

GLOSSARY

Actuary	An actuary applies mathematical, economic and financial analyses as well as risk assessment to financial contracts, in a wide range of practical business problems.
APRA	APRA stands for the Australian Prudential Regulation Authority, which is the prudential regulator of insurance companies, banks, superannuation funds, credit unions, building societies and friendly societies. APRA is responsible for ensuring that policyholders, depositors and superannuation fund members are protected by, for example, ensuring that companies have enough capital to be able to meet their ongoing business needs, including reserving to pay claims.
Australian All Ordinaries Index	The All Ordinaries Index is made up of the weighted share prices of about 500 of Australia's largest companies. In general terms, it is the predominant measure of the overall performance of the Australian sharemarket. The companies are weighted according to their size in terms of market capitalization (total market value of a company's shares).
Claims frequency	Claims frequency is a measure used to determine how often claims are made per risk insured (eg vehicle, employee, home).
Claims reserves	The portion of premium set aside to cover obligations for unexpired insurance contracts, claims and expenses to be incurred. This amount is invested and the returns on these investments form part of pricing and profit from insurance operations.
CLERP 9	CLERP stands for the Corporate Law Economic Reform Programme. CLERP 9 is the latest round of reforms, and amends the Corporations Act 2001 by introducing a number of reforms, primarily relating to corporate governance and auditor independence.
Dividend payout ratio	The dividend payout ratio is the proportion of profits that is paid to shareholders by way of a dividend.
Insurance cycle	Insurance is a cyclical business. The insurance cycle represents the peaks and troughs of insurance premiums and profitability. When capacity (ie the availability of capital from insurers to underwrite risks) increases in a market, insurers may reduce premiums, which is called a 'soft cycle'. When there is limited capacity, and premiums rise, this is called a 'hard cycle'.
Long-tail and short-tail insurance	Insurance products can be categorised as 'short-tail' or 'long-tail'. In general terms, this name stems from the length of time (the 'tail') that it takes for a claim to be made and settled. For 'short-tail' insurance products, claims are usually known and settled within 12 months, and are generally based around property. For 'long-tail' insurance products, claims may not even be reported within 12 months, and settlements can take many years, and are generally based around injury compensation (eg medical, legal and loss of income) or other risks such as professional indemnity.
Market capitalisation	The size of a company is often measured by its market capitalisation. This is calculated by multiplying the total number of shares on issue by the market price of the shares.
MCR multiple	APRA (defined above) requires licensed insurers to have a minimum amount of capital to meet its prudential standard. The amount of capital required is determined by APRA based on formulae designed to reflect the risk profile of each insurer's business and balance sheet and is called the Minimum Capital Requirement ('MCR'). Licensed insurers must report their MCR and surplus above it, which is generally stated as a multiple of MCR.
MSCI	MSCI stands for Morgan Stanley Capital International. MSCI provides a number of international tracking indices. These are used to measure global stock market performance. IAG primarily uses the MSCI index (including dividends and excluding Australian stocks), stated in Australian dollars as a benchmark for the performance of its international equities portfolio.
Reinsurance	Insurers pay premiums to other insurers (reinsurers) to spread their risk or cover major losses from specific events such as large hailstorms. This is called reinsurance.
Risks in force	Risk refers to the subject matter that an insurance policy or contract protects (eg number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force is a measure of the total number of risks covered by an insurance company at a point in time.
S&P	S&P stands for Standard & Poor's, a global financial ratings company that analyses the financial strength of companies and individual securities, and assigns them ratings. S&P has many ratings categories, the highest of which is AAA.
Share buy-back	This is a capital management tool under which a company buys back and cancels its own shares. It is often used when a company has surplus equity capital.
Shareholders' funds	The investment portfolio other than claims reserves. It essentially represents the shareholders' capital that is not being utilised in day-to-day operations.
Short-tail insurance	See long-tail insurance.
Underwriter	This is the company or person who assumes the risk under an insurance policy.

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