

Interpretation of the Emerging Accounting Issues Working Group

INT 01-28: Margin for Adverse Deviation in Claim Reserve

ISSUE NULLIFIED BY SSAP NO. 55

INT 01-28 Dates Discussed

June 11, 2001; October 16, 2001

INT 01-28 References

SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses (SSAP No. 55)

INT 01-28 Issue

1. SSAP No. 55 paragraph 11 directs management to record its “best estimate” of its unpaid claim liability. The term best estimate is generally understood not to prohibit any margin for adverse deviation. In general, practicing actuaries have included a margin for adverse deviation in their claim reserves for both life and A&H business. Paragraph 29 of the Preamble to the *Accounting Practices and Procedures Manual* speaks to conservatism. It states, “... the concept of conservatism should be followed when developing estimates as well as establishing accounting principles for statutory reporting.”
2. Actuarial Standard of Practice No. 5, *Incurred Health and Disability Claims* covers in course of settlement and incurred but unreported (IBNR) liabilities for Accident and Health (A&H) insurance. A new version of the standard was effective on May 1, 2001. Section 3.3c states that the actuary should consider “... what margin for uncertainty, if any, might be appropriately included [in the unpaid claim liability].”
3. The likely interpretation of SSAP No. 55 paragraph 11 is in conflict with current practice, the concept of conservatism, and actuarial standards of practice. It may lead to confusion and a significant lowering of A&H reserves under codification.
4. The accounting issue is what is the desired role, if any, of the margin for adverse deviation in the calculation of claim reserves?

INT 01-28 Discussion

5. The working group reached a consensus that the concept of conservatism is inherent to the estimation of reserves and as such should not be specifically prohibited in the consideration of management’s best estimate. On the other hand, the working group does not believe there should be a specific requirement to include a provision for adverse deviation in claims as the application of estimates varies greatly from company to company and requires the careful judgement of management.
6. No further discussion planned.