Credit Crunch and Insurance Consumption:
The Aftermath of the Subprime Mortgage Crisis

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Abstract

Using cross-state panel auto insurance premium data from 2007 to 2012 in the U.S., this study provides evidence that individual purchases of private auto insurance were excessively reduced during and after the U.S. subprime mortgage. Analyses show that the credit crunch triggered by a shock in house prices was a major contributing factor of the reduced consumption of auto insurance during and after the crisis. This result is robust even after controlling for associated factors such as insurance prices, personal spending on vehicles and general consumption, recession indicators and the use of alternative transportation. Tests also find that a drop in house prices was also related to the deterioration of underwriting performance. These findings provide evidence for a real effect of the banking crisis.

JEL Codes: G01, G22, E22

Keywords: banking crisis, credit, auto loan, insurance

1. Introduction

Banking crises tend to disproportionally reduce insurance purchases in post-crisis periods. To illustrate how insurance consumption suffered during and after the U.S. subprime crisis[2]. The premiums fell over the crisis years and remained below the 2006 level (100 in 2006) as of 2012[3], with the exception

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[2] The 2007-2009 US subprime crisis is considered a credit crisis with a banking panic. See, for instance, Gorton (2009).

[3] The premium level represents inflation-adjusted direct premiums written per capita. Premium data are taken from the NAIC annual statement from various years and the GDP, population and inflation data are obtained from the Bureau of Economic Analysis (EBA).