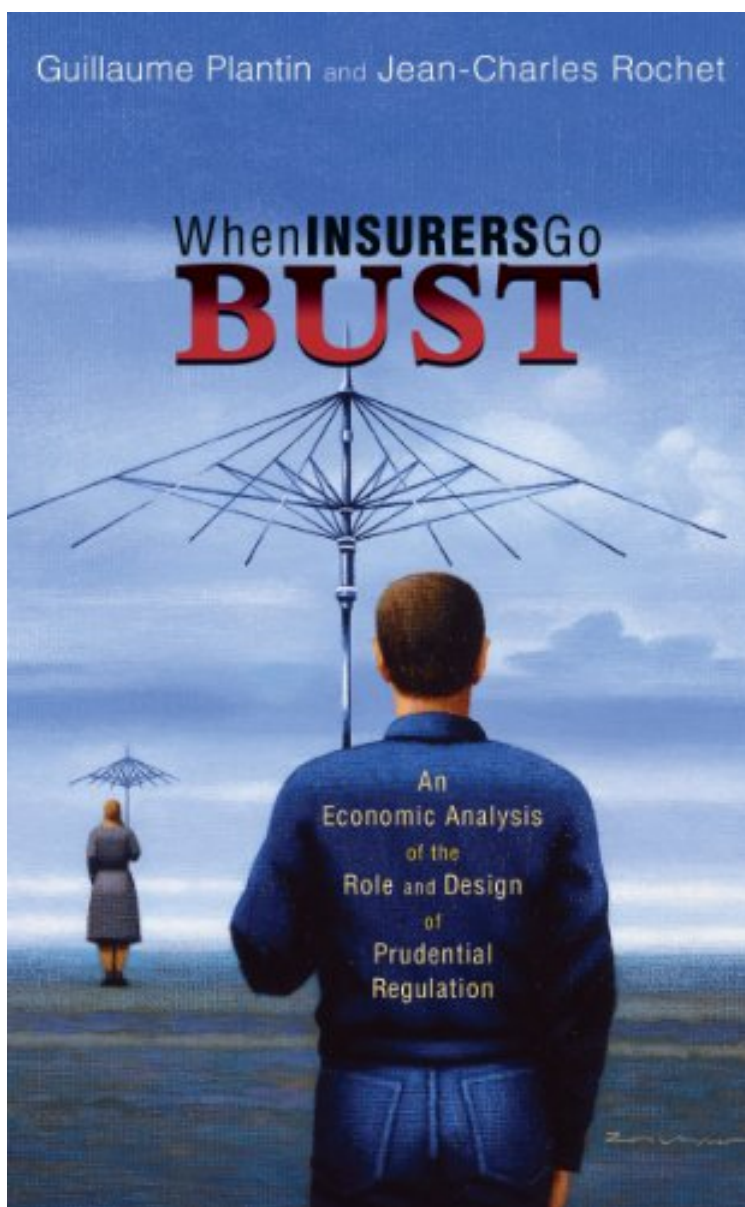




(Download pdf) When Insurers Go Bust: An Economic Analysis of the Role and Design of Prudential Regulation

When Insurers Go Bust: An Economic Analysis of the Role and Design of Prudential Regulation

Guillaume Plantin, Jean-Charles Rochet
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all praised *When Insurers Go Bust: An Economic Analysis of the Role and Design of Prudential Regulation*:

In the 1990s, large insurance companies failed in virtually every major market, prompting a fierce and ongoing debate about how to better protect policyholders. Drawing lessons from the failures of four insurance companies, *When Insurers Go Bust* dramatically advances this debate by arguing that the current approach to insurance regulation should be replaced with mechanisms that replicate the governance of non-financial firms. Rather than immediately addressing the minutiae of supervision, Guillaume Plantin and Jean-Charles Rochet first identify a fundamental economic rationale for supervising the solvency of insurance companies: policyholders are the "bankers" of insurance companies. But because policyholders are too dispersed to effectively monitor insurers, it might be efficient to delegate monitoring to an institution--a prudential authority. Applying recent developments in corporate finance theory and the economic theory of organizations, the authors describe in practical terms how such authorities could be created and given the incentives to behave exactly like bankers behave toward borrowers, as "tough" claimholders.

From the Back Cover "This book provides a rare economic analysis of the regulation of the insurance industry from two authoritative authors. The book is timely and well researched, and it brings together the current state of the art in economic analysis with a thorough understanding of the institutions. It will become essential reading for anyone interested in this important policy area."--Hyun Song Shin, Princeton University "This is an important contribution because it goes beyond and strongly criticizes the literature and preconceptions of the regulatory and insurance industries. Beyond readers in the specific field, it will be useful to readers interested in regulation more generally and to readers in finance and banking. I have seen no other book like this. It is most welcome."--Philip Booth, Cass Business School, London About the Author Guillaume Plantin is Assistant Professor of Finance at London Business School. He is the coauthor of *Theorie du Risque et Reassurance*. Jean-Charles Rochet is Professor of Mathematics and Economics at the University of Toulouse and a visiting professor of finance at the London School of Economics and Political Science. He is the coauthor of *Microeconomics of Banking*.