Feldblum Asset:

P&C

Liabilities: Inflation sensitive, so shorter duration than nominal

Fixed-income bond- longer the duration, higher the yields with upward sloping yield curve. Thus using short-term bond reduce yields

Common stock: inflation sensitive similar to liabilities, subject to market risk

No Segmentation of funds, expect steady premium inflow without disintermediation problem like life.

Resources of Losses/Expenses is insurance cashflow, not liquidation/sale of assets

Amortized Value fluctuate less on accounting, but has more risk if mark to market. P&C’s shorter duration requires bonds to be liquidated to meet liability. Changes in market value will be reflected and more risk is introduced than life.

Cashflow Matching Disadvantages: Inefficient, Costly, Cumbersome, Nearly impossible

Duration Matching: Holding horizon duration MACAULAY DURATION!

Calculation of liability duration: payment pattern and discounted at new money interest rate

Common Stock Duration:

Traditional: Formula driven indicates long duration

However, when interest rate changes, common stock first decrease then increase—Three effects going on

1. Value: real value stays, nominal increases if inflation and interest increases
2. Supply Demand: Supply push and Demand pull influence value of firms. If demand doesn’t increase, value will decline
3. Demand for stocks decreases when interest goes up for higher rates.

Duration Matching: more cost effective , and has less constraints on selection of investment portfolio.

Cash-flow: immune to interest rate yield curve changes

Noris

Only Mkt value surplus use discounting of losses; the other two methods not

**Keeping investment immune to inflation:**

* Real assets, common stock : but introduce other volatility
* Roll over investment quickly: departure of duration matching
* Over-estimate reserve intentionally