



1 STATEMENT OF PRINCIPLES REGARDING PROPERTY AND CASUALTY UNPAID CLAIMS ESTIMATES

2 **Adopted by the CAS Board of Directors, November 2014**

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4 The purpose of this statement is to identify and describe principles for the evaluation, review, and  
5 estimation of property and casualty related unpaid claims. This Statement addresses property and  
6 casualty insurance liabilities within insurance, reinsurance, self-insurance and other risk transfer or  
7 funding mechanisms. In addition to financial reporting, Principles for estimating unpaid claims are  
8 pertinent in a variety of situations including but not limited to valuation, commutation, ratemaking,  
9 capital adequacy, solvency assessment and asset management.

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11 This statement consists of three parts:

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13 I. DEFINITIONS

14 II. PRINCIPLES

15 III. CONCLUSION

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17 I. DEFINITIONS

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

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23 **Claim:** A demand for payment under the coverage provided by a plan or contract or the requirements of  
24 applicable law.

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

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

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31 **Intended Measure:** The basis for the Unpaid Claim Estimate. Various types of Intended Measures  
32 include, but are not limited to, high estimate, low estimate, median, mean, mode, actuarial central  
33 estimate, mean plus risk margin, actuarial central estimate plus risk margin, or specified percentile. Any  
34 of these or other Intended Measures can be further described as a nominal estimate or an estimate  
35 discounted for the time value of money, commonly referred to a “present value”.

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

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

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



46 **Unpaid Claims Estimate:** An actuary's estimate of the unpaid amount required to make the future loss  
47 and/or loss adjustment expense payments related to a defined group of claims.

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49 **Valuation Date:** The date through which transactions are included in the data used in the unpaid claim  
50 estimate analysis.

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## 52 II. PRINCIPLES

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54 **Principle 1.** An unpaid claims estimate for a defined group of claims is reasonable if it is derived from  
55 reasonable assumptions and appropriate methods or models and the reasonableness of the estimate  
56 has been validated by appropriate indicators or tests, all evaluated consistent with the review date and  
57 valuation date in the context of the intended measure.

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59 **Principle 2.** An unpaid claims estimate for a defined group of claims relative to a particular accounting  
60 date is inherently uncertain. This uncertainty stems from a dependence of the amount of future claims  
61 payments on facts and circumstances that are unknown when the estimate is made. The predictability  
62 of future claims payments may be subject to additional limitations, such as the availability and  
63 usefulness of data for making an unpaid claim estimate. The uncertainty inherent in the unpaid claims  
64 estimate implies that a range of estimates can be reasonable.

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66 **Principle 3.** The actual amounts that will be paid for the defined group of claims likely will differ from  
67 the estimated future payments implied by a reasonable unpaid claims estimate. The actual future  
68 payments can be known with certainty only when all payments for such claims have been made.

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## 70 III. CONCLUSION

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72 Unpaid claims estimates are important to the financial soundness of the various entities that rely upon  
73 them. This Statement provides principles for estimating unpaid claims. The Principles contained in this  
74 Statement provide the foundation for the development of actuarial procedures and standards of  
75 practice.