Analyzing the effect of low interest rates on the surplus participation of life insurance policies with different annual interest rate guarantees

Abstract:
We analyze the effects of a prevailing low interest rates regime on investment decisions of insurance companies and on the risk/return profile of participating life insurance policies with different contractually guaranteed minimum annual return. Our analysis is based on German legislation and a stylized insurance company with two cohorts of insured persons having different minimal return guarantees. Our findings shed some light on the non-trivial interrelation between profit distribution, minimum guarantees, and resulting profitability for the different cohorts. Moreover, we investigate the complex role of the risk reserve that allows insurance companies to redistribute profits in time and, less obviously, also between the cohorts.

Intellectual Contribution:
Discipline-based Research

Zeitschriftentitel:
European Actuarial Journal

Journal gelistet in FT45 Ranking:
nein

Jahr:
2015

Band: