6.6.0 Overview

5m

Over the course of this section, we'll learn about a set of three reserving methods dubbed the ***Frequency-Severity (F-S) Techniques***. As the name would suggest, each of these techniques projects ultimate claims by breaking them into a frequency component and a severity component. Studying the frequency and severity components separately allows actuaries to examine trends and patterns in claim reporting, settlement, as well as in claim severity. They are also frequently used to validate or reject unpaid claims estimates made using other reserving methods.

Each of the techniques we will discuss can be applied to calendar year, accident year, policy year, or report year data. These techniques can be applied to any line of business, but they are especially useful for lines that are long-tailed.

F-S techniques have several advantages over the development method. For starters, they tend to produce more stable estimates, especially for early maturities that may be highly leveraged. F-S techniques also give the actuary the potential to gain greater insight into the claims process and directly incorporate the effects of inflation into unpaid claim estimates.

This can be a blessing and a curse. These techniques are all highly sensitive to inflations, so if the inflation assumption is not accurate, then the unpaid claims estimate will also be inaccurate. F-S techniques also require access to more data than some of the methods we've discussed thus far, so the availability of accurate and detailed data can also be an issue.