A study of asymmetric information problems
in vehicle insurance

av

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Akademisk avhandling

Avhandling för filosofie doktorsexamen i nationalekonomi,
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Opponent: Professor Erik Verhoef
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Abstract


Insurance is an indispensable part of modern welfare systems. It provides financial protection against unexpected losses and facilitates security and efficiency. Despite these benefits, the insurance literature predicts distorting effects of insurance provision in the form of asymmetric information problems such as adverse selection and moral hazard. However, empirical evidence does not provide unambiguous support for this theoretical prediction.

This dissertation empirically examines a theoretical prediction of the presence of asymmetric information problems in the case of vehicle insurance.

Essay 1 analyzes the effects of a tax reform in Sweden that raised the price of vehicle insurance. The results indicate that the tax reform has increased the odds of switching to lower insurance coverage, in particular among older drivers. However, this switching behavior has not resulted in a significant change of driver behavior in terms of claims.

Essay 2 uses a two-stage procedure to test for the presence of asymmetric information problems in the provision of vehicle insurance. In the first stage, we check for the presence of residual asymmetric information; in the second stage, we identify the source of the information problem, i.e. either adverse selection or moral hazard, or both. Our findings from the first stage estimation indicate the presence of residual asymmetric information in the choice of full insurance with a low deductible. The second stage estimation results reveal that the source of this information problem is moral hazard.

Essay 3 analyzes the impact of insurance on the probability of accidents by investigating the accident risk of insured and uninsured drivers. The results show that uninsured drivers have a higher probability of causing an accident than insured drivers, and that uninsured drivers aged 25-34 pose a greater accident risk than uninsured drivers in other age categories.

Keywords: asymmetric information, insurance, moral hazard, traffic safety

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