"Dynamic Hybrid Products in Life Insurance: Assessing the Policyholders' Viewpoint"

By Nandine Gatzert  
  
"Dynamic hybrid life insurance products are intended to meet new consumer needs regarding stability in terms of guarantees as well as sufficient upside potential. In contrast to traditional participating or classical unit-linked life insurance products, the guarantee offered to the policyholders is achieved by a periodical rebalancing process between three funds: the policy reserves (i.e. the premium reserve stock, thus causing interaction effects with traditional participating life insurance contracts), a guarantee fund, and an equity fund. In this paper, we consider an insurer offering both, dynamic hybrid and traditional participating life insurance contracts and focus on the policyholdersʼ perspective. The results reveal considerable interaction effects between the two contract types within the portfolio that strongly depend on the portfolio composition, thereby emphasizing merits as well as risks associated with offering dynamic hybrids.  
In addition, we finde that higher guarantees do not necessarily imply a higher willingness-to-pay, but that in case of dynamic hybrid contracts, a minimum guarantee level should be offered in order to ensure that the willingness-to-pay exceeds the minimum premium the insurer has to charge when selling the contract. In addition, strong interaction effects can be found between the two products, which particularly impact the willingness-to-pay of the dynamic hybrids."