

Glossary

Adverse selection	The tendency of persons who represent a higher-than-average risk to take insurance to a greater extent than those with average or lower-than-average expectation of loss.
Authorized insurer	Company authorized by the FSA to carry on one or more classes of insurance business within the UK.
Brown goods	DEGs used for home entertainment such as televisions, video recorders, etc.
BRC Code of Practice	Voluntary code of practice for retailers of EWs operated, as amended, by the British Retail Consortium since 1995.
Burn(ing) cost	For any line of insurance business, the expected frequency of claims in a year multiplied by the expected average claim cost in that year.
Cancellation period	Period allowed by the provider within which the EW can be cancelled with full refund of the premium or charge. Also called cooling-off period. See also termination .
Captive insurer	Insurer established in a non-EC jurisdiction, owned and ultimately controlled by a retailer offering service-backed EWs , which insures the EW liabilities of the supplier of the EWs .
Claims ratio	Sum of claims incurred and related claims handling expenses as a percentage of an insurer's earned premiums (see premium earned). Often called loss ratio.
Combined ratio	Sum of claims ratio and general administrative expenses expressed as a percentage of earned premium.
Continuous cover	Where a DEG is replaced under an EW and the remaining period of cover is automatically transferred to the replacement DEG .
Conversion rate	Proportion of DEG sales on which consumers also buy an EW . May be expressed by number or value of the transactions. Sometimes called the transformation rate.
Direct insurer	Insurer who markets EWs direct to consumers rather than through the agency of a retailer or manufacturer.
DEGs	Domestic electrical goods. Products designed to be connected to an electricity supply or powered by batteries used by consumers for domestic purposes, excluding fixed installations. DEGs may be categorized as, for example, brown or white goods, PCs, mobile phones.
EC Guarantees Directive	Council Directive 1999/44 approximating member states' laws and regulations on aspects of the sale of goods and their associated guarantees. Implemented from 31 March 2003 by the Sale and Supply of Goods to Consumers Regulations 2002 (SI 2002/3045).
EW	Extended warranty. A contract which covers a consumer for the cost of repairs or replacement within a specified period after a manufacturer's or retailer's original guarantee has ended and may also cover additional risks during that period and during the life of such guarantee .

Free EWs	EWs for which no charge is made to the consumer.
General insurance	Insurance business falling within one or more of 18 classes of non-life insurance specified in Schedule 1 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544). EWs come within class 16, miscellaneous financial loss.
Guarantee	Normally used to describe a unilateral undertaking by a manufacturer (or, less often, retailer) to meet costs of repair or replacement of a product in the event of mechanical fault not induced by unreasonable usage or accident during a specified period, very often 12 months, after purchase.
Insurance	Contract under which the insured party transfers the financial consequences of risks covered under the contract to an insurer in return for a premium.
IPT	Insurance premium tax. Indirect tax levied on the sale of particular classes of general insurance products.
Insured warranty	An EW where the supplier is an authorized insurer and the cover is insured by it.
International survey	Survey carried out by PA Consulting Group for the CC in February to April 2003 on the market for EWs in some other countries based on a selection of widely-used DEGs .
Maintenance contract/agreement	Contract in which the sole or primary purpose is the carrying out of routine scheduled maintenance of an appliance although the contract may also provide for repair in the event of mechanical or electrical failure. Sometimes described as a service contract/agreement, in confusion with ‘service’-type EW (see service-backed or -based agreement).
Major DEG	DEG with a sales value of at least £50.
Moral hazard	A subjective hazard arising from the behaviour or character (for example, bad habits, low integrity) of an insured which increases the possibility of loss or intensifies its severity.
MAP	Multi-appliance policy. EW covering several appliances at the choice of the customer: normally provided on an annual basis, often by an insurer rather than a retailer.
NOP survey	Consumer survey carried out for the CC by NOP in November 2002 as part of the inquiry.
OFT consumer survey	Consumer survey carried out for the OFT by FDS International in late 2001 and early 2002.
OFT mystery shopping survey	Survey on the working of the BRC Code of Practice by Taylor Nelson Sofres for the OFT in September 2001.
OFT repairers survey	Survey carried out by the OFT in January 2002 on the market for independent electrical retailers.
OFT report	OFT report on EWs for DEGs in July 2002 referring the issue to the CC.
POS	Point of sale. Where the EW and DEG are sold in the same or an immediately subsequent transaction. May include sale in store, by mail order, telephone or Internet.

Premium earned	That proportion of premiums written attributable to the risks borne by an insurer during an accounting period where the premiums written relate to a period continuing beyond it. May be gross or net of reinsurance .
Premium written	Premiums which an insurer is entitled contractually to receive from the insured. May be gross or net of reinsurance .
Reinsurance	Contract under which a reinsurer agrees to indemnify a cedant or primary insurer against part or all of the latter's liability under their original contract.
Ring-fenced trust	A trust, normally with independent trustees, which holds the assets of a captive insurer covering the EW liabilities of a provider of service-backed warranties that are insured with the captive , the trust being required to accord priority to meeting claims on those EWs in the release of the assets.
Self-insurance	Expression sometimes used to describe where a customer of a DEG has not bought an EW and thus bears the risk of meeting any repair costs (see insurance).
Selling practices report	Study carried out for the CC in April 2003 by Retail Planning Innovations analysing information on selling practices by retail staff in respect of EWs on DEGs .
Service-backed or -based agreement/contract/plan/warranty/scheme	Various expressions used to refer to an EW in which the repair cover is not an insurance contract but the EW liabilities of the supplier under the contract are normally insured with a captive insurer and a small part of the EW charge is used to provide separate cover from an authorized insurer for accidental damage or frozen food loss.
Statutory rights	Usually refers to the right of the buyer to receive goods of satisfactory quality as defined in the Sale of Goods Act 1979.
Termination	Where a buyer of an EW terminates it after the period allowed for cancellation has expired. See also cancellation period .
Underwriting result	An insurer's pre-tax profit or loss on their insurance activities before taking into account investment income.
Warranty provider	Supplier of an EW or someone who offers or makes available an EW supplied by someone else.
Warranty supplier	Person who contracts to supply the services comprised by an EW whether or not they physically provide them. May be either an insurer, for an insured EW , or a service provider not connected with the agent for a service-backed EW .