AS 05 (v) - Actuarial Aspect of Risk Management

Original Text in book

Chapter 6 Page no.104 & 105 – Learning Outcomes E. Techniques adopted by Insurance company to set Reserves - point Average Value Method

The average value method considers all claims in a specific category still open at the end of the current fiscal year to set a per policy reserve for the upcoming fiscal year. For example, assume 9 auto insurance liability cases from 2013 are still open at the end of the fiscal year -- three averaging Rs.5,000 each, three averaging Rs8,000 each and three averaging Rs10,000 each -- and a Rs10,000 carryover case from 2012 is still open. Underwriters would set an auto insurance liability per policy reserve of Rs.8,090, or Rs.89,000 divided by 10, for the 2014 fiscal year.

Revised text as below

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