The Effects of Statistical Information on Risk- and Ambiguity-Attitudes, and on Rational Insurance Decisions

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June, 2006

Abstract. This paper presents an applied test of behavioral issues related to health insurance purchases. Unlike many academic studies, we could use in-depth individual interviews of a large representative sample from the general public (N=476). We examined the effects of statistical information on insurance purchases, with special attention to their usefulness for clients. The statistical information that had the most interesting effects, “individual own past-cost information,” unfortunately enhanced adverse selection, which we could directly verify because we knew the real health costs of the clients. For a prescriptive evaluation this drawback must be weighted against some advantages: a desirable interaction with risk attitude, increased customer satisfaction, and increased cost awareness. Descriptively, ambiguity seeking was found rather than ambiguity aversion, and no risk aversion was found for loss outcomes. Both findings, obtained in a natural decision context, deviate from traditional views in risk theory but agree with prospect theory. We confirmed prospect theory’s reflection at the level of group averages, but falsified it at the individual level.

Keywords: risk attitude, ambiguity, health insurance, adverse selection

¹ This paper received helpful comments from an editor, Horst Bienert, Jan Ritzema, Stefan Trautmann, and Nelleke Weyermans, and improved much because of thorough comments of four anonymous reviewers.

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1. Introduction

In many countries, health insurance is only partly funded publically, and clients have to decide on how much extra coverage they want to obtain by purchasing supplemental private insurance (Bundorf & Simon 2006). For this decision, information about the risks at health expenses is useful. Thus, Winter et al. (2006) wrote, in a study on the Medicare Part D program for elderly clients introduced in the US on January 1, 2006, where private insurance companies and health maintenance organizations (HMOs) have to compete to offer supplemental insurance:

If the market components of Medicare Part D is to be successful, in the sense that it provides choices that consumers want, and achieves the efficiencies it seeks, it will probably be necessary for Medicare to expand its effort to reach all consumers and provide them with information and assistance in making wise choices. … If elders are to be given sound advice on the merits of enrollment and alternative plans, community-based, privately financed advocacy organizations are likely to have to take the initiative. … At present, even the most basic information on transition probabilities for pharmacy bills and health conditions that is needed for careful calculation of the value of insurance plans is not publicly available. (pp. 7933-7934).

McFadden (2006, p. 23, concluding paragraph) gave the same arguments.

Developments as in the US simultaneously took place in the Netherlands, the country where our study was conducted. Plans to abolish complete public coverage for health insurance were developed in 1995, when this study was initiated by the Dutch health insurance company Zorg en Zekerheid, and were finally implemented on January 1, 2006.

This paper reports an empirical study into providing clients with statistical information about health costs. We study the effects of such information on the clients’ willingness to take insurance (WTT), for a sample of N = 476 subjects representative of the lower 2/3 income class of the Dutch population. Our main interest concerns the desirability of such effects for the clients, i.e. whether it enhances choices that they want. In addition, our study provides descriptive insights into the risk and ambiguity attitudes of a representative sample of the lower 2/3 income class of the Dutch population.

Clients of the Dutch health insurance company Zorg en Zekerheid (with compulsory insurance so that there was no selection bias) were asked for their WTT both before the receipt of information about statistics of health expenses, and after. Thus, the effect of the statistical information could be measured. We were also
informed about the health expenses of the clients by the insurance company. Thus we
could measure how the WTT, and the effect of statistical information on WTT,
depended on both risk aversion and health expenses. The extra statistical information
that clients received entails a reduction of ambiguity (in its technical decision-
theoretic sense), so that our data also give insights into ambiguity attitudes.

There is a wide interest in risk and ambiguity attitudes of the general public,
rather than of the often-studied students (Donkers, Melenberg, & van Soest 2001;
Hartog, Ferrer-i-Carbonell, & Jonker 2002; Harrison et al. 2004; Harrison & List
2004; Starmer 2000). Our collaboration with Zorg en Zekerheid provided a unique
opportunity to obtain such data. Common academic budgets do not allow for large-
scale intensive experiments with representative samples from a population scattered
over several cities and with each subject interviewed individually at their home, as
could be done in this study. Thus, we could obtain a refined measurement of risk
attitudes from the general public. Because risk aversion is rarely measured at the
individual level in insurance studies, its positive impact on WTT, while widely
assumed, has rarely been verified empirically before (see Barsky et al. 1997, who
could not use refined measurements through individual interviews). The information
about individual health expenses as we had is also rarely available. This information
allowed an empirical verification of adverse selection at the individual level.

The effects of risk information on WTT are of interest from the marketing
perspective, for example if an insurer seeks to maximize revenues and profits. We
will, indeed, formulate recommendations for such applications. The main research
question of this study, raised by Zorg en Zekerheid, was, however, a prescriptive one,
to be considered from the perspective of the clients of Zorg en Zekerheid: To what
extent do the effects of risk information help clients make insurance decisions that
better fit their own preferences, and which form of statistical information is optimal
for this purpose? We will obviously separate the empirical facts inferred from our
experiment, and relevant to empirical applications, from the prescriptive
interpretations added later. The design, definition of indexes, and statistical analyses
will, however, be primarily oriented towards those aspects of the data that serve to
solve our main research question. The effect of risk information on risky decisions of
the general public, and the prescriptive desirability thereof, is of general interest. It is,
for instance, relevant for preventive health care, traffic safety, counseling for risky
medical treatments, and banks informing clients about risk profiles of financial portfolios.

We considered WTT for supplemental insurance against a deductible of Dfl. 200 (approximately $140 in 1997) per year, the deductible envisioned in 1995 when the subjects were interviewed. The deductible introduced in the Netherlands in 2006 is somewhat lower (€100), and it is higher ($250) for the Medicare part D program in the US. The supplemental insurance considered in this paper provides reimbursement for any deductible paid, so that full coverage is obtained after all.

Our empirical findings come from a natural environment and concern choices commonly faced by people when interacting with their insurance company. They shed new light on some controversial empirical questions, such as whether the general public is risk averse or risk seeking for losses, and whether ambiguity aversion and prospect theory’s reflection effect hold for the general public. Since Keynes (1921), Knight (1921), and Ellsberg (1961), there have been many studies into the difference between risk (known probabilities) and uncertainty or ambiguity (unknown probabilities); see Gilboa (2004). These studies commonly considered artificial constructions of ambiguity, such as through urns with numbers of balls deliberately kept secret. Our natural stimuli will reveal phenomena different than those found with the commonly used artificial stimuli.

Further specific research questions addressed in this paper concern whether the effects of the various forms of statistical information on WTT interact with the risk aversion of the clients, and with their health expenses. We discuss whether the interactions found are desirable from various perspectives (marketing, societal, client), as well as which form of statistical information is most desirable from the various perspectives.

2. Method

Details of our experiment, in particular concerning the hypothetical and subjective nature of the survey questions, are discussed in Section 5 and in Appendix A.

Participants.—N=496 clients of Zorg en Zekerheid were sampled, all with Dutch as native language, aged 18–69. The sampling was done sequentially, maintaining representativeness regarding age, gender, and income for the various subgroups of interest in this research. The clients were all on national health service, which means
that they belonged to the lower 2/3 income class of the Dutch population. For our
clients, insurance is compulsory so that being insured did not generate self-selection.
The clients predominantly did not have an academic training, which makes them
complementary to the participants recruited in most experimental investigations. The
clients in our study were well motivated because the research was organized by their
own health insurance company, and the general public is in general willing to
contribute to health investigations (Bleichrodt & Pinto 2005).

Procedure.—Thirty professional interviewers were hired. They received a day's
training as preparation, and visited all clients at their private homes. Interviews lasted
approximately one hour per client, of which half an hour was dedicated to questions
regarding the research reported here, and the other half hour was dedicated to another
research regarding insurance for dental care. Clients were called by phone after the
interview to verify that the procedures had been carried out correctly prior to payment
of the interviewers. No interviewer had to be discarded.

Stimuli; general.—We only describe the variables relevant to this research. The
stimuli were tested in a pilot study consisting of 10 clients, and were approved by a
patients’ interest group (“Regionaal Patiënten/Consumenten Platform Leiden”). In
short, the independent variable is the form of statistical information given to the
clients, and the dependent variable is the effect of information on WTT. Further
factors are risk attitude and costs. We next describe these stimuli in detail.

Risk attitude.—Fourteen hypothetical choice questions about gambles for money
were mailed to the clients before the interview, so that they could prepare. These
questions were discussed in the beginning of the interview. In each question, a choice
had to be made between a risky prospect and a sure amount of money. The first seven
choices concerned gains, i.e. nonnegative amounts of money, and were described as
wheel-of-fortune questions to the clients. The last seven choices concerned losses and
were described as wheel-of-misfortune questions. Both the gain- and the loss-
questions were preceded by one practice question. Appendix B presents the visual
displays of two choices. Tables 1 and 2 display the probabilities and outcomes of the
prospects. Only the nonzero outcomes and their probabilities are denoted. To save
space, the tables hereafter also display choice proportions that will be discussed in the
results section.
TABLE 1. Risky choices for gains

<table>
<thead>
<tr>
<th></th>
<th>G1</th>
<th>G2</th>
<th>G3</th>
<th>G4</th>
<th>G5</th>
<th>G6</th>
<th>G7</th>
</tr>
</thead>
<tbody>
<tr>
<td>risky prospect</td>
<td>(0.50, 300)</td>
<td>(0.50, 200)</td>
<td>(0.01, 200)</td>
<td>(0.05, 100)</td>
<td>(0.50, 96)</td>
<td>(0.95, 72)</td>
<td>(0.95, 100)</td>
</tr>
<tr>
<td>safe option</td>
<td>20</td>
<td>100</td>
<td>10</td>
<td>14</td>
<td>39</td>
<td>55</td>
<td>78</td>
</tr>
<tr>
<td>proportion of risky choices</td>
<td>0.72</td>
<td>0.31</td>
<td>0.19</td>
<td>0.24</td>
<td>0.50</td>
<td>0.60</td>
<td>0.63</td>
</tr>
</tbody>
</table>

In G1 the choice is between a fifty-fifty prospect yielding Dfl. 300 or nothing, and a safe option yielding Dfl. 20 for sure; the other choices are similar. In prospect choice G1, 72% of the clients chose the risky fifty-fifty prospect of Dfl. 300 or nothing, and 28% chose the safe option of Dfl. 20 for sure; the other percentages are similar.

TABLE 2. Risky choices for losses

<table>
<thead>
<tr>
<th></th>
<th>L1</th>
<th>L2</th>
<th>L3</th>
<th>L4</th>
<th>L5</th>
<th>L6</th>
<th>L7</th>
</tr>
</thead>
<tbody>
<tr>
<td>risky prospect</td>
<td>(0.05,−200)</td>
<td>(0.50,−200)</td>
<td>(0.01,−200)</td>
<td>(0.05,−100)</td>
<td>(0.10,−50)</td>
<td>(0.10,−200)</td>
<td>(0.95,−100)</td>
</tr>
<tr>
<td>safe option</td>
<td>−75</td>
<td>−100</td>
<td>−3</td>
<td>−8</td>
<td>−8</td>
<td>−23</td>
<td>−84</td>
</tr>
<tr>
<td>proportion of risky choices</td>
<td>0.76</td>
<td>0.47</td>
<td>0.54</td>
<td>0.56</td>
<td>0.54</td>
<td>0.50</td>
<td>0.33</td>
</tr>
</tbody>
</table>

In L1 the choice is between a prospect yielding a loss of Dfl. 200 with probability 0.05 and no loss otherwise, and a safe option yielding a loss of Dfl. 75 for sure. In prospect choice L1, 76% of the clients chose the risky prospect of losing Dfl. 200 with probability 0.05, and 24% chose the safe option of losing Dfl. 75 for sure.

Choices G1 and L1 serve to detect extreme risk aversion, for clients who invariably choose the sure amount no matter how favorable the risky prospect is. In choices G2 and L2, the sure outcomes are the expectations of the risky options. These choices provide benchmarks for whether clients are risk averse, risk neutral, or risk seeking. The other prospects were taken from Tversky & Kahneman (1992, G3, G4, G7, L3, L4, L5, L6, L7) and from Birnbaum et al. (1992, G5, G6). The particular outcomes and probabilities were chosen because in each of these choices the mentioned references found 50% preference for either prospect, suggesting that they optimally distinguish between individuals. For pragmatic reasons, we matched dollars (the unit used in the references mentioned) and guilders (the unit used in our experiment) numerically, and not in value. We incorporated various levels of probability because there will be various levels of health among our clients and, correspondingly, various probabilities of costs.
We also asked three risky choices that were framed as insurance decisions. In each question, an annual premium was specified and a, never higher, annual average of costs for the case of no supplemental insurance. The clients were asked to express their subjective willingness to buy supplemental insurance on a scale from 1 (surely will not buy) to 7 (surely buy). Table 3 displays the questions. Again, to save space, the table also displays results of mean willingness to buy that will be discussed in the results section.

Table 3. Prospect choices in an insurance context

<table>
<thead>
<tr>
<th></th>
<th>I1</th>
<th>I2</th>
<th>I3</th>
</tr>
</thead>
<tbody>
<tr>
<td>premium</td>
<td>132</td>
<td>144</td>
<td>180</td>
</tr>
<tr>
<td>average costs</td>
<td>125</td>
<td>144</td>
<td>150</td>
</tr>
<tr>
<td>mean willingness to buy</td>
<td>0.45</td>
<td>0.55</td>
<td>0.51</td>
</tr>
</tbody>
</table>

Three insurance choice questions with annual premium and average costs specified. In I1, the choice is between insurance at premium 132 or no insurance with average costs 125. In I1, the mean subjective willingness to buy was 0.45.

Information provision; three groups of clients, and three summary statistics per client.—Table 4 displays the forms of information considered in this paper, explained next. A $3 \times 3$ between-within design will result. The clients were divided into five groups. Each group received information about a different summary statistic. Two summary statistics, “badnews probabilities” of costs exceeding Dfl. 0 and costs exceeding Dfl. 200, and “goodnews probabilities” of costs not exceeding these levels (n = 203), did not yield significant effects. Apparently, two such probabilities do not entail enough information to affect choice. For brevity, these results will not be reported. Three summary statistics (the between-subjects variable in our $3 \times 3$ design) remain:

(A) **Total costs**: Average annual health care costs, which is the sum of the costs specified in (B) hereafter.

(B) **Specified costs**: Average annual costs specified for seven health care services: (a) Hospital care; (b) physician; (c) paramedical care (physiotherapy, speach therapist, remedial therapy, etc); (d) prescription drugs; (e) ancillary equipments (f) obstetrics and maternity care; (g) transportation.
(C) *Probabilities* ("probabilistic information"): The probability of each of the following four events: Dfl. 0 costs, costs between Dfl. 0 and Dfl. 100, costs between Dfl. 100 and Dfl. 200, costs exceeding Dfl. 200.

Per client, the information about the summary statistics was provided at three levels of aggregation:

1. Population (throughout this paper: all clients of Zorg en Zekerheid).
2. Reference group, i.e. clients of the same gender and age interval (18−29, 30−39, 40−49, 50−59, 60−69 years).
3. Individual.

The level of aggregation is the within-subjects variable in our 3×3 design. At the individual level, clients were informed about their personal costs over the last year. This information does not comprise randomness and, hence, was not provided to the clients who received probabilistic information. Thus, in total, 3 × 3 − 1 = 8 forms of information were considered, displayed in Table 4. The clients always received the three aggregated levels of information sequentially, first about the population, then about the reference group, and finally, if relevant, at the individual level.

<table>
<thead>
<tr>
<th>within-subjects</th>
<th>level of aggregation given first: population</th>
<th>level of aggregation given second: reference group</th>
<th>level of aggregation given last: individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>total costs</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>specified costs</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>probabilistic information</td>
<td>+</td>
<td>+</td>
<td>−</td>
</tr>
</tbody>
</table>

Each client faced all questions in one row.

**Costs.**—Unlike most other studies, we did not derive costs indirectly from (subjective) assessments of clients (Finkelstein 2004). Instead, for the clients who received information about their health costs over the preceding year (1994; total or specified), this information was also provided to us by the insurance company. Thus, we have the exact real costs available.
Subjective willingness to take supplemental insurance.—Clients were asked to express their willingness to take supplemental insurance on a scale from 1 to 7. This scale, normalized to a 0–1 scale, is used as the index of the willingness to take supplemental insurance in the main analysis. It is denoted $WTT$ henceforth. $WTT$ was measured before the provision of information, and after each of the three forms of information that was provided to each client. Contrary to prior plans, we did not specify a premium for reasons explained in Appendix A.

Subjective evaluations of the information.—For each form of information received, four subjective evaluation questions were asked to the clients. The questions concerned (a) clarity, (b) comprehensibility, (c) general usefulness, (d) usefulness in decisions, and (e) whether the statistic was higher or lower than expected, each on a seven-point scale. The clients were also asked at which level of aggregation they would most like to receive information in the future.

Analyses.—The effect of a form of information was defined as the $WTT$ directly after receipt of that form of information, minus the first $WTT$ that was measured before any receipt of information. For example, the effect of individual-cost information for a client was the fourth $WTT$ elicited from the client minus the first. Order effects are discussed in Section 5.

Clients with costs exceeding Dfl. 405 (the median cost) were classified as high-cost, the others as low-cost. We received the information about individual costs only for subjects who were given cost-information (total or specified; $n = 184$). Because the cost variable was highly skewed, we used a transformation for correlational analyses, as follows: $0 \rightarrow 1$ (16.8%), $(0,100] \rightarrow 2$ (15.8%), $(100,200] \rightarrow 3$ (10.3%), $(200,1000] \rightarrow 4$ (26.6%), and $(1000,\infty) \rightarrow 5$ (30.4%), with percentages of clients indicated between brackets. The particular thresholds were chosen because of their psychological meaning, where 200 is particularly important because it is the level of the deductible.

A risk-aversion index, ordering clients regarding their degree of risk aversion, was constructed as the average of three scores: (a) The number of safe choices in the gain prospects; (b) the number of safe choices in the loss prospects; (c) the willingness to buy in the insurance context. All of these variables were normalized to
a 0–1 scale before their average was taken. In this manner, the risk-aversion index is automatically normalized too.

For the main research question of this paper, which single form of information gives the best effect, we used paired t-tests to compare WTT before and WTT after receipt of information. Wilcoxon ranked signs tests revealed the same patterns and are not reported. We use the following abbreviations for two-tailed paired t-tests; ms: 

\[ p \leq 0.10 \] (significant if one-tailed); *: \[ p \leq 0.05 \]; **: \[ p \leq 0.01 \]; ***: \[ p \leq 0.001 \].

3. Results on Risk Attitudes and Effects of Information

20 clients were dropped because, due to lack of understanding or for other reasons, they could not answer the questions; 476 remained. The main results concern the interactions of the effects with risk aversion and costs, and will be presented in Subsection 3.4.

3.1. Risk Attitudes

Tables 1 and 2 in the preceding section already gave the proportions of risky choices in the prospect choices. Choice G2 exhibits risk aversion (\( \chi^2 = 65.8, df = 1, p < 0.001 \)), and choice L2 risk neutrality (\( \chi^2 = 1.58, df = 1, p = 0.21 \)). For the three risk-attitude questions framed as insurance, Table 3 in the preceding section gave the means of subjective willingness to buy, normalized to a 0–1 scale.

We tested the internal consistency of the risk aversion scale by means of a reliability analysis. Cronbach’s alpha was 0.75, which exceeds the common acceptability cutoff point of 0.70 (Nunnally & Bernstein 1994). No removal of any item improved reliability.

The results of the prospect questions L2 and L6 suggest that slightly more than 50% of our sample is risk averse for the relevant outcome domain. Because our, obviously debatable, policy recommendations in Section 6 will primarily concern risk-averse clients, we used a conservative criterion for classifying clients as risk averse: The more risk-averse half of our sample was classified as risk averse and the other half as risk seeking. Besides correlational results, we also report analyses based

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4 We did not use analysis of variance because we were interested in single forms of information; only single forms of information will be implemented. The asymmetric role of WTT before receipt relative
on median splits. The latter reduce statistical power but their results are best suited
for the policy recommendations considered later.

The median of the risk aversion index constructed from the gains, losses, and
insurance questions, was 0.51.\(^5\) The index was between 0 and 0.50 for 225 clients,
who were classified as risk seeking. The index exceeded 0.50 for 232 clients who
were classified as risk averse. This classification is used in our main analysis and is
discussed further in Section 4.

In agreement with common findings (Barsky et al. 1997), there was a positive
relation between risk aversion and being female, having a low income, a large family,
a low education, and a high age, but the relation was significant only for the latter two
variables \((r = 0.12, p = 0.01\) for both). These relations were the same for gains as for
losses, though usually stronger for gains. The risk aversion index for gains \((G_1-G_7)\)
was positively related to the index for losses \((L_1-L_7; r = 0.55, p < 0.001)\). Risk
aversion strongly influences WTT \((r = 0.36, p < 0.001)\), as will be further illustrated
in Figures 1 and 2. WTT also correlates positively with the risk-aversion index for
gain-prospect choices \((r = 0.10, p = 0.03)\) and the risk-aversion index for loss-
prospect choices \((r = 0.12, p = 0.02)\).

### 3.2. Effects of Information on WTT; Results of the Whole Sample

Table 5 gives numerical statistics. It displays the WTT before and after the
receipt of information and, thus, shows the effects of information on average WTT for
the whole sample of clients. The most interesting results will also be depicted in
Figures 1 and 2.

The three forms of information about reference groups had effects similar to the
information about the population, but less pronounced. For brevity, these forms of
information will not be analyzed further. Information about individualized costs and
about probabilities neither have much effect on group means. These forms of
information will, however, reveal interesting effects in detailed analyses described
later, unlike the forms just excluded. The difference in WTT\(_{before}\) between total and

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\(^5\) It is a coincidence that this median happens to lie almost exactly at the 0.50 level of the risk aversion
index.
specified costs is due to between-group randomness, and nonsignificant under an
independent samples t-test (t_{186} = 1.13, p = 0.26).

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>reference group</th>
<th>Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WTT before:</td>
<td>0.51 (0.43)</td>
<td>WTT before: 0.51 (0.43)</td>
<td>WTT before: 0.51 (0.43)</td>
</tr>
<tr>
<td>WTT after:</td>
<td>0.59 (0.43)</td>
<td>WTT after: 0.56 (0.42)</td>
<td>WTT after: 0.54 (0.44)</td>
</tr>
<tr>
<td><strong>specified costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WTT before:</td>
<td>0.58 (0.40)</td>
<td>WTT before: 0.58 (0.40)</td>
<td>WTT before(^6): 0.59 (0.40)</td>
</tr>
<tr>
<td>WTT after:</td>
<td>0.60*** (0.38)</td>
<td>WTT after: 0.64ms (0.39)</td>
<td>WTT after: 0.61 (0.42)</td>
</tr>
<tr>
<td><strong>Probabilistic</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WTT before:</td>
<td>0.54 (0.40)</td>
<td>WTT before: 0.54 (0.40)</td>
<td></td>
</tr>
<tr>
<td>WTT after:</td>
<td>0.59** (0.36)</td>
<td>WTT after: 0.56 (0.36)</td>
<td>-</td>
</tr>
</tbody>
</table>

Significant effects (= changes in WTT) are underlined.

### 3.3. Brief Discussion of Whole-Sample Results

The increases of average WTT for the whole sample generated by population-
cost information may be of interest from the marketing perspective of maximizing
revenues of insurance policies. They, however, give no clear information about our
main research question, being how to help clients make decisions that are optimal for
themselves. There is no prior reason why it would be good or bad for clients to take
more or less insurance. Information relevant to the prescriptive perspective will be
revealed by analyses of subgroups, presented in the following subsections and in
Figures 1 and 2.

### 3.4. Interaction Effects of the Five Most Interesting Forms of Information

As explained in Subsection 3.2, five forms of information remain, about
population costs or individual costs, each specified either per seven services or only as
the sumtotal of these, and, fifth and last, probabilistic information (always referring to
the population and not to the reference group henceforth). We examine the
dependence of the effects of information on risk aversion and costs. Table 6 presents
correlations and partial correlations. Unfortunately, information about costs during
the preceding year was not available for the group that received probabilistic

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\(^6\) WTT\(_{before}\) is not constant in the second row because of different missing subjects.
Table 6. Correlations of effect with risk aversion and with costs for each of the five forms of information

<table>
<thead>
<tr>
<th></th>
<th>total population costs</th>
<th>specified population costs</th>
<th>total individual costs</th>
<th>specified individual costs</th>
<th>probabilistic costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>risk aversion</td>
<td>0.02 (n = 81)</td>
<td>0.05 (n = 97)</td>
<td>0.07 (n = 81)</td>
<td>0.22* (n = 96)</td>
<td>0.18 (n = 82)</td>
</tr>
<tr>
<td>Costs</td>
<td>-0.11 (n = 81)</td>
<td>0.08 (n = 103)</td>
<td>0.08 (n = 81)</td>
<td>0.27** (n = 102)</td>
<td>-</td>
</tr>
<tr>
<td>Risk aversion</td>
<td>0.02 (n = 76)</td>
<td>0.07 (n = 92)</td>
<td>0.06 (n = 76)</td>
<td>0.19** (n = 91)</td>
<td>-</td>
</tr>
<tr>
<td>controlling for costs</td>
<td>-0.12 (n = 76)</td>
<td>0.05 (n = 92)</td>
<td>0.07 (n = 76)</td>
<td>0.26** (n = 91)</td>
<td>-</td>
</tr>
</tbody>
</table>

The correlation of risk aversion with effect is 0.22 for the specified individual-cost information, and is 0.19 if controlling for costs; etc.

Most effects do not correlate significantly with risk attitude or costs. Only for specified individual costs, there are significant nonzero correlations of effects with risk aversion and with costs. These correlations are positive, i.e., the more risk averse people are, and the higher their costs, the more their WTT increases because of the new information.

The effects of costs and risk aversion are uncorrelated (r = 0.09, n = 174, nonsignificant). Partial correlations, controlling for the other factor, are virtually identical to uncontrolled correlations, and the beta-weights of risk aversion and costs in a regression are almost identical to their correlations.

The interaction between effect and high or low risk aversion is marginally significant for total individual costs ($F_1 = 2.843, p = 0.10$) and probabilistic information ($F_1 = 3.224, p = 0.08$), and significant for specified individual costs ($F_1 = 5.094, p = 0.03$). The interaction between effect and high or low costs is significant ($F_1 = 10.584, p = 0.002$).
In the group that received total population-cost information (Fig. 1a), the mean of WTT of the risk-averse subjects was .67 before the receipt of information and .80 after, generating an effect significant at the .05 level.
The above claims are supported by analyses of subgroups. Table C.1 in Appendix C gives complete numerical results. The first four forms of information, about costs, are also depicted in Figures 1 and 2. These figures, while complex at first sight, serve well to convey the overall patterns in our data, as is explained next. Line segments connect WTT before receipt of info with WTT after, so that their increases and decreases reflect the effects of info. Each panel illustrates a form of information. In each panel, a fat line displays the average WTTs and effects for the whole group. The risk averse subgroup always had the highest WTTs and, thus, generates the highest line segments, and the risk seeking group generates the lowest. The high-cost group always generates the second-highest line segments, and the low-cost group generates the second-lowest. All line segments in Fig. 1a increase. Hence, total population-cost information increases WTT for all subgroups considered and, obviously, also for the whole group. Asterixes indicate that the increases are significant only for the whole group and for the risk averse group, but not for the other subgroups in Fig 1a. Fig. 1b displays similar results for the group that received information specified per health service. The changes are all in the same direction as in Fig. 1a, but to a more pronounced degree, and higher levels of significance are reached.

Figure 2 displays the results of individual-cost information instead of population-cost information. Fig. 2a concerns total-cost information, and suggests differential effects, with increased WTT for the risk averse clients and for the high cost clients, and not for others. The effects are not significant though. Fig. 2b concerns specified costs. The information again differentiates between individuals, but now to a more pronounced degree. Specifying costs amplifies the effects of total costs in both figures.

Table 7 summarizes the effects found. We presented the subgroup information in Figures 1 and 2 because the effects summarized in Table 7 are more easily inferred from visual inspection of these figures than from the numerical Table C.1 in the appendix.
Further, probabilistic information (data given in Table C.1) also increased the WTT of risk averse clients, and not of risk-seeking clients, as did individual-cost information. Costs and interactions therewith could not be observed for probabilistic information.

3.5. Subjective Evaluations

The normalized means and standard deviations of the questions about clarity and comprehensibility are $M = 0.80$, $SD = 0.24$, and $M = 0.83$, $SD = 0.21$. These questions gave similar results for all three summary statistics (being total costs, specified costs, and probabilistic information) and are not discussed further. The two questions about usefulness distinguished more clearly between summary statistics. As a usefulness scale we took the normalized average of these two questions. Its means (standard deviations) are 0.74 (0.28) for specified costs, 0.58 (0.32) for total costs, and 0.58 (0.28) for probabilistic information. The judged usefulness of specified costs is significantly higher than of the other summary statistics ($p \leq 0.001$ in each case); no other difference is significant.

For each summary statistic, the clients were asked which level of aggregation they preferred. Table 8 displays the results for the summary statistics regarding costs. The summary statistic giving probabilistic information (which could not be given at the individual level) exhibited a similar pattern, with preference increasing with individualization. These results suggest a preference for specified costs and for individualized information.

<table>
<thead>
<tr>
<th>Effects exhibited by Figures 1 and 2; summary of effects of information</th>
<th>$\text{increases WTT}^{(b)}$</th>
<th>$\text{differentiates individuals}^{(c)}$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>population</td>
<td>individual</td>
</tr>
<tr>
<td>total costs</td>
<td>Fig. 1a</td>
<td>Fig. 2a</td>
</tr>
<tr>
<td>specified costs</td>
<td>Fig. 1b</td>
<td>Fig. 2b</td>
</tr>
</tbody>
</table>

(a): Compare Fig. 1b with Fig. 1a, and Fig. 2b with Fig. 2a.

(b): See Figs 1a and 1b.

(c): See Figs 2a and 2b, with increases in WTT for risk aversion and also for high costs, and not for others.
TABLE 8. Proportions of preferences for levels of aggregation

<table>
<thead>
<tr>
<th></th>
<th>no preference</th>
<th>population</th>
<th>Reference group</th>
<th>individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>total costs</td>
<td>0.40</td>
<td>0.05</td>
<td>0.15</td>
<td>0.40</td>
</tr>
<tr>
<td>specified costs</td>
<td>0.22</td>
<td>0.10</td>
<td>0.21</td>
<td>0.47</td>
</tr>
</tbody>
</table>

For specified costs, 47% of the clients prefers to receive the information at the individual level, 21% at the reference group level, etc.

4. Discussion of the Findings, and Results on Ambiguity

4.1. Risk Attitude

Our finding of considerable risk seeking for losses deviates from the universal risk aversion often assumed in the economics and insurance literature. In our domain of losses with moderate to high probabilities, risk seeking is predicted by prospect theory (Abdellaoui 2000; Hershey & Schoemaker 1985; Kahneman & Tversky 1979; Payne, Laughhunn, & Crum 1980; Tversky & Kahneman 1992). It can be explained theoretically by an inverse-S shaped probability transformation, which has been confirmed in many empirical studies (Abdellaoui 2000; Bleichrodt & Pinto 2000; Gonzalez & Wu 1999). Such probability transformations do predict risk aversion for small-probability losses, which is indeed the common case in insurance. Prospect theory, thus, predicts prevailing risk aversion in insurance, which mostly concerns small-probability losses, and only suggests risk seeking for moderate-to-high probability losses such as in our data set. Similar risk seeking was found by Marquis & Holmer (1996) in a re-analysis of the RAND study of Manning et al. (1987).

The major factor underlying risk aversion is probably loss aversion (Fischer et al. 1986; Langer & Weber 2001; Pennings & Smidts 2003), which concerns the overweighting of losses relative to gains. Loss aversion plays no role in our domain where no exchanges between gains and losses are involved. Hence, we avoided mixed prospects, yielding both gains and losses, in our measurements of risk attitudes, and do not consider loss aversion.

On average we find risk neutrality for the loss prospects (Questions L2 and L6). Therefore, risk seeking is less frequent than suggested by prospect theory. This may be caused by the context of insurance in our experiment, even if not stated explicitly in the prospect choice questions. It is well known that an insurance context enhances risk aversion (Hershey, Kunreuther, & Schoemaker 1982, p 949/950; McClelland,
Schulze, & Coursey 1993). Let us repeat that health insurance was compulsory for the clients of the insurance company Zorg en Zekerheid so that they are not more risk averse than the average 2/3 lowest income part of the Dutch population.

Our risk-attitude index comprises some insurance-related questions and it is, therefore, obvious that this index correlates positively with WTT. Less trivial, but not surprising either, is the positive relation between WTT and the risk attitudes for the gain- and loss-prospect choices. Empirical verifications thereof have, however, been almost absent from the literature so far. The reason is that risk attitude is usually unobservable in insurance studies. Besides Barsky et al. (1997), discussed later, we are only aware of Vistnes & Banthin (1997/1998). They asked about agreement with the claim “I’m more likely to take risks than the average person,” and found a negative relation between this index of risk seeking and demand for insurance.

Relative to the participants of Tversky & Kahneman (1992), our clients deviate from the predictions of cumulative prospect theory (Tversky & Kahneman found 50% risky choices in questions G3, G4, G7, L3, L4, L5, L6, L7), always in the direction of (“rational”) expected value maximization. This deviation may be caused by the different population, being average non-rich civilians instead of students. There is more agreement with the findings of Birnbaum et al. (1992), who found 50% risky choices in questions G5 and G6.

Prospect choices for gains have been studied extensively in the literature, although mostly for students. In our sample we find a considerable majority of risk aversion for gains, in agreement with the common findings in the literature. This risk aversion is most clearly seen in questions G2 and G5. There have not been many empirical investigations into prospects with loss outcomes. These prospects are, however, central in our study because they concern the relevant outcome domain, i.e. losses ranging from 0 to 200.

Kahneman & Tversky (1979) found reflection, with attitudes for losses mirroring those for gains, at the level of group averages, and there we roughly confirm their findings. Reflection should not be expected to hold in a very strict sense. Attitudes for losses do not completely and exactly mirror those for gains, but are usually less pronounced and closer to expected value. For a review of empirical evidence on the latter point, see Köbberling, Schwieren, & Wakker (2005). There is no evidence to support strict reflection at the individual level in the sense that very risk averse clients for gains will be very risk seeking for losses. Thus, Cohen, Jaffray, & Said (1987)
found no relation between risk attitudes for gains and those for losses at the individual level. Our evidence provides even stronger counterevidence, with risk aversion for gains correlating positively with risk aversion for losses rather than negatively.

4.2. Ambiguity Attitude

An interesting phenomenon appears in the group of 103 clients who received specified population-costs information. For these clients, the cost-information that they received was usually higher than expected: For the average over the seven health services of the subjective questions with values 7 (costs of health service are much higher than expected) to 1 (costs are much lower than expected), the mean was significantly below the neutrality level 4 ($t_{102} = -2.01, p < 0.001$). Hence, likelihood effects through an increased belief in bad outcomes cannot explain the increased preference for safety in this group. This is unlike the group of 83 clients who received total population-cost information. For the latter group, the costs that they were informed about were usually lower than expected ($t_{82} = 3.95, p < 0.001$), and likelihood effects could explain the increased preference for safety.

For the 103 clients who received specified population-costs information, not only likelihood effects, but also strategic considerations, with average costs as a signal of price, are implausible. This holds the more so as the insurance company is a nonprofit organization and screening is not permitted.

More information about the probability distribution, i.e. a reduction of ambiguity in the technical decision-theoretic sense, while not systematically affecting beliefs, did systematically decrease the preference value of the uncertainty. By the current conventions of decision theory, this finding must be interpreted as ambiguity seeking, contrary to the hypothesis of universal ambiguity aversion that is most popular in decision theory today. We suggest that attitudes towards ambiguity (being closer or farther away from objective statistical probabilities) are less central in human decision making than commonly thought, and that other aspects generated this finding. The situation with the extra statistical information is less natural for the clients than the situation without it, because insurance decisions that people make many times in their life and are familiar with are virtually always made without statistical information. Thus, people prefer natural situations, where they can better justify their decision to others (Trautmann & Vieider 2006).
In general, naturalness of the decision situation, rather than remoteness to an objective-probability state of knowledge, affects preference. In the classical Ellsberg (1961) paradoxes, a gamble on urns with compositions kept secret is less natural than one where the composition is known, and this rather than remoteness to the objective-probability state drives preference (Viscusi & Magat 1992, p. 380). Many studies have argued for the importance of emotional aspects of uncertain information other than ambiguity (Chow & Sarin 2001; di Mauro & Maffioletti 2002; Fox & Tversky 1995, 1998; Fox & Weber 2002; Heath & Tversky 1991; Kilka & Weber 1999; Tversky & Fox 1995; Wakker 2004). The difficulty to control for likelihood effects explains why studies of ambiguity attitudes have been restricted almost exclusively to artificial setups with information kept secret such as Ellsberg urns, setups that are systematically biased against the ambiguous events.

Another effect that can underly our finding concerns the reflection effect for ambiguity at the group level. It entails that prevailing ambiguity aversion for gains is combined with prevailing ambiguity seeking for losses. Most studies of ambiguity have considered gains, and little is known about ambiguity for losses. Keren & Gerritsen (1999) found ambiguity aversion for losses, as commonly assumed in theoretical studies, and contrary to the reflection effect. Several other studies, however, found ambiguity seeking for high-probability losses (di Mauro & Maffioletti 2002; Goldsmith & Sahlin 1983; Ho, Keller, & Keltyka 2002; Hogarth & Kunreuther 1985; Hogarth & Kunreuther 1989; Kahn & Sarin 1988; Viscusi & Chesson 1999), in agreement with the reflection effect. Mixed results are in Cohen, Jaffray, & Said (1987), Dobbs (1991), Einhorn & Hogarth (1986), and Mangelsdorff & Weber (1994). The empirical findings of ambiguity seeking for losses agree with our findings, and cast further doubt on the universal ambiguity aversion commonly assumed in theoretical studies.

4.3. Emotional Factors

Many recent studies in decision theory have emphasized the importance of emotional factors in decision making (Elster 1998). Emotional factors may explain the stronger effects found after specified-costs information and the increased WTT after population-cost information at the end of Section 3. Clients may react stronger to specified costs simply because these costs take more attention and, thus, arouse more negative emotions (Hsee & Kunreuther 2000). Similar splitting effects have
been observed in other fields (Bateman et al. 1997; Carson et al. 1992; Starmer & Sugden 1993; Weber, Eisenführ, & von Winterfeldt 1988).

The increased WTT that we found under risk aversion and not under risk seeking is opposite to regression to the mean: the group with a higher-than-average prior WTT exhibits an even higher WTT posterior. A psychological explanation could be the confirmation bias (reviewed by Klayman 1995), a phenomenon known under various other names (Suen 2004). It entails that people select only that part of new information that confirms their previous viewpoints, leading to more extreme viewpoints. The confirmation bias would, however, suggest similar effects for population-cost information, contrary to our findings.

4.4. Policy Implications

The observed increase in WTT for high-cost clients, which enhances adverse selection, may be desirable from the client’s short-term perspective, but is undesirable from the societal perspective in the context of insurance (Hirshleifer 1971; Rothschild & Stiglitz 1976). Information about risks usually decreases the willingness to share these risks. Adverse selection can lead to a premium spiral and the breakdown of insurance (Akerlof 1970; Finkelstein 2004).

The positive relations that we found between effect and risk aversion seem to be desirable. Risk aversion is usually considered the normative basis for insurance. When consumers are risk averse there can be a market for insurance with benefits for all, if moral hazard and transaction costs are not too large. The domain of this research, however, concerns small losses, ranging to Dfl. 200, that occur with moderate to high probabilities. For example, 83.2% of the clients in our sample had nonzero costs and 57.1% had costs exceeding Dfl. 200. Contrary to what theoretical studies of insurance often assume, empirical studies have found considerable risk seeking in such domains. We suggest desirability of insurance only for the risk averse

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7 Adverse selection usually arises from asymmetric information. In our study, the insurance company possesses the information about individual expenses and it might seem that adverse selection cannot arise. However, the insurance company should specify premiums in a uniform manner beforehand and is not permitted to use the cost information to adjust premiums. Such a use of information would constitute a violation of the privacy rights of clients. Thus, screening is excluded (Shapira & Venezia 1999), and adverse selection can occur here as it does in cases of asymmetric information (Bundorf & Simon 2006).
clients in our sample. For risk neutral and risk seeking clients, their risk attitude provides an argument against insurance. Stability of expenses and the solidarity principle (helping risk averse clients to take insurance) remain as arguments in favor of insurance for such clients.

The normative debate becomes more fundamental if the observed risk attitudes are not taken as given, but are opened to debate. It can be argued that risk neutrality is rational for the small stakes considered in this investigation. We assumed, however, that risk attitudes are to be taken as they are. The normative discussions of optimal decisions in McFadden (2006 pp. 20-21) and Winter et al. (2006, p. 7932) did not consider subjective risk attitudes of clients, but used expected-value maximization.

For a practical implementation of the provision of information about individual costs, legal guarantees for privacy protection of clients would be the major concern. This topic lies outside the scope of this paper.

5. Discussion of Methods

For gains, the median number of risky choices was 4, which, under expected utility with power utility (“constant relative risk aversion”) corresponds with a utility function \( U(x) = x^r \) for any \( 0.77 \leq r < 1 \). Thus, the median risk aversion index \( 1 - r \) is between 0 and 0.23. For losses, the median number of risky choices was 3, which, under expected utility with power utility, corresponds with a utility function \( U(-x) = -(x)^r \) for any \( 1.097 \leq r \leq 1.186 \). This function is close to linear, and is slightly concave. We could similarly have related the number of risky choices of every individual to powers of utility and risk aversion indexes. Such indexes and analyses are, however, based on expected utility theory. There is much empirical evidence that this theory is violated descriptively (Starmer 2000), and for this reason we preferred not to use indexes as just described.

Our main conclusions, obtained through a median split analysis, are based only on the following two assumptions: (a) Questions L2 and L6 provide a risk neutrality benchmark; (b) Individuals are more risk averse as they choose more safe options. These assumptions are uncontroversial. Hence we did not need to resort to models such as prospect theory (Tversky & Kahneman 1992), that are descriptively better
than expected utility but are analytically more complex to use and are less widely known. Because population-cost information always preceded reference-group information, which always preceded individual information, order effects and interactions may obviously have arisen. These may explain the weak effects of reference-group information. The individual-cost information was sufficiently different to suggest independent factors. Because of the large numbers of forms of information to be examined, there were not enough clients for a counterbalanced setup. Given that sequential information could not be avoided, the chosen order of information, progressively individualized, is most natural (which was also a reason for not considering randomized orders). If order and interaction effects are deemed crucial, the effects of individual-cost information should be re-interpreted as effects of individual-cost information joint with the preceding information.

One explanation for the general increase of WTT after population-cost information may be that, given the skewed nature of health expenses, for most clients the population averages will be larger than their own expenses, so that this information makes them more pessimistic, generating an increase of WTT. Our primary research interest, however, does not concern the marketing perspective of maximizing WTT. It, instead, concerns the prescriptive purpose of helping clients making decisions optimal for them. For the latter, results differentiating between individuals are important, and this differentiation is not affected by general increases or decreases of WTT such as possibly generated by the order effects due to prior information about averages, information that does not differentiate between individuals. Some other order effects cannot be excluded either because of the fixed order of other questions in this research. For example, the risk-attitude questions were always asked at the beginning of the interview and thereby always preceded the WTT questions. Our main conclusions are based on differences within (“effects”) and between individuals, and these are not affected by fixed biases generated by such order effects.

8 between-subject levels of summary statistics (3 reported), and risk-averse/risk-seeking and high-costs/low-costs, yields $5 \times 4 = 20$ subgroups. The insurance company Zorg en Zekerheid wanted as many forms of information to be tested as possible. By accepting order effects, we could test three times more forms of information.
An important step forward was made in experimental economics when the importance of real and performance-contingent, rather than hypothetical, incentives became widely understood (Binmore 1999; Smith 1982). Unfortunately, we could measure WTT only through hypothetical survey questions, due to practical limitations. It would be preferable to elicit WTT from real choices, such as in the famous RAND study (Manning et al. 1987), and this is a topic for future research.

We neither used real incentives in the measurement of risk attitude, even though they could have been implemented easily there. We omitted them deliberately, for the following reasons. First, our clients, taken from the general population, participated voluntarily to help their insurance company, and thereby were intrinsically motivated. We expected that the clients’ motivation would be negatively affected (crowded out) by monetary rewards. The latter holds the more so as a health insurance company such as Zorg en Zekerheid, the company that initiated this research, is supposed to bring security, and not to engage its clients in frivolous gambling for money. Frey & Jegen (2001) extensively discussed crowding-out effects. In Bleichrodt & Pinto, 2/3 of the subjects participating in a health experiment did not accept the €12 flat payment offered to them, and preferred to participate for free. In general, many health investigations are funded by charity donations.

The second reason for not using real incentives in our measurement of risk attitude is that, for the insurance questions considered in this experiment, the relevant outcomes are losses, and the implementation of losses is problematic. Third, for the simple choices with moderate stakes considered here, it has been commonly found that the presence or absence of real incentives does not affect clients’ choices much (Camerer & Hogarth 1999, pp. 8, 34; for insurance decisions, see Irwin, McClelland, & Schulze 1992; see also Hertwig & Ortmann 2001). von Winterfeldt & Edwards (1986, pp. 222/223) and Pennings & Smidts (2000) discussed the general issue of using nonbehavioral data for predicting decisions.

Barsky et al. (1997) used survey questions to measure the risk attitudes of N = 11,707 participants in the Health and Retirement Study of 1992. The participants were given a hypothetical choice between a stable income for the rest of their life, or a fifty-fifty chance of either two or x times this income. In a first question, x = 2/3 was chosen and, depending on the answer, either x = 1/2 or x = 4/5 was chosen in a second question. In this manner, four classes of increasingly risk averse participants could be
distinguished, containing 64.6%, 11.6%, 10.9%, and 12.8% of the participants. Unlike our study, Barsky et al. did have information about real behavior. They found that the hypothetical survey questions about risk attitude predicted actual behavior regarding health insurance, smoking, drinking, choosing risky employment, and investments.

6. Conclusions

The risk attitudes that we observed were between the predictions of prospect theory and expected value maximization. In particular, we found no risk aversion for loss outcomes, contrary to the classical economic predictions. Customer satisfaction was improved by information, most by specified individual-cost information. A reduction of ambiguity seemed to decrease rather than increase the value of uncertain options, suggesting ambiguity seeking rather than aversion. Apparently the more familiar option, rather than the one with known probabilities, is preferred, contrary to the common interpretation of the Ellsberg paradox. In most real-life decisions probabilities are unknown. We therefore conjecture that no special aversion to unknown probabilities holds in real-life decisions.

The following policy recommendations result from our study, where specification of costs per health service always reinforces the effects of total-cost information. From the marketing perspective of maximizing the number of insurances sold, population-cost information is optimal. From the (short-term) individual perspective of the client, individual-cost information seems to be most desirable because it enhances insurance taking for risk averse clients and for clients with high costs. From the societal perspective, individual-cost information is interesting. Its drawback of adverse selection is probably too serious to be compensated by the advantages of favorable interaction with risk attitude, increased customer satisfaction, and increased awareness of medical expenses among the general public.

Prospect theory played a crucial role in this study. First, it explains why we did not find universal risk aversion in the risk-attitude questions for the relevant outcomes in this investigation. Second, it explains why additional information about probabilities led to higher risk aversion even if there were no apparent increases in perceived likelihoods of losses. We, finally, followed its recommendation that for the measurement of risk attitude for insurance, mixed gambles with both gains and losses are better avoided. The pronounced risk aversion found in mixed prospects is due to
loss aversion rather than to the risk attitude for losses as relevant for insurance. Thus, descriptive insights from prospect theory served to derive prescriptive implications in this study. We hope that this study, carried out with a large sample of non-academic clients and dealing with natural choices, can contribute to a further understanding of risk attitudes, ambiguity attitudes, the use of descriptive theories such as prospect theory for prescriptive applications, the effects of risk information on consumer decisions, and, finally, to the usefulness of statistical information to help clients make better insurance decisions.

Appendix A

Discussion of Our Constructions of Scales

Questions L2, and to some extent L6, while allowing a direct calibration of risk aversion versus risk seeking at the group level, in isolation are not very reliable indexes of risk aversion at the individual level. We, therefore, used the risk aversion index based on 17 items to order clients regarding their risk aversion. Given that findings on risk attitudes for losses are controversial, we included the gain questions in our experiment primarily to verify that our design in itself does not comprise deviations from common designs. In addition, gain questions are easier to understand for participants. We decided to include these items in the risk aversion index so as to increase reliability, supported by the significantly positive correlation between the gain- and loss risk aversion indexes and between the gain-index and WTT. A drawback is that gain questions concern different outcomes than the losses considered in insurance.

For the scale of risk attitude, we added the choices framed as insurance decisions for reasons of validity. Stability of costs constitutes an important motive, especially for our clients who have low incomes, to take supplemental insurance against an unforeseen payment of Dfl. 200, and is an essential component of their risk aversion, but static questions do not measure it. This motive contributes to the higher risk aversion found in insurance decisions than in other risky choices (Hershey, Kunreuther, & Schoemaker 1982, p. 949/950). We similarly maintained question L7 even though it reduced reliability, because high-probability losses such as in L7 are relevant to many clients.

Because the willingness to take supplemental insurance is central in our analysis, we measured it in several ways in a pilot experiment. Besides the WTT question used
in our analyses\textsuperscript{9}, the same question was asked but with the planned premium specified (Dfl. 11 per month). Further, in a willingness-to-pay question, clients answered which premium they were willing to pay for supplemental insurance, both per month and per year.

The WTT question without premium specified appeared to be easiest for the clients and gave the best results. In debriefings at the end of our pilot studies, clients adhered more to the results of these questions than of the other questions, and expressed preference for these questions. This finding first came as a surprise to us. From an economic perspective, the decision to buy insurance cannot be sensibly made without the premium specified. Psychologically, however, the evaluation of a commodity is more basic than, and prior to, a decision of whether or not to buy the commodity at some specific price. A disadvantage of WTT with a premium specified is that the problem is then perceived as a dichotomous decision problem, where either the insurance is to be bought or not. For WTT without a premium specified, clients better differentiated their evaluations. Willingness-to-pay questions are notorious for their empirical problems. In view of these findings we decided, contrary to our prior plans, to use WTT without premium specified in the main study. Obviously, the higher the WTT, the higher the premium that a client wants to pay. This was confirmed in statistical analyses not reported here.

For the averages of total and specified costs, only the averages of costs truncated at Dfl. 200 are relevant to the decision problem faced by the clients, the deductible being Dfl. 200.\textsuperscript{10} We nevertheless used averages of untruncated costs because these are easier to understand for the clients and because an additional purpose of the provision of information was to make the clients more aware of health expenses in general.

\textsuperscript{9} The formulation of the question (translated from Dutch): “Imagine that a deductible will become compulsory within the near future. Then would you like to take supplemental insurance, so that you need not pay the first 200 guilders yourself? 1: certainly not …; 7: certainly yes.” The question was read to the client by the interviewer.

\textsuperscript{10} The average population costs truncated at Dfl. 200 was Dfl. 125 per year. The planned premium was approximately Dfl. 132 per year.
Appendix B

The visual display of prospect choices G4 and L6

<table>
<thead>
<tr>
<th>CHOICE A:</th>
<th>CHOICE B:</th>
<th>MY CHOICE IS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>You turn the Wheel of fortune. If you end up in the white area, you receive 100 guilders. If you end up in the black area you receive nothing.</td>
<td>You receive 14 guilders</td>
<td>A B</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHOICE A:</th>
<th>CHOICE B:</th>
<th>MY CHOICE IS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>You turn the Wheel of misfortune. If you end up in the black area, you have to pay 200 guilders. If you end up in the white area you pay nothing.</td>
<td>You pay 23 guilders</td>
<td>A B</td>
</tr>
</tbody>
</table>
Explanation of the questionnaire “the wheel of fortune”

The questionnaire consists of seven questions. Each time, you can choose between two options (choice A and choice B).

Choice A;
If you choose choice A, you have a chance of gaining an amount of money and a chance to win nothing. The “wheel of fortune” indicates how large your probability is of winning a specific amount of money.

Choice B;
If you choose choice B, you are sure to win a specific amount of money.

Appendix C

Complete Numerical Results of Subgroups

<table>
<thead>
<tr>
<th>Risk</th>
<th>Total Population Costs</th>
<th>Specified Population Costs</th>
<th>Total Individual Costs</th>
<th>Specified Individual Costs</th>
<th>Probabilistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Costs</td>
<td>Before: <strong>.55 (.44)</strong></td>
<td>before: <strong>.75</strong> (25)</td>
<td>before: <strong>.56 (.45)</strong></td>
<td>before: <strong>.77</strong> (35)</td>
<td></td>
</tr>
<tr>
<td>Cost High</td>
<td>after: <strong>.70 (.41)</strong></td>
<td>after: <strong>.87</strong> (24)</td>
<td>after: <strong>.73 (.40)</strong></td>
<td>after: <strong>.92</strong> (15)</td>
<td></td>
</tr>
<tr>
<td>Risk Averse &amp;</td>
<td>before: <strong>.64 (.43)</strong></td>
<td>before: <strong>.71 (.37)</strong></td>
<td>before: <strong>.64 (.43)</strong></td>
<td>before: <strong>.71 (.37)</strong></td>
<td></td>
</tr>
<tr>
<td>Cost Low</td>
<td>after: <strong>.89 (.26)</strong></td>
<td>after: <strong>.83 (.26)</strong></td>
<td>after: <strong>.79 (.36)</strong></td>
<td>after: <strong>.70 (.35)</strong></td>
<td></td>
</tr>
<tr>
<td>Risk Seeking &amp;</td>
<td>before: <strong>.33 (.41)</strong></td>
<td>before: <strong>.50 (.44)</strong></td>
<td>before: <strong>.33 (.41)</strong></td>
<td>before: <strong>.50 (.44)</strong></td>
<td></td>
</tr>
<tr>
<td>Cost High</td>
<td>after: <strong>.41 (.43)</strong></td>
<td>after: <strong>.62 (.43)</strong></td>
<td>after: <strong>.40 (.44)</strong></td>
<td>after: <strong>.58 (.45)</strong></td>
<td></td>
</tr>
<tr>
<td>Risk Seeking &amp;</td>
<td>before: <strong>.37 (.34)</strong></td>
<td>before: <strong>.42 (.43)</strong></td>
<td>before: <strong>.37 (.34)</strong></td>
<td>before: <strong>.44 (.43)</strong></td>
<td></td>
</tr>
<tr>
<td>Cost Low</td>
<td>after: <strong>.34 (.35)</strong></td>
<td>after: <strong>.49 (.42)</strong></td>
<td>after: <strong>.23</strong> (33)</td>
<td>after: <strong>.28</strong> (38)</td>
<td></td>
</tr>
</tbody>
</table>

TABLE C.1. Mean WTT before and after receipt of information, for five forms of information and for risk averse, risk seeking, high cost, and low cost clients. Significant changes (effects) are underlined.
References


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