



**RISK66® MAP**  
POWERED BY SIGMA

**Data**

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# RISK66 Snapshot: Reserve Analysis

## Quick Definition

A reserve analysis estimates an employer’s outstanding liability resulting from past retained claims.

## The Details

The reserve analysis establishes a level of reserves, which includes case reserves, unreported claims, and case reserve adjustments, that will adequately account for anticipated growth in current liability. In other words, a reserve analysis answers the question, “If a company were to close its doors on a given date, how much money would be required to settle all retained losses occurring prior to that date?” The most obvious follow-up question, then, is why the sum of case reserves on all open claims is not sufficient to establish the balance sheet liability. This is because the sum of the case reserves excludes the impact of IBNR (incurred but not reported) losses.

## Discussion

Due to the aforementioned exclusion, the reserve analysis is critical to many organizations. Auditors are more vigilant than ever when verifying the adequacy of loss reserves on an employer’s balance sheet. Thus, having SIGMA complete a reserve analysis may save significant time and money during the audit process. In many scenarios, reserves not certified by an actuary will not meet an auditor’s standards.

Just as a loss projection will support collateral negotiations for a new program being established, reserve analyses support collateral negotiations for past years’ programs. Collateral requirements should theoretically decline over time as losses are paid, but it is not uncommon to see insurance companies continue to require high levels of collateral for past years. To account for this, SIGMA will work directly with the employer’s insurance company to establish a mutually agreeable level of collateral.

As part of the report issued by the actuary, a Statement of Actuarial Opinion will occasionally be provided and is often required of captive insurance companies and self-insured employers. If a company is an SEC registrant, has issued public debt, or is considering going public, a reserve analysis should be completed to assure potential investors that the reserve estimate was properly analyzed.

Finally, if an employer is considering acquiring another organization, it should have a reserve analysis completed to properly evaluate the liability associated with the acquiree’s retained losses. Doing so will avoid the detrimental impact understated liabilities would have on the value of the overall transaction.

RISK66® Snapshots are available on a variety of analytical topics. SIGMA's booklet entitled "Actuarial Advantage" is also available in the RISK66® portal as another technical resource.

As a part of RISK66®, your broker or agent has a close working relationship with our staff of actuaries. In today's competitive market place, analytics are playing an ever increasing role in risk management, alternative loss financing decisions, and scrutiny by audit firms of financial statement liabilities.

Your representative has chosen to bring you the best of both worlds - strong analytical capabilities AND an independent actuarial resource. We hope RISK66® Snapshots are helpful in your gaining a complete understanding of the competitive advantage an actuarial resource can provide.

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*Founded in 1995, SIGMA Actuarial Consulting Group, Inc. is located in Brentwood, Tennessee. SIGMA provides casualty actuarial consulting services to risk managers, brokers, captive managers, risk management consultants, TPA's and CPA's.*

*Our consulting services include all analyses necessary to insure proper financial reporting and program funding. Our background includes experience in the process of developing both traditional and alternative insurance programs for entities of all sizes and types.*

