

2016 SOA  
**Health  
Meeting**

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Philadelphia, PA



**Session 75 L, Behavioral Economics - Making Improvements in  
Health Insurance**

**Moderator:**

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**Presenter:**

Laural Warren

# 2016 SOA Health Meeting

Laural Warren, Swiss Re  
Behavioral Economics - Making Improvements in Health Insurance  
June 16, 2016

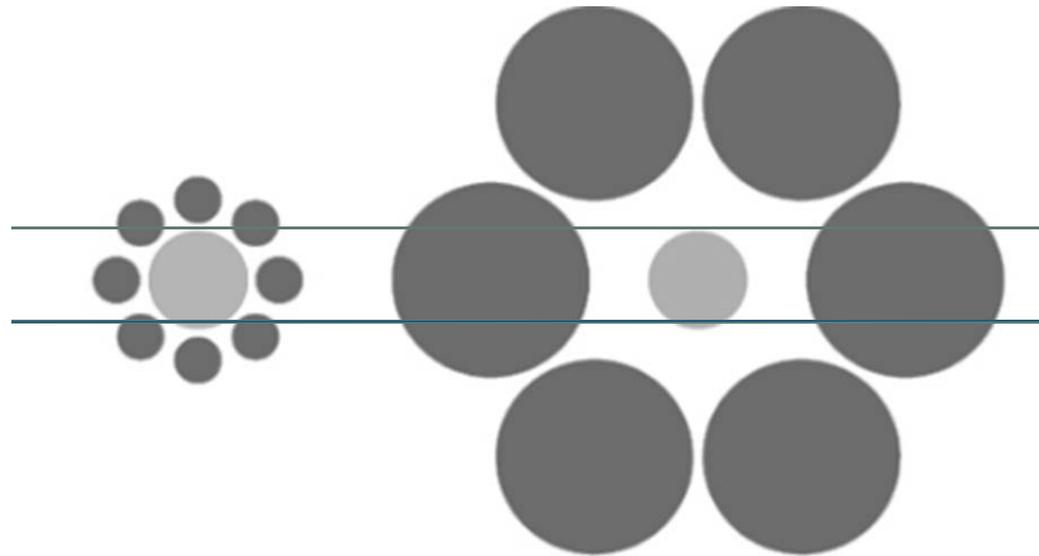


# Behavioral Economics – Making Improvements in Health Insurance



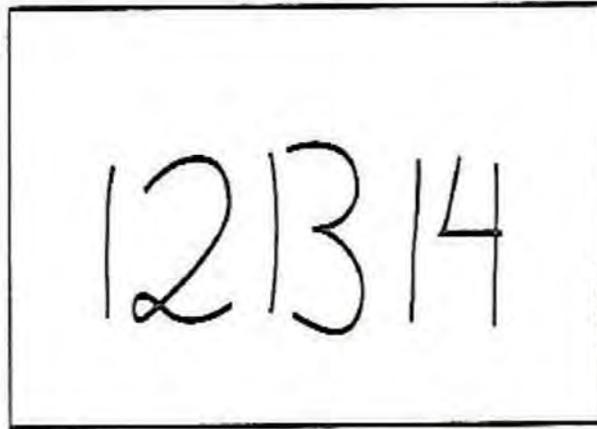
# What is Behavioral Economics?

- Behavioral Economics incorporates the lessons from psychology into the laws of economics
- Classical economic theory
- System 1 vs. System 2 thinking (from Thinking Fast and Slow)
- Effects of Context

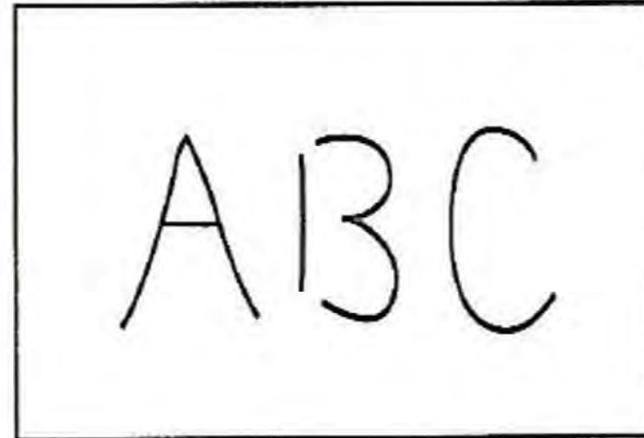


# What is Behavioral Economics?

- Context Matters



1234



ABC

# What is Behavioral Economics?

- System 1 and System 2 in conflict

John Stroop, 1935

NONDEPLETING CONDITION				
Congruent Color Words				
RED	BLUE	GREEN	RED	BLUE
GREEN	GREEN	RED	BLUE	GREEN
BLUE	RED	BLUE	GREEN	RED
GREEN	BLUE	RED	RED	BLUE
RED	RED	GREEN	BLUE	GREEN
BLUE	GREEN	BLUE	GREEN	RED
RED	BLUE	GREEN	BLUE	GREEN
BLUE	GREEN	RED	GREEN	RED
GREEN	RED	BLUE	RED	BLUE
BLUE	GREEN	GREEN	BLUE	GREEN
GREEN	RED	BLUE	RED	RED
RED	BLUE	RED	GREEN	BLUE
GREEN	RED	BLUE	RED	GREEN
BLUE	BLUE	RED	GREEN	RED
RED	GREEN	GREEN	BLUE	BLUE

DEPLETING CONDITION				
Incongruent Color Words				
RED	BLUE	GREEN	RED	BLUE
GREEN	GREEN	RED	BLUE	GREEN
BLUE	RED	BLUE	GREEN	RED
GREEN	BLUE	RED	RED	BLUE
RED	RED	GREEN	BLUE	GREEN
BLUE	GREEN	BLUE	GREEN	RED
RED	BLUE	GREEN	BLUE	GREEN
BLUE	GREEN	RED	GREEN	RED
GREEN	RED	BLUE	RED	BLUE
BLUE	GREEN	GREEN	BLUE	GREEN
GREEN	RED	BLUE	RED	RED
RED	BLUE	RED	GREEN	BLUE
GREEN	RED	BLUE	RED	GREEN
BLUE	BLUE	RED	GREEN	RED
RED	GREEN	GREEN	BLUE	BLUE

# What is Behavioral Economics?

Behavioral Economics Offers Alternative Explanations of People's Behavior

**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"

**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

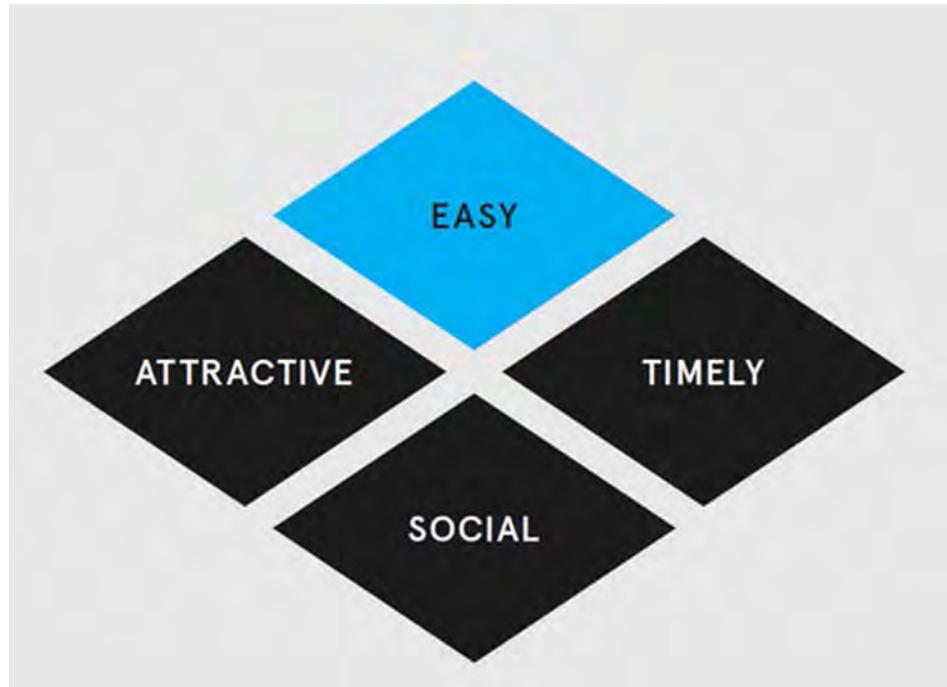
**C** **Commitment:** We look to be consistent with ourselves and our public promises

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

Source: Behavioural Insights Team Dolan et al., 2012

# What is Behavioral Economics?

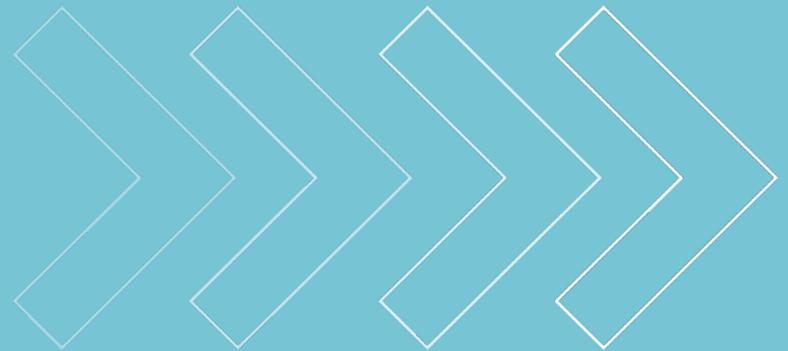
## The EAST Framework



U.K. Behavioural Insights Team

- Originally developed to guide policy makers in the U.K. to **identify particular behaviors** desired and determine how to **make them easy to do** (ex: find correct tax form, opt-in to pension plan).

# Behavioral Economics – Applications and Examples



# Behavioral Economics - Examples

## Choice Overload

Too many options make it harder to make a decision



Alvin Toffler, Future Shock, 1971

## Anchoring

Current information influences evaluations



Wansink, Kent & Hoch, 1998

## Norms

We tend to do what those around us do

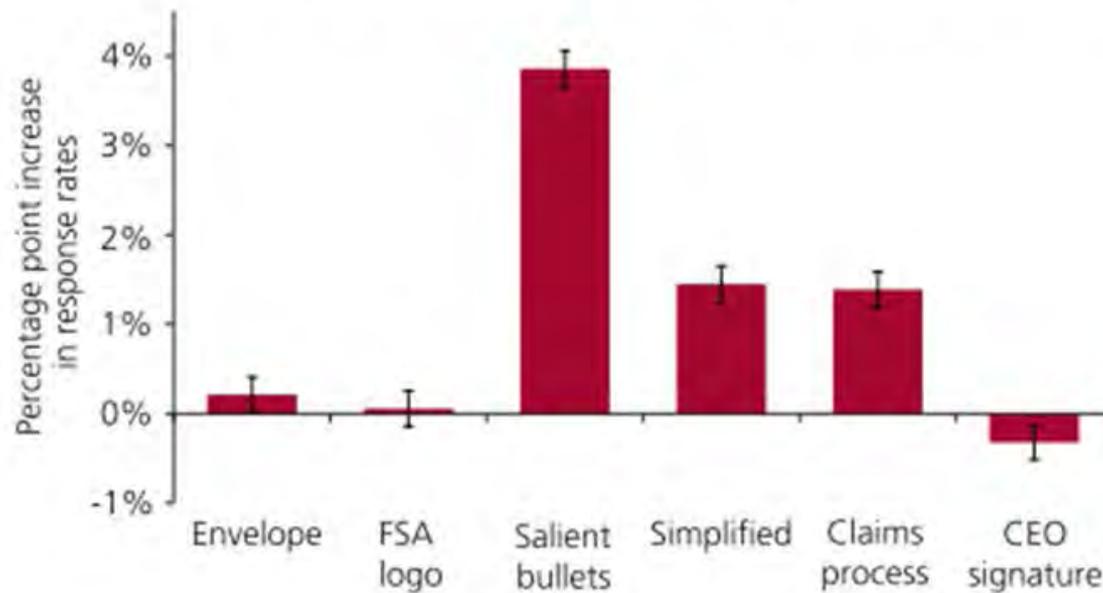


Dolan, et al., 2010

# Behavioral Economics - Examples

**Messenger Effect** We are heavily influenced by who communicates information to us

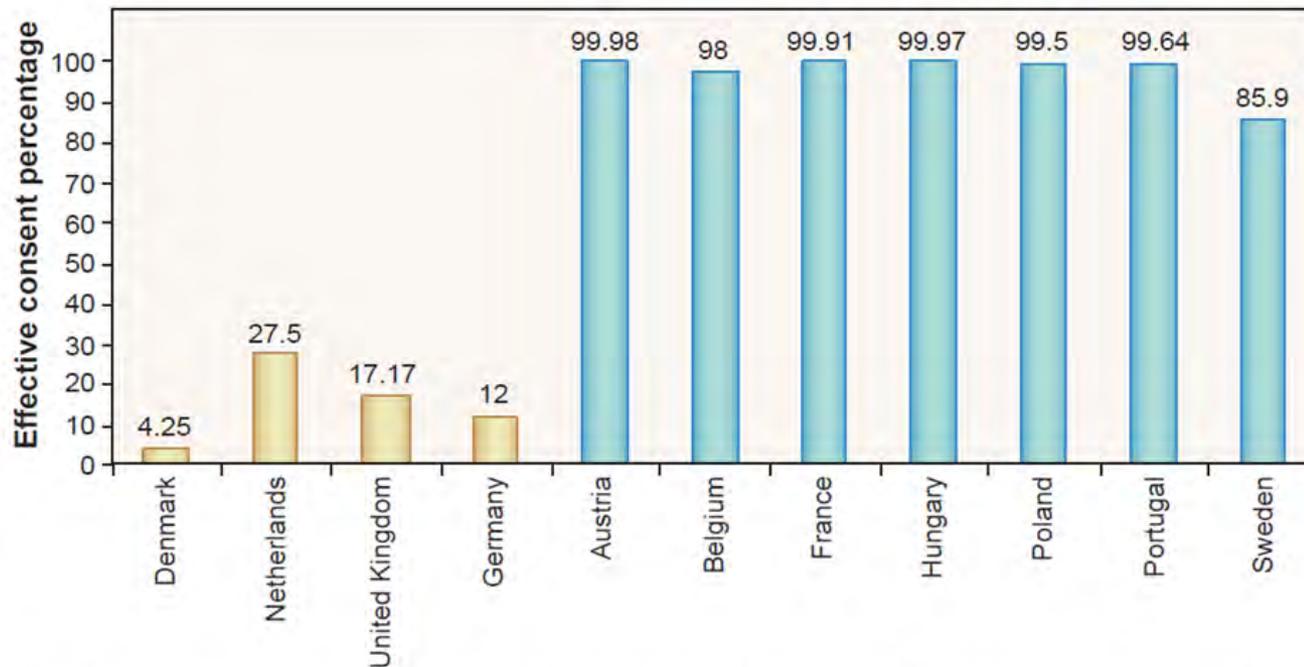
*Chart 1: Effect of treatments relative to control, no interaction effects*



Source: Adams, P., & Hunt, S (2013).

# Behavioral Economics - Examples

**Default** We tend to go with the default option



**Effective consent rates, by country.** Explicit consent (opt-in, gold) and presumed consent (opt-out, blue).

Johnson and Goldstein, 2003

# Behavioral Economics – Applications to Insurance



# What is your **pain point**?

*How can behavioral insights be incorporated in a live environment for testing?*



# What Can We Change?

## Sales

- sales (simplify letters and clarify actions needed from applicant)
- appointment no-show rates (reminders of cost to healthcare system effective in U.K.)
- uptake of product features
- switching payment method (using EFT helps retention)

## Agents

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

## Claims

- speed of turn around for medical requests (post-it notes framing the request as one made on the patient's behalf vs. the insurer's behalf)
- complaint call rates following rejected claim (simplify language, limit apologies, note lack of coverage)
- honest and accurate disclosure of health/ability to work (frame question as what claimant *can* do, vs. cannot do)
- hospital choice, use of particular features (set desired healthcare provider as default, add a norms statement)

## Underwriting

- honest and accurate disclosure of health questions (limit binary questions, allow response options, consider removing unnecessary questions)
- speed of doctor requests (post-its with message noting patient's requirement for information effective)
- rated offer acceptance (use lay terms, welcome applicant, add a norms statement)

## Retention

- missed payments (reach out proactively with an offer of solutions – reduced cover, different plan?)

# Behavioral Economics – Case Studies

## Sales and Retention



# Upsell

- For the upsell script (where the freemium offer is being set up)
- New BE script rolled out end of Jan, changing timing of the discussion
- Change in upsell script (Timing)

1. I'll set up your free life cover.
2. That's now all done
3. By the way, have you thought about full life insurance?

1. I'll set up your free life cover.
2. While that's being put through, have you thought about full life insurance? (yes/no)
3. That's now all done, thank you

➔ 64% increase in likelihood of converting to up-sell (from 3.5% to 5.6%)

NEW DATA

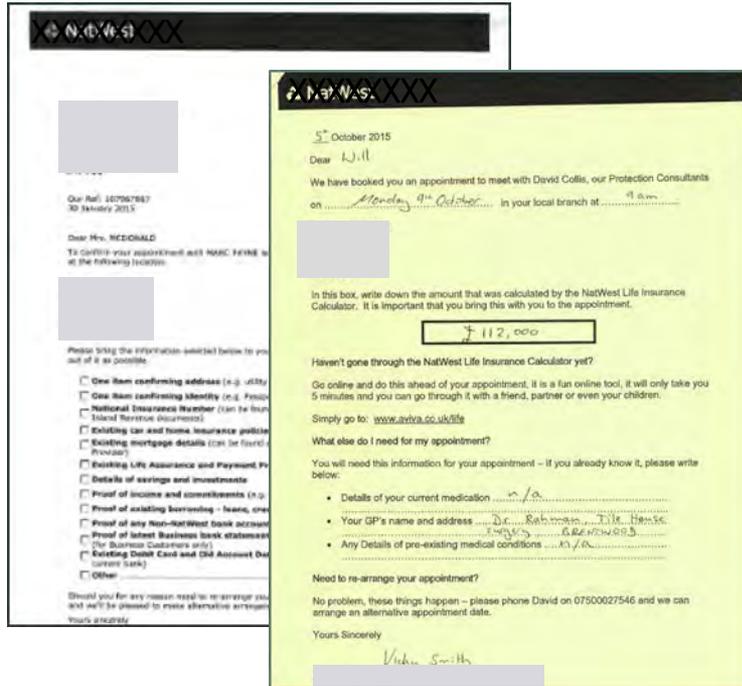
Month	Overall Leads	Overall Conversion	Overall Freemium	Freemium Eligible	Continued Upsell	Freemium Conversion
Jan	1286	6%	1254	1108	39	3.50%
Feb	1329	9%	1144	1004	66	6.60%
March	1494	9%	1212	1037	74	7.10%
April	1246	13%	844	734	42	5.70%
May	1182	8%	843	741	33	4.50%
June	1676	11%	1145	1015	60	5.90%

# Online Sales - Norms

The screenshot shows a web interface for obtaining insurance quotes. At the top, there is a 'Results' section with a quote for 'Mr W Trump Male, Non Smoker, DOB 01/05/1988'. Below this, there are fields for 'Level Term Life Insurance', '23 Years', and 'Total Cover £ 100000', along with a 'Recalculate' button. A large modal window is overlaid on the page, titled 'We're getting your prices for you'. This modal contains a blue box with the following text: 'Last year almost 1.5 million new life insurance policies were taken out in the UK to protect families and mortgages. Get peace of mind for you & your family, get life insurance today. \*Swiss Re Term Health Watch 2014'. Below this, it states: 'On the next page you'll see your prices along with an indication of how the insurer may treat your application. The results will be ranked by likelihood of acceptance. Depending on your personal circumstances, you may also be offered 'Buy Now' options.' A green button labeled 'Show me my prices' is at the bottom of the modal. A red arrow points from the text 'Adding a Norms statement' to the highlighted blue box. Other text in the modal includes a testimonial: 'Very easy process, clearly showed the and helped choose the best cover' by Liz I.

Adding a Norms statement

# Improving Appointment Kept / Booked Rates



**Pain point:** aiming to reduce the no-show rate for protection appointments in branch

**Behavioural intervention:** increase the “salience” of the appointment (highly personalised, increasing the “commitment” to the appointment)

**Trial:** launched on 5<sup>th</sup> October

**Results:**

Booked-to-held rates increased from 58% to 64% - 9.5% relative improvement (significant at 85%)  
one Protection Consultant was off work for most of the trial period, so if we remove her data from the trial period, the "booked-to-kept" rate increases yet further to 67%, now a 15.5% improvement (statistically significant at 95%)

# Behavioral Economics – Case Studies

## Underwriting



# What Impacts Honesty / Accuracy?

- Traditional economic cost/benefit theory:

- What will I gain by lying?
- How likely is it I will get caught?
- What will happen if I get caught?

- Our response:

- Spell out the consequences of lying (punitive language)
- Explain how we can check the answers

- Behavioral Economics Theory:

- Applicants complete questions using their automatic brains
- Context and the wording of questions is important
- Applicants read between the lines to see what they 'should' say
- Applicants have limited attention and struggle with calculations and remembering things
- We all deceive ourselves about the truth
- Applicants are happy to use the 'fudge factor'

# Behavioral Economics – Case Studies

## Claims



## Honest Disclosure of Disability

- Focus on what claimant is able to do, vs. unable to do

5. Did you stop work because of your medical condition?

Yes  No

If No, please advise why you stopped work:

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32. Please provide details of any sports/pastimes you have that you have been unable to continue because of your medical condition?

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Which of the following activities do you participate in?

Swimming \_\_\_\_\_

Reading \_\_\_\_\_

Going to the movies \_\_\_\_\_

Other \_\_\_\_\_

Has your involvement in activities changed as a result of your medical condition?

# Encouraging Use of Certain Vendors

- It may be possible to increase the use of preferred vendors by:
- Setting them as the default provider

Yes  *In the event that I require physical therapy, and it is covered by the plan I have chosen, XYZ Medical Group will provide my care.*  
No

- Including a norms statement such as ‘Many people find that using the XYZ healthcare system ensures consistency of care.’

Yes  *In the event that I require physical therapy, and it is covered by the plan I have chosen, XYZ Medical Group will provide my care.*  
No

# Conclusion

- Behavioral economics focuses on the way people *actually* behave vs. how they *intend* to behave
- *Unconscious biases* can drive the way we behave
- If we incorporate behavioural economics into the way we interact with applicants and policyholders we may be able to improve a number of insurance-related behaviors including disclosure, sales, and retention
- The only way we can be certain if we have made an improvement through our behavioural economics intervention is to *make a single change and test it* against a baseline (test and learn)

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