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Diversification–Performance Nexus in Insurance: A Systematic Review and Institutional–Contingency Framework

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Abstract

This systematic review examines why empirical studies report conflicting effects of diversification on insurer performance and under what governance, risk-management, and institutional conditions diversification creates or destroys value. Following a PRISMA 2020-guided search of Scopus, Web of Science, and Google Scholar, and after screening 238 of the 415 identified records, the review synthesizes 56 empirical studies and develops a multi-level institutional–contingency framework that integrates institutional theory, the resource-based view, and agency theory. The review finds that diversification premiums, discounts, and non-linear effects coexist across the literature rather than forming a single dominant pattern, because—across product, geographic, human capital, and technological diversification—outcomes depend on institutional context, governance quality, ERM maturity, and firm capabilities rather than on diversification per se. Theoretically, the review moves the field beyond a premium-discount binary by explaining how institutional conditions, resource-based execution capacity, and agency problems interact across contexts. Practically, it indicates that insurers should evaluate diversification as a governance-sensitive risk-management decision requiring ERM maturity, internal controls, and incentive alignment, rather than as a standalone growth strategy.

Keywords: diversification; performance; insurance; systematic literature review; corporate governance; risk management; enterprise risk management; institutional theory; resource-based view; agency theory

JEL Classification: G22; G32; G34; L25



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1. Introduction

For decades, the strategic value of diversification strategy has been one of the most debated topics in business and management literature, with seminal works by scholars like [Rumelt \(1974\)](#) and [Montgomery \(1994\)](#) establishing the foundation for a rich stream of inquiry. While this research has studied numerous industries, from manufacturing to technology, the unique context of the financial services sector—and specifically, the insurance industry—presents a particular set of challenges and opportunities that require detailed investigation. The business of insurance is, in nature, the business of managing risk ([Andreeva 2020](#)). Hence, unlike a manufacturing company for which diversification is

basically a growth or market-power strategy, for an insurer, diversification is a fundamental risk management mechanism (Berger et al. 2000). Diversification decisions in insurance firms are not merely expansion decisions; they are also risk-governance decisions that affect underwriting concentration, earnings volatility, capital adequacy, solvency resilience, and managerial control. While diversification can improve risk pooling and income stability, it can also increase organizational complexity, weaken strategic focus, and create agency costs when governance structures and enterprise risk management systems are insufficient (Chen et al. 2023; Gleißner and Berger 2024; Parsaei et al. 2024). Understanding the performance consequences of diversification therefore requires an integrated perspective that connects governance quality, risk-management capability, firm resources, and institutional context.

Existing insurance research reports three specific and competing findings. A group of researchers suggests a “diversification premium,” presenting evidence that diversified insurers achieve superior performance through economies of scope and more stable income streams (e.g., Hsieh et al. 2015; Ortyński 2019). A second camp points to a “diversification discount,” arguing that complexity, the challenges of governance, and a corrosive loss of strategic focus ultimately destroy value (e.g., Liebenberg and Sommer 2008; Lee 2017; Shojaei and Almansour 2025). Lastly, a third wave of studies suggests the relationship is more complex still, following a mixed, non-linear or inverted U-shaped relationship where the initial benefits of diversification eventually lead to diseconomies of scope (e.g., Elango et al. 2008; François Outreville 2012; Srbinoski et al. 2025). These findings suggest that the diversification-performance (D-P) relationship is conditional rather than universally positive or negative. Furthermore, “diversification” is not a monolithic strategy but a multi-dimensional concept encompassing choices about products, geography, personnel, and technology.

To address this unresolved issue, this review asks when, why, and under what governance and risk-management conditions diversification improves or damages insurer performance. The primary contribution of this review is to integrate institutional theory, the resource-based view, and agency theory into a unified, hierarchically structured contingency framework. The framework’s novelty lies in how these perspectives are ordered: institutional theory is positioned as the overarching macro-level contingency that determines which firm-level logic governs the relationship in a given setting, with resource-based view (RBV) and agency theory nested within it. No prior D-P review, particularly in insurance, has structured these three perspectives hierarchically in this way to systematically reconcile premium, discount, and non-linear findings across markets. The argument is that the pressures, opportunities, and ultimate financial logic of diversification are dictated by the institutional “rules of the game” in a given market (North 1991). Within that overarching context, the resource-based view and agency theory are then used to explain firm-level heterogeneity. Consequently, an insurer’s success is ultimately determined by whether its internal capabilities are a match for the external institutional demands and whether its governance structure can keep managerial incentives aligned with value creation (Shojaei 2024; Barney 1991; North 1990; Jensen and Meckling 1976). In offering this context-dependent resolution, this review aims to move the literature beyond the premium–discount debate and toward a more predictive and managerially relevant understanding of diversification as a governance-sensitive risk-management decision in insurance firms, thereby contributing to research on corporate governance, risk management, and financial-institution performance.

The remainder of the manuscript is organized as follows. Section 2 explains the systematic review method and coding procedure. Section 3 synthesizes the premium, discount, and non-linear explanations and discusses methodological heterogeneity. Section 4 distinguishes the main diversification dimensions. Sections 5 and 6 develop and synthesize

the institutional–contingency framework. Section 7 presents the future research agenda, Section 8 discusses limitations, and Section 9 concludes the review.

2. Methodology

To synthesize the extensive and often fragmented body of research on the D-P nexus, this study adopts a systematic literature review methodology, an approach recognized for its rigour and transparency in management studies (Simsek et al. 2025). The execution and reporting of the review strictly adhere to the guidelines set forth in the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 statement (Luu et al. 2026). No formal review protocol was registered in PROSPERO or any other systematic review registry. However, the review procedures were specified before the final screening stage, including the research question, information sources, search terms, eligibility criteria, screening process, data extraction fields, and synthesis strategy. A completed PRISMA 2020 checklist is provided in Supplementary S1 (Table S1), and the PRISMA 2020 flow diagram is reported in this article. No automation tools were used to screen or exclude records. Title-and-abstract screening, full-text eligibility assessment, and data extraction were conducted by two members of the author team using the pre-specified eligibility criteria and a structured coding sheet, and were subsequently reviewed by the co-authors. Screening and coding decisions, together with the recorded market context, insurance sector, diversification type, performance measure, research design, and reported D-P outcome, were documented in the structured coding sheet to support transparency and consistency. Google Scholar was used as a supplementary search source rather than as the sole basis for study identification. To improve reproducibility, the Google Scholar search was conducted on the same final search date as the database searches, using the same core search terms, and the retrieved records were manually exported into the screening spreadsheet with title, author, year, source, DOI or URL where available, and duplicate status. Because Google Scholar does not support fully systematic export, its records were screened in relevance-ranked order, and screening continued until successive result pages no longer returned eligible insurance D-P studies; the retrieved Google Scholar records therefore reflect relevance-bounded screening to saturation rather than an exhaustive export. Given that these results can also vary over time and by search settings, they were treated cautiously and de-duplicated against Scopus and Web of Science records before screening. Figure 1 illustrates the temporal distribution of the included D-P studies in the insurance industry, highlighting a marked acceleration in scholarly attention in the recent decade.

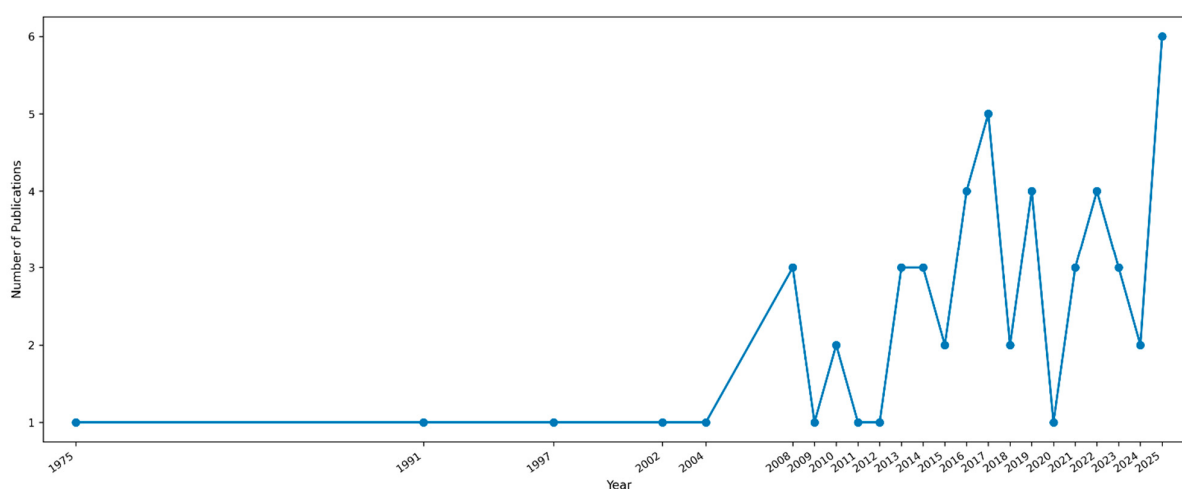


Figure 1. Distribution of D-P publications in insurance industry over time. Source: Generated by authors.

The search strategy combined insurance-sector terms, diversification terms, and performance-outcome terms. The full search string was: (“insurance” OR “insurer” OR “reinsurance” OR “reinsurer”) AND (“diversification”) AND (“financial performance” OR “profitability” OR “efficiency” OR “solvency” OR “firm value” OR “value” OR “Tobin’s Q” OR “market valuation”). The term “diversification” was retained as the core strategy term because the review focuses on the established diversification–performance research stream, where diversification is the focal construct used to connect strategic scope with firm performance, consistent with the wider D-P review literature (Bausch and Pils 2009; Ahuja and Novelli 2017; Schommer et al. 2019). To preserve conceptual precision, the review therefore excluded broader studies of product design, market expansion, or strategic change that did not explicitly theorize diversification as the mechanism linking strategic scope to firm performance. However, to reduce terminology bias and improve inclusiveness, the terminology sensitivity check tested two additional terms that are established within the diversification–performance literature: “related diversification” and “unrelated diversification” (Datta et al. 1991; Martin and Sayrak 2003). These terms were included because they represent recognized forms of diversification rather than distinct strategic constructs. By contrast, broader generic terms such as “scope,” “product mix,” “multi-line insurers,” “focus,” and “specialization” were not used as standalone search terms because they may refer to organizational form, product structure, or strategic positioning without necessarily treating diversification as the focal explanatory construct. Their indiscriminate inclusion would therefore risk conceptual drift beyond the defined D-P nexus and reduce search precision. The PRISMA counts reported in this study reflect the final search and screening process after this terminology sensitivity check. Following the literature (Gusenbauer and Haddaway 2020), the search was conducted in Scopus, Web of Science, and Google Scholar, with no publication-date restriction, and was limited to English-language peer-reviewed journal articles. The final search was conducted on 5 February 2026. The initial database search identified 415 records: Scopus ($n = 96$), Web of Science ($n = 81$), and Google Scholar ($n = 238$). After removing 177 duplicates, 238 unique records remained for title and abstract screening. Records were excluded at the screening stage if they were not focused on insurance or reinsurance, did not examine diversification, did not report firm-level financial or performance outcomes, were not peer-reviewed journal articles, or were not written in English. Sixty-five full-text reports were then assessed for eligibility. Full-text reports were included if they provided explicit empirical evidence or substantive theoretical analysis linking diversification to financial performance, profitability, efficiency, solvency, firm value, or market valuation in insurance firms. Nine full-text reports were excluded because they did not meet these criteria, leaving 56 studies for qualitative synthesis. Table 1 provides a concise overview of the core empirical studies included in the qualitative synthesis. It summarizes each study’s geographic context, insurance sector, type of diversification studied, performance measures employed, principal findings regarding the D-P relationship, and the research design of each study. This structured summary supports transparency and facilitates comparison across studies prior to the thematic synthesis presented in the subsequent sections. Beyond descriptive comparison, the geographic distribution and performance outcomes summarized in Table 1 form the empirical basis for identifying cross-contextual patterns, which are subsequently synthesized into the institutional–contingency framework developed in the article. Where studies reported mixed or conditional findings, classification was based on the researchers’ primary conclusion regarding the dominant D-P effect. Additionally, the Diversification Type column reflects the primary diversification dimension examined in each study’s main research question.

Table 1. Summary of empirical studies on the D-P nexus in the insurance industry. Source: Generated by authors.

Author(s)	Market	Sector	Diversification Type	Performance Measure	Key Result	Research Design
Che et al. (2017)	US	Property–Liability	Product	Loss ratio and investment return	Mixed	Panel (FE/2SLS)
Alzoubi (2020)	Jordan	Composite	Product	Net income/total assets	Non-linear	Panel (FE)
François Outreville (2012)	International	Reinsurance groups	Geographic	Underwriting performance	Non-linear	Cross-sectional OLS
Elango et al. (2008)	US	Property–Liability	Product	ROA, ROE & Tobin’s Q	Non-linear	Panel (FE/RE)
Garba and Abubakar (2014)	Nigeria	Composite	Human capital	ROA, ROE & Tobin’s Q	Premium	Panel (FGLS/RE)
Wu and Deng (2021)	China	Property–Liability	Product	Solvency ratio	Non-linear	Dynamic Panel (GMM)
Elyasiani et al. (2016)	International	Composite	Product	Stock returns	Mixed	GARCH
Peng and Lian (2021)	China & India	Life	Product	Efficiency	Discount	DEA
Wisudanto et al. (2019)	Indonesia	Composite	Product	RAROA	Discount	Panel (FE)
Shojaei (2023)	Iran	Composite	Product, Geographic & Human capital (staff)	ROA and ROE	Discount/Premium	Panel (FE)
Peng et al. (2017)	Taiwan	Composite	Product	Efficiency	Premium	DEA & Regression
Murithi et al. (2023)	Kenya	Composite	Geographic	Market share	Discount	OLS Regression
Upadhyaya and Kharel (2025)	Nepal	Non-life	Product	Net profit	Premium	Panel (RE)
Meador and Ryan (1997)	US	Life	Product	Efficiency	Premium	Panel (FE/GLS)
Wambui and Kavale (2022)	Kenya	Composite	Product & Geographic	ROA, ROE, Profit margin, Market share	Premium	Cross-sectional OLS
Murithi et al. (2022)	Kenya	Composite	Product	ROA	Premium	Panel (Pooled OLS)
Muthinja et al. (2025)	Kenya	Composite	Product	ROA, ROE & solvency margins	Premium	Cross-sectional OLS
Liebenberg and Sommer (2008)	US	Property–liability	Product & Geographic	ROA, ROE, Tobin’s Q	Discount	Panel (OLS)
Krivokapić et al. (2017)	Serbia	Composite	Product	Risk-adjusted ROA & ROE	Premium	Panel (FE/GLS)
Alam (2023)	Pakistan	Composite	Product	ROA & Tobin’s Q	Non-linear	Panel (OLS)
Ramadhan (2021)	Kenya	Composite	Product & Geographic	Profitability, market share & investment returns	Premium	Cross-sectional OLS
Lei and Schmit (2010)	US	Liability	Product & Geographic	ROA	Premium	Panel (OLS)
Emm (2014)	US	Property–liability & life	Product	Profit efficiency	Discount	Cross-sectional efficiency analysis
Septina (2022)	Indonesia	Life	Product	ROE	Discount	Panel (FE)
Shim (2011)	US	Property–liability	Product	RAROA & RAROE	Discount	Panel Regression
Klarner and Raisch (2013)	Europe	Composite	Technology	Long-term profitability	Premium	Panel (OLS)

Table 1. Cont.

Author(s)	Market	Sector	Diversification Type	Performance Measure	Key Result	Research Design
Anxellin et al. (2025)	International	Composite	Product	Z-Score	Premium	Panel (FGLS)
Shi et al. (2016)	US	Health	Product	ROA, ROC, RAROA & RAROC	Premium	Panel (FE)
Ortyński (2019)	Poland	Non-life	Product	Profitability ratios	Premium	Panel (OLS)
Duijm and Van Beveren (2022)	Netherlands	Property–liability	Product	ROA	Non-linear	Panel (FE)
Savitha et al. (2019)	India	Life	Product	DEA & Malmquist TFP	Discount	DEA & Regression
Lee (2017)	Taiwan	Property–liability	Product	RAROA & RAROE	Discount	Panel (OLS/FE/RE)
Srbinoski et al. (2025)	North Macedonia	Non-life	Product	ROA & ROE	Non-linear	Panel (FE/RE)
Li and Greenwood (2004)	Canada	Property–liability	Product	ROA & ROE	Non-linear	Panel (RE)
Ma and Elango (2008)	US	Property–liability	Geographic	RAROA	Non-linear	Panel (FE/RE)
Harris and Katz (1991)	US	Life	Technology	Operating cost ratios	Premium	Panel (OLS)
Shim (2017)	US	Property–liability	Product	RAROA	Non-linear	Quantile Regression
Hu et al. (2018)	China	Composite	Product	Accounting-based profitability	Non-linear	Panel (FE)
Moro and Anderloni (2014)	Europe	Non-life	Product	ROA & ROE	Non-linear	Panel (FE/RE)
Min and Mitsuhashi (2016)	Japan	Non-life	Product	Accounting-based profitability	Discount	Panel (FE)
Shojaei and Almansour (2025)	Iran	Composite	Technology	ROA & ROE	Discount	Regression (PLS-SEM)
Nuryatno and Yulianti (2017)	Indonesia	Composite	Product	ROE	Premium	Panel (FE)
Ai et al. (2018)	US	Property–casualty	Product	ROA; ROE & Tobin’s Q	Premium	Panel (FE)
Cole and Karl (2016)	US	Health	Product	ROA & ROE	Premium	Panel (FE/RE)
Yin (2009)	Malaysia	Non-life	Product	Expense ratio	Non-linear	Panel (FE)
Hsieh et al. (2015)	International	Property–liability	Product	Profitability; risk & leverage	Premium	Dynamic Panel (GMM)
Rathnasiri and Buddhika (2024)	India, Pakistan, Sri Lanka	Composite	Product	ROE	Discount	Panel regression
King (1975)	US	Property–liability	Product	Market performance	Discount	Comparative/ Descriptive analysis
Shojaei (2024)	Iran	Composite	Technology	ROA & ROE	Discount	Regression (PLS-SEM)
Firoozbakht and Hoshyare (2025)	Iran	Composite	Product	Financial success & asset value	Premium	Panel (OLS)
Cummins and Nini (2002)	US	Property–liability	Product & Geographic	Revenue efficiency & ROE	Discount	DEA & Regression
Cummins et al. (2010)	US	Composite	Product	Cost, revenue & profit efficiency	Discount	DEA & Regression

Table 1. *Cont.*

Author(s)	Market	Sector	Diversification Type	Performance Measure	Key Result	Research Design
Berry-Stölzle et al. (2013)	International	Property–liability	Product	ROA & Tobin’s Q	Mixed	Panel (FE)
Wisudanto et al. (2019)	Indonesia	Composite	Product	RAROA	Discount	Panel (FE)
Cummins and Xie (2013)	US	Property–liability	Product	Firm value & efficiency	Premium	DEA/MPI
Biener et al. (2016)	Switzerland	Composite	Geographic	Firm value & efficiency	Premium	DEA, MPI & Regression

Note: OLS = ordinary least squares; FE = fixed effects; RE = random effects; FE/RE = fixed-effects/random-effects models; GMM = generalized method of moments; 2SLS = two-stage least squares; DEA = data envelopment analysis; FGLS = feasible generalized least squares; GLS = generalized least squares; GARCH = generalized autoregressive conditional heteroskedasticity; PLS-SEM = partial least squares structural equation modelling; MPI = Malmquist productivity index; TFP = total factor productivity; ROA = return on assets; ROE = return on equity; ROC = return on capital; RAROA = risk-adjusted return on assets; RAROE = risk-adjusted return on equity; RAROC = risk-adjusted return on capital.

Data extraction was conducted using a structured coding sheet. For each included study, the following information was extracted: author(s), year, market or country context, insurance sector, diversification type, performance measure, key D-P result, research design, and main interpretation of the diversification effect. These items were selected to support a qualitative synthesis rather than a statistical meta-analysis because the included studies differed substantially in their samples, measures, research designs, and estimation methods.

No common effect measure was recalculated across studies. The classification proceeded in three steps. First, the reported diversification coefficient, marginal effect, efficiency comparison, or authors’ stated interpretation was recorded for each performance outcome. Second, studies were coded as premium when the dominant reported association between diversification and performance was positive, discount when the dominant association was negative, non-linear when the study explicitly estimated or concluded a curvilinear, inverted U-shaped, U-shaped, threshold, or diminishing-return relationship, and mixed/conditional when findings differed materially across outcomes, diversification dimensions, model specifications, or institutional subsamples. Third, where a study reported several models, the preferred specification identified by the original authors was used; if no preferred model was stated, the classification was based on the model with the strongest design for the research question, giving priority to panel, endogeneity-adjusted, and risk-adjusted specifications over simple pooled or cross-sectional estimates. Borderline cases were cross-checked against each study’s context, performance measure, research design, and main interpretation before final coding. This coding should therefore be interpreted as an analytical classification of each study’s dominant reported conclusion, not as a claim that all studies fit perfectly or exclusively into one outcome category. This caution is particularly relevant for studies reporting multiple performance measures, different model specifications, or conditional effects across diversification dimensions and institutional subsamples. A formal risk-of-bias tool or certainty-of-evidence grading system was not applied, as the review synthesizes heterogeneous empirical studies in insurance rather than comparable clinical trials or intervention studies. However, methodological features relevant to the credibility of the evidence, including research design, treatment of endogeneity, performance measurement, diversification measurement, and estimation strategy, were considered during the synthesis and are discussed particularly in Section 3.4.

The synthesis followed a structured narrative approach. Findings were tabulated and compared across diversification type, institutional context, performance measure, and research design. Heterogeneity was examined by considering whether premium, discount, non-linear, and mixed findings clustered by market context, method, or diversification

dimension. A formal meta-analysis and statistical reporting-bias assessment were not conducted because the reviewed studies did not report sufficiently comparable effect sizes, outcome definitions, or model specifications.

Figure 2 reports the PRISMA 2020 study-selection process. The database search identified 415 records, of which 177 were removed as duplicates. The remaining 238 records were screened by title and abstract, leading to the exclusion of 173 records. Sixty-five full-text reports were assessed for eligibility, and nine were excluded after full-text assessment. The final qualitative synthesis therefore included 56 studies. The structured narrative synthesis was informed by established guidance on narrative and systematic literature reviews and moved beyond simple vote-counting by comparing findings across diversification type, institutional context, research design, and reported D-P outcome (Snyder 2019; Popay et al. 2006).

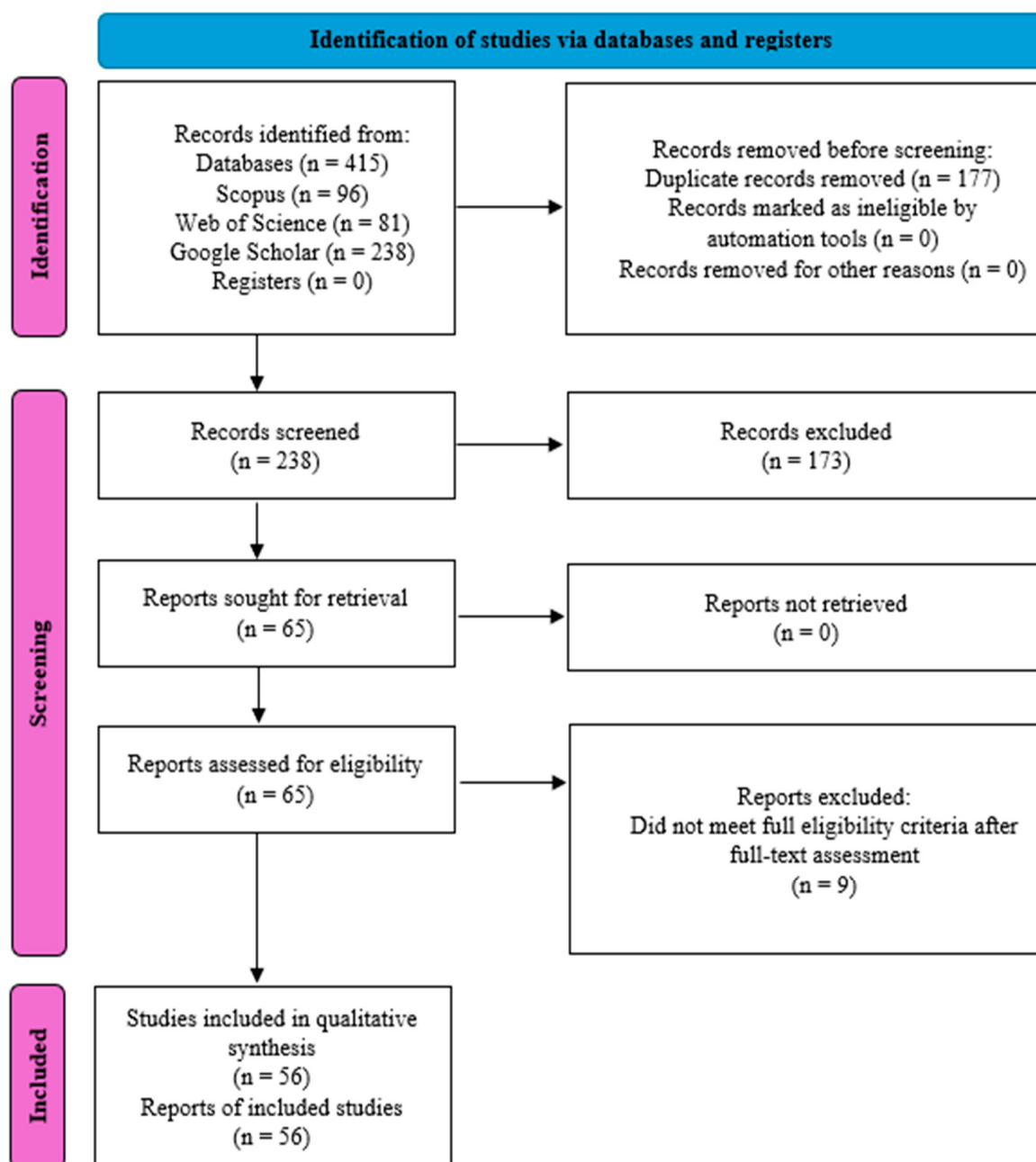


Figure 2. PRISMA 2020 flow diagram of the study selection process. Source: Adapted from Page et al. (2021).

3. The Theoretical Impasse: Competing Explanations for the Diversification–Performance Relationship

Collectively, the 56 reviewed studies do not reflect a single unresolved debate but rather four broad empirical patterns: approximately 39% report a diversification premium, approximately 30% report a diversification discount, approximately 26% identify non-linear relationships, and the remaining 5% report mixed or conditional findings that resist clean classification. Three theoretical logics underpin these patterns: linear arguments supporting a diversification premium, linear arguments predicting a diversification discount, and a growing body of work proposing non-linear relationships in which the performance effects of diversification vary across levels and contexts. The arguments for a diversification premium are most commonly associated with portfolio and resource-based theories, while the logic of a diversification discount is often linked to agency-theoretic explanations, although each perspective can yield different performance implications depending on institutional context and firm-level execution. However, the third perspective extends these arguments by suggesting that the D-P relationship is non-linear by nature, such that the benefits and costs of diversification change across different levels of diversification and organizational contexts.

3.1. *The Case for a Premium: Portfolio and Resource-Based Logics*

The oldest and most intuitive argument for diversification flows from portfolio theory (Markowitz 1952). The central idea is that by combining imperfectly correlated income streams, an insurer can smooth its earnings, reduce volatility, and thereby lower its cost of capital. Approximately 40% of the examined empirical studies report a positive D-P relationship, particularly in analyses emphasizing income stability, and commonly interpret these findings through the lens of portfolio-based risk-pooling effects (e.g., Hsieh et al. 2015; Ortyński 2019). A more contemporary justification, the resource-based view (RBV), proposes that diversification creates value not merely by spreading risk, but by leveraging a firm's unique and inimitable resources across new domains (Barney 1991; Wernerfelt 1984). An insurer's proprietary underwriting database, its trusted brand, or its superior digital platform are all resources that can be deployed into a new product line at low marginal cost, creating powerful economies of scope (Barney 1991; Teece et al. 1997). Studies that connect diversification success to superior internal capabilities, such as advanced technologies, gender diversity or specialized human capital, provide robust support for this perspective (e.g., Lei and Schmit 2010; Ai et al. 2018; Garba and Abubakar 2014). The strategic implication is that insurers should diversify first into lines or markets where income streams are weakly correlated and where existing underwriting data, brand reputation, distribution channels, analytics, or claims capabilities can be redeployed at low marginal cost. Portfolio theory therefore explains the volatility-reduction mechanism, while the RBV explains the capability-transfer mechanism through which diversification becomes value-creating.

3.2. *The Case for a Discount: Agency Theory and Governance Failure*

In contrast, agency theory offers the primary intellectual foundation for the diversification discount. This view suggests that managers, if not perfectly monitored, may pursue diversification for reasons of self-interest rather than shareholder value (Joubert 2024). They might engage in "empire-building" actions to enhance their own prestige and compensation, or they may diversify simply to reduce their personal employment risk, even if it harms shareholder returns (Jensen 1986). This pursuit leads to significant agency costs, manifesting as overextended bureaucracies, a loss of strategic focus, and an inefficient allocation of capital across divisions. The result is often a firm that is worth less than the sum of its parts. Approximately 30% of the studies reviewed document a diversification-

related performance discount and frequently attribute this outcome to governance failures, agency problems, managerial overreach, and weak risk oversight. The mechanism is sequential: diversification increases organizational scope; wider scope raises coordination and monitoring costs; weak oversight allows cross-subsidization and managerial overinvestment; and these costs then appear as lower profitability, weaker efficiency, or reduced market valuation.

3.3. Beyond Linearity: Inconsistent, Non-Linear, and S-Shaped Relationships

A third, increasingly influential stream of research—accounting for approximately 26% of the reviewed studies—moves beyond the restrictive assumption of linearity, arguing that the D-P relationship is fundamentally non-linear. This perspective helps reconcile the conflicting premium and discount findings by suggesting they may simply be different points along a more complex curve. The most frequently documented pattern is an inverted U-shaped relationship, where moderate levels of diversification enhance performance, but excessive diversification destroys value as the costs of complexity outweigh initial gains (Elango et al. 2008; Srbinoski et al. 2025). More complex forms, such as an S-shaped curve, have also been proposed in broader strategy research, suggesting performance may decline at intermediate levels before recovering at very high levels of diversification (François Outreville 2012). This non-linear view concludes that the shape of the performance curve is not fixed but is contingent upon firm-specific capabilities and external market conditions, requiring a more dynamic assessment than simple linear models consider (Duijm and Van Beveren 2022). Figure 3 summarizes the distribution of empirical findings on the D-P relationship, showing that premiums, discounts, non-linear and mixed effects coexist, with no single outcome clearly dominating the literature. Mechanistically, premium findings are generally explained by risk pooling, income smoothing, and economies of scope, whereas discount findings are generally explained by diseconomies of complexity, duplicated control systems, weaker line-level accountability, and exhausted managerial attention.

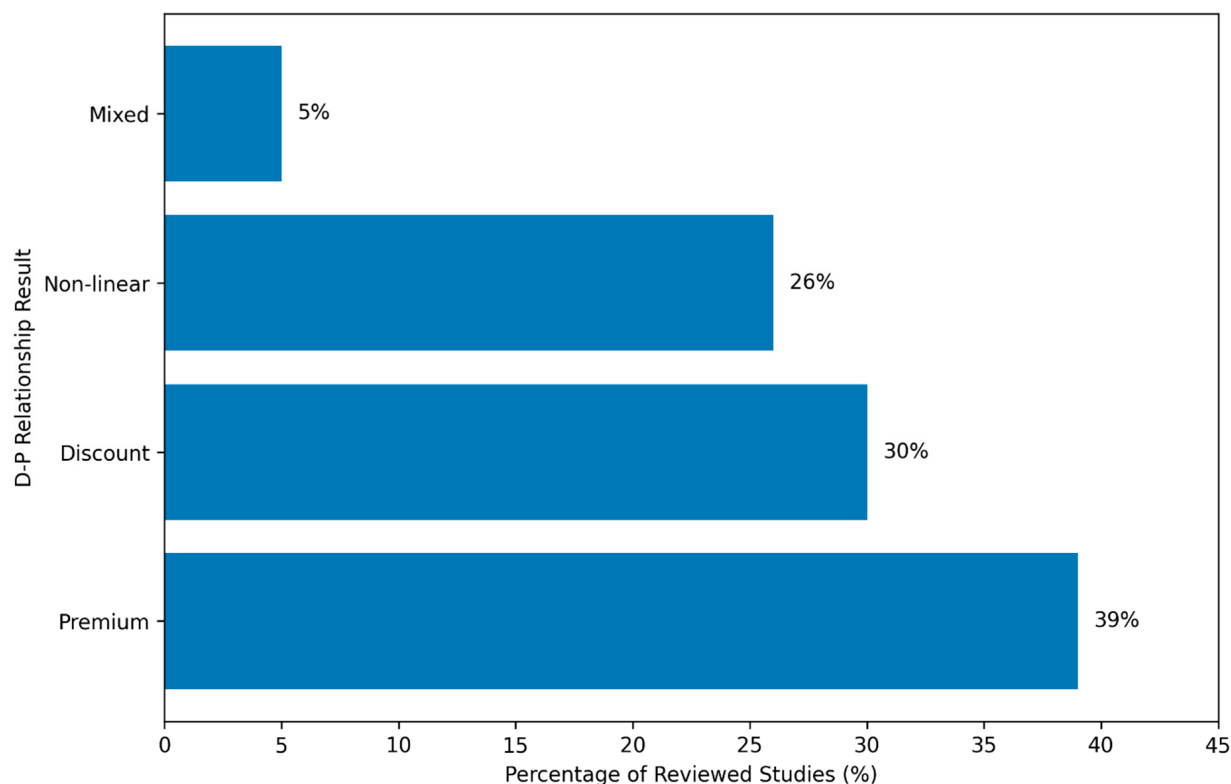


Figure 3. Summary of D–P relationship results in insurance industry. Source: Generated by authors.

3.4. Research Design and Patterns of Evidence

The three theoretical patterns described above—premium, discount, and non-linear—do not emerge uniformly across research designs, and methodological heterogeneity is itself a material explanation for the contradictions documented in the literature. A systematic reading of the 56 reviewed studies reveals observable associations between the choice of empirical method and the direction of reported findings, even when institutional context and diversification type are held roughly constant. Studies relying on cross-sectional OLS or short pooled panels without endogeneity controls are disproportionately represented among those reporting a diversification premium. In the reviewed sample, premium findings cluster notably among cross-sectional designs: [Wambui and Kavale \(2022\)](#), [Muthinja et al. \(2025\)](#), and [Ramadhan \(2021\)](#) all employ cross-sectional OLS and report a premium, as does [Murithi et al. \(2022\)](#) using pooled OLS. This pattern is consistent with the selection bias critique established by [Campa and Kedia \(2002\)](#) and [Villalonga \(2004\)](#): because firms that diversify tend to be systematically larger and better-resourced than those that do not, naive comparisons without firm fixed effects risk conflating diversification with pre-existing firm quality, producing an upward bias in the estimated performance effect.

FE panel models, which control for time-invariant firm heterogeneity, produce a more mixed and often less favourable picture of diversification. [Liebenberg and Sommer \(2008\)](#), [Lee \(2017\)](#), [Min and Mitsuhashi \(2016\)](#), [Septina \(2022\)](#), and [Wisudanto et al. \(2019\)](#) all use FE specifications and document a diversification discount. Non-linear results are equally common under this design with studies that employ panel FE or FE/RE estimators and identify inverted U-shaped or otherwise non-linear relationships, suggesting that FE estimation tends to surface the conditional and diminishing-return properties of diversification that simpler pooled designs obscure (e.g., [Alzoubi 2020](#); [Elango et al. 2008](#); [Hu et al. 2018](#); [Moro and Anderloni 2014](#)). The most methodologically demanding designs—dynamic panel GMM and instrumental variable estimators—yield findings that resist easy summary but carry greater causal credibility. [Wu and Deng \(2021\)](#) apply system GMM to Chinese property-liability insurers and find a non-linear relationship, while [Hsieh et al. \(2015\)](#), also using dynamic GMM on an international panel, report a premium, with the contrast between the two underscoring the role of institutional context even within the same method. [Che et al. \(2017\)](#), using fixed effects with 2SLS to address endogeneity directly, find mixed results, reinforcing the conclusion that once selection bias is corrected for, the sign of the diversification effect depends heavily on firm and market characteristics rather than being structurally positive. DEA studies, which measure relative technical efficiency rather than accounting-based profitability, produce a notably consistent pattern: [Peng and Lian \(2021\)](#), [Savitha et al. \(2019\)](#), and [Cummins and Nini \(2002\)](#) all apply DEA-based designs and report discount or discount-adjacent findings, whereas [Cummins and Xie \(2013\)](#) and [Biener et al. \(2016\)](#) use DEA combined with Malmquist productivity indices and report premium results, suggesting that the precise performance metric embedded in the DEA specification matters as much as the method itself. Finally, structural and regression-based approaches such as PLS-SEM, applied by [Shojaei \(2024\)](#) and [Shojaei and Almansour \(2025\)](#) to Iranian insurers, consistently yield discount findings, which may partly reflect the measurement and institutional particularities of the market rather than the method alone. In aggregate, these patterns confirm that findings from cross-sectional OLS studies warrant the most caution, that those from FE panel models with endogeneity corrections are more reliable, and that the most causally credible evidence—from GMM designs—points to a relationship that is genuinely contingent rather than structurally positive or negative.

An important perspective that has been largely absent from the insurance diversification literature, but is well-established in the broader corporate finance field, concerns the interpretation of the diversification discount itself. Seminal work by [Campa and Kedia](#)

(2002) and Villalonga (2004) demonstrated that the diversification discount documented in many studies may not reflect genuine value destruction but rather a selection bias problem: firms that diversify are systematically different from those that do not, particularly with respect to their investment opportunity sets. Because diversifying firms tend to be larger, more mature, and operating in industries with fewer growth options, a naive comparison of diversified and focused firms will confound the effect of diversification with pre-existing differences in firm quality and opportunity sets. This concern is consistent with broader endogeneity guidance showing that failure to correct for selection, simultaneity, and reverse causality can produce misleading inference (Abdallah et al. 2015). Correcting for this selection bias through instrumental variable approaches or difference-in-differences designs has been shown to substantially reduce or even reverse the measured discount in general corporate finance settings. While this methodological critique has not been systematically applied to the insurance diversification literature, it provides an important cautionary lens for interpreting the discount findings documented across the reviewed studies and reinforces the call for more rigorous causal identification strategies in future research.

4. Dimensions of Diversification Strategy

A critical limitation in the existing literature is the tendency to treat diversification as a monolithic construct. The evidence reviewed here reinforces this concern: most studies (50 out of 56) examine diversification along a single strategic dimension, while only six studies adopt a multi-dimensional perspective. This fragmented approach contrasts with the reality that diversification is inherently multi-faceted, with each dimension exerting distinct effects on a firm's risk–return profile. The broader strategic management literature has long recognized this complexity, acknowledging that firms may simultaneously pursue multiple forms of diversification—such as product, geographic, human capital, and technological—each associated with different performance implications (Alzoubi 2020; Hitt et al. 2001; Ceipek et al. 2019; François Outreville 2012; Shojaei 2023). From a resource-based view, these dimensions reflect heterogeneous firm capabilities, rooted in product lines, market scope, human resources, and technological assets, which shape performance through different mechanisms (Barney 1991; Wernerfelt 1984; Teece et al. 1997). Accordingly, treating these dimensions as conceptually distinct yet strategically interrelated provides a more accurate representation of diversification strategies in practice. Incorporating human capital and technological diversification alongside traditional dimensions—namely product and geographic diversification—therefore does not conflate dissimilar phenomena, but rather recognizes that insurers deploy multiple, co-evolving strategic levers whose effects cannot be fully understood in isolation (Shojaei 2021). Building on this perspective, the present review organizes diversification into four dimensions, while recognizing that product and geographic diversification constitute the strongest empirical base and that human capital and technological diversification should be treated as emerging, more limited-evidence extensions of the insurance D-P literature.

4.1. Product Diversification

Product diversification overwhelmingly dominates the insurance diversification literature, with 50 of the 56 reviewed studies explicitly examining product-line expansion, making it the principal empirical foundation for the diversification premium, discount, and non-linear arguments in the field. The strategic logic is often rooted in achieving economies of scope in underwriting, claims processing, and distribution, as well as cross-selling opportunities, a classic argument in favour of multi-line operations (Berger et al. 2000). From a risk-management perspective, product diversification can also reduce dependence on a narrow underwriting portfolio, but it requires stronger internal controls and risk-governance

systems to prevent cross-line complexity from becoming a source of inefficiency (Parsaei et al. 2024). Evidence supporting its benefits often comes from markets where income smoothing provides a clear advantage (e.g., Ortyński 2019; Upadhyaya and Kharel 2025). However, product diversification is also a primary source of the diversification discount. As firms move into lines of business where they lack core competencies, the costs of managing complexity can quickly escalate, leading to diseconomies of scope and performance declines, as has been documented in markets like Taiwan (Lee 2017).

4.2. Geographic Diversification

Geographic diversification is examined in 10 of the reviewed studies, primarily focusing on large insurers and reinsurance groups operating across heterogeneous regulatory environments. This is a fundamental strategy for mitigating exposure to localized catastrophic events and regional economic downturns. By pooling risks from a geographically dispersed portfolio, firms can achieve greater solvency stability and capital efficiency (Liebenberg and Sommer 2008). The challenge, however, lies in managing the immense complexity of varied regulatory regimes, tax laws, cultural norms, and political risks. The costs associated with this complexity can be substantial, and success often hinges on sophisticated multinational coordination, regulatory compliance, risk governance, and enterprise risk management systems (Hsieh et al. 2015).

4.3. Human Capital (Staff) Diversification

A less frequently examined but conceptually relevant dimension is the diversification of a firm's human capital. This refers to the strategic development of a workforce with a broad range of skills, from traditional actuarial and underwriting expertise to modern capabilities in data science, digital marketing, and cybersecurity. Because only two reviewed studies focus exclusively on this dimension, the evidence should be interpreted cautiously; nevertheless, its theoretical relevance is consistent with the resource-based view. A diverse talent pool is not just a source of innovation; it is a fundamental prerequisite for managing the complexity introduced by product and geographic diversification (Ployhart and Moliterno 2011). Studies of specialized insurers, for instance, show that deep, domain-specific human capital is a powerful driver of performance (Murithi et al. 2022; Shojaei 2023), suggesting that the right mix of human capital is a key enabling resource. This aligns with broader management theories on the importance of absorptive capacity for firm learning and adaptation (Cohen and Levinthal 1990).

4.4. Technological Diversification

Technological diversification is addressed in only four reviewed studies, most of which are recent, so it should be interpreted as an emerging rather than fully established dimension of the insurance D-P literature. This strategic orientation involves targeted investments in a portfolio of new technological capabilities—often collectively referred to as InsurTech—such as digital distribution platforms, AI-powered underwriting engines, telematics, cyber-risk analytics, and big data analytics, which are seen as fundamentally altering the industry's traditional value chain and risk-governance architecture (Eling and Lehmann 2018, Shojaei 2024; Braun and Jia 2025). Conceptually, this dimension concerns the use of technology as a strategic resource, but the limited number of direct empirical studies means that conclusions about its performance implications remain provisional. Insurers that successfully diversify their technological base can achieve superior efficiency, more accurate risk pricing, and faster product innovation (Wang 2023). However, this path is also prone to challenges, including high capital investment, the risk of cybersecurity breaches, and the organizational difficulty of integrating new technologies with legacy systems. The success of technological diversification appears to be highly dependent on

a firm's absorptive capacity, digital maturity, cybersecurity governance, and ability to integrate technological investments into enterprise-wide risk management systems (Shojaei and Almansour 2025).

5. An Institutional–Contingency Framework for the Diversification Paradox

The resolution to the diversification paradox lies in a multi-level contingency framework that hierarchically integrates three established theoretical perspectives. The novelty of this framework is not simply that it combines institutional theory, the resource-based view, and agency theory, but that it orders them into a nested explanation of diversification outcomes. Institutional theory is positioned as the overarching macro-level contingency, determining which firm-level logic is most likely to govern the diversification–performance relationship in a given setting, consistent with the “strategy tripod” framework (Peng et al. 2009). Critically, institutional theory is applied here in its full sense: beyond formal regulatory differences, it also captures the social and normative pressures—*isomorphic forces*, legitimacy expectations, and stakeholder norms—that can compel firms to pursue diversification strategies independently of narrow economic rationality (DiMaggio and Powell 1983; Scott 2001). Nested within this institutional context, the resource-based view explains a firm's capacity to execute diversification through resources and capabilities such as Enterprise Risk Management, technological infrastructure, and human capital (Ai et al. 2018; Murithi et al. 2022), while agency theory explains strategic deviations when managerial incentives are misaligned with shareholder value (Jensen 1986). In this ordering, diversification premiums arise when institutional opportunity and firm-level capabilities are aligned under effective governance; diversification discounts arise when complexity and agency costs exceed execution capacity; and non-linear effects arise when the initial benefits of scope and risk pooling are eventually offset by coordination, monitoring, and managerial-control costs. Together, this multi-level architecture transforms what has appeared to be a field in theoretical disarray into a coherent, context-sensitive explanation of when and why diversification creates or destroys value in the insurance industry, and why its performance consequences depend on the alignment between risk-management capability, governance quality, and institutional context.

5.1. Empirical Distribution of Diversification Outcomes Across Institutional Contexts

Beyond its conceptual logic, the proposed institutional–contingency framework is grounded in clear empirical regularities observed across the reviewed studies. Figure 4 presents the regional distribution of the reviewed studies. Of the 56 studies, 27 examine insurers in emerging and transition economies, 23 are conducted in institutionally developed markets, and 6 employ international or multi-country samples. Among the 27 studies from emerging and transition economies, 11 report diversification premiums, 9 document diversification discounts, 6 identify non-linear relationships, and 1 reports mixed or conditional findings, indicating that while positive effects are relatively common, diversification outcomes remain highly contingent even within less stable institutional settings. In institutionally developed markets, which account for 23 studies in the review, the evidence is similarly heterogeneous but follows a distinct pattern: 9 studies report diversification premiums, 7 document diversification discounts, 6 identify non-linear relationships, and 1 reports mixed findings. Notably, the incidence of discount and non-linear findings in these markets suggests that diversification benefits are often conditional and subject to diminishing returns, consistent with arguments emphasizing governance complexity and agency costs in mature institutional environments. The remaining 6 studies employing international or multi-country samples report premium (2 studies), non-linear

effects (2 studies), one discount, and one mixed finding, reflecting the aggregation of firms operating across heterogeneous institutional contexts. Taken together, this distribution demonstrates that neither diversification premiums nor discounts dominate unconditionally across institutional settings. Instead, the balance between value creation and value destruction varies systematically with institutional environment, firm-level capabilities, and governance effectiveness, providing empirical support for the institutional–contingency framework developed in this review.

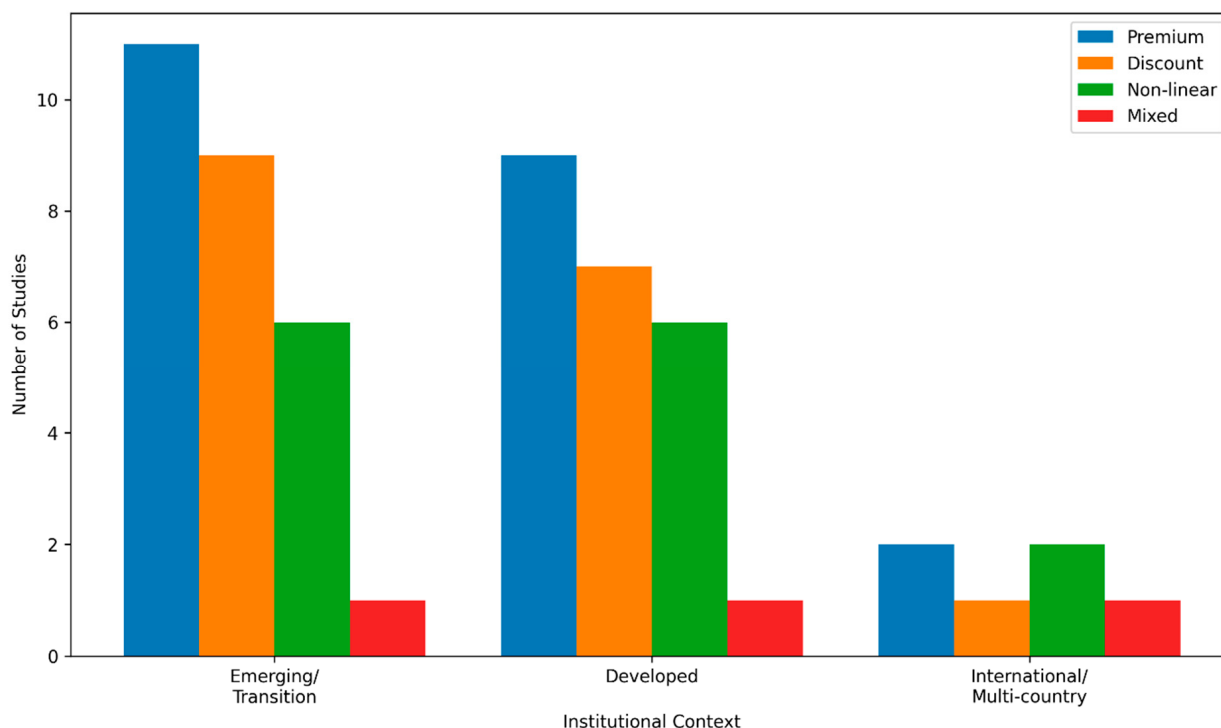


Figure 4. Regional distribution of D-P studies in insurance industry. Source: Generated by authors.

An additional layer of heterogeneity worth noting is the interaction between institutional context and research design. As discussed in Section 3.4, studies from emerging markets more frequently employ pooled OLS or short panel designs—methodologies that may overstate premium findings by failing to correct for endogeneity. Studies from developed markets, where data availability is higher, more often apply FE or GMM estimators, which may partly explain the relatively higher incidence of discount and non-linear results in those contexts.

5.2. The Primacy of the Institutional Context

To explain the empirical patterns documented above, institutional theory, particularly the work of North (1990), argues that firm strategy is not conducted in a vacuum but is a response to the formal and informal “rules of the game” that govern a market. These rules—covering regulatory stringency, legal traditions, competitive intensity, and normative beliefs—create different strategic pressures and opportunities in different markets. Critically, institutional theory operates through three distinct mechanisms identified by Scott (2001): regulative pillars (formal laws and regulatory requirements), normative pillars (professional norms and industry standards about appropriate strategy), and cognitive pillars (taken-for-granted assumptions about how firms should behave). DiMaggio and Powell (1983) further distinguish three isomorphic forces through which these pressures shape organizational behaviour: coercive isomorphism, where regulatory mandates compel insurers to diversify or focus; mimetic isomorphism, where firms copy the diversification

strategies of successful peers under conditions of uncertainty, even without clear performance rationale; and normative isomorphism, where professional associations, rating agencies, and governance codes establish expectations about portfolio breadth that firms internalize as legitimate practice. Each of these mechanisms can drive diversification decisions independently of economic rationality, creating systematic divergences between the diversification strategies firms adopt and what a pure cost–benefit calculation would prescribe. In institutionally developing environments, where the three pillars are less coherent, mimetic isomorphism may be particularly powerful: firms facing regulatory ambiguity often copy the diversification patterns of foreign entrants or domestic leaders, producing clusters of similar strategies whose performance implications depend heavily on whether the copied firm’s institutional context and capabilities transfer. In other markets where regulators and rating agencies expect broad product portfolios as a signal of stability, insurers may pursue diversification not because it maximizes shareholder value but because it is the institutionally expected behaviour. This social dimension of institutional pressure is precisely what differentiates the institutional lens from a purely economic analysis of market conditions, and it is one that the reviewed literature has largely overlooked in favour of narrower regulatory comparisons.

This explains, at a macro level, why the findings on diversification vary so systematically across countries. In institutionally developed markets, such as those in North America and Western Europe, the environment is characterized by high regulatory quality, political stability, and efficient capital markets (La Porta et al. 1998). Under such conditions, the institutional framework itself mitigates much of the systemic risk faced by insurers, reducing the marginal risk-reduction benefits of simple diversification. Under these conditions, the coordination costs of managing complex diversified operations and the heightened potential for agency problems are more likely to outweigh the benefits of scope expansion, making strategic focus a comparatively more effective path to create value. Consistent with this logic, a substantial subset of studies conducted in developed markets such as the US or Europe reports either diversification discounts or non-linear relationships, indicating that value-destroying or diminishing-return effects are prevalent even where diversification premiums are also observed (e.g., Cummins and Nini 2002; Che et al. 2017 and Moro and Anderloni 2014). Conversely, in institutionally developing markets, found across parts of Africa, Asia, and Eastern Europe, the environment is often characterized by greater economic volatility, regulatory ambiguity, and political risk (Lee et al. 2016). In such a context, diversification is not just a growth strategy; it can be a vital survival mechanism. Spreading operations across different product lines or national borders can provide a crucial buffer against localized economic or political shocks. This accounts for the more frequent findings of a diversification premium in studies from markets like Poland, Nepal and Kenya, where the risk-mitigation benefits of diversification are simply more valuable in a less stable environment (Ortyński 2019; Upadhyaya and Kharel 2025; Ramadhan 2021 and Wambui and Kavale 2022).

5.3. Firm-Level Execution: Enterprise Risk Management, Capabilities, and Governance

Within the strategic landscape defined by the institutional context, the ultimate success or failure of diversification is determined at the firm level, where enterprise risk management, managerial incentives, and governance structures shape whether diversification reduces or amplifies risk (Oliver 1991). Here, the logic of the resource-based view and agency theory becomes paramount in explaining the variation seen even among firms in the same market. While the RBV explains a firm’s capacity to execute its strategy (Barney 1991), an insurer’s unique capabilities are the tools it uses to respond to institutional pressures. The literature consistently highlights three such capabilities as decisive: a mature Enterprise

Risk Management (ERM) framework (Ai et al. 2018); a sophisticated technological and data-analytic infrastructure (Ahmad et al. 2024); and deep human capital and managerial expertise (Murithi et al. 2022). Firms rich in these capabilities are positioned to capture the benefits of diversification, while those that are resource-poor will find that diversification merely exposes their weaknesses. Agency theory, in turn, explains strategic deviations. Even in a supportive institutional context and with adequate resources, diversification can fail if managerial incentives are not aligned with shareholder interests. Agency problems can lead managers to pursue value-destroying, scale-seeking diversification or to diversify beyond the point of optimality, leading to the inverted U-shaped performance curve observed in some studies (e.g., Alam 2023). These governance failures explain why some firms make choices that seem irrational from a pure resource or market perspective.

6. Synthesis: A Multi-Level Institutional–Contingency Framework

Integrating the theoretical perspectives and empirical evidence developed in the preceding sections yields a coherent synthesis, presented graphically in Figure 5. The framework's core claim is that the D-P relationship is shaped by the alignment between the external institutional context and the insurer's internal configuration of capabilities and governance. Two contingency layers therefore moderate this relationship rather than determine it sequentially. At the macro level, the institutional context conditions when and why diversification creates or destroys value, with the same strategy generating a premium in one setting and a discount in another. At the firm level, the insurer's resource-based capacity to execute diversification, together with the governance discipline imposed on managerial decision-making, shapes whether institutional opportunities are converted into value. Diversification should therefore be evaluated not only as a growth or scope decision but also as a risk-governance decision whose value depends on the insurer's ERM maturity, internal controls, and governance discipline. The two moderators are themselves linked: the macro context activates which firm-level logic is most consequential, so the resource-based view tends to dominate where institutions reward execution capability, while agency theory becomes more salient where governance failures are the binding constraint.

Read in this way, the framework explains the polar cases that bracket the empirical literature: value is maximized when strong internal capabilities are deployed in response to a clear institutional opportunity (Meyer et al. 2009) and is most rapidly destroyed when weak internal capabilities are confronted with a challenging institutional environment, where the risks inherent in institutional transitions overwhelm a firm's limited adaptive capacity (Peng 2003). The conflicting empirical findings in the literature can therefore be understood as capturing different segments and turning points of the same D-P curve, with each study sampling a particular combination of institutional conditions, firm capabilities, and governance effectiveness. The empirical patterns identified in Section 5 reinforce this reading and reveal that the heterogeneity is systematic rather than random: in mature institutional settings, diversification benefits appear increasingly conditional, reflecting the rising salience of coordination costs and agency problems, whereas in less stable environments diversification more often functions as a risk-buffering mechanism, though its effectiveness remains contingent on organizational capacity and governance discipline. A final layer of complexity, noted at the outset of this review, arises from the methodological diversity within the literature: variable definitions, measurement choices, and model specifications can shape the magnitude and even the direction of observed D-P effects (Bausch and Pils 2009; Schommer et al. 2019). Taken together, the integrative framework provides a more complete explanation for the diversification paradox than any single theory could offer alone. It moves the conversation beyond *whether* diversification creates value to the more critical question of *how* and *under what conditions* it does so.

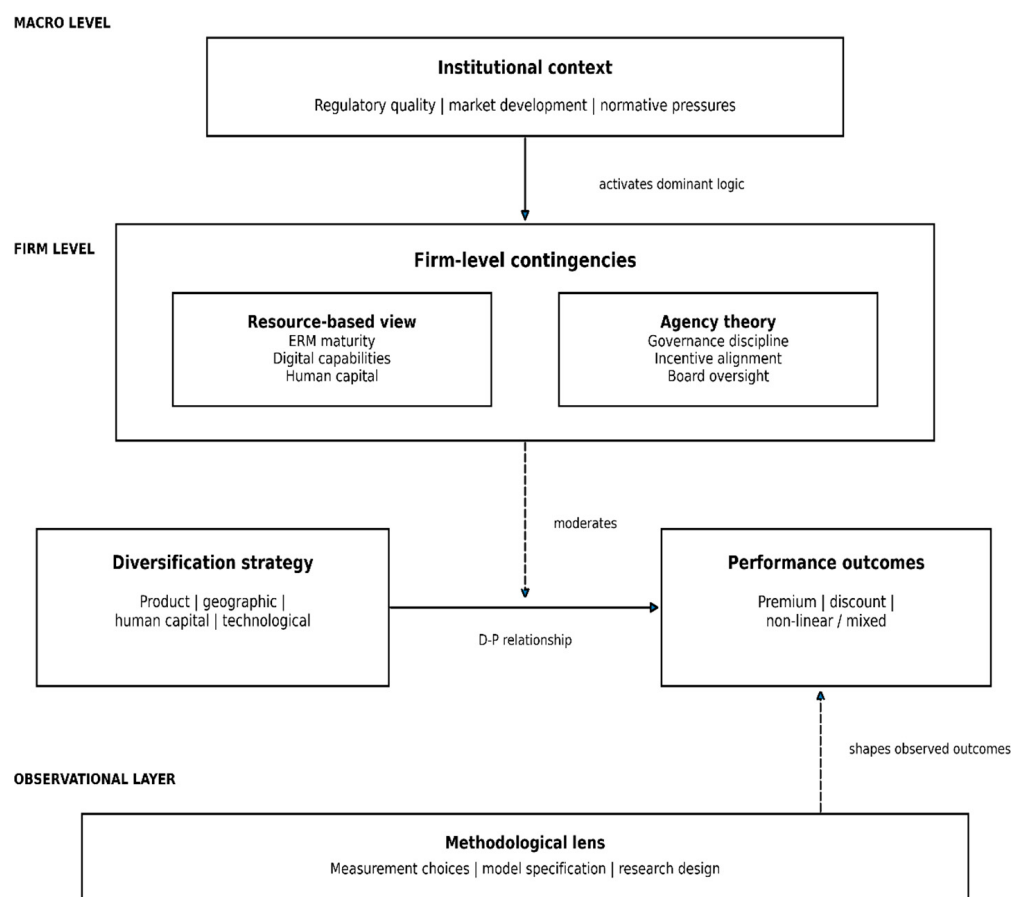


Figure 5. A multi-level institutional-contingency framework of D-P nexus in the insurance industry. Source: Developed by authors.

7. A Research Agenda for the Future

The future research agenda follows directly from four gaps identified in this review: the dominance of single-dimension product-diversification studies, the limited integration of ERM and governance variables into diversification-performance models, weak causal identification in much of the evidence base, and the uneven institutional coverage of existing insurance markets. [Berry-Stölzle et al. \(2013\)](#) represent an important step in this direction, demonstrating that the value implications of insurer product-line diversification vary systematically with the degree of relatedness and with capital market development across countries. However, this foundational contribution has not been extended to emerging and developing insurance markets, where institutional conditions differ markedly and the relatedness vs. unrelatedness distinction may carry different performance consequences. Future research should therefore apply the relatedness measurement approach to under-represented contexts and explicitly test whether the institutional-contingency framework proposed here holds differently for related versus unrelated diversification across developed and developing insurance markets. In addition, staff diversification and technological diversification remain largely disconnected from the core insurance D-P debate, despite their direct relevance to risk governance and enterprise risk management. Future research should examine how human capital depth, actuarial expertise, digital capability, cybersecurity governance, and ERM maturity moderate the relationship between diversification scope and financial performance. This agenda is particularly important because diversification can increase operational and governance complexity, meaning that its performance effects may depend on whether insurers possess the internal risk-management systems and board-level oversight needed to control that complexity. Methodologically, future re-

search should go beyond relatively established techniques. Rather than calling for quantile regressions or basic longitudinal designs—both of which have been applied in the broader diversification literature—future research should prioritize approaches that more directly address the endogeneity problem identified in this review. Specifically, quasi-experimental designs that exploit exogenous regulatory shocks or market liberalization events as natural experiments would allow stronger causal inference about the performance effects of diversification. Similarly, the application of machine learning and natural language processing methods to construct more granular, data-driven classifications of diversification types, governance disclosures, and risk-management practices could overcome the limitations of standard concentration indices and reveal effects that conventional regression models are ill-suited to detect. Choi et al. (2021) demonstrate this approach in the broader corporate diversification literature using natural language processing on annual reports, but it has yet to be applied in the insurance setting. Finally, while cross-institutional comparative research does exist in the D-P nexus in insurance, future research should extend this design to new regions and institutional contexts not yet covered in the literature, and should also exploit within-country institutional variation—such as differences in regulatory quality across provinces or states, or regulatory reform events that affect some firms but not others—to provide more detailed and causally credible tests of how institutional context shapes this relationship. This within-country variation approach can generate stronger identification than cross-country comparisons, which confound institutional differences with many other country-level factors.

8. Limitations of the Evidence and Review Process

This review is subject to several limitations that should be considered when interpreting the synthesis. First, the underlying evidence base is methodologically heterogeneous, with studies differing in diversification measures, performance outcomes, insurance segments, country settings, and empirical designs. This heterogeneity limits the comparability of effect estimates and explains why a formal meta-analysis was not conducted. Second, much of the reviewed evidence is observational, and only a limited subset of studies explicitly addresses endogeneity, selection bias, or reverse causality. As a result, the review should be interpreted as a synthesis of reported associations and theoretical explanations rather than as evidence of uniform causal effects. Third, although the search covered Scopus, Web of Science, and Google Scholar and imposed no publication-date restriction, the review was limited to English-language peer-reviewed journal articles. Relevant working papers, book chapters, reports, or non-English studies may therefore have been excluded. Finally, the classification of studies into premium, discount, non-linear, and mixed categories required interpretive judgement where studies reported multiple or conditional findings. To reduce this limitation, classification was based on the dominant conclusion reported by each study and was cross-checked against the study's context, performance measure, and research design.

9. Conclusions

This review addresses a persistent paradox: after five decades of research, no consensus exists on whether diversification creates or destroys value in insurance. The central argument advanced here is that this contradiction is not a sign of theoretical failure but of theoretical incompleteness. The literature has largely asked the wrong question. The value of diversification is not an intrinsic property of the strategy itself; it is a contingent outcome determined by the conditions under which the strategy is executed. The multi-level institutional-contingency framework developed in this review offers a structured resolution. By positioning institutional theory as the overarching macro-level contingency,

the framework explains why identical diversification strategies produce opposite outcomes across markets. In institutionally developing environments, diversification frequently functions as a risk-buffering mechanism, providing stability that markets themselves do not supply. Conversely, in institutionally mature markets, where systemic risk is already contained by strong regulatory and legal frameworks, the marginal risk-reduction benefits of diversification diminish, and the coordination costs and agency problems it introduces become comparatively more salient. This accounts for the higher incidence of non-linear and discount findings in developed-market studies. Within either context, firm-level outcomes are further shaped by two nested logics: the resource-based view, which explains a firm's capacity to capture diversification benefits through capabilities such as enterprise risk management, digital infrastructure, internal controls, and specialist human capital; and agency theory, which explains why diversification destroys value when governance mechanisms fail to align managerial incentives, risk appetite, and shareholder interests. Beyond these institutional and firm-level forces, a methodological dimension shapes what scholars actually observe: variable definitions, measurement choices, and model specifications can themselves alter the magnitude and direction of reported D-P findings, meaning that some of the field's contradictions reflect how the relationship has been studied rather than how it operates in practice.

The implications of this framework extend in two directions. For insurance industry practitioners, the core message is that diversification is neither universally beneficial nor inherently destructive. It is a powerful but demanding strategic choice whose value depends on whether the firm operates in an institutional environment that rewards diversification, possesses the internal capabilities and ERM maturity needed to manage added complexity, and maintains governance mechanisms that discipline managerial incentives. Without these foundations, diversification is more likely to generate agency costs, coordination failures, and performance discounts, even where the market opportunity appears attractive. For regulators, boards, and senior managers, the message is therefore clear: diversification should be assessed not only as a growth strategy, but also as a governance-sensitive risk-management decision requiring strong internal controls, risk oversight, and alignment between managerial discretion and long-term value creation. For scholars, this review offers a theoretically grounded roadmap for moving the field beyond the stalled premium-discount binary. The research agenda outlined in this review—prioritizing quasi-experimental causal identification, multi-dimensional measurement of diversification, governance-sensitive risk-management variables, and comparative analysis across underrepresented institutional contexts—represents the most productive direction for advancing a more predictive and context-sensitive understanding of how the D-P association is shaped in insurance.

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