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New Behavioral Finance Subgroup

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In looking at the title of this article, you might have several questions, such as:

- **Why discuss behavioral finance in an actuarial publication?**
- **Why is this subgroup falling under the Health Section?**
- **Why form such a subgroup?**
- **Why now?**

Why discuss behavioral finance in an actuarial publication? Why is this subgroup falling under the Health Section?

Health actuaries have a long history of using economic incentives to influence behavior. The rise of managed care marked a period of insurers overtly attempting to influence the behavior of both members and providers with benefit design, fee schedules (including capitation) and incentives. Over the years, actuaries have improved data collection techniques in order to use cost and utilization information for many types of services to induce members and providers to use the most appropriate services and to refrain from using services excessively. A good example includes our work in disease management and wellness programs. Through our work in designing, pricing, and assessing these programs, we have helped to incent people to change their behaviors and improve their health by reducing obesity and their related conditions, including diabetes.

The tools that have been available to actuaries have been basic (sometimes to the point of seeming like blunt instruments) and have not provided the most elegant solutions to influencing behaviors. One example of this was using primary care physicians (PCPs) as gatekeepers and using capitation as the reimbursement vehicle. This seemed like a good way to help curb overutilization of both PCPs and specialists. In addition, insurers hoped that physicians would be able to work more efficiently. The backlash against managed care showed how our members and providers felt about the application of blunt instruments. Another example is the use of prescription drug formularies. Again, this seemed like a good idea to not only save money but also to provide members with the most efficacious and cost-effective drugs. In this case, not only were members and providers upset, but the drug companies made their feelings known as well.

Health actuaries consider the behavioral effects of various plan and situational features when pricing products, including plan design parameters, fee schedules, network breadth, industry, geography, provider practice patterns, age, gender, employer subsidization, employer messaging and competing choices. While we seemed to head in the right direction, our results were not as gratifying as we would have liked. Behavioral effects are embedded in our work, but we do not include explicit factors to account for behavioral changes. In addition, actuaries need to collect data that we can use to isolate and quantify behavioral effects. Clearly, we can define the data elements that we would need, but can we get this information from our members and providers without having to run experiments with control groups?

A more recent tool with promise is wellness incentives. Insurers apply these incentives to both providers and members in a variety of settings. However, it seems that the jury is still out on the effectiveness of these programs.

Life and pension actuaries are also interested in influencing behavior, but not necessarily as commonly as health actuaries. For example, people do not try to over-utilize their life insurance benefit. However, I believe that actuaries in other practice areas would see value in adding behavioral finance methods to their work.

As actuaries, we approach risk as something to assess, analyze and manage, but we often overlook how people behave when confronted with risk. These days, we see that it is more and more important to quantify human behavior when designing and pricing products. In this context, we are talking about behaviors of group administrators, members, providers and even regulators/legislators.

Why Form Such a Subgroup? Why Now?

There are several reasons for forming this subgroup. First, this subgroup will provide a more focused forum to introduce behavioral finance concepts into the health practice area. Also, we want to leverage the work that was done by actuaries throughout the profession in this area. Several actuaries are using these concepts in their work on a day-to-day basis. This subgroup provides an easy way for these actuaries to connect and share ideas. Further, this subgroup provides a place for actuaries who want to learn more about behavioral finance to go for resources and help. Finally, as actuaries, we need to continually update our skills and differentiate ourselves as well as our profession.

Within the past decade, behavioral finance has become very visible. In 2002, the Nobel Prize in Economics was awarded for research in this field. Books, including *Thinking Fast, Thinking Slow* and *Nudge*, have introduced the general public to these concepts. In addition, the increasing prevalence of chronic illnesses associated with unhealthy behaviors has everyone considering solutions to slow or reverse this trend. Given this momentum, we see this subgroup as a great opportunity for actuaries to develop a more formal process to share insights throughout the profession.

Current Activities

The Behavioral Finance Subgroup is up and running already. There is a link that leads to a Web page devoted to the subgroup's activities on the Health Section's Web page *http://www.soa.org/professional-interests/health/hlth-behavior-finance-sub.aspx.* Our Web page provides a wealth of reading recommendations to get you started. A variety of topics interest health actuaries, such as game theory tied to provider negotiations, prospect theory, the value of intangible assets (such as health) versus tangible assets (such as money), and analysis techniques applied to this field.

Also, we host monthly conference calls, and you can join our listserv at *http://www.soa.org/News-and-Publications/Listservs/list-public-listservs.aspx.*

Alan Mills is working on a health care behavior research project and is slated to finish his work by the end of the year. We will sponsor events to cover this research soon after its release.

Even though this group is housed within the Health Section, we welcome new members from other sections who are interested in this exciting field.