An Analysis of the Risk and Return of Insurers’ Loans

Since the global financial crisis, non-life insurance companies and life insurance companies have implemented different strategies for loans. Non-life insurance companies have increased their proportion of loans, but life insurance companies have reduced it. In order to understand the difference in the strategy of loan management, it is necessary to analyze the risk-adjusted return of loans.

In this paper, we analyzed the risk and return of insurance company’s loans, which account for a high proportion of the assets of insurance companies. In order to accurately assess the risk and return of loans, it is necessary to exclude policy loans which are risk-free and profitable. We analyze the risk and return of loans excluding policy loans (hereafter ordinary loans) and identifies the relationship between ordinary loans and characteristics of insurance companies.

The analysis shows that the risk-adjusted return of insurers’ ordinary loans are lower than that of other assets, except for two life insurance companies. This implies that under the current solvency system, ordinary loans were assets that achieved lower profitability than other assets. Hence, it is reasonable for insurance companies to lower the proportion of their ordinary loans under the current solvency system.

We also compare the risk-adjusted return of ordinary loans and that of other assets, assuming the implementation of a new solvency system (K-ICS). Under the K-ICS, the risk-adjusted return of life insurance companies ordinary loans is relatively improved compared to that of other assets. This suggests that there is room for some life insurance companies to increase the proportion of ordinary loans considering the implementation of the K-ICS.