Status Quo Bias in Investment and Insurance Behaviour: Evidence From A Ugandan Field Experiment

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- There is also strong evidence of underinsurance in developing countries
- Gine, Townsend, & Vickery (2008) find risk averse people are *less* likely to buy insurance
- The most common (almost universal) explanation is a lack of trust of market products e.g., Karlan, Osei, Osei-Akoto, & Udry (2012)

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- Duflo & Saez (2003) find default bias $>$ social pressure in pension decisions

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	1st Treatment: Investment	
9 coins		1 coin

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Safe: $500, p = 1$		Risky: $1000, p = 0.8$
	2nd Treatment: Insurance	
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Safe: $500, p = 1$		Risky: $1000, p = 0.8$
	3rd Treatment: Neutral	
1 coin	8 coins	1 coin

A Theoretical Perspective

- The EUT way to think about these gambles would be $V(L) = v(a) + 0.8v(2b)$ where $x = 10 = a + b$, and a and b are respectively the number of coins placed in the safe risky baskets

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- Risking one fewer coin implies $v(a) - \lambda\pi(0.8)v(2b)$
- The loss aversion parameter (λ) and value function imply default bias

Analysis: Is there a default bias effect?

Table : Summary of coins risked, by treatment

Treatment	Mean	SD	N
Safe	4.99	2.67	105
Neutral	5.96	2.55	74
Risky	6.37	3.13	113
Total	5.77	2.88	292

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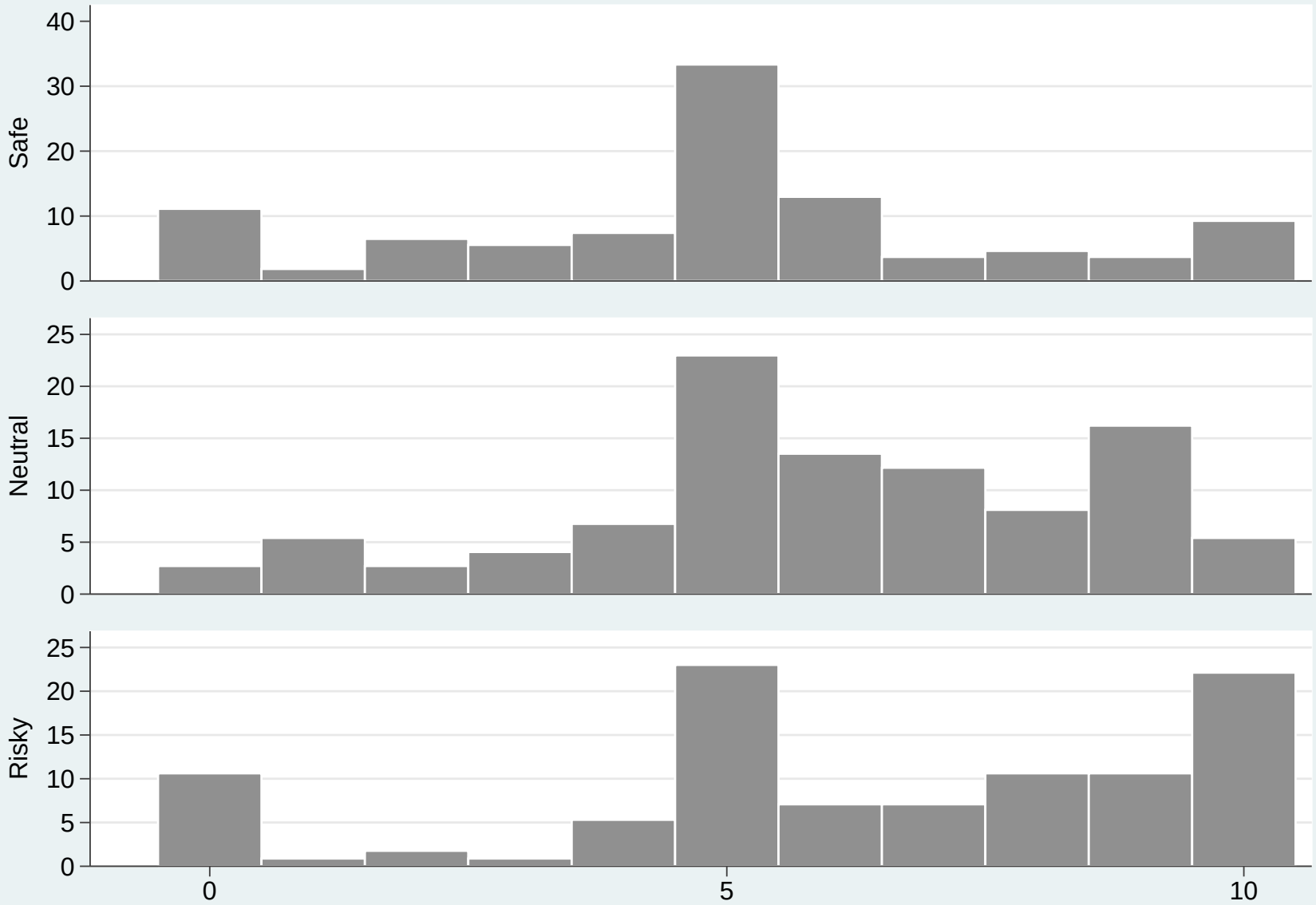
Table : T statistic for difference in means

Null Hypothesis	T Statistic	P Value
Safe = Risky	3.50	0.00***
Safe = Neutral	2.44	0.01***
Neutral= Risky	0.95	0.17

Is there a default bias effect?



Is it just inertia,

As in Madrian and Shea, 01, QJE?

1st Decision	Safe	Neutral	Risky	Total
0	10	2	12	24
1	**2**	4	1	7
2	7	2	2	11
3	6	3	1	10
4	8	5	6	19
5	36	17	26	79
6	14	10	8	32
7	4	9	8	21
8	5	6	12	23
9	4	12	**12**	28
10	9	4	25	38
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- We vary the pairing of treatments to make sure we get enough variation

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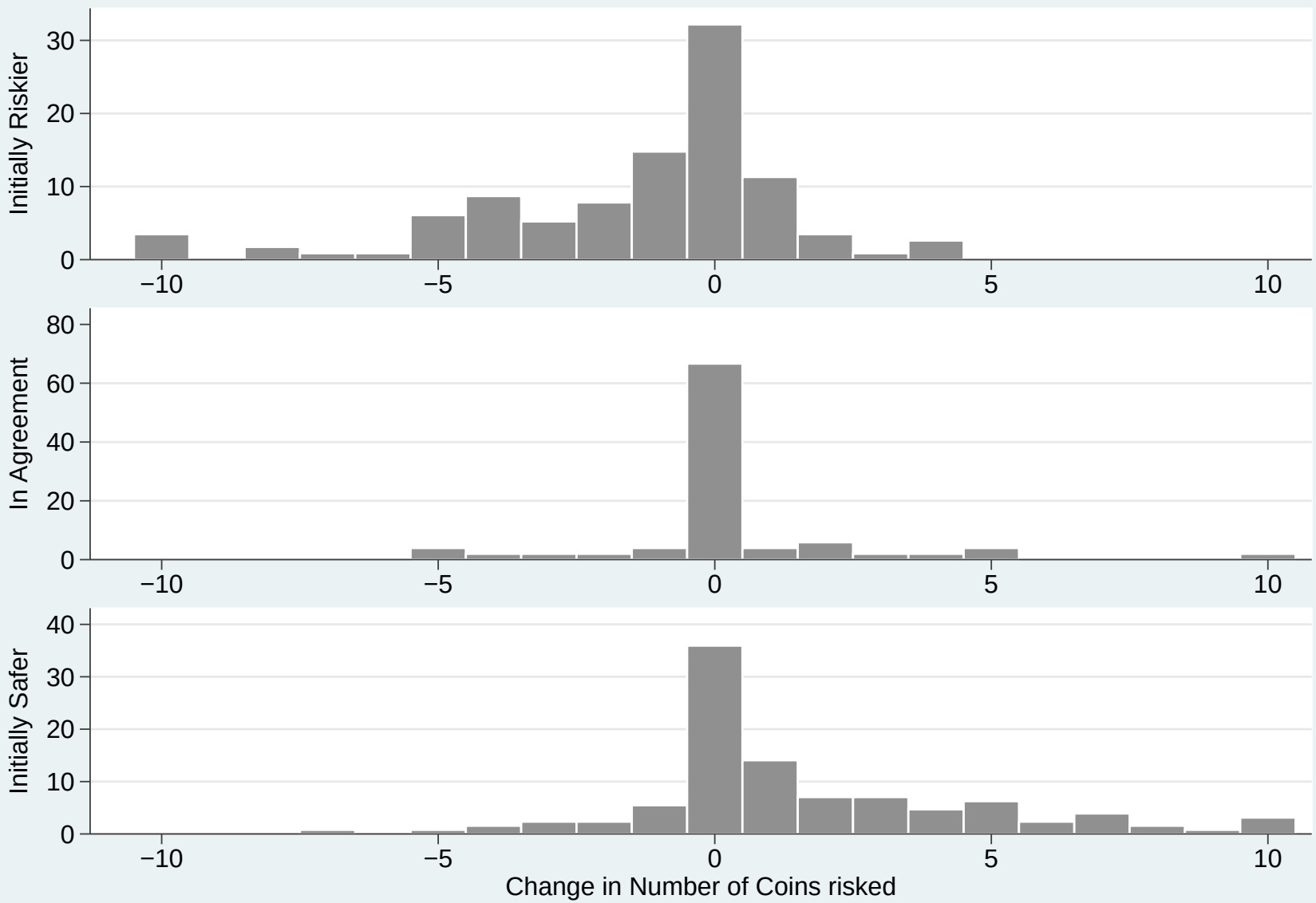
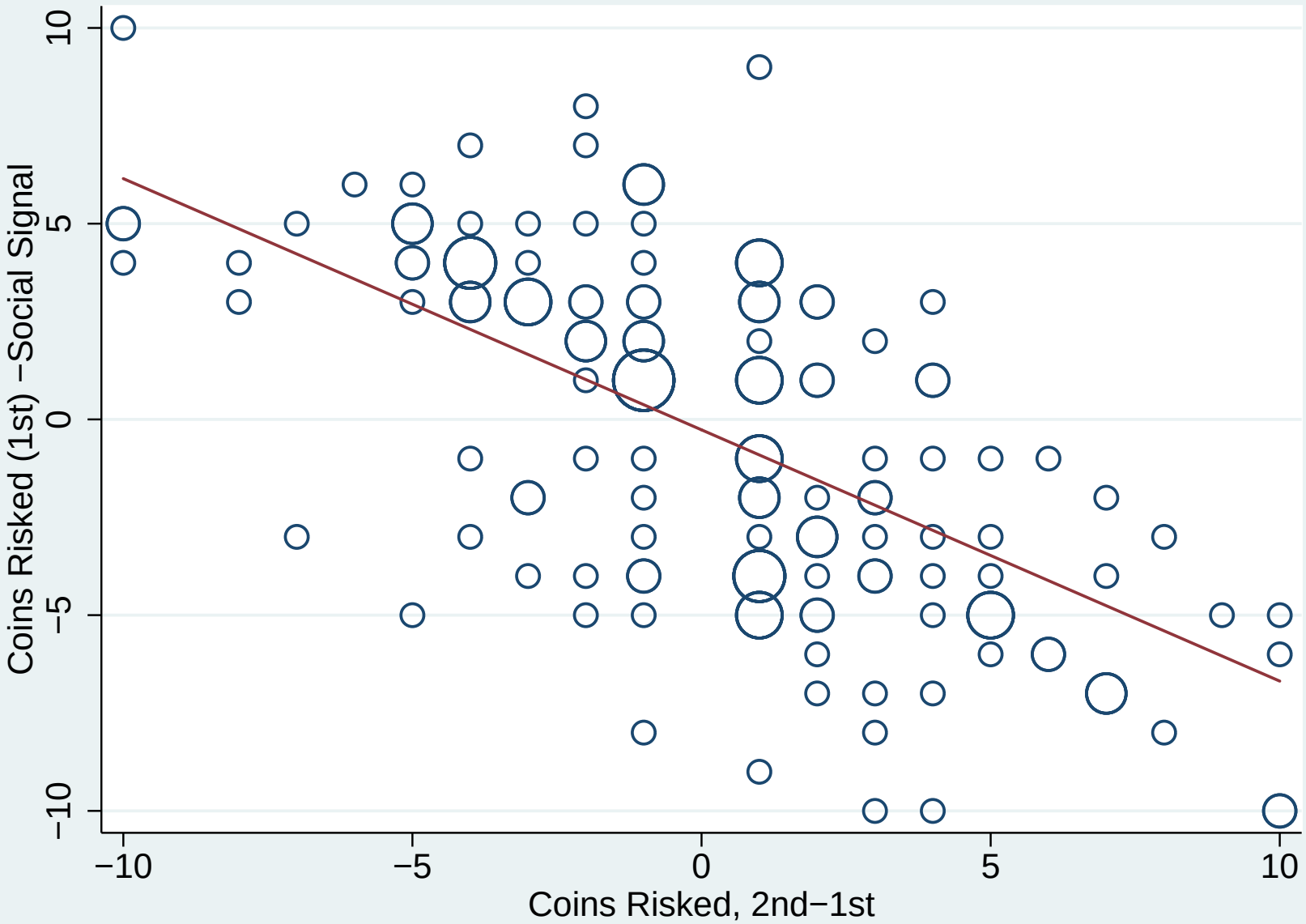
- In a prospect theory story, this becomes a new reference point

Change in number of coins risked, by the difference between the social signal and 1st round decision



Note: Y scales are percentages.

The difference between 1st and 2nd round decisions against the difference between the social signal and the 1st round decision



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- 8 units of difference between safe and risky with a difference in means of 1.38
- Over 8 units of difference from the social mode, we'd expect convergence of 3 units

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- And Duflo, Kremer, & Robinson (2011)?
- They offer time limited discounts, and argue its about procrastination
- Our results offer a different interpretation: both interventions change the reference point (like the social mode)

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- ... and an alternative explanation for recent successes in increasing investment and insurance behaviour
- Thanks for listening!

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- I've been using an ordered logit to deal with the attractiveness of the 0, 5 and 10
- In the analysis of change in # of coins risked, everything (apart from the social signal-1st decision distance) is insignificant

Table : Ordered Logit on coins risked (1st decision)

Variable	Coefficient	Std. Err.
Neutral Treatment	0.751***	(0.22)
Risky Treatment	1.027***	(0.35)
Female	-0.291**	(0.12)
Unmarried	-0.646**	(0.28)
Secondary Education	0.451*	(0.27)
Tertiary Education	0.466	(0.77)
No Education	0.259	(0.30)
Anglican	0.332	(0.34)
Muslim	0.075	(0.09)
Seventh Day Ad.	0.987***	(0.31)
Born Again	-0.270	(0.52)
Other Protestant	0.205	(0.41)

Table : Cut points

	Estimate	Std. Err.
1	-2.921	(0.70)
2	-2.672	(0.53)
3	-2.335	(0.39)
4	-2.057	(0.34)
5	-1.630	(0.34)
6	-0.347	(0.38)
7	0.153	(0.39)
8	0.510	(0.34)
9	0.945	(0.34)
10	1.645	(0.37)

Note: The 'default' is: Catholic, male, primary school, safe treatment. Robust standard errors, clustered by the four enumerators.

Table : Standard OLS with Robust SE Clustered by enumerator

Neutral Treatment	1.051*
	2.949
Risky Treatment	1.368*
	2.444
Female	-0.366
	-2.282
Unmarried	-0.878*
	-2.907
Anglican	0.482
	0.886
Muslim	0.113
	0.512
7th Day Ad.	1.358**
	4.954
Born Again	-0.601
	-0.709
Other Protestant	0.806
	1.124

Betas with T statistics