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Determinants of Consumer Financial Risktaking: Evidence from Deductible Choice

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Abstract


We analyze a clear-cut example of choice under uncertainty, namely deductible choice in the Dutch health insurance market. The unique institutional features of this market enable us to examine demand-side choices that only vary in their financial parameters. Using a rich dataset, we investigate the theoretical determinants of deductible choice. In line with expected-utility theory, we find that healthier, wealthier and more risk-tolerant consumers choose higher levels of deductibility. Consumer choice for financial risk is thus driven by various considerations, not only by risk type. Heterogeneity in risk preferences seems at least as important in explaining financial risk-taking. These results are not only relevant to insurance markets but to all markets where consumers decide on financial risk.

Keywords: Financial Risk, Risk Tolerance, Adverse Selection, Deductible, Insurance

JEL Classification: D12, D81, G22

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type, risk preferences and wealth significantly affect deductible choice in the expected direction. Hence, consumer financial risk-taking is influenced by various considerations, not only by risk type. Risk preferences are at least as important in explaining consumer choice for financial risk

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