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Systemic Risk, Interconnectedness, and Non-core Activities in Taiwan Insurance Industry

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ABSTRACT

We employ three measures— marginal expected shortfall, SRISK index, and Conditional Value-at-Risk— to assess an insurer’s exposure and contribution to systemic risk during the period 2005-2015. We then examine the primary factors posing the systemic risk and find that both non-core activities and interconnectedness of insurers are the significant and primary drivers. Our results differ from the findings in the U.S. insurance sector where firm *size* is the primary driver of insurers’ exposure and contribution to systemic risk, as the findings in the global insurance sector where *leverage* is a significant driver of insurers’ exposure, and both *leverage* and *non-core activities* are primary drivers of insurers’ contribution to systemic risk. Our results further indicate that the size and significance of the *interconnectedness* effect on systemic risk increase as the share of insurance sector within the financial industry rises.

Key words: Systemic Risk; Insurer; Capital Shortfall; MES (marginal expected shortfall); SRISK Index (systemic risk index); CoVaR (conditional Value-at-Risk)

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