# DEPENDENCY OF RISKS AND STOP-LOSS ORDER[1]

Jan Dhaene[2] and Marc J. Goovaerts[3]

## Abstract

The correlation order, which is defined as a partial order between bivariate distributions with equal marginals, is shown to be a helpfull tool for deriving results concerning the riskiness of portfolios with pairwise dependencies. Given the distribution functions of the individual risks, it is investigated how changing the dependency assumption influences the stop-loss premiums of such portfolios.

## Keywords

Dependent risks; Bivariate distributions; Correlation order; Stop-loss order.

## 1. Introduction

Consider the individual risk theory model with the total claims of the portfolio during some reference period (e.g. one year) given by

$$S = \sum_{i=1}^{n} X_i \qquad (1)$$

where $X_i$ is the claim amount caused by policy $i$ ($i = 1, 2, ..., n$). In the sequel we will always assume that the individual claim amounts $X_i$ are nonnegative random variables and that the distribution functions $F_i$ of $X_i$ are given.

Usually, it is assumed that the risks $X_i$ are mutually independent because models without this restriction turn out to be less manageable. In this paper we will derive results concerning the aggregate claims $S$ if the assumption of mutually independence is relaxed. More precisely, we will assume that the portfolio contains a number of couples (e.g. wife and husband) with non-independent risks. Therefore, we will rearrange and rewrite (1) as

$$S = \sum_{i=1}^{m} (X_{2i-1} + X_{2i}) + \sum_{i=2m+1}^{n} X_i \qquad (2)$$

with $m$ the number of coupled risks. For any $i$ and $j$ ($i, j = 1, 2, \ldots n; i \neq j$) we assume that $X_i$ and $X_j$ are independent risks, except if they are members of the same couple $(X_{2k-1}, X_{2k})$, ($k = 1, 2, \ldots, m$). The class of all multivariate random variables $(X_1, \ldots, X_n)$ with given marginals $F_i$ of $X_i$ and with the pairwise dependency structure as explained above, will be denoted by $R(F_1, \ldots, F_n)$.

It is clear that for any $(X_1, \ldots, X_n)$ belonging to $R(F_1, \ldots, F_n)$, the riskiness of the aggregate claims $S = X_1 + \ldots + X_n$ wil be strongly dependent on the way of dependency between the members of couples.

In order compare the riskiness of the aggregate claims of different elements of $R(F_1, \ldots, F_n)$, we will use the stop-loss order.

**Definition 1** *A risk $S_1$ is said to precede a risk $S_2$ in stop-loss order, written $S_1 \leq_{sl} S_2$, if their stop-loss premiums are ordered uniformly:*

$$E(S_1 - d)_+ \leq E(S_2 - d)_+$$

*for all retentions $d \geq 0$.*

Let $(X_1, \ldots, X_n)$ and $(Y_1, \ldots, Y_n)$ be two elements of $R(F_1, \ldots, F_n)$. and denote their respective sums by

$$S_1 = \sum_{i=1}^{m} (X_{2i-1} + X_{2i}) + \sum_{i=2m+1}^{n} X_i$$

and

$$S_2 = \sum_{i=1}^{m} (Y_{2i-1} + Y_{2i}) + \sum_{i=2m+1}^{n} Y_i$$

We want to find ordering relations between the corresponding couples of $S_1$ and $S_2$ which imply a stop-loss order for $S_1$ and $S_2$. More precisely, we are looking for a partial order $\leq_{ord}$ between bivariate distributed random variables which has the following property:

$$(X_{2k-1}, X_{2k}) \leq_{ord} (Y_{2k-1}, Y_{2k}) \qquad (k = 1, 2, \ldots, m) \tag{3}$$

implies

$$S_1 \leq_{sl} S_2 \tag{4}$$

A well-known property of stop-loss ordering is that it is preserved under convolution of independent risks, see e.g. Goovaerts et al. (1990). Hence, a sufficient condition for (4) to be true is

$$X_{2k-1} + X_{2k} \leq_{sl} Y_{2k-1} + Y_{2k} \qquad (k = 1, 2, \ldots, m) \tag{5}$$

So it follows immediately that we can restrict ourselves to the following problem: Find a partial order $\leq_{ord}$ between bivariate distributed random variables $(X_1, X_2)$ and $(Y_1, Y_2)$ with the same marginal distributions, for which the following property holds:

$$(X_1, X_2) \leq_{ord} (Y_1, Y_2) \tag{6}$$

implies

$$X_1 + X_2 \leq_{sl} Y_1 + Y_2 \tag{7}$$

It is clear that an ordering $\leq_{ord}$ for which (6) implies (7) will immediately lead to a solution of the problem described by (3) and (4).

Part of the results in this paper are generalisations of results in Dhaene et al. (1995) where the individual life model is considered, i.e. the case where each individual risk has a two-point distribution in zero and some positive value.

## 2. A PARTIAL ORDER FOR BIVARIATE DISTRIBUTIONS

### 2.1. Correlation order

Let $R(F_1, F_2)$ be the class of all bivariate distributed random variables with given marginals $F_1$ and $F_2$. For any $(X_1, X_2) \in R(F_1, F_2)$ we have

$$F_1(x) = Prob(X_1 \leq x) \qquad F_2(x) = Prob(X_2 \leq x)$$

We also introduce the following notation for the bivariate distribution function:

$$F_{X_1, X_2}(x_1, x_2) = Prob(X_1 \leq x_1, X_2 \leq x_2)$$

In the sequel we will always restrict ourselves to the case of non-negative risks. Futher, if we use stop-loss premiums or covariances, we will always silently assume that they are well-defined.

Now let $(X_1, X_2)$ and $(Y_1, Y_2)$ be two elements of $R(F_1, F_2)$. In order to investigate an order between these bivariate distributed random variables which implies stop-loss order for $X_1 + X_2$ and $Y_1 + Y_2$, we could start by comparing $Cov(X_1, X_2)$ and $Cov(Y_1, Y_2)$. At first sight, one could consider the following inequality

$$Cov(X_1, X_2) \leq Cov(Y_1, Y_2) \tag{8}$$

and investigate wether this implies

$$X_1 + X_2 \leq_{sl} Y_1 + Y_2 \tag{9}$$

Although it is customary to compute covariances in relation with dependency considerations, one number alone cannot reveal the nature of dependency adequately, and hence (8) will not imply (9) in general, a counterexample is given in Dhaene et al. (1995). However, in the special case that $F_1$ and $F_2$ are two-point distributions with zero and some positive value as mass points, (8) and (9) are equivalent, see also Dhaene et al. (1995).

Instead of comparing $Cov(X_1, X_2)$ and $Cov(Y_1, Y_2)$ one could compare $Cov(f(X_1), g(X_2))$ with $Cov(f(Y_1), g(Y_2))$ for all non-decreasing functions $f$ and $g$, see e.g. Barlow et al. (1975).

**Definition 2** *Let $(X_1, X_2)$ and $(Y_1, Y_2)$ be elements of $R(F_1, F_2)$. Then we say that $(X_1, X_2)$ is less correlated than $(Y_1, Y_2)$, written $(X_1, X_2) \leq_c (Y_1, Y_2)$, if*

$$Cov(f(X_1), g(X_2)) \leq Cov(f(Y_1), g(Y_2)) \tag{10}$$

*for all non-decreasing functions f and g for which the covariances exist.*

The correlation-order is a partial order over joint distributions in $R(F_1, F_2)$ and expresses the idea that two random variables with given marginals are more 'positively dependent' or 'positively correlated' when they have some joint distribution than som other one.

### 2.2. An alternative definition

In this subsection we will derive an alternative definition for the correlation order introduced above. First, we will recall and prove a lemma contained in Hoeffding (1940), which we will need for the derivation of the alternative definition, see also Jodgeo (1982), p. 326. The proof will be repeated here because it is instructive for what follows.

**Lemma 1** *For any $(X_1, X_2) \in R(F_1, F_2)$ we have*

$$Cov(X_1, \ X_2) = \int_0^\infty \int_0^\infty (F_{X_1, X_2}(u, \ v) - F_1(u)F_2(v))dudv \qquad (11)$$

**Proof:** Let $I$ denote the indicator function, then the following well-known identity holds

$$x - z = \int_0^\infty \{I(z \le u) - I(x \le u)\}du \qquad (x, \ z \ge 0) \qquad (12)$$

Hence, for $x_1, x_2, z_1, z_2 \ge 0$ we find
$(x_1 - z_1)(x_2 - z_2) =$

$$\int_0^\infty \int_0^\infty \{I(z_1 \le u)I(z_2 \le v) + I(x_1 \le u)I(x_2 \le v)$$
$$-I(z_1 \le u)I(x_2 \le v) - I(x_1 \le u)I(z_2 \le v)\}dudv \qquad (13)$$

Now let $(X_1, X_2)$ and $(Z_1, Z_2)$ be independent identically distributed pairs, then we have

$$2 \ Cov(X_1, \ X_2) = E((X_1 - Z_1)(X_2 - Z_2))$$

so that we find (11) from (13).                                    Q.E.D

Now we are able to state an equivalent definition for the correlation order considered in definition 2.

**Theorem 1** *Let $(X_1, X_2)$ and $(Y_1, Y_2)$ be elements of $R(F_1, F_2)$. Then the following statements are equivalent:*

(a)    $(X_1, X_2) \le_c (Y_1, Y_2)$

(b)    $F_{X_1, X_2}(x_1, x_2) \le F_{Y_1, Y_2}(x_1, x_2)$    *for all $x_1, x_2 \ge 0$*

**Proof:**    Assume that (a) holds and choose $f(u) = I(u > x_1)$ and $g(u) = I(u > x_2)$. Then we find from (10) that

$$E(I(X_1 > x_1, \ X_2 > x_2)) \le E(I(Y_1 > x_1, \ Y_2 > x_2))$$

or equivalently

$$Prob(X_1 > x_1, \ X_2 > x_2) \leq Prob(Y_1 > x_1, \ Y_2 > x_2)$$

from which (b) can easily be derived.

Now, suppose that (b) holds. It follows immediately that, for non-decreasing functions $f$ and $g$,

$$Prob(f(X_1) \leq x_1, \ g(X_2) \leq x_2) \leq Prob(f(Y_1) \leq x_1, \ g(Y_2) \leq x_2)$$

for all $x_1$, $x_2 \geq 0$, so that (a) follows as an immediate consequence of Lemma 1 and Definition 2. Q.E.D

Statement (b) in Theorem 1 asserts roughly that the probability that $X_1$ and $X_2$ both realize 'small' values is not greater than the probability that $Y_1$ and $Y_2$ both realize 'equally small' values, suggesting that $Y_1$ and $Y_2$ are more positively interdependent than $X_1$ and $X_2$. The statement (b) is equivalent with each of the following statements, each understood to be valid for all $x_1$ and $x_2$:

(c) $Prob(X_1 \leq x_1, \ X_2 > x_2) \geq Prob(Y_1 \leq x_1, \ Y_2 > x_2)$

(d) $Prob(X_1 > x_1, \ X_2 \leq x_2) \geq Prob(Y_1 > x_1, \ Y_2 \leq x_2)$

(e) $Prob(X_1 > x_1, \ X_2 > x_2) \leq Prob(Y_1 > x_1, \ Y_2 > x_2)$

Each of these statements can be interpreted similarly in terms of 'more positively interdependence' of $Y_1$ and $Y_2$. Hence, the equivalence of (a) and (b) in Theorem 1 has some intuitive interpretation.

References related to the correlation order defined above are Barlow et al. (1975), Cambanis et al. (1976) and Tchen (1980). For economic applications, see also Epstein et al. (1980) and Aboudi et al. (1993, 1995).

## 2.3. Correlation order and stop-loss order

In this subsection we will prove that the correlation order between bivariate distributions implies stop-loss order between the distributions of their sums.

**Lemma 2** *For any* $(X_1, X_2) \in R(F_1, F_2)$ *we have*

$$E(X_1 + X_2 - d)_+ = E(X_1) + E(X_2) - d + \int_0^d F_{X_1, X_2}(x, \ d - x)dx$$

**Proof:** We have that

$$E(X_1 + X_2 - d)_+ = E(X_1) + E(X_2) - d + E(d - X_1 - X_2)_+$$

For non-negative real numbers $x_1$ and $x_2$ the following equality holds

$$(d - x_1 - x_2)_+ = \int_0^d I(x_1 \leq x, x_2 \leq d - x)dx$$

so that

$$E(d - X_1 - X_2)_+ = \int_0^d E(I(X_1 \le x, X_2 \le d - x)dx$$

which proves the lemma.                                                    Q.E.D

Now we are able to stat the following result.

**Theorem 2** *Let* $(X_1, X_2)$ *and* $(Y_1, Y_2)$ *be two elements of* $R(F_1, F_2)$. *Then*

$$(X_1, \ X_2) \le_c (Y_1, \ Y_2)$$

*implies*

$$X_1 + X_2 \le_{sl} Y_1 + Y_2$$

**Proof:** The proof follows immediatly from Theorem 1 and Lemma 2.          Q.E.D

From Theorem 2 we conclude that the correlation order is a useful tool for comparing the stop-loss premiums of sums of two non-independent risks with equal marginals.

### 3. RISKIEST AND SAFEST DEPENDENCY BETWEEN TWO RISKS

Consider again the class $R(F_1, F_2)$ of all bivariate distributed random variables with given marginals $F_1$ and $F_2$ respectively. For every $(X_1, X_2)$ and $(Y_1, Y_2) \in R(F_1, F_2)$ we will compare their respective riskiness by comparing the stop-loss premiums of $X_1 + X_2$ and $Y_1 + Y_2$. More precisely, we will say that $(X_1, X_2)$ is less risky than $(Y_1, Y_2)$ if

$$X_1 + X_2 \le_{sl} Y_1 + Y_2$$

In this section we will look for the riskiest and the safest elements of $R(F_1, F_2)$. Use will be made of the following well-known result which is usually attributed to both Hoeffding and Fréchet, see e.g. Fréchet (1951).

**Lemma 3** *For any* $(X_1, X_2) \in R(F_1, F_2)$ *we have that*

$$max[F_1(x_1) + F_2(x_2) - 1; \ 0] \le F_{X_1 X_2}(x_1, x_2) \le min[F_1(x_1), \ F_2(x_2)] \qquad (14)$$

*The upper and lower bounds are themselves bivariate distributions with marginals* $F_1$ *and* $F_2$ *respectively.*

Now we can state the following result concerning the riskiest and the safest elements of $R(F_1, F_2)$.

**Theorem 3** *Let* $(Y_1, Y_2)$ *and* $(Z_1, Z_2)$ *be elements of* $R(F_1, F_2)$ *with distribution functions given by*

$$F_{Y_1, Y_2}(x_1, \ x_2) = max[F_1(x_1) + F_2(x_2) - 1; \ 0]$$

*and*

$$F_{Z_1, Z_2}(x_1, \ x_2) = min[F_1(x_1), \ F_2(x_2)]$$

*respectively. Then for any* $(X_1, X_2) \in R(F_1, F_2)$ *we have that*

$$Y_1 + Y_2 \leq_{sl} X_1 + X_2 \leq_{sl} Z_1 + Z_2$$

**Proof:** The inequalities follow immediately from Theorems 1 and 2 from
Lemma 3.                                                                Q.E.D

From Theorem 3 we can conclude that the random variables $(Y_1, Y_2)$ and $(Z_1, Z_2)$ are
safest and the riskiest elements of $R(F_1, F_2)$ respectively.

Let us now look at the special case that the two marginal distributions are equal.
From Theorem 3, we find that a most risky element in $R(F, F)$ is $(Z_1, Z_2)$ with

$$F_{Z_1, Z_2}(x_1, x_2) = min[F(x_1), F(x_2)] \tag{15}$$

which leads to

$$F_{Z_1, Z_2}(x, d - x) = \begin{cases} F(x) & \text{if } x \leq d/2 \\ F(d - x) & \text{if } x > d/2 \end{cases}$$

From Lemma 2 we find

$$E(Z_1 + Z_2 - d)_+ = E(Z_1) + E(Z_2) - d + \int_0^{d/2} F(x)dx + \int_{d/2}^d F(d - x)dx$$

$$= E(Z_1) + E(Z_2) - 2\int_0^{d/2} (1 - F(x))dx$$

$$= 2E(Z_1 - d/2)_+$$

so that we find the following corollary to Theorem 3.
**Corollary 1** *For any* $(X_1, X_2) \in R(F, F)$ *we have that*

$$E(X_1 + X_2 - d)_+ \leq 2E(X_1 - d/2)_+$$

*Furthermore, the upperbound is the stop-loss premium with retention d of* $Z_1 + Z_2$
*where* $(Z_1, Z_2) \in R(F, F)$ *with distribution function (15).*

Now assume that $F$ is an exponential distribution with parameter $\alpha \geq 0$.

i.e.                                  $F(x) = 1 - e^{-\alpha x}$     $x > 0$

Then we obtain from Corollary 1 that for any $(X_1, X_2) \in R(F, F)$, we have

$$E(X_1 + X_2 - d)_+ \leq 2\int_{d/2}^{\infty} (1 - F(x))dx = \frac{2}{\alpha} e^{-\alpha d/2} \tag{16}$$

This upperbound for the exponential case can be found in Heilmann (1986). He deri-
ved this result by using some techniques described in Meilijson et al. (1979). Heil-
mann also considers riskiest elements in $R(F_1, F_2)$ where $F_1$ and $F_2$ are exponential
distributions with different parameters. This result can also be found from our Lemma
2 and Theorem 3.

## 4. POSITIVE DEPENDENCY BETWEEN RISKS

In a great many situation, certain insured risks tend to act similarly. For instance, in group life insurance the remaining life-times of a husband and his wife can be shown to possess some 'positive dependency'. Several concepts of bivariate positive dependency have appeared in the mathematical literature, see Tong (1980) for a review, for actuarial applications see Norberg (1989) and Kling (1993). We will restrict ourselves to positive quadrant dependency.

**Definition 3** *The random variables $X_1$ and $X_2$ are said to be positively quadrant dependent, written $PQD(X_1, X_2)$, if*

$$Prob(X_1 \leq x_1, \ X_2 \leq x_2) \geq Prob(X_1 \leq x_1)Prob(X_2 \leq x_2)$$

*for al $x_1 \geq 0, x_2 \geq 0$.*

It is clear that $PQD(X_1, X_2)$ is equivalent with saying that $X_1$ and $X_2$ are more correlated (in the sense of Definition 2) than if they were independent.

Positive quadrant dependency can be defined in terms of covariances, as is shown in the following lemma, see also Epstein et al. (1980).

**Lemma 4** *Let $X_1$ and $X_2$ be two random variables. Then the following statements are equivalent:*

(a)     $PQD(X_1, X_2)$

(b)     $Cov(f(X_1), g(X_2)) \geq 0$ *for all non-decreasing real functions f and g for which the covariance exixts*

**Proof:** The result follows immediately from Definitions 1 and 3, and
            Theorem 1.                                                                    Q.E.D

Remark that $PQD(X_1, X_2)$ implies that $Cov(X_1, X_2) \geq 0$. Equality only holds if $X_1$ and $X_2$ are independent.

As is shown in the following theorem, the notion of positive quadrant dependency can be used for considering the effect of the independence assumption, when the risks are positively dependent actually.

**Theorem 4** *Let $(X_1, X_2)$ and $(Y_1^{ind}, Y_2^{ind}))$ be two elements of $R(F_1, F_2)$ with $PQD(X_1, X_2)$ and where $Y_1^{ind}$ and $Y_2^{ind}$ are mutualy independent. Then*

$$Y_1^{ind} + Y_2^{ind} \leq_{sl} X_1 + X_2$$

**Proof:** The result follows immediately from Theorems 1 and 2.                     Q.E.D

Theorem 4 states that when the marginal distributions are given, and when $PQD(X_1, X_2)$, then the independence assumption will always underestimate the actual stop-loss premiums.

Let us now consider the special case that $F_i$ is a two-point distribution in 0 and $\alpha_i > 0$ ($i = 1, 2$). For any $(X_1, X_2) \in R(F_1, F_2)$ with $Cov(X_1, X_2) \geq 0$, we have that

$$Pr(X_1 = \alpha_1, X_2 = \alpha_2) \geq Pr(X_1 = \alpha_1) \, Pr(X_2 = \alpha_2)$$

This inequality can be transformed into

$$Pr(X_1 = 0, X_2 = 0) \geq Pr(X_1 = 0) \, Pr(X_2 = 0)$$

from which we find

$$Pr(X_1 \leq x_1, X_2 \leq x_2) \geq Pr(X_1 \leq x_1) \, Pr(X_2 \leq x_2) \qquad x_1 \geq 0, x_2 \geq 0$$

We can conclude that in this special case $PQD(X_1, X_2)$ is equivalent with $Cov(X_1, X_2) \geq 0$.

From Theorem 4 we find that when the marginal distributions $F_i$ are given two-point distributions in 0 and $\alpha_i > 0$ ($i = 1, 2$) and when $Cov(X_1, X_2) \geq 0$, making the independence assumption will underestimate the actual stop-loss premiums. This result can also be found in Dhaene et al. (1995).

## 5. NUMERICAL EXAMPLE AND CONCLUDING REMARKS

As stipulated in Section 1 the results that we have derived for two risks can also be used for considering the riskiness of portfolios where the only non-independent risks can be classified into a given number of couples. Several theorems, together with the stop-loss preservation property for convolutions of independent risks, immediately lead to statements about the stop-loss premiums of such portfolios.

Take Theorem 4 as an example. Consider a portfolio with given distribution functions of the individual risks where the only non-independent risks appear in couples and where the risks of each couple are positive quadrant dependent. Then we find from Theorem 4 that taking the independence assumption will always lead to underestimated values for the stop-loss premiums of the portfolio under consideration.

Let us now illustrate the effect of introducing dependencies between risks in an insurance portfolio by a numerical example. We will use Gerber's (1979) life insurance portfolio wich is represented in the following table.

TABLE 1

GERBER'S PORTFOLIO

| claim probability | amount at risk | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 0.03 | 2 | 3 | 1 | 2 | - |
| 0.04 | - | 1 | 2 | 2 | 1 |
| 0.05 | - | 2 | 4 | 2 | 2 |
| 0.06 | - | 2 | 2 | 2 | 1 |

The portfolio consists of 31 risks. Each risk can either produce no claim or a fixed positive claim amount (the amount at risk) during a certain reference period. The claim probability is the probability that the risk produces a claim during the reference

period. The expectation of the aggregate claims equals 4.49. We label the risks from 1 to 31, row by row. Hence, risks 1 and 2 have claim probability 0.03 and a conditional claim amount (given that a claim occurs) equal to 1: risks 3, 4 and 5 have claim probability 0.03 and conditional claim amount 2, ... .

In Table 2 several independency assumptions for this portfolio are considered.

TABLE 2

DESCRIPTION OF SEVERAL INDEPENDENCY ASSUMPTIONS.

| | | situation | | |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| all | (1,2) | (24,31) | (1,2) | no |
| risks | (3,4) | 14,23) | (3,4) | indepen- |
| mutually | (5,6) | (29,30) | (5,6) | dency |
| indepen- | (7,8) | (21,22) | (7,8) | assump- |
| dent | | | (9,10) | tions |
| | | | (11,12) | |
| | | | (13,14) | |

In situation 1 it is assumed that all risks are mutually independent. Situation 2 corresponds to the case that the only couples that occur in the portfolio are (1, 2), (3, 4), (5, 6) and (7, 8). In situation 3 there are also 4 couples. Comparing situations 2 and 3, we see that in the latter case the couples have higher claim probabilities and higher conditional claim amounts. Situation 4 is an extension of situation 2 in the sense that it not only contains the couples of situation 2, but also some others. Finally, situation 5 corresponds to the case that no independency assumptions are made so that all risks can be dependent. The results that will be stated for this situation can be found in Dhaene et al. (1995).

In the following table the ratio (multiplied by 100) of the maximal stop-loss premium (according to Theorem 3) divided by the stop-loss premium in the independent case (assumption 1) is given for the situations considered in Table 2.

TABLE 3

RELATIVE HIGHT OF THE MAXIMAL STOP-LOSS PREMIUMS UNDER SEVERAL
INDEPENDENCY ASSUMPTIONS.

| retention | 1 | situation | | | |
|---|---|---|---|---|---|
| | | 2 | 3 | 4 | 5 |
| 0 | 100 | 100.0 | 100.0 | 100.0 | 100.0 |
| 2 | 100 | 101.6 | 103.8 | 103.9 | 146.6 |
| 4 | 100 | 103.8 | 116.5 | 110.9 | 239.3 |
| 6 | 100 | 108.0 | 137.6 | 122.1 | 412.6 |
| 8 | 100 | 112.8 | 169.1 | 137.7 | 778.6 |
| 10 | 100 | 120.7 | 206.4 | 159.8 | 1549.8 |
| 12 | 100 | 130.1 | 226.4 | 191.2 | 3336.3 |
| 14 | 100 | 143.8 | 354.2 | 233.3 | 7604.2 |

From this table we can conclude that in any situation the relative increase of the stop-loss premium is an increasing function of the retention. For the higher rententions the effect will be most dramatically. Comparing the assumptions 2 and 3, we see that increasing the claim probabilities and the claim amounts of the couples leads to an increased effect. Of cours, increasing the number of coupled risks will increase the relative effect on the maximal stop loss premiums, as can be seen from comparing the assumptions 2 and 4. Finally, from the last column we can conclude that assuming no independency at all, and hence allowing all possible kinds of dependencies, the extremal stop-loss premiums increase astronomically. The specific dependency relations that give rise to this extremal stop-loss premiums for a life insurance portfolio are derived in Dhaene et al. (1995).

Finally, we remark that in this paper we have only derived results for bivariate dependencies. The special, but important bivariate case will often be sufficient to describe dependencies in portfolios but is also provides a theoretical stepping stone towards the concept of dependence in the multivariate case. Some notions of dependence in the multivariate case can be found in Barlow et al. (1975). One of the notions of multivariate dependency which is often used in actuarial science is the exchangeability of risks, see e.g. Jewell (1984). It is a (remarkable) pity that the usefulness of other notions of multivariate dependency has hardly been considered in the actuarial literature.

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