INTRODUCTION

The Existing works consider competitive insurance markets under compulsory insurance, and analyze the effect of insurance on agents’ security expenditures. The authors of consider a competitive market with homogeneous agents, and show that insurance often deteriorates the state of network security as compared to the no-insurance scenario. The existing studies a network of heterogeneous agents and show that the introduction of insurance cannot improve the state of network security. Study the impact of the degree of agents’ interdependence, and show that agents’ investments decreases as the degree of interdependence increases. Study a competitive market under the assumption of voluntary participation by agents, with and without moral hazard. In the absence of moral hazard, the insurer can observe agents’ investments in security, and hence premium discriminates based on the observed investments. They show that such a market can provide incentives for agents to increase their investments in self-protection. However, they show that under moral hazard, the market will not provide an incentive for improving agents’ investments. The impact of insurance on the state of network security in the presence of a monopolistic welfare maximizing insurer has been studied in existing system. In these models, as the insurer’s goal is to maximize social welfare, assuming compulsory insurance, agents are incentivized through premium discrimination, i.e., agents with higher investments in security pay lower premiums. As a result, these studies show that insurance can lead to improvement of network security. An insurance market with a monopolistic profit maximizing insurer, under the assumption of voluntary participation, has been studied in existing work, which shows that in the presence of moral hazard, insurance cannot improve network security as compared to the no-insurance scenario.