

Notation and Terminology Used on Exam STAM

Version: December 2018

Introduction

The primary purpose of this study note is to present standard terminology to be used on the STAM examination for situations where (1) there are multiple ways of referring to concepts in the textbooks for the examination, (2) there is ambiguity in the textbooks for the examination, or (3) there are varying interpretations in actuarial practice. In addition, this note provides a set of abbreviations that will be utilized on the exam without additional supporting context for a limited number of terms. For terminology not discussed in this study note, the definitions in *Loss Models: From Data to Decisions* (4th edition) (*LM*) and/or *Introduction to Ratemaking and Loss Reserving for Property and Casualty Insurance* (4th edition) (*IRLR*) will apply.

Abbreviations

AY	Accident Year
ALAE	Allocated Loss and Adjustment Expenses
CY	Calendar Year
ULAE	Unallocated Loss and Adjustment Expenses
IBNR	Incurred But Not Reported (for reserves)

Unless otherwise noted in a question on the examination, both Accident Years and Calendar Years are assumed to begin on January 1 and end on December 31.

Terminology

Coinsurance can be viewed from the insurer's perspective or the insured's perspective. On this examination, the term coinsurance refers to the proportion of a loss that is paid by the *insurance company*. Under a coverage with $c\%$ coinsurance, the insurance company pays $c\%$ of the loss and the policyholder pays $(100 - c)\%$. Coinsurance, as a stand-alone term on the examination, is distinct from the coinsurance clause that applies to dwelling insurance.

Coinsurance clause refers to the feature in dwelling insurance coverages that limits the amount of reimbursement provided by the insurer if the dwelling is not insured to near full value.

Deductible, when used as a stand-alone term on the examination, refers to an ordinary deductible as defined in *LM* or a fixed-dollar deductible as defined in *IRLR*. Other types of deductibles will include additional wording consistent with the definitions presented in the source material (e.g., franchise deductible).

In practice, **policy limit** can refer to either the maximum insurer payment provided under a policy or the loss (or total losses) above which no additional benefits are paid. On the examination, policy limit will refer to the maximum insurer payment provided under a policy and **maximum covered loss** will refer to the loss (or total losses) above which no additional benefits are paid.

Arithmetic average, **average method**, and **average factor model** all refer to the same method of calculating a single age-to-age loss development factor for each column of a loss development triangle. On the examination, the term "arithmetic average" will be exclusively used to represent this method.

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Volume-weighted average, mean method, and **mean factor method** all refer to the same method of calculating a single age-to-age loss development factor for each column of a loss development triangle. On the examination, the term “volume-weighted average” will be exclusively used to represent this method.