

Critique

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Part II. Your assignment is to write a critical review of the main computational/empirical approach to answering the research question in your assigned paper from the list below. Your critical review has no page minimum or maximum. But it should have the following components:

1.State the research question of your assigned paper.

The question under investigation for this paper is understanding the behavior of commission-motivated agents in Indian insurance market. To get at this question, three more-specific research questions are posited: (1) What is the effect of commissions on the recommendations that professional insurance advisors give to their clients? (2) What is the impact of the regulation that enforced the disclosure of fees for the unit linked insurance policy (ULIP)? (3) Do agents know if they are giving right or wrong advice?

2.What data did the paper use?

The data collected in this paper came directly from field experiments conducted by authors of this paper. The data collection process involves training auditors to call insurance agents in India for advice on which insurance policy should the auditors purchase. They controlled for three variables in three separate experiments: quality of advice, disclosure, and sophistication. For the abovementioned three experiments, they have 557, 257, and 217 observations, respectively. The auditors, after following their instruction when engaging with the insurance agents, record their responses.

In the first two experiments, the result from agents is binary: recommend whole life insurance or term insurance. For the third experiment, researchers collected information on whether ULIP product is recommended by agents based on auditors' expressed preexisting knowledge about commissions on ULIP.

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

Recent literatures on models of the provision of advice to potential customers are cited. The authors of this paper focused on two consequences of these models. First, on the point of the quality of the advice given by commission-motivated agents, these agents regularly recommend complex products with high commissions although those do not provide a benefit for the customer, according to the models by Inderst Ottaviani (2012) and Gabaix Laibson (2006). Secondly, on the point of regulations and customer types affect the quality of advice; This is shown in the model of Inderst and Ottaviani (2012): sophisticated customers will receive a better advice. This model takes into consideration of two kinds of customers: wary or naive. They modeled on how these two kinds of customers would act differently in the face of insurance agents' advice.

4. 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.)

This paper combines a descriptive study and an identification exercise together. These authors collected their own data and presented their data in detail. They also acknowledged some unanswered questions (e.g. the mechanism behind the poor advice). This previous part counts as a descriptive study. Furthermore, the authors then conducted an identification exercise. Their objective was finding relationships between the three treatments and the presence of advice to purchase term insurance or the ULIP product.

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

Since their data size is not extremely big (they have less than a thousand observations), their computational method is mainly OLS and using fixed effect models for their regressions during statistical analysis and modeling.

In the first experiment, the independent variables for both models were binary stating if the auditor expressed a bias toward term insurance and/or if the auditor has a genuine need for term insurance, and the interaction between those two booleans. The result for this experiment is that, even if the auditor states a bias toward term insurance and a need for term insurance, 79% of the audits ended with a recommendation for whole life insurance. This study further concludes that agents will defer to their customers beliefs or needs by recommending term life insurance as part of a bundle with whole life insurance.

In the second experiment, the dependent and main independent variables are the same except now a dummy variable is introduced on whether the auditor mentions that they have spoken with another agent before coming to the present agent. The coefficient on this dummy variable was very small and never statistically significant in the model except for a small effect when the auditor expressed a need and a bias toward term insurance. The authors concluded that it is not that sophistication does not have an effect on the quality of advice, but rather that shopping around was not a good proxy for sophistication.

In the third experiment, a generalized linear regression was used with the dependent variable being the fraction of interactions that resulted in ULIPs being recommended. After the policy change, the authors saw a 20 percent decrease in ULIP recommendations. Yet, they did not observe a statistically significant effect caused by their treatment. This suggests, while mandatory commission disclosure does alter an agent's behavior, an expressed knowledge of commission earnings by the auditor does not have this effect.

6. 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.

- (1) Authors of this study could increase their sample size as to include more diverse demographics when they consider both the representations of auditors as well as the insurance companies and agents.
- (2) Authors of this study could further investigate whether there are confounding factors in the presence of national-level, state-level, county-level insurance companies and their agents.