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On refracted stochastic processes and the analysis of insurance risk

We show a somewhat surprising identity for first passage probabilities of spectrally-negative Levy processes that are refracted at their running maximum and discuss extensions of this identity and its applications in the study of insurance risk processes in the presence of tax payments. In addition, we discuss a statistic that is related to the sample coefficient of variation which leads to an alternative simple method for estimating the extreme value index of Pareto-type tails from corresponding iid claim data with infinite variance.

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