



**SR Behavioural Economics Research
Suzy Nicholas – IFoA – KL – 03/2016**

Agenda

- What is Behavioural Economics?
- Swiss Re experience & Examples/Case studies
- How can BE help YOUR business

If you tried to create a system to bring out the worst in humans, it would look a lot like Insurance today!
- Dan Ariely - Lemonade



Thinking fast, thinking slow OR not thinking at all!

- System 1 vs. System 2 thinking
 - Automatic: fast, unconscious, associative and very low energy consumption
 - Reflective: slow, conscious, analytic and consumes a lot of energy (from Thinking, Fast & Slow)



- We are mostly automatic beings (and evidence that this is mostly good)
 - ➔ Therefore, we are hugely affected by context as well as simply content

M **Messenger:** We are heavily influenced by who relays the information to us.

I **Incentive:** We often respond to incentive using mental shortcuts

N **Norms:** We tend to do what those around us do

D **Defaults:** We like to "go with the flow"

EQ



S **Salience:** We respond to things that are new and relatable

P **Priming:** Our behavior can be influenced by unconscious cues

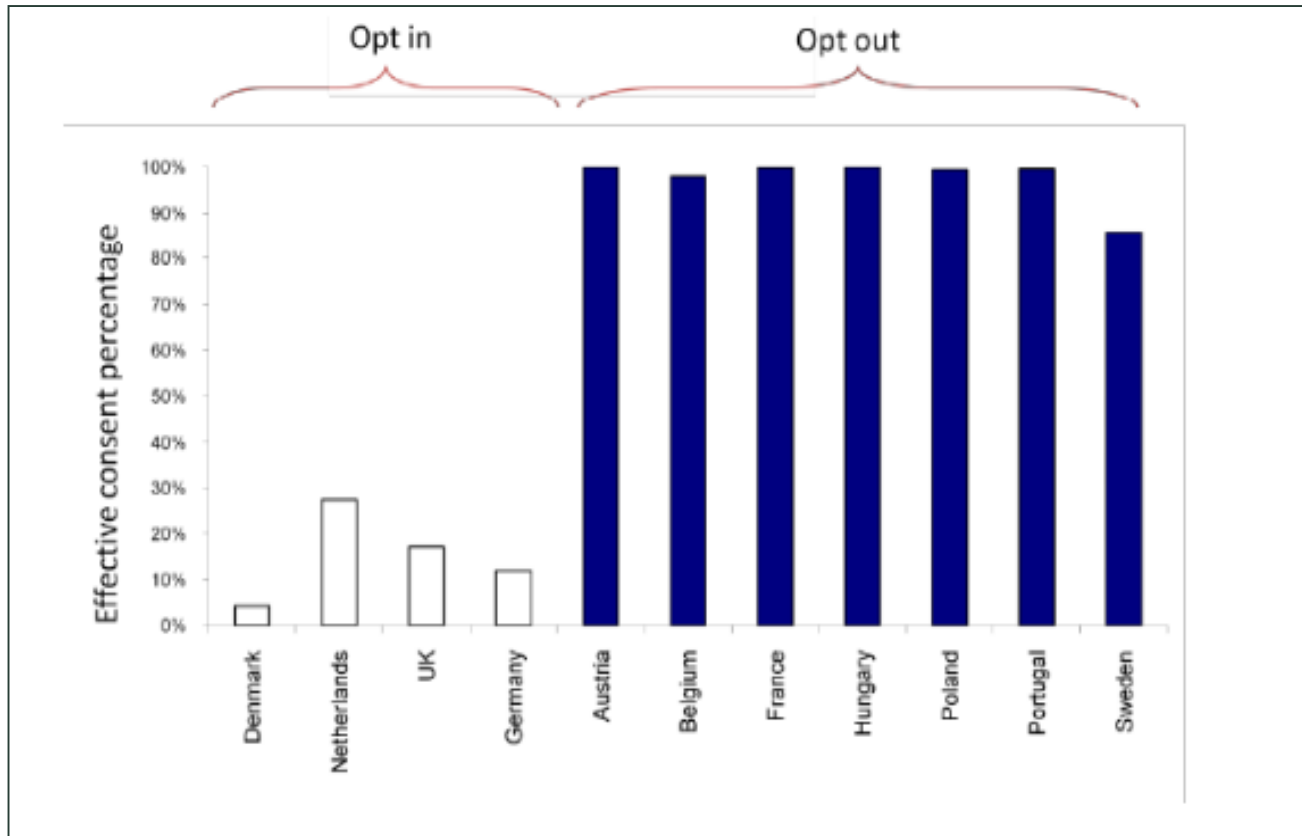
A **Affect:** Emotional associations can shape the way we behave

C **Commitment:** We look to be consistent with ourselves and our public promises

E **Ego:** We act in ways to make us feel better about ourselves







Dolan et al., 2012

Behaviour Example: Organ donation



Sources: Dolan, Hallsworth, Halpern, & King (2013).

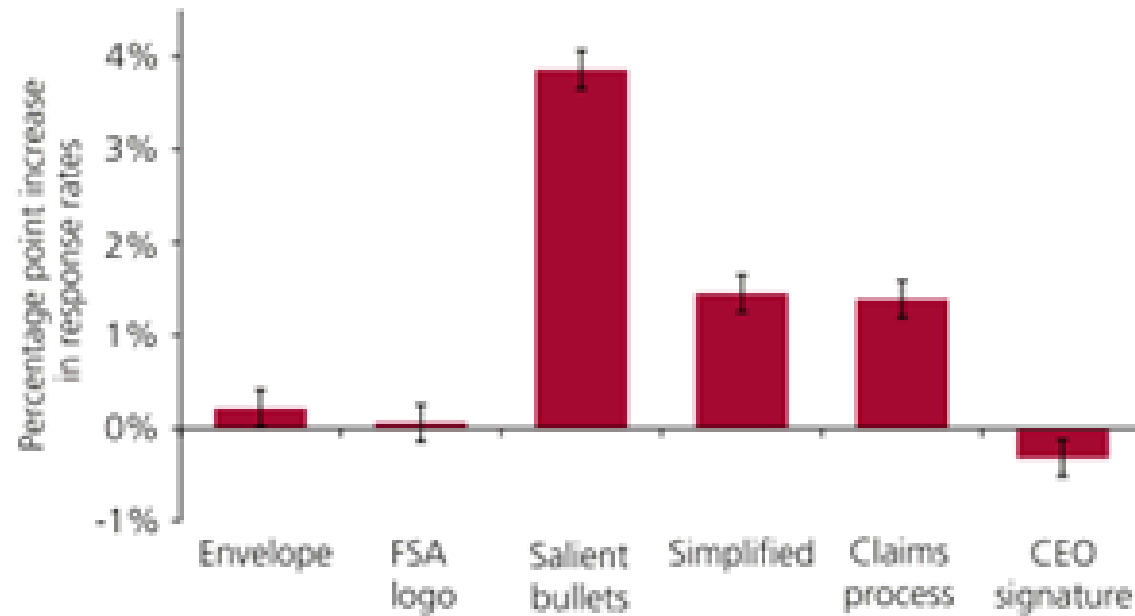
Behaviour Example: - Product packages

A	B	C
<div><p>Bronze</p><ul style="list-style-type: none">* Lower monthly cost* Higher costs when you receive medical services<p>Who chooses Bronze plans?</p><p>A good option if you want a lower monthly premium and don't expect to receive a lot of medical services.</p></div>	<div><p>Silver</p><ul style="list-style-type: none">* Monthly cost can run higher than Bronze* Lower costs when you receive medical services compared to Bronze<p>Who chooses Silver plans?</p><p>A good option if you want to balance your monthly premium and out-of-pocket costs.</p></div>	<div><p>Gold</p><ul style="list-style-type: none">* Highest monthly cost* Lowest costs when you receive medical services<p>Who chooses Gold plans?</p><p>A good option if you expect to receive a lot of medical expenses.</p></div>
<div><p>Bronze</p><ul style="list-style-type: none">* Highest monthly cost* Lowest costs when you receive medical services<p>Who chooses Bronze plans?</p><p>A good option if you expect to receive a lot of medical services.</p></div>	<div><p>Silver</p><ul style="list-style-type: none">* Monthly cost can run higher than Gold* Lower costs when you receive medical services compared to Gold<p>Who chooses Silver plans?</p><p>A good option if you want to balance your monthly premium and out-of-pocket costs.</p></div>	<div><p>Gold</p><ul style="list-style-type: none">* Lower monthly cost* Higher costs when you receive medical services<p>Who chooses Gold plans?</p><p>A good option if you want a lower monthly premium and don't expect to receive a lot of medical services.</p></div>

Going for Gold?

Messenger

- We are heavily influenced by who communicates information to us



What Swiss Re are doing with Behavioural Economics



Live testing with our clients.

- Together search for opportunities for controlled testing
- Devise the test (from literature) & outcome measures
- Run the test & gather data to prove/disprove behavioural theories



Collaboration with Academic Experts

- Analysing the effects of savings plans
- Modelling lapse behaviour in the laboratory
- Research into people's discounting rates



Swiss Re's own Internal research

- Improving employee health behaviour
- Improving SR conference attendance & participation
- Enhancing diversity and inclusion

What can we change?

Sales

- email open rates
- SMS responses
- link click through rates
- website traffic & quotes
- sales
- reducing appointment no-show rates
- call drop off rates
- letter response rates
- incoming call rates
- rated offer acceptance
- uptake of product features
- switching payment method

Underwriting

- honest and accurate disclosure of health questions
- drop off rates for online/tele-underwriting
- speed of doctor requests
- level of useful responses/data

Retention

- retention/lapse rates
- renewal letter response rates
- acceptance of reduced cover offer rates
- email open, click through rates

Claims

- speed of turn around for medical requests
- complaint call rates following rejected claim
- honest and accurate disclosure of health/ability to work
- hospital choice, use of particular features
- improving claim outcomes

Agents

- encouraging the agent to sell your product
- encouraging the agent to sell a particular product of yours
- encouraging the agent to read underwriting questions properly/allow the customer to answer the questions
- encouraging the agent to encourage retention

The Proof is in the pudding!



Improving the customer journey - reducing lapse rates

Client Overview

A large insurance in Europe predominately in the health insurance line of business.

Business Challenge (pain point)

Health insurance policies were up for renewal and there were significant increases in premiums due to several factors including regulatory changes. Client was concerned that when consumers were advised of the premium increase they would lapse policies, they were therefore expecting large lapses.

How SR Helped

Client provided us with a copy of the letter they planned to send as part of a direct mail campaign advising consumers of increased premiums and offering renewal. Swiss Re reviewed the letter and designed a new letter using evidence based concepts from behavioural economic theory.



Equates to
8,000 policies
saved in a year!!

before



after



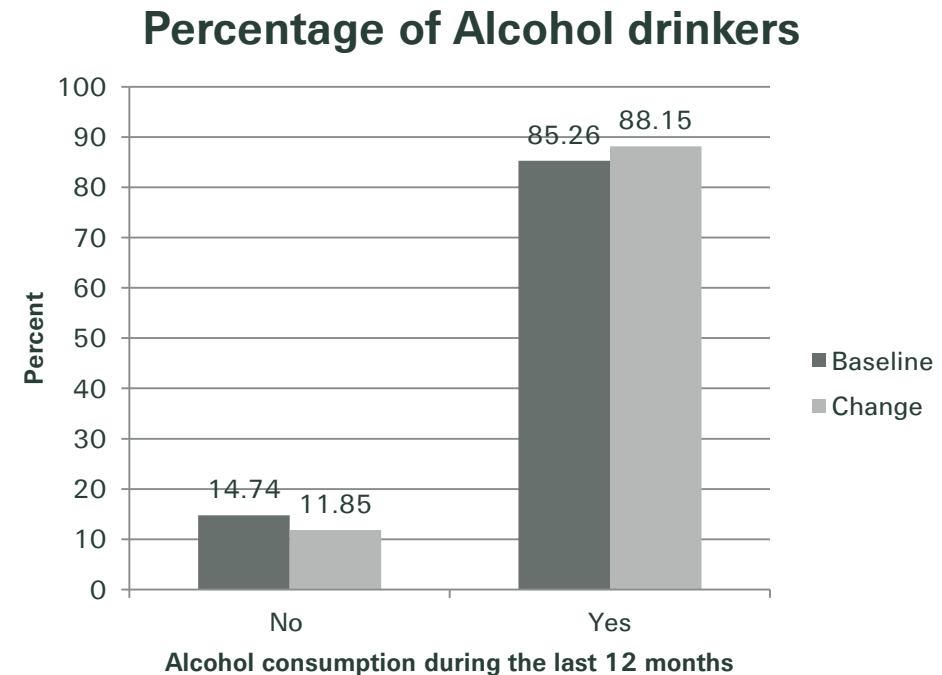
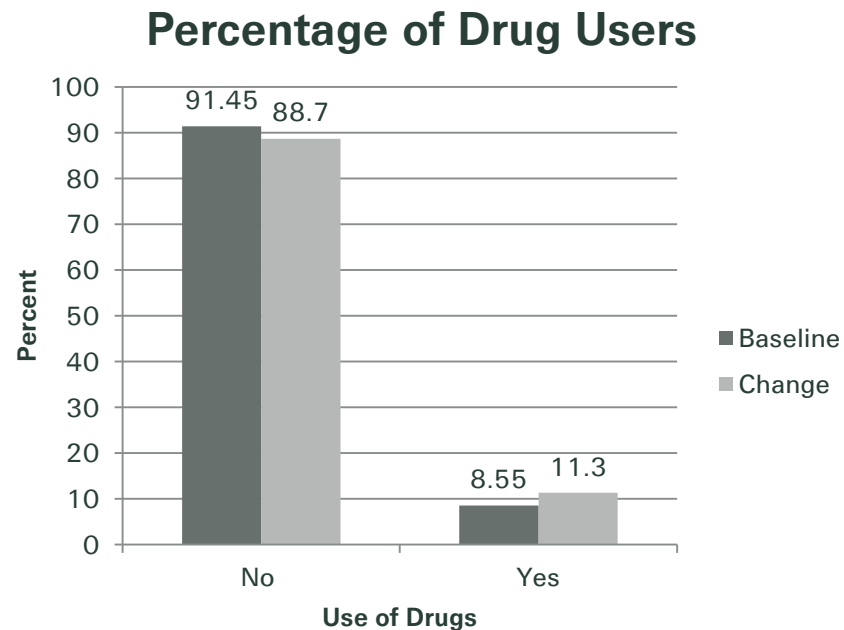
7% to 4%
lapse rate!!

Using our letter with behavioural economic concepts, we **reduced the lapse rate by 3%** compared with the client had originally suggested.

Underwriting – seeking to increase honesty



- Evidence from Dan Ariely that "honor codes" increased honesty
- Moved honesty declaration from the end of the form to the start



- **Results:** Life insurer, saw significant increase in drugs & alcohol disclosure

More options, more disclosure

OLD

Have you smoked tobacco, e-cigarettes, or any other substance or used nicotine replacement products (including nicotine patches) within the last 12 months?

9. Have you smoked, or have you used e-cigarettes or tobacco in any other form, during the last 12 months?

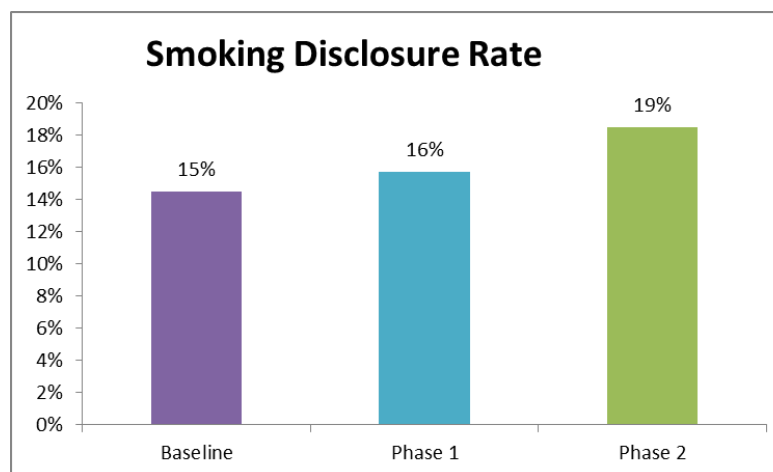
NEW

- Please select your smoking status. By smoking status, we mean the use of tobacco or e-cigarettes or nicotine replacement products (including nicotine patches)

- Daily
- Weekly
- Monthly
- Yearly
- I quit less than a year ago
- I quit over a year ago
- I have never smoked

4.3 Regarding your smoking habit, which one of the following applies?

more than 10 per day ☐ occasionally or less than 10 per day ☐ pipe, vape e-cigarettes, hubbly-bubbly, chew tobacco ☐ do not smoke ☐



Upsell letter



before

Date

Dear

IMPORTANT POLICY DETAILS

Congratulations on successfully completing medical school and all the very best for the start of your medical career. As a student you took out the Wesleyan Medical Career Protector with us. The basis of your Medical Career Protector cover changes at this point to reflect your new occupational status. This pack provides you with information to make a decision on how you next tailor your cover to meet your personal needs.

It may have been some time since we last saw you, so let us take this opportunity to remind you why you have chosen to become a member of Wesleyan:

- We have over 120 years experience helping doctors with their finances and over 85,000 doctors and dentist members.
- Our income protection is a market leader for doctors, tailored to your requirements.
- In 2013 over 96% of clients were paid out to clients (Wesleyan Claims department April 2014).
- Access to Wesleyan Rewards.
- Wesleyan Financial Consultants work with doctors like you – on hand to help you whenever you need it.

Please ensure you read this pack carefully and if you have any questions do not hesitate to call 0845 351 2352.

Good luck from all of us in the Student Team.

after

Date

Dear

Congratulations on successfully completing medical school and all the very best for the start of your medical career.

As a student you took out the Wesleyan Medical Career Protector with us. So far, we have paid your premium for you, but now you have qualified you will begin paying premium for the Income Protection you get.

At this stage you have 3 options

<p>Option 1: Take out Full Income Protection</p> <p>This will cover my full wage up to £2,000 per month</p> <p>Typical cost: £60/month</p> <p>If you would like this option, please give us a call on 0201201212121</p>	<p>Option 2: Stay on Medical Career Protector</p> <p>This will provide a benefit up to £400 per week</p> <p>Cost: £28/month</p> <p>This is the option you are on currently. If you do nothing, we will keep you on this plan & take the first premium 1st Nov</p>	<p>Option 3: Cancel your cover</p> <p>This means that you will no longer have a guaranteed income in case of illness or accident – you have to rely on the limited NHS sick pay.</p> <p>If you would like this option, please give us a call on 02020202020 to cancel your cover</p>
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The attached information pack provides you with information to make a decision on how you next tailor your cover to meet your personal needs.

Increasing sales - call centre cross-selling

Client Overview

A large insurance in Europe predominately in the health insurance line of business.

Business Challenge (pain point)

Client was launching a cross sell campaign to sell life insurance to existing policy holders. They wanted to optimise the number of people purchasing life insurance.

How SR Helped

Point of sale was telemarketing Swiss Re reviewed the telemarketing script. We proposed changes based on behavioural economic theory and our knowledge from researching this area for the past two years.



When compared with the proposed script, our script resulted in an **89%**
**increase in the number of people purchasing
life insurance**

Online & Gamification

Client Overview

A life insurance venture in Asia. They are the first of a new generation of Insurance companies, creating its Insurance solutions around a deep understanding of the diverse financial needs of the Indian consumer.

Business Challenge

The challenge was how to ensure that the ticket size of this product is much higher than the average size of the market so that economics of the channel works out better.

How We Helped

Swiss Re supported them by providing our inputs like Anchoring, attachment of riders based on the behavioral economics study & testing done by Swiss Re with other clients.



Supported the client to build an optimal customer experience for their online product

Started the project in Q1 2014

Launch of the product in Dec 2014

Great launch, product performing better than expected. Ticket size **3 times** the market average

WHAT'S YOUR LIFESTAGE ?

Q. Benefit Type

☒ Lump Sum Benefit ☐ Income Benefit ☐ Lump Sum Benefit + Income Benefit

Q. Sum Assured (Lump Sum Benefit)

☐ In Lakhs ☒ In Crore 1 Crore 75 Lakhs

Q. Cover me for

30 Years OR ☐ Upto 80

Male or Female

The role of the reinsurer.....

- Set up a Behavioural Research Hub
- Collaborate with globally acclaimed University in London
- A very hands-on and practical approach whereby we experiment and learn
 - 100+ pilots all around the world
 - Develop and emerging markets
 - Life & Non-life lines of business
 - Start with consumer pain points
 - Provide an end to end support system

Pioneering new approaches whilst preserving appropriate risk management balance is our sweet spot



Are you interested?

How can we support you better?

Thank you & Questions?

Suzy_Nicholas@swissre.com

Appendix

Behavioural Economics

- According to Wiki.....

Behavioral finance, study the effects of [psychological](#), social, [cognitive](#), and emotional factors on the [economic decisions](#) of individuals and institutions and the consequences for [market prices](#), [returns](#), and the [resource allocation](#). Behavioral economics is primarily concerned with the [bounds](#) of [rationality](#) of [economic agents](#). [Behavioral models](#) typically integrate insights from [psychology](#), [neuroscience](#) and [microeconomic theory](#); in so doing, these behavioral models cover a range of concepts, methods, and fields.

Behavioral economics is sometimes discussed as an alternative to neoclassical economics.

The study of behavioral economics includes how [market](#) decisions are made and the mechanisms that drive [public choice](#). The use of "Behavioral economics" in U.S. scholarly papers has increased in the past few years as a recent study shows.

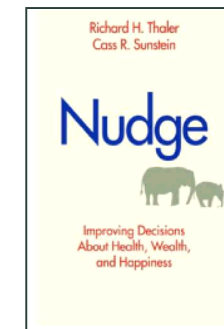
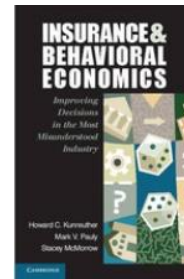
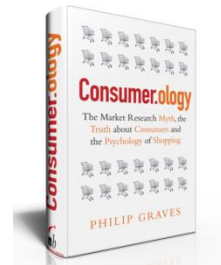
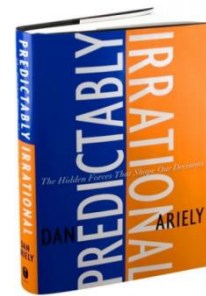
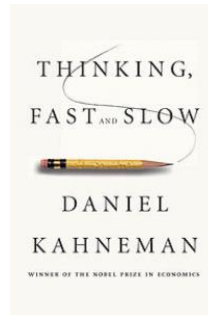
There are three prevalent themes in behavioral finances:

- [Heuristics](#): People often make decisions based on approximate [rules of thumb](#) and not strict logic.
- [Framing](#): The collection of [anecdotes](#) and [stereotypes](#) that make up the mental emotional filters individuals rely on to understand and respond to events.
- [Market inefficiencies](#): These include [mis-pricings](#) and [non-rational decision making](#).

Hungry for more?

- Want more info?

- Books:



- TED talks (www.ted.com) search Behavioural Economics
- Blogs: <http://blogs.cabinetoffice.gov.uk/behavioural-insights-team/>
- MINDSPACE report accessible online

- John_McLean@swissre.com and Suzy_Nicholas@Swissre.com



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