

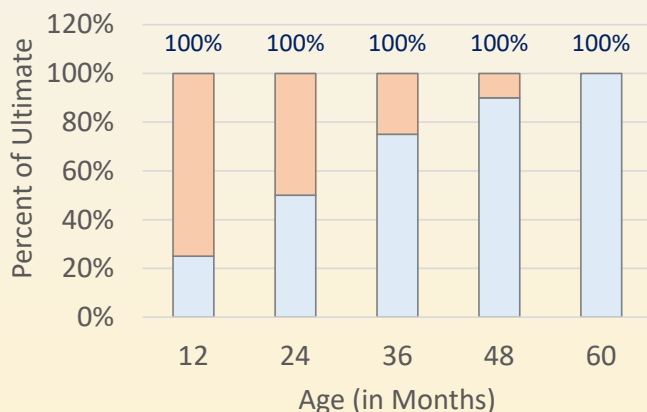
Ultimate Loss Development Patterns: 4 Archetypes

The sample illustrations on this page represent 4 scenarios of ultimate loss development for a single accident year. We assume that the AY is fully mature (100% ultimate value) at age 60 months.

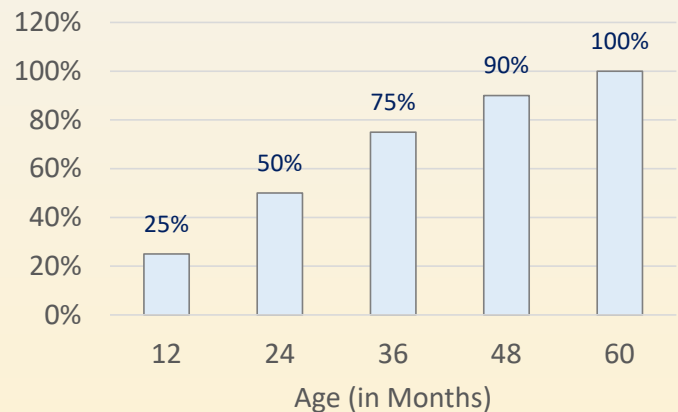
Chart Descriptions

- 1) If one knows the future with certainty, loss reserves could be established with **perfect foresight**. This scenario is represented in Chart 1.
- 2) Chart 2 illustrates a **pay-as-you-go** scenario. Loss reserves are absent by definition
- 3) The pattern in Chart 3 represents **persistently inadequate reserves**. When this is approach is deliberate, it is called “stair-stepping”. In this scenario, loss reserves are established optimistically until they are no longer necessary at age 60 months.
- 4) Chart 4 shows the reverse situation of Chart 3 – a type of “reverse” stair-stepping. Loss reserves are established **conservatively** at early maturities and “released” over time.

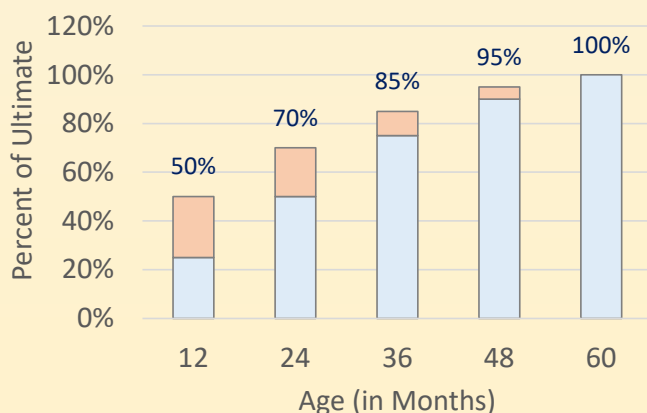
1) Reserves with Perfect Foresight



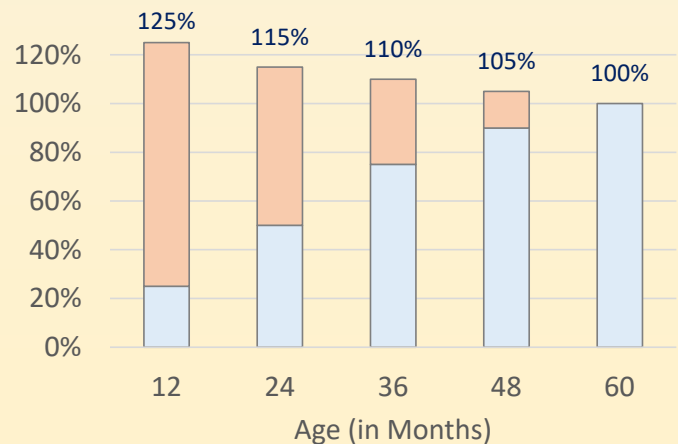
2) No Reserves (Pay-as-you-go)



3) Persistently Inadequate Reserves



4) Persistently Redundant Reserves



Paid Loss (% of Ultimate Loss)



Loss Reserves (% of Ultimate Loss)