

CLAIMS RESERVING MANUAL

CONTENTS

INTRODUCTION (1989)

Section 1 1997 Update of Manual

Section 2 Introduction to Reserving

- A Description of Claim Process
- B Reserving Methodology — General
- C Reserving in Context
- D Commonly Used Simple Reserving Methods

VOLUME 1 — SIMPLE RESERVING METHODS

Section A The Insurance Background

- 1 Purpose of Claims Reserving
- 2 Types of Business — The Primary Market
- 3 Types of Business — Reinsurance & the London Market
- 4 Note on Technical Reserves
- 5 Note on Terminology

Section B Data & Forecasting

- 1 The Projection of Past Experience
- 2 Data Groupings: Principle of Homogeneity
- 3 The Claims Development Table
- 4 Data Quantities
- 5 Simple Breakdowns of the Claims Pattern
- 6 Data Systems & Validation
- 7 Forecasting: Simple Averages & Trends
- 8 Mathematical Trendlines

Section C Company & External Influences

- 1 Classification & General Analysis
- 2 Business Mix & Volume
- 3 Underwriting, Rating & Policy Conditions
- 4 Claims Handling & Definition
- 5 Inflation & Economic Factors
- 6 Legal, Political & Social Factors
- 7 Climate & Environmental Factors

Section D Dimensions of Choice

- 1 Case Reserves v Statistical Methods
- 2 Simple Statistical Methods v Mathematical Modelling & Stochastic Techniques
- 3 All Claims Together v Separation of Large and/or Small Claims
- 4 Figures Gross v Net of Reinsurance/Claims Expense/Salvage and Subrogation
- 5 Accident (or Underwriting) Year v Report Year Cohorts
- 6 Loss Ratio v Claim Development Patterns
- 7 Paid Loss v Incurred Loss Development
- 8 Claim Amounts v Use of Claim Numbers & Average Cost per Claim

Section E The Projection of Paid Claims

- 1 The Grossing Up Method — Introduction
- 2 Grossing Up — Variations 1 & 2
- 3 Grossing Up — Variations 3 & 4
- 4 Grossing Up — Comparison of Results
- 5 The Link Ratio Method — Introduction
- 6 Link Ratios with Simple Average
- 7 Link Ratios with Weighted Average
- 8 Original Weightings — the Chain Ladder Method
- 9 Link Ratios with Trending
- 10 Link Ratios — Comparison of Results
- 11 Link Ratios v Grossing Up
- 12 Paid Claim Projections & the Claim Settlement Pattern
- 13 Fitting Tails beyond the Observed Data

Section F Case Estimates & the Projection of Incurred Claims

- 1 Nature of Case Estimates
- 2 The Incurred Claims Function
- 3 Incurred Claims — Grossing Up
- 4 Incurred Claims — Link Ratio Method
- 5 Grossing Up of Case Reserves
- 6 Adequacy & Consistency of Case Reserves
- 7 Adjustment of Incurred Claims Projection

Section G Methods Using Loss Ratio & Loss Ratio Projections

- 1 Concept of the Loss Ratio
- 2 Naive Loss Ratio Method
- 3 Bornhuetter-Ferguson Method — Introduction
- 4 Bornhuetter-Ferguson on Incurred Claims
- 5 Bornhuetter-Ferguson on Paid Claims
- 6 Comparison of Results
- 7 Taking Stock of the Methods ($pC/iC/n\lambda/BF$)
- 8 Sensitivity Testing & Choice of Estimate
- 9 Paid Loss Ratio — Step-by-Step Projection
- 10 Paid Loss Ratio & Paid Claims Projection
- 11 Incurred Loss Ratio & Incurred Claims Projection
- 12 Comparison of Results ($pC/iC/p\lambda/i\lambda$)

Section H Methods Based on Claim Numbers & Average Cost per Claim

- 1 Paid Average Claims Projection
- 2 Number Settled & Number Reported
- 3 Incurred Average Claims Projection
- 4 Risk Exposure & Claim Frequency
- 5 Correspondence of Claim Numbers & Claim Amounts

Section I Methods for IBNR

- 1 IBNR — Definition & Ambiguities
- 2 IBNR as the Remainder Term
- 3 IBNR Estimates — the Underlying Principle
- 4 Alternative Bases for IBNR Projection
- 5 Tarbell's Method & IBNR Run-off
- 6 Average Cost per IBNR Claim
- 7 IBNR by Accident Year Projection
- 8 Adjusted Projection using Accident & Report Year

Section J Dealing with Inflation

- 1 Inflation — General Considerations
- 2 Inflation Adjusted Claims Projection
- 3 Bennett & Taylor — Method A
- 4 The Separation Method

Section K Miscellaneous Topics

- 1 Average Cost Reserving Systems
- 2 Reserves for Re-opened Claims
- 3 Re-opened Claims — Balcarek's Method
- 4 Claims Expense — Indirect Type
- 5 Claims Expense — Direct Type

Section L Actuarial Considerations

- 1 The Actuarial Approach
- 2 The Discounting of Claims Reserves
- 3 Practical Example of Discounting
- 4 Discounting Combined with Inflation
- 5 Tracking the Performance

Section M Towards a Formalised Approach

- 1 The History of a Claim
- 2 The Claims Cohort
- 3 Claim Numbers & Claim Amounts
- 4 Overall Loss & the Claims Reserve
- 5 Primary Division of the Claims Reserve
- 6 The Full Analysis of Loss
- 7 Average Cost per Claim
- 8 Exposure Measures & Loss Ratio
- 9 Time Axes
- 10 Development of Claims
- 11 The Triangular Array
- 12 Claim Development & Trend Analysis

Section N Glossary of Notation

Section O Selected References/Reading List

VOLUME 2 — MORE ADVANCED METHODS

Section A Introduction

Section B Description of Stochastic Models

- 1 What is a Stochastic Model?
- 2 What are the Advantages/Disadvantages of a Stochastic Model?
- 3 What Makes a Good Stochastic Model?

Section C Précis of Papers in Section D

Section D Papers of More Advanced Methods

- 1 The Chain Ladder Technique — A Stochastic Model
- 2 Exponential Run-off
- 3.a A Curve Fitting Method
- 3.b A Regression Method
- 4 Reid's Method
- 5 Regression Models Based on Log-incremental Payments
- 6 Measuring The Variability of Chain Ladder Reserve Estimates
- 7 Probability Distribution of Outstanding Liability from Individual Payments Data

Section E Précis of Other Actuarial Papers

- 1 Negative Incremental Claims: Chain Ladder and Linear Models
- 2 A State Space Representation of the Chain Ladder Model
- 3 Probabilistic Development Factor Models with Application to Loss Reserve Variability, Prediction Intervals and Risk Based Capital
- 4 Stochastic Claims Reserving when Past Claim Numbers are Known
- 5 Operational Time and a Fundamental Problem of Insurance in a Data-Rich Environment
- 6 Unbiased Loss Development Factors
- 7 Using Expected Loss Ratios in Reserving

Section F Computerised Illustration of Volume 2 Papers

- 1 Computerised Illustration (1) — Regression Model Based on Log-Incremental Payments
- 2 Computerised Illustration (2) — Measuring the Variability of Chain Ladder Reserve Estimates