Insuring Non-Verifiable Losses: Comments

David L. Eckles\textsuperscript{1}

\textsuperscript{1}University of Georgia

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Consider a model of non-verifiable (by the court) losses and show...
  - optimal insurance contract has a deductible and upper limit,
  - single-period contracts provide more “enforcement” than multi-period contracts, and
  - brokers can benefit policyholders.

Other implications of model results:
  - Cost of insurance is positively related to policyholder’s probability of default.
  - Cost of insurance high severity/low frequency events is higher than low severity/high frequency events.
  - Capital is necessary to underwrite new business.
From Alex’s CV:
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**Dissertation Supervision**
From Alex’s CV:

<table>
<thead>
<tr>
<th>Year</th>
<th>Dissertation Supervisor</th>
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</thead>
<tbody>
<tr>
<td>2002</td>
<td>Marie E. Lachance (San Diego State Uni)</td>
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<tr>
<td>2003</td>
<td>David Eckles (University of Georgia)</td>
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<tr>
<td>2003</td>
<td>David McCarthy (Imperial College London)</td>
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</tbody>
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And, Neil was my dissertation co-chair!
Minor issues:

- Move some of second section to the introduction.
- The “replacement cost” example is not exactly correct:
  - If firms replace property with something else, insurers will still limit recovery to amount spent or what they deem to be the replacement cost.
Modelling question: Why does the total insurer profit (“present value of the future rent from continued business”) have to be greater than the maximum claim payment (of one year)?

- Why not present value of total claim payments (plus a loading)?

As written now, the premium is \( P = E[I(L)] + rl^{max} \)

- For an insured with a $500,000 house, a probability of loss of 1%, and with a discount rate of 5%, the premium is $5,000 + $25,000 = $30,000 (assuming full insurance).