

2016 SOA
**Health
Meeting**

June 15-17, 2016
Philadelphia, PA



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

Moderator:

David L. Snell, ASA, MAAA

Presenter:

Laural Warren

2016 SOA Health Meeting

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

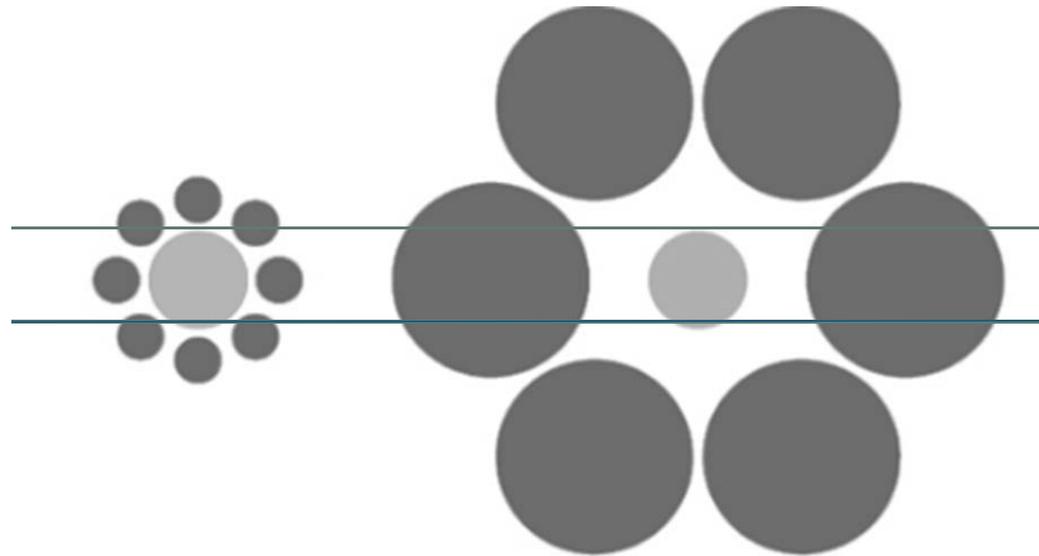


Behavioral Economics – Making Improvements in Health Insurance



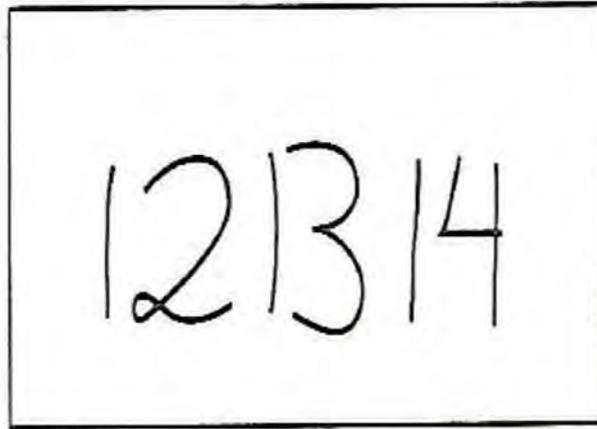
What is Behavioral Economics?

- 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

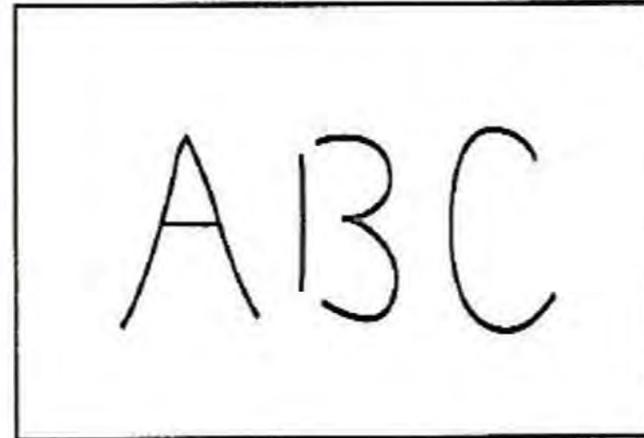


What is Behavioral Economics?

- 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

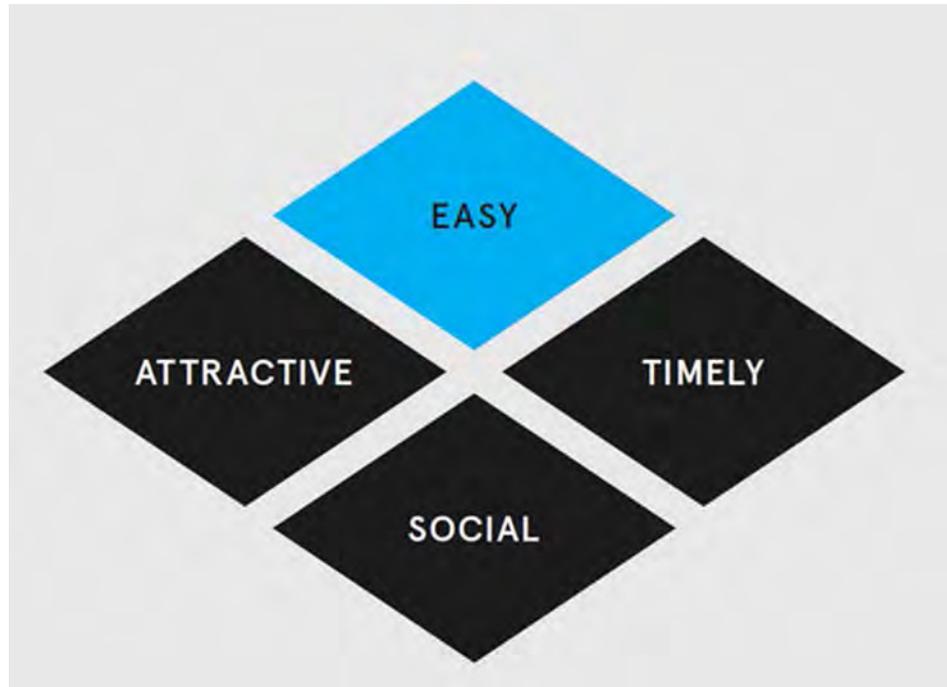
C **Commitment:** We look to be consistent with ourselves and our public promises

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

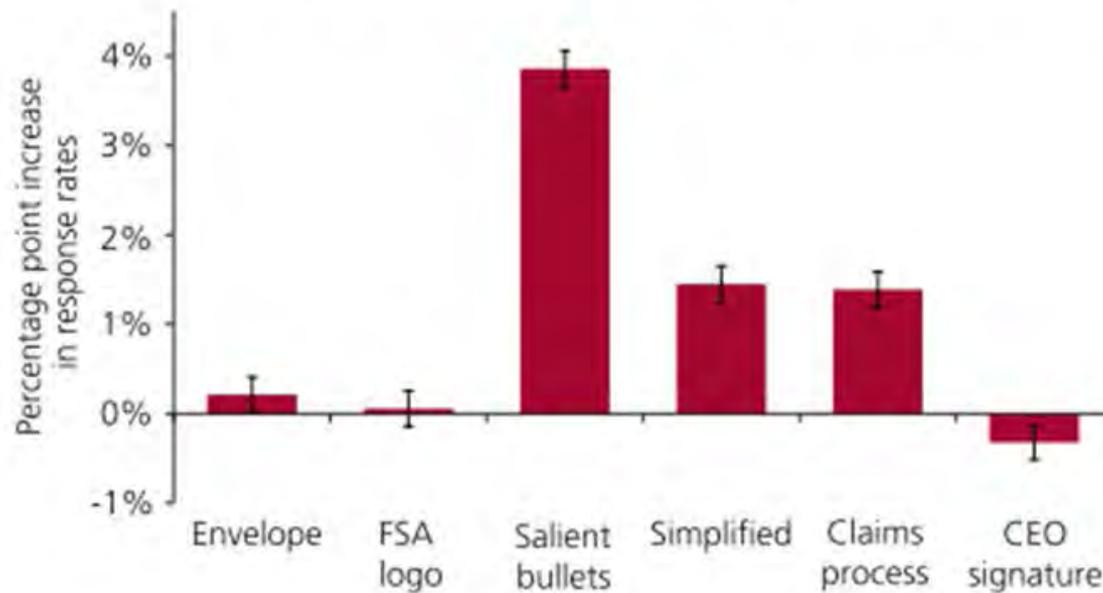


Dolan, et al., 2010

Behavioral Economics - Examples

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

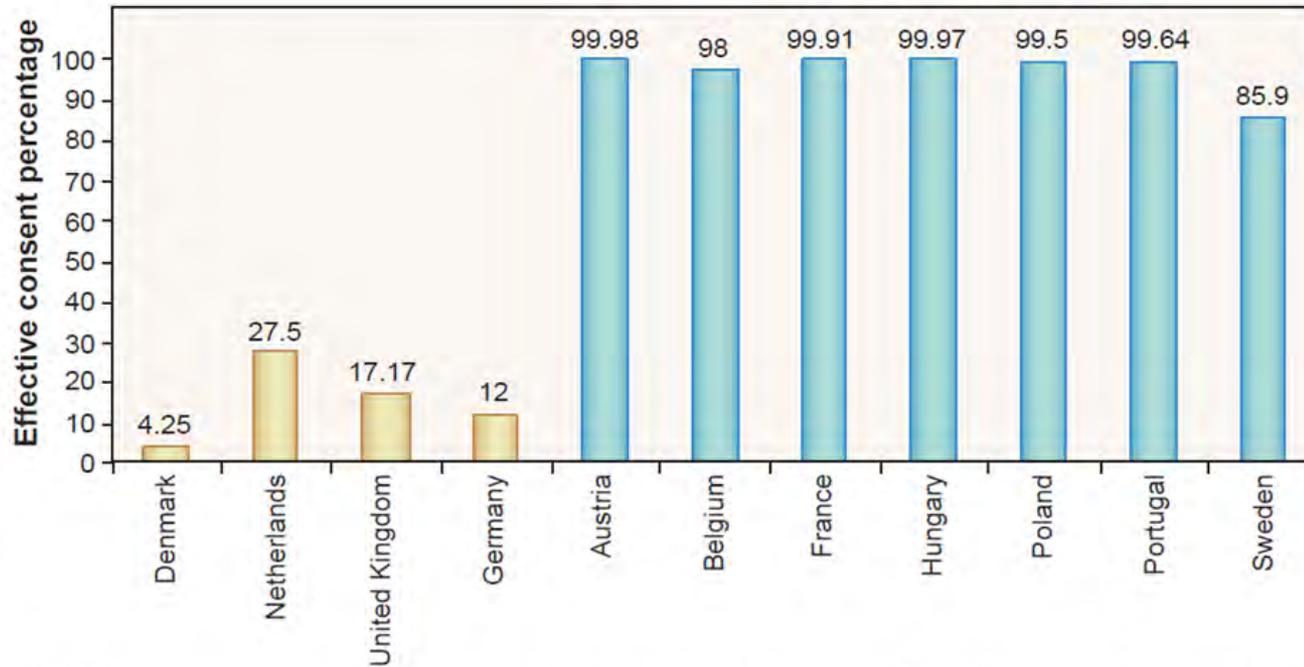
Chart 1: Effect of treatments relative to control, no interaction effects



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 an online insurance quote. At the top, there's 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 with the heading 'We're getting your prices for you'. Inside this modal, there's a sub-heading 'We're sorting the policies you're looking at' and a paragraph: 'On the next page, you'll see your results. The insurer will treat your application. Depending on your circumstances, you may be able to buy cover immediately or you may need to wait for a decision on your application.' Below this is a testimonial: 'By clicking 'Show me my prices' your prices will continue to load in the results page.' and a quote: 'Very easy process, clearly showed the options and helped choose the best cover' with a 5-star rating and the name 'Liz'. A red arrow points from the text 'Adding a Norms statement' to a highlighted blue box containing 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.' Below this is a citation: '*Swiss Re Term Health Watch 2014'. Further down, another paragraph reads: '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.' At the bottom of the modal is a green button that says 'Show me my prices'.

Results
Edit quote Quote for: Mr W Trump Male, Non Smoker, DOB 01/05/1988

Change your quote Level Term Life Insurance 23 Years Total Cover £ 100000 Recalculate

We're getting your prices for you

We're sorting the policies you're looking at

On the next page, you'll see your results. The insurer will treat your application. Depending on your circumstances, you may be able to buy cover immediately or you may need to wait for a decision on your application.

By clicking 'Show me my prices' your prices will continue to load in the results page.

"Very easy process, clearly showed the options and helped choose the best cover"
★★★★★ Liz I

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.

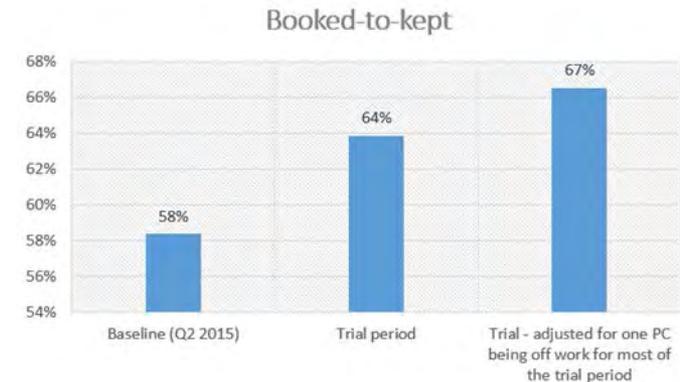
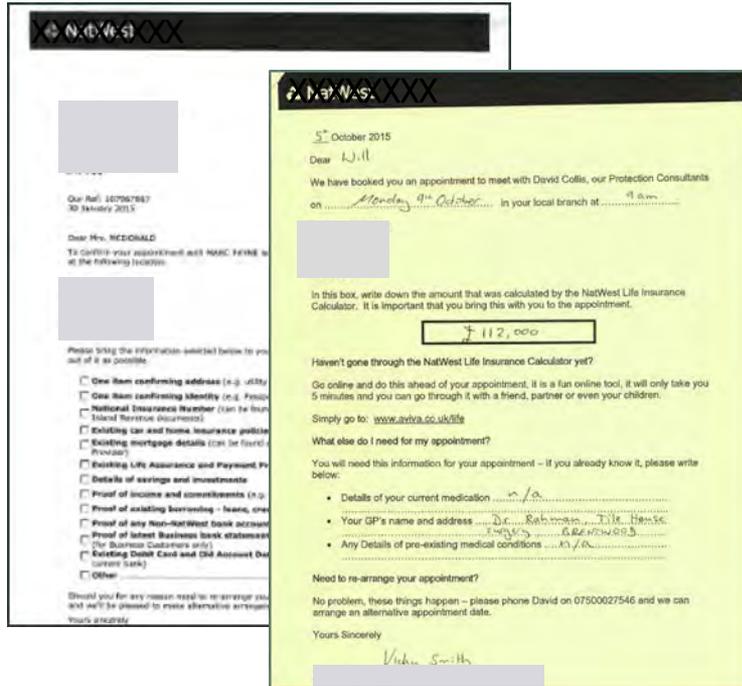
*Swiss Re Term Health Watch 2014

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.

Show me my prices

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 5th 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:

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

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)

Legal Notice

©2016 Swiss Re. All rights reserved. You are not permitted to create any modifications or derivative works of this presentation or to use it for commercial or other public purposes without the prior written permission of Swiss Re.

The information and opinions contained in the presentation are provided as at the date of the presentation and are subject to change without notice. Although the information used was taken from reliable sources, Swiss Re does not accept any responsibility for the accuracy or comprehensiveness of the details given. All liability for the accuracy and completeness thereof or for any damage or loss resulting from the use of the information contained in this presentation is expressly excluded. Under no circumstances shall Swiss Re or its Group companies be liable for any financial or consequential loss relating to this presentation.