

The demand for insurance under limited trust: Evidence from a field experiment in Kenya

Stefan Dercon, Jan Willem Gunning, and Andrew Zeitlin

Discussion by Ayşe İmrohoroğlu, USC

September 2014 - IMF

Purpose

- What are the factors behind the low uptake of indemnity insurance products?
- What is the impact of risk aversion and trust on demand for insurance products?
- Will financial literacy increase the demand for such products?

Purpose

- Trust in the insurer: Policyholder's perceived likelihood that a claim would be paid in the event of a loss
- Low Trust → Likelihood that claim may not be paid is higher

- Theoretically show the relationship between risk aversion, trust, and demand for insurance
- Empirically test it via experiments

- Risk aversion - Increase demand for insurance
- Low trust - Decrease demand for insurance
- Low trust - Decrease demand for insurance especially for high risk averse individuals

Experiments

The product:

- Bima ya Jamii: a composite health insurance product which bundles the in-patient hospitalization cover, provided by the National Hospital Insurance Fund **with cover for lost work during hospital stays and funeral insurance.**

The people:

- Members of a cooperative comprised primarily of tea farmers
- 9 (+1) farmers from 120 centers
- Control group/marketing only/marketing+financial literacy

Findings

- Demand for insurance is highly price-elastic
- Demand for insurance is unresponsive to financial literacy training
- Risk aversion and low trust are both negatively associated with insurance demand
- Purchase decisions of individuals with low trust are significantly more sensitive to price

- Two games
 - Gamble-choice game
 - Trust Game: Sender and Receiver

- Trust
 - Are field experiments really capturing the “trust” in the market place?
 - Benz and Meier (2006), List (2006)
 - Controlled laboratory experiments versus natural field experiments

- Trust Game: Sender and Receiver one time...
- Does this experiment really capture the “trust” in an insurance company?
- What is the reputation of this company (or similar ones) in Kenya?
- What fraction of the claims have they paid in the past?
- Do they increase the insurance premium on people with health problems?

- Policy implication: Financial literacy versus trust