



WISCONSIN
SCHOOL OF BUSINESS
UNIVERSITY OF WISCONSIN-MADISON
TOGETHER FORWARD®

DEPARTMENT OF
RISK & INSURANCE

Underwriting Discipline of Financial Institutions: Evidence from the Insurance Industry

Wednesday, Oct 25, 2017
3:30 p.m. – 4:45 p.m.
2175 Grainger Hall

Although intentional loosening of underwriting standards in the mortgage lending market has been identified as a major cause of the financial crisis, warnings about insufficient underwriting discipline among financial institutions continue to appear. We develop approaches to quantifying this elusive notion and apply them to examine the underwriting discipline of U.S. property-liability insurers – an industry where the top quintile’s returns on underwriting exceed the bottom quintile’s returns by over 40 percentage points in most years. We find that the random nature of losses cannot explain such dispersion, and document an empirical puzzle: there is remarkable heterogeneity in insurers’ underwriting discipline, even among firms with a similar business mix and financial quality. An insurer’s level of underwriting discipline remains consistent over time and across lines of business. We identify several firm characteristics associated with stronger (and weaker) underwriting discipline. Our findings are relevant for policymakers, regulators and the industry, and our methods can be used to study underwriting discipline in other markets.



Anastasia Ivantsova

PhD Candidate

**Risk and Insurance Department
Wisconsin School of Business**

Questions?

Contact Jodi Wortsman at jodi.wortsman@wisc.edu