Insurance for the Underserved: Lessons About Human Behavior From the Field

By Katy Davis and Manasee Desai

Since the publication of *Nudge* almost 10 years ago[1], behavioral economics has become more than just a hot topic for the financial sector. Financial institutions have evolved from seeing behavioral economics as a marketing tool to increasingly building their own in-house behavioral science teams with cross-functional reach. Even city governments have caught the bug and started hosting behavioral design units to run iterative tests and improve public services.[2] For the private sector, behavioral economics has been embraced as a tool to inform product design and drive consumer engagement.

At ideas42, a non-profit organization that sits at the intersection of research, consulting, and design, one of our priorities is promoting better product design for individuals who are traditionally left out of the formal financial market.[3] Through this work, we get a hands-on glimpse into how underserved consumers are navigating their financial lives. This window into the decision-making process sheds significant light on why consumers may be rejecting products that, at first glance, seem beneficial.

Take the case of microinsurance. The economic value proposition offered by these products may seem clear from the viewpoint of industry experts who are familiar with the devastating impact that financial shocks can have on individuals who lack adequate coverage. And yet, insurance industry efforts to tap into underserved segments in developing countries with microinsurance products have had mixed results, at best.

Here, we take a closer look at the set of questions that underserved populations may be asking themselves when considering whether to purchase or maintain insurance policies. Using a behavioral lens to tackle this challenge can uncover new ways to concretize the value of insurance, build trust with insurers, and tailor product design to consumer needs. These improvements could help not just lower-income consumers, but all consumers. To help ground some of these common global themes in real world experiences, we share lessons from the field in South Africa, the Philippines, and elsewhere.

ASSESSING VALUE: DO I NEED INSURANCE COVERAGE?

When was the last time you thought about whether you had earthquake or flood insurance? Any chance it followed a major natural disaster? From an actuarial perspective, calculations of risk should remain relatively constant in the short term, unless an event reveals new information that has not yet been factored into those calculations. For most humans, however, assessments of risk are not informed by statistical analysis but by one's own perceptions of risk and a psychological phenomenon known as *availability bias*.[4] Humans tend to overestimate the probability of events that are more recent or more vivid in one's mind. Given the wide reach of television and social media, this means that consumers may perceive outsized risk for events that are highly discussed and top-of-mind, and underestimate the risk of events that are less "vivid."

Even if an event is likely, the need for insurance coverage may not be apparent if the associated costs are unclear. This calculation is particularly tough when you're estimating the potential cost of an unfamiliar or uncertain event. Though you might start saving money for your child's college education when they are born, you might not fully calculate out the potential costs on a granular level. Because those costs remain abstract rather than *concrete*, you may only fully understand the total cost once you find yourself paying the bills—and come up short.

Consider burial insurance: it's an event that is certain to happen for each of us (probability of 100 percent), yet the event itself often remains abstract in our thinking. When we asked township residents in South Africa to detail the potential costs of a funeral, 92 percent mentioned the cost of the casket, and 88 percent mentioned food, but only 16–20 percent mentioned items like tombstones, decorations, or obituary services, which together constitute a considerable portion of the total expense. Consumers may be woefully underestimating the potential cost of events like these and therefore undervaluing the benefits of insurance. And when events are emotionally unpleasant to think about, such as end-of-life planning, consumers are even more likely to avoid thinking concretely about the event. For this and other reasons, people can be **overconfident** about their ability to handle these financial obligations.

Behavioral Solutions: Make the Value of Insurance Concrete, not Abstract

In order for consumers to appreciate the value that insurance can offer, providers should prompt consumers to think more concretely about the uses and benefits of insurance. Studies have found that individuals are more likely to purchase

smaller insurance products that cover specific purposes than policies that provide more general coverage.[5] Concretizing the value of a policy can also be accomplished by pointing to specific categories of expenses associated with coverage, and comparing expected costs with available resources to expose gaps in preparedness. Visualizations could display these cost categories arranged in a "set" and indicate which categories are covered and which are not. In other domains like charitable giving, researchers have found that these types of visualizations, or so-called *pseudo-sets* (imagine an almost-complete but not-quite-complete pie graph), can be effective at prompting people to take action to "complete the set."[6]

Assessing Relationships: Do I Trust This Provider?

Who are the competitors for a typical insurance provider? Insurance providers would probably answer: other insurance providers in the industry. From a consumer's perspective, however, alternatives to insurance include a wider set of players to meet their financial needs—and insurance providers may or may not be on the list at all. Financial diaries collected in India, South Africa and Bangladesh found that individuals in low-income households are quite sophisticated in their financial management strategies and commonly use multiple formal and informal financial instruments to meet their needs.[7]

Around the world, different segments of society view financial service providers with different levels of trust. The 2017 global Edelman Trust Barometer study found that the financial services sector was the least trusted industry among all business sectors. Further, the report found a widening gap between the trust in financial services held by the top quartiles of society and the rest of the population.[8] In the developing world, trust in mainstream financial institutions may be even lower for individuals who have traditionally not participated in the formal economy, especially when there is a history of discrimination or exploitation by formal institutions like governments or government banks.

According to an old adage, trust is notoriously hard to gain, and easy to lose. In many countries, households report widely-circulated stories of insurance providers refusing to give pay-outs during moments of great need. Further, the behavioral concept of *negativity bias* suggests that individuals will be more likely to remember a story about someone not getting their claim filled than one in which a payout was received.

SUMMARY: BEHAVIORAL LESSONS FROM THE FIELD

1. **Assessing Value: Make the value of insurance concrete, not abstract.** Insurance uses and benefits must be vivid. Help people figure out how to cover all of their needs on a granular level.

2. **Assessing Relationships: Maximize perceived returns—and deliver predictably every single time.** Denying claims, even if justified in a given case, could be disastrous to your bottom line in communities where take-up is limited by past negative experiences and where word-of-mouth is strong.

3. **Delivering Value: Don't make the consumer fit the product, make the product fit the consumer.** Listen, understand your customer's context, and design for them.

We recently came face-to-face with this phenomenon at a financial education course hosted by an insurance company for customers in South Africa. Participants generally expressed enthusiasm and gratitude to the company hosting the course. However, after a participant shared a story about a friend's difficulty getting a claim paid out, the majority of the questions raised from that point onward were in reference to this story.

These vivid stories feed into a widespread perception that insurance companies may promise to cover costs in a particular event, but back out when it comes time to pay up as promised. In many communities, people are accustomed to relying on their neighbors and families rather than insurance products to deal with financial shocks. Paying hard-earned dollars into an insurance product could therefore appear to be a far riskier endeavor than just accumulating these dollars in a trusted vehicle and facing the event on your own or with your community's support.

Behavioral Solutions: Maximize Perceived Returns—and Deliver Predictably Every Single Time

Most critically, insurance providers must follow through on their promises. Customers must be clear on exactly which events will prompt a payout, and insurance companies must deliver in those events. If customers hold misperceptions about which circumstances will result in a payout, the onus is on the provider to correct this misperception—or risk losing customers. Along these lines, a small microinsurer in the Philippines has an internal policy of accepting almost all small claims, as the cost of fraud in these cases was found to be considerably lower than the cost of reputation-damaging stories about negative experiences. Event-driven claim filing could bypass the claim filing process entirely and reduce uncertainty for consumers.

In addition, investing in trust-building activities can establish faith that payouts will be available at a later time of need. Some Indian health insurance plans offer a free health screening at the start of every policy to reinforce their commitment to delivering value for customers. These trust-building activities need not just be financial rewards, either. Providing customers with tangible evidence of their policy being active, like account balance reports, assistance from customer service representatives, and physical certificates can go a long way towards providing helpful reassurance that the provider is committed to serving the customer's best interests.

DELIVERING VALUE: AM I LIKELY TO LOSE THIS COVERAGE?

Perceptions of value aren't the only reason that consumers may choose not to take up products or services. Often, underbanked populations opt not to take-up financial products because of a misalignment between the irregularity of their income and the need to submit regular payments.[9] Though there are many actuarial (and behavioral) benefits to maintaining a fixed, predictable payment schedule, there is often misalignment with the actual cash flows that households experience. Volatility in income and expenses means that making a regular monthly payment creates undue pressure on a household's financial stability, with the risk of losing a policy altogether. In communities where use of insurance products is not yet the norm, stories of this nature can have a particularly strong effect on undermining trust.

Behavioral Solutions: Don't Make the Consumer fit the Product, Make the Product fit the Consumer.

Product design must reflect the actual needs and context of the consumer. Experimental studies have shown that increasing the flexibility of repayment options for microfinance borrowers with irregular income can increase the amount of loans repaid and reduce the psychological stress associated with making regular payments.[10,11] Similarly, increasing flexibility around the size and frequency of premium payments and payment dates to match actual cash flow cycles could help insurers better capture lower income markets while reducing risk of non-payment. If insurance providers genuinely want to capture new consumer segments, they must be willing to shape product design and delivery around those consumers' needs.

TESTING POTENTIAL SOLUTIONS

Designing financial products to fit consumer needs can require drastically rethinking the structure and delivery of those products. While behavioral science offers new ways to do this, the hardest part is understanding which design solutions will be most effective in a given context. Highlighting instructive failures can be just as critical as sharing success stories. In the upcoming year, we'll be putting many of these behavioral principles into practice in our work with insurers across Africa and Asia, testing whether these solutions have the impact we expect, and sharing results with the field. In the meantime, there is a growing number of resources like the Behavioral Scientist (behavioralscientist.org) and the Behavioral Evidence Hub (Bhub.org) that enable researchers to share evidence about successes AND failures in behavioral design. ■

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ENDNOTES

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