INSURANCE GLOSSARY

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, external and visible means.
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.
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 Authorized 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 se 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.
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.
Cancellation	The termination of a policy before the expiry date.
Catastrophe reinsurance	A form of reinsurance whereby the reinsured is protected against an accumulation of losses from the same event – eg. 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 reinsure. 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 – eg: 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 finalizing an insurance cover arranged by the broker.
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.
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 – eg. workers compensation insurance or compulsory third party insurance. Also referred to as Statutory Insurance.

Conditions precedent to Policy	Conditions which must be fulfilled in order for a policy to be valid – eg. 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 – eg. 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 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 not	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.
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.
Depsoit 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.
Disaster	A disaster is said to have occurred when the normal community and organizational 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.
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.
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 policy holder'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, am 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.
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.
Effective date	The date on which the cover of an insurance policy commences.
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.
Exess	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.
Fidelity insurance	An insurance policy which covers the misappropriation of goods or money by employees.
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 extend 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.
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 – eg. It is implied that the subject matter of the insurance does exit. 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.
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 recognized 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.
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.
Lapsed policy	A policy which has been allowed to expire because of non payment of premiums.
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.
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 include 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	A term used in property insurance. It represents an estimate of the likely loss

Loss (MPL)	to be experienced in a "worst case" scenario, excluding catastrophe events. Some definitions assume that all fire fighting equipment, structural fire protection (eg. 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 – eg. 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 – eg.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.
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-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.
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 finalized.

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.
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.
Premium	The price of insurance cover for a specified risk for a specified period of time.
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 deceline 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 – eg. 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.
Reinsurance	The practice whereby one party, the reinsurer, in consideration of premium paid, agrees to indemnity 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.
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 Premium	The premium paid for a renewed policy.
Representation	A statement made about material facts relating to the insurance being proposed – eg. 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.
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 eg. see reinsurance.
Statute Law	Written law which changes the common law – Acts of Parliament.
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 and insurance contract.
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 uner a contract of insurance.
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.
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.
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, honestly, reasonableness, community standards of decency and fair dealing.

Valuation	Estimation of the value of an item, usually by appraisal eg. Jewellery appraisal.
Void	Considered to have no legal force or effect. An insurer may avoid and 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.
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.