

Abstract

The usual chain ladder method is a deterministic claims reserving method. In the last years a stochastic log linear approximation to the chain ladder method has been used by several authors especially in order to quantify the variability of the estimated claims reserves. Although the reserves estimated by both methods are clearly different, the log linear approximation has been called “chain ladder”, too by these authors.

In this paper the following technique has been used in order to estimate the future claim reserve. The three main stochastic models that have been used are the Mack Chain ladder method, Bootstrap Chain Ladder method & the use of GLM's to predict the number of claims and the claim amount to get the total aggregate claim amount.

In this note, we show that a different distribution- free stochastic model estimating the claim reserves also yields to the same claims reserves as computing by chain ladder method. Moreover, a comparison of this stochastic model with the above-mentioned log linear approximation reveals that the two models rely on different philosophies on the claims process. Because of these fundamental differences the log linear approximation deviates from the usual chain ladder method in a decisive way and should therefore not be called “chain ladder” any more.