Discussion of
“The Influence of Premium Subsidies on Moral Hazard in Insurance Contracts”

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Contributions

• Two results are shown:
  1. Premium subsidies increase the problematic effects of moral hazard, regarding both loss prevention and ex-post loss reduction.
  2. In contingent premium contracts, the effect of premium subsidies is reversed and subsidies actually encourage loss prevention.
    → Contract design is essential for analyzing the wealth effects of premium subsidies.

• The results sound nice.

  → I’m having three questions/comments.
First comment

• How relevant is the participation constraint (P/C), written on p.11?

\[
(1 - p(e))U(x_H - \pi(e)) + p(e)U(x_L - \pi(e) + I) - c(e) \\
\geq (1 - p(e))U(x_H) + p(e)U(x_L) - c(e)
\]

– Ex-post efforts are often assumed in the literature. There, the ex-post efforts would not be necessarily the same b/w the sides.

– Could you show more specifically why the P/C characterized by such ex-ante efforts is relevant?
Second comment

• The game structure b/w the insured and the insurer looks unclear.
  – Is the actuarially fair premium a condition for the insured’s control or a strategy of the insurer?
    • If it is a condition, make clear the set of insurance contracts that are admissible for the insured.
  – The admissibility could constrain insurability.
Third comment

• To draw the policy implications regarding the contract design as in the second result,
  – More desirable to solve directly the problem of the insurer’s optimal insurance design with the insured’s optimal effort given.
  – Might be better to discuss the effects not only on moral hazard but also on participation and adverse selection.