

8.2 Summary

 5m

ALAE DATA CONSIDERATIONS

Actuaries must comprehend industry-specific data variations and distinguish between ALAE and claims data to accurately estimate unpaid ALAE, as combining them can lead to inaccurate estimates due to differing development patterns.

ESTIMATING UNPAID ALAE

There are two methods for ALAE estimation: the development technique and the ratio technique. The development technique is used to estimate paid ALAE, and if case outstanding data is available, it can also be used for reported ALAE estimation.

Additionally, an additive ratio approach, known as **additive development**, serves as an alternative to the multiplicative ratio approach for ALAE calculation, particularly when ratios are small in the early stages to enhance stability.

The ratio method offers several advantages:

1. Acknowledges the correlation between ALAE and claims.
2. Results in less leveraged development factors compared to paid ALAE dollars.
3. Provides flexibility for actuarial judgment when selecting ultimate ALAE ratios from recent years within the experience period.

Disadvantages include:

1. Potential for claims with no payment but significant ALAE.
2. Errors in estimating ultimate claims can lead to errors in the ultimate ALAE estimate.

