

Anatomy of Ultimate Loss

For P&C Insurance



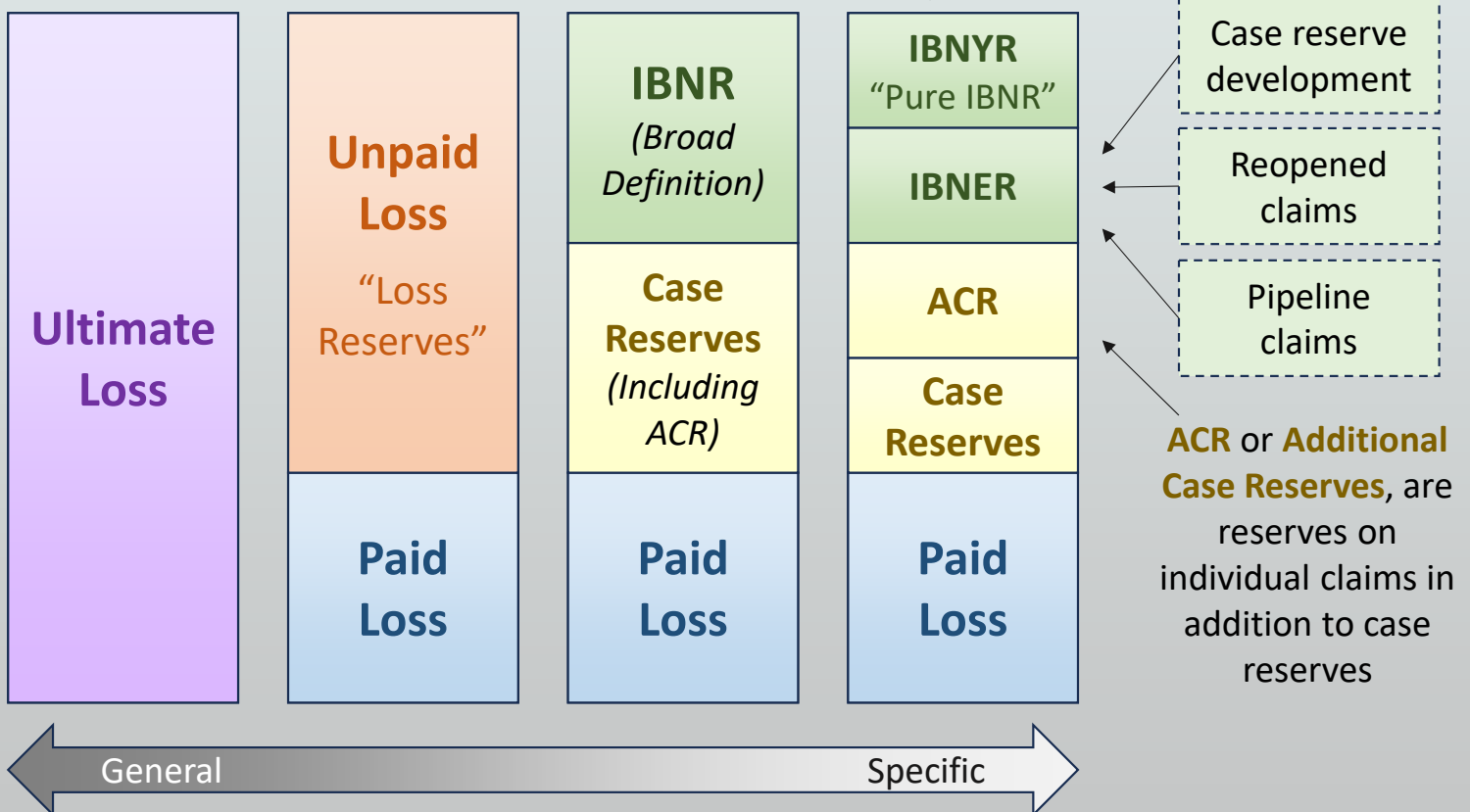
The term **ultimate loss** is used in P&C insurance to describe the total amount of **paid loss** at the *ultimate evaluation date*, that is, after all claims are paid and permanently closed.

Prior to the ultimate evaluation date, **ultimate losses** are estimates. In other words, **ultimate losses** are only known with certainty with the benefit of hindsight. Consequently, any component of **ultimate loss**, except for **paid loss**, is an estimate.

Chart 1
Anatomy of Ultimate Loss
From General to Specific

IBNYR or Incurred but Not Yet Reported, includes an estimate for late reported claims

IBNER or Incurred but Not Enough Reported, includes an estimate for:



The simplest breakdown of **ultimate loss** is between **paid loss** and **unpaid loss**. **Paid loss** is a known quantity whereas **unpaid loss** is an estimate.

Unpaid loss can be broken down into individual pieces as illustrated in the diagram above. Note that all components of **unpaid loss** are always estimates.

Other Characteristics of Ultimate Loss

- Including/excluding loss adjustment expense
- Gross or net of reinsurance
- Gross or net of deductibles, SIRs, etc
- Gross or net of salvage and sub recoveries
- Line of business / segment / portfolio
- Cohort (accident year, policy year, etc)
- Etc.