

Problem set 2

Critic to UNDERSTANDING THE ADVICE OF COMMISSIONS-MOTIVATED AGENTS: EVIDENCE FROM THE INDIAN LIFE INSURANCE MARKET by Santosh Anagol, Shawn Cole, and Shayak Sarkar Yang Hou

a.

The research question of the paper is: how commissions-motivated life insurance agents in India provide recommendations for customers.

b.

The data used for the research is collected by conducting field experiments. They trained middle-aged men with at high school education background, assigned with different treatments, to life insurance agents and check how those agents would recommend insurance plan for the customer. They also measure how the insurance agents would recommend insurance before and after a new regulation come out, which demand the agent to disclose commissions received for certain types of insurance.

c.

There are two theories supporting the research. The first theory predicts 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, 2012; Gabaix & Laibson, 2006). The second theory suggests that disclosure requirements can force life insurance agents to provide better advices, since it would make customers be aware of the motivation of the agents.

d.

The study is a combination of descriptive and identification exercise. The paper provides some descriptive features of the overall data in Table 1. The identification part is mainly in Table 3 and Table 4, where the researchers are trying to find correlation between agents advice and customers' beliefs and needs, previous consultation experience, also after the change of the regulation.

e.

The research relies on regression analysis and logistic regressions. The research concludes that life insurance agents in India tend to provide suggestions based on their commissions as well as customer's beliefs, even if the customers beliefs are wrong. The disclosure regulation for certain type of insurance products will make the agents tend not to recommend that type of products to customers.

f.

1. The study at first claimed that term insurance is much better than the whole life insurance. I think there should be more evidence or study be introduced to convince the readers about that claims. It would be hard to imagine the whole industry would provide two kinds of products which one kind is strictly dominated by another kind and the distinct is "much better off". Perhaps a better description of how term insurance is better for what type of customers and adjust the

treatment to represent that type of customers would be better.

2.

The field experiments are mainly conducted in the first and second largest cities in India. However, as we all know, area development can be significant different for developing countries. So I would argue the experiments could not represent India as a whole, but only first class cities.

Reference:

Gabaix, Xavier, and David Laibson, “Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets,” *Quarterly Journal of Economics* 121 (2006), 505–540.540.

Inderst, Roman, and Marco Ottaviani, “Competition through Commissions and Kickbacks,” *American Economic Review* 102 (2012a), 780–809.