

# The one-year non-life insurance risk

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## Abstract

With few exceptions, the literature on non-life insurance reserve risk has been devoted to the *ultimo risk*, the risk in the full run-off of the liabilities. This is in contrast to the short time horizon in models for the total risk of the insurance company, and in particular the *one-year risk* perspective taken in the Solvency II project, and in the computation of risk margins with the Cost-of-Capital method. This paper aims at clarifying the methodology for the one-year risk; in particular we describe a simulation approach to the one-year reserve risk. We also discuss the one-year *premium risk* and the premium reserve. Finally, we initiate a discussion on the role of risk margins and discounting for the reserve and premium risk.<sup>1</sup>

## Keywords

Reserve risk, premium risk, Solvency II, IFRS 4 phase II, risk margin, Dynamic Financial Analysis, stochastic reserving.

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