

## LIST OF CONTENTS

<b>TITLE PAGE</b>	<b>i</b>
<b>HALAMAN PENGESAHAN</b>	<b>ii</b>
<b>HALAMAN PERNYATAAN</b>	<b>iii</b>
<b>HALAMAN PERSEMBAHAN</b>	<b>iv</b>
<b>HALAMAN MOTTO</b>	<b>v</b>
<b>PREFACE</b>	<b>vi</b>
<b>TABLE OF CONTENTS</b>	<b>ix</b>
<b>LIST OF TABLES</b>	<b>xii</b>
<b>LIST OF FIGURES</b>	<b>xiii</b>
<b>NOMENCLATURE</b>	<b>xiv</b>
<b>INTISARI</b>	<b>xv</b>
<b>ABSTRACT</b>	<b>xvi</b>
<b>I INTRODUCTION</b>	<b>1</b>
1.1. Research Background	1
1.2. Research Objective	3
1.3. Research Questions	4
1.4. Research Limitations	4
1.5. Literature Review	5
1.6. Research Method	6
1.7. Research Structure	6
<b>II GROUND THEORIES</b>	<b>8</b>
2.1. General Insurance	8
2.2. Random Variable	9
2.2.1. Joint Probability Distribution	11
2.2.2. Marginal Probability Distribution	12
2.2.3. Conditional Probability Distribution	12
2.2.4. Mean	13
2.2.5. Variance	14
2.2.6. Covariance	15
2.2.7. Correlation	16
2.3. Confidence Interval	17
2.4. Distributions used in the research	17
2.4.1. Normal Distribution	18

2.4.2.	Uniform Distribution . . . . .	20
2.5.	Generalized Linear Model (GLM) . . . . .	21
2.5.1.	Model Assumptions . . . . .	22
2.5.2.	Likelihood and Maximum Likelihood . . . . .	23
2.5.3.	Exponential Family . . . . .	23
2.5.4.	Link Function . . . . .	25
2.5.5.	GLM Model Building . . . . .	25
2.5.6.	AIC and BIC . . . . .	26
2.6.	Bayesian Estimation . . . . .	27
2.6.1.	Prior distribution . . . . .	27
2.6.2.	Model distribution . . . . .	28
2.6.3.	Joint distribution . . . . .	28
2.6.4.	Marginal distribution . . . . .	28
2.6.5.	Posterior distribution . . . . .	28
2.7.	Bayesian Inference . . . . .	29
<b>III</b>	<b>BAYESIAN GLM AS A PRICING TOOL . . . . .</b>	<b>31</b>
3.1.	Bayesian GLM . . . . .	31
3.1.1.	Overview of the Bayesian GLM methodology . . . . .	31
3.1.2.	Prior Distribution Specification . . . . .	32
3.1.3.	Three Period Pricing Principle . . . . .	33
3.2.	Building a Bayesian GLM Model with Python . . . . .	35
3.3.	Markov Chain Monte Carlo (MCMC) Simulation . . . . .	36
3.3.1.	Hamiltonian Monte Carlo (HMC) . . . . .	36
3.3.2.	No-U-Turn Hamiltonian Monte Carlo . . . . .	38
3.4.	Posterior Analysis . . . . .	41
3.4.1.	R-Hat ( $\hat{R}$ ) . . . . .	41
3.4.2.	Effective Sample Size (ESS) . . . . .	43
3.4.3.	Monte Carlo Standard Error (MCSE) . . . . .	44
<b>IV</b>	<b>RESULT AND DISCUSSION . . . . .</b>	<b>45</b>
4.1.	Exploratory Data Analysis . . . . .	45
4.1.1.	Data Description and Characteristics . . . . .	45
4.1.2.	Distribution fitting . . . . .	46
4.1.3.	Data cleaning . . . . .	48
4.2.	Prior Distribution Specifications . . . . .	49
4.2.1.	Frequency Model . . . . .	49
4.2.2.	Severity Model . . . . .	49

4.3. Implementation of Bayesian GLM . . . . .	50
4.3.1. Prior Model with pre-expansion data . . . . .	50
4.3.2. Bayesian GLM Model . . . . .	52
4.4. Comparing the Bayesian GLM Model with Traditional GLM Model	53
4.4.1. Frequency Model . . . . .	54
4.4.2. Severity Model . . . . .	56
4.5. Differences in results of each model . . . . .	56
4.6. Pure premium calculation with Bayesian GLM . . . . .	57
4.7. Further Discussions on Bayesian GLM . . . . .	59
<b>V SUMMARY AND RECOMMENDATIONS . . . . .</b>	<b>62</b>
5.1. Conclusion . . . . .	62
5.2. Recommendations . . . . .	63
<b>A BAYESIAN GLM: FREQUENCY MODEL SYNTAX . . . . .</b>	<b>70</b>
<b>B BAYESIAN GLM: SEVERITY MODEL SYNTAX . . . . .</b>	<b>72</b>
<b>C POSTERIOR PLOT FOR FREQUENCY MODEL . . . . .</b>	<b>75</b>
<b>D POSTERIOR PLOT FOR SEVERITY MODEL . . . . .</b>	<b>77</b>