World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:17, No:03, 2023

Risk Screening in Digital Insurance Distribution: Evidence and Explanations

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Abstract : The embedding of digital technologies in the global economy has attracted increasing attention from economists. With a large and detailed dataset, this study examines the specific case where consumers have a choice between offline and digital channels in the context of insurance purchases. We find that digital channels screen consumers with lower unobserved risk. For the term life, endowment, and disease insurance products, the average risk of the policies purchased through digital channels was 75%, 21%, and 31%, respectively, lower than those purchased offline. As a consequence, the lower unobserved risk leads to weaker information asymmetry and higher profitability of digital channels. We highlight three mechanisms of the risk screening effect: heterogeneous marginal influence of channel features on insurance demand, the channel features directly related to risk control, and the link between the digital divide and risk. We also find that the risk screening effect mainly comes from the extensive margin, i.e., from new consumers. This paper contributes to three connected areas in the insurance context: the heterogeneous economic impacts of digital technology adoption, insurer-side risk selection, and insurance marketing.

Keywords : digital economy, information asymmetry, insurance, mobile application, risk screening
Conference Title : ICMM 2023 : International Conference on Microeconomics and Macroeconomics
Conference Location : New York, United States
Conference Dates : March 20-21, 2023