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Analysing the Determinants of Insolvency Risk for General Insurance Firms in the UK

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Abstract

This paper estimates a reduced-form model to assess the insolvency risk of General Insurance (GI) firms in the UK. In comparison to earlier studies, it uses a much larger sample including 30 years of data for 515 firms, and also considers a much wider set of possible determinants of insolvency risk. The empirical results suggest that macroeconomic and firm-specific factors both play important roles. Other key findings are the following: insolvency risk varies across firms depending on their business lines; there is default clustering in the GI industry; different reinsurance levels also affect the insolvency risk of insurance firms. The implications of these findings for regulators of GI firms under the newly launched *Solvency II* are discussed.

Keywords: Insolvency; Doubly Stochastic Poisson Process; Insurance; Reinsurance

JEL classification: G22, C58

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