



Invisible influence in insurance purchase decisions

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Alex Leung

Presenter

Alex Leung FSA

alex.leung@onedegree.hk



- Co-founder at OneDegree, an InsurTech company with presence across Asia and a virtual insurer in Hong Kong
- Vice-chair of the International Health Actuarial Association Health Section
- Member of the American Academy of Actuaries Health Practice International Committee

What is behavioral economics?
(行為經濟學)

System 1

Fast Thinking

How people really behave

- Automatic
- Intuitive
- Unconscious
- **Irrational (非理性的)**

Source: Kahneman's Thinking Fast & Slow

System 2

Slow Thinking

How we've viewed people

- Controlled
- Analytical
- Reason
- **Rational (理性的)**

Texting and driving





On food alone,
we make > 200 decisions a day

Source: Wansink, B. & Sobal, J. (2007). Mindless eating. The 200 daily food decisions we overlook.

Risk
Complex Trade-offs
Boring Uncertain Fear
Insurance customer journey
is a **complicated**
decision-making process

Value Difficult Long
Price Emotional Benefits

Great customer journey makes the product more memorable, and increases the likelihood of successful adoption

Behavioral economics
can have profound impact on
insurance purchase
in digital channels

Our minds use shortcuts

There is an intention-action gap

Our environment affects our behavior

Behavioral economics principles

Social norms
(從眾效應)

In research: hotel towel

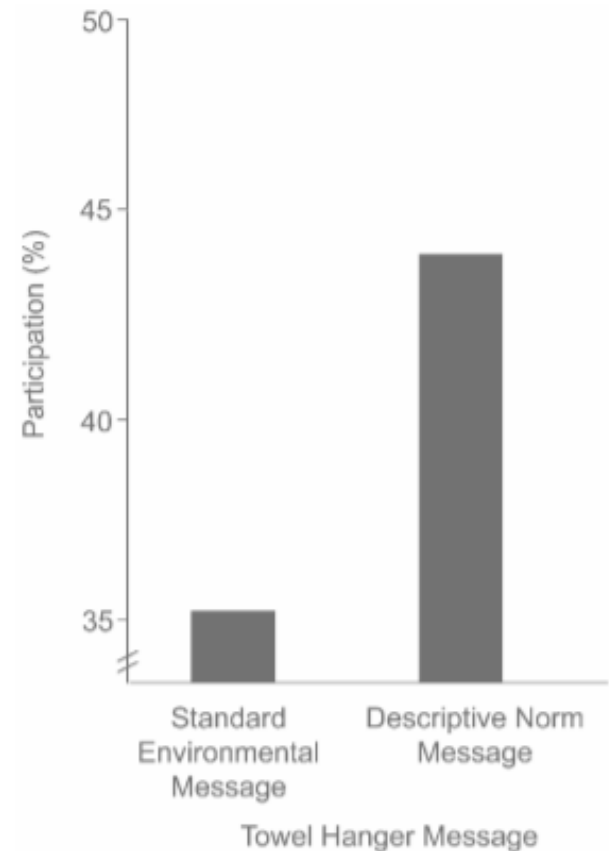
Standard environmental message:

“Help save the environment by reusing your towels during your stay”

vs

Descriptive social norm message:

“Join your fellow guests in saving the environment. **The majority of guests in this room reuse their towels**”



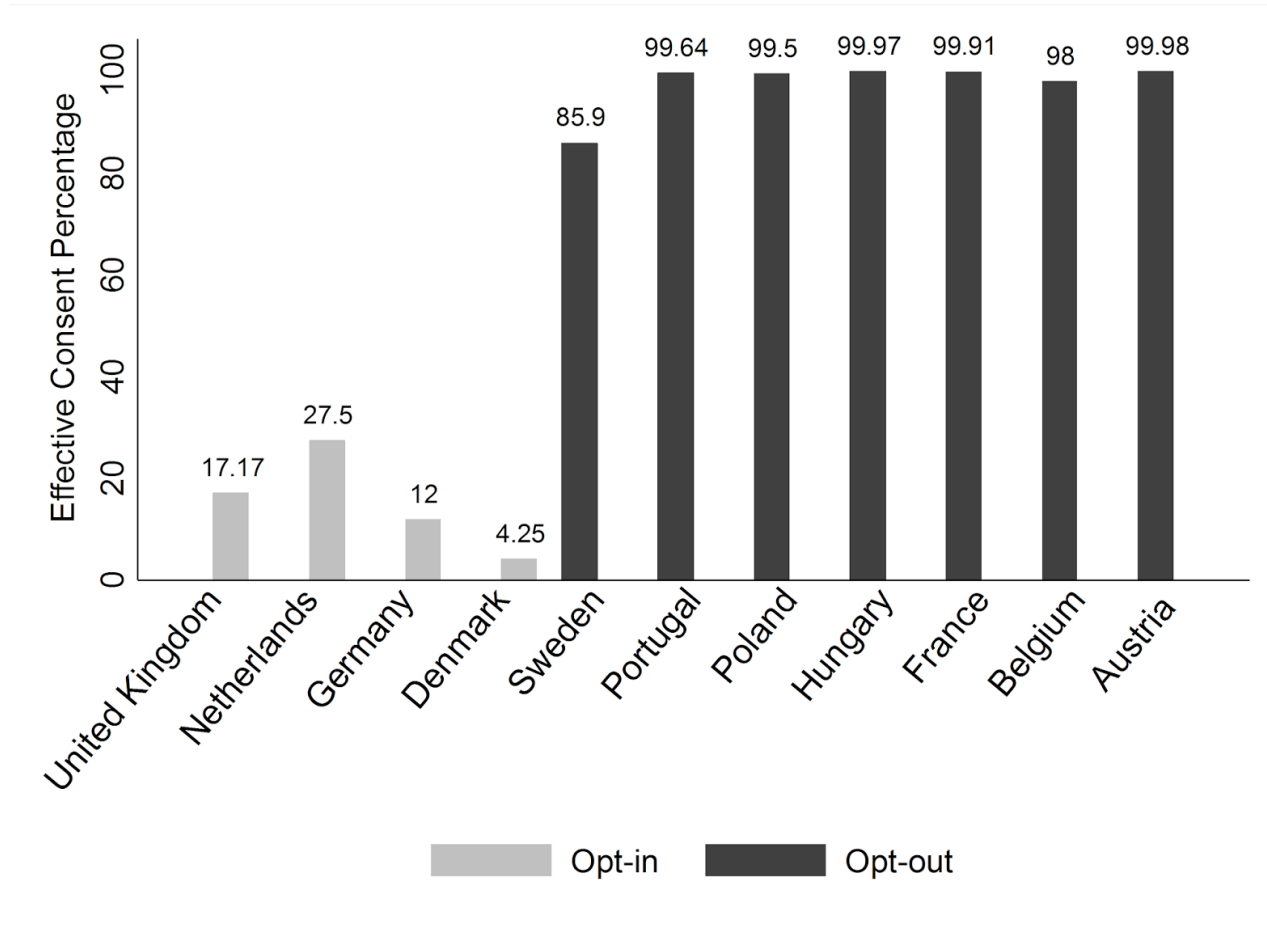
Source: A Room with a Viewpoint: Using Social Norms to Motivate Environmental Conservation in Hotels. Goldstein, Cialdini and Griskeviciu.

Nudging with social norms

- Customers who bought this also bought
- Endorsed by [authorities, brand name, celebrities]
- 1,000 people liked this
- Testimonials, 5 out of 5 stars
- Recommended by our staff

Defaults (預設值效應)

In research: organ donation



Source: Johnson & Goldstein 2004

Nudging with defaults

- Default opt-in marketing consent (note GDPR)
- Preset defaults in product options
- Prefilled customer information
- Preselected response to questions
- Default app settings

Status quo
(維持現狀偏見)

Fighting status quo

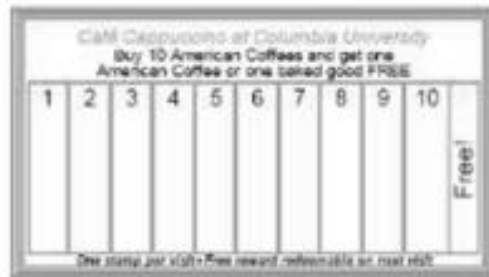
- Risk free offer or generous cancellation policy
- Spotlight on differentiating or appealing features
- Connect current self to future self
- Offer time sensitive campaigns as triggers
- Prime users by visualizing possible outcomes

Endowment effect (稟賦效應)

In research: loyalty card

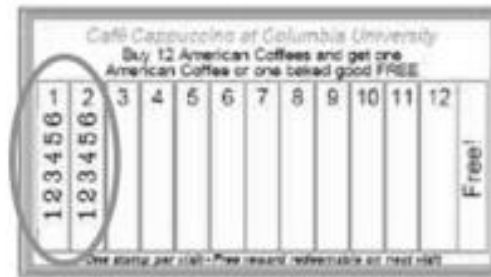
Buy 10 coffees get 1 free

(A)



10 coffee punch card

(B)



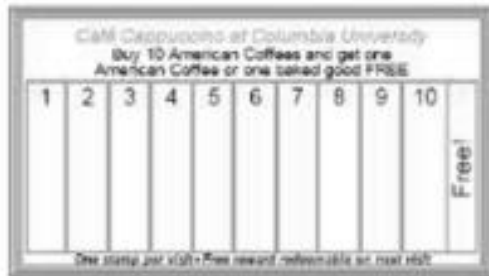
12 coffee punch card
with 2 pre-punched

Which of the two loyalty cards would influence you to put in the most amount of effort?

In research: loyalty card

Buy 10 coffees get 1 free

(A)



10 coffee punch card

Average 15.6 days

(B)



12 coffee punch card
with 2 pre-punched

Average 12.7 days

Leveraging endowment effect

- Motivate users with an illusion of a head start
- Progress bar with an extra step completed by default
- Show small signs of progress, completion meter
- Prefilled fields with available or existing data
- Goal-gradient milestones and rewards

Endowment related biases

IKEA effect

- The IKEA effect is evident when invested labor leads to inflated product value

Loss aversion

- Loss aversion is the fear of wasting resources or losing investment in something even if it holds little value

Availability heuristics (可得性捷思法)

Influencing availability heuristics

- Real case examples with fatal outcomes
- Visuals to increase sensitivity to specific event
- Awareness building campaigns
- Banner ads to trigger past experience

Framing (框架效應)

In research: Save the people

Program 1

Response A

Will save 200 people

Response B

1/3 chance to save all 600 people but a 2/3 chance to save no one

In research: Save the people

Program 2

Response C

400 people will die

Response D

1/3 chance that no one will die but a 2/3 chance that everyone will die

In research: Save the people

Consistent response was:

- A and C
- B and D

From the research:

- 73% picked Response A for Program 1
- vs
- 78% picked Response D for Program 2

By manipulating how alternatives were framed researchers could alter choices dramatically

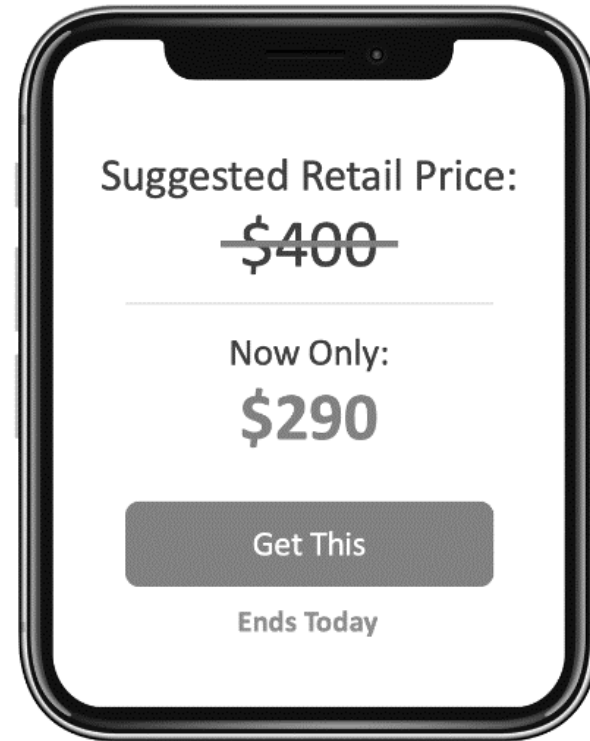
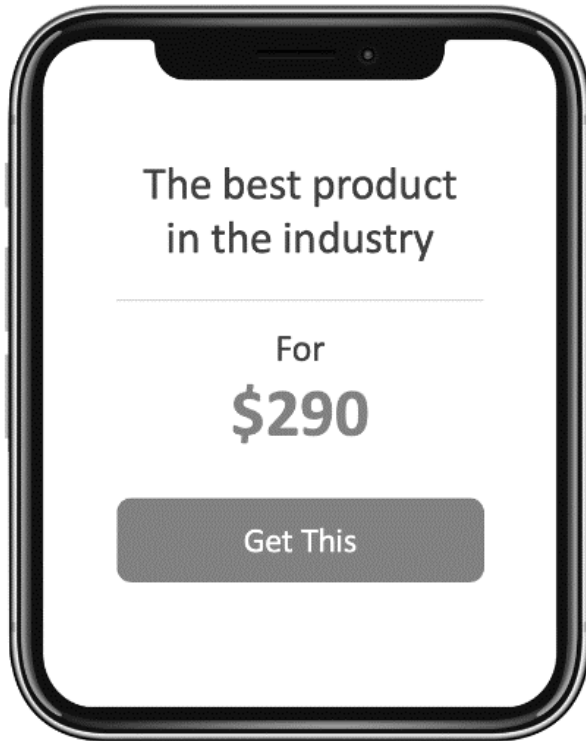
Anchoring (定錨)

- The first fact, number or figure a person sees will bias their judgements, e.g., list price vs sales price
- Anchor product: adding a higher-value and higher-priced product to a portfolio of options

Decoy (誘餌)

- Decoy product: adding a lower-value but closely-priced product to a portfolio of options

Anchoring effect in action



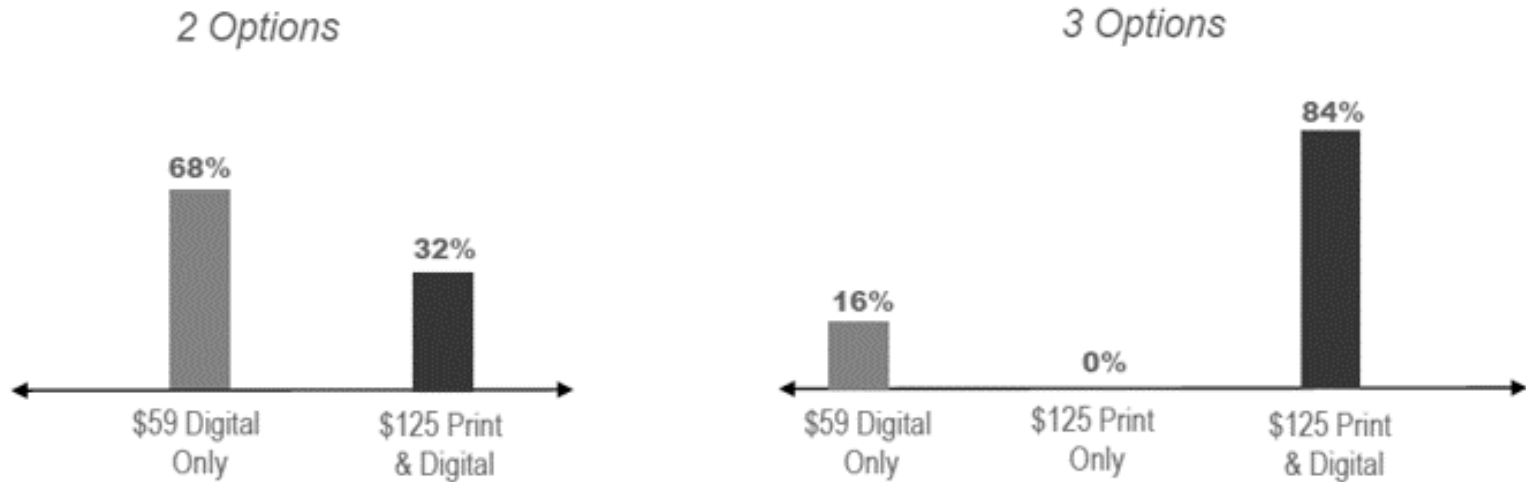
Anchoring effect in action

The image shows a pricing table for Mailchimp with four plans: Premium, Standard, Essentials, and Free. The Premium plan is highlighted with a dark background and a white border, and its price (\$299.00) is also highlighted with a white border. A 'Mailchimp Recommends' badge is positioned above the Standard plan, and a '\$ USD' dropdown menu is in the top right corner.

	Premium	Standard	Essentials	Free
PLAN	Advanced features for pros who need more customization.	Better insights for growing businesses that want more customers.	Must-have features for email senders who want added support.	All the basics for businesses that are just getting started.
PRICING	Starting at \$299⁰⁰ a month Select Calculate your price	Starting at \$14⁹⁹ a month Select Calculate your price	Starting at \$9⁹⁹ a month Select Calculate your price	\$0 Get Started
TOP FEATURES	Everything in Standard, plus: Advanced segmentation Multivariate testing Unlimited seats and role-based access Phone support	Everything in Essentials, plus: Automation series Retargeting ads Custom templates Advanced audience insights	Everything in Free, plus: All email templates A/B testing Custom branding 24/7 award-winning support	7 marketing channels 1-click automations Basic templates Marketing CRM

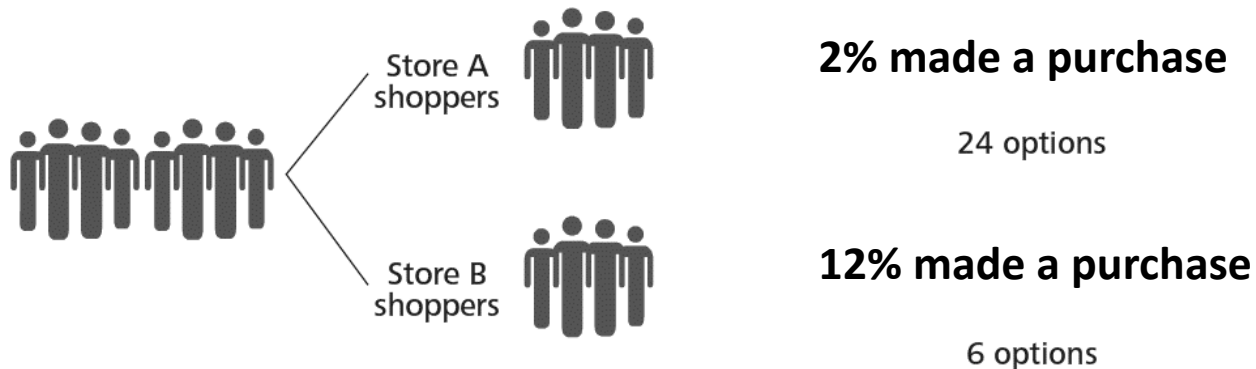
Decoy effect in action

The Economist magazine subscriptions



Friction costs (摩擦理論)

Decision paralysis: more isn't always better



Source: Sheena, Iyengar and Lepper. When choice is demotivating: Can one desire too much of a good thing? (2000)

Recent studies found that US consumers commonly choose health insurance plans that are sub-optimal for their situations

Potential explanations include:

- Limited insurance knowledge or competence
- Searching costs lead to limited information
- Neglect of key plan characteristics
- Mistaken beliefs about self or the insurance plans
- Lack of competence in evaluating premiums relative to plan characteristics
- Switching costs

Sources: Handel and Kolstad (2015b), Bhargava, Loewenstein, and Sydnor (2017), Handel (2013), Abaluck and Gruber (2011, 2016), Ho, Hogan, and Morton (2017)

Working with friction costs

- Shortening & simplifying user journey
- Reduce complexity, e.g. clear copy, bundling
- Present information in small, digestible chunks
- Add helpful tips & error messages to guide users
- Add small barriers to hinder undesirable behavior

Pre-commitment (承諾升級)

Progressively sage the investment you want from users into small chunks of work, starting with small, easy tasks and building up to harder tasks

— Nir Eyal, Hooked

Yes, people lie

An analysis of smoking population based on the US health insurance exchange enrollment and state residents' data

State	% of pop. that smokes	% of Obamacare enrollees who smoke
Idaho	17%	3%
Kentucky	27%	11%
Michigan	21%	9%
Montana	19%	7%
Ohio	23%	9%
Texas	16%	5%
Wyoming	21%	6%

Source: Kaiser Health News, 2016

The fight against dishonesty continues

- 2012: Signing at the beginning makes ethics salient and decreases dishonest self-reports in comparison to signing at the end
 - *PNAS September 18, 2012 109 (38) 15197-15200; first published August 27, 2012 <https://doi.org/10.1073/pnas.1209746109>*
- 2020: Signing at the beginning versus at the end does not decrease dishonesty
 - *PNAS March 31, 2020 117 (13) 7103-7107; first published March 16, 2020 <https://doi.org/10.1073/pnas.1911695117>*

Closing advice

- Avoid the hype! Humans are complicated. Behavioral economics is useful in creating hypotheses to test, and it is not something to rely blindly on
- Test, iterate, repeat
- In the words of Nir Eyal, innovation is nothing more than understanding a “series of tasks from intention to outcome” and then “removing steps”