

## Glossary of terms

<b>Acquisition costs</b>	These represent the costs of obtaining the insurance business: they include the broker's commission, the company's sales expense, and other related expenses
<b>Capacity</b>	The maximum amount of business which may be accepted by a syndicate or a corporate member on a syndicate, expressed in terms of gross premium income net of commission
<b>Claims ratio</b>	Net incurred claims as a percentage of net earned premiums
<b>Claims incurred</b>	All claims payments and the adjustment in the outstanding claims provision of a business year and claim adjustment expenses
<b>Combined ratio</b>	The sum of the claims ratio and the expense ratio
<b>Corporate member</b>	A company incorporated with limited or unlimited liability admitted to membership of Lloyd's
<b>Expense ratio</b>	Net expenses incurred in insurance activities as a percentage of net earned premiums
<b>Exposure</b>	The maximum value of claims made on an insurer from an event or events that would result in the total exhaustion of the cover or indemnity offered by an insurance policy
<b>Funds at Lloyd's (FAL)</b>	Funds lodged and held in trust at Lloyd's as security for the policyholders and to support a corporate and to support a corporate member's overall underwriting activities. The funds must be in a form approved by Lloyd's and be maintained in value
<b>IBNR</b>	Provision for claims Incurred But Not Reported by the balance sheet date. A term used for claims arising from accidents or events that have occurred, but have not been notified to the insurer
<b>Integrated Lloyd's vehicle</b>	A company which owns or controls dedicated vehicles supporting one or more continuous syndicates and the managing agent
<b>Line size</b>	The maximum exposure or monetary value of a risk or class of risks accepted by an insurer
<b>Managing Agent</b>	An agent that runs the affairs of a syndicate
<b>RDS</b>	A realistic disaster scenario is an estimate of the losses that a syndicate would incur from a hypothetical disaster scenario (e.g. a California earthquake)
<b>Retention</b>	Amount of risk which the policyholder or insurer does not insure or reinsure but keeps for its own account
<b>Return on equity</b>	Profit after tax as a percentage of opening shareholders' equity for each period adjusted for share capital issues
<b>Risk appetite</b>	This defines the amount of risk, typically expressed in terms of a 'willingness to lose', that a business is prepared to take in order to achieve its strategic objectives, including target return.
<b>Risk tolerance</b>	The maximum level of risk that the business is willing to accept and operate at, according to set thresholds outside the risk appetite
<b>RITC</b>	Reinsurance to close. This is the premium paid by the members of the closing year of account of the syndicate to the members of the year of account that assumes these liabilities
<b>Solvency II</b>	A review of the capital adequacy regime for the European insurance industry, sponsored by the EU
<b>Syndicate</b>	A group of members underwriting insurance at Lloyd's through the agency of a managing agent, to whom a particular syndicate number is assigned