

Financial inclusion and life insurance demand: Evidence from Italian households

Discussion

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Outline

- Paper Summary
- Comments
- Discussion

Paper Summary - 1

- Investigates demand for **life insurance** in Italy using panel data from Survey on Household Income and Wealth
- Focus → Role of traditional determinants of insurance demand (income, wealth, demographics) and '**financial inclusion**' - proxied by stock holdings, home ownership and financial literacy.

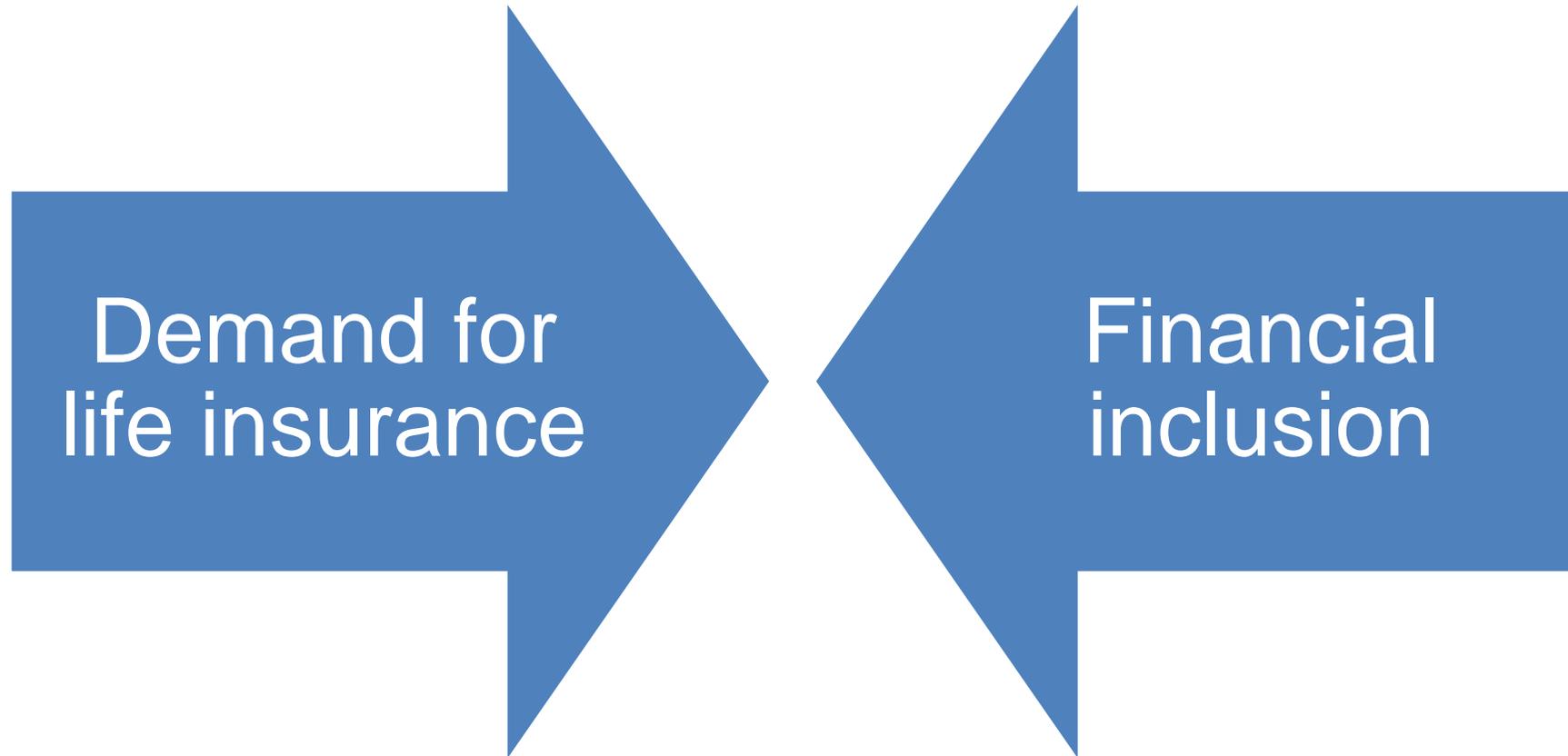
Paper Summary - 2

- Estimate 'Probability of owning a life insurance product' and 'Life insurance premiums paid' as $f(\text{demographics, location, risk aversion; proxies for financial inclusion})$
- Uses a variety of models (OLS, FE, Tobit), including IV (instrumenting financial literacy with DVs indicating whether parents had managerial skill at the same age)
- Estimate 'Prob of life insurance + pension fund' as $f(\text{same variables})$

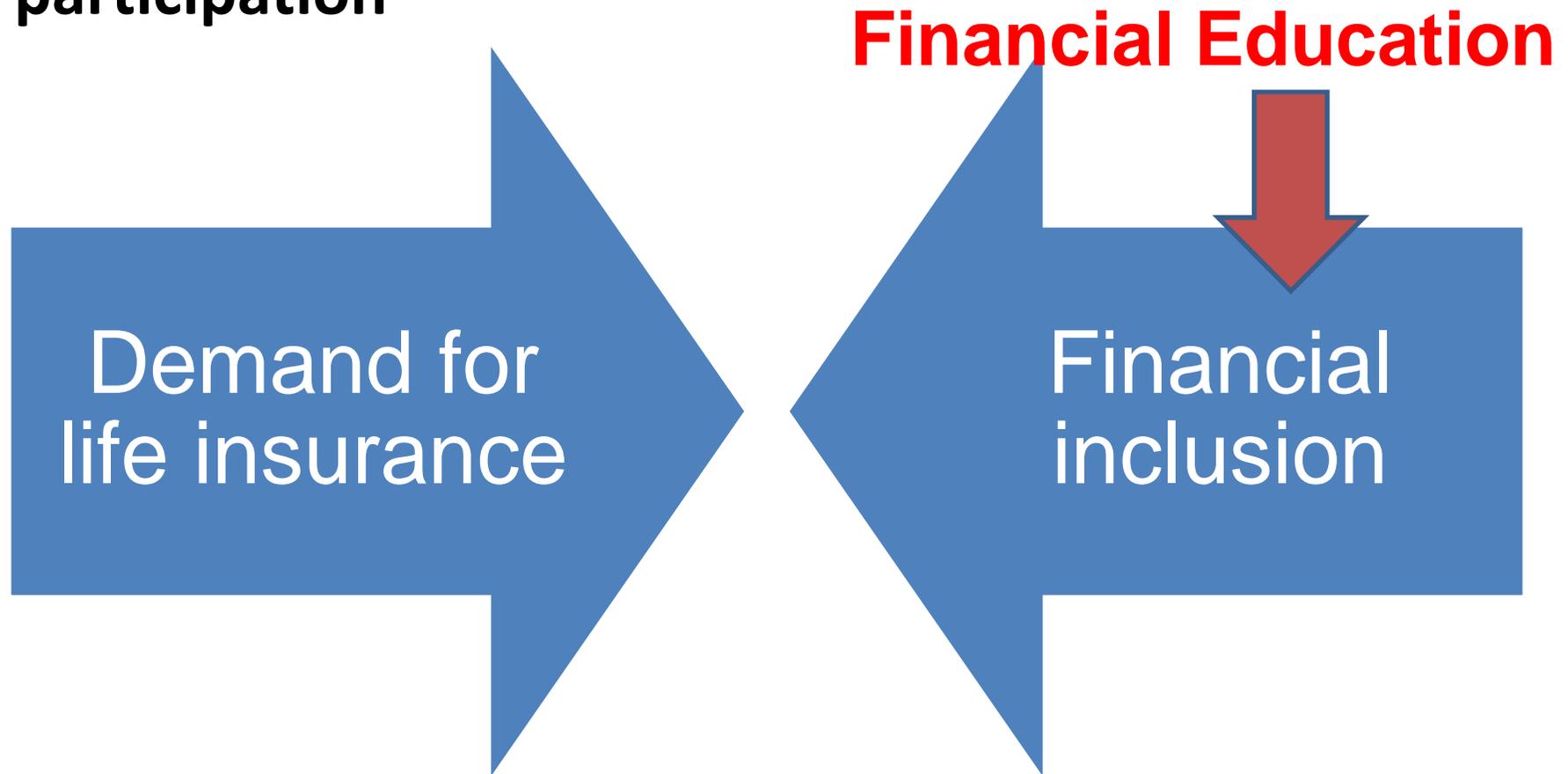
Paper Summary - 3

- Role of demographics confirmed
- Proxies for financial inclusion have the largest effect
 - **Financial Literacy**, stock & home ownership strongly associated with participation in life insurance and premium amount
 - Stock ownership associated with ‘participation in life insurance and/or private pensions’, but homeownership has negative association

Conclusion: strong association between demand for life insurance and financial inclusion



Suggests: role for financial education to improve financial inclusion and increase insurance participation



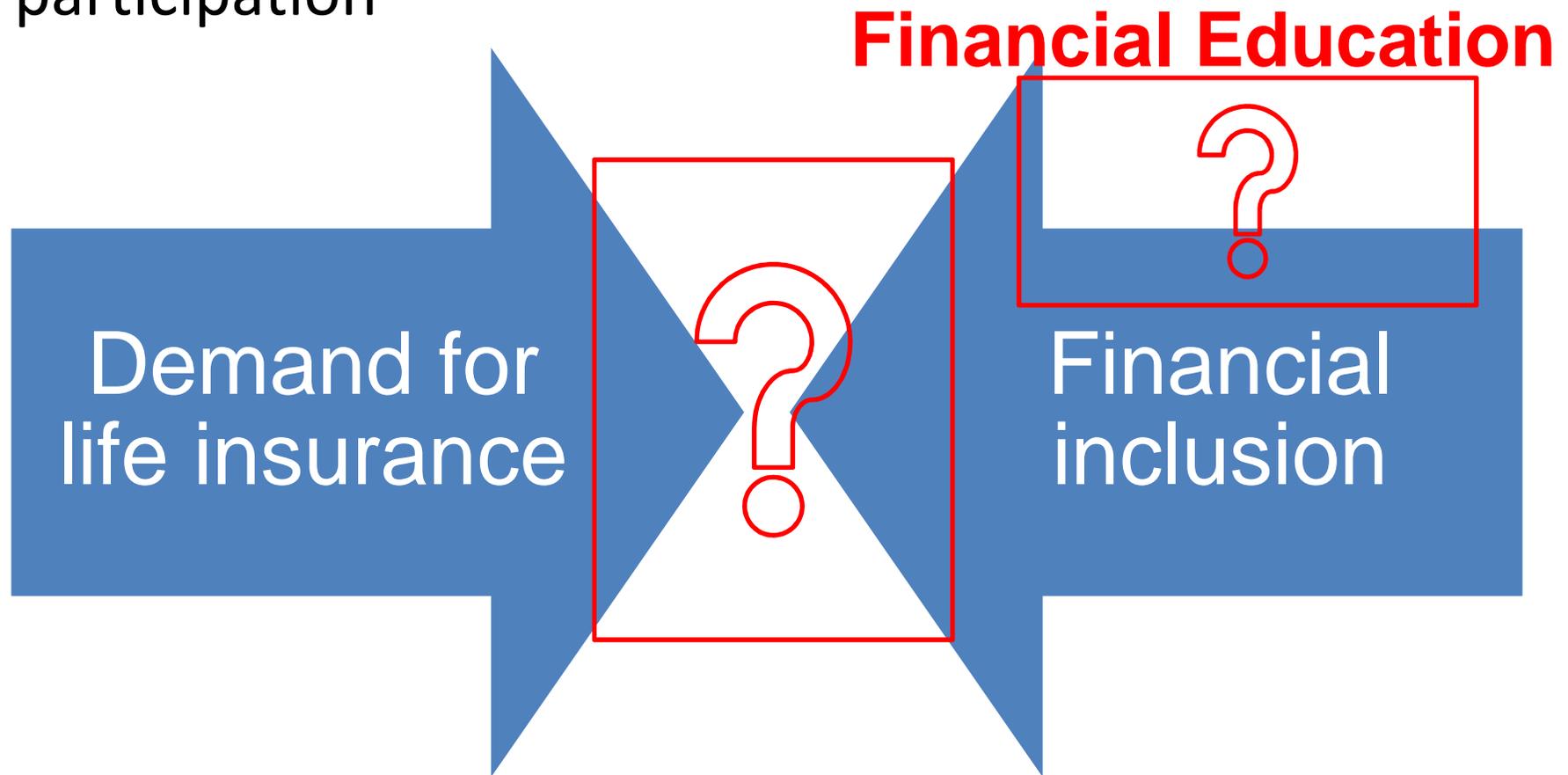
Comments - 1

- Include background of Italian Life Insurance market, life insurance products
 - Role of 'life insurance' in the household portfolio
- Definition of dependent variable – life insurance → but product has mixed characteristics (*savings paid as annuity/lump sum + death benefit*)
 - Is it demand for life insurance or annuities or insurance based savings?

Comments - 2

- Financial inclusion or financial sophistication?
 - Owning a home and stocks far more than required for financial inclusion
- Are the policy implications too strong?
 - Do we really understand the relationship between financial education → financial literacy → financial sophistication (holding stocks, homeownership) → other financial market participation

Concludes: role for financial education to improve financial inclusion and increase life insurance participation



Discussion - 1

- Participation in, and understanding of, life insurance IS under researched
- Life Insurance is difficult concept – particularly the ‘mixed’ policies in the paper which can combine savings/annuity/lump sum/death benefits
- Recent report by life insurer TAL – very poor understanding and under insurance in Australian life insurance market (death benefits)
- Australian study in progress – identified life insurance least understood of 3 key financial decisions – loans, insurance & investments

Discussion - 2

- Many published studies show poor understanding of annuities
- Very likely that people are not making optimal decisions → not insured, under/over insured
- Possibly need more targeted intervention to improve understanding of, and participation in, complex products such as life insurance (and annuities) (eg – ‘Just in time’ financial education as proposed in Fernandes et al. (2014), Financial Literacy, Financial Education, and Downstream Financial Behaviors, *Management Science*).

Discussion - 3

- In Italy –life insurance savings products as a % of household savings increased from 6% in 2000 to 12% in 2010
- Why long term saving via insurance products?