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Scandinavian Actuarial Journal > Volume 1994, 1994 - Issue 1

194 96

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Original Article

# Pricing of Unit-linked Life Insurance Policies

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## Abstract

The key feature of unit-linked or equity-linked life insurance policies is the uncertain value of the future insurance benefit. By issuing unit-linked insurances that guarantees the policy-holder a minimum benefit, the insurance company is exposed to financial risk. The value of the insurance benefit is assumed to be a function of a particular stochastic process. We use the financial theory of arbitrage pricing and martingale theory to derive single premiums for different policies. We derive risk-minimizing trading strategies describing how the issuing company can reduce financial risk. We derive a partial differential equation for the market value of the premium reserve which

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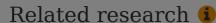
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