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Does Competition Really Promote Risk Management?

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Abstract:

In this paper, we use an economic model to investigate the relationship between the number of firms and risk management (RM). We focus on two points. First, we examine how the number of firms affects the emergence of an equilibrium in which all firms conduct RM. Second, we investigate the characteristics of the equilibrium.

Our main findings are as follows. First, the number of firms has an ambiguous effect on whether all firms conduct RM. In other words, we were unable to determine the effect of the number of firms (and hence competitive conditions) on the emergence of an equilibrium in which all firms conduct RM. Second, the four exogenous variables that determine the characteristics of the equilibrium are potential demand, the cost of RM, the discount rate, and the degree of pressure to exit the market.

Keywords:

Risk management, Accidents, Economic model