Information Asymmetry in the Malaysian Health and Surgical Insurance Market

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Abstract

The research paper investigates the presence of asymmetry information in Health and Surgical Insurance in Malaysian market. For that purpose, an econometric model is formulated and estimated by using data from insurance companies based on the model used by Cawley and Philipson (1999). The model has price as a dependant variable and regressed against consumers' characteristics. The results show that the unit price tends to increase with level of risk or quadratic pricing. The pricing schedule is necessary for companies to break even as it can minimize the impact of informational disadvantage. This is because high risk individuals will purchase higher than average quantity of coverage. A logit model is formulated and estimated to investigate the relationship between high risk individuals and probability of holding larger quantity. The paper highlighted the presence of asymmetry information in Health and Surgical Insurance. Its presence is detrimental to efficiency of trade. Companies will reject risk, which is not familiar, consumers with lower risk propensity will be paying higher premium than the risk level they face, moral hazard problems, and etc. These problems arise from the benefit of misrepresentation in the proposals, which in turn determine the decision making of the companies. Loss of trade or Pareto inefficiency in trade can be overcome with customized policies, offer policy based on observable consumption of correlative products, and public intervention. The problems of asymmetry information do not only occur in insurance market, but it is also apparent in other markets as long as there exist benefit for the parties to cheat or lie.

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