

## Empirical Evidence for Advantageous Selection in the Commercial Fire Insurance Market\*

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De Meza and Webb (2001) indicated that individuals with a higher degree of risk aversion would demand more insurance and invest in self-protection to reduce risk probability when both the preference type and investment in self-protection are hidden from insurers. They referred to the negative correlation between market insurance and risk type as advantageous selection. However, the relationship between risk type and the degree of risk aversion is debatable in both theoretical and empirical research. This paper therefore proposes that advantageous selection could be supported from another angle by directly examining the relationships that exist among market insurance, self-protection, and risk probability. By focusing on the commercial fire insurance market, information on the purchase of market insurance, investment in self-protection, and fire accident records is hand-collected by means of a unique survey. It is found that firms purchasing market insurance have a greater tendency to channel efforts into self-protection. It is also found that firms expending effort on self-protection are less likely to suffer a fire accident. Furthermore, it is found that firms with commercial fire insurance have less chance of suffering a fire accident than those without such insurance. Each of the above three findings jointly supports the view that advantageous selection could play a critical role in the commercial fire insurance market.

*The Geneva Risk and Insurance Review* (2009) 34, 1–19. doi:10.1057/grir.2008.13

**Keywords:** asymmetric information; advantageous selection; adverse selection; risk aversion

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