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The dynamic linkage between insurance and banking activities: An analysis on insurance sector assets

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Highlights

- This article studies the dynamic linkage between insurance and banking activities.
- Insurance sector assets are utilized to proxy for insurance activities.
- Insurance assets have an impulse response to banking and financial system activities.
- Impulse responses of banking activities to insurance assets are mostly insignificant.
- The insurance-banking linkage varies across income levels and legal origins.

Abstract

This article investigates the dynamic linkage between insurance and banking activities from the asset size of the insurance sector in the context of a panel vector autoregression (VAR) framework utilizing data for 73 countries from 1980 to 2014. Panel Granger-causality tests show that a Granger-causal relation generally runs from banking activities to insurance sector assets. Impulse response analyses for the whole sample demonstrate that the size of insurance assets responds positively to a shock to liquid liabilities and deposits of the financial system, but negatively to a shock to deposit money bank assets as well as private credit issued by commercial banks, other financial institutions, and deposit banks. The observations are qualitatively identical for high-income countries, while the results are largely different for middle- and low-income countries. Moreover, we observe a significant