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 NORTON ROSE FULBRIGHT

InsurTech 101

Glossary of common insurance terms in Australia

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Common insurance terms

While many terms are ubiquitous in insurance markets around the world, some words have special meanings in Australia reflecting the Australian regulatory landscape. We have developed this insurance glossary to help new and emerging insurtech companies looking at setting up or expanding to Australia.

Term	Meaning
Adjuster	A person appointed by an insurance company to investigate claims and recommend settlement amounts
Advice	<p>Financial product advice is defined in the <i>Corporations Act 2001</i> (Cth) at s 766B.</p> <p>A recommendation or a statement of opinion, or a report of either of those things, that:</p> <ul style="list-style-type: none"> (a) is intended to influence a person or persons in making a decision in relation to a particular financial product or class of financial products, or an interest in a particular financial product or class of financial products; or b) could reasonably be regarded as being intended to have such an influence. <p>A person needs to be authorised to provide financial product advice.</p>
AFCA	<p>Australian Financial Complaints Authority</p> <p>AFCA is an External Dispute Resolution body</p>
AFSL	Australian Financial Services Licence issued under the <i>Corporations Act 2001</i> (Cth)
AFSL Holder or Licensee	A person who holds an AFSL
Agent	Someone who acts on behalf of another
Alternative risk transfer	New ways of transferring risk compared to traditional methods such as insurance
APRA	<p>Australian Prudential Regulation Authority</p> <p>APRA is responsible for licensing of insurers under the <i>Insurance Act 1973</i> (Cth) and prudential supervision</p>

ASIC	Australian Securities and Investments Commission ASIC is responsible for licensing financial services providers under the <i>Corporations Act 2001</i> (Cth) and is the corporate markets, financial services and consumer credit regulator.
Authorised Representative	A person who has been authorised by an AFSL holder to provide financial services on its behalf
Binder	An authority given by an insurer to an intermediary to accept risks or settle claims In the Lloyd's market, it reflects an agreement between a Lloyd's managing agent and a coverholder to enter into contracts of insurance underwritten by members of a syndicate A person who acts under a binder is said to have a binding authority
Bordereau	A summary of underwriting information or claims data. Bordereaux may be exchanged between an insurer and a reinsurer or between an intermediary and an insurer
Broker	An insurance intermediary A broker usually acts as agent of the insured although they may sometimes act as agent for the insurer under a binder
Cancellation	The end of a policy effected by the insured or insurer during the policy period. Insurers can only cancel a policy regulated by the <i>Insurance Contracts Act 1984</i> (Cth) pursuant to the provisions of that Act
Capacity	The amount of risk the insurer is willing to accept
Capital adequacy	A requirement under the <i>Insurance Act 1973</i> (Cth) to ensure insurers have adequate capital
Captive	A subsidiary of a corporate established as an insurance company to insure the risks of its parent companies
Cedant	A person who cedes risk to a reinsurer
Cede	The act of transferring risk from an insurer to a reinsurer, the part transferred is known as the cession
Certificate of Insurance	A document which confirms the currency of the insurance
Claimant	The party seeking cover under the insurance policy
Claims made wording	Under a claims made wording, the policy requires claims to be made against the insured during the period of insurance in order for cover to be triggered
Claims ratio	Claims incurred compared to net earned premiums
Claims reserve	The funds set aside by an insurer to meet known or

	anticipated claims
Combined operating ratio	Loss ratio plus expense ratio
Complaint	ASIC adopts the following definition of 'complaint' in Regulatory Guide 165: An expression of dissatisfaction made to an organisation, related to its products or services, or the complaints handling process itself, where a response or resolution is explicitly or implicitly expected.
Cooling off period	A period of 14 calendar days during which a retail client may return a policy and receive a full refund of premium provided they have not made a claim
Cover note	A document that evidences an interim contract of insurance
Coverholder	A person who has authority under a binder to act on behalf of an insurer or Lloyd's syndicate
Dealing	Dealing in a financial product is a regulated activity under the <i>Corporations Act 2001</i> (Cth). It encompasses applying for, acquiring, varying or disposing of a financial product on behalf of someone else
Deductible	An amount of loss the insured is required to bear before the insurer is liable to pay
Dispute resolution process	A system to resolve Complaints All AFSL holders are required to have a dispute resolution process
Duty of disclosure	An insured's duty to disclose certain matters to the insurer under section 21 of the <i>Insurance Contracts Act 1984</i> (Cth) An insurer has a duty to notify the insured of their duty of disclosure
Duty of utmost good faith	An implied term in insurance contracts pursuant to section 13 of the <i>Insurance Contracts Act 1984</i> (Cth)
Endorsement	A document which varies the terms of a policy
Excess	The amount an insured is liable to bear for losses arising under the policy
Exclusion	A provision in a policy which excludes liability in certain circumstances or for specified types of loss
Expense ratio	Underwriting expenses compared to gross or net written premium
External dispute resolution	A third party dispute resolution provider, usually the Australian Financial Complaints Authority. Disputes that cannot be resolved through internal dispute resolution can be referred to external dispute resolution.

Financial product	<p>This term is defined in s 763A of the <i>Corporations Act 2001</i> (Cth) as a facility through which, or through the acquisition of which, a person</p> <ul style="list-style-type: none"> • Makes a financial investment; • Manages financial risk; or • Makes non-cash payments <p>It expressly includes insurance products.</p>
Financial Services Guide	A document given to a retail client under s 941A or 941B of the <i>Corporations Act 2001</i> (Cth) when a financial service or financial product is provided containing prescribed information
General advice	Financial product advice that is not personal advice
General Insurance Code of Practice	A code of practice issued by the Insurance Council of Australia setting out standards for insurers and service providers
Gross loss ratio	Gross incurred claims as a percentage of gross written premium
Gross net premium	Gross premium less acquisition costs
Gross written premium	Premium plus administration fees remitted with the premium before deduction of reinsurance premium or ceding commission
IBNER	<p>Incurred but not enough reported</p> <p>An actuarial calculation to allow for future developments of known losses or claims</p>
IBNR	<p>Incurred but not reported</p> <p>An actuarial calculation for claims arising from accidents that have occurred but not yet advised to the insurer</p>
ICA	Insurance Council of Australia
Indemnity cover	Insurance cover which takes into account deductions for depreciation upon assessment of the claim
Insured	The person covered under a policy
Insurer	The person that takes on the insurance risk
Interim contract	A temporary contract of insurance providing cover while the full insurance proposal is reviewed
Intermediary	A person who deals with insurers on behalf of others, usually on behalf of clients
Internal dispute resolution	An internal process to resolve complaints and disputes
Loss ratio	Losses divided by premiums earned

Managing agent	An underwriting agent who has permission from Lloyd's to manage a syndicate and carry on underwriting functions
Misrepresentation	Incorrect information given to an insurer If fraudulent, an insurer may be able to treat the policy as if it never existed.
Net premium	Premium less deductions such as brokerage and commission
Product disclosure statement	A prescribed document under the <i>Corporations Act 2001</i> (Cth) which sets out important information about the product and usually includes the policy wording
Personal advice	This term has a special meaning under s 766B of the <i>Corporations Act 2001</i> (Cth) It is advice that takes into account one or more of a person's objectives, financial situation and needs
Policy schedule	A document that is attached to the policy wording setting out information specific to the policy such as the name of the insured, period of cover, sums insured, and any endorsements
Premium	The amount an insured pays for insurance cover
Proposal form	A form prepared by an insurer which asks questions of the insured to determine whether cover can be offered
Reinsurance	A contract under which a reinsurer undertakes liability for losses incurred by an insurer or another reinsurer
Reinsurer	A person who underwrites reinsurance
Retrocession	When a reinsurer transfers risks it has reinsured to another reinsurer
Subrogation	An insurer's rights to assume the insured's rights following payment of a claim in order to recover its loss
Treaty	A reinsurance contract where the reinsurer agrees to accept all risks within a certain class and size
Underwriter	A person who carries on underwriting insurance or reinsurance activities by evaluating and pricing risks

Common insurance documents

When undertaking insurance activities, it is important your business transactions are documented properly to protect yourself and others, and to make it easy for customers to understand your product.

Some common legal documents include:



Confidentiality Agreement

A document which regulates the use, storage and destruction of a party's confidential information such as trade secrets.



Distribution Agreement / Authorised Representative Agreement

A contract regulating the sale and promotion of insurance products. A distribution agreement may also include an appointment of the distributor as an Insurance Distributor or Authorised Representative.



Third Party Administrator Agreement

Used when an insurer appoints a third party to manage and settle claims.



Service Supplier Agreement

A contract under which one party appoints another to provide agreed services, setting out each party's expectations and obligations.



Compliance policies and procedures

Internal policies and procedures to ensure compliance with legal and regulatory obligations, such as internal dispute resolution processes and insurance claims handling procedures.



Policy Wording / Product Disclosure Statement

The contract of insurance. For retail products, a regulated document known as the Product Disclosure Statement needs to be prepared. The provider of financial services may also need to prepare a Financial Services Guide.



Target Market Determination

Required from 5 October 2021, a publically available document describing the target market for an insurance product as part of the government's Product Design and Distribution Obligations law.

