - ROA: Return on Assets. Defined as $\text{Net Profit } \$ / \text{Total Assets}$. Indicates the efficiency in managing the assets of the firm.
 - ROE: Return on Equity. Defined as $\text{Net Profit } \$ / \text{Total Equity}$. Indicates the profitability of the shareholders' investment in the firm.
 - ROS/ROR: Return on Sales, or Return on Revenue. Defined as $\text{Net Profit } \$ / \text{Revenue}$. Indicates the firm's profit margin on revenue earned.
 - IRIS Ratios: Insurance Regulatory Information System. Developed by state insurance regulators to assist state insurance departments in allocating resources to those insurers in greatest need of regulatory attention. Several ratios are used to assess the health of insurance companies.
- ▶ Income Statement:
- Investment Income: Income generated from invested assets carried on the Balance Sheet.
 - Insurance Claims and Claims Expense: This year's paid loss and paid Loss Adjustment Expense (LAE), plus changes in Loss Reserves.
 - Amortization of Deferred Policy Acquisition Costs: Commissions and underwriting expenses that can now be expensed since the premiums have been earned. These expenses may have already been paid, but were previously deferred from an accounting standpoint and held on the Balance Sheet.

- Credit Rating Forecast: Financial strength and corresponding ratings assigned by independent rating agencies such as AM Best, Moody's, etc. Driven by balance sheet strength and operating performance.
 - LTV: Lifetime Value in Net Written Premium of the average insured covered by the carrier.
- ▶ Balance Sheet:
- Unpaid Claims and Claims Expense: Reserves for upcoming anticipated claims. Both Case and IBNR (Incurred But Not Reported) Reserves.
 - Deferred Policy Acquisition Costs: Deferred portion of underwriting expenses to be eventually matched to earned premiums and expensed on the Income Statement.
 - Other Assets: Such as Prepaid Reinsurance Premiums, Deferred Income Tax, Intangible Assets, Goodwill, Buildings, etc.

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