



SEMINAR

Optimal Insurance for Prudent Risk-Averters and Risk-Lovers

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In this paper, we examine the structure of optimal insurance contracts for a broad class of insureds that includes both risk averters and risk lovers and by assuming that the insureds are prudent. We specify the difference in optimal contract form between risk averters and risk lovers. Treating these decision-makers as a unique group, we show that the optimal insurance form is dual limited stop-loss insurance with an upper limit, which shows that including risk lovers changes the contract in the small loss part. We restrict our study to contracts with a concave payoff, where the optimal contract form reduces to limited change-loss insurance or limited dual change-loss insurance depending on the coefficient of variation of the retained loss. Finally, we show the optimality of these contracts in the presence of a background risk.