



The Impact of Diversification and COVID-19 Pandemic on Financial Stability for Property-Liability Insurers: Quantile Regression Approach

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A B S T R A C T

This study examines the impact of the COVID-19 pandemic on the relationship between diversification and insurer financial stability in Taiwan. We use ordinary least squares (OLS) and quantile regression (QR) methods to explore the impact of diversification and the COVID-19 pandemic on insurer financial stability during 2010-2022, especially for the insurers at the different quantiles. The results show that product diversification presents a significantly negative impact on insurers' Z-scores using OLS and QR (all quantiles), and that higher quantiles insurer diversification is significantly and positively associated with the RBC ratio. In addition, The COVID-19 pandemic is negatively and significantly associated with insurer Z-score for the OLS regressions, whereas the COVID-19 pandemic is also negatively and significant associated with Z-scores for lower and median quantiles insurers. The findings suggest that managers must carefully evaluate and establish systems to control the degree of diversification to reduce solvency risk. The results also provide the regulatory authorities with a basis for supervision of diversification and financial stability.

Keywords: Diversification, Financial stability, Covid-19 pandemic, Quantile Regression

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