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 1Anatomy of Ultimate LossFrom General to Specific

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

but Not Enough
Reported, includes
an estimate for:

Case reserve

development

Reopened

claims

Pipeline

Ultimate Loss

Unpaid Loss "Loss Reserves" Paid Loss

(Broad
Definition)

Case
Reserves
(Including
ACR)

Paid
Loss

IBNR

IBNYR
"Pure IBNR"

IBNER

ACR

Case
Reserves

Paid
Loss

ACR or Additional
Case Reserves, are
reserves on
individual claims in
addition to case

reserves

General

Specific

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.