

FINANCIAL SERVICES

An Analysis of Efficiency in the Delivery of Financial Services: The Case of Life Insurance Agencies, by Joseph A. Fields (University of Connecticut) and Neil B. Murphy (Virginia Commonwealth University).

Scale and scope economies are examined for life insurance agencies that distribute multiple financial products. The results of this study suggest that there are significant administrative returns to scale for firms that sell a mix of financial products. The findings for scope estimates are inconsistent, suggesting that there are positive and negative cost complementaries for pairs of products. Subadditivity can be rejected, suggesting that joint distribution of financial products is not necessarily more efficient than specialization and that different-sized agencies are not necessarily at a cost disadvantage. *Journal of Financial Services Research*, Vol. 2, No. 4 (October 1989), pp. 343-56. (Reprinted with permission of Kluwer Academic Publishers).

Relationship Between Bank Holding Company Risk and Nonbank Activity, by Elijah Brewer, III (Federal Reserve Bank of Chicago).

It has been argued that permitting banking organizations to expand into other lines of business will reduce their total risk through diversification. This article, using stock market data, examines the proposition that diversification into nonbank activities decreases bank holding company risk. In contrast to previous studies, we find that expansion into nonbank activities during the 1978-1986 period substantially decreased bank holding companies' risk. This suggests that limiting further expansion of nonbank activities of bank holding companies would reduce their ability to engage in risk reducing diversification. *Journal of Economics and Business*, Vol. 41, No. 4 (November 1989), pp. 337-53. (Reprinted with permission of the *Journal of Economics and Business*).

INSURER MANAGEMENT AND REGULATION

The Value of Screening Mechanisms Under Alternative Insurance Possibilities, by Michael Hoy (University of Guelph, Ontario).

This paper investigates the welfare implications of symmetrical improvements in information and accompanying screening mechanisms which allow for improved matching of individuals to their respective risk classes. Unlike previous models used to investigate this phenomenon, this paper allows for the possibility that individuals differ not simply according to exogenously specified unequal loss probabilities, but rather that individuals possess different self-protection technologies. Moreover, various insurance contracting possibilities are also considered. It is demonstrated that the structural form of the heterogeneity of technologies and the type of insurance contracts available in the market determine in an interactive way of the value of information which improves the matching of individuals to risk class. *Journal*

of *Public Economics*, Vol. 39, No. 2 (July 1989), pp. 177-206. (Reprinted with permission of North-Holland Publishing Company).

Bayesian Modelling of Mortality Catastrophes, by Stuart A. Klugman (Drake University).

When a mortality catastrophe is at its beginning data is scarce and estimates of its consequences are likely to be unreliable. When performing financial calculations (e.g., reserve setting) it is necessary to account for variability due to both estimation error and the random insured event itself. In this paper a Bayesian approach and an example using AIDS data will be presented. *Insurance: Mathematics and Economics*, Vol. 8, No. 3 (November 1989), pp. 159-64. (Reprinted with permission of North-Holland Publishing Company).

Observations on the HIV Epidemic and Managing Uncertainty in Insurance, by David M. Holland (Munich American Reassurance Company, Atlanta, GA).

This paper reviews strategies for insurance company management in dealing with the human immunodeficiency virus (HIV) epidemic in light of imperfect information and analyzes data available on the epidemic to gain further insight. U.S. AIDS deaths are projected for the years 1986-2000 and log-normal and gamma distributions are fitted to the distribution of AIDS deaths by age. Crude population AIDS death rates are calculated for quinquennial ages and are compared with the corresponding projected population death rates without special provision for AIDS deaths. *Insurance: Mathematics and Economics*, Vol. 8, No. 3 (November 1989), pp. 211-32. (Reprinted with permission of the North-Holland Publishing Company).

A Martingale Approach to Premium Calculation Principles in an Arbitrage Free Market, by F. Delbaen (University of Brussels) and J. Haezendonck (University of Antwerp).

An arbitrage free model is used to study martingale equivalent probability distributions on the basic probability space of a compound Poisson process. It is shown how this new approach is related to premium calculation principles. *Insurance: Mathematics and Economics*, Vol. 8, No. 4 (December 1989), pp. 269-77. (Reprinted with permission of North-Holland Publishing Company).

Estimating 'Hedonic' Distributions Using Polynomials, by Richard J. Butler (Brigham Young University) and John D. Worrall (Rutgers University).

There are many instances in both private and public insurance when changes in the underlying claimant 'demography' will have far reaching impacts on prospective insurance costs. Changes in the age distribution of policy holders in life insurance may significantly affect the total fixed costs administering such policies (holding the total number of policies constant). Similarly, a change in the distribution of firm sizes will affect costs in unemployment

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