



EXECUTIVE TRAINING SEMINAR

FLORENCE SCHOOL OF BANKING AND FINANCE

THE ECONOMICS OF INSURANCE MARKETS

Course Instructor: **Ralph Koijen** | University of Chicago, Booth School of Business

Sala Belvedere

Villa Schifanoia, Via Boccaccio 121 - Florence

24 - 26 JUNE 2019

■ DRAFT PROGRAMME

24 JUNE

13.30 - 13.45 *Welcome coffee*

13.45 - 14.00 **Kick off, presentation of the FBF and *Tour de Table***

14.00 - 15.30 **Session 1. Background and Risks in Insurance**

- History, regulation, and data
- Potential risks in the insurance sector, transmission mechanisms, and the potential for systematic risk.

15.30 - 16.00 *Coffee break*

16.00 - 17.30 **Session 2. Pricing of insurance liabilities**

- The importance of information (e.g., adverse selection, moral hazard), financial, and regulatory frictions to understand pricing in life insurance markets.
- Application: Insurance pricing during the financial crisis. We discuss in detail how the regulatory valuation framework in the US incentivized life insurers to sell insurance policies below marginal costs, and we discuss the evidence.



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17.45 -18.15 *Shuttle Bus to Piazza San Marco*

18.15 - 19.30 *Guided Tour on the History of Banking and Finance in Florence*

25 JUNE

09.30 - 11.00

Session 3. Modelling demand and supply

- A framework to model supply-side frictions with an application to variable annuity markets.
- Application: Variable annuity markets. Risk regulation not only affects pricing, but also affects the design of insurance products. We discuss the potential implications for the structure of insurance markets when transitioning from Solvency I to Solvency II.
- Discussion of the recent literature on IO and finance to model the supply side of insurance markets.

11.00 - 11.30 *Coffee break*

11.30 - 13.00

Session 4. Reinsurance

- Shadow insurance in life insurance markets and the potential for financial instability.
- Discussion of the evidence that the captive reinsurance market developed rapidly in response to a change in the regulatory capital regime in the US. As a result, a large fraction of life insurance liabilities moved into the shadows, where capital regulation is more favourable and where there is less transparency.

13.00 - 14.00 *Lunch break*

14.00 - 15.30

Session 5. Measuring the welfare cost of household insurance choice

- Insurance markets are highly intermediated by insurance brokers and agents.
- A recent literature suggests that this advice may be misguided in the context of standard portfolio choice.
- How do households choose insurance products and what are the welfare costs of insurance mistakes?

15.30 - 16.00 *Coffee break*

16.00 - 17.15

Session 6. The impact of regulation on the structure and financial stability of insurance markets: Evidence from European insurance markets

- Insurance companies offer vastly different products across different countries.
- Of particular relevance are differences in guaranteed return products that provide insurance against market risks, such as interest rates and equity markets.
- We discuss how differences in regulation have shaped insurance markets across Europe and how it impacts their financial stability going forward, in particular in the low-rate environment.

17.30 - 18.00

Shuttle bus to B-Roof

18.00 -19.30

Aperitivo at B-Roof, Piazza dell'Unità Italiana 6, Firenze

26 JUNE

09.30 - 11.00

Session 7. Life and health insurance markets

- Medical innovation prompts questions about the future of life and health insurance markets, and whether there are economic benefits to integration.
- Discussion on the regulatory obstacles to integration.

11.00 - 11.30

Coffee break

11.30 - 13.00

Session 8. Asset allocation and asset pricing, and topics for further research

- Life insurance companies are among the largest investors in fixed income markets. How can we understand their asset allocation decisions?
- How do they use derivatives?
- What are the broader implications for asset prices?

13.00

Sandwiches will be served at the end of the session