STUDENT OF THE INDUSTRY PARTING SHOT

What is a "Reserve Release?"
or Maybe More Importantly...Reserve Strengthening?

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Recently, some early information on P&C industry results for 2015 came to my inbox. One industry watcher we follow at Big I Advantage, ALIRT Insurance Research of Windsor, CT, sent out their 2015 Property & Casualty Review Letter. The first sentence caught my attention. That sentence included "...underwriting results deteriorated in 2015 as the industry strengthened reserves after 9 consecutive years of releases... (emphasis added)." What does "strengthening reserves" mean?

Reserves, and references to them with the P&C industry, are looking at estimates of loss costs on insurance policies. Estimates are essentially never perfectly accurate and so too is it with estimates of insurance policy loss costs. As the estimates (aka "reserves") age, the estimates get better and eventually the estimates become facts as losses are fully paid. In the interim years, between first estimates and known facts, the insurers revise estimates and increases (strengthening reserves) or decreases (releasing reserves) result. Each year as estimates are revised, the cumulative impact of decreases ("releases") become an addition to current income and increases ("strengthening") become a deduction from current income. To give you a sense of something changing, ALIRT provides a composite of 50 major insurers they can look at for trends before all the data on all the insurers can be analyzed. That graph is below.

Congratulations to last week's winners on the term used to describe when reinsurers buy reinsurance: the answer is "retrocession."
Source: ALIRT Property & Casualty Review Letter for Mid-Year and Year-End 2015.