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The Information Content of Earnings Announcements in the European Insurance Market: An Event Study Analysis

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Corporate finance developed a long tradition of company evaluation based on expected long term economic results. In the case of listed companies, these expectations can be integrated with price information forming in financial markets.

Traditionally, quality and completeness of information flows lower information asymmetries between stakeholders, reducing the potential gap between stock prices and company value. At the same time, an increased frequency of information rises concerns about the cost of its production, the potential entry barrier on financial markets that it represents, and the likelihood that it might promote a focus on short-termism rather than a more precise company valuation.

Recently, the European Union removed the obligation for quarterly financial reporting, pushing exchanges and Member countries to reconsider advantages and disadvantages of choosing to keep or not the previous framework. In particular, the issue revolves around the role played by quarterly reporting towards transparency, in influencing the cost of capital of firms, and in favouring efficiency and stability of financial markets.

In the stream of this debate, this study examines if and how interim reports influence shareholders. More specifically, the information content and the timely disclosure of quarterly and half-year results incorporated in stock prices, in addition to the annual accounts, are used to identify potential abnormal returns and abnormal trading volumes.

The analysis is conducted on a sample of the most important European Insurance companies included in the STOXX® Europe 600 Insurance index, over the period 2007-2016.

An event study methodology has been adopted to highlight market reaction before and after earning announcements, distinguishing the conveyed information in good news, bad news and no news. Moreover, the volume behavior is analyzed in relation to the price dynamics and attained equilibrium after earnings release.

We expect insurers' stocks to prove insensitive to interim report information, due to their unique business model and the difficulties in analysing their financial data in the short term. However, we also expect insurers that issue significant amounts of financial products (non-traditional, non-insurance) to express a higher level of sensitivity. Finally, we expect this sensitivity to differ across countries and, in particular, stock exchanges where securities are listed, due to differences in

investors' operativeness. Our results would add more insight to the European discussion on costs and benefits of removing the obligation to publish quarterly reports.

Keywords: post-earnings-announcement drift, stock prices, volume trading, insurance market, event study