

Understanding the advice of commissions-motivated agents:
Evidence from the Indian life insurance market

a) State the research question of your assigned paper.

The research question of Anagol et al.'s paper is how does features of customer interactions, insurance agents' self-understanding of the products, and commission disclosure regulation affect life insurance agents' offerings of advice on whole-life products versus term-life products to customers.

b) What data did the paper use?

Anagol et al. collected their own data by implementing four closely related field experiments in which they "hired and trained individuals to visit life insurance agents, expressed interest in life insurance policies, and sought product recommendations" (2017). They used audit studies to collect data on advice and compared this advice to independent assessment of good advice.

In the first experiment, Anagol et al. collected data on whether agents' advices were responsive to customers' needs and customers' (potentially erroneous) beliefs about products.

In the second experiment, Anagol et al. collected data on whether agents would respond differently to customers who reported having previously received advice from another agent.

In the third experiment, Anagol et al. collected data on how Indian disclosure regulation affected the quality of advice that life insurance agents provided.

In the fourth experiment, Anagol et al. collected data by conducting a follow-up survey with 32 Indian life insurance agents, recording agents' preferences and understandings of the insurance products.

c) What theory did the paper reference in order to interpret the data? (Note: it is possible that the paper has no reference to theory.)

Anagol et al.'s empirical paper is motivated by recent theoretical work on the provision of advice to potential customers, and Anagol et al. test two types of predictions that arise from this class of models.

The first set of predictions concerns the quality of advice provided by commissions-motivated agents. These models predict that at least some consumers will receive low-quality advice, such as getting encouraged to buy a complicated product that has higher commissions but no real benefits to them (Inderst & Ottaviani, 2012c; Gabaix & Laibson, 2006).

The second set of predictions relates to how regulation and customer types affect the quality of advice. Inderst and Ottaviani (2012c) argue that disclosure requirements can improve the quality of advice by essentially converting unaware customers into customers who are aware of how commissions can bias advice. Inderst and Ottaviani (2012c) and Gabaix and Laibson (2006) believe there are two types of customers with different levels of sophistication, and the more sophisticated ones would receive better advice, vice versa.

d) Was your assigned paper a descriptive study, an identification exercise, a numerical solution to system of equations study, or some combination of the three? (These are the three classifications we discussed in class.)

Anagol et al.'s empirical paper is a combination of a descriptive study as well as an identification exercise.

The paper is partially a descriptive study because Anagol et al. collected their own data by implementing four closely related field experiments. They presented detailed experimental design in Table 1 while highlighted interesting slices and findings from their data set. For example, in the first experiment, they discovered "agents tend to cater to, rather than de-bias, customers, even when sale of the suitable product would yield greater commissions" (Anagol et al., 2017).

In addition, they highlighted unexplained relationships and suggested more rigorous analysis. For example, in the second experiment, they discovered "customers who report having visited another agent receive better advice when their previous advice was bad". However, they could not pin down the mechanism behind their finding, so they highlighted this puzzle in the paper and "think this result provides motivation for future work on sales agent behavior" (Anagol et al., 2017).

The paper is also an identification exercise because Anagol et al. attempted to identify multiple relationships. Table 3 presents the regression table for the relationship between agents' advice and customers' beliefs and needs. Table 4 presents the regression results for the relationship between agents' advice and customers' previous consultation experience. Table 6 presents the regression results for the relationship between agents' product recommendation before and after the change of Indian disclosure regulation.

e) What computational methods did this paper use to answer the research question? What was their result or answer to the question?

Anagol et al. primarily used regression analysis and logistic regressions to identify agents' advice on recommending whole-life products versus term-life products.

To summarize, Anagol et al. claim Indian life insurance agents tend to provide poor-quality advice. Anagol et al. conclude that Indian insurance agents tend to respond to both consumers' self-reported (and incorrect) beliefs in addition to consumers' needs, which means agents tend to "cater to customers' preconceptions of what the right product is even conditional on objective information about what the right product is" (2017).

Furthermore, Anagol et al. find that customers who report having visited another agent receive better advice when their previous advice was bad. So, Anagol et al. speculate that greater competition among agents might improve advice (2017).

In the last experiment, Anagol et al. find that requiring disclosure of commissions on one particular product led to that product being recommended less (2017).

f) Think of yourself as an academic referee. Give two suggestions to the author(s) of your assigned paper of things the authors might do to improve their results or strengthen their evidence for the answer to the question

- i. In the paper, Anagol et al. “focused on two common life insurance products: whole life and term life”, and Anagol et al. claimed “consumers are much better off purchasing a term versus whole” because “the combination of a savings account and a term insurance policy can provide over six times as much value as a whole life insurance policy”. Thus, Anagol et al. define bad advice to be agents recommending whole life insurance product, vice versa.

I think this classification is imprudent and is very likely to cause potential biases. Insurance plans are very personal. Individuals use different insurance products to hedge unnecessary and unforeseen risks. From my perspective, it is very difficult to classify an insurance product to be good or bad without knowing much about the buyer’s background. Thus, a more careful classification or definition of good/bad advice from insurance agent could be a potential improvement.

- ii. In the descriptions of experiments, Anagol et al. “hired and trained individuals to visit life insurance agents, express interest in life insurance policies, and seek product recommendations” and Anagol et al.’s experimental interventions “study how advice responds to features of the customer interaction” (2017).

In the current experimental design, although an individual is trained to have face-to-face interaction with an insurance agent, human behaviors are unlikely to be standardized. It means there could be tons of other factors influencing the data collection process during the conversations, which would cause potential biases. Some alternative methods, such as inviting insurance agents to offer advice online, could make the data collection process more standardized and reliable.

Reference

- Anagol, S., Cole, S., & Sarkar, S. (2017). Understanding the advice of commissions-motivated agents: Evidence from the Indian life insurance market. *Review of Economics and Statistics*, 99(1), 1-15.
- Gabaix, Xavier, and David Laibson, "Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets," *Quarterly Journal of Economics* 121 (2006), 505–540.
- Inderst, R., & Ottaviani, M. (2012). Competition through commissions and kickbacks. *The American Economic Review*, 102(2), 780-809.