

Inefficiency in the life insurance market in Japan:

The presence and cause of advantageous selection

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Summary

Asymmetric information in the insurance market is the central problem in economics. The economic analysis has begun in 1970s, and it have developed the theory that asymmetric information causes the problem of adverse selection. However, more recently, a new theory called advantageous selection is found in the 2000s, which contradicts with the adverse selection. This paper empirically examines the existence of adverse or advantageous selections in the Japanese insurance market by using the data from Preference Parameters Study of Osaka University in 2017 and 2018. To begin with, I hypothesize that there is an advantageous selection in the insurance market in Japan because many of them are risk averse that purchase insurance to avoid the risk. However, the results from the both pooled and fixed effect regression model suggest the existence of adverse selection, rather than advantageous selection.

This paper's constitution is as the following: the first two sections explain the literature and previous studies of advantageous selection. The next section states the data and the regression model methodology which are used in this study. The fourth section examines the existence of advantageous selection, and the last two section expands the discussion and limitations based on the result and states the conclusion.

Key words: Advantageous selection; Adverse selection; Risk preference; Insurance