

Characterizations of Loss Reserves For P&C Insurance



Loss Reserves

Loss reserves are estimates of unpaid claim liability for an insurance portfolio evaluated at a specific point in time. Loss reserves may be characterized as **indicated**, **selected**, or **carried**.

Indicated

Indicated loss reserves generally refer to loss reserve estimates produced by a single actuarial methodology. For example, actuaries often use the incurred loss development method to estimate loss reserves. In this case, the resulting estimate may be characterized as “indicated loss reserves via the incurred loss development method”. Depending on circumstances, **indicated loss reserves** may be vastly different than **selected loss reserves**, described below.

Selected

Actuaries often use multiple methods to generate loss reserve estimates. For applications that require a single loss reserve estimate (rather than a range of estimates), actuaries consider the pro’s and con’s of various estimates and select a single amount. This is called the **selected loss reserve** estimate.

The Actuarial Standards Board advises actuaries to use the term *actuarial central estimate* to describe loss reserves that reflect “the expected value over the range of reasonably possible outcomes.” Consequently, **selected loss reserves** may be further characterized as *actuarial central estimates* (when applicable).

Carried

Carried loss reserves (or *balance sheet loss reserves*) are amounts reflected on the insurer’s balance sheet in recognition of unpaid loss liabilities. For example, in the NAIC Annual Statement, carried loss reserves appear on the “Liabilities, Surplus, and Other Funds” page as “losses” and “loss adjustment expenses”.

Carried loss reserves often equal **selected loss reserves**; however, these amounts may differ for various reasons, including management adjustments to actuarial selections.