

## Accepted Manuscript

Title: On the exposure of insurance companies to sovereign risk – portfolio investments and market forces<sup>1</sup>

Authors: Robert Düll, Felix König, Jana Ohls

PII: S1572-3089(17)30445-X  
DOI: <http://dx.doi.org/doi:10.1016/j.jfs.2017.06.008>  
Reference: JFS 558

To appear in: *Journal of Financial Stability*

Received date: 18-7-2016  
Revised date: 28-2-2017  
Accepted date: 21-6-2017

Please cite this article as: Düll, Robert, König, Felix, Ohls, Jana, On the exposure of insurance companies to sovereign risk – portfolio investments and market forces<sup>1</sup>. *Journal of Financial Stability* <http://dx.doi.org/10.1016/j.jfs.2017.06.008>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



# On the exposure of insurance companies to sovereign risk - portfolio investments and market forces<sup>1</sup>

Robert Düll<sup>a</sup>, Felix König<sup>b</sup>, Jana Ohls<sup>a,\*</sup>

This version: June 2017

## Highlights of the paper „On the exposure of insurance companies to sovereign risk“

- Since the onset of the European sovereign debt crisis, sovereign risk has been one of the main threats to financial stability. While most recent research investigates the link between sovereign risk and the banking system, this paper analyzes the transmission of sovereign risk to insurance companies.
- We use a firm level panel dataset that covers large insurance companies, banks and non-financial firms from nine countries over the time period from 1 January 2008 to 1 May 2013.
- We find that domestic sovereign risk significantly increases insurer risk as perceived by markets. While the impact on insurers is similar to the effect on banks, it is substantially larger than for non-financial companies.
- The link to domestic sovereigns was stronger for insurers that have subsequently been identified as systemically important by the Financial Stability Board.
- Based on European data, we show that risks in sovereign bond portfolios are an important driver of insurer risk, which is not reflected in current insurance regulation (incl. Solvency II in Europe).

---

<sup>1</sup> Contact: Felix König, F.Koenig@lse.ac.uk. Robert Düll, Robert.Duell@bundesbank.de. Jana Ohls, Jana.Ohls@bundesbank.de.

\*) Corresponding author: Jana Ohls, +49 69 9566-6503.

The authors would like to thank the following for their helpful comments and suggestions: Jörg Breitung, Claudia Buch, Calebe de Roure, Sebastian Schlütter, Kevin Sheppard, Robert Vermeulen, two anonymous referees, and the participants of the 2014 IWH Halle doctoral seminar, the Deutsche Bundesbank research seminar in 2015, the 5th International Conference of the Financial Engineering and Banking Society (FEBS), the 2015 World Risk and Insurance Economics Congress (WRIEC), the 2015 Financial Stability Conference of the Federal Reserve Bank of Cleveland and the Office of Financial Research, and the 23rd Annual Conference of the

Multinational Finance Society. Furthermore, the authors would like to thank J.P. Morgan for its permission to use the published sovereign bond data in this research project. The opinions expressed in this discussion paper are the authors' personal opinions and do not necessarily reflect the views of the Deutsche Bundesbank or its staff. Any remaining errors are our own.

<sup>a</sup> Deutsche Bundesbank, Wilhelm-Epstein-Strasse 14, 60431 Frankfurt am Main, Germany.

<sup>b</sup> London School of Economics, Houghton St, London WC2A 2AE, United Kingdom.

Download English Version:

<https://daneshyari.com/en/article/5106498>

Download Persian Version:

<https://daneshyari.com/article/5106498>

[Daneshyari.com](https://daneshyari.com)