Insurance companies: A System-to-Industry Risk Perspective

Tristan Jourde
Paris- Dauphine University,France
tristan.jourde@dauphine.eu

Abstract:

Since the Global Financial Crisis, the literature has proposed different market-based measures of systemic risk, mainly designed to capture banks or insurers' potential to destabilize the financial system, i.e. to contribute to the systemic risk. These measures mainly focus on (tail) dependence of (individually-systemic) institutions within the financial sector but ignore the common vulnerability of the whole insurance industry to financial and economic shocks. Hence, this article contributes to the literature by using a system-to-industry risk measure (i.e. systematic risk) to examine insurers' exposures to common risks. To better assess the (relative) vulnerability of the insurance industry, we compare insurers' systematic risk with two benchmarks (banks/other industries' systematic risk). To that end, we use a multiple factor model on a sample of domestic equity indices, belonging to 33 developed and emerging markets over a long-term perspective (1973-2018). The results indicate that (i) systematic risk is significantly higher for banks than for insurers and (ii) the gap between them has been widening over time. Moreover, we show that insurers are approximately equally vulnerable to common shocks than the average of other industries. These results are of interest to regulators and investors.

Keywords: Insurance, Risk, Systemic, Systematic

JEL Codes: G22 G15