Abstract

This paper is the first that formally compares investment risk taking by pension funds and insurance firms. Using a unique and extended dataset that covers the volatile investment period 1995-2009, we find that, in the Netherlands, insurers take substantially less investment risk than pension funds, even though a market risk capital charge for insurers is yet absent. This result can be explained from financial distress costs, which only insurers face. We also find that institutional investors' risk taking is determined by their risk bearing capacity, where this risk bearing capacity depends on capital, size, reinsurance, underwriting risk and human and financial wealth per pension plan participant. Finally, and in line with the ownership structure hypothesis, stock insurers are found to take significantly more investment risk than mutual insurers.