

# **Comments to “Provider-induced Asymmetric Information in the Insurance Market”**

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# Summary

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## Main Conclusions

- Asymmetric information exists in Taiwan's comprehensive auto insurance market.
- Asymmetric information is more severe through dealer-owned agents.
- Emerging markets have high probability to experience asymmetric information problem.

## Methodologies

- Probit models to test the dependence between the choice of coverage and the occurrence of claim.
- Two-stage models to incorporate the estimation of coverage and accident.
- Additional statistics to Chiappori and Salanie (2000) and Dionne, Gauthier, and Vanasse (2001).

# Comments (1)

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## Coverage Indicator

- In the paper, type A and type B policies stand for high coverage, while type C policy stands for low coverage, because type C policy only covers the damage from a collision of two or more vehicles.
- However, policy deductible can also be considered as coverage indicator, as is used in Chiappori and Salanie (2000) (comprehensive coverage versus minimum legal coverage).
- Policy limit is normally used to control for the driver's risk aversion in the literature.

# Comments (2)

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## Risk Indicator

- The paper uses occurrence of claim as the risk indicator for drivers.
- This only takes loss frequency into consideration but leaves loss severity aside.
- High-risk drivers have higher probability to experience more severe loss in an accident.

# Comments (3)

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## Heterogeneity of Data

- Drivers should be of the same background to avoid heteroskedasticity.
- Chiappori and Salanie (2000) uses beginning drivers as their sample.
- Research of asymmetric information is largely constrained by the availability of data.

# Comments (4)

## Explanatory Variables

– Comparison of explanatory variables.

Tzeng, Wang, Wang and Wang (2007)	Chiappori and Salanie (2000)	Dionne, Gourieroux, and Vanasse (2001)
Age of the car	Sex	Age of the Driver
Sex	Maker of the Car	Sex
Marriage Status	Performance of the Car	Location
Location	Type of Use	Market Value of the Car
Car Type	Type of Area	Drivers' classes
Trade Mark	Age of Driver	Whether insured is new to the insurer
Age of the Driver	Profession of Driver	Whether insured is young male
	Age of Car	Age of the Car
	Region	Observed number of claims
		Expected number of accidents
		Marginal Price of Deductible
		Policy Limit

– Need to control for marginal price of coverage, market value of car, risk aversion.

# Comments (5)

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## Definition of Accident

- Accident is defined as the claim involving a collision with at least two cars.
- This is to set the same criterion for the three types of policies and reduce the potential bias.
- An claim should be only be counted when it is at the individual's fault, but this can be potentially misleading too.