COURSE ECO3054 INSTRUCTOR Luke Boosey

TODAY'S SUBJECT Insurance: Multiple Loss Model DATE 3/7/17

- Deductible Contracts

→ A deductible contract is one where the insurance company pays nothing for losses below some specified amount D (the deductible), but agrees to pay full coverage on any losses incurred in excess of D

* The level of coverage or indemnity is given by

$$C = \begin{cases} 0 & \text{for } L \le D \\ L - D & \text{for } L > D \end{cases}$$

* A contract with $D = 0$ corresponds to full insurance ($C = L$)
* A contract w/ $D = L_m$ corresponds to no insurance: the consumer is responsible for any loss they incur

→ The policy is defined by $D \in [0, L_m]$ and a premium amount P

* For a coinsurance contract, the premium amount is a total price for the policy, rather than a premium rate multiplied by the amount of coverage (since coverage is now variable)
* Insurance policies w/ deductibles are so much more common than coinsurance contracts.

- Level of Coverage

→ Plot the amount of coverage for each policy/contract as a function of actual loss L