

## **11 NCAC 18 .0116 CLAIM RESERVES**

- (a) Minimum claim reserves are required for all incurred but unpaid claims, which include claims accrued and claims unaccrued.
- (b) For the current year exposures, where historical claim information is either not available or not credible as determined by an actuary, the minimum claim reserve shall be calculated in the following manner:
- (1) Calculate the total earned premium as of the end of a valuation period for each policy form, group of policy forms, master contract, or group of master contracts.
  - (2) Multiply the total earned premium by the expected incurred loss ratio for each policy form, group of policy forms, master contract, or group of master contracts. The sum of the results of these multiplications is referred to as the "total incurred claims".
  - (3) Subtract from the total incurred claims the total amount of claims paid as of the end of a valuation period. The result of this subtraction is the total "minimum" amount that shall be added to the claim reserves established at the beginning of the valuation period.
  - (4) The calculations in Subparagraphs (b)(1) and (2) of this Rule may give recognition to duration.
- (c) For later years of exposures, where historical claim information is available and credible as determined by an actuary, the minimum reserve shall be calculated using any generally accepted or reasonable actuarial claim runoff method. Claim runoff schedules shall be developed by using appropriate incurred dates and paid dates for claims. Adequacy of the claim reserves shall be determined in the aggregate.
- (d) Appropriate claim expense reserves are required with respect to the estimated expense of settlement of all incurred but unpaid claims. Claim settlement expenses shall include both allocated and unallocated expenses.
- (e) All claim reserves for prior valuation periods shall be tested for adequacy and reasonableness along the lines of claim runoff schedules in accordance with the statutory financial statement including consideration of any residual unpaid liability.
- (f) Each MEWA shall develop a follow-up study comparing its previous reserve estimates against subsequent claims actually paid together with the remaining estimated liability as of the valuation date. The results of this study shall be filed with the Actuarial Service Division of the Department by March 1 of each calendar year.

*History Note: Authority G.S. 58-2-40; 58-49-40; 58-49-60;  
Eff. August 3, 1992;  
Pursuant to G.S. 150B-21.3A, rule is necessary without substantive public interest Eff. December 16, 2014.*