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Title:	Portfolio regulation of life insurance companies and pension funds
Authors:	Davis, EP (/browse?type=author&value=Davis%2C+EP)
Issue Date:	2000
Publisher:	Brunel Univesity
Citation:	Economics and Finance Working papers, Brunel University, 00-16

Abstract:	This paper examines the rationale, nature and financial consequences of two alternative approaches to portfolio regulations for the long-term institutional investor sectors life insurance and pension funds. These approaches are, respectively, prudent person rules and quantitative portfolio restrictions. The argument draws on the financial-economics of investment, the differing characteristics of institutions' liabilities, and the overall case for regulation of financial institutions. Among the conclusions are: · regulation of life insurance and pensions need not be identical; · prudent person rules are superior to quantitative restrictions for pension funds except in certain specific circumstances (which may arise notably in emerging market economies), and; · although in general restrictions may be less damaging for life insurance than for pension funds, prudent person rules may nevertheless be desirable in certain cases also for this sector, particularly in competitive life sectors in advanced countries, and for pension contracts offered by life insurance companies. These results have implications inter alia for an appropriate strategy of liberalisation. 1 The author is Professor of Economics and Finance, Brunel University, Uxbridge, Middlesex UB3 4PH, United Kingdom (e-mail 'e_philip_davis@msn.com', website: 'www.geocities.com/e_philip_davis'). He is also a Visiting Fellow at the National Institute of Economic and Social Research, an Associate Member of the Financial Markets Group at LSE, Associate Fellow of the Royal Institute of International Affairs and Research Fellow of the Pensions Institute at Birkbeck College, London. Work on this topic was commissioned by the OECD. Earlier versions of this paper were presented at the XI ASSAL Conference on Insurance Regulation and Supervision in Latin America, Oaxaca, Mexico, 4-8 September 2000, and at the OECD Insurance Committee on 30 November 2000. The author thanks participants at the conference and A Laboul for helpful comments. Views expressed are those of the author and not necessarily those of the institutions to which he is affiliated, nor those of the OECD. This paper draws on Davis and Steil (2000).
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