Casualty Actuarial Society (CAS) Research Award

At the 2023 American Risk and Insurance Association (ARIA) annual meeting last month, we celebrated the annual Casualty Actuarial Society (CAS) Award. This award is given to the paper published in an ARIA journal that provides the most valuable contribution to casualty actuarial science. This year, the award was given to the authors of the paper - which was published in the Journal of Risk and Insurance (JRI) - titled "Asymmetric information and insurance cycles." We celebrate the authors, David Dicks and Jim Garven, for this achievement and highlight their paper below.

The property-casualty insurance underwriting cycle has been characterized by periods where insurance is expensive and coverage is limited, and other times where insurance is cheap and coverage is more readily available. Dicks and Garven, both of Baylor University, examine why insurance cycles exist by incorporating catastrophes in a theoretical model of insurance markets. They show that the insurance cycle results from two key features: insurers possessing superior information about their catastrophe exposure, and the fact that losses take time to pay out.

Following a catastrophe, external investors will become reticent about investing with insurers because of the increase in asymmetric information. Thus, the cost of capital increases at the very moment insurers are most in need of external capital, shocking the supply of insurance and giving rise to the insurance cycle.

The authors also discuss the empirical implications of their model, including more pronounced insurance cycles for lines of business exposed to catastrophe risks, which insurers are less efficient at investing or controlling free cash flow problems, and the effect of taxes.

Asymmetric information and insurance cycles