Quality and Reputation in Insurance Contracts: Is Competition Harmful for Consumers?*

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April 21, 2010

Abstract

In this paper we tackle the issue of quality nonverifiability of after-sales services provided by insurance companies, like, for instance, the prompt payment of the amount due in the case of damage insurance. We consider a frequent interaction between companies and consumers in order to allow reputation emerge as a means of disciplining the former to deliver high quality. After studying the equilibrium of a repeated Bertrand game among the insurers, we show that competition is harmful for the consumers in that it increases the companies’ incentive to reduce quality.

Keywords: insurance contracts, moral hazard, Bertrand competition, reputation.

JEL Codes: D81, D82, L13, C73.

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