Discussion of Kirti and Singh (2025)

"The Insurer Channel of Monetary Policy"

Discussant: Sangmin Simon Oh (Columbia Business School)

7th IMF Annual Macro-Finance Research Conference

Recap

Objective

- How do life insurers, with their uniquely long-term liabilities, transmit monetary policy to the economy?

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- Transaction-level data from primary bond markets
- High-frequency analysis of monetary policy shocks
- Exploit a 2021 regulatory change in risk weights for insurers as a natural experiment

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- 10bp ↑ monetary policy shock ⇒ insurers' purchase share of corporate bonds 8pp ↓
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Important link between monetary policy and non-bank financial intermediation

Plan for Discussion

1. Paper's Contribution to the Literature
2. Insurer Demand and Long-Term Yields

Point 1. Paper’s Contribution to the Literature

Paper Structure

[1] Conventional Monetary Policy

↓ Prior Work: Hanson and Stein (2015)

This Paper: Figure 5 (long-term yields respond to interest rate shocks)

[2] Long-Term Yields

↓ Prior Work: Koijen and Yogo (2023), Brunetti, Foley-Fisher, and Verani (2023)

This Paper: Tables 3-5 (relative demand for corporate bonds)

[3] Insurer Investment Behavior

Prior Work: Foley-Fisher, Ramcharan, and Yu (2016)

↓ This Paper: Tables 8-9 (heterogeneity by bond shares, natural experiment exploiting regulatory change)

[4] Credit Risk Premia

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Channel of (Conventional) Monetary Policy: A Partial List

Interest Rate Channel (NK Benchmark)

Credit Channel

- Balance Sheet (Bernanke and Gertler, 1989)
- Bank Lending (Kashyap and Stein, 2000)
- Deposits (Drechsler, Savov, and Schnabl, 2017)

Exchange Rate Channel (Taylor, 1995)

Asset Price Channel (Modigliani, 1971)

Expectations Channel (Woodford, 2003)

Cost Channel (Barth and Ramey, 2001)

Risk-Taking Channel (Borio and Zhu, 2012)

Mortgage Refinancing Channel (Wong, 2019)

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- "Portfolio Rebalancing" (via Insurers) ← This Paper

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Suggestion 1:

Elaborate on the contribution of the paper in light of the broader literature on the transmission of conventional monetary policy

Point 2. Insurer Demand and Long-term Yields

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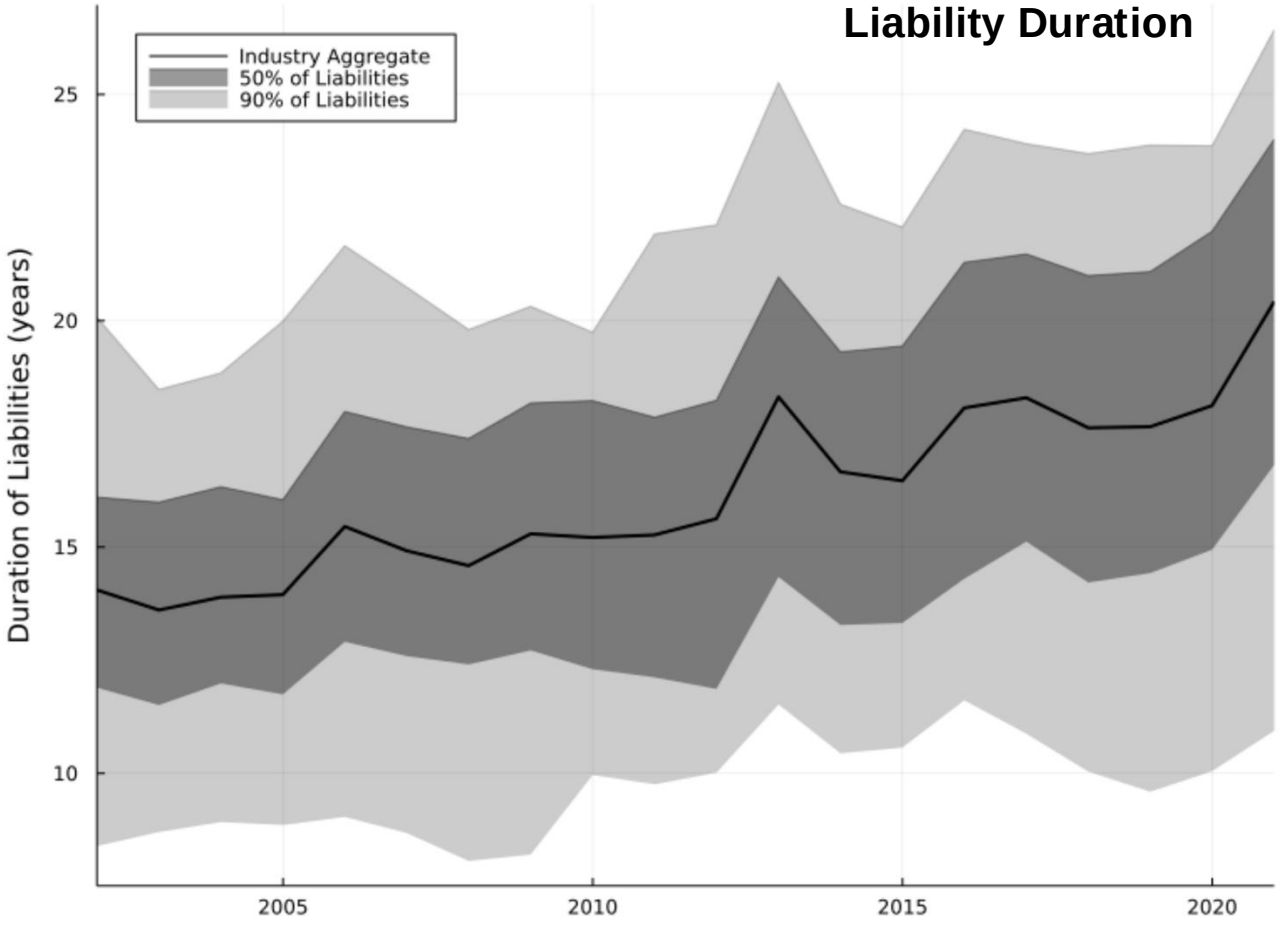
Portfolio Choice for (Life) Insurers

What We Know:

1. (Life) insurers are long-term investors.



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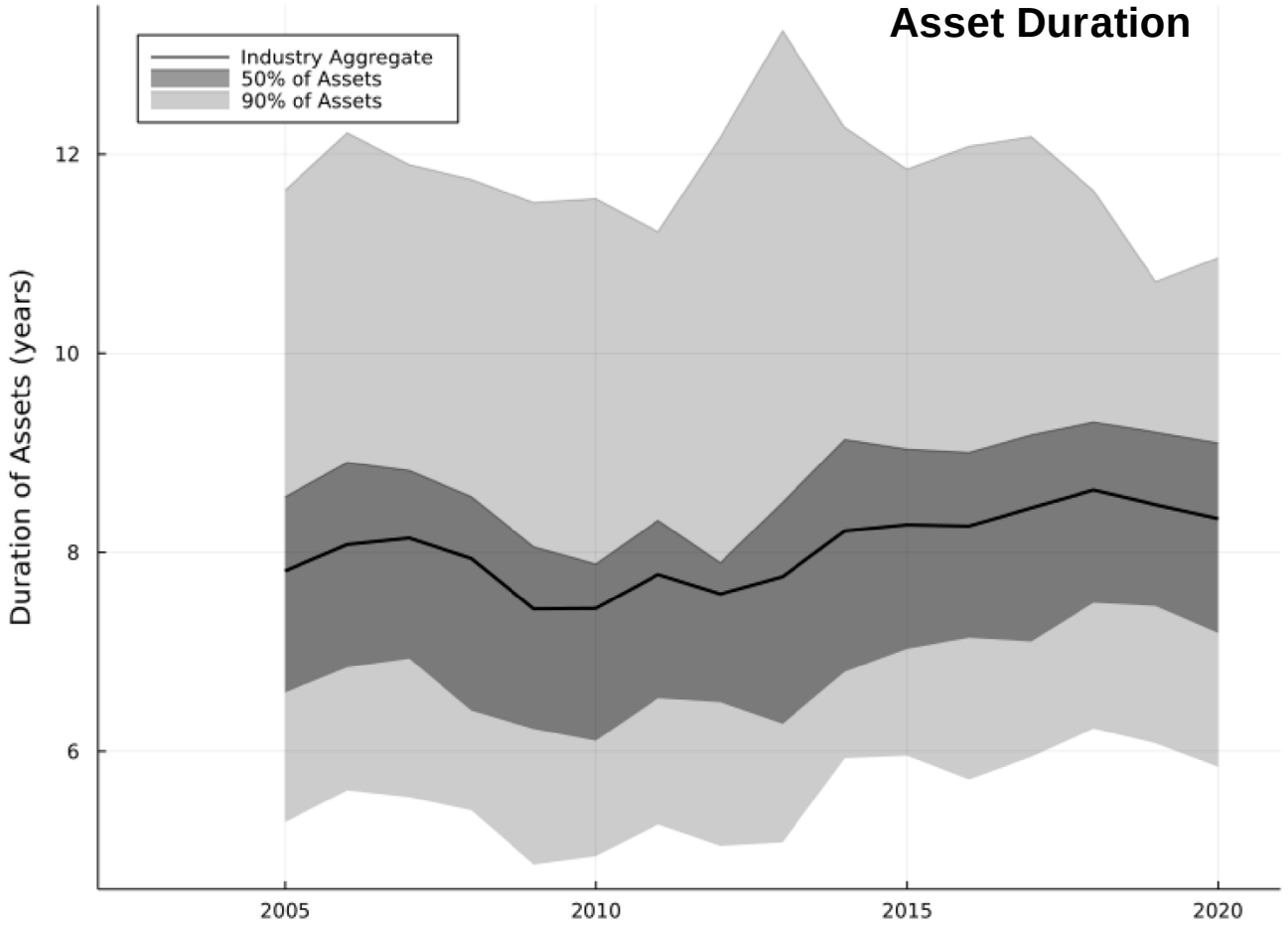

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What We Know:

1. (Life) insurers are long-term investors.
2. Long-term (inflation-indexed) Treasury bonds are the risk-free asset for long-term investors. (Cochrane, 2022)

Campbell and Viceira (2001), "Who Should Buy Long-Term Bonds?"

- Investor demand for long-term bonds has a (i) "myopic" component (for the risk premium), and (ii) "intertemporal hedging" component (for hedging interest rates)

Who Should Buy Long-Term Bonds?

By JOHN Y. CAMPBELL AND LUIS M. VICEIRA*

According to conventional wisdom, long-term bonds are appropriate for conservative long-term investors. This paper develops a model of optimal consumption and portfolio choice for infinite-lived investors with recursive utility who face stochastic interest rates, solves the model using an approximate analytical method, and evaluates conventional wisdom. As risk aversion increases, the myopic component of risky asset demand disappears but the intertemporal hedging component does not. Conservative investors hold assets to hedge the risk that real interest rates will decline. Long-term inflation-indexed bonds are most suitable for this purpose, but nominal bonds may also be used if inflation risk is low. (*JEL* G12)

Cochrane (2022), "Portfolios for Long-Term Investors"

- Focus on payoff streams rather than one-period returns

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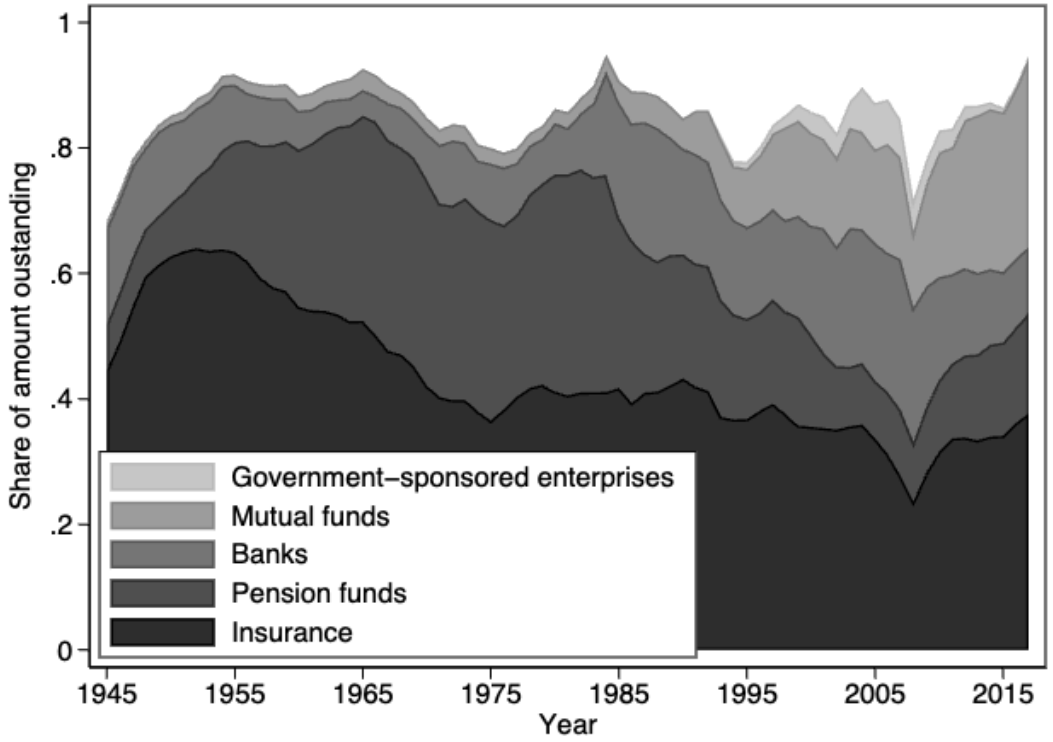

Koijen and Yogo (2023), "Understanding the Ownership Structure of Corporate Bonds"

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Suggestion 2a: Examine the level of demand, which is closer to standard portfolio choice

- Current specification focuses on relative demand (proxied by purchase share)

$$\text{Purchase Share}_{c,q} = \alpha_i + \delta_{r,q} + \beta_1 \text{T30 Spread}_{c,q} + \text{X}_{c,q} + e_{c,q}$$

- Use dollar purchases or log(purchase share) so that denominator is absorbed

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Suggestion 2b: Clarify primary vs. secondary market behavior

- Currently, authors focus on purchases within 3 months of issuance
- Showing purchase patterns as a function of time since issuance would present a fuller picture of how insurers adjust their portfolios
- Ultimately we are interested in: allocation at origination vs. dynamic portfolio rebalancing

Portfolio Choice for (Life) Insurers

Suggestion 2c: Potentially add an explicit conceptual framework to fix ideas

- Clarifying the object of measurement (e.g. purchase share)
- Distinguish between primary and secondary markets
- Sharpen hypotheses (e.g. role of regulatory reforms)

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- Shows how long-rate shocks propagate into credit spreads via insurer balance sheets (but focuses on secondary market spreads)

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[3] Cavaleri (2024), "A Preferred Habitat Model with a Corporate Sector"

- Preferred-habitat term structure model with both treasuries and corporate bonds
- Ideal for connecting changes in treasury supply, investor segmentation, and credit spreads (but more complex)

Final Thoughts

- Compelling evidence for a transmission channel of monetary policy through life insurers' investment behavior

- **Punchline:** MP affects long-term risk-free rates, thus shifting insurers' relative demand between treasuries and corporate bonds, ultimately affecting credit risk premia

- **A few suggestions for future iterations:**
  - Elaborate on the papers' contribution to the literature
  - Additional empirical tests to clarify mechanism
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- **A few questions prompted by the paper for the future:**
  - Relaxing the assumption of stickiness of liability returns
  - Path dependence in insurers' portfolios given the historical path of interest rates