

**Authors**

Lorenzo Casaburi  
University of Zurich

Jack Willis  
Harvard University



UBS Center Working Paper Series  
Working Paper No. 18, December 2016  
ISSN 2296-2778 (Online)

**Time vs. State in Insurance: Experimental  
Evidence from Contract Farming in Kenya**

Lorenzo Casaburi, Jack Willis



# Time vs. State in Insurance: Experimental Evidence from Contract Farming in Kenya

The gains from insurance arise from the transfer of income across states. Yet, by requiring that the premium be paid upfront, standard insurance products also transfer income across time. We show that this intertemporal transfer can help explain low insurance demand, especially among the poor, and in a randomized control trial in Kenya we test a crop insurance product which removes it. The product is interlinked with a contract farming scheme: as with other inputs, the buyer of the crop offers the insurance and deducts the premium from farmer revenues at harvest time. The take-up rate is 72%, compared to 5% for

the standard upfront contract, and take-up is highest among poorer farmers. Additional experiments and outcomes indicate that liquidity constraints, present bias and counterparty risk are important constraints on the demand for standard insurance. Finally, evidence from a natural experiment in the United States, exploiting a change in the timing of the premium payment for Federal Crop Insurance, shows that the transfer across time also affects insurance adoption in developed countries.

December 01, 2016