

Section 1 – Risk Financing Fundamentals

Retention – the internal funds used to pay losses

Transfer Financial Responsibility – the external funds used to pay losses

Insurance – a promise of compensation for specified losses in exchange for payment of premium

Allocated Loss Adjustment Expense (ALAE) – includes all expenses directly assigned to or arising out of a particular claim; any expense assigned and recorded directly to a particular claim. Examples of ALAE include court fees and the expense of outside legal counsel; may also be noted as allocated loss expense

Unallocated Loss Adjustment Expense (ULAE) – salaries, overhead, and other related adjustment costs not specifically allocated or charged to the expense incurred for a particular claim; some insurance carriers apply a nominal flat charge to each claim reported to represent a portion of ULAE, but the amount is small relative to most types of ALAE

Incurred But Not Reported (IBNR) – represents the liability for unpaid claims not reflected in the case reserve estimates for individual losses

Pure IBNR – claims that have occurred but have not yet been reported as of the evaluation date. Since the claim has not been reported, there is no basis of establishing a reserve based upon the specific characteristics of the claim.

Broad or bulk IBNR – the additional development on known claims or the increase in reserve value as the claim is investigated and settled

Incurred Losses – total amount of paid claims and case reserves associated with a particular period of time (usually a policy year); generally, incurred losses are the outstanding and actual losses paid, interest on judgments, expenses incurred to obtain third-party recoveries, and allocated loss adjustment expenses for employers' liability losses

Paid Losses – the amount actually paid in losses during a specified period of time, not including estimates of amounts (i.e., reserves) that will be paid in the future for losses occurring in the specified period

Written Premium – total premiums on all policies written by an insurer during a specified period of time, regardless of what portions have been earned

Earned Premium – amount of the premium that has been “used up” during the term of a policy; for example, if a one-year policy has been in effect six months, half of the total premium has been earned

Unearned Premium – amount of premium remaining after deducting the earned premium from written premium; the portion of a premium representing the unexpired part of the policy period

Ultimate Losses – total losses that will have been paid when all claims have reached final settlement

Loss Reserve – an estimation of the liability for unpaid claims that have occurred as of a given date, including those IBNR losses, losses due but not yet paid, and amounts not yet due

Case Reserve (Claim Reserve) – amount the claims adjuster puts on an individual claim that has not yet been paid; there is no provision for development and IBNR

Per Occurrence – the maximum amount an insurer will pay for all claims resulting from a single occurrence

Aggregate – the maximum amount an insurer will pay during a policy period

Experience Modifier – factor developed by measuring the difference between the insured's actual past experience and the expected experience of the class. The factor may be either a debit (greater than 1.0) or a credit (less than 1.0). When applied to the manual premium, the experience modifier produces a premium that is more representative of the actual loss experience of an insured.

Budgeted Retention – the portion of expected losses the organization is willing and able to retain

Tolerance Corridor – the marginal retention beyond the budgeted retention an organization may also choose to retain

Retention/Transfer Diagram – a graphic depiction of an organization's financial ability and risk appetite. It includes the budgeted retention, the tolerance corridor, both internal risk financing and the external sources of risk financing (per occurrence and aggregate) for the portion of losses that are unexpected or beyond what the organization chooses to retain.

Average or mean – a common central tendency value; however, when the distribution is skewed by outliers (large or catastrophic losses), the average is biased

Median – the middle value in a set of data; not subject to bias from outliers

Mode – the observation most commonly occurring

Range – the difference between the smallest and largest value in a set of data values

Standard Deviation – a statistic that quantifies the amount of variation or dispersion in a set of data values