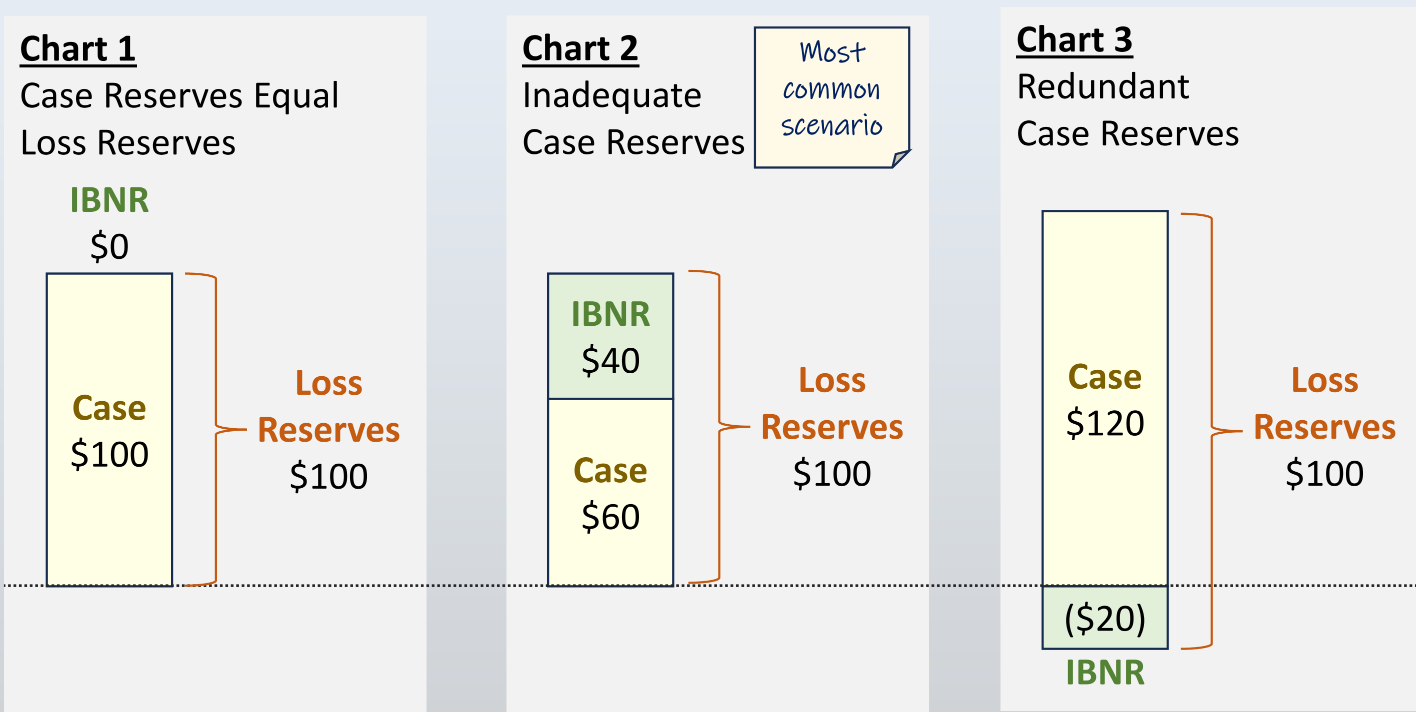
Negative IBNR

For P&C Insurance

Negative **IBNR** values can occur when actuarial estimates of **unpaid loss**, also called **loss reserves**, are lower than the total of **case reserves** on individual claims.

In other words, negative **IBNR** occurs when actuaries determine that **case reserves** are redundant.

The charts below present three possible scenarios for **loss reserve** composition (with sample amounts). In these examples, **case reserves** include all reserves at the individual claim level. **IBNR** is defined to include any unpaid loss liability not reflected in **case reserves**.



Example Reasons for Redundant Case Reserves

- Claim-adjusting philosophy encourages setting conservative (high) **case reserves**.
- Information obtained after the evaluation date of the loss reserve analysis reveals favorable news, for example, a large claim settles well below expectations. In such instances, **case reserves** are reduced *after* the evaluation date. **IBNR** *at* the evaluation date may be negative to offset what is now known to be redundant **case reserves**.
- Expected recoveries, such as for salvage and subrogation, are not reflected in **case reserves**.

Common Source of Confusion

In some contexts, the definition of **IBNR** is limited to late reported claims. Under this definition, negative **IBNR** is not possible.

The broad definition of **IBNR** includes expected development on **case reserves**. Since **case reserves** can be redundant (overstated), negative **IBNR** is used to reduce **case reserves**. Recall that:

Loss Reserves = Case Reserves + IBNR

Another way to think about **IBNR** is that it is the adjustment to **case reserves** needed so that the insurer's **loss reserves** equal actuarial estimates.

Click to learn more

More about IBNR

Importance of adequate loss reserves

A PDF version of this exhibit is available at https://archeractuarial.com/tools/#NegIBNR