

Glenn Harrison

Do the Poor Benefit from Insurance: What is the Research Agenda?

Plenary Session 3
6th International Microinsurance Conference
Manila, November 2010

Center for the Economic Analysis of Risk
Department of Risk Management & Insurance





Motivation



- > Reaction to those proposing answers without (enough) qualification
 - We have no idea if they benefit
 - Nor do we have any idea how to systematically design better insurance products

- > A call to researchers that these are more fundamental than the important, motivating challenge of designing good insurance products for the poor

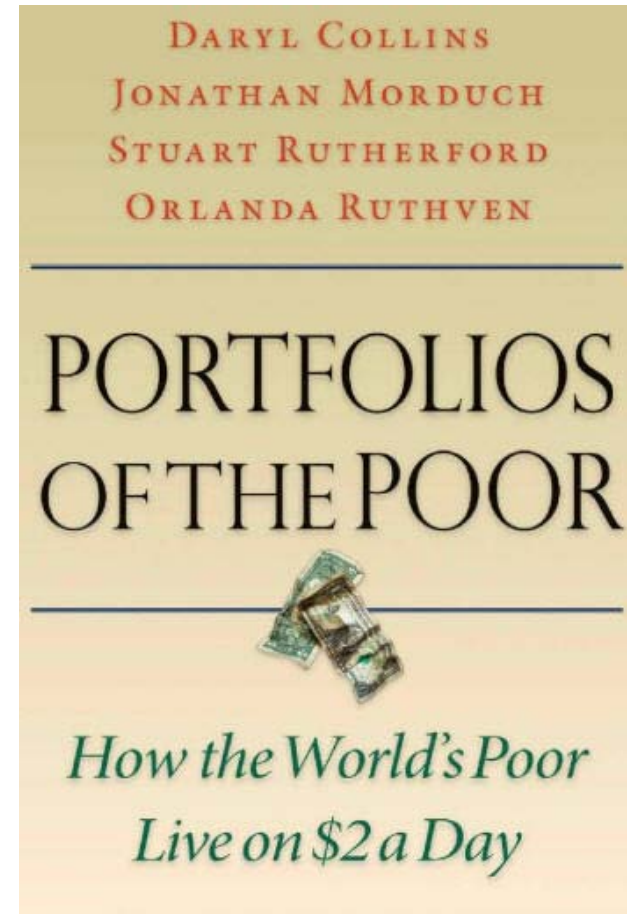
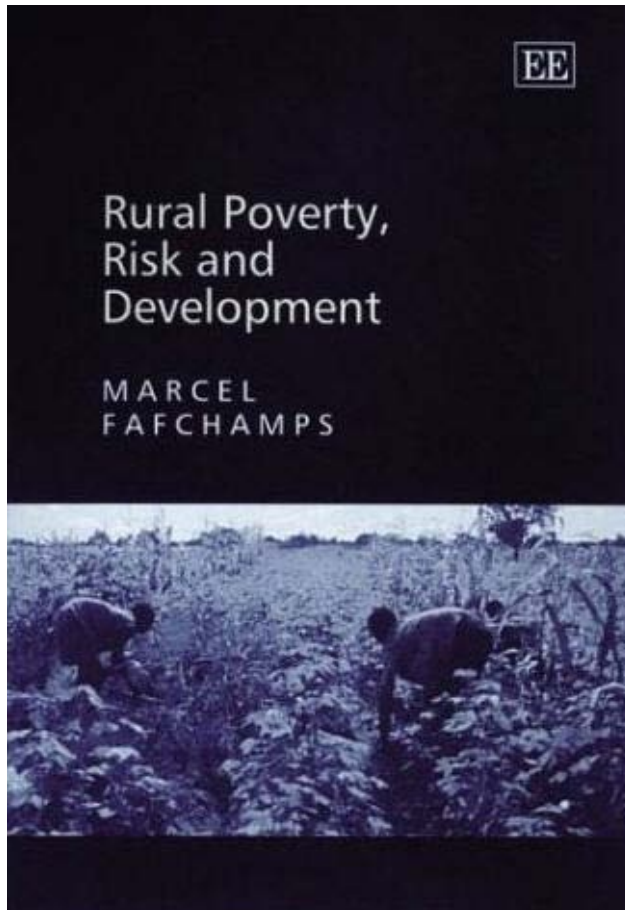


Themes



- > Risk Management and Insurance go together
- > How does one evaluate the welfare effects of risk management and insurance?
- > Its all about the distribution, not the average
- > Bring in the insurance economists

I. Risk Management and Insurance





Implications



> Cannot characterize insurance demand in isolation

The Interdependence of Individual Portfolio Decisions and the Demand for Insurance

David Mayers

University of California, Los Angeles

Clifford W. Smith, Jr.

University of Rochester

Journal of Political Economy, 1983



Implications



- > Cannot characterize insurance demand in isolation
- > Implications for self-protection and “self-insurance”
 - For example, group insurance contracts

Market Insurance, Self-Insurance, and Self-Protection

Isaac Ehrlich

University of Chicago and Tel-Aviv University

Gary S. Becker

University of Chicago

Journal of Political Economy, 1972



Implications



- > Cannot characterize insurance demand in isolation
- > Implications for self-protection and “self-insurance”
- > The “triple whammy” of the poor
 - Low resource levels, so limited scope for investment in costly risk mitigation
 - Uncertain resource flows
 - Unpredictable resource flows



II. Welfare Evaluation is Subtle



- > Think about the insurance product
 - You give a certain amount of money to someone else now
 - They promise to pay you in the future if something you subjectively believe to be uncertain happens

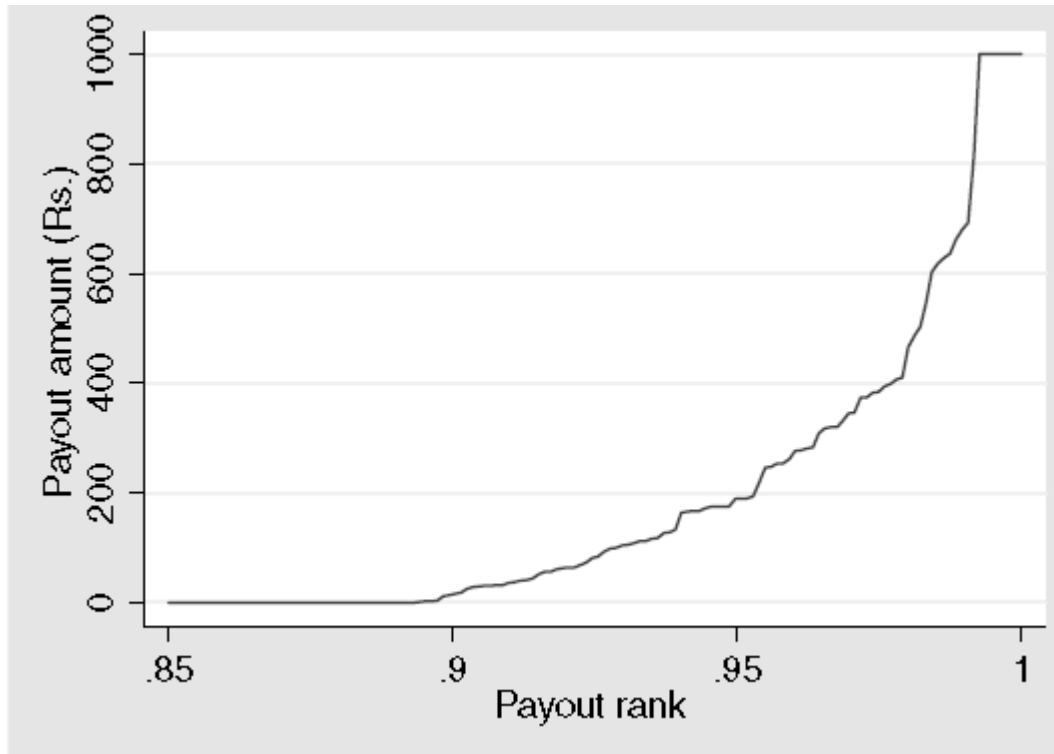


II. Welfare Evaluation is Subtle



- > Think about the insurance product
 - You give a certain amount of money to someone else now
 - They promise to pay you in the future if something you subjectively believe to be uncertain happens
- > For example, is low take-up irrational?
 - Need to know discount rates of consumers
 - Need to know risk attitudes of consumers
 - Diminishing marginal utility of income
 - Plus possibility of probability weighting
 - Plus possibility of “loss aversion”
 - Need to know subjective probabilities of consumers
 - Maybe also uncertainty aversion
 - Need to know “trust” or credibility of payout

Low take-up example: 4.6%



Probability	Payout
0 – 0.9	0
0.9 – 0.925	50
0.925 – 0.95	150
0.95 – 0.975	300
0.975 – 0.98	600
0.98 - 1	1000

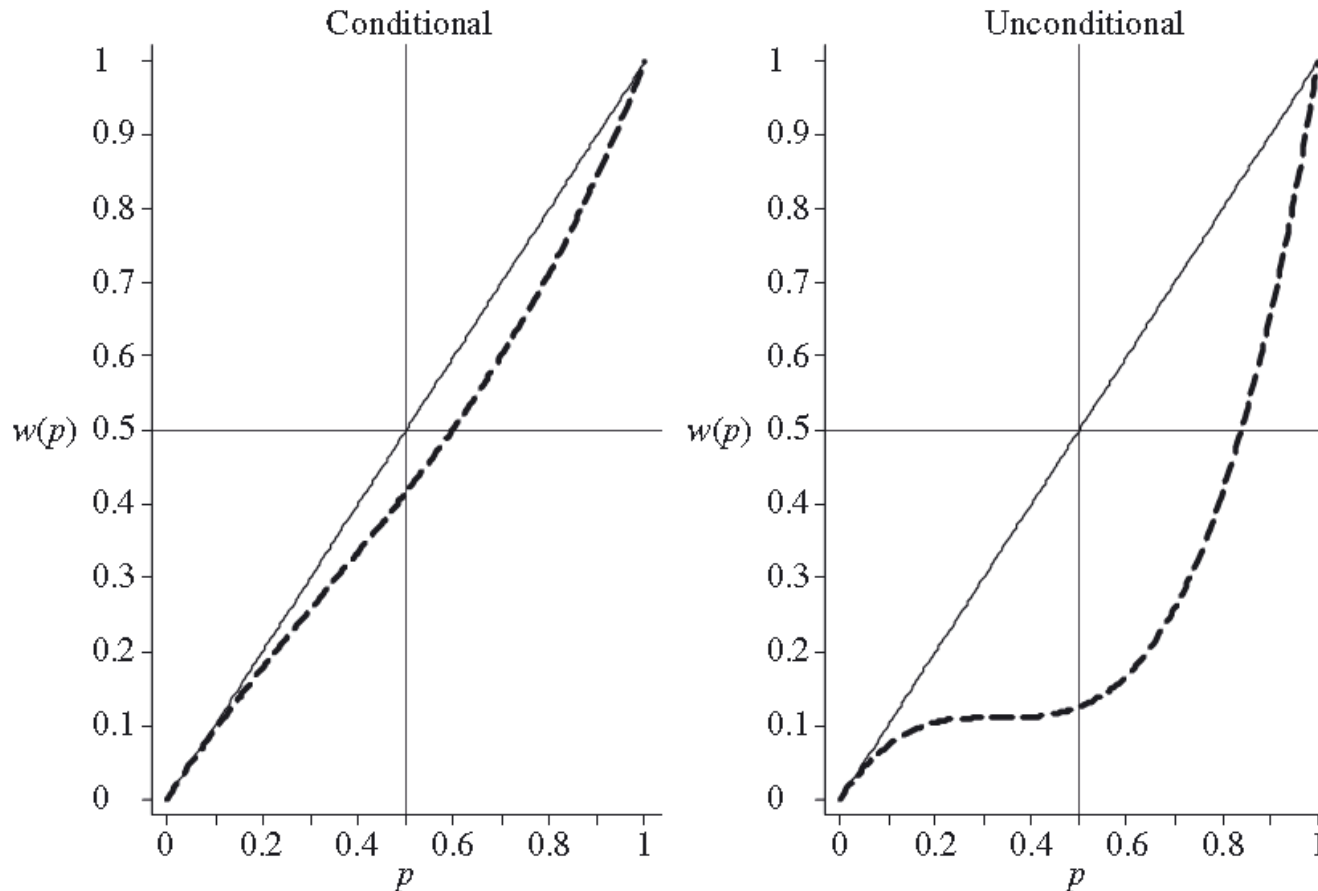
STATISTICAL ANALYSIS OF RAINFALL INSURANCE PAYOUTS IN SOUTHERN INDIA

XAVIER GINÉ, ROBERT TOWNSEND, AND JAMES VICKERY

Amer. J. Agr. Econ. 89 (Number 5, 2007): 1248–1254

Premia: 150 – 250 Rs

Probability Weighting?



CHOICE UNDER UNCERTAINTY: EVIDENCE FROM ETHIOPIA, INDIA AND UGANDA*

Glenn W. Harrison, Steven J. Humphrey and Arjan Verschoor

The Economic Journal, 120 (March), 80–104.

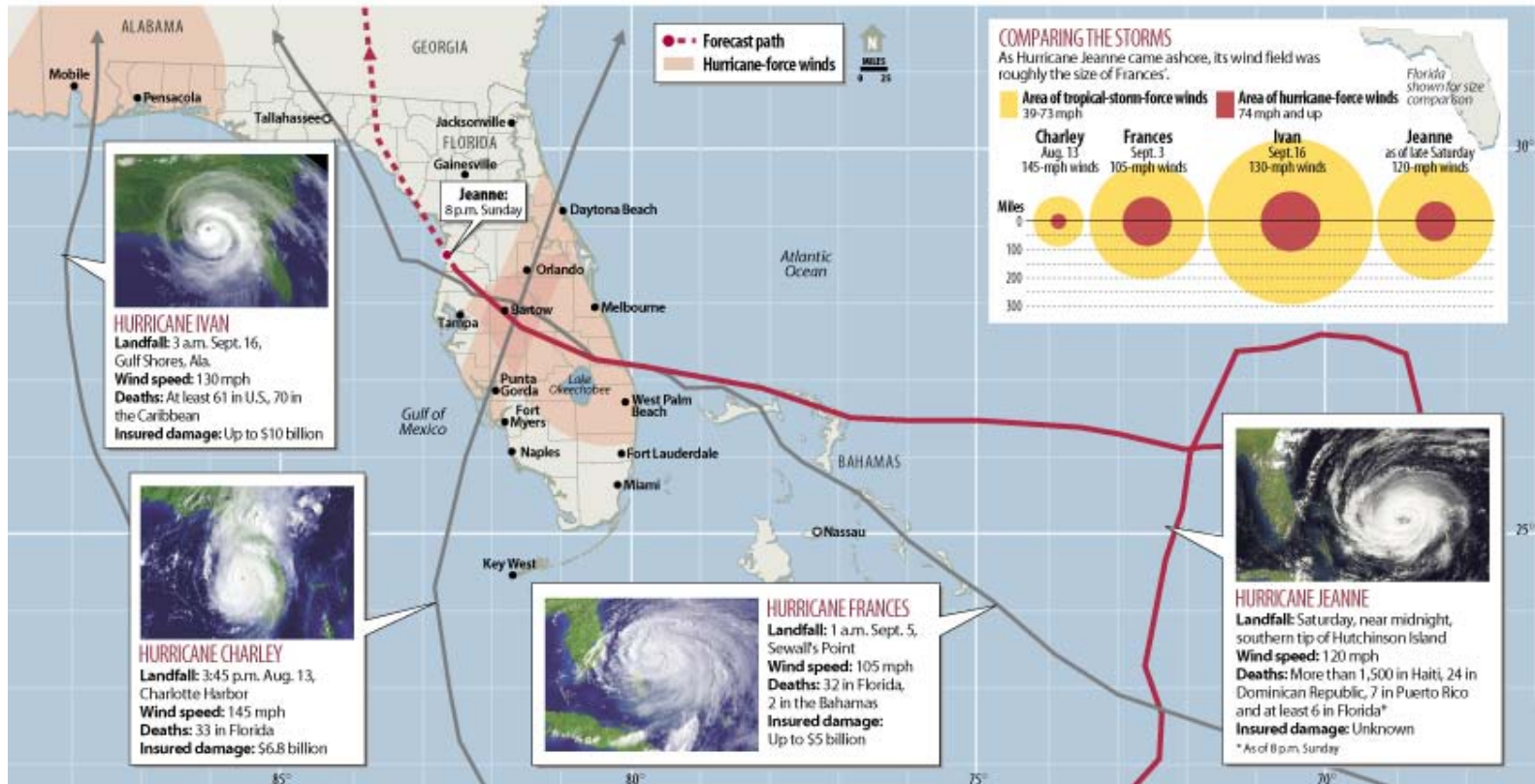
Loss aversion?



Subjective Beliefs?

Florida's 'mean season' lives up to its name

In a remarkably active hurricane season, 4 storms have slammed Florida since Aug. 13 — each a Category 2 or greater. Every storm has affected Central Florida, causing flooding, property damage, power outages and, in some cases, deaths.



SOURCES: South Florida Sun-Sentinel, National Hurricane Center, wunderground.com, Insurance Information Institute, Fitch Ratings, The Associated Press, Florida medical examiners

PHOTOS BY NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION, GRAPHIC BY ORLANDO SENTINEL

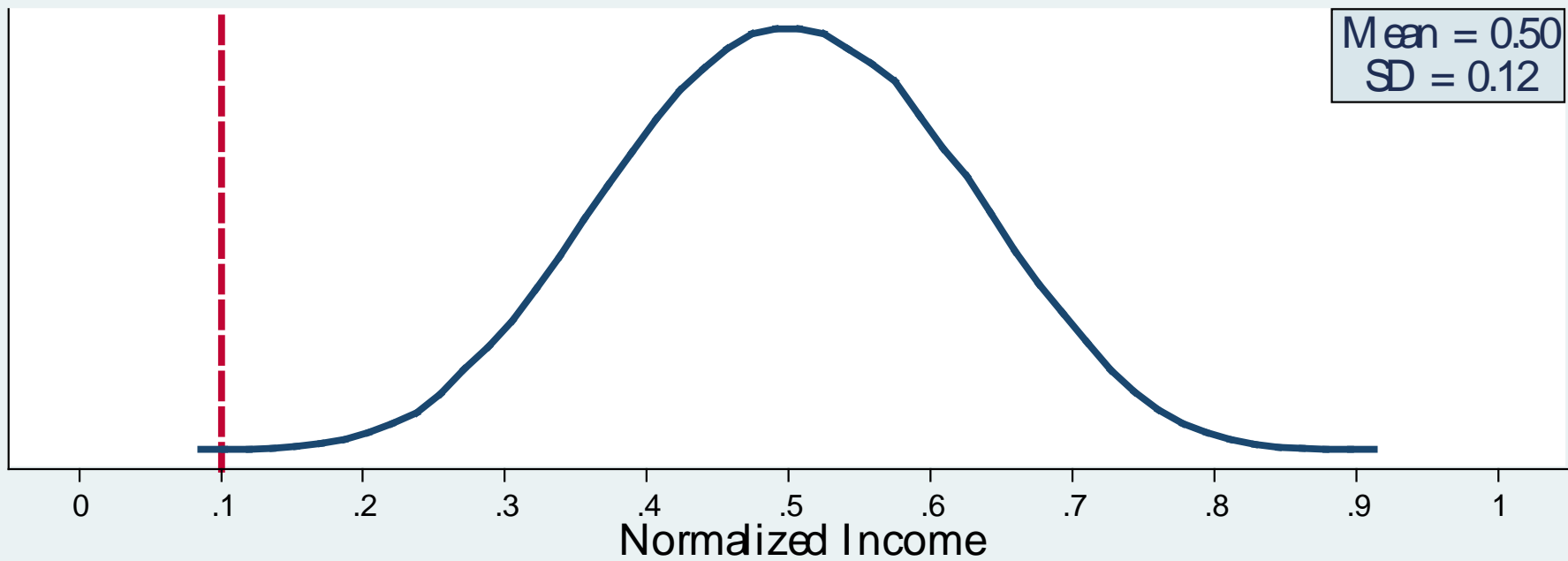
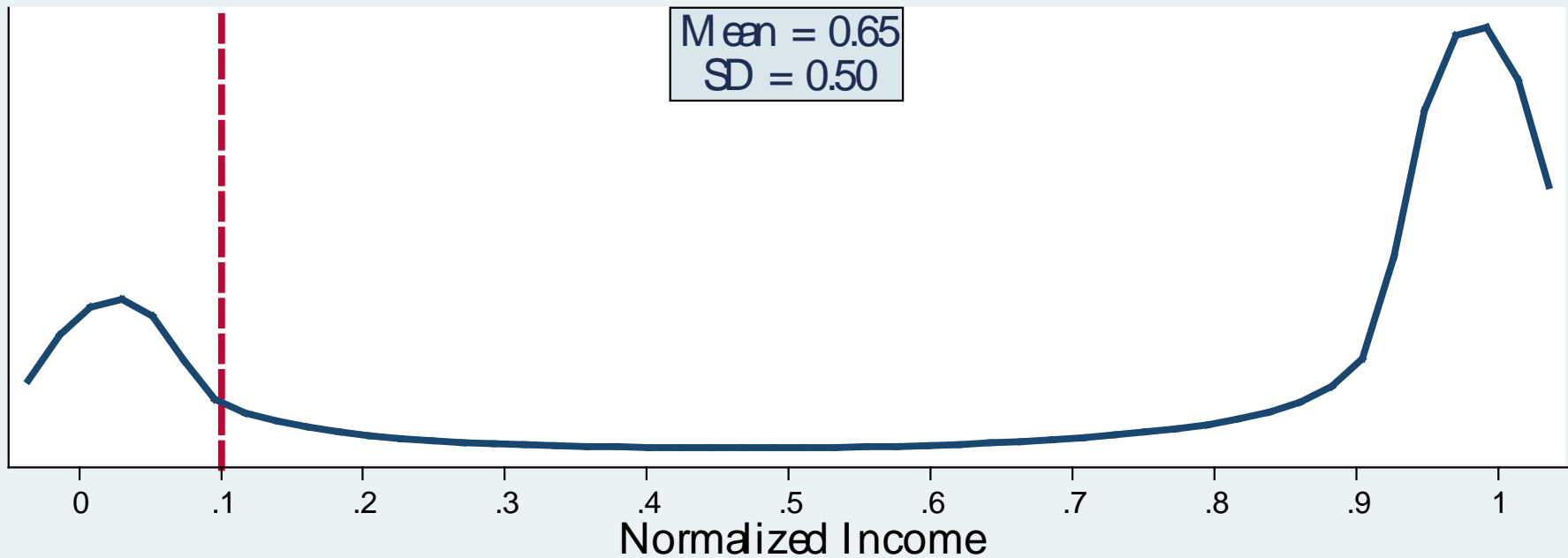


III. Distributions, Not Averages

- > Not just in the mean-variance sense (“evaluation”)
- > Poverty lines versus the risk of poverty
 - Chronic poverty
 - Transitory poverty or poverty spells
 - Stochastic poverty

Poverty and Vulnerability

By JONATHAN MORDUCH*





IV. Bring in the Insurance Economists



> Actuarial contract design

- Solvency and profitability

> Organizational structure

- The organizational form that dominates will be the one that successfully minimizes **total costs of production** including
 - Direct costs
 - Indirect costs of agency conflict
- The use of organizational form to elicit information

> Public regulation and rating

> Marketing of insurance products

Warnings for (and about) Researchers

- > Beware of surveys measuring the big, visible things
 - Role for complementary data collections
- > Beware of surveys bearing one data point
 - Role for longer-term longitudinal data collection
- > Beware of behaviorists bearing anomalies
 - Role for basic critical reading skills of the literature
 - Normative role for (artefactual) field experiments
- > Beware of *Randomistas* bearing average effects
 - Role for complementary structural analyses
- > Beware of research in intellectual bunkers



Next Steps

- > Sustained dialogue between researchers in several fields
 - Annual CEAR Workshops on *Insurance for the Poor*
 - Scientific track at *International Microinsurance Conference*
- > Structured research program into behavior
 - Laboratory experiments with rich students
 - Field experiments with poor in rich countries (e.g., Atlanta)
 - Field experiments with poor in poor countries

Field Experiments

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Journal of Economic Literature
Vol. XLII (December 2004) pp. 1009–1055