

Are insurance companies susceptible to systemic risk?

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Abstract

Systemic risk and global liquidity have been highlighted since the Lehman Shock. This study examines the liquidity squeeze effects on CDS spreads of financial institutions and effects on financial institutions' mutual dependence. Specifically, reactions of banks and insurance companies to the liquidity squeeze and to the aggravated creditworthiness of interbank markets were examined.

Results show that CDS spreads of insurance companies, particularly those for which the main business is variable annuities with guaranteed minimum payments, increased markedly during the crisis, although had been believed to be invulnerable to systemic risk. Worsened creditworthiness of banks strongly affected global financial stability.