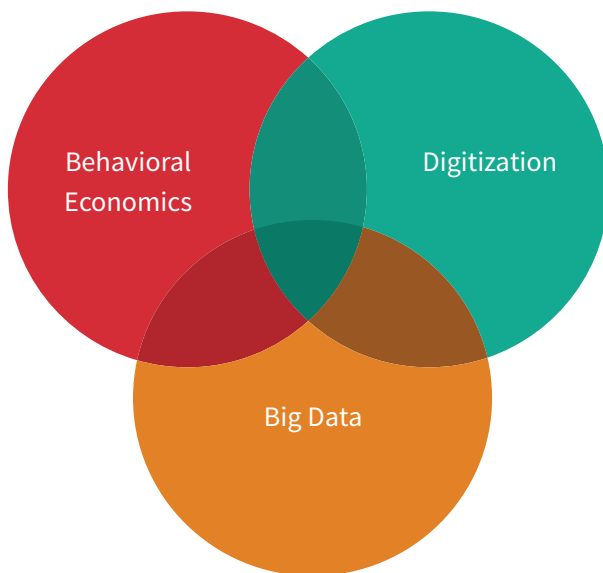


# Behavioral Economics, Digitization and Big Data: Enablers for Disrupting the Insurance Industry

By Dr. Eugene Wessels

In our May 2017 issue we highlighted the underlying factors that make the “Insurance is sold, not bought” paradigm a reality. We presented the opportunities that behavioral economics, digitization and big data have for transforming how insurance companies engage with their customers by making the paradigm work for them. We also showcase insurers that have successfully engaged these tools to positively impact their industry.

Figure 1  
Enablers for Disrupting the Insurance Industry



In this article, we examine how King Price Insurance has developed these tools to become one of the fastest growing non-life insurance companies in South Africa.

## KEY LEARNING FROM DAYCARE

One of the key learnings from behavioral economics is that people tend to discount the future at a high rate of interest.

Put another way, we have a general bias toward immediate gratification over future satisfaction. There’s the classic example of kids in daycare being offered the option of one marshmallow now or two in an hour, called Stanford marshmallow experiment (W. Mischel and E. Ebbesen in 1960), which highlights delayed gratification; about one-third eat the marshmallow immediately, one-third tried delay but could resist and one-third were successful in resisting and got the second marshmallow. Playing on instant gratification is an opportunity to enter the market with a unique offering and developed its entire business model on the realization that an incentive today is worth more than one that’s provided in a year’s time.

## THE APPRECIATION OF DEPRECIATION

The innovation was as follows: Car insurance premiums that decrease monthly. Your car loses value the moment you take ownership of it and continues to depreciate in value every month after that. So, why keep paying the same monthly premium to insure something that’s worth less? The King Price model decreases car premiums monthly in line with their depreciating values, so your car is always insured for what it’s worth. While other insurers may review their premiums and provide no-claim bonuses annually (or less frequently) behavioral economics tells us that more frequent, although smaller, premium decreases are more effective for attracting and retaining customers.

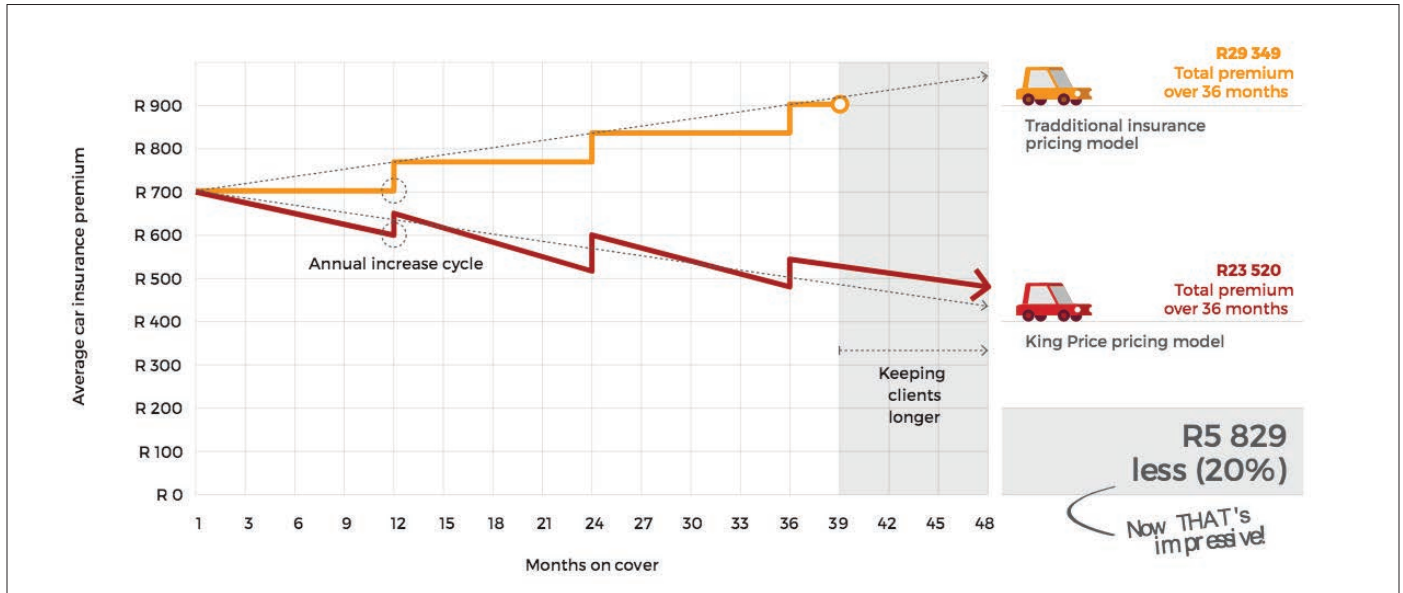
This decreasing premium model essentially forfeits revenue that competitors would pocket, thereby placing increasing pressure on profitability in what’s already a highly competitive industry. For this reason, big data and analytics capability are critical to enable finger-on-pulse monitoring of key business performance measurements.

## REAL-TIME DASHBOARDS

With its business model that intentionally forfeits revenue, the only way for the insurer to stay profitable in its competitive market is to target profitable (low risk) customers. The development of a mobile app-enabled dashboard that provides real-time (or near real-time) key performance indicators to managers and other stakeholders was critical. The predictive analytics models that drive the dashboard push relevant, timely information to these decision makers, enabling them to identify and target profitable customers as well as to tweak existing digital marketing campaigns to generate more leads as examples. Thus, managers move from a perception-based decision-making strategy that’s flawed with its own biases and blunders, to a data-driven decision-making strategy.

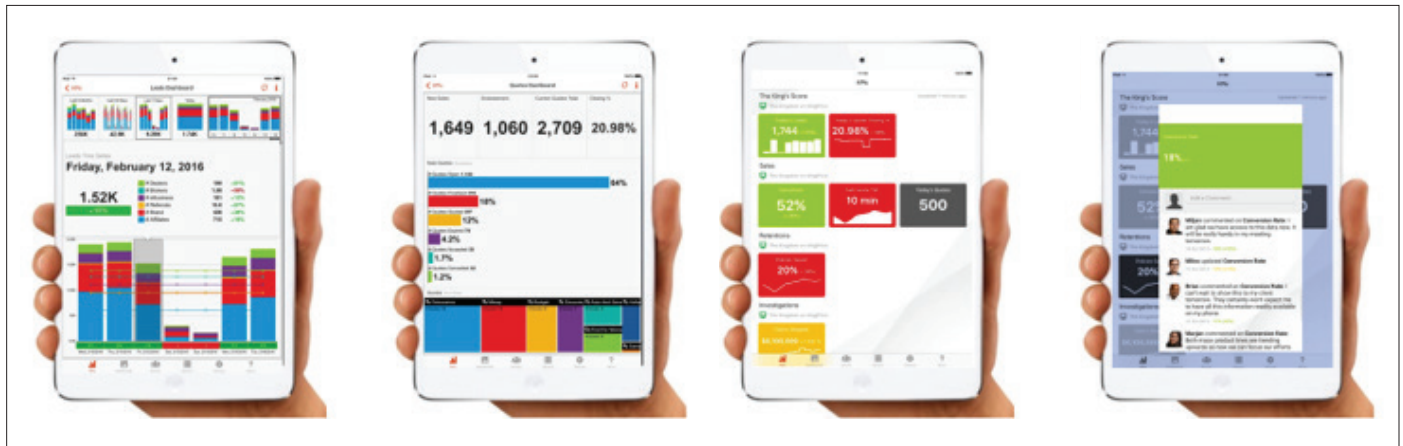
These dashboard analytics aren’t restricted to only managers. Individual analytics are made available agents which allows all

Figure 2  
King Price Pricing Model vs Traditional Insurance Pricing Model



Source: <https://www.kingprice.co.za/about/cheap-car-insurance>

Figure 3  
King Price Management Dashboard



agents to have a view of their performance and how they compare to other agents.

The real lessons here are that, by providing accurate, role-determined information to specific people, the company has created a company-wide culture of delivery. This ensures that it's not just those in management roles who feel they have a

stake in the success of the organization, but all the employees from the CEO down. ■



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