University of St.Gallen
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Discussion:
Addressing the Talent Crisis in the Insurance Industry

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From insight to impact.

1. Paper Overview: **Motivation and research questions**

- The US property-liability insurance industry faces a severe talent crisis, with ~400,000 expected retirements over 15 years and too few young entrants.

- Research Question:
  - Does investing in employee relations (e.g., welfare, benefits, retention programs) lead to better financial performance for insurers?

  - Data & Method:
    - Panel of 3,498 insurers (1995–2021)
    - Unique regulatory data on employee relations spending
    - Empirical strategies include fixed effects, entropy balancing, IV, and difference-in-differences

1. Paper Overview: **Key takeaways**

- A 1 SD increase in employee relations spending (~$4.18M) yields:➤ +0.36% in ROA, +1.10% in ROE
- Effects persist across multiple identification strategies
- Benefits taper at high investment levels but remain significant
- Smaller and less capitalized insurers benefit most
- Implication:
  - Investing in employee relations is financially beneficial, helping insurers both retain talent and improve performance—critical in navigating the industry's looming workforce cliff.

2. Comments: Measurement

- Main measure:
  - Defined as: Expenses on employee relations and welfare, scaled by total expenses incurred
  - Source: Item 9 of the "Underwriting and Investment Exhibit Part 3—Expenses" from annual NAIC statutory statements.
  - Covers:
    - Post-retirement benefits (healthcare, life insurance, housing subsidies, etc.)
    - Employee stock ownership plans (ESOPs), awards, and purchases for employees
    - Other welfare and support programs as defined by NAIC accounting standards
  - Advantages:
    - Captures actual dollar investment in employee relations, not just subjective assessments
    - Available annually and for all US property-liability insurers, public or private
    - Facilitates a continuous, firm-level measure over time

2. Comments: Measurement

- Most previous studies used indirect or perception-based measures, such as:
  - Fortune's "100 Best Companies to Work For"
    - (e.g., Edmans 2011, 2012)
    - Measures employee satisfaction via inclusion in rankings
    - Binary and limited to a select group of firms
  - Glassdoor & Other Employee Surveys
    - (e.g., Huang et al. 2015; Green et al. 2019)
    - Based on self-reported ratings by employees
    - Subject to selection bias and unverified accuracy
  - ESG Ratings (e.g., MSCI/KLD data)
    - (e.g., Ghaly et al. 2015; Mao and Weathers 2019)
    - Use third-party ESG indicators for "employee relations“
    - Often opaque and qualitative; may not reflect actual expenditures

2. Comments: Measurement

- Questions:
  - Scaling: Why are the expenses scaled by total expenses rather than firm's size, i.e. assets?

  - What does it measure?
    - the measure of the paper mixes benefits and incentive payments
    - Post-retirement benefits (healthcare, life insurance, housing subsidies, etc.)
    - Employee stock ownership plans (ESOPs), awards, and purchases for employees
  - Which age-group of employees does it cover?
    - The benefits part if related to the older group of employees

2. Comments: Identification

- Baseline specification: Fixed effects regressions
  - Controls for time-invariant firm characteristics
  - Includes firm fixed effects, year fixed effects, business line and geographic controls
  - Findings: A 1 SD increase in employee relations investment increases ROA by 0.36% and ROE by 1.10%
- The paper uses five identification techniques: entropy balancing, placebo tests, Arellano-Bond dynamic panel models, Lewbel’s internal instrumental variables, and difference-in-differences with event study

2. Comments: Identification

- Questions:
  - Time-varying unobservables:
    - Fixed effects control for time-invariant firm characteristics, but unobserved factors that change over time (e.g., shifts in corporate culture or leadership) may still bias results
  - Firms select to provide these benefits:
    - Explore the factors which drive this selection