

Does the Tail Wag the Dog? On the Paradoxical Relation between Parental Support and Subsidiary Insolvency in the Insurance Industry

George Zanjani, GSU RMI

Abstract

This paper studies the survival outcomes experienced over a 15-year period by a comprehensive sample of group-affiliated U.S. property-casualty insurance companies from 1993. While it is generally assumed that affiliate support enhances the financial strength of a subsidiary within a group, this paper finds that claimants on non-core affiliates (i.e., those with less reinsurance support from and with looser ties to the flagship company) fared better, on average, than claimants on core and flagship subsidiaries – even within groups that were judged to be financially strong in 1993.