

THE DRIVERS AND VALUE OF ENTERPRISE RISK MANAGEMENT: EVIDENCE FROM ERM RATINGS

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ABSTRACT

In the course of recent regulatory developments, enterprise-wide risk management (ERM) frameworks have become increasingly relevant for insurance companies. The aim of this paper is to contribute to the literature by analyzing determinants (firm characteristics) as well as the impact of ERM on the shareholder value of European insurers using the Standard & Poor's ERM rating to identify ERM activities. This has not been done so far, even though it is of high relevance against the background of the introduction of Solvency II, which requires a holistic approach to risk management. Results show a significant positive impact of ERM on firm value for the case of European insurers. In particular, we find that insurers with a high quality risk management (RM) system exhibit a Tobin's Q that on average is about 6.5% higher than for insurers with less high quality RM after controlling for covariates and endogeneity bias.

Keywords: ERM; S&P ERM rating; firm characteristics; shareholder value; Solvency II

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