BY ALEXA WIESE

Behavioural Economics in Insurance – Does it work?

How can you increase customer engagement on digital touchpoints? How can you increase the odds that customers will renew their policies? How can you improve customer loyalty? Behavioural economics can help insurers answer the larger questions behind human decision making in insurance.

INTRODUCTION

Behavioural economics is all about knowing what makes people tick and using that knowledge to make improvements. Behavioural economics taps into unconscious biases that influence everyday actions, and discovers which of them drives customer behaviour.

Ultimately, behavioural economics can improve pain points and influence behaviour by applying simple changes capable of producing surprising results – through any decision making process, and in Swiss Re's Behavioural Research Unit's case studies, across the insurance value chain. This article explains the application of behavioural economics in insurance, both through the theoretical framework as well as in some practical examples.

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HOW CAN WE USE BEHAVIOURAL ECONOMICS TO HELP OUR CUSTOMERS?

According to behavioural science, people's decisions are not always fully rational and can often be influenced by context. So the only way to understand these unconscious drivers is to move away from surveys and focus groups and see how people react in the real world.
It is important to employ a test-and-learn approach, to gain new insights into many of the behaviours that are most important in insurance – from opening letters and answering calls, to giving accurate information or accepting an offer.

CASE STUDY 1: HOW TO IMPROVE YOUR DIGITAL DECISION POINTS IN THE DIGITAL WORLD?

As more and more consumer decisions are made in a digital environment, understanding what drives people to react a certain way becomes even more critical to the insurer's business success. Insurers have many more avenues to connect with consumers. But this explosion of digital decision points also brings more questions about how best to engage consumers. As many insurance companies increase their investment in new digital distribution and processes, how can they ensure consumers will connect and act as they hope or expect?

Summary

- Digital environments can prompt different behaviour
- Typical decision biases can be magnified when online
- Understanding this behaviour is critical to digital success
- Simple changes can aid decision making and positive action

Do people behave differently when online vs. offline?

The sheer amount of online information gives people more alternatives than ever before. To overcome this choice and information overload, our human nature means we more frequently and naturally fall back on our own mental shortcuts. We are more prone to default to automatic reactions and a fast system of thinking over a more slow and deliberate process to evaluate various options. In fact, our thinking becomes so quick that an instant aesthetic perception of a website can carry more importance than the actual usability of the site.[1] In an online environment of limited attention and hasty decisions, insurance industry behavioural scientists can help design online journeys that aid decision making and action.

Online interactions and disclosure

Aside from behavioural variances in the ways people absorb information, an online environment also makes a difference in how they provide information. On the one hand, multiple research studies have proven that due to phenomenon such as the online disinhibition effect, people tend to reveal more sensitive information, like health problems, drug use, medical symptoms, and negative behaviours, via computer surveys rather than when answering to another human being. On the other hand, recent studies also show that interaction with human elements are more likely to elicit honest behaviour.[2] Therefore we see that it is important to consider the type of information that is being disclosed in the different online and offline environments.

More insurers seeking improvements

Behavioural science trials in insurance have led to many improvements across the digital space:

CASE STUDY 2: CUSTOMER RETENTION – KEEPING CUSTOMERS ENGAGED AND PROTECTED

Did you know the cost to acquire a new life insurance customer is seven times more than the cost to keep an existing one?[3]
Insurers fight hard to win customers, and lose too many of them, often due to irrational decisions. Finding ways to keep customers longer is a secret to driving profitable long-term growth.

The current reality:

"I can't afford it." "I don't really need it anymore." "What value am I getting?" Insurers hear it and see it every day. Customers disengage. They lose sight of why they purchased their policy in the first place. They lapse or cancel and lose valuable protection, and insurers lose a hard won customer.

An insurer sees 30% improvement

In practice, an insurer, had one of the highest lapse rates in the industry and its retention efforts had become static. After performing a diagnostic review and identifying opportunities, a final plan was created and executed which included: improving lapse cycle processes and designing retention campaigns.

We employed a test-and-learn approach with both agent trainings and customer communications to see the effects of different behavioural biases, such as social norms and call to action. This resulted in improved results by 30% over 12 months which translated into an increased profit.

CASE STUDY 3: P&C BEHAVIOURAL ECONOMICS, SMALL CHANGES LEADING TO BIG RESULTS.

Like many companies, customer retention is critical for *Good2Go Auto Insurance*, a direct marketer that specialises in non-standard auto business. Retaining customers over the long term makes a material difference, so continually working to improve retention rates is always top of mind.

Engagement in a behavioural economics project

"*The big plus of behavioural economics is there are established theories about what strategies work,*" says marketing veteran and executive vice president of Good2Go Auto Insurance. "*Before, we had some general idea of how to make things easier for customers, but there's more science in the behavioural economics approach, and I think we've gotten better ideas in the process.*"

Summary

- The insurer wanted to improve customer retention rates
- Integration of behavioural science theory and close attention to the email language to make the difference
- The insurer improved retention rate by ~5% – at a low cost

Better outreach equals better outcomes

The team began work testing new ways to approach *Good2Go Auto Insurance's* monthly customer billing emails. We applied behavioural science theory and paid close attention to language to draft a new subject line and email text.

The run of randomised controlled trials confirmed that the redesigned emails performed better than the test email: Solid evidence that using these principles improved the retention. Ultimately the new email increased retention at *Good2Go Auto Insurance* by 4.98% (or 1 600 more customers a month).

IN CONCLUSION

The key thing is to understand the limitations of behavioural economics. While there are some generalisations to be made about human behaviour, you can't simply replicate learnings and always expect to see the same results[4]. The intricacies of each context and the differences between populations and environments present us with a unique opportunity to learn what works for a specific sub-segment, in a single setting.

Swiss Re's Behavioural Research Unit has already seen and demonstrated how behavioural economics helps insurers understand their customers' behaviour and respond with changes that produce real, meaningful results. Now we are looking at what might be next, as we continue to run more and more interesting, insightful, and successful trials.

By consolidating our results from the past five years, we are now taking our behavioural research into its next generation. We are using our expertise in human behaviour to help answer some of the biggest questions our industry is facing, such as how to reduce bias in our decision making, improve the health of policyholders, bring innovative ideas to life, and operate in an increasingly digital age. There is immense potential in each of these fields to merge behavioural science and big data, and these are just a few of the many questions we are looking to answer.

MY PERSONAL INPUT

It's a combination of this potential for the future of behavioural economics and the fact that we, as a field, are constantly learning something new – that keeps me interested in this continuously evolving field. There is always a new idea or a new environment to test in, or more data that can help us provide better answers – and that's where I think we can all thrive. ■

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