Problem Set1 Part 2
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1 Research Question

The research question is whether life insurance agents in India provide advice based on the benefit of customers or based on the maximizing the amount of their commissions.

2 Data

The paper used data collected in three experiments that the researchers designed and conducted. The first experiment tested whether agent advice is responsive to customers,Äô needs. The second experiment tested whether agents respond differently to customers who report having previously received advice from another agent. The last experiment tested how disclosure regulation affects the quality of advice that life insurance agents provided.

3 Theories

The paper is motivated by theories on the provision of advice to potential customers. The first theory predicts that at least some consumers will receive low- quality advice encouraging a complicated product that has higher commissions but no real benefits to them (Inderst Ottaviani, 2012c; Gabaix Laibson, 2006). The second theory relates to how regulation and customer types affect the quality of advice (Inderst and Ottaviani, 2012c, and Gabaix and Laibson, 2006). Inderst and Ottaviani (2012c) predict that these sophisticated customers will receive better advice.

4 Classification

The study combines descriptive study and identification exercise. The paper provides some descriptive summary of the data in Table 1 and Table 2. The researchers use regression analysis to find relationships between dependent variables and independent variables in each regression (see Table 3 and Table 4).

5 Computational Methods

The main computaitional method the paper used is logistic regression using data generated by the three experiments. The regression analyses of the first experiment answered the question – "do agents cater to customer beliefs or respond to customer needs". They concluded that agents preferred to recommend whole insurance to customers.

For the second experiment, the dependent variables are the presence of term insurance in the agent‚Äôs advice. The main independent variable is Shopped Around, which suggests the sophistication level of the auditor. The researchers concluded that sophisticated customers are likely to receive right advice.

For the data from third experiment, five regressions were run to evaluate relationship between disclosure regulations and product recommendations. The dependent variables are: a binary equal to 1 if any ULIP (unit linked insurance policy) product is recommended, the recommendation of a term policy, the recommendation of a whole policy, the logarithm of the risk coverage and the logarithm of premium of the recommended policy. Although the results are ambiguous, they found that disclosure regulations change agents' behaviors.

6 Suggestions

The first suggestion that I would like to give is that the experiment should be conducted in a wider range. The field experiments were conducted in large cities in India that cannot represent the whole country. As we all know, economic development varies from area to area, and the insurance market in smaller cities and rural areas can be significantly different from that in big cities. So I would argue the if the researchers want to conclude their results as a fact in the whole India, they should replicate their experiments in other areas in India as well.

In addition, the study claimed that term insurance is much better than the whole life insurance. However, there is no evidence provided to explain why this is the case. Is it always true that the whole life insurance is worse than term insurance for every customer? If not, how did the researchers figure out the difference and design such experiments that make sure it is true in the circumstances of their experiments? I suggest that the researcher should provide more detailed explanations between the two products to make their assumption more convincing.