Behavioral Economics and Life Insurance Application Innovation Workshop

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Introduction to Behavioral Science

Behavioral Science

DEFINITION

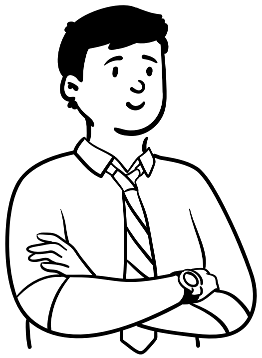
Strives to explain how our decision-making can be affected by psychological, cognitive, emotional, cultural, and societal factors. Combines insights from economics, psychology, and other fields.

APPLICATIONS

Can be applied at all stages of the insurance journey to improve experiences, increase disclosure, and smooth the process for everyone involved.

PRINCIPLES

Application to Underwriting Forms



Whose perspective do we have in mind when designing the form?

Underwriter

- Needs specific information to properly assess application
- Likes information organised by ease of retrieval
- Often dictates design of application

Applicant

- Has limited cognitive capacity, memory, time, willpower
- Wants to be honest, but needs help from an easy application process
- Often confused and frustrated by design of application

Behavioral Science Research Study

Introduction

The Idea:

- Test the impact of behaviorally-redesigned UW questions on disclosures.

The Experiment:

- Present participants with either a traditional or a behaviorally-redesigned insurance application form. Measure and compare their disclosure rates.

The Big Question:

- Will behaviorally-redesigned UW questions increase disclosures?

Design of the Groups

Five Groups – 4200 Total Participants

Control Questionnaire	Questionnaire A	Questionnaire B	Questionnaire B + Honesty Pledge at Start	Questionnaire B + Honesty Pledge at End
• 1050 participants • Traditional UW questions • No honesty pledge	• 1050 participants • Behaviorally-redesigned UW questions – Version A • No honesty pledge	• 1052 participants • Behaviorally-redesigned UW questions – Version B • No honesty pledge	• 526 participants • Behaviorally-redesigned UW questions – Version B • Behaviorally-designed honesty pledge – Beginning of application	• 525 participants • Behaviorally-redesigned UW questions – Version B • Behaviorally-designed honesty pledge – End of application

Questions Explored

- Height/Weight
- Weight Change
- Mental Health
- Medical Conditions
- Alcohol
- Tobacco
- Substance Use Support

Techniques Tested

Ask One Thing at a Time

Separate lists of conditions/experiences

IMPROVED DISCLOSURE ON:

Social Norms

Assume the behavior exists and use anchoring

IMPROVED DISCLOSURE ON:

Methodological Bias

Add relevant options and use reflexive questions

IMPROVED DISCLOSURE ON:

Ask Again

Re-ask about important medical conditions

IMPROVED DISCLOSURE ON:

Experiences

Ask about medical experiences

IMPROVED DISCLOSURE ON:

Framing Honesty

Include an honesty pledge at the beginning of the application

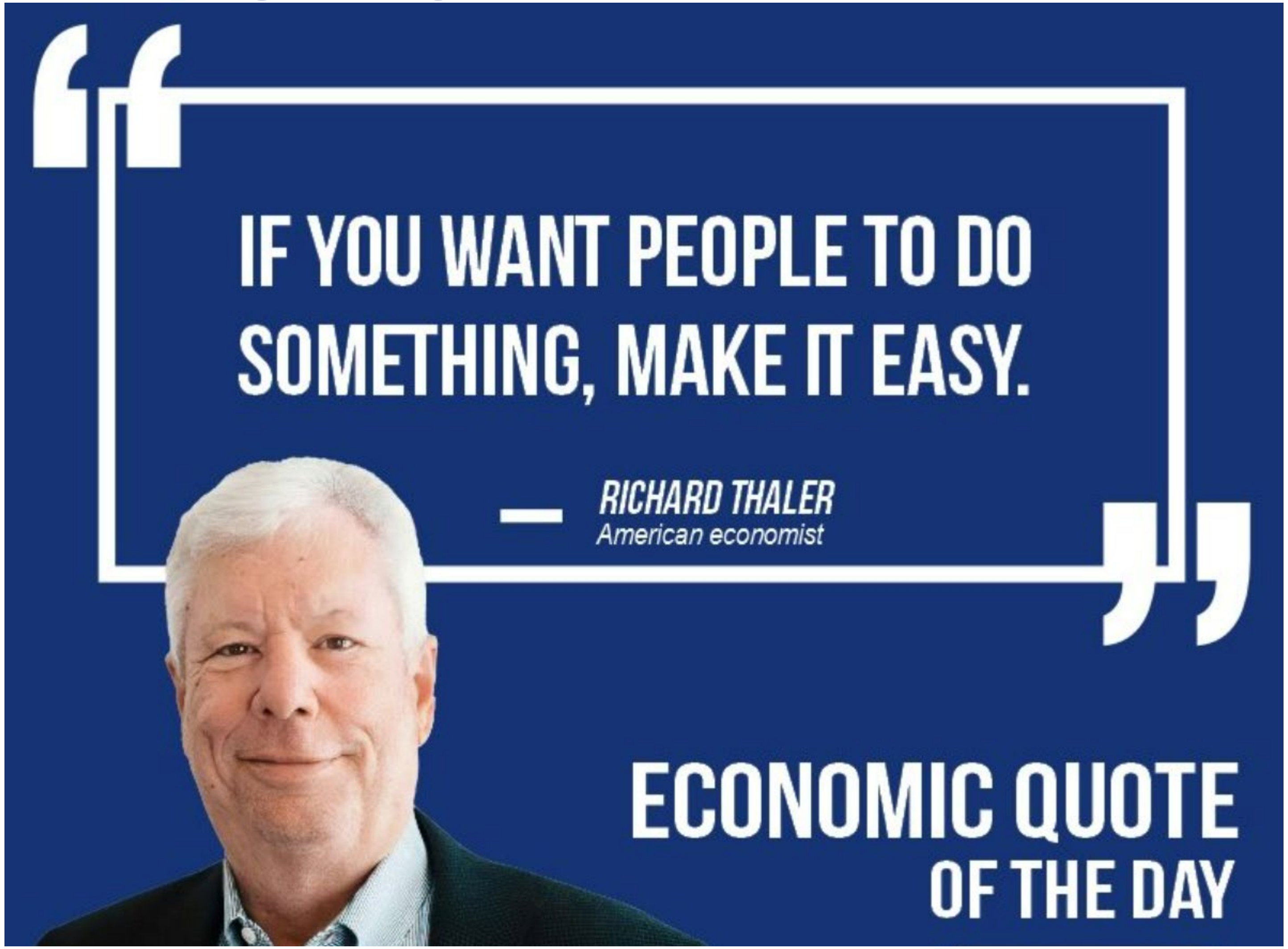
IMPROVED DISCLOSURE ON:

Behavioral Science at Bestow

Facilitating Behavioral Economics with Technology

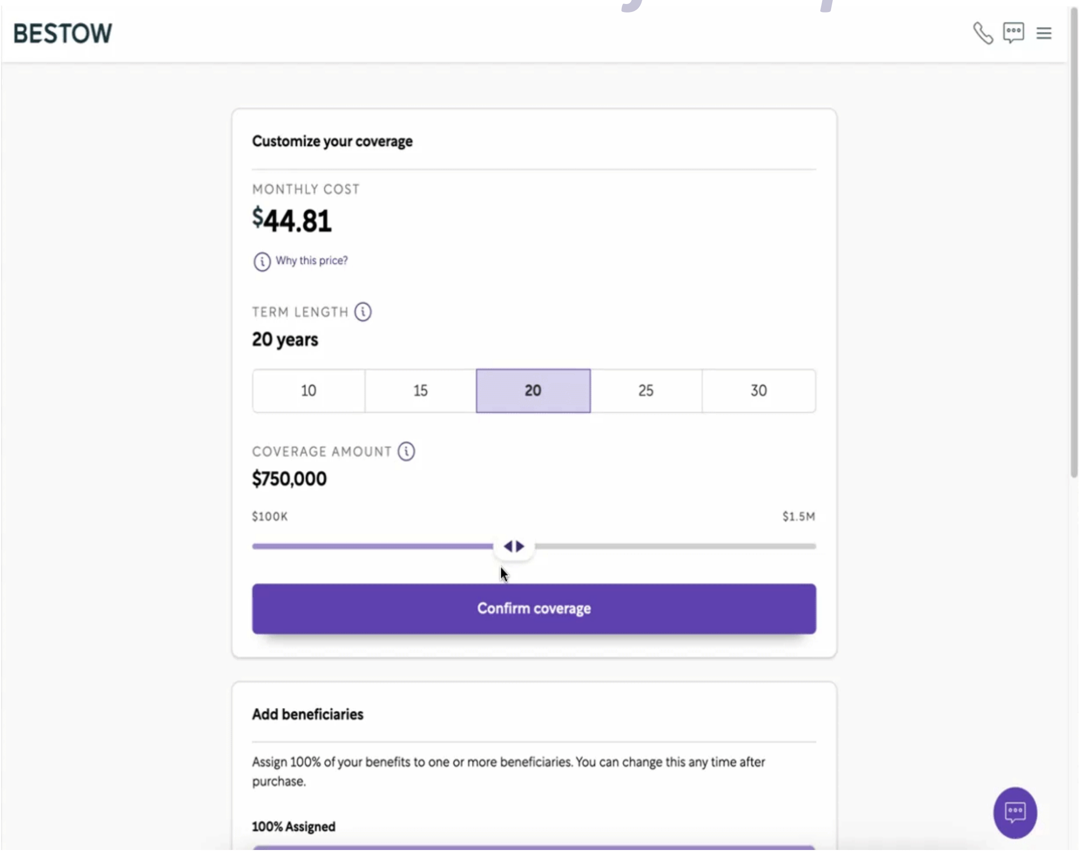
BESTOW

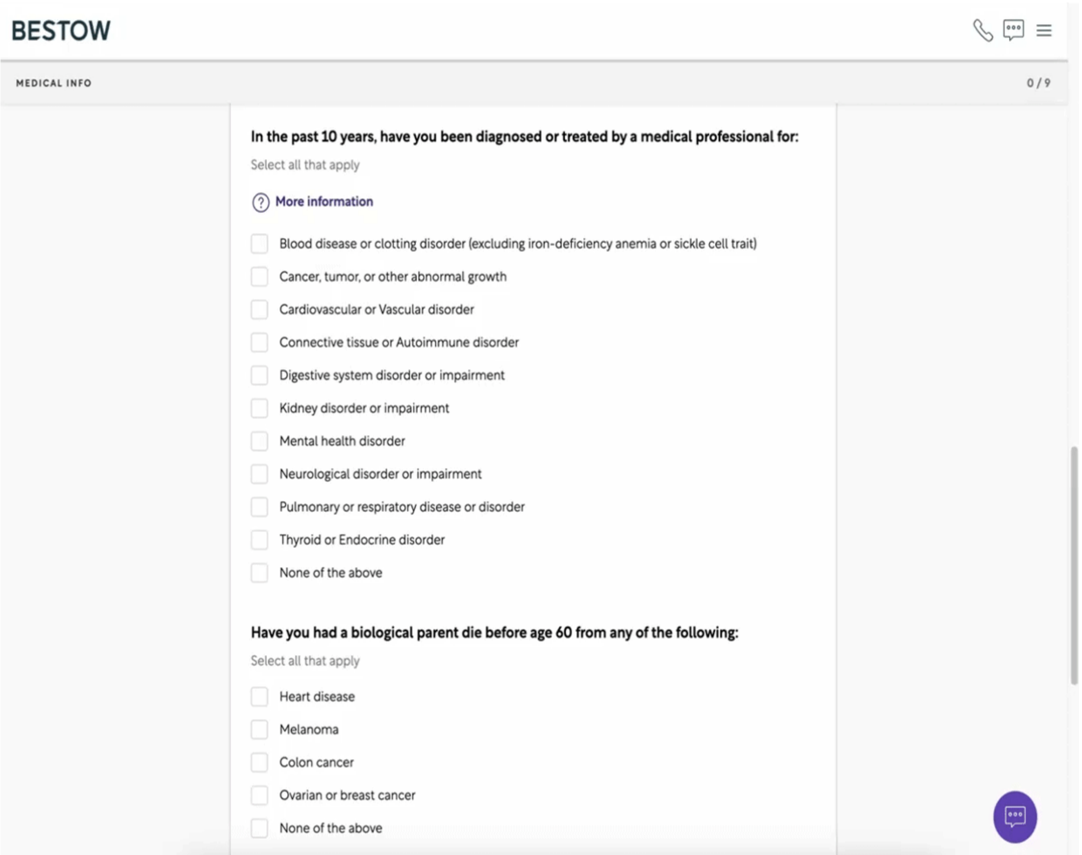
Make hard things easier


IF YOU WANT PEOPLE TO DO SOMETHING, MAKE IT EASY.
— RICHARD THALER
American economist
ECONOMIC QUOTE
OF THE DAY

Choice architecture

Designing the different ways choices are presented





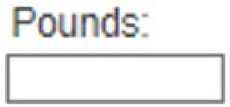
Testing, testing, testing!
Theory versus practice

A/B testing in production

- by state
- by question
- by answer method (slider v self-disclosed)

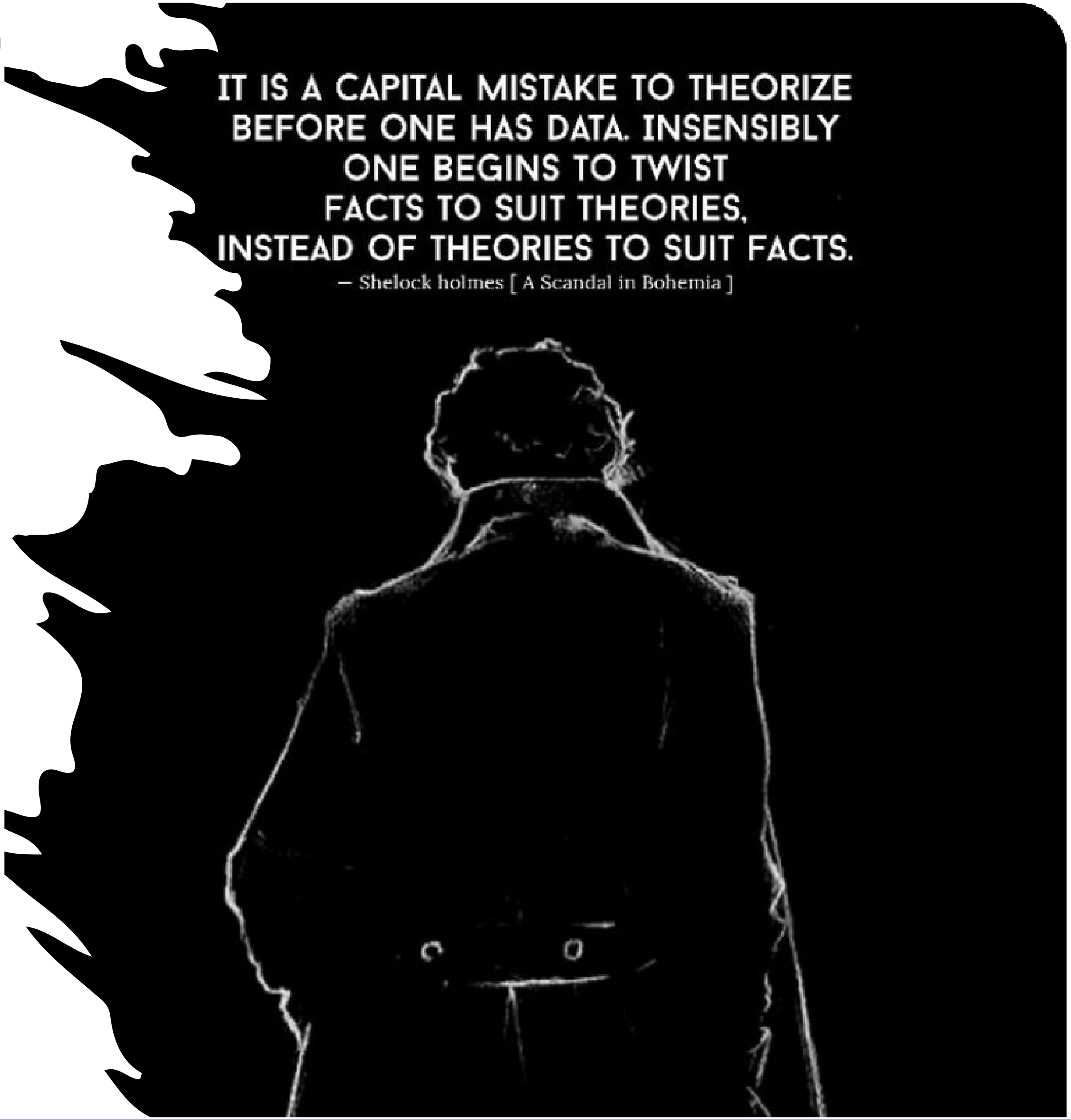
Example: Height & Weight

V



But don’t only measure disclosure….

What about: application submits, close rates, lapse rates, slippage, mortality?



More disclosure isn't necessarily better

- P = Profitability
- R = Revenue (from premiums of bound policies)
- C = Costs (claims paid + operational costs)
- D = Disclosure level (proportion of truthful and complete responses, $0 \leq D \leq 1$)
- A = Application submissions
- B = Bound policies (approved and issued, depends on D)
- L = Policy lapse rate
- M = Ultimate mortality rate (impacted by D)

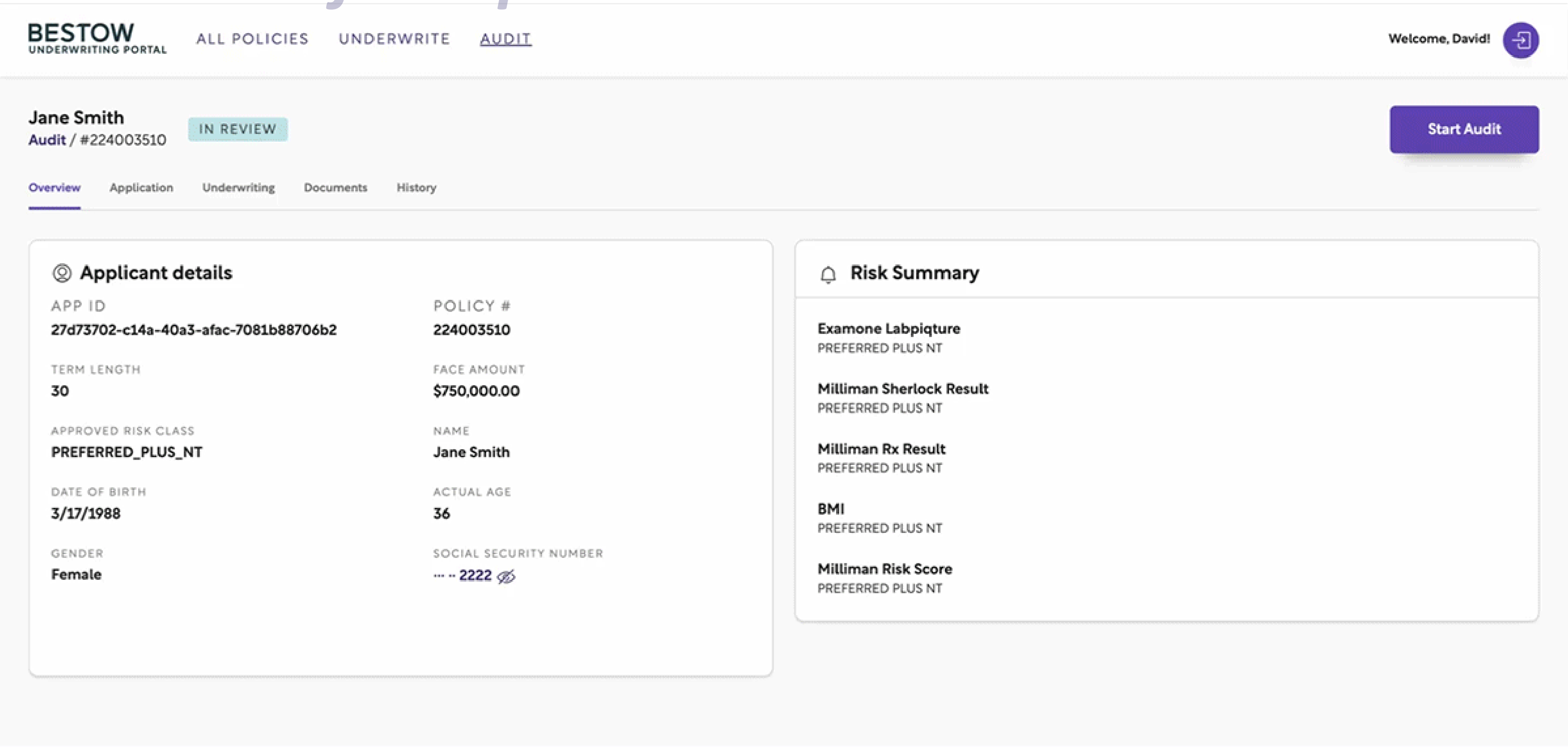
Formula:

$$P = \big(R \times B(D) \times (1 - L(D))\big) - \big(C \times M(D)\big)$$

Additional disclosure might be:

- inaccurate
- have minimal impact to mortality
- be outweighed by decreased bound applications, higher lapse rates.

Monitoring in Post Issue Audit



Decision Making Under Risk: Context, rank and distribution

Decision by Sampling

- People make decisions by mentally comparing the value of an option to a sample of similar values stored in memory.

- These samples are drawn from two sources:
  1. Personal experience (e.g., past purchases or prices seen).
  2. Contextual information (e.g., options presented at the time of decision).

- The rank position of the option within this sample determines its subjective value:
  1. Higher-ranked (better) options feel like gains.
  2. Lower-ranked (worse) options feel like losses.

"Decision by Sampling" by Neil Stewart, Nick Chater, and Gordon D. A. Brown, published in Cognitive Psychology, 2006

Experiment

Does $15 for a Gin and Tonic feel like a good deal, an expensive deal, or a fair price?

Menu 1
Range from: $10-15

- Manhattan $13
- Old fashioned $10
- Negroni $12
- Gin and tonic $15
- Martini $17

Menu 2
Range from $15-25

- Manhattan $19
- Old fashioned $17
- Negroni $20
- Gin and tonic $15
- Martini $22

Results

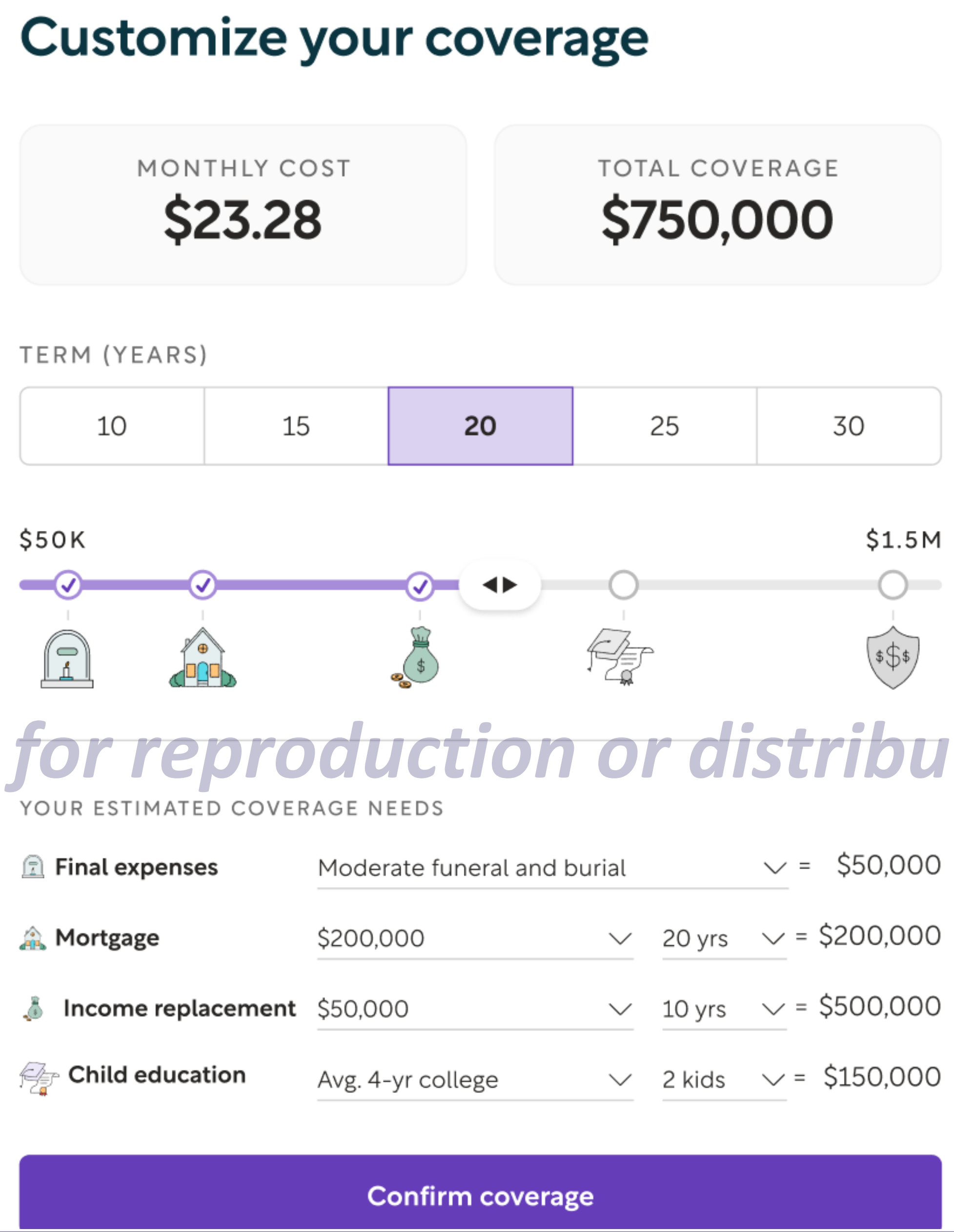
			Good	%				
			Bad	%				
			Fair	%				
Old fashioned	Negroni	Manhattan	Gin and tonic		Martini			
$10	$12	$13	$15		$17			
			Gin and tonic		Old fashioned	Manhattan	Negroni	Martini
			$15		$17	$19	$20	$22
			Good	%				
			Bad	%				
			Fair	%				

Ranked position within a sample matters more to subjective value than the absolute price

Framing Benefits and Costs Symmetrically: Display equivalent coverage benefits for monthly premiums to prevent an overemphasis on the perceived "loss" of paying a premium.

Highlighting Gains Over Losses: Emphasize the security and peace of mind gained from coverage rather than the cost of the premium.

Using Contextual Markers: Include scenarios or markers that make the potential benefits of higher premiums more salient, encouraging decisions that prioritize long-term gains.



Activity:
Applying Behavioral Science Principles to Insurance Applications

Now It's Your Turn!

Instructions

Your Task:
Work with your group to analyze and improve your given sample application section

Time Limit:
10 minutes

Questions to Consider:

- What issues are there from an applicant perspective?
  - Confusing language?
  - Social stigmas?
- Which Behavioral Science techniques could be used to improve your section?

Ask One Thing at a Time	• Separate lists of conditions/experiences
Social Norms	• Assume the behavior exists and use anchoring
Methodological Bias	• Add relevant options and use reflexive questions
Ask Again	• Re-ask about important medical conditions
Experiences	• Ask about medical experiences
Framing Honesty	• Include an honesty pledge at the beginning of the application

Report out by teams

Your Task:
Share your question and redesign with the larger group

Time Limit:
3 minutes each group

Questions to Consider:

- ➢ Which techniques did you use?
- ➢ Which Behavioral Science techniques could be used to improve your section?

Ask One Thing at a Time	• Separate lists of conditions/experiences
Social Norms	• Assume the behavior exists and use anchoring
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Questions & Wrap Up