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Unallocated Loss Adjustment Expense Reserving

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Abstract

In non-life insurance the provision for outstanding claims (the claims reserve) should include future loss adjustment expenses, i.e. administrative expenses to settle the claims, and therefore we have to estimate the expected *Unallocated Loss Adjustment Expenses* (ULAE) – expenses that are not attributable to individual claims, such as salaries at the claims handling department. The ULAE reserve has received little attention from European actuaries in the literature, supposedly because of the lack of detailed data for estimation and evaluation. Having good estimation procedures will, however, become even more important with the introduction of the Solvency II regulations, that require unbiased estimation of future cash flows for all expenses. We present a model for ULAE at the individual claim level that includes both fixed and variable costs. This model leads to an estimate of the ULAE reserve at the aggregate (line-of-business) level, as demonstrated in a numerical example from a Swedish non-life insurer.

KEY WORDS: Unallocated Loss Adjustment Cost, Claims Handling Expenses, Reserving, Paid-to-Paid method, Solvency II.

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