

# Glossary

<b>Accident year claims</b>	The matching of all claims occurring (regardless of when reported or paid) during a given 12-month period with all premium earned over the same period.
<b>Acquisition cost</b>	The total of net commission and underwriting and other expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium.
<b>Admitted insurance</b>	Insurance written by an insurance company that is admitted (or licensed) to do business in the state in the United States in which the policy was sold.
<b>Agent</b>	One who negotiates contracts of insurance or reinsurance as an insurance company's representative i.e. the agent's primary responsibility is to the insurance company, not the insured party.
<b>Aggregate reinsurance</b>	Reinsurance cover that provides protection for an accumulation of claims arising from multiple events over a specified period of time.
<b>APRA</b>	Australian Prudential Regulation Authority, being the Group's primary insurance regulator.
<b>Attachment point</b>	The amount of claims retained by the cedant in a reinsurance arrangement, after which reinsurance protection will apply.
<b>Attritional claims ratio</b>	Total of all claims with a net cost of less than \$2.5 million as a percentage of net earned premium.
<b>Borrowings to total capital</b>	The Group's gearing ratio (also referred to as debt to total capital), calculated as borrowings expressed as a percentage of total capital. Total capital is shareholders' equity plus Tier 1 instruments classified as liabilities (which are excluded from borrowings for the purposes of this calculation), and subordinated debt.
<b>Broker</b>	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurance or reinsurance company for placement and other services rendered. In contrast with an agent, the broker's primary responsibility is to the insured party, not the insurance company.
<b>Capacity</b>	In relation to a Lloyd's member, the maximum amount of insurance premium (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, it is the aggregate of each member's capacity allocated to that syndicate.
<b>Captive</b>	A licensed entity within the Group that provides reinsurance protection to other controlled entities.
<b>Cash profit or loss</b>	Profit or loss after tax attributable to QBE shareholders, adjusted for the post-tax effect of amortisation and impairment of intangibles and other non-cash items.
<b>Casualty insurance</b>	Insurance that is primarily concerned with the claims resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
<b>Catastrophe reinsurance</b>	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for financial losses related to an accumulation of claims resulting from a catastrophe event or series of events.
<b>Claim</b>	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
<b>Claims incurred</b>	The aggregate of all claims paid during an accounting period adjusted for the change in the claims provision in that accounting period.
<b>Claims provision</b>	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.

<b>Claims ratio</b>	Net claims incurred as a percentage of net earned premium.
<b>Coefficient of variation</b>	The measure of variability in the net discounted central estimate used in the determination of the probability of adequacy.
<b>Combined operating ratio (COR)</b>	The sum of the net claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates an underwriting profit. A combined operating ratio over 100% indicates an underwriting loss.
<b>Commercial lines</b>	Refers to insurance for businesses, professionals and commercial establishments.
<b>Commission</b>	Fee paid to an agent or broker as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.
<b>Commission ratio</b>	Net commission expense as a percentage of net earned premium.
<b>Credit spread</b>	The difference in yield between a bond and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
<b>Credit spread duration</b>	The weighted average term of cash flows for a corporate bond. It is used to measure the price sensitivity of a corporate bond to changes in credit spreads.
<b>Deductible</b>	The amount or proportion of some or all losses arising under an insurance contract that the insured must bear.
<b>Deferred acquisition costs</b>	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance date which are carried forward from one accounting period to subsequent accounting periods.
<b>Excess of loss reinsurance</b>	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
<b>Expense ratio</b>	Underwriting and administrative expenses as a percentage of net earned premium.
<b>Facultative reinsurance</b>	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
<b>General insurance</b>	Generally used to describe non-life insurance business including property and casualty insurance.
<b>Gross claims incurred</b>	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
<b>Gross earned premium (GEP)</b>	The proportion of gross written premium recognised as revenue in the current accounting period, reflecting the pattern of the incidence of risk and the expiry of that risk.
<b>Gross written premium (GWP)</b>	The total premium on insurance underwritten by an insurer or reinsurer during an accounting period, before deduction of reinsurance premium.
<b>Incurred but not enough reported (IBNER)</b>	The upward adjustment to claims incurred as a result of the initial under-estimation of the ultimate cost of claims.
<b>Incurred but not reported (IBNR)</b>	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
<b>Insurance profit or loss</b>	The sum of the underwriting result and net investment income or loss on assets backing policyholders' funds.
<b>Insurance profit margin</b>	The ratio of insurance profit or loss to net earned premium.
<b>Inward reinsurance</b>	See Reinsurance.

Glossary continued

<b>Large individual risk and catastrophe claims ratio</b>	The aggregate of claims each with a net cost of \$2.5 million or more as a percentage of net earned premium.
<b>Lead/non-lead underwriter</b>	A lead underwriter operates in the subscription market and sets the terms and price of an insurance or reinsurance policy. The follower or non-lead underwriter is an underwriter of a syndicate or an insurance or reinsurance company that agrees to accept a proportion of a given risk on terms set by the lead underwriter.
<b>Lenders' mortgage insurance (LMI)</b>	A policy that protects the lender (e.g. a bank) against non-payment or default on the part of the borrower on a residential property loan.
<b>Letters of credit (LoC)</b>	Written undertaking by a financial institution to provide funding if required.
<b>Limit</b>	The maximum amount that a reinsurer will pay in respect of claims covered by a reinsurance contract.
<b>Lloyd's</b>	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.
<b>Lloyd's managing agent</b>	An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions for a member.
<b>Long-tail</b>	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
<b>Managing General Agent (MGA)</b>	A wholesale insurance agent with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. MGAs generally provide underwriting and administrative services such as policy issuance on behalf of the insurers they represent. Some may handle claims.
<b>Maximum event retention (MER)</b>	An estimate of the largest claim to which an insurer will be exposed (taking into account the probability of that loss event at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance recoveries and inward and outward reinstatement premiums.
<b>Modified duration</b>	The weighted average term of cash flows in a bond. It is used to measure the price sensitivity of a bond to changes in interest rates.
<b>Multi-peril crop insurance (MPCI)</b>	United States federally regulated crop insurance protecting against crop yield losses by allowing participating insurers to insure a certain percentage of historical crop production.
<b>Net claims incurred</b>	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
<b>Net claims ratio</b>	Net claims incurred as a percentage of net earned premium.
<b>Net earned premium (NEP)</b>	Net written premium adjusted by the change in net unearned premium.
<b>Net written premium (NWP)</b>	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
<b>Outstanding claims liability</b>	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
<b>Personal lines</b>	Insurance for individuals and families, such as private motor vehicle and homeowners' insurance.
<b>Policyholders' funds</b>	The net insurance liabilities of the Group.
<b>Premium</b>	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.

<b>Premium solvency ratio</b>	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
<b>Prescribed Capital Amount (PCA)</b>	The sum of the capital charges for asset risk, asset concentration risk, insurance concentration risk and operational risk as required by APRA. The PCA must be disclosed at least annually.
<b>Probability of adequacy</b>	A statistical measure of the level of confidence that the outstanding claims liability will be sufficient to pay claims as and when they fall due.
<b>Proportional reinsurance</b>	A type of reinsurance in which the insurer and the reinsurer share claims in the same proportion as they share premiums.
<b>Prudential Capital Requirement (PCR)</b>	The sum of the PCA plus any supervisory adjustment determined by APRA. The PCR may not be disclosed.
<b>Recoveries</b>	The amount of claims recovered from reinsurance, third parties or salvage.
<b>Reinsurance</b>	An agreement to indemnify an insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
<b>Reinsurance to close</b>	A reinsurance agreement under which members of a syndicate, for a year of account to be closed, are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.
<b>Reinsurer</b>	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
<b>Retention</b>	That amount of liability for which an insurer will remain responsible after it has completed its reinsurance arrangements.
<b>Retrocession</b>	Reinsurance of a reinsurer by another reinsurance company.
<b>Return on allocated capital (RoAC)</b>	Divisional management-basis profit as a percentage of allocated capital as determined by the Group's economic capital model.
<b>Return on equity (ROE)</b>	Net profit after tax as a percentage of average shareholders' equity.
<b>Short-tail</b>	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
<b>Stop loss reinsurance</b>	A form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reinsured's claims in excess of a stated percentage of the reinsured's premium income, subject (usually) to an overall limit of liability.
<b>Surplus (or excess) lines insurers</b>	In contrast to admitted insurers, every state in the United States also allows non-admitted (or surplus lines or excess lines) carriers to transact business where there is a special need that cannot or will not be met by admitted carriers. The rates and forms of non-admitted carriers generally are not regulated in that state, nor are the policies back-stopped by the state insolvency fund covering admitted insurance. Brokers must inform insurers if their insurance has been placed with a non-admitted insurer.
<b>Survival ratio</b>	A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.

Glossary continued


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<b>Syndicate</b>	A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent.
<b>Total investment income or loss</b>	Gross investment income or loss including foreign exchange gains and losses and net of investment expenses.
<b>Total shareholder return (TSR)</b>	A measure of performance of a company's shares over time. It includes share price appreciation and dividend performance.
<b>Treaty reinsurance</b>	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
<b>Underwriting</b>	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
<b>Underwriting expenses</b>	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
<b>Underwriting result</b>	The amount of profit or loss from insurance activities exclusive of net investment income or loss and capital gains or losses.
<b>Underwriting year</b>	The year in which the contract of insurance commenced or was underwritten.
<b>Unearned premium</b>	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
<b>Volume weighted average price (VWAP)</b>	A measure of the average trading price during a period, adjusted for the volume of transactions. This is often used for determining the share price applicable to dividend and other share-related transactions.

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