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Limited Insurance within the Household:
Evidence from a Field Experiment in Kenya

By Jonathan Robinson*

In developing countries, unexpected income shocks are common but informal insurance is typically incomplete. An important question is therefore whether risk-sharing within the household is effective. This paper presents results from a field experiment with 142 married couples in Kenya in which individuals were given random income shocks. Even though the shocks were small relative to lifetime income, men increase private consumption when they receive the shock but not when their wives do, a rejection of efficiency. Such behavior is not specific to the experiment—both spouses spend more on themselves when their labor income is higher. (JEL D14, D81, G22, O12, O16)

Individuals in developing countries are subject to considerable risk but most lack access to formal mechanisms that would allow them to insure themselves against unexpected income shocks. Instead, households tend to use informal systems of gifts and loans to pool idiosyncratic risk. While these informal networks do provide some protection against shocks, they also face substantial problems of asymmetric information and payment enforceability, and existing evidence suggests that inter-household risk sharing networks are rarely, if ever, efficient (for example, see Townsend 1994; Udry 1994; Fafchamps and Lund 2003).

In the absence of effective formal or informal inter-household insurance mechanisms, a natural place for individuals to choose to cope with risk is within the household. Though such arrangements will be somewhat limited because income shocks are likely to be correlated within households, whether these mechanisms are effective in insuring the idiosyncratic risk that remains is an important question. If risk is not insured even within the household, despite the substantial incentives household members should have to insure each other in the absence of other risk-coping strategies, then programs which impact the ability of individuals to cope with risk will

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