

Premium & Loss Reserves

For P&C Insurance

- A Quick Overview -



Loss Reserves Individual Claim Reserves	Case	<p>Case reserves are estimates of unpaid liability for individual claims. They are typically established by claim adjusters on an individual claim basis. Case reserves are generally positive. An example of a negative case reserve is an amount established in anticipation of a salvage recovery.</p>	
	ACR	<p>Additional Case Reserves, or ACR, are relatively rare in practice. ACR are used to supplement case reserves and may be positive or negative amounts.</p> <p>Examples of ACR in practice:</p> <p>An insurer decides to establish more conservative case reserves for large auto claims. In order to preserve consistency in historical data, case reserves are initially established according to preexisting practices. ACR are subsequently established to reflect the new, more conservative practices. ACR in this example would be positive.</p> <p>A reinsurer establishes case reserves on a cedant's individual claims. The difference between the reinsurer's case reserve estimate and the cedant's case reserve estimate is recorded as ACR and may be positive or negative.</p>	
Loss Reserves Bulk Reserves	IBNR	<p>Incurred but Not Reported, or IBNR, is an estimate of the unpaid liability <u>not</u> contemplated in individual claim reserves. IBNR is estimated on an aggregate basis, typically by actuaries. There are two primary types of IBNR: IBNYR and IBNER. These types are not necessarily calculated separately.</p>	
		IBNYR	<p>Incurred but Not Yet Reported, or IBNYR, is a type of IBNR also called "pure IBNR" or "late reported claim reserve". This type of IBNR accounts for unpaid liability related to claims that have occurred by the evaluation date but have not yet been reported to the insurer.</p>
		IBNER	<p>Incurred but Not Enough Reported, or IBNER, is a type of IBNR designed to recognize any deficiency or redundancy in individual claim reserves. The term "incurred" refers to the fact that a loss has occurred. The term "reported" refers to the sum of claim payments and individual claim reserves through the evaluation date. IBNER is therefore the component of IBNR that reflects losses that have occurred but for which the individual claim reserves are "not enough" to account for the overall estimated unpaid claim liability.</p>
Premium Reserves	UEPR	<p>Unearned premium reserves, or UEPR / UPR, are liabilities that reflect the unearned portion of premium on an insurer's balance sheet at a given evaluation date. This reserve is necessary since insurers generally collect premium for a policy period in advance. Per GAAP, insurers cannot recognize the premium as revenue until it has been exposed to loss (or "earned"). Premium is 100% earned once the policy period is complete. Most coverages earn premium uniformly throughout the duration of the policy period. Generally speaking, UEPR = written premium less earned premium.</p>	
Other Reserves	PDR	<p>Premium deficiency reserves, or PDR, are relatively rare in practice. The purpose of PDR is to recognize liability that occurs when written premium is expected to be inadequate to cover loss and certain expenses (defined by GAAP). Premium deficiency reserves are rare since their establishment requires that it is probable that some portion of the insurer's inforce business is unprofitable and that the amount can be reasonably estimated.</p>	