

# M4 Reserving Claim Amounts

## Topics in Insurance, Risk, and Finance <sup>1</sup>

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## 1 Case estimation (3.1)

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- When a claim is notified, the insurer's employee who manages the claim (the "claims adjuster") typically formulates an estimate of the cost of the claim and records it in the system.
- This estimate is typically adjusted over time as payments are made and additional information becomes available.
- These is called a "**case estimate**" (equivalently, "individual estimate", "manual estimate", "physical estimate").
- The good thing about case estimates is that they are specific to the claim, and are an educated, intelligent guess of the cost of them, rather than a cold, myopic statistical estimate.
- The "bad" thing is that they are very subjective, and are subject to (potentially dangerous) systematic biases.

You can think of the evolution of a claim cost as two parallel paths:

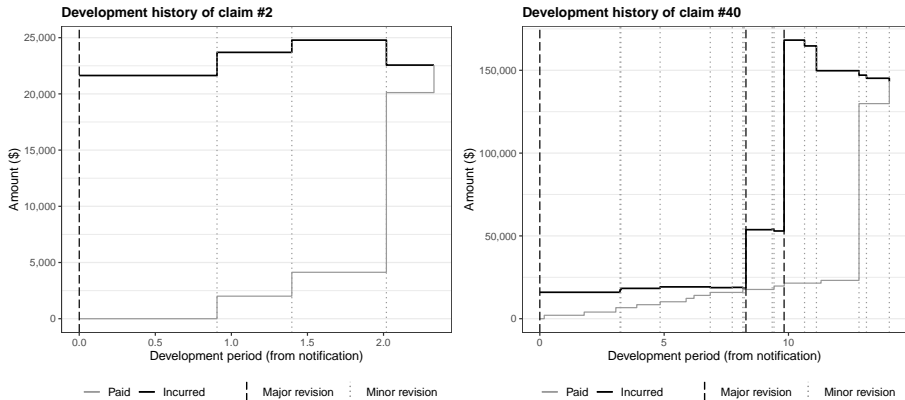


Figure 2 of Avanzi, Taylor, and Wang (2023).

# References I

- Avanzi, Benjamin, Gregory Clive Taylor, and Melantha Wang. 2023. "SPICE: A Synthetic Paid Loss and Incurred Cost Experience Simulator." *Annals of Actuarial Science* 17 (1): 7–35.
- Taylor, Greg. 2000. *Loss Reserving: An Actuarial Perspective*. Huebner International Series on Risk, Insurance and Economic Security. Kluwer Academic Publishers.