IMPACT OF REINSURANCE ON INSURANCE COMPANY PERFORMANCE

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ABSTRACT
This study investigates the impact of reinsurance on the financial performance of insurance companies using an empirical panel data framework. Reinsurance is considered a strategic risk management tool that enables insurers to stabilize underwriting results, optimize capital allocation, and mitigate loss volatility. The empirical analysis employs key performance indicators, namely return on assets (ROA), return on equity (ROE), and the combined ratio, to assess insurer performance. The results indicate that reinsurance utilization has a statistically significant positive effect on ROA and ROE, while demonstrating a negative relationship with the combined ratio. These findings confirm that well-structured reinsurance programs enhance underwriting efficiency, financial stability, and long-term sustainability of insurance companies, particularly in emerging markets.

Literature Review.

The theoretical foundations of reinsurance are rooted in risk-sharing and insurance economics. Kenneth J. Arrow (1963) highlights that risk transfer mechanisms reduce uncertainty and improve economic efficiency, forming the basis for modern insurance and reinsurance theory. Karl Borch (1967) further develops this concept by emphasizing that optimal reinsurance arrangements allow insurers to balance risk retention and profitability, thereby improving financial stability.

Empirical studies provide strong evidence of the relationship between reinsurance and insurer performance. David Cummins (2000) demonstrates that reinsurance improves insurers' solvency and underwriting capacity by reducing loss volatility and capital pressure, particularly in catastrophe-prone markets. Scott Harrington (2009) finds that reinsurance contributes to improved underwriting efficiency and lower combined ratios through the stabilization of claims experience.

The issue of optimal retention and reinsurance intensity is examined by Kenneth Froot (1999), who argues that both excessive risk retention and over-reliance on reinsurance may negatively affect insurer performance. Recent studies focusing on emerging insurance markets confirm that reinsurance plays a critical role in enhancing financial resilience and improving profitability indicators such as ROA and ROE. However, empirical research simultaneously examining profitability and underwriting efficiency remains limited, justifying further investigation.

Conclusion

The reviewed literature confirms that reinsurance is not merely a risk transfer mechanism but a strategic tool that significantly improves insurance company performance. By reducing loss volatility, optimizing capital use, and enhancing underwriting efficiency, reinsurance contributes to sustainable growth and financial stability. This study builds upon existing research by empirically analyzing the impact of reinsurance on ROA, ROE, and the combined ratio within a unified analytical framework.

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