

Title:

On credit and surrender risks in insurance companies

Topic:

Asset/Liability Management (ALM)

Authors:

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Abstract:

What is done in this article is: 1) the first paper where a model of surrender risk is constructed in order to anticipate the potential default risk of insurance companies. Indeed, bank runs have been studied a lot in the economics literature but not their insurance counterparts. The current global economic situation could make these events occur. Our paper aims at explaining that, and at giving the tools to avoid it. 2) the construction of a fully mathematically-equipped representation of dynamic insurance company balance sheets. 3) a model which relates mathematically a company's assets to the number of insured who have not yet surrendered, and which therefore relates surrender and default risks. 4) a numerical illustration that shows how surrender risk impacts default risk, and what can be done to limit the occurrence of these situations.