

## 8.2.0 Overview

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Both this section and the next section deal with estimating specific types of unpaid expenses. Here is a quick refresher on some of the terminology we have previously covered.

Loss adjustment expenses (LAE) are costs that are incurred during the claim settlement process. They are typically accounted for as part of incurred losses.

Loss adjustment expenses can be further separated into **allocated loss adjustment expenses (ALAE)** and **unallocated loss adjustment expenses (ULAE)**.

- ALAE are expenses that are associated with a particular claim, e.g., lawyer's fees. They frequently exhibit a strong correlation with claims history.
- ULAE are expenses that are not associated with a particular claim, e.g., salary of the claims department manager.

To improve consistency in reporting expenses, the U.S. insurance industry introduced another categorization. For reporting, loss adjustment expenses can be categorized as either **defense and cost containment (DCC)** expenses or **adjusting and other (AAO)** expenses.

- DCC expenses consist of all costs that are associated with providing claim defense.
- AAO expenses consist of all other expenses incurred during the claim settlement process.

In general, DCC expenses are treated as ALAE, while AAO expenses are treated as ULAE.