Discussion Draft: CAS Statement of Principles Regarding Property and Casualty Insurance Unpaid Claims Estimates

The purpose of this Statement is to identify and describe principles for the evaluation, review, and estimation of property and casualty insurance unpaid claims. Although this Statement addresses property and casualty insurance liabilities, the Principles contained in this Statement apply to other risk transfer mechanisms. In addition to financial reporting, Principles for estimating unpaid claims are pertinent in a variety of situations including valuation, commutation, and ratemaking.

This statement consists of three parts:

I. DEFINITIONS

II. PRINCIPLES

III. CONCLUSION

I. DEFINITIONS

Accounting Date: The stated cutoff date for reflecting events and recording amounts as paid or unpaid in a financial statement or accounting system. The accounting date is sometimes referred to as the as of date.

Claim: A demand for payment under the coverage provided by a plan or contract.

Coverage: The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation for claim payment associated with contingent events.

Event: The incident or activity that triggers potential for claim or claim adjustment expense payment.

Loss: The cost that is associated with an event that has taken place and that is subject to coverage. It is also known as a claim amount. The term loss may include loss adjustment expense as appropriate.

Loss Adjustment Expense: The costs of administering, determining coverage for, settling, or defending claims even if it is ultimately determined that the claim is invalid. It is also known as claim adjustment expense.

Review Date: The date (subsequent to the valuation date) through which material information known to the actuary is included in forming the unpaid claim estimate analysis.

Unpaid Claims Estimate: An estimate, consistent with a stated intended measure, of the unpaid amount required to settle the loss and/or loss adjustment expense related to a defined group of incurred claims as of a particular accounting date. (Examples of various types of intended measures for the unpaid claim estimate include, but are not limited to, high estimate, low estimate, median, mean, mode, actuarial central estimate, mean plus risk margin, actuarial central estimate plus risk margin, or specified percentile.)

Valuation Date: The date through which transactions are included in the data used in the unpaid claim estimate analysis.
II. PRINCIPLES

Principle 1: An actuarial unpaid claims estimate for a defined group of claims represents a stated intended measure of the unpaid amount required to settle all claims incurred, whether reported or not, as of a particular accounting date, determined using data evaluated as of a particular valuation date and other information known to the actuary as of a particular review date. The estimate is reasonable if it is derived from reasonable assumptions and appropriate methods, where reasonableness and appropriateness are evaluated in the context of the intended measure.

Principle 2: The unpaid amount required to settle a defined group of claims depends upon the emergence of events subsequent to the valuation and review dates which are not known as of the valuation and review dates. Therefore, the amount of future claim payments is inherently uncertain. Data limitations may also add to the uncertainty in the unpaid claims estimate. The uncertainty inherent in the unpaid claims estimate implies that a range of estimates can be reasonable.

Principle 3: The actual amounts that will be paid to settle a defined group of claims likely will differ from the estimated future payments implied by a reasonable unpaid claims estimate. The actual future payments can be known with certainty only when all such claims have been settled.

Principle 4: The most appropriate estimate within a range of reasonable estimates depends on the relative likelihood of the estimates of the unpaid amounts required to settle the defined group of claims, the purpose of the estimate, and the context in which the estimate will be presented.

III. CONCLUSION

This Statement provides principles for estimating unpaid claims. The Principles contained in this Statement provide the foundation for the development of actuarial procedures and standards of practice. The actuary should be familiar with standards of practice, which address the application of these principles. It is important that proper actuarial procedures be employed to estimate unpaid claims in order to protect the insurance system’s financial soundness and promote equity and availability for insurance consumers.