
Competition, Efficiency, and Financial Stability: Evidence from the Asia-Pacific Nonlife Insurance Markets

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Abstract

The impact of market competition on financial stability in the financial services sectors remains debated and unresolved. This study employs the Boone indicator, an efficiency-based measure of competition, to examine whether and how competition affects the financial stability of non-life insurers through efficiency as a transmission channel. The analysis draws on panel data from ten Asia-Pacific countries spanning 2011 to 2019, a region marked by diverse institutional, regulatory, and economic environments but relatively underexplored in the existing literature. We show that competition is stronger in markets with larger insurance sectors, greater property rights protection, and lower levels of government spending, but weaker in markets with greater entry freedom and a higher presence of foreign insurers. Importantly, we find that competition enhances financial soundness, as measured by the Z-score, supporting the competition–stability view via efficiency improvements. Further, the competition-driven efficiency is associated with higher profitability and lower volatility in both returns and loss ratios, with these effects more pronounced in developing markets. Overall, these findings provide valuable insights for policymakers and regulators aiming to cultivate stable, competitive nonlife insurance markets in the Asia-Pacific region.

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