

Subjective Belief, Risk Information and Earthquake Insurance Purchase: Evidence from Japanese Post-Quake Data^{*}

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Abstract

We develop a simple model of insurance purchase where consumers have imperfect knowledge about the potential risk based on Kunreuther and Pauly (2005) and test its theoretical implications using observed insurance behavior of potential policy holders. Our empirical findings suggest that obtaining the regional disaster hazard information makes the subjective probability of a loss significantly higher, thereby it facilitates insurance purchase among potential policy holders. This result is robust to the possible endogeneity of consumer's information search behavior. Our result implies that appropriate dissemination of objective risk information can enhance the consumer's risk mitigation activities.

JEL Classification: D03, D81, D83, G22.

Keywords: Subjective belief, risk perception, earthquake insurance.

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