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## **Insurance Risk and Ruin**

The focus of this book is on the two major areas of risk theory: aggregate claims distributions and ruin theory. For aggregate claims distributions, detailed descriptions are given of recursive techniques that can be used in the individual and collective risk models. For the collective model, different classes of counting distribution are discussed, and recursion schemes for probability functions and moments presented. For the individual model, the three most commonly applied techniques are discussed and illustrated. The book is based on the author's experience of teaching final-year actuarial students in Britain and Australia, and is suitable for a first course in insurance risk theory. Care has been taken to make the book accessible to readers who have a solid understanding of the basic tools of probability theory. Numerous worked examples are included in the text and each chapter concludes with a set of exercises for which outline solutions are provided.

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DAVID C. M. DICKSON

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UNIVERSITY PRESS

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[More information](#)

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE  
 The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS  
 The Edinburgh Building, Cambridge CB2 2RU, UK  
 40 West 20th Street, New York, NY 10011–4211, USA  
 477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
 Ruiz de Alarcón 13, 28014 Madrid, Spain  
 Dock House, The Waterfront, Cape Town 8001, South Africa

<http://www.cambridge.org>

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First published 2005

Printed in the United Kingdom at the University Press, Cambridge

*Typeface* Times 10/13 pt.     *System* L<sup>A</sup>T<sub>E</sub>X 2<sub>ε</sub> [TB]

*A catalogue record for this book is available from the British Library*

*Library of Congress Cataloguing in Publication data*

Dickson, D. C. M. (David C. M.), 1959–  
 Insurance risk and ruin / David C.M. Dickson.

p. cm. – (The international series on actuarial science)  
 Includes bibliographical references and index.

ISBN 0 521 84640 4 (alk. paper)

1. Insurance – Mathematics. 2. Risk (Insurance – Mathematical models.

I. Title. II. Series.

HG8781.D53 2004

368:01–dc22 2004054520

ISBN 0 521 84640 4 hardback

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Cambridge University Press  
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[More information](#)

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To Robert and Janice

Contents

<i>Preface</i>	<i>page xi</i>
<b>1 Probability distributions and insurance applications</b>	<b>1</b>
1.1 Introduction	1
1.2 Important discrete distributions	2
1.3 Important continuous distributions	5
1.4 Mixed distributions	9
1.5 Insurance applications	11
1.6 Sums of random variables	18
1.7 Notes and references	23
1.8 Exercises	24
<b>2 Utility theory</b>	<b>27</b>
2.1 Introduction	27
2.2 Utility functions	27
2.3 The expected utility criterion	28
2.4 Jensen’s inequality	29
2.5 Types of utility function	31
2.6 Notes and references	36
2.7 Exercises	36
<b>3 Principles of premium calculation</b>	<b>38</b>
3.1 Introduction	38
3.2 Properties of premium principles	38
3.3 Examples of premium principles	39
3.4 Notes and references	50
3.5 Exercises	50
<b>4 The collective risk model</b>	<b>52</b>
4.1 Introduction	52

viii	<i>Contents</i>	
4.2	The model	53
4.3	The compound Poisson distribution	56
4.4	The effect of reinsurance	59
4.5	Recursive calculation of aggregate claims distributions	64
4.6	Extensions of the Panjer recursion formula	72
4.7	The application of recursion formulae	79
4.8	Approximate calculation of aggregate claims distributions	83
4.9	Notes and references	89
4.10	Exercises	89
<b>5</b>	<b>The individual risk model</b>	<b>93</b>
5.1	Introduction	93
5.2	The model	93
5.3	De Pril's recursion formula	94
5.4	Kornya's method	97
5.5	Compound Poisson approximation	101
5.6	Numerical illustration	105
5.7	Notes and references	108
5.8	Exercises	108
<b>6</b>	<b>Introduction to ruin theory</b>	<b>112</b>
6.1	Introduction	112
6.2	A discrete time risk model	113
6.3	The probability of ultimate ruin	114
6.4	The probability of ruin in finite time	118
6.5	Lundberg's inequality	120
6.6	Notes and references	123
6.7	Exercises	123
<b>7</b>	<b>Classical ruin theory</b>	<b>125</b>
7.1	Introduction	125
7.2	The classical risk process	125
7.3	Poisson and compound Poisson processes	127
7.4	Definitions of ruin probability	129
7.5	The adjustment coefficient	130
7.6	Lundberg's inequality	133
7.7	Survival probability	135
7.8	The Laplace transform of $\phi$	138
7.9	Recursive calculation	142
7.10	Approximate calculation of ruin probabilities	151

Cambridge University Press  
0521846404 - Insurance Risk and Ruin  
David C. M. Dickson  
Frontmatter  
[More information](#)

*Contents* ix

7.11	Notes and references	153
7.12	Exercises	154
<b>8</b>	<b>Advanced ruin theory</b>	<b>157</b>
8.1	Introduction	157
8.2	A barrier problem	157
8.3	The severity of ruin	158
8.4	The maximum severity of ruin	163
8.5	The surplus prior to ruin	165
8.6	The time of ruin	172
8.7	Dividends	180
8.8	Notes and references	186
8.9	Exercises	187
<b>9</b>	<b>Reinsurance</b>	<b>190</b>
9.1	Introduction	190
9.2	Application of utility theory	190
9.3	Reinsurance and ruin	194
9.4	Notes and references	205
9.5	Exercises	206
	<i>References</i>	208
	<i>Solution to exercises</i>	211
	<i>Index</i>	227

## Preface

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This book is designed for final-year university students taking a first course in insurance risk theory. Like many textbooks, it has its origins in lectures delivered in university courses, in this case at Heriot-Watt University, Edinburgh, and at the University of Melbourne. My intention in writing this book is to provide an introduction to the classical topics in risk theory, especially aggregate claims distributions and ruin theory.

The prerequisite knowledge for this book is probability theory at a level such as that in Grimmett and Welsh (1986). In particular, readers should be familiar with the basic concepts of distribution theory and be comfortable in the use of tools such as generating functions. Much of Chapter 1 reviews distributions and concepts with which the reader should be familiar. A basic knowledge of stochastic processes is helpful, but not essential, for Chapters 6 to 8. Throughout the text, care has been taken to use straightforward mathematical techniques to derive results.

Since the early 1980s, there has been much research in risk theory in computational methods, and recursive schemes in particular. Throughout the text, recursive methods are described and applied, but a full understanding of such methods can only be obtained by applying them. The reader should therefore be prepared to write some (short) computer programs to tackle some of the examples and exercises.

Many of these examples and exercises are drawn from materials I have used in teaching and examining, so the degree of difficulty is not uniform. At the end of the book, some outline solutions are provided, which should allow the reader to complete the exercises, but in many cases a fair amount of work (and thought!) is required of the reader. Teachers can obtain full model solutions by emailing [solutions@cambridge.org](mailto:solutions@cambridge.org).

Some references are given at the end of each chapter for the main results in that chapter, but it was not my intention to provide comprehensive references,



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[More information](#)

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and readers are therefore encouraged to review the papers and books I have cited and to investigate the references therein.

Work on this book started during study leave at the University of Copenhagen in 1997 and, after much inactivity, was completed this year on study leave at the University of Waterloo and at Heriot-Watt University. I would like to thank all those at these three universities who showed great hospitality and provided a stimulating working environment. I would also like to thank former students at Melbourne: Jeffrey Chee and Kee Leong Lum for providing feedback on initial drafts, and Kwok Swan Wong who devised the examples in Section 8.6.3. Finally, I would like to single out two people in Edinburgh for thanks. First, this book would not have been possible without the support and encouragement of Emeritus Professor James Gray over a number of years as teacher, supervisor and colleague. Second, many of the ideas in this book come from joint work with Howard Waters, both in teaching and research, and I am most appreciative of his support and advice.

David C.M. Dickson  
Melbourne, August 2004