## Discussion of Damast, Kubitza, and Sørensen (2025)

"Homeowners Insurance and the Transmission of Monetary Policy"

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**FIRS 2025** 

# 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)

\* Shamelessly taken from my previous discussion of Kirti and Singh (2025)

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Some examples based on analysis of Fed meeting minutes in the 2015-2023 period:

#### February 2023

"The staff assessed that vulnerabilities associated with financial leverage were notable. While bank leverage remained low and stable, some measures of leverage at life insurance companies had declined from high levels. In addition, available measures of hedge fund leverage remained somewhat elevated."

#### December 2022

"In the commercial real estate (CRE) market, banks and life insurance companies reportedly became more selective in their lending, with a shift toward higher-quality borrowers."

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#### December 2022

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#### Why not?

- Perhaps it doesn't matter for Taylor rule variables
- Perhaps there are no unexpected consequences with respect to short rates

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- Stylized model that links insurers' asset-duration gaps, capital regulation, and pricing
- Empirics based on state-level rate filings + insurer balance sheet micro-data
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### **Plan for Discussion**

- 1. Key Assumptions in the Framework
- 2. Using Rate Filings (and Potentially Other Data)

Point 1. Key Assumptions in the Framework

#### "A Model of Insurance Prices and Monetary Policy"

- Builds on series of papers by Ralph Koijen and Moto Yogo
- Each insurer faces downward-sloping demand with constant demand elasticity
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### Key Assumption #1: Law of Motion for Liabilities

- Expected claim normalized to  $1 \Rightarrow PV = e^{-r_f}$  ( $r_f$  set by the central bank)
- Insurer's total assets:  $A_i = A_i^0 + P_i Q_i$
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  - Likely not a function of monetary policy  $\checkmark$

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#### Key Assumption #2: Liabilities are not interest rate sensitive

- Unlike life insurers, P&C liabilities have shorter duration and not marked to market (with respect to changes in interest rates √
- <u>Caveat</u>: Litigations (e.g. asbestos) sometimes lead to long-tailed claims

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#### **Potential Other Channels for Monetary Policy**

- **1. Credit Spread Channel:** MP shocks affect not just  $r_f$  but also credit spreads
  - Credit spreads typically rise after a monetary policy tightening
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- Long-term yields rise in response to rise in short-term rates
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### 3. Demand Channel

- Higher mortgage rates reduce home purchases  $\Rightarrow$  lowers demand for HO insurance
- Higher premiums may lead to coverage downgrades or policy lapses, especially in price-sensitive regions

#### Suggestion 1a. Credit Spread Channel

- Interact monetary policy surprises with high-yield bond share
- This would capture the heterogeneity in exposure to credit spread widening not explained by duration alone

#### Suggestion 1b. Portfolio Rebalancing Channel

• Examine how share in treasuries / asset duration changes in response to monetary policy surprise (interacted with capital constraints)

#### Suggestion 1c. Demand Channel

 Exploit variation across states to test if premium responses to MP shocks are smaller in price-sensitive regions (= lower income, higher competition)

All three measures can be interacted in the price on MP regressions as well.

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#### Ultimately, results from these tests can help inform:

- Whether additional model ingredients are necessary,
- Whether the current estimates over-state or under-state the true effect of MP

Point 2. Using Rate Filings (and Potentially Other Data)

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Suggestion 3a. Consider "requested" price change in addition to "approved" price change

- Due to state-level regulations, final premiums reflect both insurance pricing decisions and regulatory approval
- Using the "requested" rate change ,ore directly reflects insurers' intended pass-through of monetary shocks, before negotiation or adjustment
- Also helps remove a layer of regulatory friction that likely varies by state

# **Complementary Data Sources**

It would be useful to have anecdotal validation of the mechanism that authors have in mind.

#### Suggestion 3b. Rate Filings

• The full content of the rate filings are available, which includes both the detailed contents of the filing and the correspondence with the regulators.

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2017- 2021 ISO Fast Track data matches the 2021Q4 ISO Fast Track File source we use (circular AS-HO-2022-005 - 004). This comes "All POLICY FORMS COMBINED - EXCLUDING LOSSES ATTRIBUTED BY CATASTROPHES" table. 2015-2016 were from prior years' fast track data. PDF "AS-HO-2022-005 - 004 -Exhibits FT-HO - Fast Track - CA" is attached with highlighted cells used for the exhibit.

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#### Suggestion 3c. Earnings Conference Calls

• Do insurers complain about high interest rates (and deteriorating balance sheets)?

# **Final Thoughts**

- Thought-provoking evidence for a transmission channel of monetary policy through P&C insurers' product pricing behavior
- **Punchline:** MP hikes hit insurers' balance sheets, leading to higher HO insurance premiums that feed through weaker house prices and mortgage demand
- A few suggestions for future iterations:
  - Address key assumptions in the framework
  - Use of rate filings and other sources of insurer information
- A few questions prompted by the paper for the future:
  - Should monetary policymakers care about the insurance sector?
  - Optimal monetary policy in a era with intensive financial intermediation
- Very much looking forward to the next version!