

Obfuscation and Honesty: Experimental Evidence on Insurance Demand with Multiple Distribution Channels

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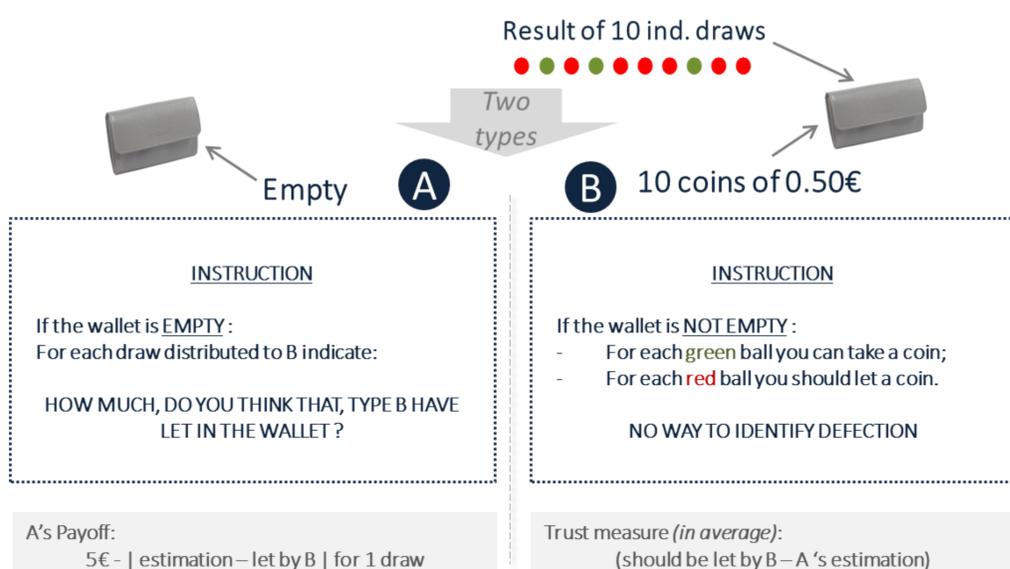
What is Obfuscation?

Obfuscation is the limited discernment of agents due to excess information or the introduction of a great deal of irrelevant information.

Why insurance market is a relevant context to study obfuscation?

- Important heterogeneity of insurance products.
- Presence of several types of intermediaries implying different access to information.

Elicitation of Honesty



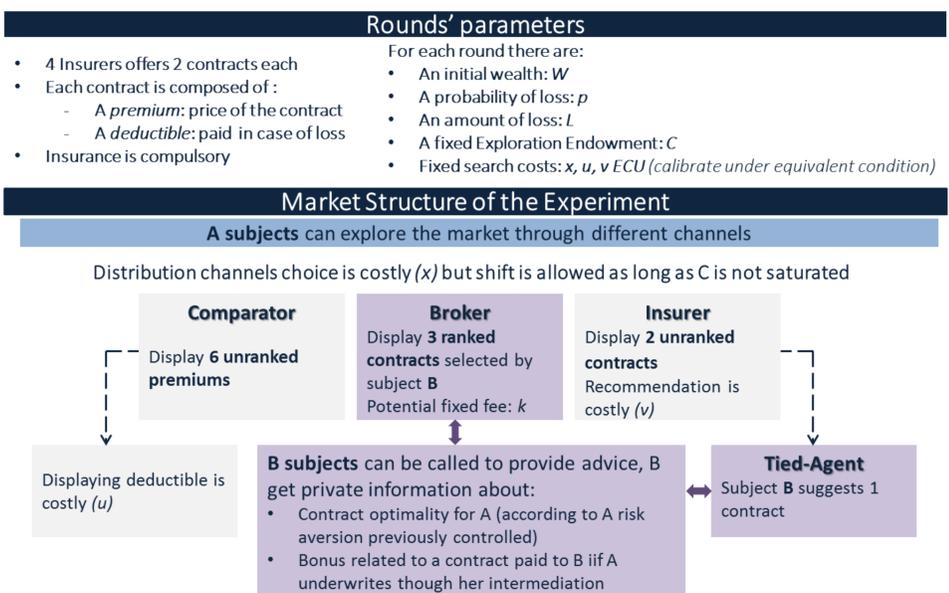
Why honesty is relevant for purchasing process?

Physical intermediaries cancel obfuscation by offering more or less honest advices. As the level of honesty is a private information, they benefit from informational rent to the detriment of consumers.

Our research question:

Should the consumer herself choose from a large set of insurance policies or rather delegate a part her decision to an intermediary who is more or less honest?

Elicitation of Purchasing Strategy



Results

- Subjects who expect honesty ask for more advice, in particular when the probability of loss is higher.
- Intermediary dishonesty leads subjects to change channel, in particular when consumers are disappointed.
- Only the probability of loss has a significant positive effect on coverage choice.
- When the number of choice increases, the probability to choose the lowest premium increases (i.e. the focal-point effect).
- Obfuscation supports a focal point effect which is a source of inefficiency of choices (w.r.t Expected Utility Theory).
- Intermediaries dishonesty is also a source of inefficiency.
- More the bonus of intermediaries is high, less the incentive to be dishonest is.
- Dishonesty is considered to be risky, as risk-averse intermediaries deviate less.

Conclusion

- Even with considerable intermediary deviation, the complexity of choices in a risky environment leads consumers continue to value broker and tied-agent services.
- Because of heterogeneity of honesty beliefs, the development of multi-channel distribution strategy of insurers is essential to cover a large part of market.
- The quantity and quality of information have a considerable impact on final contract choice.
- Because there are two sources of inefficiency (i.e. obfuscation and dishonesty), dynamics of choices across channel is never stationary.
- Focal point effect can lead to more price competition as insurance companies compete on the premium (Bertrand competition).

Selected References

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