

A Dynamic Analysis of Life Insurance Holdings during the 2008 Financial Crisis: Evidence from the Panel Survey of Consumer Finances

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Abstract

Prior literature indicates that the demand for life insurance is affected by household portfolios and household characteristics. This paper is the first attempt to relate life insurance demand to household portfolio holdings in a dynamic framework by analyzing panel data. This paper explores the effect of household portfolio holdings and life events on changes in the ownership and the holdings of life insurance during the 2008 financial crisis. The results imply that household portfolio holdings are more important than life events in explaining changes in life insurance ownership during financial crisis. The results suggest that investment in equity and bond is complementary rather than a substitute for the ownership of life insurance, and also show an ambiguous relationship between life insurance ownership decisions and new debt application. The examination of changes in life insurance holdings indicates that households investing more in bond drop significantly a larger amount of term life insurance. In terms of life events, the results show that employment, retirement, family size, and marital status have significant and dynamic effects on life insurance demand.

Keywords: Life Insurance, Household Portfolio, Financial Crisis, Household Characteristics, Panel Data

JEL's classification codes: D14; D91; G52

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