

Efficiency and Scale Economies in the Japanese Non-life Insurance Industry

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Abstract

This paper studies efficiency and scale economies in the Japanese non-life insurance industry using data envelopment analysis (DEA). Japanese non-life insurers generally score quite high in technical efficiency but low in allocative efficiency which implies that they are not good in using the best cost minimizing input mix. The findings also reveal that cost and scale efficiency increase with larger size but diminish if beyond the minimum efficient scale. There are positive relationships between diversity in line-of-business and cost efficiency. Against the recent background of mergers and acquisitions among the big insurers, this paper offers a cautionary note to these mega insurers.

JEL classification: D20, D24, G22

Keywords: Data envelopment analysis, economies of scale, efficiency, Japanese non-life insurance industry