GLOSSARY

OF

LIFE INSURANCE

and

INVESTMENT

TERMS
**Accident Benefit**
A benefit payable should death occur as the result of an accident. It may be a “stand-alone” policy or an additional benefit attached to another policy.

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

**Adviser, Agent (or Intermediary)**
Advisers identify the financial needs and future goals of their clients and recommend appropriate products to suit. Advisers have Agency Agreements with one or more companies to sell life insurance and investment products for that company (or companies).

**Annual Premium**
The amount of money which must be paid annually to keep a life insurance policy going.

**Annualised Premium Income (API)**
The 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 death, or for a specified number of years.

**Assignment**
The transfer of policy ownership from one person to another. Policies are often assigned to a bank to provide security for a loan.

**Bonus**
"Participating" or With Profits" policies share in the profits of a mutual company. The profits are paid in the form of bonuses which are then added to the sum assured of the policy, to be paid out when the policy matures or on death.

There are two types of bonuses:

**Reversionary Bonus**
These are guaranteed additions to the sum assured. Reversionary means that they are
not payable immediately but are payable at the same time as the sum assured is paid out. However, this type of bonus can be cashed-in during the life of the policy. The cash value of the bonus is less than its face value because the face value is calculated assuming payment will not be made until death or maturity.

**Terminal Bonus**
Terminal Bonuses are not guaranteed. They are not added to the policy during its lifetime and are only paid out, if applicable, on death or maturity. They cannot be cashed-in during the policy's lifetime and are not paid out if the policy is surrendered.

**Bonus Units**
Units issued by some funds instead of income distribution. They represent capitalisation of income. See Reinvestment of income.

**Broker (see also Adviser)**
An insurance specialist who has agency agreements with more than one life office and can therefore place the client's business with whichever life office provides a policy best-suited to the client's needs. Similar to an adviser who has agency agreements with more than one life office.

**Buy Price**
The price at which unit holders can sell their units. It represents the asset backing of each unit. Often called exit price.

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

**Cash Value (or Surrender Value)**
The amount that will be paid out if the policy is cancelled. Some policies provide investment as well as life cover. As a result, they acquire cash values that increase during the policy's lifetime. Most life offices will grant loans to policyholders based on the cash value of their policy. The loan value is usually a proportion of the cash value. The cash value is also sometimes called the surrender value.

**Child's Policy**
These policies are similar to Whole of Life and Endowment policies, but they contain 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 at a certain age. The appropriate age can be determined by the parent or ownership can be automatically transferred to the child at a specified date (known as
vesting). The benefit is that the child will have established a policy at a cheaper rate than
may have been possible at a later age.

**Claim**

A demand by the policyowner to the life insurance company for payment of their money
under the terms of the policy.

**Closed Fund**

A fund authorised to accept a fixed amount in applications, which closes when this amount is
reached.

**Collateral Security**

Any security additional to the principal security for a loan. A life policy may be used as
collateral security for a home loan.

**Commission**

The payment an adviser receives from a life insurance company or managed fund for
completing a sale.

**Compound Interest**

Interest earned on the interest you have already accumulated.

**Conversion**

A conversion is when a policy is changed from one type of policy to another such as Whole
of Life to Endowment, or Term to Whole of Life. For a slightly higher premium a
conversion option may be added to the original policy at the time it is taken out. This
enables the policyholder to convert to another type of policy without having to undergo a
medical examination. This option normally expires at age 65.

**Copy Policy**

A policy issued to replace an original which has been lost. If the original policy is found it
cannot be presented to the life office as it is no longer valid and cannot be accepted by the life
office.

**Corporate Bonds**

Similar to government or local body bonds, but issued by a commercial organisation.
**Corporate Debentures**
Fixed interest securities issued by a company.

**Critical Illness or Trauma Insurance**
This type of cover may be sold as a “stand-alone” policy on as an additional benefit on another policy. It is similar in principle to Term Insurance except that it insures against a number of major traumatic illnesses such as cancer, heart attack or stroke, rather than death, and guarantees payment of a lump sum if you experience any of these illnesses (this does not include death). Some policies (not all) can include a payout against death as well.

**Days of Grace**
A period, usually twenty eight or thirty days, after a premium falls due, in which it may be paid without penalty for non payment.

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

**Deferred Period**
The period between when you invest in an annuity and when you start to receive the regular annuity income is known as the deferred period.

**Defined Benefit Plan**
A 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 final three, or five years salary. (NB the definition of "salary" can vary with each scheme). These plans are usually employer-sponsored group plans rather than personal superannuation. The employees' 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.

**Demutualisation**
The process by which a mutual life office converts to a shareholder-owned company by issuing shares to the participating policy-holders who previously owned the company.

**Disability Income Insurance (Income Protection)**
If an illness or an accident prevents you from working, Disability Income Insurance ensures that you will receive regular payments over a specified length of time, or until you have reached a specified age. The payments may not start until you have been disabled for a
specified length of time known as the waiting period.

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

**Diversification**
The process by which a portfolio is spread over a variety of investments and asset classes to minimise the negative effects of short term fluctuations in the markets.

**Endowment Insurance (see also Pure Endowment)**
This type of policy provides a guaranteed amount of money to be paid at a specified date or age. If you die before this date or age, this sum will be paid on your death to your estate. If you have a participating policy bonuses will also be paid in addition to the guaranteed sum assured.

As with Whole of Life insurance, premiums remain the same throughout the policy term, and if the policy is participating in bonuses it also acquires a surrender value.

**Equities**
Shares in a company.

**Exclusion Clause**
A provision in a policy that excludes cover for certain risks (eg car racing) or for pre-existing conditions. For example a disability policy may have an exclusion for an existing back injury.

**Fixed Interest Securities**
An investment asset where the issuer agrees to pay a fixed rate of interest over the term of the investment.

**Frequency Loading**
Premiums are generally paid annually therefore if you wish to pay more frequently (six monthly, quarterly or monthly) there may be an additional charge added for the extra administration expenses involved.

**Government Bonds**
A type of fixed interest security issued by a government, usually for a period of some years.
**Government Stock**
Another name for government bonds.

**Group Insurance (Voluntary Group Insurance)**
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 office.

**Group Life Insurance**
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 is cheap and can be issued without the need for medical examinations.

**Hedge**
A strategy to avoid the negative effects of a variety of market conditions.

**Illustration**
An illustration is an estimate, or forecast, of the future benefits of the investment portion of the life insurance policy. As these are only estimates, and no-one can correctly forecast future market fluctuations, they are not guaranteed.

**Income**
Payments to investors derived from an investment fund’s earnings.

**Inflation**
The amount by which the buying power of the country’s currency decreases over time.

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

**Insurability**
An assessment of the risk to the life office of providing insurance on a particular life. Prospective clients 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, they can be classed as to whether they are:
<table>
<thead>
<tr>
<th>Classification</th>
<th>Description</th>
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<tbody>
<tr>
<td>Standard</td>
<td>In good health and acceptable.</td>
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<tr>
<td>Sub-standard</td>
<td>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.</td>
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**Insurable Interest**

The person taking out a life policy should have some financial interest in the survival of the person whose life is to be insured, 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 companies will still take a close look at policies applied for where insurable interest is not evident.

**Insurance Bonds**

An Insurance Bond is legally a life insurance policy. With an Insurance Bond you pay a single deposit into a savings or superannuation investment portfolio. The benefit you receive is your contribution, plus the profits made by your investment portfolio, less the costs involved in maintaining it. Like other life insurance policies Bonds may also be capital stable or investment-linked and proceeds are tax-paid in the hands of the Bond holder.

**Insured**

The person whose life is insured. This is not necessarily the policy owner.

**Investment**

The use of money for the purpose of making more money ie to gain income, increase capital or both.

**Investment Account Policy**

With this type of life insurance policy the premium, less cost of life cover and expenses, is paid into an individual investment account to which tax paid interest is credited.

**Investment Linked Policy**

A form of life insurance used for savings, similar to Investment Account Policies except that the policyowner does not have a separate savings account with the company to which interest is periodically credited. Instead, the savings element of premiums paid is pooled with all other policies of the same class to form a separate fund. The value of a policy owner's savings is represented by his share of the market value of the underlying assets less any fees which may be payable on realisation.
**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).

**Lapse**

A policy is said to lapse when a policyholder stops paying the premiums and the premium debt grows to the point where it exceeds the policy value. The non-forfeiture provisions of the Life Insurance Act require that as long as there is a cash value the policy will be kept in-force by deducting the unpaid premiums, plus penalty interest, from the cash value, until those payments equal or exceed the cash value, then the policy will lapse.

A lapsed policy can still be revived within a certain period, usually by payment of the outstanding premiums plus interest on the policy debt, and supplying evidence of good health.

**Liquidity**

Funds which are easily converted to cash, as well as that part of an investment fund’s portfolio which is held in readily realisable assets such as cash or short term deposits.

**Listed Investment Fund**

An investment fund which is listed on the stock exchange.
**Loading**
An addition to the premium because of an extra risk due to the health, occupation, or habits of the person insured.

**Loan on Policy**
A loan can be taken out on most life insurance policies provided premiums are up to date and there is a cash value. The Loan Value is usually a proportion of the Cash Value.

**Local Authority Stock**
Fixed interest securities issued by a local or regional government organisation.

**Long Term**
More than 10 years.

**Management Expense Ratio**
The ratio of fund expenses to fund assets, often known as MER, and seen as an indication of the fund manager’s efficiency.

**Management Fee**
This is usually a percentage charge deducted from the earning rate of your investment policy to cover the management of your funds. This differs from the policy fee which is a fixed dollar amount deducted each year to cover the set-up and ongoing administration costs of maintaining your policy.

**Maturity Date**
The date in the contract on which the benefits become payable.

**Medium Term**
A period between three and 10 years.

**Memorandum of Transfer**
The endorsement recorded on a policy to show change of ownership.

**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.

**Mortgage**
Where money is lent at a rate of interest and for a set period of time, and the security for the loan is in the property.

**Mutual Life Office**
A life insurance company which is owned by its policyholders rather than by shareholders. Participating policyholders receive a share of the profits earned by a Mutual Life Office in the form of bonuses. (See Demutualisation)

**Ninety Day Bills (90 Day Bills)**
A term deposit for 90 days issued by the government.

**Non-forfeiture (see also Lapse)**
A requirement of the Life Insurance Act for life offices to keep a policy in-force when the premiums have not been paid. The unpaid premiums plus penalty interest are deducted from the policy's cash value until the premium debt exceeds the policy value. When the arrears equal or exceed that cash value, the policy lapses.

**Non-participating**
A policy is non-participating when it does not share in the profits of the company by way of bonuses. The only advantage in this is that the premium is cheaper for the same amount of cover.

**Offshore Investment Fund**
An investment fund established outside New Zealand.

**On Call Account**
An account specifically for large amounts of cash, paying a higher rate of interest than other savings accounts, where money may be accessed at any time.

**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.

**Paid up policy**
A policy which is kept in force at the request of the policy owner with no further premiums
being payable. This can be done in two ways:

1. The sum insured and bonuses are reduced and no further premium payment needs to be made.

2. The sum insured is kept at the same level and a premium (called commuted premium) is calculated for the period from the date the policy is made paid-up until maturity. This premium is then paid in a lump-sum and no further premiums are payable. A commuted premium is less than the total premiums which would have been paid if the policy was not paid-up.

**Participating**
When the policy shares in the profits of the company by way of bonuses.

**Personal Statement**
A form on which a person applying for life insurance gives details of their medical history and that of their immediate family.

**Policy Document**
A document setting out the terms and conditions of the insurance contract.

**Policyowner**
The policyowner is the person or persons who own the policy whether it be 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**. Another option is called **tenants in common** in which two people or more own the policy in equal or unequal parts and their share is passed to their estate (not to the other policyowners) and is then distributed according to their will.

**Policy value**
Is the full current value of the policy. The policy value of a participating policy will include the value of bonuses assuming the policy will continue until it has reached maturity. This is not the same as the cash value.

**Policy Fee**
This fee is unrelated to the size of the policy. It is a fixed dollar amount built into the total premium, and it goes towards the administrative costs of issuing and maintaining the policy. The costs of acquiring the policy and putting it on the life company's books are generally spread over the life of the policy and built into the premium rate.
**Premium**
The amount paid by a policyholder in return for a contract of life insurance.

**Premium Debt**
When premiums are not paid the life company will deduct the premiums plus interest from the cash value of the policy, and this will accumulate as a debt against the value of the policy.

**Proposal**
An application form for life insurance.

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

**Pure-Endowment**
A policy under which the sum insured, plus any bonuses, is payable only if the life insured survives for the stated period. If death occurs beforehand, premiums are returned, generally with interest.

**Reinstatement**
Restoring the full benefits of a lapsed policy, usually by paying the outstanding premium (premium debt) and complying with the health requirements ie providing evidence of continuing good health.

**Reinvestment of Income**
A facility offered by some funds where income is applied to purchase additional units.

**Rider**
Riders are additional insurance benefits that may be attached to the main policy to give extra benefits for a very small additional premium. They are not able to stand alone and must be attached to a base policy. Premiums are smaller than if the benefits had been bought as stand-alone policies because the administration cost has already been taken off the base policy and therefore does not need to be included in the premium of the rider.

**Reinsurance**
Insurance companies commonly protect themselves against large or difficult risks by an arrangement under which the risks are shared with a reinsurance company, for a fee. The reinsurer 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.

**Return**
The combination of capital gain and income which an investment produces.

**Security**
Something deposited as a pledge for payment of a loan and available to the creditor if the loan is not repaid. For example you can assign your life insurance policy 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.
**Sell Price**
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”.

**Shares (Equity Investments)**
The capital of limited companies is divided into shares. Such shares are of equal value, representing equal units of the company’s capital and entitled to equal portions of the company’s profit. The return to a shareholder comes from both dividends paid from profit and capital appreciation/depreciation of the share price. Trading of shares is almost always, but not exclusively, done through sharebrokers.

**Short Term**
A period up to three years.

**Spread**
The difference between the buy and sell prices.

**Switching**
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.

**Sum Assured**
The amount the company guarantees to pay out under traditional or term policies upon death, disablement, or when the policy matures.

**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.

Superannuation schemes are registered under the Superannuation Schemes Act 1989 and monitored by the Government Actuary.

**Surrender**
Cancelling a life insurance contract before it has run its full term.
**Surrender Value (also known as Cash Value)**
The surrender value (cash value) is the amount paid to the policyowner if a policy is cancelled before it matures. Not all policies have surrender values (for example, a term insurance policy does not), but most traditional and savings policies do. The surrender value grows slowly over the term of the policy and may be less than the premiums paid for several years.

**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 Deposit**
An investment at a fixed interest rate for a fixed term.

**Term policy, Term Insurance, Temporary Insurance**
A contract where benefits are payable only if the life insured dies before a specified age or date.

**Time Frame**
The length of time you wish to invest for, or the recommended time to invest in a certain asset class or unit trust.

**Unbundled Policy**
A contract which splits and identifies the portion of the premium going into each of the component parts of the policy:

- the charge for providing life cover
- the charge to cover expenses
- the amount available for investment

**Underwriting**
The assessment by the life office of the risk associated with providing life insurance cover for the person applying.

**Unit Certificate**
The certificate of entitlement of units.
**Unit Linked**
A policy in which the premiums 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 Trust**
A professionally managed investment vehicle whereby many people or organisations pool their money for investment purposes.

**Vesting (superannuation)**
The entitlement of an employee participant leaving a superannuation scheme to receive all or part of the amount the employer has contributed to the scheme on behalf of that employee. Vesting may start at 5% after 5 years and be complete after 20 years. Vesting only applies to employer-sponsored superannuation schemes.

**Vesting date**
(1) The date in which an employee participant in a company superannuation scheme becomes entitled to a portion of the employer's contribution.

(2) The date when the ownership of a policy (usually a child's policy) is automatically transferred to the life insured (usually from parent to the child when the child reaches a specified age).

**Waiting period**
The period stipulated in some Accident and Disability policies before the benefit payments commence.

**With profits**
A policy that is issued with profits shares in the distribution of the surplus from the life fund in the form of bonuses (see participating).

**Whole of Life Insurance (WOL)**
A 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. If the policy is non-participating, your premiums will be lower for the same sum assured, but the sum assured will not grow. Participating Whole of Life policies have a surrender value, after an initial period (usually between 2 to 5 years).