GLOSSARY OF INSURANCE TERMS

THE A-Z FOR INSURANCE PRACTITIONERS

Terms generally associated with reinsurance

Ab initio	A term used to describe avoidance of a contract from its inception or its beginning. The Insurance Contracts Act allows an insurer to avoid a policy ab initio in situations where an insured fraudulently non-disclosed or fraudulently misrepresented information when applying for insurance.
Accident	An unplanned and unexpected event which occurs suddenly and at a definite place.
Accident cover	Provides benefits in the event of an accident occurring during the period of cover. Usually refers to insurance covering injury or death arising out of violent, accidental, external and visible means.
Act of God	An event or occurrence due to natural causes which occurs independently of human intervention and either could not be foreseen, or if foreseen, could not be reasonably guarded against. (e.g. storm, flood, earthquake, cyclone)
Actual total loss	Where the property insured is completely destroyed or so badly damaged that it ceases to be a thing of the kind insured, or where the insured is irretrievably deprived of it. Also called “constructive total loss”.
Adjuster	Also known as an assessor is a representative of the insurer who seeks to determine the extent of the company's liability for loss when a claim is submitted.
Advice	(in relation to Financial Services) A statement made which influences, or is intended to influence, a person to purchase a particular financial product or service. Advice can be personal or general: Personal advice is advice which takes one or more of a person’s

individual circumstances into account.
General advice is advice which is not personal—i.e. does not fulfil this individual circumstances test.

Agent A person holding an agency agreement with an insurer and who, for reward, carries on the business of arranging contracts of insurance as agent for one or more insurers. Such an agent is referred to as an Authorised Representative.

Aggrieved party A party who has been wronged. A person who is a victim is said to be aggrieved.

Agreed Value (Usually associated with motor vehicle insurance) A car's agreed value is set at the beginning of each period of cover. It is based on the fair value given then for the cars make and model in the motor trade's most commonly accepted price handbook. The value doesn't change for the period of cover.

Amount covered The current amount covered is shown on the most recent of the insurance schedule and the renewal notice. It is the most the insurer will pay, less any excess, for a claim that is covered by the policy. The amount covered includes GST.

Arbitration A system of deciding legal disputes between an insured and an insurer by use of a private tribunal outside of the court system.

Arson Any unlawful setting fire to property.

Australian Financial Services Licensee A person who holds an Australian Financial Services licence.

Binder An authority given by an insurer to an intermediary to enter into, as agent for the insurer, contracts of insurance on behalf of the insurer. Some binders give an intermediary authority to deal with and settle claims against the insurer, as agent for the insurer.

Broadform A form of liability wording that extends the cover for personal injury beyond physical injury, disease or death to include other causes including mental injury or anguish, fright, false arrest, malicious prosecution, libel, slander, defamation, wrongful entry, eviction or other invasion of the right of private property, assault and battery which occurs during the period of the policy.

Broker	An intermediary, who acts on behalf of a person who is applying for insurance. They earn a commission from the insurer; however, they have a responsibility to obtain cover appropriate to the needs of the insured. In certain circumstances a broker can also act as an agent for the insurer in terms of issuing a policy or collecting a premium.
Burglary	Theft following forcible and violent entry to the premises. Note: this term may not apply for some states of Australia.
Business pack	A number of policies typically required by a business are combined into one policy or package—e.g. fire damage to property, burglary, liability, etc. Business packs are sometimes tailored to cover the risks of a particular industry or business—e.g. motor dealers, builders, etc.
Cancellation	The termination of a policy before the expiry date.
Captive insurance company	An insurance company that is wholly owned by one or more entities, the main purpose of which is to insure the risks of its parent companies. Several large Australian companies and organisations have their own captive insurers.
Catastrophe reinsurance	A form of reinsurance whereby the reinsured is protected against an accumulation of losses from the same event—e.g. a cyclone.
Caveat emptor	Let the buyer beware. Insurance contracts are NOT Caveat emptor (buyer beware) contracts. They are Uberrima Fidei Utmost Good Faith) contracts.
Cedant	An insurer who transfers all or part of a risk to a reinsurer.
Cede	To transfer risk from an insurer to a reinsurer. A 'cession' is a particular reinsurance transaction. Normally, this refers to the proportional insurance of a risk.
Ceding insurer	The original insurer. It is the company which deals with the client, and reinsures part or all of the risk.
Certificate of Insurance	A certificate that acts as proof that a policy has been issued.
Cession	The portion of the sum insured of a risk ceded to a reinsurer. A Cession is a particular reinsurance transaction.

Claim	Notification by or on behalf of a claimant that an event likely to be covered by a policy has occurred, or is likely to occur, and giving formal notice to the insurer accordingly. Usually a claim will be accompanied by a request for indemnification under the policy.
Claimant	The party asserting a right of recovery under a contract of insurance.
Claims history	The history of losses suffered by an insured which have been covered by insurance. Some claims histories also record events notified to the insurer which did not result in actual claims pay-outs—e.g. events below the policy excess.
Claims Ratio	The ratio of the cost of claims to earned premiums.
Closing	The document sent by a broker to an insurer confirming and finalising an insurance cover arranged by the broker.
Code Of Practice (General)	The Insurance Council of Australia, as a response to the needs of the insurance industry and with the assistance of the Insurance Enquiries and Complaints Ltd. (IEC), developed the General Insurance Code of Practice ("the Code"). The Code is a self-regulatory form of regulation, that is, the insurance industry, not the government, is responsible for making it work. The overall aim of the Code is to raise service standards across the general insurance industry. It applies across the insurance industry to insurance companies, their employees, agents, investigators, assessors, loss adjusters and collection agents.
Co-insurance (average)	An insured who has a sum insured which does not represent the full value of the insured property may be their own co-insurer and, therefore, sharing in the risk with the insurer. This can result in a reduced claim.
Collection or Set	A group of items of sufficiently common type, appearance or nature that they reasonably belong together and that is devalued if one or more of the group is lost or damaged.
Commission	A fee charged by a broker or agent for services in the sale of an insurance contract.
Common Law	The principles of law arising from court decisions.
Comprehensive Insurance	(Usually associated with motor vehicle insurance) Provides specified cover for damage to insured car as well as damage the insured car may cause to the property of others.

Compulsory insurance	Insurance arranged in order to comply with the law—e.g. workers compensation insurance or compulsory third party insurance. Also referred to as Statutory Insurance.
Condition precedent to liability	Conditions which must be fulfilled if the insured's claim is to be accepted. For example, a claims co-operation condition may require an insured to make its books of account available for inspection should a loss occur.
Conditions precedent to policy	Conditions which must be fulfilled in order for a policy to be valid—e.g. the Duty of Disclosure.
Conditions subsequent to policy	Conditions which must be fulfilled in order for a policy to continue. An insured may be required to meet certain conditions while the policy is in force—e.g. pay the premium, maintain the premises, have the burglar alarm regularly serviced, etc.
Consequential Loss	A loss of property may also result in a "loss of profits" and/or additional expenses. This is a loss which is a consequence of the property loss. Consequential loss insurance is usually referred to as business interruption' insurance. It is available as an addition to a property policy.
Consideration	A simple contract requires consideration to be given by the parties to the contract. The consideration must be worth something. It may be in the form of money, goods or services.
Contra Proferentum Rule	The legal rule by which the words of an author are to be construed against the author. Therefore, any ambiguity in an insurer's proposal form or policy wording will be construed against the insurer. Note that this rule will only be applied where there is a real ambiguity.
Contract	An agreement between two or more parties which is enforceable by law.
Contribution	Where an insured has two or more insurance policies which are covering the same interest against the same peril, the insured can make his/her claim in full against one or other of the insurers. The chosen insurer can then require the other insurers to make a proportional contribution towards that loss. (Given that the insurance policies are subject to the rule of indemnity, the insured is prevented from recovering from all the insurers and therefore making a profit from his/her claims).

Cooling off period	A period of not less than 14 days which must be provided to Retail Clients on Retail products. During this period a client may return the policy and receive a full refund of premium unless a claim has been made.
Cover and covers	Means the protection provided by the policy.
Cover note	A contract of insurance intended by the insurer to provide temporary insurance cover and which is to be replaced by another contract of insurance. Cover notes are usually issued where further particulars are to be ascertained or where the insured has been requested to comply with additional risk acceptance conditions before a more permanent insurance contract is entered into. Also called an Interim Contract of Insurance under Section 38 of the Insurance Contracts Act.
Coverage	The scope of the protection provided under a contract of insurance.
CTP Insurance	Compulsory Third Party insurance (CTP Green slip in NSW) is the insurance that is needed when registering a vehicle. CTP insurance is intended for the situation where another person is injured or killed in an accident, which is caused by the driver of the insured vehicle.
	Loss or injury suffered by a person, normally calculated in monetary terms.
Damage **Damages**	Compensation for loss suffered, which is awarded by courts and endeavours to place a person in the position where they would have been had the loss not been suffered.
Decline	To refuse. For example, the insurer may decide not to accept a proposal for insurance or perhaps decline to accept a claim.
Deductible	The amount of loss that is to be born by the insured prior to being able to claim under a policy. Sometimes called an "excess".
Defendant	Person or entity being sued by the plaintiff.
Deposit premium	Amount paid by a client as an initial premium under a policy. The deposit premium is subject to adjustment at the end of the policy period based on, for example, claims experience. After adjustment, the insured receives a refund or is required to pay extra premium, as the case may be.

Depreciation	A decrease in the value of any type of property over a period of time resulting from use, wear and tear, or obsolescence.
Direct insurer	Is an insurer which deals direct with the consumer rather than through an intermediary or agent.
Direct policy	The parties to a direct insurance contract are the insurer and the original insured. The term is used to differentiate the direct policy contract from any reinsurance contract that may be arranged as a result of the direct policy contract.
Disaster	A disaster is said to have occurred when the normal community and organisational arrangements cannot cope with a hazard impact.
Disclaimer	A person may make a statement to the effect that they will not accept any responsibility for certain things which may (or may not) happen. For example, disclaimers are used to try and avoid or limit a person's liability for breach of duty of care.
Dispute Resolution Process	A system for resolving complaints which an AFS Licence holder is required to have in place as part of their compliance with the Financial Services Reform Act (FSRA)—the FSRA is now part of the Corporations Act. The process consists of an Internal Dispute Resolution system and an External Dispute Resolution system.
Doctrine Of Precedent	Reliance by judges on previous judicial decisions when deciding similar cases before them.
Due date	The date a policy is in force to and by when a renewal premium must be paid.
Duty of disclosure	A requirement under Section 21 of the Insurance Contract Act. The insured has a duty to disclose every matter known to be relevant to the insurer, or that a reasonable person in the circumstances could be expected to know to be relevant to the insurer. The duty applies up until a contract is entered into, and when it is renewed, varied, reinstated or extended. An intending insured must be advised of their duty to disclose material facts.
Earned Premium	Insurance policies usually run for a period of 12 months. An insured can cancel a policy at any time and request a refund of premium. Therefore, insurers must only take into the books of account that portion of premium which corresponds to actual elapsed time on risk. That portion of premium which can be taken up in the accounts is called earned premium. That portion of premium yet to expire is

termed unearned premium.

Effective date	The date on which the cover of an insurance policy commences.
Eighths system	A method of calculating unearned premium, usually under a proportional reinsurance treaty where premium details are provided quarterly. Risks are assumed to attach on average on the middle day of each quarter. Therefore, at the end of a calendar year, 7/8ths of premiums on policies accepted in the first quarter are assumed to be earned, with 1/8th unearned, and so on.
Endorsement	Any writing appearing on a policy, or additional documentation attaching to a policy, whereby the printed terms of the policy, the parties to it, or other particulars, are varied.
Event	An incident or situation, which occurs in a particular place during a particular interval of time.
Ex gratia payment	A payment made by an insurer to a claimant as an act of grace, where no contractual entitlement to the claim exists. The insurer will make an ex gratia payment in order to maintain good will, public relations, or as a matter of social justice or some other non-contractual reason.
Excess	An excess on a policy is the first amount that must be contributed by the insured towards each claim. When one or more excesses apply to a policy, they will be shown on the insurance schedule.
Expiry date	The date upon which a policy ends. Conventionally, 4.00 pm is the normal time of expiry, although this varies by type of policy and by insurer.
Facultative reinsurance	Reinsurance negotiated and placed on a case-by-case basis, as opposed to the automatic protection provided under a reinsurance treaty. Each facultative reinsurance arrangement is subject to a process of offer and acceptance between the parties.
Fidelity insurance	An insurance policy which covers the misappropriation of goods or money by employees.

Financial Ombudsman Service Any policyholder who is dissatisfied with the outcome of his or her dealings with the insurer can contact the Insurance Ombudsman Service on 1300 780 808.

Financial Services Guide (FSG) This is a statement that must be given to a Retail Client when, or before, a Financial Service or Financial Product is provided. It contains information about the service provider, who he/she is working on behalf of, remuneration, dispute resolution and other information required by the Financial Services Reform Act (FSRA)—now in the Corporations Act.

First party The first and second parties are simply the parties to an insurance contract. A third party is not a party to the contract but a party who seeks to be compensated for some injury or loss caused by the insured. A first party policy may also refer to insurance for the policyholder’s own property or person.

Flood Means the inundation or covering of normally dry land by water which: escapes or overflows from, or cannot enter, because it is full or has overflowed, or is prevented from entering, because other water has already escaped or been released from it, the normal confines of any watercourse or lake, including any that may have been modified by human intervention, or reservoir, canal, dam or storm water channel. Flood does not mean storm water run off from areas surrounding the site or water escaping from any water main, pipe, street gutter, guttering or surface.

Fortuitous loss An unforseen loss is termed a fortuitous loss. Insurers will only insure fortuitous losses. Whilst an insurer knows that there will be motor accidents, it cannot predict which insureds will suffer a loss.

Franchise A type of excess whereby claims under a certain amount are not paid. However, claims over the franchise amount are paid in full.

Fraud The term "fraud or dishonesty" encompasses all those risks of loss that might arise through dishonest acts or omissions.

Fronting Arrangement The issuance of a policy by one insurer on behalf of a second insurer because the second insurer is not licensed or admitted in the state of jurisdiction for the line of business being written. The first insurer actually issues the policy to the insured and retains legal responsibility for meeting claim payments under it, but is reinsures 100% of its exposure to the second insurer.

General average During a marine venture, certain cargo may be deliberately sacrificed so that the rest of the cargo may be saved. All those with cargo on

(marine	board must share in the loss of those whose cargo was sacrificed.
Gross Premium	The net premium plus operating expenses, commissions and other expenses.
Hazard	A situation that increases the probability of the happening of loss arising from a peril, or that may influence the extent of the loss. For example, accident, fire, flood, liability, burglary, and explosion are perils. Slippery floors, flammable liquids, unsanitary conditions, unlocked and unguarded premises and poor roads are hazards.
Housekeeping	An important risk assessment issue for underwriters, housekeeping concerns an objective assessment of the extent to which an insured maintains the general cleanliness, appearance, utility and up-keep of premises. Poor housekeeping would be evidenced by excessive rubbish, congestion in work areas, deferred maintenance of machines, and general untidiness.
IBNR	Incurred but not reported the liability that an insurer has for losses that have happened but not yet reported as claims.
Implied condition	This is a condition that the law reads into a contract but which does not appear in the policy document—e.g. it is implied that the subject matter of the insurance does exist. The duty of utmost good faith is an implied term in all contracts of insurance.
Indemnity insurance	Type of insurance that restores the individual as close as possible to the financial position that they enjoyed before the loss.
Indemnity period	(applies to Business Interruption Insurance) A term used in Business Interruption insurance. It means the period beginning with the occurrence of damage and ending not later than the number of months specified in the policy schedule during which the results of the business are affected in sequence of the damage. For example, assume damage has occurred on the very last day of the period of insurance. The indemnity period starts from that date and runs until the business is no longer affected, subject of course to the number of months the client selected. If the client selects too short an indemnity period, then the consequences are similar to under-insuring a building. If the business continues to be adversely affected after the nominated indemnity period, the insured will have to carry the losses, as the policy cover has ceased.
Insolvency	A situation where a person is unable to pay debts as and when they

fall due for payment.

Insolvent	A company may not be able to settle debts in full because its assets are worth less than the liabilities that must be paid off.
Insurable interest	In order to make a claim under a general insurance contract the claimant must demonstrate that at the time of loss the claimant suffered a pecuniary or economic loss. ‘Pecuniary’ means money. ‘Economic’ is a broader term and includes loss of use. This is what we now mean by an insurable interest. The claimant stands, in relation to the subject matter of insurance, to benefit by its safety or suffer some prejudice by its loss. The interest the claimant has does not need to be an interest recognised in law or in equity.
Insurance	A device for transferring specified risks of individual persons to an insurer. The insurer agrees, for consideration (usually payment of a premium), to assume, to a specified extent, certain losses that may be suffered by the insured.
Insurance schedule	Sets out the information given to an insurer upon which the decision to offer cover is made. It also displays the individual details of a policy.
Insured	The party to an insurance arrangement to whom the insurer agrees to provide cover against specified losses, or to render services, subject to the terms of the insurance contract.
Insured event	Occurrences which cause loss and damage which are listed in the relevant policy.
Insurer	The party to an insurance arrangement who undertakes to provide cover or to render services, on the happening of specified events.
Interim cover	A temporary contract of insurance (usually issued for 14–30 days) to be replaced by a Contract of Insurance (a policy) Refer to section 38 of the Insurance Contracts Act.
Intermediary	An agent or broker who assists the public in proposing for insurance.
Jurisdiction	The power given to courts, either by statute or constitutionally, to hear particular matters.
Jurisdiction Clause	A clause in a treaty wording defining the laws under which any dispute shall be resolved.

Knock-for-knock agreement	An arrangement between motor insurers whereby each agrees to pay for its own repair costs and will forego subrogation recovery action against the other signatories, irrespective of questions of fault.
Lapsed policy	A policy which has been allowed to expire because of non payment of premiums.
Leading underwriter	The insurer who determines the terms and rating applicable to large insurance placements involving participation by several insurers. The lead usually takes the largest share of a risk, with other insurers following the lead.
Letter of Credit	A financial instrument obtained from a bank guaranteeing the availability of funds to be collected in the future under a reinsurance contract. Often required in overseas markets where currency restrictions or concerns about reinsurer solvency exist.
Liability Insurance	A form of general insurance that provides cover in regard to the insured's legal obligation for loss or damage to another person.
Limited liability companies	Companies that are owned by their shareholders. The liability of its shareholders is limited to the fully paid up value of the shares.
Line	A line is the amount an insurer retains on a risk under a proportional treaty. It is also used to refer to the amount a reinsurer will accept on a piece of business.
Local insurer	Transacts business only within the country where it is registered.
London Market	This refers to the international insurance and reinsurance business written in London. It consists of the following segments: international reinsurance; marine and aviation; US excess and surplus lines business; and direct overseas business written in the UK
Long tail business	A term used to describe a risk or class of business that may have claims notified or settled long after risks have expired. The financial outcome for these classes will not be known with certainty for several years. Liability insurance is long tail.
Loss	Generally refers to the amount of reduction in the value of an insured's property caused by an insured peril. In an insurance sense it usually does not mean "misplacing" an item.
Loss history	The history of losses suffered by an insured or intending insured. This

includes losses which were not covered by insurance.

Loss Occurrence Insurance arranged on a “per occurrence” basis permits all losses arising out of one event to be aggregated together. In casualty business, the term “occurrence” is broadly defined as a sudden happening resulting in bodily injury or damage and which is neither expected nor intended. In property reinsurance, the term ‘occurrence’ is usually defined as all losses from a single event arising during a specified period of time.

Loss Ratio The percentage that incurred losses bear to earned premiums.

Loss Reserve An amount set aside to provide for outstanding claims.

Market value The fair price for which something can be sold in its current condition.

Material facts Facts which are relevant to the situation. For example, speeding fines would be relevant to a motor vehicle proposal but probably would not be relevant to a house insurance application. The Insurance Contracts Act requires a proposer to reveal facts which a "reasonable person" would think are relevant.

Maximum probable loss (MPL) A term used in property insurance. It represents an estimate of the likely loss to be experienced in a “worst case” scenario, excluding catastrophe events. Some definitions assume that all fire fighting equipment, structural fire protection (e.g. fire doors) and alarms for a particular risk will fail. Other definitions assume that these items will function normally. Insurers use MPL definitions in order to arrange their reinsurance and decide how much of a risk they can retain. It also applies in reinsurance. Companies calculate estimates of the maximum probable loss they could get out of a disaster—e.g. bushfire, storm, earthquake—and buy an appropriate amount of reinsurance.

Misrepresentation Misrepresentation occurs when the insured has provided information to an insurer but that information is incorrect. Fraudulent misrepresentation will allow an insurer to avoid a contract from its inception. Innocent misrepresentation does not allow an insurer to avoid a contract but the insurer can cancel the contract, and may reduce any claim by the extent of the prejudice suffered by the insurer.

Moral hazard There may be certain risks regarding the basic honesty and integrity of a person who is seeking insurance. For example, a person who has been convicted of theft may be more likely to lodge a fraudulent claim.

Morale hazard	Morale hazards involve the attitudes of individuals—e.g. are they careless, lacking interest, discouraged?
Negligence	Failure to use a degree of care which an ordinary reasonable person would use under the given or similar circumstances. A person may be negligent by acts of omission or commission or both.
New for old	(usually referred to as replacement and reinstatement) - Replacing your existing old damaged items or equipment with new ones.
No claim bonus	The amount by which a renewal premium is reduced as a result of no claims being made during the preceding period of insurance.
Non-admitted Insurer	An insurance company that has not been licensed to write insurance in a given jurisdiction. (US)
Non-disclosure	This must be distinguished from misrepresentation. Misrepresentation is the provision of information which is subsequently found to be incorrect. Whereas, non-disclosure is the withholding of information from an insurer. If there has been non-disclosure prior to inception then the insurer is able to cancel the contract and may also reduce its liability to the insured. If the non-disclosure was fraudulent then the insurer has the right to avoid the contract from its inception. If the insured's non-disclosure was innocent, then in order to reduce its liability under the policy the insurer must prove that, had it known the true situation at the time, the policy terms and/or premium would have been different. Liability is reduced to an amount that puts the insurer in the same position they would have been in had the non-disclosure not occurred. Where an insured fails to answer a question, or gives an obviously incomplete or irrelevant answer to a question, the insurer is deemed to have waived compliance with the duty of disclosure unless the insurer makes enquiry and follows up the defective information.
Occurrence wording	A term used in liability insurance. It refers to a policy under which the circumstances giving rise to a claim must occur during the period of insurance. Claims under such a contract may arise many years after the occurrence of an event and this created problems for insurers both in terms of rating adequacy and claims reserving. These problems gave rise to the development of “claims made” wordings, under which claims must be made against the insured during the period of insurance in order for the insurer to provide an indemnity.
Open policy	Provides cover for all risks of a certain type during a set period of time. The sum insured is then adjusted for the actual total sum insured. Commonly used for marine cargo policies and construction

policies.

Operating statements	Details of revenues, expenses and profits for a specific accounting period.
Operative clause	The insuring clause of a policy document which sets out the cover provided under the policy.
Outstanding claims	The aggregate liabilities (total case reserves less amounts paid) faced by an insurer under lodged claims that at any point in time have not been finalised.
Overinsured	A term used to describe the condition that exists when an insured has purchased coverage for more than the actual value or replacement cost of a subject of insurance. It is also used to describe a situation where so much insurance has been obtained it constitutes a moral hazard.
Peril	The cause of a possible loss. Not to be confused with hazard.
Period of cover	Means the current period for which we have agreed to provide you with insurance cover. The current period is shown on the most recent of your insurance schedule and renewal notice and any receipt we may send to you. When we make a write-off payment, the period of cover comes to an end.
Personal Advice	A statement which influences or is intended to influence a person to purchase a particular financial service or product and which takes into account one or more of a person's individual circumstances. This is a Financial Services Reform Act (FSRA) term—the FSRA is now part of the Corporations Act.
Personal liability insurance	Insurance covering the personal liability an insured may have to others as a result of being negligent.
Personal lines	This term is used to refer to insurance for individuals and families, such as private car insurance and home insurance. Contrast with Business Insurance and Commercial Lines.
Personal Valuables	For most people, their Home contents include personal valuables which they often wear or take with them when they are away from their home. Cover for these items is often limited.
Plaintiff	A person or entity bringing civil proceedings against some other party.

Policy	Means the Product Disclosure Statement and the policy schedule.
Policy schedule	A notice showing the particular details of a policy.
Policyholder	Generally use to describe the policy owner and/or insured.
Precedent	A judge-made decision considered to be applicable in a later case.
Precedent condition	A condition which must be met beforehand. It may need to be met before a policy is issued or before a claim will be considered.
Premium	The price of insurance cover for a specified risk for a specified period of time
Premium funding	An arrangement between an insured and a finance provider whereby the insurance premiums are paid directly to the insurer by the financier and repaid to the financier by the insured under agreed credit terms.
Prescribed Contract	The Insurance Contracts Act has special rules for six classes of personal insurance. These are called the Prescribed Contracts, and the Act prescribes the events an insurer must provide under each of these contracts by way of standard cover. Insurers are free to provide more than standard cover and can even provide less than standard cover, provided the insured was notified of this in writing. Home insurance, private motor insurance and personal accident insurance are examples of Prescribed Contracts.
Pro rata cancellation	This refers to the proportion of premium refunded to an insured in the event of cancellation of the policy. A pro rata refund is calculated according to the period of insurance unearned by the insurer at the date of cancellation.
Product Disclosure Statement	A Document prepared by, or on behalf of, the product issuer which contains all the information about the product including the name and address of the issuer (the insurer), significant benefits, cost, terms and conditions, cooling off period and the dispute resolution process
Products liability insurance	Insurance taken out by manufacturers to cover liability claims arising from their products.
Professional indemnity	Insurance covering a professional for his or her legal liability to others due to professional negligence.

Proposal	Includes a document containing questions to which a person is asked to give answers that will be used in connection with a proposed contract of insurance. A completed proposal form is an offer by the intending insured to enter into an insurance contract. It is NOT an offer by the insurer. An insurer may accept or decline a proposal.
Proposer	A person who proposes for insurance. If the proposal is accepted then the person becomes the insured.
Proximate cause	The first event in a chain of continuous events. Insurance covers the proximate cause of a loss—e.g. a rusty roof may let rainwater in. The proximate cause of any storm damage would probably be the rusting out of the roof which is NOT covered by insurance.
Pure risk premium	The portion of the premium needed to pay losses (claims).
Quota share treaty (reinsurance)	A form of proportional reinsurance under which the cedant is obliged to cede, and the reinsurer to accept, a fixed share of every risk up to a maximum dollar amount, in a specified class of business.
Rate	The price per unit—e.g. $3 per $100 of sum insured.
Rating, no claim bonuses and no claim discounts	(usually associated with motor vehicle insurance) - A discount off your car insurance premium. The discount increases each year providing no claim that reduces your rating/discount is made on your policy. It keeps on increasing until it reaches the maximum discount level, called 'rating one' or 'maximum no claim bonus'.
Real property	Real estate—e.g. land and permanent buildings.
Recital clause	The clause in a policy document which introduces the parties to the contract and some basic information about the contract.
Reinsurance	The practice whereby one party, the reinsurer, in consideration of premium paid, agrees to indemnify another party, the reinsured, for part or all of the liability assumed by the reinsured under a policy (or policies) of insurance. There are two methods of reinsuring risks: Treaty Reinsurance and Facultative Reinsurance.
Reinsurance treaty	An agreement in writing between an insurer and one or more reinsurers. The insurer agrees to pass on some of the risk, and the reinsurers agree to accept, within pre-arranged limits.

Reinsured	An insurance company or Lloyd's syndicate who buys reinsurance. This term is the preferred usage to "cedant" in non-proportional reinsurance contracts as risks are not ceded to these contracts—losses exceeding the deductible being payable by the Reinsurer.
Reinsurers	Insurers which take on part of the risks taken on by insurers.
Renewal Certificate	A certificate which is used to renew a policy. It refers to the original policy, keeping all of its provisions, without restraining all of the insuring agreements, exclusions, and conditions.
Renewal Premium	The premium paid for a renewed policy.
Representation	A statement made about material facts relating to the insurance being proposed—e.g. previous claims. These representations become the basis of the contract.
Reserves	An insurer will set aside funds from its premiums and/or profits to meet known or anticipated claims in the future.
Residual risk	This refers to the remaining levels of risk, after risk treatment measures have been taken.
Retail Client	General Insurance is provided to a person as a Retail Client where the client is an individual or the product is sold for use in a small business and the product is: • A motor vehicle insurance • A home building or contents insurance • Consumer Credit, Sickness and Accident or Travel Insurance • Personal and domestic property insurance • Any other class of insurance as prescribed by the regulations of the Financial Services Reform Act (FSRA) now part of the Corporations Act. **Note:** A small business is defined as less than 100 employees for a manufacturer, or 20 employees for any other business.
Retention	The amount retained by a reinsured after placing reinsurance. Normally, this refers to the retained amount after cessions to proportional reinsurance. The "retention" under non-proportional reinsurance is the deductible.
Retrocession	Reinsurance of reinsurance, either on a risk-by-risk basis, or on a portfolio of business.
Retrocessionaire	A reinsurer that accepts retrocession business.

Risk	General meaning is a thing or person insured.
Risk management	Management of the risks to which a company might be exposed. It involves analysing all exposures to the possibility of loss and determining how to handle these exposures through such practices as avoidance, reducing the risk, retaining the risk, or transferring the risk e.g. see reinsurance.
Run-off	The remaining liability of a reinsurer after the effective cancellation date of a treaty where there is no portfolio withdrawal. Losses may continue after the date of termination until expiry of individual cessions made to the treaty during its currency. Liabilities may continue to be discharged in respect to claims incurred prior to termination.
Salvage	Property taken over by an insurer to lower its loss.
Self-insurance	Occurs when an individual or a company which has a large number of risk units, recognises that a risk exists and makes a conscious decision to bear that risk without insurance.
Short tail business	A term describing business where most claims arise and are settled relatively quickly. It is sometimes applied to those classes of business that take no more than three years to run off.
Signed Line	The percentage expressed on a signing slip which indicates the reinsurer’s share of the contract liability.
Signing Down	The practice of reducing written lines on a placing slip so that when applied to the sum insured, the total amount placed equals 100% of the broker’s order. Usually, this is done on a proportional basis.
Simple contract	A legally enforceable contract which can be made either orally or in writing—e.g. insurance contracts. A contract for the purchase of real estate must be in writing to be legally enforceable and, therefore, is NOT a simple contract.
Slip	A term used to describe a précis of contract terms and conditions shown to an underwriter by a broker when a risk is offered. Upon completion, a full wording is normally prepared.
Slip Endorsement	A document noting an amendment to a slip.

Solvency test or margin (General insurance)	An insurer's assets must exceed its liabilities by a certain amount. The formula for the calculation of that amount is set down in the Insurance Act.
Statute law	Written law which changes the common law—Acts of Parliament.
Statute of Limitations	A law that specifies a time limit for which a person can bring a legal action for a claim.
Stop loss reinsurance	A reinsurance to protect the reinsured from losses in excess of a given percentage of its net premium income.
Storm	Means violent wind (including a cyclone or tornado), thunderstorm or a heavy fall of rain, snow or hail
Strata Title	A system of title that allows the owner of a unit, in a block of units, to have a separate title for that unit.
Subject matter	The object which forms the basis of the contract of insurance. For example, in the case of House and Contents Insurance, the subject-matter of the policy is the insured's house and contents.
Subrogation.	An insurer's rights at law to take over the insured's rights, following a claim payment to recover the payment from a third party responsible for the loss. Usually, this will be a negligent party who has breached his or her duty of care, but subrogation can also arise under contract, such as a lease or "hold harmless" agreement. The Insurance Contracts Act (1984) places some limits on recovery from family members.
Sum insured	The maximum liability of the insurer's liability under an insurance contract.
Surplus treaty	A form of proportional reinsurance in which the reinsured is obliged to cede and the reinsurer to accept within stated limitations, surplus amounts over a predetermined figure. For example, an insurer may decide to retain $500,000 on buildings it insures and has a 4-line surplus treaty. This means all sums insured up to $500,000 will be retained. For larger risks the surplus will be reinsured into the treaty up to a maximum of 4 times $500,000—in other words, $2,000,000.

Syndicate	A group of members at Lloyd's who pledge their financial means to underwrite insurance/reinsurance business written on their behalf by an active underwriter. Each member is personally financially responsible for the insurance business accepted on his or her behalf.
Term	Under insurance law it means the period of time for which a policy is issued.
Third party	A person or entity who is not a party to an insurance contract but who has an alleged or actual right of action for injury or damages against an insured under a contract of insurance.
Three Hundred and Sixty Fifths System	A method of calculating unearned premium. This is the most accurate of all methods as it is a strict pro rata. See Eighths system, and Twenty-fourths system.
Tort	A civil wrong—e.g. negligence or nuisance.
Treaty	An obligatory reinsurance contract usually effected to cover the whole or a certain section of the reinsured's business, usually without the reinsurer receiving details of each individual risk.
Trustee	A person who is responsible for the property which is the subject of the trust. The trustee holds the property for the benefit of others. The property may be held in the name of the trustee but is never the personal property of the trustee. For example, the trustees of a superannuation fund hold the assets of the fund for the benefit of the members of the fund.
Twenty-fourths system	A method of calculating unearned premiums. Premiums accounted for in bulk on a monthly basis are assumed to attach on average on the middle day of each month. Therefore, at the end of a calendar year, 23/24ths of premium booked in January is assumed to be earned, with 24th unearned. 21/24ths of February policies earned, and 3/24ths unearned, and so on. See also Eighths system, and 365ths system.
Uberrima fidei	The doctrine of Utmost Good Faith. This is an implied term in all contracts of insurance by virtue of the Insurance Contracts Act.
Umbrella Cover	Reinsurance protection for several classes of business, usually arranged by combining the retentions and/or deductibles of the different classes and protecting them by one excess of loss contract.

Underinsurance	A condition in which not enough insurance is held to cover the value of the insured property. This is particularly common with home contents insurance.
Underlying Layer	A layer of excess of loss business that operates immediately below another.
Underwriter	A technical person trained to evaluate risks and determine premium rates.
Unearned Premium	General meaning is the premium that is owed to the insured if the policy is cancelled.
Unenforceable contract	A contract which has the requirements of a valid contract, but cannot be legally enforced for other reasons.
Unfunded reserve	This arises when the provision made for expected losses is not backed by any assets set aside for such losses.
Uninsured perils	Events not mentioned in the policy document, but which are clearly outside cover.
Utmost good faith	The doctrine requires all parties to an insurance contract to act towards each other at all times and in respect to all things with the utmost good faith. The Insurance Contracts Act 1984 does not define the implied term "utmost good faith"; however, it has to do with matters of fairness, honesty, reasonableness, community standards of decency and fair dealing.
Valuation	Estimation of the value of an item, usually by appraisal eg. Jewellery appraisal.
Valued policies	If the subject matter of the insurance is a total loss, then the sum insured is paid. This may provide more or less than indemnity value.
Variable Quota Share	A form of Quota Share treaty, with more than one cession percentage depending on the size of risks under the contract. Strictly speaking, a Surplus treaty is also a Variable Quota Share.
Void	Considered to have no legal force or effect. An insurer may avoid an insurance contract from its inception (termed ‘ab initio’) should it discover evidence of pre-contractual fraudulent non-disclosure or

fraudulent misrepresentation.

Void contract	A contract which can be treated as if it never existed.
Voidable contract	A contract which can be avoided by one party.
Waiting period	A period of time set forth in a policy that must pass before some or all coverage does begin. It can be thought of as a time excess. It is sometimes referred to as a deferment period.
Warranty	A policy term setting out an obligation that the insured must comply with, either to do something, or refrain from doing something, or stating that some condition will be fulfilled. A warranty can also be a statement affirming the existence of certain facts.
Write-off	(usually associated with motor vehicle insurance) - Your car is declared a write-off when in our opinion, it is so badly damaged that it would not be either safe or economical to repair or when it has not been found within 14 days of you reporting its theft to us.
Written Line	The percentage written by underwriters on a placing slip to indicate the proportion of the sum insured and which they are prepared to accept.
Written premiums	The total premiums on all policies written by an insurer during a specified period of time, regardless of what proportion has been earned. See earned premiums