

Insurer Management

Tax Management and Investment Strategies of Property-Liability Insurers,

by J. David Cummins (University of Pennsylvania) and Elizabeth Grace (San Jose State University)

The Tax Reform Act (TRA) of 1986 reduced the incentives for institutional investors to participate in the tax exempt bond market. This paper develops a model of profit maximization incorporating the TRA provisions applicable to property-liability (PL) insurers. The theory predicts that PL insurers will use underwriting losses to shelter taxable investment income and invest the balance of their portfolios in tax favored securities. Our empirical evidence reveals that insurers continued to invest in tax exempts following the TRA, suggesting that implicit tax rates are low enough to attract insurers into the long-term tax exempt market. However, insurers reduced the proportions of income derived from tax exempt interest and dividends following the TRA. *Journal of Banking and Finance*, January 1994, 18(1): 43-72. (Reprinted with permission of the North-Holland Publishing Company.)

Capacity Constraints and Cycles in Property-Casualty Insurance Markets,

by Anne Gron (University of Chicago)

Underwriting cycles are unexpected in a structurally competitive industry where financial capital is the major determinant of output capacity. "Arbitrage" theories explain underwriting cycles as largely an artifact of institutional lags and reporting practices; "capacity-constraint" theories view insurance markets as characterized by real frictions that cause underwriting cycles by temporarily reducing the industry's capacity to insure risks. Arbitrage theories imply no systematic relationship between capacity and underwriting margins, while capacity-constraint hypotheses predict a negative relationship. This article provides a test of the two theories by examining the empirical relationship between capacity and underwriting margins. The results, using data on four insurance lines, generally support the capacity-constraint hypothesis; unanticipated decreases in capacity cause higher profitability and prices. *RAND Journal of Economics*, Spring 1994, 25(1): 110-127. (Reprinted with permission of the RAND Journal of Economics.)

FROM THE UNIVERSITY OF CHICAGO

Safety and Loss Control

The Impact of Airbag Adoption on Relative Personal Injury and Absolute Collision Insurance Claims,

by Steven P. Peterson and George E. Hoffer (Virginia Commonwealth University)

This article examines the impact of airbag adoption on the relative injury and absolute collision loss data experiences of automotive vehicle lines. The data set consists of every automobile model for which overall injury data was

published by the Highway Loss Data Institute (HLD) for the 1989-1991 model years. The empirical analysis in the article indicates that both relative injury and absolute collision losses are never mitigated and usually worsen significantly for airbag-equipped cars relative to belt-only equipped models after airbag adoption. These results are consistent both with the Peltzman hypothesis of driver behavioral changes and at-risk consumers' shifting preference for airbag-equipped models. *Journal of Consumer Research*, March 1994, 20(4): 657-662. (Reprinted with permission of the *Journal of Consumer Research*.)

Managing Safety in the Workplace: An Attribution Theory Analysis and Model, by David M. DeJoy (University of Georgia)

Causal attributions represent an important link between workplace safety problems and the actions that are taken to manage them. In fact, actions to manage safety derive more from attributions than from actual causes. This paper begins with brief discussions of attribution theory and causal analysis in workplace safety. An attributional model of the safety-management process is then proposed, which describes the formation of safety-related attributions and the various individual and organizational factors that are likely to complicate and/or bias these causal inferences. Both event-attribution and attribution-remedy linkages are examined, and relevant findings from safety and organizational behavior research are highlighted. In the final section, several safety program recommendations are offered based on this analysis. *Journal of Safety Research*, Spring 1994, 25(1): 3-17. (Reprinted with permission of the *Journal of Safety Research*.)