ABSTRACT

Insurance is a field which has greater uncertainty associated with it. Insured events occur at random times and, particularly in the field of general insurance, the amounts of the claims are also random. By taking out an insurance policy, the insured parties relieve themselves of some of the risk involved by passing it on to insurers, in return for a stable series of payments – the premium. The insurance company must calculate the value of premium it should charge, which will be related to the total expenditure it is likely to have in fulfilling the conditions of the policies. In addition to this, the insurer must ensure it has sufficient funds, or reserves, in place to pay out claims when they arrive. In order to do this, they need to learn about not only the average amount to be paid out in any one year (which would be sufficient to determine the basic premium amount), but also about the whole distribution of the aggregate claim for the year. This study deals with the claims reserving of health portfolio. The study aims at estimating the probabilities that can be associated with a claim, so that reserve can be created. This study uses simulation technique to estimate the reserve.