Prof. Dr. Oskar Goecke
Institut für Versicherungswesen
Fachhochschule Köln

Title: „The group balanced concept of long term saving: A continuous time model”

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Abstract:

Gollier (*Intergenerational risk sharing and risk taking of a pension fund*, 2006) has shown that pension funds can provide additional benefit (utility) for consumers by intergenerational risk sharing and risk taking. This is effected by the pension fund’s ability to build up and melt down a collective reserve, i.e. unallocated assets.

Inspired by the traditional German with-profit life insurance contract the author develops a simple continuous time model to analyse the intergenerational risk transfer and to measure the wealth effect. The model gives for a deeper understanding of the life insurers’ asset-liability management process and allows for calculating ‘correct’ surrender values. These rather theoretical results underpin empirical evidence presented by *Albrecht* (*Die Kapitalanlageperformance der deutschen Lebensversicherer 1980-2007*, 2008) for the German life insurance market. As a practical consequence the author suggests a new approach to with-profit life policies that

- provide full transparency of the profit participation process,
- minimize the need to purchase (expensive) guaranties from outside,
- thereby minimizing the capital requirement and the need to serve equity capital,
- provide ‘market-consistent’ long-term guaranties for consumers.