

Behavioural Economics for the Insurance Customer

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ICMIF Biennial Conference
November 2019



A short intro to Behavioural Economics (BE)

What is behavioural economics?

Traditional Approach

Assumes that people:

- Are **rational** & have set preferences
- Seek to **maximise utility**, i.e. do whatever is in their best interest



To change behaviour...

Provide **information** to help people better understand costs



Use **financial incentives**: change the relative 'prices' of costs and benefits

Behavioural Science Approach

Understands that people:

- Are **not always rational**
- Are hugely affected by seemingly irrelevant "**contextual**" factors



To change behaviour...

Change the context in which people make decisions ("**nudge**")



Test everything in the real world and measure if it has an impact

Thinking fast and slow (or not at all...)

Traditional Approach

Assumes that people:

- Are **rational** & have set preferences
- Seek to **maximise utility**, i.e. do whatever is in their best interest

System 2

- Reflective, slow
- Conscious
- Analytic
- High energy consumption

Behavioural Science Approach

Understands that people:

- Are **not always rational**
- Are hugely affected by seemingly irrelevant "**contextual**" factors

System 1

- Automatic, fast
- Unconscious
- Associative
- Low energy consumption

Behaviour Biases (mental shortcuts)

Humans tend to:

Be overconfident and misjudge how disciplined they will be in the future

Delay making a decision if it is complex/confusing or avoid it altogether

Be more concerned with possible losses than possible equivalent gains

Follow others

Stick with the default option, even if it's not the best

Settle for something that is good enough rather than searching for the best

Care more about immediate benefits and costs than those in the future

Applying BE theory to customer behaviour

London Bus Customer Satisfaction



London Bus Customer Satisfaction



Photo Ref: transportforall.org.uk



Photo Ref: Twitter



hubhub

Photo Ref: Twitter

Insurance Customer Behaviour

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If you *tried* to design a system to bring out the **worst** in humans, it would look a lot like the **insurance** of today.

Dan Ariely,
Chief Behavioural Officer, Lemonade.



Photo Ref: www.markbprince.com



Recognise human biases; design interactions to guide the customer

Nick, this is our most popular hospital cover for couples in NSW!

Plan Name	Price (fortnightly)	Description
Basic Hospital	\$57.58*	Cover for the basics, like emergency ambulance and accidental injury. Plus, it could help you avoid paying extra tax.
Standard Hospital	\$88.05*	Support your lifestyle without paying for things you're less likely to need.
Advantage Hospital	\$113.12*	A high level of hospital cover without the added cost of pregnancy.
Top Hospital	\$139.85*	Starting a family? This is the cover you need for pregnancy and birth-related services.

Each plan includes a 'MORE' dropdown and a 'SELECT MY COVER' button.

Did you know **Most Students** have **Dental Insurance?**

As a member of student networks
we provide dental services to students
with 20%-30% off

**GEORGE
BROWN**



RYERSON

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Recognise human biases; design interactions to guide the customer

Highly Recommended:
Trip Protector

+ \$25.86 All flights
per passenger

Yes, Add Trip Protector for \$25.86 covering all passengers in this reservation.

All these benefits for a fraction of the ticket cost:

- Reimburses costs if you have to cancel or interrupt your trip for reasons like covered illness, injury, layoff, and more
- Coverage for additional expenses associated with travel delay
- 24/7 award-winning assistance service

No, I choose not to protect my \$470.20 purchase. I understand by declining coverage I am responsible for all cancellation fees and delay expenses.

Swiss Re Case Studies

Isn't this all just common sense?

Your turn to predict the outcome using the ICMIF App

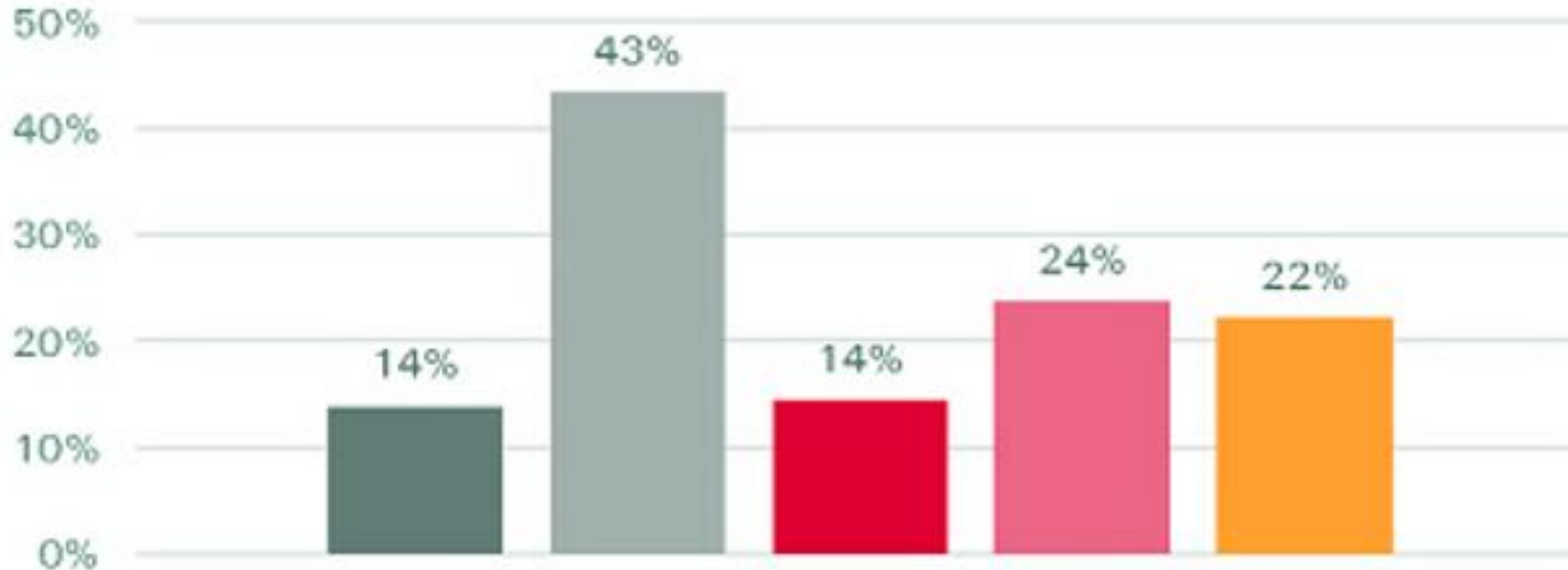
Which message do you think would be **most effective** in getting customers to actually change their monthly premium payment method to automatic bank transfer?

- 1 Using bank transfer is easy and is protected by a direct debit guarantee
- 2 Your current payment method involves hassle for you each time you make a payment
- 3 Switch to bank transfer payments and receive a \$10 voucher
- 4 Here is a \$5 voucher, and a request to switch your payment method, please
- 5 It is time to update your payment details, please choose from the following 2 options

What we actually found

- 1 Using bank transfer is easy and is protected by a direct debit guarantee
- 2 Your current payment method involves hassle for you each time you make a payment
- 3 Switch to bank transfer payments and receive a \$10 voucher
- 4 Here is a \$5 voucher, and a request to switch your payment method, please
- 5 It is time to update your payment details, please choose from the following 2 options

Response rates



Interactive Voice Recording (IVR) for customer policy administration



Japan



We will have your requests via smart-phones or IVR and send you the forms. Most people like you find the smart-phone method to be the quickest and easiest and press [1]

- If you hold a smart-phone, Press [1]
- If you **have your policy number ready and** wish to proceed with IVR, press [2]
- To listen to the guidance again, press [9]

Great news, you're almost finished. It should take less than 30 seconds from now to complete the request.

You will have a short message with URL. Please push your smart-phone number followed by #

Swiss Re
BE Version

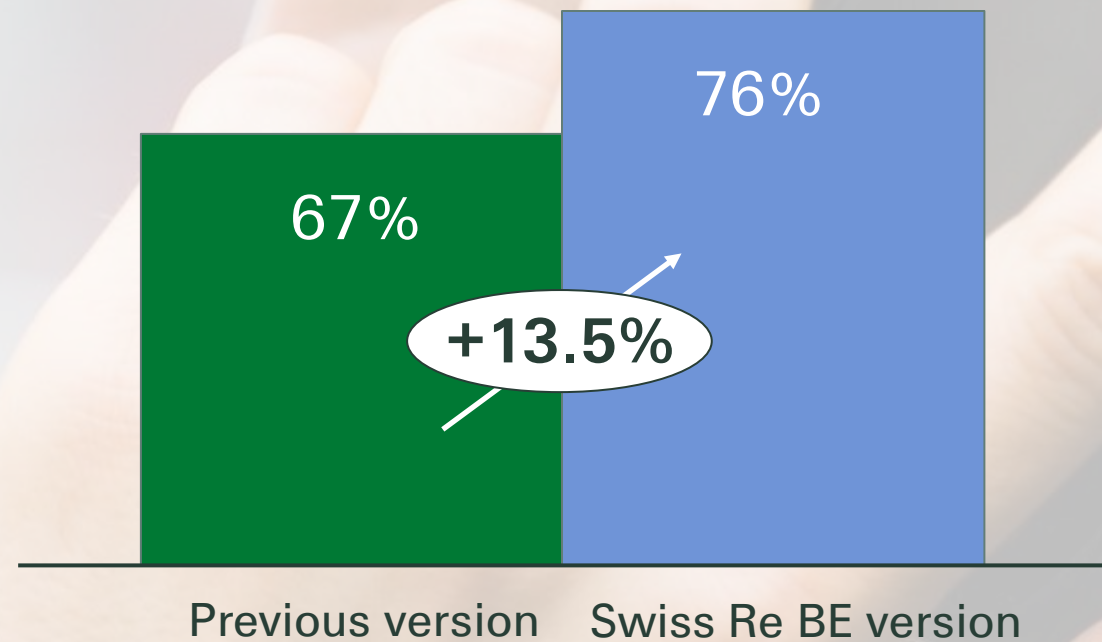
Interactive Voice Recording (IVR) for customer policy administration



Japan



Successful registration to change bank account



Requesting claims reports



Australia



Previous client version:

8. Please outline what aspects of your patient's functional capacity are impacted by their symptoms, restrictions or limitations by completing the table below

Ability	Tolerance level	Frequency (N) Never, (O) Occasional, (W) With Rest Breaks, (F) Frequent
Lifting	5 Kg	W
Pushing/Pulling	5 Kg	W
Reaching		O
Bending		O
Standing	30 Mins/hours	W
Sitting	2 Mins/hours	W

Swiss Re Behavioural Economics test version:

Lifting	18-25kg	13-17kg	8-12kg	4-7kg	1-3 kg	Nil
	Able to lift a bag of cement	Able to lift an 18 month old child	Able to lift a vacuum cleaner or one case of 24 cans of drink	Able to carry a full (dry) washing basket, or 2-3 shopping bags	Unable to lift a laptop computer	Unable to lift a 1L milk or soft drink bottle (1kg)

Requesting claims reports



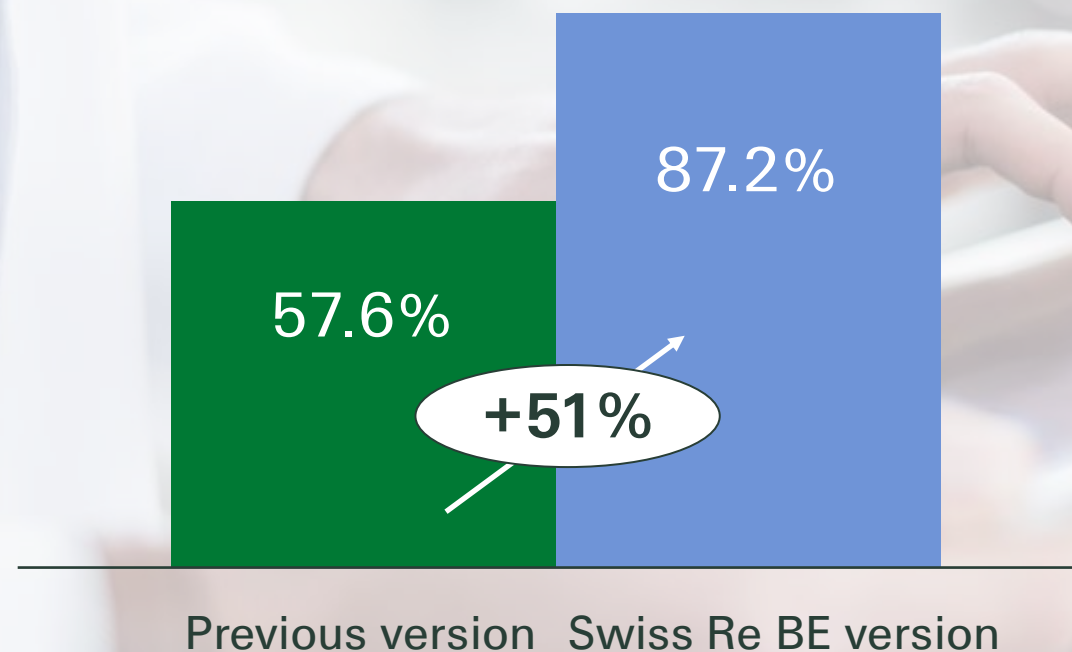
Australia



Relative increase of 51% in doctors fully completing the table

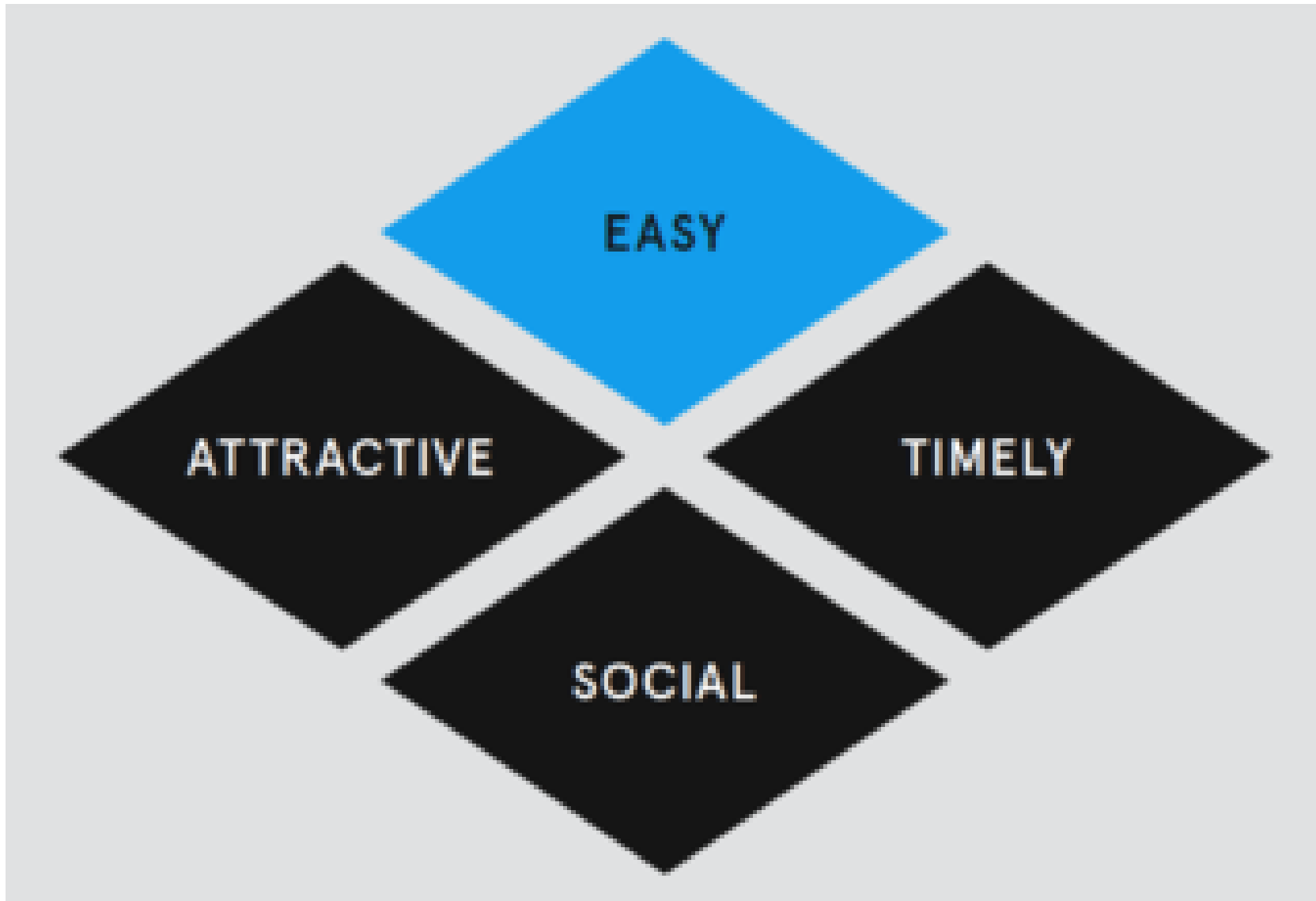
Customer benefits:

- ✓ Claims decided and paid more quickly
- ✓ Earlier implementation of return to work support



How to apply these insights with your customers

EAST: A useful framework to start with



1

2

3

4

5

Problem Statement

Receive problem statement from partnership teams

Behavioural Science Deep Dive

Translate problem statement into relevant behavioural science concepts

Science-backed Product Ideas

Propose concrete product ideas based on findings from scientific research

Prioritisation

Work with partnership team to prioritise product ideas based on estimated impact and potential risks

Experimentation

Lead experiments to test the ideas

Ethical Considerations

Nudge or Sludge?



10 people viewed this event in the past hour

★ Special Notes

⚠ 122 sections have no remaining tickets for this event on our site

⚠ Cheapest tickets in Section 11 ⓘ

You only have 09:35 left to complete your purchase. Prices may rise or these tickets may no longer be available after this time.

OK

09:13 left to complete purchase

Please note that these tickets may not be available again if you abandon them ⓘ



10 people viewed this event in the past hour

Get it or regret it

HK\$1,528

per ticket

Sold

1 day ago on our site
Someone else is going in your place.

N. ⓘ

together.

per ticket

Select

Abandon My Tickets

Nudge or Sludge?

CTP Insurance is Underwritten by AAMI Limited ABN 48 905 177 807 trading as AAMI

012

Compulsory Third Party Personal Injury Insurance GREEN SLIP CERTIFICATE

Policy Number: [REDACTED]
 Registration Number: [REDACTED]
 RMS Billing/Vehicle ID: [REDACTED]
 RMS Customer ID: [REDACTED]
 Term of Insurance: 12 months from date of registration
 Use by 4 Dec 2017

New Policy Notice

It's easy to switch your CTP Green Slip to
 Dear Ms Jones,
 As an AAMI Motor Insurance customer, we're always looking for ways to help make your insurance easy and convenient. So why not take up this offer to switch your CTP Green Slip to AAMI and keep it all in one place?
Switch now before your registration expires.
 Your registration will be up for renewal shortly and as you know you need to have a CTP Green Slip before you can renew it. So we've made it easy to switch by providing this AAMI CTP Green Slip.

All you need to do is:

- ✓ Check your details are correct on this Green Slip
- ✓ Make your payment
- ✓ Contact Roads and Maritime Services (RMS) to renew your registration

It's that easy
 The team

AAMI Premium:	\$541.58
GST:	\$54.16
MCIS levy (GST exempt):	\$132.26
Total Amount Payable:	\$728.00

Vehicle Details

Description: [REDACTED]
 Registered SHAPE: Sedan Inc Hatchback
 Registered USAGE: Private
 Category of: [REDACTED]
 Registered in a company name: No
 Entitled to claim on Input Tax Credit (ITC): No
 Only a GST registered business can claim an ITC: No
 Average kms driven p.a.: Unknown

Motor Vehicle Insurance Details

Name of current Motor Insurer: AAMI
 Type of Motor Insurance: Comprehensive
 Years of continuous Motor Insurance: 4

Driver History

Years licence held: 6 or more
 Driver or fault accidents in last 2 years: 0
 Licence suspensions: Unknown
 Demerit points: Unknown
 Youngest driver date of birth: [REDACTED]

Medical Care and Injury Services Levy
 The MCS levy funds ambulance, hospital, lifetime care and other services for people injured in motor vehicle accidents.

Payment Options

- Internet**
- Phone:** Call our dedicated CTP payment service on 1300 534 263
- In Person:** At any Australia Post Office

Payment of a Green Slip Online or by phone will result in an eGreen Slip being sent to the RMS immediately. Payment at a Post Office will take up to 2 business days for the eGreen Slip to reach RMS.

Total Amount Payable \$728.00
Date Due 04/09/2017
Payment Reference Number [REDACTED]

POST billpay



Thank you!

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how customers
actually behave
rather than how
they **should** behave