

Non-life — Assignment NL5

Niels Keizer* and Robert Jan Sopers†

October 17, 2016

Q1

We load the data, define n, i, j , execute the `glm` command and find the coefficients, define `alpha` and `beta` and calculated the result of `sum((Xij-fitted(Orig.CL))[i==5])` (observations minus fitted values for origination year 5). The output of R is the following

```
> rm(list=ls(all=TRUE)); options(digits=6) ## housekeeping
> Xij <- scan(n=55) ## Data Taylor & Ashe (1983)
1: 357848 0766940 0610542 0482940 527326 574398 146342 139950 227229 067948
11: 352118 0884021 0933894 1183289 445745 320996 527804 266172 425046
20: 290507 1001799 0926219 1016654 750816 146923 495992 280405
28: 310608 1108250 0776189 1562400 272482 352053 206286
35: 443160 0693190 0991983 0769488 504851 470639
41: 396132 0937085 0847498 0805037 705960
46: 440832 0847631 1131398 1063269
50: 359480 1061648 1443370
53: 376686 0986608
55: 344014
Read 55 items
>
> n <- length(Xij); TT <- trunc(sqrt(2*n))
> i <- rep(1:TT, TT:1); j <- sequence(TT:1)
> i <- as.factor(i); j <- as.factor(j)
>
> Orig.CL <- glm(Xij~i+j, family=quasipoisson)
> coefs <- exp(coef(Orig.CL)); round(coefs,4)
(Intercept) i2      i3      i4      i5      i6      i7      i8      i9      i10     j2
270061.4156 1.3927  1.3787  1.3579  1.2452  1.3101  1.4509  1.7390  1.4462  1.2738  2.4906
j3          j4          j5          j6          j7          j8          j9          j10
2.6086      2.7899      1.5454      1.0833      0.9936      0.6740      1.0094      0.2516
> alpha <- c(1, coefs[2:TT]) * coefs[1]
> beta <- c(1, coefs[(TT+1):(2*TT-1)])
> names(alpha) <- paste0("row",1:10); round(alpha)
row1  row2  row3  row4  row5  row6  row7  row8  row9  row10
```

*Student number: 10910492

†Student number: 0629049

```

270061 376125 372325 366724 336287 353798 391842 469648 390561 344014
> names(beta) <- paste0("col",1:10); round(beta, 4)
col1    col2    col3    col4    col5    col6    col7    col8    col9    col10
1.0000  2.4906  2.6086  2.7899  1.5454  1.0833  0.9936  0.6740  1.0094  0.2516
>
> #Question 1
> sum((Xij-fitted(Orig.CL))[i==5])
[1] -0.000169636
>

```

As expected by the marginal totals property the sum is (very close to) zero.

Q2

We enter the code given in the question and obtain the following output.

```

> #Question 2
> Orig.fits <- outer(alpha, beta); round(Orig.fits)
col1    col2    col3    col4    col5    col6    col7    col8    col9    col10
row1  270061  672617  704494  753438  417350  292571  268344  182035  272606  67948
row2  376125  936779  981176  1049342  581260  407474  373732  253527  379669  94634
row3  372325  927316  971264  1038741  575388  403358  369957  250966  375833  93678
row4  366724  913365  956652  1023114  566731  397290  364391  247190  370179  92268
row5  336287  837559  877254  938200  519695  364316  334148  226674  339456  84611
row6  353798  881172  922933  987053  546756  383287  351548  238477  357132  89016
row7  391842  975923  1022175  1093189  605548  424501  389349  264121  395534  98588
row8  469648  1169707  1225143  1310258  725788  508792  466660  316566  474073  118164
row9  390561  972733  1018834  1089616  603569  423113  388076  263257  394241  98266
row10 344014  856804  897410  959756  531636  372687  341826  231882  347255  86555
> future <- row(Orig.fits) + col(Orig.fits) - 1 > TT
> (Orig.reserve <- sum(Orig.fits[future])) ## 18680856
[1] 18680856
>
> row(Orig.fits)
[,1] [,2] [,3] [,4] [,5] [,6] [,7] [,8] [,9] [,10]
[1,]  1   1   1   1   1   1   1   1   1   1
[2,]  2   2   2   2   2   2   2   2   2   2
[3,]  3   3   3   3   3   3   3   3   3   3
[4,]  4   4   4   4   4   4   4   4   4   4
[5,]  5   5   5   5   5   5   5   5   5   5
[6,]  6   6   6   6   6   6   6   6   6   6
[7,]  7   7   7   7   7   7   7   7   7   7
[8,]  8   8   8   8   8   8   8   8   8   8
[9,]  9   9   9   9   9   9   9   9   9   9
[10,] 10  10  10  10  10  10  10  10  10  10
> matrix(as.numeric(future),10)
[,1] [,2] [,3] [,4] [,5] [,6] [,7] [,8] [,9] [,10]
[1,]  0   0   0   0   0   0   0   0   0   0

```

```

[2,] 0 0 0 0 0 0 0 0 0 0 1
[3,] 0 0 0 0 0 0 0 0 0 1 1
[4,] 0 0 0 0 0 0 0 0 1 1 1
[5,] 0 0 0 0 0 0 0 1 1 1 1
[6,] 0 0 0 0 0 1 1 1 1 1 1
[7,] 0 0 0 0 1 1 1 1 1 1 1
[8,] 0 0 0 1 1 1 1 1 1 1 1
[9,] 0 0 1 1 1 1 1 1 1 1 1
[10,] 0 1 1 1 1 1 1 1 1 1 1
>

```

The command `row(Orig.fits)` gives the row number of each entry of the matrix `Orig.fits` and therefore returns a matrix as seen above with the row number i for each entry in row i . The future matrix given by `matrix(as.numeric(future),10)` is the matrix with zeros for the past and known observations and ones for the future elements to be estimated. This matrix is produced by demanding that `row(Orig.fits) + col(Orig.fits) - 1 > TT` and placing the results in a matrix with 10 rows.

Q3

We run the code and obtain the following output

```

> #Question 3
> ij <- expand.grid(i=as.factor(1:TT),j=as.factor(1:TT))
> ij[c(1,5,10,19,35,67),]
  i j
1  1 1
5  5 1
10 10 1
19  9 2
35  5 4
67  7 7
> mm <- matrix(predict(Orig.CL, ij, type="response"), TT); round(mm)
[,1] [,2] [,3] [,4] [,5] [,6] [,7] [,8] [,9] [,10]
[1,] 270061 672617 704494 753438 417350 292571 268344 182035 272606 67948
[2,] 376125 936779 981176 1049342 581260 407474 373732 253527 379669 94634
[3,] 372325 927316 971264 1038741 575388 403358 369957 250966 375833 93678
[4,] 366724 913365 956652 1023114 566731 397290 364391 247190 370179 92268
[5,] 336287 837559 877254 938200 519695 364316 334148 226674 339456 84611
[6,] 353798 881172 922933 987053 546756 383287 351548 238477 357132 89016
[7,] 391842 975923 1022175 1093189 605548 424501 389349 264121 395534 98588
[8,] 469648 1169707 1225143 1310258 725788 508792 466660 316566 474073 118164
[9,] 390561 972733 1018834 1089616 603569 423113 388076 263257 394241 98266
[10,] 344014 856804 897410 959756 531636 372687 341826 231882 347255 86555
> sum(Xij); sum(mm[row(mm)+col(mm)-1<=TT])
[1] 34358090
[1] 34358090
> sum(mm[row(mm)+col(mm)-1<=TT & row(mm)==TT-1])
[1] 1363294

```

The first line of code assigns a data frame of all combinations of the factors `i` and `j` and the second line gives some examples stored in the object `ij`. The third line creates via the function `predict` the matrix of the fitted values by filling in the `i,j` values from the `ij` object. The line `sum(mm[row(mm)+col(mm)-1<=TT])` sums all fitted values over the past and therefore equals the sum of the observations. The last line sums the past entries of the `mm` matrix via the restriction `row(mm)+col(mm)-1<=TT` for the year of origin $TT-1 = 9$ via the restriction `row(mm)==TT-1`.

Q4

We run the code from the question and obtain the following output

```
> Prs.resid <- (Xij - fitted(Orig.CL)) / sqrt(fitted(Orig.CL))
> p <- 2*TT-1; phi.P <- sum(Prs.resid^2)/(n-p)
> Adj.Prs.resid <- Prs.resid * sqrt(n/(n-p))
>
> #Question 4
> birthday <- 820911; set.seed(birthday) ## do adjust this line
> nBoot <- 1000; payments <- reserves <- n.neg <- numeric(nBoot)
> for (boots in 1:nBoot){ ## running this will take 5--10 seconds
+   Ps.Xij <- sample(Adj.Prs.resid, n, replace=TRUE) ## 1
+   Ps.Xij <- Ps.Xij * sqrt(fitted(Orig.CL)) + fitted(Orig.CL) ## 2
+   number.neg <- sum(Ps.Xij<0)
+   Ps.Xij <- pmax(Ps.Xij, 0) ## Set obs < 0 to 0
+   Ps.CL <- glm(Ps.Xij~i+j, family=quasipoisson) ## 5
+   coefs <- exp(as.numeric(coef(Ps.CL)))
+   Ps.alpha <- c(1, coefs[2:TT]) * coefs[1]
+   Ps.beta <- c(1, coefs[(TT+1):(2*TT-1)])
+   Ps.fits <- outer(Ps.alpha, Ps.beta)
+   Ps.reserve <- sum(Ps.fits[future])
+   Ps.totpayments <- phi.P * rpois(1, Ps.reserve/phi.P) ## 11
+   reserves[boots] <- Ps.reserve ## 12
+   payments[boots] <- Ps.totpayments; n.neg[boots] <- number.neg}
>
> sum(n.neg)
[1] 140
```

From the $55 \times 1000 = 5500$ pseudo-observations generated there are 140 negative pseudo-observations.

Q5

To verify the statements in Remark 10.6.1 we let R determine the minimum, maximum, mean and quantiles. The following output is obtained

```
> #Question 5
> payments <- payments/1e6
> mean(payments)
[1] 18.9271
```

```

> min(payments)
[1] 8.10061
> max(payments)
[1] 32.455
> quantile(payments, c(0.25,0.75,0.05,0.95))
25%      75%      5%      95%
16.8850 20.5671 14.5679 24.2492
>

```

These results are in line with the statements in Remark 10.6.1. The minimum is 8.1 mln, the maximum is 32.5 mln and the mean is 18.9 mln. The quantiles 25% is at 16.9 mln, quantile 75% at 20.6 mln, the 5% quantile at 14.6 mln and the 95% quantile at 24.2 mln. As the results in Remark 10.6.1 also show these results are very inaccurate.

Q6

Changing the method construct a predictive distribution of the IBNR-reserve to be held to a gamma error distribution using the Hints given in the assignment we obtain the following output in R

```

> #Question 6
> Orig.CL.Gamma <- glm(Xij~i+j, family=Gamma(link=log))
> Prs.resid <- (Xij - fitted(Orig.CL.Gamma)) / fitted(Orig.CL.Gamma)
> p <- 2*TT-1; phi.P <- sum(Prs.resid^2)/(n-p)
> Adj.Prs.resid <- Prs.resid * sqrt(n/(n-p))
>
> birthday <- 820911; set.seed(birthday) ## do adjust this line
> nBoot <- 1000; payments <- reserves <- n.neg <- numeric(nBoot)
> for (boots in 1:nBoot){ ## running this will take 5--10 seconds
+   Ps.Xij <- sample(Adj.Prs.resid, n, replace=TRUE) ## 1
+   Ps.Xij <- Ps.Xij * fitted(Orig.CL.Gamma) + fitted(Orig.CL.Gamma) ## 2
+   number.neg <- sum(Ps.Xij<0.01)
+   Ps.Xij <- pmax(Ps.Xij, 0.01) ## Set obs < 0.01 to 0.01
+   Ps.CL <- glm(Ps.Xij~i+j, family=Gamma(link=log)) ## 5
+   coefs <- exp(as.numeric(coef(Ps.CL)))
+   Ps.alpha <- c(1, coefs[2:TT]) * coefs[1]
+   Ps.beta <- c(1, coefs[(TT+1):(2*TT-1)])
+   Ps.fits <- outer(Ps.alpha, Ps.beta)
+   Ps.reserve <- sum(Ps.fits[future])
+   vec.Ps.fits <- Ps.fits[future]; h <- length(vec.Ps.fits)
+   Ps.totpayments <- sum(rgamma(h,1/phi.P,1/(vec.Ps.fits * phi.P)))
+   reserves[boots] <- Ps.reserve ## 12
+   payments[boots] <- Ps.totpayments; n.neg[boots] <- number.neg}
>
> payments <- payments/1e6
> mean(payments)
[1] 18.3234
> quantile(payments, c(0.25,0.75,0.05,0.95))
25%      75%      5%      95%

```

```

16.3441 19.9913 14.1696 23.2362
> mean(payments)
[1] 18.3234
> sd(payments)
[1] 2.79871
> 100 * sd(payments) / mean(payments)
[1] 15.2739
> pp <- (payments-mean(payments))/sd(payments)
> sum(pp^3)/(nBoot-1)
[1] 0.545073
> sum(pp^4)/(nBoot-1) - 3
[1] 0.743627

```

which gives a mean of 18.3 mln (18.7 mln for Poisson), a standard deviation of 2.8 mln/15.2% coefficient of variation (sd 3 mln for Poisson, 15.8% coefficient of variation) and a kurtosis of 0.74 (1 for Poisson). These results of using the different error distributions can also be seen visually in Figure 1.

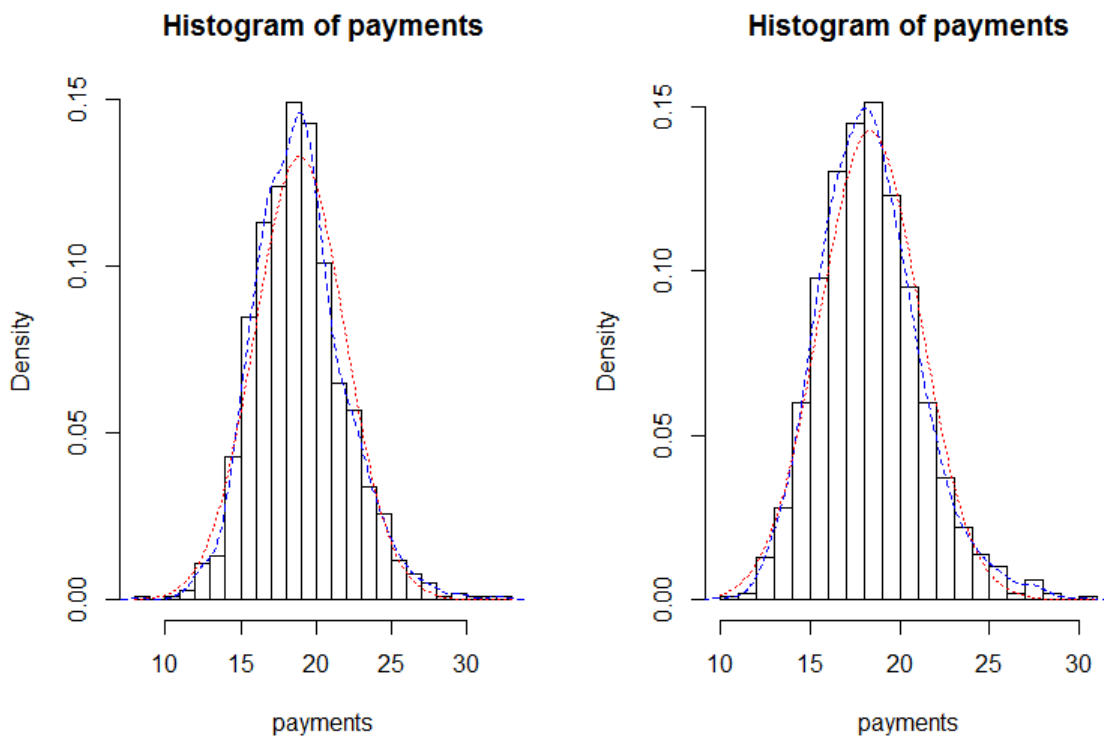


Figure 1: Histograms of payments, left using Poisson error distribution and right gamma error distribution

The two distributions are very similar in all cumulants and this is clear from the Figure.

Q7

We compute in R the relative difference and obtain the following output

```

> #Question 7
> coefs <- exp(coef(Orig.CL.Gamma)); round(coefs,4)
(Intercept) i2      i3      i4      i5      i6      i7      i8      i9      i10     j2
284798.2615  1.3733  1.3277  1.1799  1.2593  1.3139  1.4224  1.5871  1.3595  1.2079  2.4808
j3          j4          j5          j6          j7          j8          j9          j10
2.5385      2.7116      1.5137      1.1172      0.9472      0.6378      0.9423      0.2386
> alpha <- c(1, coefs[2:TT]) * coefs[1]
> beta <- c(1, coefs[(TT+1):(2*TT-1)])
> names(alpha) <- paste0("row",1:10); round(alpha)
row1  row2  row3  row4  row5  row6  row7  row8  row9  row10
284798 391127 378115 336032 358657 374203 405084 452010 387195 344014
> names(beta) <- paste0("col",1:10); round(beta, 4)
col1  col2  col3  col4  col5  col6  col7  col8  col9  col10
1.0000 2.4808 2.5385 2.7116 1.5137 1.1172 0.9472 0.6378 0.9423 0.2386
> (tapply(Xij/beta[j],i,sum)/tapply(Xij,i,length)-alpha)/alpha*1e6
1          2          3          4          5          6          7
3.21291e+00 -1.84317e+00 -2.66958e+00 -1.26869e-02  8.81382e-01  3.90050e-01  5.67323e-02
8          9          10
-4.89973e-01 -4.76920e-02 -1.01521e-09
>

```

The largest deviation is about 3 in a million. This shows that the α_i parameters satisfy the DM-equations.

Q8

We run the code from the question and comparing CL and Orig.CL via the summary we obtain the following output

```

3.21291e+00 -1.84317e+00 -2.66958e+00 -1.26869e-02  8.81382e-01  3.90050e-01  5.67323e-02 -4.
> #Question 8
> Xij.1 <- as.vector(t(xtabs(Xij~i+j))) ## stored row-wise as usual
> ii <- rep(1:TT, each=TT); jj <- rep(1:TT, TT); future <- ii+jj-1 > TT
> ii <- as.factor(ii); jj <- as.factor(jj)
> Orig.CL <- glm(Xij~i+j, family=quasipoisson, epsilon = 1e-12)
> CL <- glm(Xij.1~ii+jj, fam=quasipoisson, wei=as.numeric(!future))
>
> summary(CL)

```

Call:

```
glm(formula = Xij.1 ~ ii + jj, family = quasipoisson, weights = as.numeric(!future))
```

Deviance Residuals:

Min	1Q	Median	3Q	Max
-464.9	-31.5	0.0	0.0	494.3

Coefficients:

Estimate Std. Error t value Pr(>|t|)

(Intercept)	12.50640	0.17292	72.32	< 2e-16 ***
ii2	0.33127	0.15354	2.16	0.0377 *
ii3	0.32112	0.15772	2.04	0.0492 *
ii4	0.30596	0.16074	1.90	0.0650 .
ii5	0.21932	0.16797	1.31	0.1999
ii6	0.27008	0.17076	1.58	0.1225
ii7	0.37221	0.17445	2.13	0.0398 *
ii8	0.55333	0.18653	2.97	0.0053 **
ii9	0.36893	0.23918	1.54	0.1317
ii10	0.24203	0.42756	0.57	0.5749
jj2	0.91253	0.14885	6.13	4.7e-07 ***
jj3	0.95883	0.15257	6.28	2.9e-07 ***
jj4	1.02600	0.15688	6.54	1.3e-07 ***
jj5	0.43528	0.18391	2.37	0.0234 *
jj6	0.08006	0.21477	0.37	0.7115
jj7	-0.00638	0.23829	-0.03	0.9788
jj8	-0.39445	0.31029	-1.27	0.2118
jj9	0.00938	0.32025	0.03	0.9768
jj10	-1.37991	0.89669	-1.54	0.1326

Signif. codes: 0 *** 0.001 ** 0.01 * 0.05 . 0.1 1

(Dispersion parameter for quasipoisson family taken to be 52601.9)

Null deviance: 10699464 on 54 degrees of freedom

Residual deviance: 1903014 on 36 degrees of freedom

AIC: NA

Number of Fisher Scoring iterations: 4

Warning message:

In summary.glm(CL) :

observations with zero weight not used for calculating dispersion

> summary(Orig.CL)

Call:

glm(formula = Xij ~ i + j, family = quasipoisson, epsilon = 1e-12)

Deviance Residuals:

Min	1Q	Median	3Q	Max
-464.9	-123.7	-21.7	116.2	494.3

Coefficients:

Estimate Std. Error t value Pr(>|t|)

(Intercept)	12.50640	0.17292	72.32	< 2e-16 ***
i2	0.33127	0.15354	2.16	0.0377 *
i3	0.32112	0.15772	2.04	0.0492 *
i4	0.30596	0.16074	1.90	0.0650 .
i5	0.21932	0.16797	1.31	0.1999

i6	0.27008	0.17075	1.58	0.1225
i7	0.37221	0.17445	2.13	0.0398 *
i8	0.55333	0.18652	2.97	0.0053 **
i9	0.36893	0.23918	1.54	0.1317
i10	0.24203	0.42756	0.57	0.5749
j2	0.91253	0.14885	6.13	4.7e-07 ***
j3	0.95883	0.15257	6.28	2.9e-07 ***
j4	1.02600	0.15688	6.54	1.3e-07 ***
j5	0.43528	0.18391	2.37	0.0234 *
j6	0.08006	0.21477	0.37	0.7115
j7	-0.00638	0.23829	-0.03	0.9788
j8	-0.39445	0.31029	-1.27	0.2118
j9	0.00938	0.32025	0.03	0.9768
j10	-1.37991	0.89668	-1.54	0.1326

Signif. codes: 0 *** 0.001 ** 0.01 * 0.05 . 0.1 1

(Dispersion parameter for quasipoisson family taken to be 52601.4)

Null deviance: 10699464 on 54 degrees of freedom

Residual deviance: 1903014 on 36 degrees of freedom

AIC: NA

Number of Fisher Scoring iterations: 5

>

The same results are obtained with CL and Orig.CL since the output is identical.

Q9

We run the code and obtain the following output

```
> #Question 9
> p <- 2*TT-1
> phi.P <- sum((Xij - fitted(Orig.CL))^2 / fitted(Orig.CL))/(n-p) ## 1
> phi <- CL$deviance/CL$df.residual ## 2
> c(phi, phi.P) ## 52861.5 52601.4
[1] 52861.5 52601.4
> sum(resid(CL)^2)/(n-p) ## 3; "type=devi" is default
[1] 52861.5
> sum(resid(CL,type="pear")^2)/(n-p) ## 4
[1] 52601.4
> Prs.resid <- (Xij.1 - fitted(CL)) / sqrt(fitted(CL))
> sum(as.numeric(!future)*Prs.resid^2)/(n-p) ## 5
[1] 52601.4
> dev.resid2 <- 2 * (Xij.1*log(ifelse(Xij.1==0, 1, Xij.1/fitted(CL))) -
+ (Xij.1 - fitted(CL))) ## cf. (9.29)
```

```

> sum(as.numeric(!future)*dev.resid2)/(n-p) ## 6
[1] 52861.5
> summary(CL)$dispersion ## 7 (the warning is reassuring)
[1] 52601.9
Warning message:
In summary.glm(CL) :
observations with zero weight not used for calculating dispersion
> summary(Orig.CL)$dispersion ## 8
[1] 52601.4

```

From the output we see that method 1,4,5,7 and 8 are Pearson estimates and 2,3 and 6 are mean deviance estimates.

Q10

Using a construction as proposed in the Hint we obtain the following output in R

```

> #Question 10
> mu.hat <- fitted(CL)*future
> Cov.beta <- vcov(CL)
Warning message:
In summary.glm(object, ...) :
observations with zero weight not used for calculating dispersion
> X <- model.matrix(CL)
> Cov.eta <- X %*% Cov.beta %*% t(X)
> MSPE <- phi * sum(mu.hat) + t(mu.hat) %*% Cov.eta %*% mu.hat
> cat("Total reserve =", round(sum(mu.hat)), "p.e. =", round(sqrt(MSPE)), "\n")
Total reserve = 18680856 p.e. = 2946484
>
>
> for (r in 2:TT){
+   mu.r <- ifelse(ii==r,mu.hat,0) ## replace the elements of mu.hat not having rownr==r by 0
+   MSPE <- phi * sum(mu.r) + t(mu.r) %*% Cov.eta %*% mu.r; res <- round(sum(mu.r)); ## see above
+   cat("Year =", r, "\treserve =", round(res/1000),
+       "\tp.e./res. =", round(100*sqrt(MSPE)/res), "%\n") }
Year = 2  reserve = 95  p.e./res. = 116 %
Year = 3  reserve = 470 p.e./res. = 46 %
Year = 4  reserve = 710 p.e./res. = 37 %
Year = 5  reserve = 985 p.e./res. = 31 %
Year = 6  reserve = 1419 p.e./res. = 26 %
Year = 7  reserve = 2178 p.e./res. = 23 %
Year = 8  reserve = 3920 p.e./res. = 20 %
Year = 9  reserve = 4279 p.e./res. = 24 %
Year = 10 reserve = 4626 p.e./res. = 43 %
>

```

which reproduces column 3 from Table 1 and 2 from England and Verrall (1999) exactly.

Q11

We run the code and obtain the following output in R

```
> #Question 11
> rm(list=ls(all=TRUE)); Xij <- scan(n=36)
1: 156 37 6 5 3 2 1 0
9: 154 42 8 5 6 3 0
16: 178 63 14 5 3 1
22: 198 56 13 11 2
27: 206 49 9 5
31: 250 85 28
34: 252 44
36: 221
Read 36 items
> TT <- 8; i <- rep(1:TT, TT:1); j <- sequence(TT:1); k <- i+j-1
> fi <- as.factor(i); fj <- as.factor(j); fk <- as.factor(k)
>
> ee <- c(28950,29754,26315,39442,38423,50268,44762,43541)
> Expo <- rep(ee, TT:1)
>
> all(Expo == ee[i])
[1] TRUE
```

The index i in `ee[i]` runs over the sequence created by `i <- rep(1:TT, TT:1)` which consists of TT times 1, $TT-1$ times 2, etc.. Since `Expo` is created in the same manner (TT repetitions of the first entry of `ee`, $TT-1$ repetitions of the second entry of `ee`) both vectors are equal for all entries.

Q12

We fill in the dots and the output from R is the following

```
> #Question 12
> CL <- glm(Xij~fi+fj, quasipoisson) ## the Chain ladder model
> EE <- glm(Xij~fj+offset(log(Expo)),quasipoisson) ## the Exposure model
> scale <- CL$deviance / CL$df.residual ## mean-deviance estimate for phi
> Delta.Dev.Sc <- (EE$deviance - CL$deviance) / scale ## difference of scaled deviances for CL
> Delta.df <- EE$df.residual - CL$df.residual ## difference of degrees of freedom for CL and E
> reject <- Delta.Dev.Sc/scale > qchisq(0.95,Delta.df) ## TRUE if Delta.Dev.Sc > the chi^2 cri
> cat("The exposure model", ifelse(reject, "is", "is not"), "rejected",
+     "since the scaled deviance gained by CL is\n",
+     round(Delta.Dev.Sc,1), "with", Delta.df, "extra parameters.\n")
The exposure model is not rejected since the scaled deviance gained by CL is
13.9 with 7 extra parameters.
>
```

So the CL model is is not a significant improvement over the Exposure model. In the Exposure model the claims are modeled as proportional to $n_i\beta_j$ with n_i the exposures in year i . The coefficients α_i of the CL model are restricted in EE via $\alpha_i = \frac{n_i}{n_1}$.

Q13

Constructing the vectors `alpha`, `beta`, `M` and `delta` as prescribed with `sum(beta)=sum(delta)=1` we obtain the following output in R

```
> #Question 13
> xtabs(round(100*(fitted(CL) - fitted(EE))/fitted(CL))~i+j)
j
i      1  2  3  4  5  6  7  8
1  -4  -5  -6  -6  -8 -12  -1  0
2  -3  -4  -5  -5  -7 -11   0  0
3  25  24  24  24  22  19   0  0
4  -5  -6  -7  -7  -9   0   0  0
5  -5  -6  -7  -7   0   0   0  0
6   1   0  -1   0   0   0   0  0
7  -3  -4   0   0   0   0   0  0
8  -6   0   0   0   0   0   0  0
> round(coef(CL),2); round(coef(EE),2)
(Intercept)  fi2    fi3    fi4    fi5    fi6    fi7    fi8    fj2    fj3    fj4
5.01          0.04  0.23  0.30  0.27  0.60  0.45  0.39  -1.31  -2.70  -3.36
fj5          fj6    fj7    fj8
-3.90        -4.41  -5.72  -21.31
(Intercept)  fj2    fj3    fj4    fj5    fj6    fj7    fj8
-5.23        -1.30  -2.68  -3.34  -3.86  -4.33  -5.75  -21.35
>
> coefs.CL <- exp(coef(CL));
> alpha <- c(1, coefs.CL[2:TT]) * coefs.CL[1]
> beta <- c(1, coefs.CL[(TT+1):(2*TT-1)])
> alpha <- alpha*sum(beta); beta <- beta/sum(beta)
>
> coefs.EE <- exp(coef(EE));
> M <- ee
> delta <- c(1,coefs.EE[2:TT])*coefs.EE[1]
> M <- M*sum(delta); delta <- delta/sum(delta)
>
> round(100*(alpha%o%beta-M%o%delta)/(alpha%o%beta))
fj2 fj3 fj4 fj5 fj6 fj7 fj8
-4  -5  -6  -6  -8 -12  -1   0
fi2 -3  -4  -5  -5  -7 -11   0   1
fi3 25  24  24  24  22  19  27  28
fi4 -5  -6  -7  -7  -9 -13  -2  -1
fi5 -5  -6  -7  -7  -9 -13  -1  -1
fi6  1   0  -1  -1  -3  -7   4   5
fi7 -3  -4  -5  -5  -7 -11   1   1
fi8 -6  -6  -7  -8 -10 -14  -2  -2
>
> round(100*(alpha-M)/alpha)
fi2 fi3 fi4 fi5 fi6 fi7 fi8
-4  -3  25  -5  -5   0  -3  -6
```

```
> round(100*(beta-delta)/beta)
fj2 fj3 fj4 fj5 fj6 fj7 fj8
0    0  -1  -1  -4  -8   4   4
```

We see from the output of `round(100*(alpha%o%beta-M%o%delta)/(alpha%o%beta))` that the differences are small between the models and the fitted values are similar for all rows and columns except for row 3 and column 6. The differences are the result of the third entry of `round(100*(alpha-M)/alpha)` and the 6th entry of `round(100*(beta-delta)/beta)`.

Q14

To compare the model with and without the term `+fk` we do the anova call on the model with the `+fk` term and without and obtain the following output in R

```
> #Question 14
> Three.off <- glm(Xij~offset(log(Expo))+fj+fi+fk, quasipoisson)
> anova(Three.off, test="Chisq")
Analysis of Deviance Table

Model: quasipoisson, link: log

Response: Xij

Terms added sequentially (first to last)

Df Deviance Resid. Df Resid. Dev Pr(>Chi)
NULL                                35      3098.2
fj      7   3041.5      28      56.7 <2e-16 ***
fi      7    22.6      21      34.2 0.0315 *
fk      6    12.9      15      21.3 0.1856
---
Signif. codes:  0 *** 0.001 ** 0.01 * 0.05 . 0.1 1
>
> Three.off.without.fk <- glm(Xij~offset(log(Expo))+fj+fi, quasipoisson)
> anova(Three.off.without.fk, test="Chisq")
Analysis of Deviance Table

Model: quasipoisson, link: log

Response: Xij

Terms added sequentially (first to last)

Df Deviance Resid. Df Resid. Dev Pr(>Chi)
NULL                                35      3098.2
fj      7   3041.5      28      56.7 <2e-16 ***
```

```
fi      7      22.6      21      34.2  0.0532 .
```

```
---
```

```
Signif. codes:  0 *** 0.001 ** 0.01 * 0.05 . 0.1 1
```

```
>
```

```
> options(digits=7); summary(Three.off) #dispersion is 1.46782
```

```
Call:
```

```
glm(formula = Xij ~ offset(log(Expo)) + fj + fi + fk, family = quasipoisson)
```

```
Deviance Residuals:
```

Min	1Q	Median	3Q	Max
-1.56847	-0.51136	-0.01739	0.38596	2.43160

```
Coefficients: (1 not defined because of singularities)
```

```
Estimate Std. Error t value Pr(>|t|)
```

(Intercept)	-5.22347	0.09700	-53.850	< 2e-16 ***
fj2	-1.33452	0.07207	-18.518	9.60e-12 ***
fj3	-2.76272	0.14682	-18.817	7.62e-12 ***
fj4	-3.46343	0.23298	-14.866	2.20e-10 ***
fj5	-4.05421	0.34344	-11.805	5.41e-09 ***
fj6	-4.58245	0.51255	-8.941	2.13e-07 ***
fj7	-5.92674	1.21829	-4.865	0.000206 ***
fj8	-22.35244	4201.43685	-0.005	0.995825
fi2	0.10724	0.16931	0.633	0.536004
fi3	0.40860	0.17493	2.336	0.033800 *
fi4	-0.08240	0.17121	-0.481	0.637259
fi5	-0.12257	0.17055	-0.719	0.483385
fi6	-0.00432	0.16387	-0.026	0.979318
fi7	-0.21568	0.15830	-1.362	0.193160
fi8	-0.05983	0.12669	-0.472	0.643568
fk2	-0.13933	0.18226	-0.764	0.456456
fk3	-0.17866	0.18643	-0.958	0.353091
fk4	0.02194	0.17497	0.125	0.901896
fk5	0.10201	0.16601	0.614	0.548098
fk6	-0.04999	0.15420	-0.324	0.750267
fk7	0.23054	0.13930	1.655	0.118689
fk8	NA	NA	NA	NA

```
---
```

```
Signif. codes:  0 *** 0.001 ** 0.01 * 0.05 . 0.1 1
```

```
(Dispersion parameter for quasipoisson family taken to be 1.46782)
```

```
Null deviance: 3098.221 on 35 degrees of freedom
```

```
Residual deviance: 21.252 on 15 degrees of freedom
```

```
AIC: NA
```

```
Number of Fisher Scoring iterations: 15
```

```
> summary(Three.off.without.fk) #dispersion is 1.62435 and deviance equal so lower scaled dev
```

```
Call:
glm(formula = Xij ~ offset(log(Expo)) + fj + fi, family = quasipoisson)
```

Deviance Residuals:

Min	1Q	Median	3Q	Max
-2.51795	-0.73702	-0.08011	0.57321	2.11591

Coefficients:

	Estimate	Std. Error	t value	Pr(> t)
(Intercept)	-5.268e+00	9.015e-02	-58.436	< 2e-16 ***
fj2	-1.310e+00	7.406e-02	-17.692	4.29e-14 ***
fj3	-2.700e+00	1.489e-01	-18.133	2.64e-14 ***
fj4	-3.357e+00	2.325e-01	-14.435	2.25e-12 ***
fj5	-3.902e+00	3.436e-01	-11.357	2.00e-10 ***
fj6	-4.407e+00	5.229e-01	-8.427	3.54e-08 ***
fj7	-5.717e+00	1.276e+00	-4.480	0.000206 ***
fj8	-2.131e+01	2.681e+03	-0.008	0.993733
fi2	9.994e-03	1.232e-01	0.081	0.936130
fi3	3.266e-01	1.179e-01	2.771	0.011459 *
fi4	-1.052e-02	1.165e-01	-0.090	0.928895
fi5	-9.808e-03	1.176e-01	-0.083	0.934318
fi6	4.691e-02	1.109e-01	0.423	0.676604
fi7	1.044e-02	1.156e-01	0.090	0.928908
fi8	-1.530e-02	1.244e-01	-0.123	0.903299

Signif. codes: 0 *** 0.001 ** 0.01 * 0.05 . 0.1 1

(Dispersion parameter for quasipoisson family taken to be 1.62435)

Null deviance: 3098.221 on 35 degrees of freedom

Residual deviance: 34.158 on 21 degrees of freedom

AIC: NA

Number of Fisher Scoring iterations: 14

>

We see that in the model with the **fk** term the exposure model is not rejected at 5% level in favor of the CL model but in the model without **fk** the exposure model is rejected. The reason for this is the difference in the dispersion parameter. In the model with **fk** the dispersion parameter is 1.46782 and in the model without 1.62435. This change in the dispersion parameter makes the unscaled deviance of 22.6 be significant in the model with **fk** and not significant in the model without **fk**.

Q15

For year of development $j = 8$ we have that the only observation is equal to 0. Therefore by the marginal totals property we have that $\beta_8 = 0$. But since we have a log link-function we should

have that $\exp(\log \beta_8) = 0$. We expect the parameter β_8 therefore to be close to ∞ . Calculating `exp(coef(Three.off)[8])` in R gives the output

```
> exp(coef(Three.off)[8])
fj8
1.960912e-10
>
```

which is close to zero.

Q16

We also model the three-way model without offset and obtain the following output in R

```
> #Question 16
> Three.off.without.Offset <- glm(Xij~fj+fi+fk, quasipoisson)
> exp(Three.off.without.Offset$coefficients[1]) / exp(Three.off$coefficients[1])
(Intercept)
28950
>
```

where `exp(Three.off.without.Offset$coefficients[1]) / exp(Three.off$coefficients[1])` is equal to `exp(+5.04986) / exp(-5.22347)` by inspecting of the coefficients of both models. The model without offset fits on X_{11} and the model with offset on $\frac{X_{11}}{n_1}$ so the result of the division in R is equal to $n_1 = 28950$. Therefore both models do lead to the same fitted value for the top-left observation as can be seen in the following R output:

```
> exp(Three.off$coefficients[1])*(ee[1])
(Intercept)
156
> exp(Three.off.without.Offset$coefficients[1])
(Intercept)
156
>
```

We calculate both fitted values for year of origin 2 and development year 1 in R and obtain the following output

```
> #Model zonder offset
> intersept.three.off.without.offset <- Three.off.without.Offset$coefficients[1]
> alpha2 <- Three.off.without.Offset$coefficients[9]
> beta1 <- 0
> gamma2 <- Three.off.without.Offset$coefficients[16]
>
> exp(intersept.three.off.without.offset + alpha2 + beta1 + gamma2)
(Intercept)
155.2694
>
```



```

> #Model met offset
> intercept.three.off <- Three.off$coefficients[1]
> alpha2 <- Three.off$coefficients[9]
> beta1 <- 0
> gamma2 <- Three.off$coefficients[16]
>
> exp(intercept.three.off + alpha2 + beta1 + gamma2)*ee[2]
(Intercept)
155.2694

```

We see that the fitted values coincide for both models.

Q17

We create the dummy variable, construct the model and use `anova` and obtain the following output

```

> #Question 17
> i.is.3 <- as.numeric(i==3)
> Three.off.Dummy3 <- glm(Xij~offset(log(Expo))+fj+i.is.3+fi, quasipoisson)
> anova(Three.off.Dummy3, test="Chisq")
Analysis of Deviance Table

```

Model: quasipoisson, link: log

Response: Xij

Terms added sequentially (first to last)

	Df	Deviance	Resid.	Df	Resid.	Dev	Pr(>Chi)
NULL				35		3098.22	
fj	7	3041.50		28		56.72	< 2.2e-16 ***
i.is.3	1	21.71		27		35.01	0.0002566 ***
fi	6	0.85		21		34.16	0.9975196

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

```
> options(digits=7); summary(special3)
```

Call:

```
glm(formula = Xij ~ offset(log(Expo)) + fj + i.is.3 + fi, family = quasipoisson)
```

Deviance Residuals:

Min	1Q	Median	3Q	Max
-2.51795	-0.73702	-0.08011	0.57321	2.11591

Coefficients: (1 not defined because of singularities)

Estimate Std. Error t value Pr(>|t|)

```

(Intercept) -5.268e+00  9.015e-02 -58.436 < 2e-16 ***
fj2          -1.310e+00  7.406e-02 -17.692 4.29e-14 ***
fj3          -2.700e+00  1.489e-01 -18.133 2.64e-14 ***
fj4          -3.357e+00  2.325e-01 -14.435 2.25e-12 ***
fj5          -3.902e+00  3.436e-01 -11.357 2.00e-10 ***
fj6          -4.407e+00  5.229e-01  -8.427 3.54e-08 ***
fj7          -5.717e+00  1.276e+00  -4.480 0.000206 ***
fj8          -2.131e+01  2.681e+03  -0.008 0.993733
i.is.3       3.266e-01  1.179e-01   2.771 0.011459 *
fi2          9.994e-03  1.232e-01   0.081 0.936130
fi3           NA         NA         NA     NA
fi4          -1.052e-02  1.165e-01  -0.090 0.928895
fi5          -9.808e-03  1.176e-01  -0.083 0.934318
fi6          4.691e-02  1.109e-01   0.423 0.676604
fi7          1.044e-02  1.156e-01   0.090 0.928908
fi8          -1.530e-02  1.244e-01  -0.123 0.903299
---

```

Signif. codes: 0 *** 0.001 ** 0.01 * 0.05 . 0.1 1

(Dispersion parameter for quasipoisson family taken to be 1.62435)

```

Null deviance: 3098.221  on 35  degrees of freedom
Residual deviance:  34.158  on 21  degrees of freedom
AIC: NA

```

Number of Fisher Scoring iterations: 14

>

The inclusion of the dummy variable is statistically significant at every level. The inclusion of the row factors after the dummy variable is not significant anymore.

Adjusting the Expo vector and repeating the previous steps gives the following output in R

```

> Expo1 <- c(28950,29754,36315,39442,38423,50268,44762,43541)[i]
> Three.off.adjusted <- glm(Xij~offset(log(Expo1))+fj+i.is.3+fi, quasipoisson)
> anova(Three.off.adjusted, test="Chisq")
Analysis of Deviance Table

```

Model: quasipoisson, link: log

Response: Xij

Terms added sequentially (first to last)

```

Df Deviance Resid. Df Resid. Dev Pr(>Chi)
NULL                                35    3129.79
fj      7   3094.78      28     35.01 <2e-16 ***

```

i.is.3	1	0.00	27	35.01	0.9773
fi	6	0.85	21	34.16	0.9975

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

The inclusion of the dummy variable is not statistically significant anymore after the adjustment of the `Expo` vector. The inclusion of the row factors is still not significant.