

# A Note on the Upper-Truncated Pareto Distribution

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## **Abstract**

The Pareto distribution is widely used in modeling losses in Property and Casualty insurance. The thick-tailed nature of the distribution allows for inclusion of large events. However, in practice it may be necessary to apply an upper truncation point so as to eliminate unreasonably large loss amounts and to ensure that the first and second moments of the distribution exist.

This paper provides some background on the characteristics of the upper-truncated Pareto distribution, and suggests some diagnostics, based on order statistics, to assist in selecting the upper truncation point.