

External Influences—Due regard should be given to the impact of external influences. External influences include the judicial environment, regulatory and legislative changes, residual or involuntary market mechanisms, and economic variables such as inflation.

Discounting—There are circumstances where loss reserves are stated on a present value basis. To calculate or evaluate such reserves, it is generally appropriate to perform an analysis on an undiscounted basis and then apply the effect of discounting.

Provision for Uncertainty—A reserve estimate should take into account the degree of uncertainty inherent in its projections. A reserve stated at its ultimate value may include an implicit provision for uncertainty due to the time value of money. If a reserve is to be stated at a present value, it may be appropriate to include an explicit provision for uncertainty in its undiscounted amount. Further, an explicit provision for uncertainty may be warranted when the indicated ultimate reserve value is subject to a high degree of variability.

Reasonableness—The incurred losses implied by the reserves should be measured for reasonableness against relevant indicators, such as premiums, exposures, or numbers of policies, and expressed wherever possible in terms of frequencies, severities, and loss ratios. No material departure from expected results should be accepted without attempting to find an explanation for the variation.

Loss-Related Balance Sheet Items—The loss reserve analysis may have implications for other loss-related balance sheet items. These include contingent commissions, retrospective premium adjustments, policyholder dividends, premium deficiency reserves, minimum statutory reserves and the deduction for unauthorized reinsurance.

Loss Reserving Methods—Detailed discussion of the technology and applicability of current loss reserving practices is beyond the scope of this statement. Selection of the most appropriate method of reserve estimation is the responsibility of the actuary. Ordinarily the actuary will examine the indications of more than one method when estimating the loss and loss adjustment expense liability for a specific group of claims.

Standards of Practice—This statement provides the principles of loss reserving. The actuary should also be familiar with standards of practice, which address the application of these principles.