

The benefit of the diversification is to eliminate the idiosyncratic risks. However, there is a limit of diversification.

Under the situation like the financial crisis, every asset in the market goes down and the effect of the diversification is likely to decline. Improving the portfolio doesn't work well.

The hedging is the only effective against the downside risk, which means that they cannot treat the upside risk.

However, in terms of the insurance, we need to consider the upside risk as well as the downside risk. Insurance is a kind of "Dynamic hedging", which means that we need to adjust the allocation of the assets according to the market situation.