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

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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.