Topic: Market sub-consistent valuation

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Abstract. Motivated by Solvency II and the need of market consistent valuation of the insurance positions, in this paper we introduce a new way of valuation of insurance positions in an incomplete market. We use the methodology of pricing financial positions with No-Good-Deal assumption (as an alternative to No-Arbitrage assumption) where the total cost of the hedging strategy is minimised. Ultimately, we show that by using CVaR as the risk measure the hedging strategy is simply the quantile regression of the insurance position against the hedgable portfolio.

Key-words: Market consistent valuation, hedging, Risk measures