Glossary

This glossary includes the most essential property and casualty insurance and life insurance terminology as well as financial statements terms used in Sampo Group. Because of different meanings in some cases in property and casualty insurance vs. life insurance, there are two different explations for some of the insurance terms.

A

Acquisition costs
In operating expenses the acquisition costs for insurance and investment contracts (direct insurance commmissions, commissions on insurance assumed and other acquisions costs). Life insurance terminology.

Allocated investment return transferred to the technical account
Return on average technical provisions, after deducting the capital employed in insurance operations in the form of, for example, premium receivables, less reinsurance deposits and other assets plus half of the technical result before allocated interest for the year. The allocated investment return is based on risk-free interest.

Asset management under an insurance wrapper
Asset management inside insurance contract.

Assumed reinsurance
Reinsurance business received by company itself from another insurance company.

Available-for-sale financial assets (AFS)
Financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss (definition of life insurance business).

B

Beneficiary
Beneficiary is named by policyholder, and beneficiary is entitled to a benefit from insurance contract.

Bonuses
Bonuses are possibly granted to with profit-policies (life insurance policies) according to the principle of fairness. See also principle of fairness.

C

Capital base
Reported shareholders' equity after proposed dividend less intangible assets plus untaxed reserves, subordinated loans, deferred tax liabilities and unrealized gains/losses from interest-bearing securities at accrued acquisition value. The capital base must satisfy the solvency requirement. See solvency requirement.

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Calculation formula:

$$\frac{\text{solvency capital}}{\text{premiums earned from 12 months}} \cdot 100\ \%$$

Capital redemption policy
Life policy without any insurable risk, and policy consists purely of savings.

Ceded reinsurance
Part of insurance risk is transferred to reinsurer by means of reinsurance.

Cedent
Direct insurance company that reinsures a part of its direct business with a reinsurer.

Change in fair value reserve
Change in the fair value reserve in property and casualty insurance includes unrealised profit and loss (change in value) of the investment assets. Change in the fair value of financial instruments is an important element in analyzing the financial development of the life insurance business. It includes the unrealized gains or losses due to changes in the fair value of financial instruments that are classified as available-for-sale. These gains or losses are recognized on the income statement at the time they realize, i.e. when the investments are sold.

Change in liabilities for insurance and investment contracts
Change in liabilities for insurance and investment contracts shows the change in the provision for unearned premiums. The provision for unearned premiums is intended to cover anticipated claims costs and operating expenses in the future, often after several years. In P&C Insurance, this is normally calculated on a strictly proportional basis over time. In Life Insurance, various methods are applied involving assumptions on e.g. mortality, morbidity, investment yield and future operating expenses. The provision for unearned premiums generally increases when premiums are written and decreases when claims are paid.

Claims
If insured event happens, the beneficiaries named in insurance contract are paid benefits.

Claims frequency
The observed relationship during a specific period between the number of claims arising within a certain category of insurance (a certain insurance portfolio) and the number of insurance policies within the same category (the portfolio). Does not include major claims.

Claims incurred
The sum of paid claims and change in claims reserve. Includes all the claims during the year regardless if there's been payments during the same year or not.

Claims paid
Claims paid to beneficiaries.

Claims reserve/claims outstanding
Claims reserve consists of unpaid claims due to insurance events that have already happened, the claim handling costs and statutory reserves.

Combined ratio
Claims incurred and operating expenses in relation to premiums earned, expressed as a percentage.

Calculation formula:

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$$\text{combined ratio} = \text{loss ratio} + \text{expense ratio} = \text{risk ratio} + \text{cost ratio}$$

Concentration risk
If any single risk forms a considerable part of the sum of all the same kind of risks, insurance company has an increased risk for this one single risk concentration.

Cost ratio
Claims handling cost and operating expenses.

Calculation formula:

$$\frac{\text{staff costs} + \text{other operating expenses}}{\text{premiums earned}} \cdot 100\ \%$$

Credit risk
Risk that debtor doesn't pay coupons or principle and/or the market value of loans fluctuate.

Currency risk
Risk that currencies fluctuate.

D

Deductable
Part of cost of insured event is not covered by insurance company, and policyholder has to cover this part him/herself.

Defined benefit scheme
Life insurance policy, where premiums are calculated based on agreed benefits (for example salary).

Defined contribution scheme
Policy, where benefits are calculated based on premiums (life insurance terminology). See also defined benefit scheme.

Direct insurance
Insurance business that relates to contracts concluded between insurers and insured. The insurance company is directly responsible in relation to the insured.

Direct insurance
Insurance contract between insurance company and non-reinsurer.

Direct investment return
Operating surplus from buildings and land, dividends on shares and participations and interest income.

Discount rate
Future outflows and inflows of for example life insurance contracts are changed to present value of money by using discont rate. This present value is used to calculate the liability for insurance company from its insurance contracts.

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Dividend per earnings
Dividend per earnings shows the amount of dividends distributed in relation to the earnings. This gives a picture of how much of the earnings are used for direct return to shareholders versus investments in future activities and naturally, the profitability of the company.

Calculation formula:

$$\frac{\text{dividend per share}}{\text{earnings per share}} \cdot 100\ \%$$

E

Earnings per share (EPS)
The Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. The EPS is thus profitability measure. It is especially useful when comparing subsequent years' EPS figures and their development. If the amount of shares changes from year to year (e.g. due to a split), this change has to be taken into account when EPS comparison is made.

Calculation formula:

$$\frac{\text{profit for the financial year attributable to the parent company's equity holders}}{\text{adjusted average number of shares}}$$

Economic capital (EC)
Estimate for required capital, estimated by Sampo Group.

Effective dividend yield
Effective dividend yield shows how much the dividend was in relation to the value of the share at the end of the year. This figure added to the share value development show the direct monetary return on the share investment in the company.

Calculation formula:

$$\frac{\text{dividend per share}}{\text{adjusted closing share price at 31 Dec.}} \cdot 100\ \%$$

Embedded value
Value of life insurance company, which consists of the future profit from in-force policies from their whole life cycle (value of in-force) and company's own assets (NAV).

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EPS including change in the fair value reserve
This figure shows what EPS would be if market value changes in available-for sale investment portfolios would be recorded.

Calculation formula:

$$\frac{\text{profit for the financial year} \pm \text{change in the fair value reserve} \pm \text{minority interest}}{\text{adjusted average number of shares}}$$

Equalisation reserve
Buffer against fluctuations of risk results.

Equity per share
Equity per share indicates how much capital there is per share.

Calculation formula:

$$\frac{\text{equity attributable to parent company's equity holders}}{\text{adjusted number of shares at balance sheet date}}$$

Equity risk
Risk that market values of equities fluctuate.

Equity/assets ratio
Equity/assets ratio tells how much the company has equity in relation to its total assets.

Calculation formula:

$$\frac{+\ \text{total equity} \pm \text{valuation differences on investments less deferred tax}}{+\ \text{balance sheet total} \pm \text{valuation differences on investments}} \cdot 100\ \%$$

Expense ratio
Ratio between operating expenses and premiums earned expressed as a percentage.

Calculation formula:

$$\frac{\text{staff costs} + \text{other operating expenses} - \text{claims settlement expenses}}{\text{premiums earned}} \cdot 100\ \%$$

Expense ratio
Expenses divided by loading income. Expense ratio measures the effectiviness of life insurance activities.

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Expense result
Loading income minus expenses (life insurance terminology).

F

Fair value reserve
Fair value reserve in equity include valuation difference and change in fair value of available for sale investments and after deferred tax.

Financial assets designated as at fair value through profit or loss
Financial assets that are classified as held for trading and upon initial recognition it is designated by the entity as at fair value through profit or loss.

Fixed income assets
Assets that generate fixed or variable interest.

G

Gross premiums written (P&C Insurance)
Total premiums received during the financial year or taken up as a receivable at the end of the year. In contrast to net premiums earned, premiums written are not capitalized; i.e. they are unaffected by opening and closing provisions for unearned premiums.

Group pension
Pension insurance, there the policyholder is company and insureds are a named group of company's employees.

Group solvency ratio
Group solvency ratio tells us how much the company has eligible own funds in relation to the minimum requirement for the own funds set by the supervising regulators. Supervisors define what items can be included in the eligible own funds. The minimum requirement for the own funds is the supervisor's view on how much capital is needed to cover the risks taken by the business operations of the Group.

Guaranteed interest
With-profit policies are promised guaranteed fixed interest rates (life insurance terminology).

H

Health insurance
Policy covering medical costs.

Held to maturity investments (HTM)
Financial assets with fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

Individual life insurance (with-profit/unit linked)
Life policy, in which a person is insured.

Individual pension insurance (with-profit/unit-linked)
Pension policy, in which a person is insured.

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Insurance margin
Technical result less other technical income and expense in relation to net premiums earned, expressed as a percentage. Compare with Technical result.

Insurance policy
IFRS-categorisation for policy, where considerable insured risk is transferred from policyholder into insurance company.

Insurance premiums written (life insurance)
Represents the gross premiums written (i.e. the money received from insurance and investment contracts during the financial year) before the part of premiums that is attributable to reinsured policies deducted (policies refer to policies, whose risk is transferred to other insurers).

Insurance technical result
Company's result before extraordinary items, finance costs and taxes (life insurance company) or company's result before return on investment (P&C insurance company).

Insured
Person or company, who is insured against event described in insurance contract.

Interest rate risk
Then interest rates fluctuate, so do also the market values of assets and liabilies. With-profit policies are promised interest rate guarantees, and company has to earn these guarantees from its investments.

Investment assets
Assets that resemble a capital investment, including real estate and securities, as well as all investments in group and associated companies.

Investment assets
Company's investment assets. Company invests the premius received and own equity into financial markets for example into stocks, bonds, properties etc.

Investment policy
IFRS-categorisation for life policy, which has no risk cover (for example capital redemption policy).

Investment result
Net income from investments deducted by paid guaranteed interest rates and possible bonuses.

Investment return
Amount of investment returns from company's investments or this amount divided by investments.

L

Liabilities for insurance and investment policies
Liabilities for insurance and investment policies.

Liability adequacy test
Test required by IFRS, that the technical reserves are adequate to cover future insured events.

Life insurance
Insurance, which usually consists of two different components 1) savings part (endowment) and 2) risk life cover. In addition other supplementary covers can also be included like cover for temporary disability or disability, medical cover etc.

Life risk
Life insurance company bears the risk that insurance premiums or liabilities are inadequate.

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Loading income
To cover its expenses, life insurance company deducts loading from its policies. The sum of deducted loadings is loading income.

Longevity risk
Life insurance company bears the risk of insureds living in those policies, there the possible death cover is lower than savings. Company makes loss, if people live older than company has priced this risk.

Loss ratio (or claims ratio)
Claims incurred and premiums earned expressed as a percentage.

Calculation formula:

$$\frac{\text{claims incurred + claims settlement expenses}}{\text{premiums earned}} \cdot 100\ \%$$

M

Market risk
Risk that market values of assets and liabilities fluctuate.

Market value of liabilities
Sum of liabilities calculated in market-consistent way. There is no active trading between insurance companies liabilities, so market value of liabilities is estimated using pricing methods used and accepted in financial markets.

Minimum solvency margin
Regulator has given instructions to calculate minimum solvency margin, which insurance company has to exceed.

Mortality risk
Life insurance company bears the risk of insureds dying in those policies, there the possible death cover is higher than savings. Company makes loss, if people die sooner than company has priced this risk.

N

Net asset value per share
The NAV per share figure is similar to the 'equity per share' figure but in NAV per share all investments are valued at market prices. If a company has a NAV per share larger than its share price it means that the markets think that the company is not able to create value to its assets. If the NAV per share is smaller than the share price, the markets think that the company will create additional value on its assets in the future and this can be seen in the share price.

Calculation formula:

$$\frac{\text{equity attributable to parent company's equity holders} \pm \text{valuation differences on investments} \pm \text{deferred tax related to valuation differences on investments}}{\text{adjusted number of shares at balance sheet date}}$$

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Net business
That part of the insurance business for which the insurance company assumes the risk and which is thus not reinsured with other companies.

Net income from investments
Income from investments decucted by costs of these investments.

Net premiums written
Gross premiums written less ceded reinsurance premiums.

O

Operating expenses
Operating expenses include expenses for the acquisition, management, administrative and investment management of insurance conracts and also commissions on reinsurance ceded.

Operating expenses in insurance operations
Expenses related to the acquisition or renewal of insurance contracts plus corporate administration costs.

Operational risk
Operational risk is the risk of loss arising from inadequate or failed processes or from external events (life insurance terminology).

P

P&C Insurance
Collective term for property insurance, liability insurance and reinsurance. Property insurance involves the type of insurance that covers the economic value of one or several objects (such as movable property in a home, car, boat, factory building or warehouse). Other types of property and casualty insurance mainly cover various interests (such as, business interruption insurance or liability insurance), where only a specific economic interest is covered, not the economic value of one or several objects.

Paid-up policy
Policy changes into paid-up status, if it is agreed, that policyholder stops paying premiums.

Pension insurance
Insurance for pension cover.

Policyholder
Person or company, who pays insurance cover from insurance company.

Premium income
Premiums paid by policyholders.

Premium income on own account
Premium income deducted by reinsurer's share of premiums.

Premiums earned
That portion of gross premiums written that pertains to the fiscal year, meaning premiums written adjusted for changes in the provision for unearned premiums.

Premiums in pure risk insurance
Premium income from those life insurance policies, that only have death cover and no savings.

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Price/earnings ratio (P/E)
A company's P/E shows how high its shares are priced on the markets in relation to its earnings. A high P/E usually indicates that the markets expect that the company's earnings will grow in the future.

Calculation formula:

$$\frac{\text{adjusted closing share price at 31 Dec.}}{\text{earnings per share}}$$

Principle of fairness
Life insurance company gives possibly a part of its profit as bonuses to its policyholders according to its interpretation of principle of fairness, if company and policyholder have agreed on this and if company's solvency is not endangered by these bonuses. If bonuses are paid, the source of profit is recognized and bonuses are paid according to the source of profit and between different interest rate guarantees.

Profit
Difference between income and expenses from insurance contracts.

Profit at market values
Profit before taxes plus the change in market values of assets before deferred taxes.

Property risk
Risk that property prices fluctuate.

Provision for unearned premiums
Part of companys technical reserves, which consists of difference between future insured benefits and future premiums.

R

Regular premium
Several regural premiums are paid in regular premium insurance.

Reinsurance
Insurance company doesn't bear all the insurance risks by itself and therefore company buys insurance cover for part of its risk from another insurance company.

Reinsurer's share
Insurer buys reinsurance cover from reinsurer, and reinsurer is liable respectively of insurers liabilities and claims.

Return on assets (RoA)
Return on assets (RoA) indicates how much return the company generates to assets invested in the company, i.e. both equity and liabilities. RoA can vary substantially depending on the industry and the amount of assets that it ties up. Therefore RoA comparisations between different industries are not necessarily relevant.

Calculation formula:

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$$\frac{\text{operating profit + interest and other financial expenses + calculated interest on technical provisions} \pm \text{change in fair value reserve} \pm \text{change in valuation differences on investments}}{\text{+ balance sheet total - technical provisions relating to unit-linked insurance} \pm \text{valuation differences on investments (average figures)}} \cdot 100\ \%$$

Return on Equity

Return on Equity (RoE) indicates how much return the company is able to generate for the money shareholders have invested in (simplified formula: profit after tax/average equity during the year). The more liabilities the company has relative to equity, the more volatile RoE is to variations in profit. The RoE is also useful for comparing profitability of different firms in the same industry.

Calculation formula:

$$\frac{\text{profit before tax} \pm \text{change in fair value reserve} \pm \text{change in valuation differences on investments} - \text{tax (incl. change in deferred tax relating to valuation differences on investments)}}{\text{+ total equity} \pm \text{valuation differences on investments less deferred tax (average figures)}} \cdot 100\ \%$$

Risk life policy

Policy for insured's death cover.

Risk policy

Policy covering different risks (for example death, permanent disability, medical cover, accident etc.).

Risk ratio

Ratio between insurance claims, excluding claims adjustment costs, and premiums earned, expressed as a percentage. Risk ratio shows how well the insurance company has succeeded in pricing the insurance risk. The lower the ratio the better.

Calculation formula:

$$\frac{\text{claims incurred}}{\text{premiums earned}} \cdot 100\ \%$$

Risk result

Risk premiums deducted by life insurance company minus the risk benefits paid/to be paid to beneficiaries.

Risk selection

The insurer's selection of the type of risks to be included in his portfolio. Risk selection is of major importance to an insurance company, in part because it facilitates, to the extent possible, a balanced business, which normally has a favorable impact on operating results.

Run-off business

The liquidation of an insurance company or portfolio of insurance business which has been transferred to a separate administrative unit.

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S

Single premium
Premiums for this type of policy are paid by one single premium.

Solvency
Insurance company has to have a certain level of assets over liabilties, so that the company could be liable for its liabilities.

Solvency capital
Solvency margin plus equalisation reserve.

Calculation formula:

+ equity after proposed profit distribution
± valuation differences on investments
- intangible assets
+ capital securities
± deferred tax liability probably realised in the near future
± other regulated items

Solvency I
Currently used solvency system for insurance companies in EU-region.

Solvency II
The future solvency system for insurance companies in EU-region, which will replace Solvency I.

Solvency margin
Figure calculated by rules given by regulator, which reflects the difference between insurance company's assets and liabilities.

Calculation formula:

+ equity after proposed profit distribution
± valuation differences on investments
- intangible assets
+ capital securities
± deferred tax liability probably realised in the near future
± other regulated items

Solvency ratio
Solvency of company divided by minimum solvency margin required by regulator.

Solvency ratio
Solvency capital divided by technical reserves without equalisation reserve and 75 % of unit-linked reserves (life insurance terminology).

Solvency ratio of technical provisions
Solvency capital divided by technical reserves without equalisation reserve and 75 % of unit-linked reserves (life insurance).

Calculation formula:

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$$\frac{\text{solvency capital}}{\text{liabilities for insurance and investment contracts} - \text{reinsurers' share of insurance liabilities} - 75\% \text{ of technical provisions relating to unit-linked insurance}} \cdot 100\ \%$$

Surrender
Policyholder ends his/hers policy, which has savings, before maturity date and the company pays the surrender value of policy to the policyholder.

Surrender value
Value for policy, which is savings deducted by fee, because policyholder ends his/hers policy before maturity date.

T

Technical provisions
Provisions for unearned premiums, unexpired risks and claims outstanding.

Technical result before investment return
Item in the technical accounts comprising premiums earned less claims and operating costs.

Total investment return
Sum total of direct return and realized and unrealized changes in value expressed as a percentage of the fair value of investment assets. The daily time weighted method has been used to calculate the return on active investments. The monthly time weighted method has been used to calculate return on properties and other investments. The return has been calculated using the calculation methods used internally by If for the evaluation of asset management.

Total technical reserves
Amount of liability, that covers the insured risk the company has.

Total technical reserves on own account
Technical reserves after reinsurer's share.

Transfer of liability
Insurance portfolios can be transferred from insurance company/pension fund into another insurance company.

U

Underwriting
Includes the risk assessment and pricing conducted when insurance contracts are drawn up. In accounting contexts, the term is also used more broadly to designate the operations of an insurance company that do not have the character of asset management.

Unit-linked insurance
Life insurance policy, which savings are linked into some outer index, typically into mutual fund. Policyholder bears the risk of fluctuation of savings.

Unit-linked reserves of total technical reserves
Liabilities from unit-linked contracts (life insurance terminology).

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V

Valuation differences
Difference between fair value and book value of investments.

Value of in-force business (VIF)
Value of existing policies, and this value is calculated by considering all the income and expenses from these policies until they end up (life insurance terminology).

W

With-profit policy / traditional policy
Life policy, in which guaranteed interest rates and possible bonuses are paid to savings.

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