Comments on
“Does One Size Fit All? Determinants of Insurer Capital Structure Around the Global”

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Overview

• This paper tackles a very interesting and challenging topic and offers a few **important policy implications**.

• This article finds that the capital structure of insurance companies is **not homogeneous** across countries.

• The paper's evidence suggests that the effort of the International Association of Insurance Supervisors (IAIS) to harmonize regulatory capital requirements around the world **may not have intended consequences**.
Background

• **On 18th, July 2013**, IAIS released Global Systemically Important Insurers (**G-SIIs**) assessment methodology.

• **IAIS** also proposes a development of **“straightforward backstop capital requirements,”** a minimum capital regulation for the **G-SIIs** by **2014**.

  – Moreover, development of the minimum capital regulation for G-SIIs can also affect a regulatory framework of capital requirements for:
    • Domestic systemically important insurers (**D-SIIs**), and
    • Internationally Active Insurance Groups (**IAIG**).

  – Roughly speaking, it is a similar directional movement to the **BIS regulation in Banking industry**.

*Very timely topic!!!*

(Source) Presentation by Dr. Yoshihiro Kawai, Secretary General of the IAIS, on July 20th 2013 in Tokyo.
Advantage

• Despite the importance of the capital structure for the insurance industry, there have been few papers that have discussed this topic (exception: Cheng/Weiss, 2012, JII)

• Also, we do NOT know much about the capital structure of insurers around the world.

• This paper NOT ONLY has an advantage of the first study to examine capital structure for the insurance industry around the world, BUT ALSO provides a rich body of evidence about it.
Major Comment (overview)

- The paper's motivation and intention are clear.
- However, the paper's policy implications appear to be little overstated.
Major comment

- The paper's interpretation depends crucially on an assumption that observed capital structures are optimal. However, I am not sure if this assumption is valid in all countries.

1. It would be great if the authors could elaborate on the (empirical) validity of this critical assumption.

2. Or, for example, how about conducting sub-sample analysis?

- Sub-sample consist of countries where the assumption may be valid (e.g., US, UK, Germany, JP...?)

"Our maintained assumption is that firms surviving in a competitive market are the ones that produce the demanded products most efficiently. Therefore, observed capital structures must have economic benefits." (p.2)


Minor comments

• “If insurer capital structure is not homogeneous across countries, imposing the same regulatory capital requirements on all insurance companies around the globe will not make sense.” Such market distortions could be avoided by simply keeping the current decentralized structure of country-specific regulatory capital requirements. (p.3)

• These are the key arguments of the paper.
• I feel that the paper's analysis is still somewhat short on theoretical grounds to support these conclusions.
• It would be great if the authors could strengthen the paper's theoretical discussions to motivate the empirical investigation.
Minor comments (cont.)

• Typo (p.4) “The study is organized ass follows.”
  – >>>> organized “as”

• Variance Decomposition Analysis (VAA)
  – The paper uses VAA (e.g. Lemmon et al.) as the main analysis tool.
  – It would be helpful if the paper could briefly discuss the advantage of this method for the paper's analysis.