

## GLOSSARY OF TERMS

**AFSL** an Australian Financial Services Licence is issued by the Australian Securities and Investments Commission (ASIC) under section 913B of the Corporations Act, which authorises a person who carries out a financial services business to provide financial services, including issuing of a financial product or giving of financial product advice.

**Application** has the same meaning as 'Proposal'.

**Australian Securities and Investments Commission (ASIC)** is the independent Australian government body, which enforces and regulates company and financial services laws in Australia to protect consumers, investors and creditors. ASIC reports to the Commonwealth Parliament, the Treasurer and the Parliamentary Secretary to the Treasurer.

ASIC has a website especially for consumers and investors. For more information visit [www.fido.asic.gov.au](http://www.fido.asic.gov.au).

**Benefit** (also known as a payout) is when you receive an amount of money, or in the case of some insurance, replacement or repair of your belongings from the insurer.

**Broker** (insurance broker) is an intermediary who obtains various quotes for insurance cover on behalf of a client.

**Duty of disclosure** refers to the consumers' duty to disclose all relevant matters to the insurer, which are known by the applicant to be relevant, or that a reasonable person in the circumstances would know to be relevant to the insurer. For example, if you are applying for term life insurance, you should tell the insurer if you are a smoker.

**Excess** is the amount of the loss you must pay out of your own pocket before the insurer begins to compensate you. Some insurers make excess compulsory, while others allow consumers to use it to reduce their annual premiums. Most types of general insurance come with an excess.

**Financial adviser** (also called a financial planner) provides individuals with advice on suitable forms of investments, including insurance, risk management as well as other investments including funds management, superannuation and taxation. A licensed financial adviser is obliged under the law to act in the interests of their client when making recommendations to their client.

**FSG** (Financial Services Guide) is a document required by the law that is given to a retail client when they are provided a financial service by a holder of an AFSL. The document describes the financial service being given and provides details of who is giving the service.

**General insurance** includes insurance policies, such as motor vehicle, home building and contents and travel insurance.

**Insurance** provides financial protection against a future possible event. Insurance involves payment of money (the premium) in exchange for the insurance cover. The terms under which benefits are paid are specified in the policy document.

**Insurance policy.** When you agree to pay an insurance company to take on your risk, the company will issue you with a policy. It sets out the details of your agreement.

**Insurer** also known as an 'Insurance Company'.

**Life insurance** includes insurance policies, such as term life insurance, income protection, total and permanent disability and trauma insurance.

**Market Value or Agreed Market Value.** Most motor vehicle insurance policies provide settlement for a total loss claim (such as the car is stolen or irredeemably damaged) on a "market value" basis. This means you are entitled to an amount representing the cost of a vehicle of similar make, model, age and condition. Or, if the vehicle is less than one year old, many insurers will replace it with a new vehicle of the same make and model you

lost. "Agreed Market Value" cover is especially useful for classic or vintage cars - where the insurer agrees to pay a specified amount in the event of a total loss.

**Multi-policy discount.** If you combine more than one insurance policy with the same insurer, you may be eligible to receive a multi-policy discount. The size of the discount varies depending on the insurer.

**No claim discount.** If you haven't made any claims against your comprehensive car insurance policy your insurer considers you as a lower risk and may reduce your premium. The size of the discount varies depending on the insurer, but could be up to 70% of your premium if you have not made a claim over a number of years.

**Premium** is the regular payment made to an insurer in exchange for its promise of protection and help against unexpected events. Generally, the higher the risk of loss, theft, damage, destruction or injury, the higher the insurance premium.

**Premium rating.** The premium, or cost of the insurance, is based on standard or unique variables. Insurers will assess factors including type of vehicle, age of the driver, driving experience, location of property, occupation, health history, financials and so on.

**PDS (Product Disclosure Statement)** is a document required by the law that is given to a retail client to describe the main features of a financial product being issued or sold.

**Proposal** (also known as an application) 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 (the customer) to enter into an insurance contract. It is not an offer by the insurer. An insurer may accept or decline a proposal.

**Reinsurance** is insurance for insurance companies. It is a way of moving the risk that one insurer takes on from its customers into a pool that other insurers also share. Reinsurance helps to make sure that an insurer has enough money to pay claims if many of its customers make claims at the same time. It provides protection against catastrophic events and exposure to too much risk in one policy.

**Renewals.** Each year you will need to renew your general insurance policy. Your insurer will send you a renewal notice. You will need to let them know of any changes in your circumstances that could affect your cover. The questions that you answered in your original application can be used as a guide to the information you might need to tell them when you renew. Life insurance is 'guaranteed renewable'. So long as you pay the premium of your life insurance policy, you remained covered.

**Liability.** In the context of insurance, liability is the legal responsibility for something, especially costs or damages.

**SOA (Statement of Advice)** is a document required by the law that is given to a retail client when they are given personal financial advice by a holder of an AFSL or their representative.

**Superannuation** is an investment which operates by putting aside money during your working life so you have a payment or income stream upon retirement. Superannuation funds that meet prescribed government standards are eligible for tax concessions.

**Trustee** is a person/company appointed under the terms of the trust deed to make sure that the plan is operated in accordance with the trust deed and in the interest of the beneficiaries, for example, superannuation trustee.

**Underwriting** involves measuring risk exposure and determining the premium with which to insure that risk.