FINANCIAL SERVICES COUNCIL OF NZ INC

GLOSSARY

OF

FINANCIAL SERVICES INDUSTRY TERMS

Contents

Section 1 – Introduction

The purpose of this document is to help the general public understand some of the terms that are used in the financial services industry.

Members of the Financial Services Council issue and manage life insurance, superannuation and managed funds products. Some of these products have been around for a long time and the terminology may not be familiar.

The document is divided into general financial services terms that apply across a range of financial products and then there are separate sections for terminology used specifically for life insurance (or other personal risk insurance products) or for managed funds products (which includes KiwiSaver).

'Personal risk insurance' refers to all insurance covering your life and health. That includes life insurance, which pays out if you die, as well as insurance products that provide a lump sum if you are totally disabled and income protection insurance to provide you with an income if you are unable to work due to accident or sickness. Personal risk insurance does not include insurance for 'things' such as house or car.

There is more detailed information on personal risk insurance on the FSC web site at http://fsc.org.nz/Insurance/Personal+Risk+Insurance.html

There may be other terms that should be included in this Glossary. If there are words or expressions relating to personal risk insurance or managed funds/KiwiSaver that you have come across and don't understand, please let us know. You can contact the FSC by emailing FSC@fsc.org.nz

Disclaimer

This glossary provides a summary of common terms used in the financial services industry. It is not intended to provide a comprehensive list of common terms or specific legal definitions.

You are encouraged to obtain financial advice from a financial adviser when reviewing your present policies or investments.

Section 2 - General Financial Services Terms

Adviser, Agent (or Intermediary)

Advisers identify the financial needs and future goals of their clients and recommend appropriate products to suit. Advisers have Agreements with one or more companies to sell life insurance and investment products for that company (or companies). Advisers are regulated under the Financial Advisers Act 2008 and may be either:

- Registered Financial Adviser: able to give advice on risk products (insurance without a savings component) and also on simple savings products such as term deposits
- Authorised Financial Adviser: able to give advice on risk products and also more complex savings/investment products
- QFE (Qualifying Financial Entity) Adviser: employed by or nominated by a QFE and able to give advice only on the products issued or promoted by that QFE.

Balanced

An investment fund (or an investment portfolio) may be described as conservative, balanced or growth-oriented, depending on the types of assets that the fund invests into. A balanced fund or portfolio would typically include 40% conservative assets such as fixed interest securities and 60% growth assets such as equities.

Benchmark

In financial services terms, a benchmark is a level that an investment is measured against. For instance, the returns achieved by an investment might be measured against the benchmark of the NZX 50 Gross Index, or against the benchmark of the NZ Government Stock Index.

Banking Ombudsman Scheme This is an independent dispute resolution scheme set up to provide a service at no cost to consumers with a complaint about **services provided in New Zealand by banks**. For more information go to https://www.bankomb.org.nz/

Capital Gain

The amount by which a lump sum investment increases in value from the time of purchase until the time it is cashed in.

Collateral Security

This is any security additional to the principal security for a loan. For example, a life insurance policy with a savings element, or any other product that has a cash value, may be used as collateral security for a home loan.

Compound Interest

Interest earned on the interest you have already accumulated. For example, if interest on a lump sum investment is compounding annually, in the second year you will receive interest on the total of your original investment plus the interest earned in the first year.

Conservative fund

An investment fund (or an investment portfolio) may be described as conservative, balanced or growth-oriented, depending on the types of assets that the fund invests into. A conservative fund or portfolio would typically be made up of assets with a low risk of loss and, correspondingly, a relatively low return. Typical conservative assets are fixed interest securities and Government or corporate bonds.

Corporate Bonds

Similar to government or local body bonds, but issued by a commercial organisation.

Corporate Debentures

Fixed interest securities issued by a company.

Derivative

An arrangement or product (such as a future, options, or warrant) whose value derives from and is dependent on the value of an underlying asset, such as a commodity, currency, or security.

Diversification

Diversifying means spreading a portfolio over a variety of investments and asset classes to minimise the negative effects of short term fluctuations in the value of any one of them.

Dispute Resolution Scheme

A scheme providing a free, independent service for insured people with complaints about services provided by participating financial service providers.

Equities

These are shares in a company. Listed equities are listed on a stock exchange, such as the NZX or the ASX (Australian Stock Exchange).

Financial Service Provider

A financial service provider must be registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 and is anyone who provides a financial service which is given a comprehensive definition in the Act. It includes:

- a financial adviser service:
- a broking service:
- acting as a deposit taker as defined in the Reserve Bank of New Zealand Act 1989:
- being a registered bank:
- keeping, investing, administering, or managing money, securities, or investment portfolios on behalf of other persons:
- providing credit under a credit contract:
- participating in an offer of securities to the public in either of the following capacities
    - as an issuer of the securities:
    - as a promoter:
- acting in any of the following in respect of securities offered to the public:
    - as a trustee:
    - as a statutory supervisor:
    - as a unit trustee:
    - as a superannuation trustee:
    - as a manager:
- acting as an insurer:

Fixed Interest Securities

These are an investment asset where the issuer agrees to pay a fixed rate of interest over the term of the investment.

Government Bonds

This is a type of fixed interest security issued by a government, usually for a period of some years.

Government Stock

This is another name for government bonds.

Growth fund

An investment fund (or an investment portfolio) may be described as conservative, balanced or growth-oriented, depending on the types of assets that the fund invests into. A growth fund or portfolio would typically be made up of assets with a higher than average risk of loss and, correspondingly, a higher than average return. Typical growth assets are local and global equities and derivatives.

Hedge

A strategy to avoid the negative effects of a variety of market conditions, such as currency fluctuations. For example, a fund could buy US dollars to offset the impact of fluctuations in the NZ dollar against another currency in which investments are held.

Income

Payments to investors derived from an investment fund's earnings.

Inflation

This is the amount by which the buying power of a country's currency decreases over time.

Insurance and Savings Ombudsman Scheme (ISO)

This is an independent dispute resolution scheme set up to provide a service at no cost to consumers with a complaint about **services provided in New Zealand by participating financial service providers**. For more information go to http://www.iombudsman.org.nz/

Liquidity

A measure of how easily the funds can be converted to cash, or the extent of an investment fund's portfolio which is held in readily realisable assets such as cash or short term deposits.

Listed Investment Fund

This is an investment fund which is listed on the stock exchange.

Local Authority Stock

Fixed interest securities issued by a local or regional government organisation.

Long Term

More than 10 years.

Maturity Date

The date in the contract on which the funds become payable.

Medium Term

A period between three and 10 years.

Mortgage

A loan of money for a set period and with interest charged on the loan, using property as the security.

Ninety Day Bills (90 Day Bills)

A term deposit for 90 days issued by the government.

Open Ended Investment Fund

A Fund where the manager may receive new money without limitation to buy assets of the type described in the prospectus.

PIE – Portfolio Investment Entity

A PIE is an entity that came into existence from 1 October 2007 under legislation in Part HM of the Income Tax Act 2007. PIEs invest contributions from investors into different types of investment and generally pay tax on investment income based on the prescribed investor rate (PIR) of their investors, rather than at the entity's tax rate. They do not pay tax on capital gains on shares in NZ or certain Australian companies.
For more information go to http://www.ird.govt.nz/toii/pie/

PIR – Prescribed Investor Rate

A PIR is required when you invest in a multi-rate PIE. It is:

- the tax rate that the multi-rate PIE you invest in can use to calculate the tax payable on the earnings of your investment, if you have also provided your IRD number
- based on your taxable income, e.g. income from salary, wages and any additional sources of income that you would include in your income tax return.

The attributed income from the multi-rate PIE you invest in will also be taken into account.

For more information go to http://www.ird.govt.nz/toii/pir/about/

QFE - Qualifying Financial Entity

Entities that have employees or nominated representatives who provide advice on financial services can apply to the Financial Markets Authority to be a Qualifying Financial Entity. To be eligible for QFE status the entity must meet certain standards of compliance and customer protection. A QFE will then be responsible for the first level of supervision over its nominated representatives.

Reinvestment of Income

A facility offered by some funds where income is applied to purchase additional units.

RWT – Resident Withholding Tax

RWT is a tax deducted from investment income before the investor receives it. That saves people who receive investment income from having to pay tax in a lump sum at the end of the year, and ensures that people who do not declare their investment income still have tax deducted from it. For more information go to http://www.ird.govt.nz/resources/2/3/235e8d804bbe46f7afebffbc87554a30/ir284.pdf

Return

This is the increase in value of an investment from a combination of capital gain and income.

Risk

With regard to an investment, risk is the likelihood that you will not get your investment back or that you will not receive the returns you expect. Unless they have a guaranteed return, all investments involve some risk. Usually, higher risk investments will have a higher return, to compensate for the additional risk. The level of risk an investor is comfortable with will be affected by the amount of time the investment is for and the ability for the investor to make up any possible losses. In many cases younger people will be more comfortable with higher risk investments that give them the opportunity of higher returns.

With regard to insurance, this is a hazard, exposure or chance of loss.

Security

This is something deposited as a pledge for repayment of a loan and available to the creditor if the loan is not repaid. For example, you can assign a financial asset such as a life insurance policy (if it has a cash value) over to the bank when you take out a loan and if for some reason you cannot pay back the loan the bank can use your life policy to recover the debt.

Shares (Equity Investments)

Shares or equity investments involve owning all or part of a property, usually a company. Although the term equity investment covers both shares and property, it is common for shares to be referred to as "equities" and property as "property".

The capital of limited companies is divided into shares of equal value, representing equal units of the company's capital and entitled to equal portions of the company's profit.

The return on the investment comes from the shares increasing in value which depends on the success of the undertaking and/or wider forces within the economy. Additional return may also come from the company paying dividends to shareholders.

Short Term

A period up to three years.

Spread

The difference between the buy and sell prices.

Statutory Supervisor

The statutory supervisor is a person (or body) appointed under the Securities Trustees and Statutory Supervisors Act 2011 to supervise the management of an investment and ensure issuers comply with the law and the governing documents and act in the interests of the investors.

Section 3 – Life Insurance Terms

Ab Initio

Latin for “from the beginning”.

Accelerated cover

When a particular benefit is paid in advance of the full sum insured, that benefit is said to be accelerated. A common example is a funeral benefit on a life cover policy, where the funeral benefit is paid out immediately upon notification of death, while the remainder of the life cover will require receipt of the death certificate and possibly further assessment.

Accident

An event not intended by a person insured which causes bodily injury to the person insured.

Accident Benefit

A benefit payable as a result of an accident.

Actuary

A person professionally trained in the mathematical and technical aspects of life insurance, particularly the calculation of premiums, reserves, and other values.

Administrator

The person or organisation authorised by the Court to manage your estate if you do not have a will or Executor.

Agreed Value

A provision in an income protection policy where the amount paid out in the event of total disability is based on the value agreed between the insured and insurer at the time the policy is written. The Agreed Value is normally 55% of income.

Annual Premium

The amount of money which must be paid each year to keep a life insurance policy going.

Annualised Premium Income (API)

The total annualised dollar amount expected to be received by a life office, as payment for contracts of life insurance.

Annuity

A life insurance contract where the policyholder invests a lump-sum in return for a regular income until the annuitant's death, or for a specified number of years.

Anti-selection

Anti-selection occurs when those people who represent a higher risk, and who may therefore be more aware of the benefit to them of having insurance, are able to obtain life insurance cover without disclosing all relevant information and therefore not having their risk priced appropriately.

The increase in claims, or increased costs involved with claim disputes if the insurer declines the claim, ultimately lead to an increase in premiums generally and creates a disincentive for low risk individuals to apply for insurance cover.

Assignment

Life insurance policies are financial assets and assignment is the way that ownership of a policy can be transferred from one person to another. Life insurance policies with a cash value are often assigned to a bank to provide security for a loan.

Avoid the Policy

An insurer can cancel an insurance policy from its beginning if there has been a fraudulent claim, or there was material non-disclosure or misstatement at the time the policy was taken out.

Broker (see also Adviser in Section 2)

A broker is an intermediary appointed by a person seeking insurance to advise them on insurance matters and to arrange insurance cover for them.

Cash Value (or Surrender Value)

Some policies (the older, traditional policies) provide investment as well as insurance cover. As a result, they acquire a value that increases during the policy's lifetime and the cash value is the amount that will be paid out if the policy is cancelled. Most insurance providers will grant loans to policyholders based on the cash value of their policy. The loan value is usually a proportion of the cash value.

Child's Policy

These policies provide benefits on the life of a child, but there is a limit on the death benefit and special conditions which must meet the requirements of the Life Insurance Act 1908. The policies are usually owned by the parent or guardian at first, but can be transferred to the child later when they are legally able to own their own policy. The benefit, aside from the insurance cover, is that the child will have the policy set up when they are younger and in better health and therefore at a cheaper rate than if they apply at a later age.

Claim

This is a request by the policy owner to the life insurance company for payment of their money under the terms of the policy. In the event of a death claim, the claim will be made on behalf of the estate of the life insured, or the surviving owner of the policy

Commission

The payment made by a product provider to an intermediary (agent or adviser) who arranges the sale of a product to a customer. In most cases there will be an initial amount followed by smaller annual amounts for continuing service to the customer. Commission is usually calculated as a percentage of the API. Commission may be paid up-front when the policy is issued, or “as-earned”, being a percentage of each premium received by the provider, or upon renewal at each policy anniversary. Alternatively it may be calculated at a combination of these.

Copy Policy

A copy of a policy can be issued to replace an original which has been lost. If the original policy is found it will no longer be valid and cannot be accepted by the life office.

Cover

This is the scope or amount of protection provided by an insurance policy.

CPI Indexation

This is where the sum insured increases each year by the Consumer Price Index (CPI) percentage in order to keep the benefit amount in line with the cost of living. The total premium will increase accordingly. Some insurance providers also offer a minimum percentage option. Depending on the insurance provider and insurance benefits CPI Indexation may be automatic, optional, or unavailable entirely.

Critical Illness Insurance

Usually known as either “Critical Illness”, “Trauma” insurance or “Living Insurance”, this benefit may be paid on diagnosis of one of a range of medical conditions or accidents specified in the policy. The usual conditions covered will include heart attack, cancer, stroke, coronary artery bypass surgery, and severe injuries resulting in paralysis, blindness, or severe burns. Underwriting considerations are generally similar to those for life insurance.

This type of cover may be sold as a “stand-alone” benefit or accelerated from another benefit, generally life cover. It is similar in principle to Term Insurance except that it insures against a number of major traumatic illnesses rather than death, and guarantees payment of a lump sum if you experience any of these illnesses (not including death). Some policies (not all) may also include an additional death benefit.

Days of Grace

A period, usually twenty eight or thirty days, after a premium falls due, in which it may be paid before the policy will lapse.

Deferred Annuity (see Annuity)

A Deferred Annuity provides you with a regular income for the rest of your life, after a specified age has been reached.

Deferral Period

1. For an annuity this is the period between when you invest in an annuity and when you start to receive the regular annuity income.

2. For a disability income policy this is the period between when the disability begins and when the policy commences paying a benefit, more commonly referred to as the wait period.

Duty of Good Faith

A legal obligation on every person who enters into a contract of insurance to act honestly and provide accurate information to the insurer. The insurer also has the responsibility to act honestly and provide accurate information in dealings with the insured. If any party does not act according to their duty, the contract can be avoided by the other party.

Endorsement

A means of recording on a policy document any variations to the policy's standard terms at the time of issue or any alterations during the policy term.

Endowment Policy

A traditional life insurance contract designed to pay a lump sum after a specific term (on its "maturity") or on death. Typical maturities are ten, fifteen or twenty years up to a certain age limit. Some policies also pay out in the case of critical illness.

Endowment policies can be cashed in early (or surrendered) and the holder then receives the surrender value which is determined by the insurer depending on how long the policy has been running and how much has been paid into it.

Estate

All the assets you own and anything you owe at the time of your death.

Ex Gratia Payment

This is a goodwill payment made by an insurer where it has no liability to make such a payment under the contract.

Exclusion Clause

This is a provision in a policy stating that the policy does not cover a particular risk or pre-existing condition. For example, a life insurance policy may exclude cover for certain risks such as car racing or a disability policy may exclude a pre-existing back injury.

Executor

The person or organisation in charge of carrying out the instructions in a will.

Expiry Date

The date that cover under an insurance contract comes to an end.

Free Look Period

Most insurance companies allow a period (usually about 2 weeks) after a life insurance policy has been issued to allow the policyholder time to study the new policy and ensure it is what was wanted. If not, the policy can be cancelled and any premiums refunded.

Group Insurance (Voluntary Group Insurance)

These are life policies which are owned individually by people who belong to a particular group. For example they may all work in the same industry or for the same employer. The premiums are paid in instalments by deductions from an employee's salary or wages and forwarded by the employer to the life insurance company.

Group Life Insurance

This is usually issued to an employer under a master contract for the benefit of employees. In that case, the policy is owned by the employer who also pays the premiums and has an agreement with the employees regarding payment of benefits. The advantage of this form of cover is that it can sometimes be issued without the need for medical examinations.

Guaranteed Level Term Policy

A term insurance policy in which premiums are not programmed to increase with the age of the life insured during the term of the policy unless the policy owner changes the sum insured or the benefits under the policy, or the sum insured is increased by CPI indexation, again with the policy owner's approval. As the premiums do not increase with age, they are generally averaged out over the life of the policy, so the premiums in the initial years are relatively more expensive than a Yearly Renewable Term policy, but can be relatively cheaper in the longer term.

Guaranteed Renewable

A feature of some life policies that places an obligation on the insurer to continue coverage for as long as premiums are paid by the insured.

Illustration

A quote produced by an adviser for the benefit of their client, detailing the insurance benefits they are applying for, as well as forecasting potential future premium amounts. Forecast premiums are estimated where the benefits increase annually by CPI indexation, as the CPI rate cannot be known in advance.

Inception Date

The date a contract of insurance comes into force and an insurer goes on risk (i.e. the effective date).

Income Protection/Income Replacement/Disability Income Insurance

This is a form of income replacement cover under which an income benefit is paid when a person is totally or partially unable to work due to an accident or a medical condition. After the initial waiting period, a benefit is usually paid until the individual is declared fit to return to work. Different underwriting considerations apply to disability insurance because there is a higher likelihood of disability than of early death.

Like Term insurance, Disability Income Insurance has **no surrender value**.

Indemnity Policy

A policy which, in monetary terms, restores the insured to the same or a similar financial position they were in immediately prior to the loss.

Indexation

The automatic adjustment of a policy's benefits so that they rise in accordance with the rate of inflation.

In Force

In force means that the policy is current and has not lapsed or matured.

Insurability

This is an assessment of the risk to the life office of providing insurance on a particular life. Depending on the benefits being applied for, people applying for life insurance are assessed by the life office in regard to their health and family medical history, occupation and leisure activities, habits, place of residence, past insurance history, and financial position. Once assessed, using the information they have provided, and further information the insurer may have gathered on the applicant's behalf, they can be assessed as either:

Standard	In good health and acceptable.
Sub-standard	A higher risk, possibly because of dangerous pursuits or poorer health. In these cases insurers cope with the extra risk by either charging additional premium, reducing benefits payable, or applying specific exclusions to the policy.

Insurable Interest

The person taking out a life policy is not necessarily the same person whose life is to be covered but should have some financial interest in the survival of that person, or be likely to suffer financial loss on that person's death. This is called insurable interest. Although insurable interest is not now required by law, life insurance companies will still take a close look at policies applied for where insurable interest is not evident.

Insurer / Insurance Provider / Underwriter

This is the insurance company that has issued the insurance policy.

Insurance Contract

A formal contract between the insured and the insurer agreeing to the level of cover which is to be provided and the terms and conditions of the cover. It is generally made up of three separate documents – the Policy Wording, the Policy Schedule/Summary and the Proposal, Application or Declaration.

Joint Life Policy

Two alternative ways in which 2 people can be covered by 1 policy.

First death: The life insurance company will pay a death benefit when the first person dies and then the policy will finish.

Survivor: The life insurance company will pay a death benefit for both lives. Once the second person dies the policy will finish.

Key Person Insurance

This is insurance cover a business can take out to protect itself in case a vital member of staff dies or becomes ill and cannot work.

Lapse

A lapse occurs when the premiums on a policy have not been paid. If a policy has lapsed it is considered to have finished, and the lives on the policy are no longer covered, and would receive no benefit should a claimable event occur. Exactly when a policy will lapse depends on whether or not the policy has a cash value, and the internal regulations of the insurance provider.

Where the policy has no cash value it will generally lapse when one month's premium is outstanding. However each insurer will have its own set of rules around lapses, and may allow more time.

Where the policy does have a cash value, it will not lapse until the premium debt exceeds the policy value. As long as there remains a cash value the policy will be kept in force by deducting the unpaid premiums from the cash value, (possibly with penalty interest).

A lapsed policy can still be revived within a certain period of the lapse occurring, usually by paying the outstanding premiums, (possibly plus penalty interest) and supplying evidence of continued good health.

Letters of Administration/Probate

Legal documents from the court giving the Administrator or Executor the legal right to take control of assets in the deceased person's name.

Level Premium Policy

A term insurance policy in which premiums are not programmed to increase with the age of the life insured during the term of the policy. Premiums may still increase for other reasons such as tax changes, CPI increases, or if the insurance provider increases its rates (if the premium is guaranteed – see Guaranteed Level Term Policy). As the premiums do not increase with age, they are generally averaged out over the life of the policy, so the premiums in the initial years are relatively more expensive than a Yearly Renewable Term policy, but can be cheaper in the longer term.

Life Insurance

A life insurance policy pays a benefit on the death of the life insured. That is the basic benefit but a life insurance policy may have additional benefits such as critical illness cover, in which case a benefit will be payable before the death of the person insured.

Life Insured

The life insured is the person who is covered by the insurance but that is not necessarily the same person as the policy owner, or the premium payer.

Loading

An extra amount added into the premium because of an additional risk to the life and/or health of the person insured, possibly due to a health problem, occupation, or dangerous pastime.

Material Fact or Matter

A fact or matter that would influence the judgement of a prudent underwriter in accepting or rejecting a proposal for insurance, and on what terms.

Memorandum of Transfer

This is the document used to show any change of ownership of a policy.

Misstatement (Misrepresentation)

A statement made by the insured which is substantially incorrect and would have influenced the judgement of a prudent insurer in assessing the risk or setting the terms and conditions of cover.

Mortality Table

A listing by age of the probable death rates of a similar group of people based on actual past experience. The table shows the assumed number of people left alive at each subsequent age from a given age group.

Nominated Beneficiary

A person the policy owner has chosen to receive the benefits payable from a policy.

Non-disclosure

This is the failure to disclose material information to the life insurance company. Applicants for insurance have a legal duty to advise life companies of any material facts or matters that may affect the insurance company's decision to accept the application for insurance, or setting the terms and conditions of cover. Failure to fully and accurately disclose all such material facts or matters could result in a future claim being declined or the whole policy being avoided, for "non-disclosure".

Non-forfeiture (see also Lapse)

The Life Insurance Act 1908 requires life insurance companies to keep a policy in-force when the premiums have not been paid if the policy has a cash or surrender value. The unpaid premiums plus penalty interest must be deducted from the policy's cash value (if any) until the premium debt exceeds the policy value. When the debt equals or exceeds that cash value, the policy will lapse.

Personal Statement

A person applying for life insurance will be required to complete a statement giving details of their personal medical history and that of their immediate family in order for the life insurance company to assess their health risk.

Personal Medical Attendant's Report (PMAR)

When a person applying for life insurance discloses a health problem the life company may request a medical report from their doctor to provide more detailed information on that problem.

Policy/Policy Document

This is the legal document setting out the terms and conditions of the insurance contract.

Policy Schedule/Policy Summary

This is the part of the policy document that has the specific details relating to the policy owner, and the life insured, e.g. name, address, type and level of cover and premium payable.

Policy Owner/Policyholder

The Policy Owner is the person or persons who own the policy whether it is on their life or another. If one person owns the policy they are called the **sole owner**. If two or more persons own the policy they are called **joint owners**.

Policy Fee

This fee covers the administrative costs of issuing and maintaining the policy, spread over the life of the policy. It is a fixed dollar amount built into the total premium. While the policy fee is unrelated to the size of the policy, some insurance providers' policy fees are built into the premium itself.

Pre-existing condition

This is any medical condition that an applicant has had before applying for insurance or has at the time of applying.

Premium

The amount paid by a policy owner in return for a contract of life insurance.

Premium Debt

If premiums are not paid on a policy that has a cash value the life insurance company will deduct the premiums plus interest from the cash value and this will create a debt against the value of the policy.

Premium Holiday

This is a period when premiums do not need to be paid. It almost always requires the agreement of the insurance company but sometimes it is a benefit feature. Usually the client remains covered, unlike premium suspension when cover is also suspended.

Premium Suspension

This is a period when premiums do not need to be paid. Almost always this requires the agreement of the insurance company but sometimes it is a benefit feature. Unlike a premium holiday, the client's benefits are also usually suspended. This means no claims will be payable while premiums are suspended and as such a premium suspension should be seen as a last resort.

Proposal

This is another name for an application form for life insurance.

Rating Agency

Ratings agencies are international companies that assess the financial strength and security of insurance companies and provide them with the ratings they must have in order to comply with the Insurance (Prudential Supervision) Act 2010.

Reinstatement

When an insurance policy lapses the policy owner may be able to recover the full benefits of the policy by paying the outstanding premium (premium debt) and complying with the health requirements, such as providing evidence that there has not been a change in health status.

Reinsurance

This is a way that insurance companies commonly protect themselves against large or difficult risks by arranging for the risks to be shared with a reinsurance company, for a fee. The reinsurance company deals only with the life insurance company and not with individual policyholders who need not know that part or all of their policy has been reinsured.

Reinsurer

An underwriter of reinsurance.

Renewal

This is the process by which the insured and the insurer continue insurance from one risk period to another.

Replacement Policy

This is a life insurance policy which replaces an existing life insurance policy. An insured person should carefully compare their existing policy and the proposed replacement policy and assess whether the replacement is in their best interests before making a decision."

Stepped Term Policy

A life insurance policy in which premiums are programmed to increase with the age of the life insured during the term of the policy. Premiums will be low at the start of the policy and will increase during the term, in steps of one or more years, as the risk increases with the age of the person insured. These policies are also sometimes called "Yearly Renewable Term".

Sum Assured/Insured

The amount the life insurance company guarantees to pay out under the policy upon death, disablement, or when the policy matures.

Surrender

When a policy owner cancels a life insurance contract before it has run its full term this is known as surrendering the policy.

Surrender Value (also known as Cash Value)

The surrender value (cash value) is the amount paid to the policy owner if a policy is cancelled before it matures. This only applies to policies that have a cash value and very few policies issued these days have surrender values.

TPD – Totally and Permanently Disabled

Total and Permanent Disablement cover provides a lump sum when an individual is considered to be so disabled as to be unlikely to ever be able to resume employment for which he or she was suited. The definition of total and permanent disablement varies depending on the options selected by the policy owner and between the policies of different life insurance companies. The entitlement to a benefit will depend upon the definition of total and permanent disablement in a specific policy.

Term

The term of a policy is the period of time for which the policy is intended to run. This can be until death, for a set number of years, or until a specified age.

Term Policy, Term Insurance, Temporary Insurance

Term insurance is a life insurance policy that never has a cash value but is paid out if the life assured dies before a specified age or date. See also Level Term Policy and Stepped Term Policy.

Trauma

See ‘Critical Illness or Trauma Insurance’.

Underinsurance

A situation where the level of cover is less than what is needed or appropriate.

Underwriting

This is the process in a life insurance company where applications for life insurance are assessed to calculate the risk associated with providing life insurance cover to the applicant. Underwriting lets the insurer set the right premium for each individual policy. In most cases, the underwriter will decide that the risk of claim is in line with the average and a standard assessment will be given.

Some applicants, however, have pre-existing impairments which cannot be covered and which are therefore excluded. Other possibilities, if the underwriter decides that the risk of claim is higher than the population average, are that the policy may be:

- accepted but with a higher premium rate;
- accepted but with modified terms, such as a limited benefit period or limited payment term, or amount of cover;
- accepted with a combination of the above options;
- deferred for later consideration, possibly following further medical tests if not quantifiable at the time.

Utmost Good Faith

A legal principle that requires both an insurer and insured to act in good faith towards each other (Latin- *Uberrimae Fidei*)

Waiting Period (also Deferral Period’ and ‘Stand-down Period’)

This sometimes known as the ‘stand-down period’. It is the period set out in some Accident and Disability policies before the benefit payments commence. (See also ‘Deferral Period’).

Waiver of premium

This is an additional benefit available on some policies that will pay the policy premiums, usually while the life insured is disabled, but sometimes also on the death of a life assured.

Whole of Life Insurance (WOL)

A traditional life insurance policy under which the sum assured, plus any bonuses, is paid only on the death of the life insured.

A Whole of Life policy can be ‘participating’ - that is it allows you to share in the company's profits. The profits are distributed in the form of bonuses which are added to the benefit that will be paid when you die. Participating Whole of Life policies have a surrender value, after an initial period (usually between 2 to 5 years).

If the policy is ‘non-participating’, you will pay a lower premium for the same sum assured, but you will not have bonuses added to your policy.

Section 4 – Managed Investment Terms

Bonus Units

These are units issued by some funds instead of income distribution. They represent capitalisation of income. See 'Reinvestment of income'.

Buy Price

This is the price at which unit holders can sell their units. It represents the asset backing of each unit and may also be called exit price.

Defined Benefit Plan

A type of workplace superannuation scheme where the retirement benefits, and death benefit if applicable, are calculated on a pre-determined formula which is generally based on years of eligible service or scheme membership and the average of the employee's final three, or five years' salary. The employee's contribution usually remains at a fixed percentage of salary but the employers' contribution may be varied from time to time to ensure funding of the plan is sufficient to pay all benefits.

These plans became very expensive for employers to fund and are now rare.

Establishment Fee

This is the fee that is charged for the initial set-up of the investment.

Fund Fees

These are the fees and costs for management of a managed fund (including KiwiSaver) that are charged to investors in proportion to the amount they have invested in the fund.

Investment

This is the use of money for the purpose of making more money i.e. to gain income, increase capital or both.

Investment Portfolio

An investment package which provides a range of investment options to choose from such as Fixed Interest, Shares, or Property investments, or all three combined. The type and quantity of each investment is generally left up to the Investment Manager after the client has selected options regarding risk (low risk, medium, or high risk).

Investment Statement

This is one of the disclosure documents that must be provided to an investor before they sign up for an investment. The information that must be covered in the Investment Statement is set by the Securities regulations and includes responses to questions such as 'Who is providing this investment?' and 'What are the risks?'

KiwiSaver

KiwiSaver schemes are schemes set up under the KiwiSaver Act to provide an easy way of accumulating long term savings, often through the workplace. People entering or changing employment need to make a choice to opt out of KiwiSaver or 3% of their income (and another 3% from their employer) will be deducted and directed to an account in their name with one of the default providers. Except in special circumstances, funds in KiwiSaver are not accessible until the age of entitlement for NZ Superannuation (currently 65).

Managed Investment Scheme (Managed Fund)

A managed investment scheme is a scheme that allows investors to make lump sum or ongoing contributions and have their funds pooled together to buy assets which are managed by the investment manager. The investors do not own the assets directly but have interests in the scheme and receive a share of any increase in value.

Master trust

This is a general unit trust under which several specific unit trusts are established.

Platform (Wrap account)

This type of service, known either as an investment platform or wrap account is a means of consolidating and managing an investor's investment portfolio. Platform/wrap services are offered by many financial institutions for a fee or a series of charges which cover all administrative and management costs.

As well as arranging transactions, platforms generally arrange custody for investor' assets. Investors can view their entire Portfolio all in one place, enabling them to keep track of their current financial position on a daily basis, however complex their financial affairs are. They also receive a single consolidated annual tax statement, comprehensive six-monthly statements, and documentation of all purchases, sales, deposits and withdrawals

Prospectus

A booklet or brochure issued by the fund manager which carries information prescribed by law.

Sell Price

This is the price at which investors can buy units from a fund manager. It is calculated by adding the initial service fee and allowance for trading or brokerage costs to the buy price. It is often called the “entry price”.

Switching

This is a facility provided by some fund managers whereby investors can switch from one of the manager’s funds to another, often at a discounted entry fee or no entry fee at all.

Superannuation

Superannuation schemes are a way for people to provide for the future in the form of a pension or lump-sum paid out on their retirement, or death or disablement while working. This can be either a personal superannuation plan taken out by an individual or a group scheme which may be organised by an employer.

Although they still exist, since 2007 they have largely been superseded by KiwiSaver. Superannuation schemes are registered under the Superannuation Schemes Act 1989 and monitored by the Financial Markets Authority.

Term Deposit

This is an investment at a fixed interest rate for a fixed term, usually with a bank.

Total Expense Ratio

This is the ratio of fund expenses to fund assets, often known as TER, and seen as an indication of the fund manager's efficiency.

Unit Linked

An investment in which the money contributed is used to buy units which represent a share of an investment portfolio. The value of the investment, and therefore the unit price, fluctuates (both up and down) with changing market values.

Unit price

This is the price of each unit in a unit-linked investment. Unit prices are calculated daily by the fund manager and may go up or down. The value of a person's investment is calculated by multiplying the unit price by the number of units that investor holds.

Unit Trust

A professionally managed investment vehicle, governed by the Unit Trusts Act, in which many people or organisations pool their money for investment purposes.

Wrap Account

See 'Platform'.

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