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Natural Hedging of Life and Annuity Mortality Risks

Samuel H. Cox FSA, MAAA, PhD & Yijia Lin PhD

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Abstract

The values of life insurance and annuity liabilities move in opposite directions in response to a change in the underlying mortality. Natural hedging utilizes this to stabilize aggregate liability cash flows. We find empirical evidence that suggests that annuity writing insurers who have more balanced business in life and annuity risks also tend to charge lower premiums than otherwise similar insurers. This indicates that insurers who have a natural hedge have a competitive advantage. In addition, we show how a mortality swap might be used to provide the benefits of natural hedging.

Related Research Data

Securitization of Mortality Risks in Life Annuities

Source: Journal of Risk & Insurance

Risk Overhang and Market Behavior

Source: The Journal of Business

Reinsurance and the liability insurance crisis

Source: Journal of Risk and Uncertainty

Approaches and Experiences in Projecting Mortality Patterns for the Oldest-Old

Source: North American Actuarial Journal

Historical and Projected Mortality for Mexico, Canada, and the United States

Source: North American Actuarial Journal

Theory of Rational Option Pricing

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On The Pricing of Intermediated Risks: Theory and Application to Catastrophe

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