

Incurred But Not Reported

The term “Incurred But Not Reported” (IBNR) is widely used in the insurance and risk management profession to indicate that there are unknown dollar amounts of losses lurking somewhere in the future.

Some of the IBNR is the result of losses that have occurred but have not yet been reported. For example, a manufacturer sells a faulty product that injures a consumer. The risk manager or insurance carrier will not learn about this loss for some period of time for a number of reasons. If a loss reserve valuation date passes before that loss is reported, the reserves for that period will be inaccurate. This is simply because products (or services) do not include some exotic sort of GPS-type unit that automatically reports an accident. Also, injured persons focus on recovery before retribution. Another aspect of this delay in reporting is the frictional delay inherent in the reporting and recording process. It simply takes some time to process the initial report and record it as a loss. This type of “hidden” or unknown loss is a “pure” IBNR.

Another type of loss reserve deficiency falling under the IBNR umbrella is somewhat of a misnomer, as it is the increase in a loss that has been incurred and has been reported. Technically speaking, it is really a RBNE (reserved but not enough, and even sometimes, RBTM, reserved but too much) loss. However, the common usage of the term IBNR suggests practitioners interpret the portion that is unknown as a loss not yet being reported. This type of IBNR is referred to as “development,” the result of the natural aging of the loss as it moves from occurrence to finalization. This type of IBNR may indicate increases or decreases in loss reserves. For example, a loss reported and estimated at \$10,000 will likely increase if additional information discloses more severe injury, and a loss estimated at \$10,000 but settled for \$1,000 will cause a decrease in the IBNR reserve.

In common usage of IBNR, there is no differentiation between the portions of a reserve that are “pure” and “development.” However, when the term “pure IBNR” is used, only the truly unreported occurrences are considered.

