Article from

NewsDirect

May 2018
Issue 76

Changing the Status Quo Bias: Applying Behavioral Science as a Win-Win for Insurers and Clients

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The age-old question of how to bridge the gulf that divides the insurance industry and prospective clients has been pored over since the years of the Amicable Society for a Perpetual Assurance Office. While the problem may seem like a perpetually moving target, the insights from Nobel Prize-winning behavioral economists like Daniel Kahneman and Richard Thaler pave the way to reimagining and optimizing the insurance value chain.

This concept is neatly captured by Ailen Okharedia, who in a prior edition (*NewsDirect*, May 2017) noted how behavioral economics, together with big data and digitization, can and should be leveraged to address the behavioral dilemmas that plague consumers[1], most notably that "*the benefits of holding the insurance are delayed, the probability of having a claim is hard to analyze, consumers do not get useful feedback on whether they are getting a good return on their insurance purchases, and the mapping from what they are buying to what they are getting can be ambiguous.*"[2]

In fact, it is by pairing behavioral economics with a shared-value ecosystem that not only leads to insurance becoming more tangible to the client, but—contrary to current structures—results in a product that rewards clients for living a longer life in better health, all on an ongoing basis. By creating a product that reveals its value from issuance through the duration of the policy, insurance becomes an engagement and health-incentive platform rather than a theoretical safety net.

Shared-value, the basis for this win-win proposition, emerged as a concept from a *Harvard Business Review* article by Professor Michael Porter and Mark Kramer, conceived as a framework for creating economic value while also addressing a societal need. Discovery, a South African insurer, pioneered the Vitality wellness program in 1997, growing it over the years to reach seven million clients in 15 countries across the world. The Vitality Shared-Value Insurance model is predicated on Discovery's core purpose of making people healthier and enhancing and protecting their lives. Importantly, the structure comprehensively addresses all the perceived behavioral pitfalls highlighted by Thaler and Sunstein, creating a lasting and meaningful connection between company and client.

THE BENEFIT OF HOLDING THE INSURANCE IS IMMEDIATE AND SUSTAINED THROUGHOUT THE POLICY DURATION

Policyholders enjoy dynamic pricing and have access to a suite of rewards. Examples include deep discounts on healthy grocery purchases (Vitality HealthyFood) and the latest in wearable health and productivity technology in the form of the Apple Watch (Vitality Active Rewards with Apple Watch).

Case Study 1: Vitality Active Rewards With Apple Watch

The benefit employs loss aversion, pre-commitment and financial incentives to nudge members toward increased levels of physical activity, thereby turning both the financing and the features of the device into drivers of behavioral change.

At a high level, Vitality's Active Rewards with Apple Watch benefit is structured to reduce the upfront cost of new technology such as the Apple Watch. A monthly physical activity goal structure allows clients to potentially reduce their monthly Apple Watch payment to zero. In addition to these macro incentives, Vitality has paired micro incentives in the form of Active Rewards where members are rewarded (e.g., with a Starbucks coffee) on a more regular basis for attaining weekly physical activity objectives, creating a positive feedback loop.

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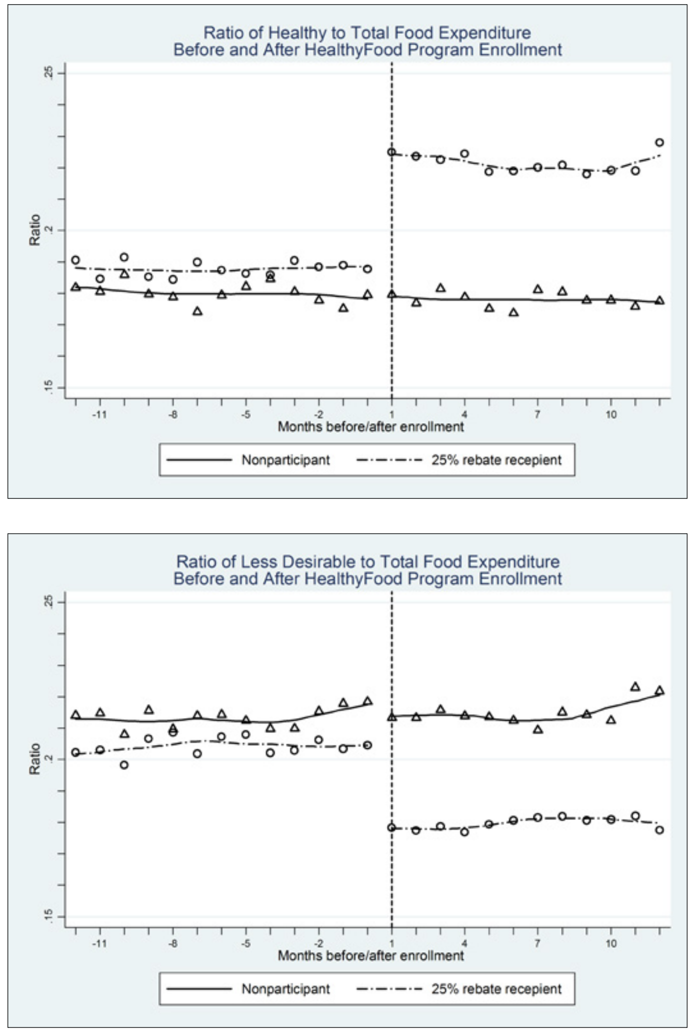
The behavioral improvements have been substantial with members recording a workout on the Vitality program 78.4 percent more often following the introduction of the benefit, increasing from approximately 11 to a little over 20 workouts[3] per month, on average. Importantly, these improvements were seen across risk profiles—individuals with low, medium and high BMI-risk increased their workout profile by 90.1 percent, 51.2 percent and 74 percent respectively.[4]

Figure 1
Illustration of Active Rewards With Apple Watch

Image used with permission.

Figure 2
Results From the RAND HealthyFood Study



While meaningfully engaging with the program to earn these rewards, members become healthier and build a repertoire of healthy habits that are sustained over time. All of this ensures that individuals have a real sense that their insurer is seeking to both reward and protect their longer and healthier lives.

Case Study 2: Vitality HeathyFood Program

The HealthyFood program reduces the cost barrier to healthy eating by providing a discount on selected HealthyFood items at partner grocery stores. Healthy items are clearly marked on supermarket shelves, relieving members of the cognitive load of deciding which foods are healthy. Vitality members also earn points for each dollar spent on healthy food. These points accumulate, together with points for exercise and other wellness activities, to move members up a tier status (Vitality status[5]) which in turn unlocks increasing discounts on travel, entertainment and retail shopping, further incentivizing individuals to opt for fresh produce over the candy aisle.

The results speak to the power of the nudges at play. In a study[6] of 300,000 Vitality members by the RAND Corporation, sponsored by grants[7] from the National Institutes of Health in the United States, a 25 percent rebate on healthy foods was associated with a 12 percent increase in spend on healthy foods and a 6 percent reduction in spend on foods that are high in sugar, salt and/or fat. In addition, the rebate was associated with an increase in fruit and vegetable consumption by 21 percent and a reduction in high sugar, processed meat and fast food by 29 percent, 15 percent and 17 percent respectively.

PROVIDE MEMBERS WITH AN INTUITIVE RISK METRIC AND A DEFINITIVE GUIDE AS TO HOW THEY CAN IMPROVE THEIR LIFE EXPECTANCY THROUGH HEALTHIER BEHAVIORS

Life expectancy and its statistical underpinnings are poorly understood at the best of times and so driving home the likelihood of an insurance claim is certainly difficult. Vitality seeks to address this through Vitality Age—a clinically-robust risk-adjusted age that not only gives a person a sense of their relative health and life expectancy, but is also embedded in a program where resources are provided to ensure that members can improve their Vitality Age over time.

CONSUMERS GET CONSTANT FEEDBACK ON THE VALUE THEY ARE EARNING THROUGH DYNAMIC PRICING AND REWARDS WITHIN THE PROGRAM

Typical insurance policies are structured with the end in mind and there is little cause for interaction between policy issuances and claims. Within the shared-value construct, members are incentivized to engage actively in the program and are rewarded for doing so on an ongoing basis.

While members view Vitality Status through a rewards lens, this measure is also a powerful, dynamic rating factor that provides real-time insights into a client's risk status at a point in time—critical data that would not be available to the insurer otherwise. Vitality's dynamic pricing approach takes advantage of this feature by using loss aversion to incentivize clients (through rewards and premium discounts) to maintain good health. In particular, Vitality clients with a life insurance policy receive an upfront discount which they can retain by sustained healthy behavior; the discount can be increased or slowly eroded depending on the client's Vitality Status in a given year.

MEMBERS CLEARLY UNDERSTAND THAT THEY ARE BUYING A PROGRAM THAT REWARDS THEM FOR HEALTHY BEHAVIORS WHILE PROVIDING THEM WITH LONGER-TERM INSURANCE PEACE OF MIND

Insurance buys policyholders security, but there is a substantial amount of cognitive dissonance and the safeguard seems as though it is for a theoretical construct in an altogether distant world. Instead, within the shared-value construct, the focus is on incentivizing and nudging individuals towards healthier behaviors. In doing so, insurance is not simply a protective mechanism against a catastrophic end state, but rather a bridge that provides support and guidance towards a protected, healthier, longer and well-rewarded life.

CONCLUSION

The Amicable Society for a Perpetual Assurance Office's motto in the 18th century was *prudens simplicitas* (prudent simplicity). Prudent, according to the Oxford English Dictionary, is defined as acting with or showing care and thought for the future. However, it is only in bridging the gap between the client's present and future state that the value of insurance comes to the fore. Behavioral science and shared-value insurance provide a simple yet immensely powerful mechanism with which to bridge the two temporal spaces to allow members to act with absolute prudence, even if they need to be nudged in the right direction.

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ENDNOTES

1 Okharedia, Ailen. "Insurance is Sold, not Bought—But Why? Some Lessons Learned From Nudge by Thaler and Sunstein." Society of Actuaries: Marketing and Distribution Section (Issue 74 May 2017).

2 Thaler, Richard H.,Sunstein, Cass R. *Nudge: Improving Decisions About Health, Wealth, And Happiness*. New Haven: Yale University Press, 2008.

3 Workouts are tiered at different levels, starting at recognizing physical activity over 5,000 steps (or the equivalent).

4 Results are based on United States data current as of Dec. 31, 2017.

5 Vitality typically has four statuses: Bronze, Silver, Gold, and Platinum

6 Sturm R. et al (2013), "Eating better for less: a national discount program for healthy food purchases in South Africa," *American Journal of Health Behavior*.

7 Support for this project came from the National Cancer Institute (Grant No. R21CA161287) and National Institute of Child Health & Human Development (Grant No. R21HD071568).