

# Loss Reserve Strengthening

## For P&C Insurance



In P&C insurance, the term **reserve strengthening** is used to describe an increase in an insurer's estimated claim obligations for a fixed cohort of exposure between two evaluation dates.

### What it is

- **Loss reserve strengthening** is an acknowledgement that the insurer's previous estimate of claim liabilities was inadequate.
- Loss reserves are liabilities. Increasing, or "strengthening" loss reserves means that the insurer's estimated liabilities are higher than previously recognized.
- An insurer's earnings and surplus are reduced in response to increases in loss reserves estimates.

### What it is not

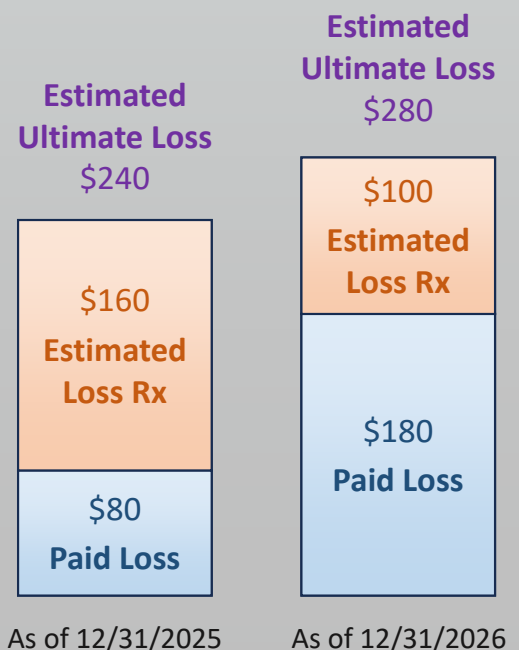
- **Loss reserve strengthening** does not increase an insurer's assets, it is the recognition of higher expected liabilities.
- **Loss reserve strengthening** does not necessarily mean that the insurer's previous loss reserves were "wrong" or "inaccurate". Consider that loss reserves are estimates of uncertain events and therefore subject to under- or over-estimation.
- **Loss reserve strengthening** does not change an insurer's actual claim liabilities owed to policyholders; it acknowledges a previously unrecognized inadequacy in the estimated amount.
- **Loss reserve strengthening** does not necessarily mean an increase in an insurer's loss reserves between two evaluation dates. Yes, that is correct: loss reserve estimates can actually *decrease* despite loss reserve strengthening (see example below).

### Loss Reserve Strengthening Example

The example on the right illustrates **loss reserve strengthening** in the amount of \$40.

Here, estimated ultimate loss for a fixed cohort of exposure increased from \$240 at year-end 2025 to \$280 at year-end 2026. This represents \$40 of adverse development.

During the same period, estimated loss reserves decreased by \$60, from \$160 to \$100.



Loss reserve strengthening is the increase in estimated ultimate loss, not the increase in estimated loss reserves.

The term **loss reserve strengthening** is pervasive in the insurance industry. However, the change is more clearly characterized as **adverse development (of ultimate loss)**.