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Hedging of Insurance Contracts

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Abstract

Is the timing of liabilities (e.g. the IBNR case) irrelevant to investment decisions in an insurance company? This question is approached by using the theoretical work on separation of hedging and investments, by Phil. Dybvig, Washington University.

Even in the extreme case of independence between claim developments and movements in the financial markets, the assumption of constant insurers' absolute measure of risk aversion is necessary for a positive answer to the initial question.

Implications for the organization of information flows between actuaries and investment officers are considered.