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APPLIED SECTION

Lapse rate modeling: a rational expectation approach

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JEL Classification Codes: G21 G22

Notes

1. We need to further assume some smoothness and integrability conditions.

2. Specifying the condition at r=0 is a delicate issue. Zvan et al. (1998) let the partial differential equation be satisfied at that boundary. Barone-Adesi et al. (2003) use a Neumann boundary condition. Having experimented both alternatives, we align with Zvan et al. (1998)'s choice which seems to be more robust.

3. A better solution would be to let θ^{l} depend on some economic indicators giving information about the financial difficulties of the policyholders such as the unemployment rate, rather than keeping it constant (see Kuo et al. 2003, Kim 2005). However, the introduction of such variables considerably affects the simplicity of the model, since a new source of risk that cannot be hedged away should be taken into account.

Source: Informa UK Limited

The Effect of Risk Aversion and Loss Aversion on Equity-Linked Life Insurance With Surrender Guarantees

Source: Elsevier BV

Main Determinants of Lapse in the German Life Insurance Industry

Source: Informa UK Limited

Incorporation of Stochastic Policyholder Behavior in Analytical Pricing of GMABs and GMDBs

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