Using Behavioural Economics to improve customer outcomes

- an introduction

Learning objectives

By the end of this session you will:

- Have an understanding of the science behind Behavioural Economics
- Know the MINDSPACE nudges
- Have considered where and how Behavioural Economics can help deliver better customer outcomes.
- Have an understanding of the 5 most impactful nudges for the Insurance Market
- Have considered how you may be able to use them

What is Behavioural Economics?

What is behavioural economics?

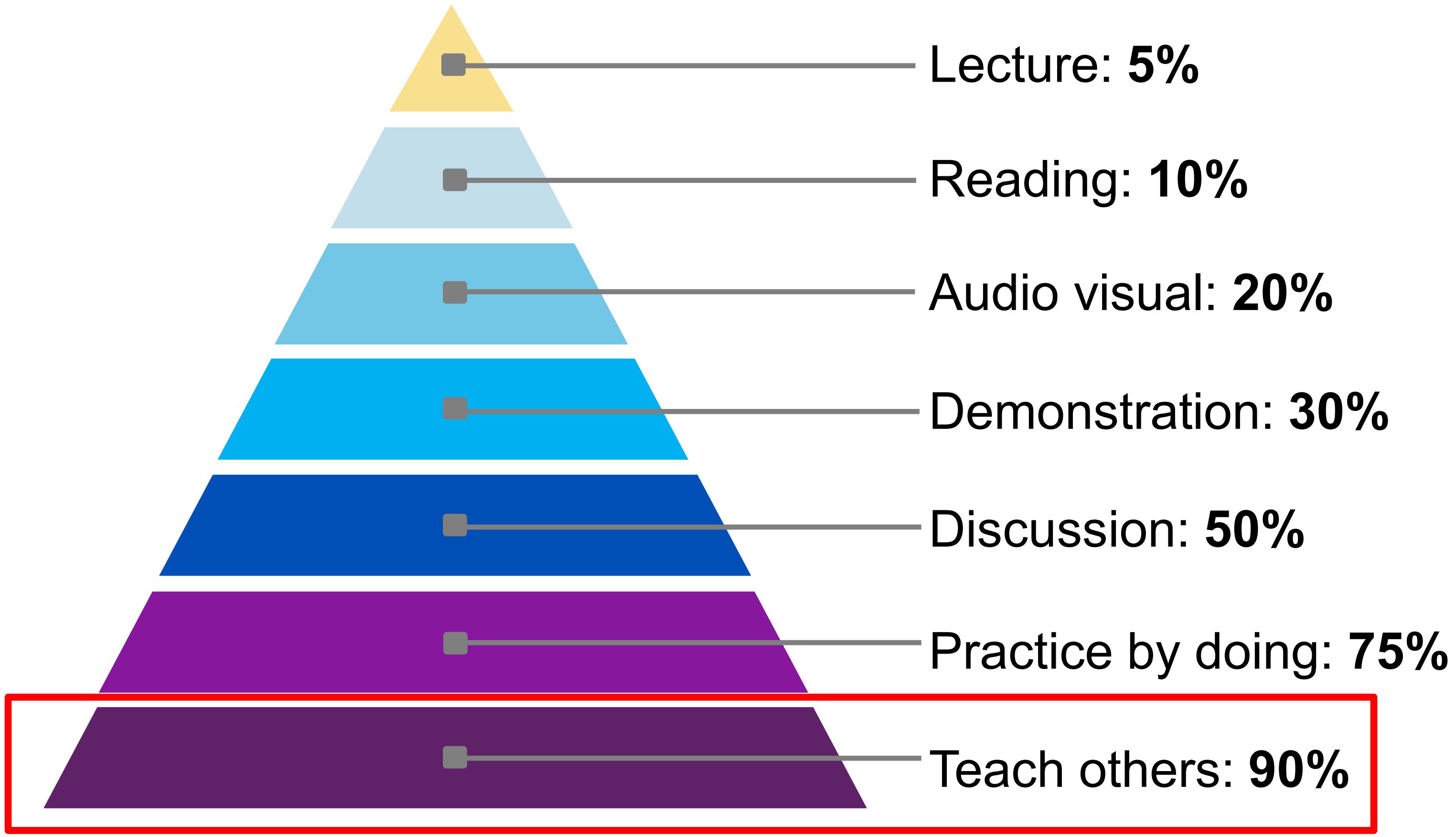
behavioural economics

Noun – a method of economic analysis that applies psychological insights into human behaviour to explain economic decision-making

- Behavioural Economics can help to improve **interactions with customers**
- Small, inexpensive contextual changes ("**nudges**") can make disproportionate differences to customer behaviour.
- Only by **test and learn** can we truly establish what works (and it's not always what we think).

Why consider behavioural economics?

How can behavioural economics help you?



Understanding behaviour

Classical Economics

- Rational
- Forward thinking
- Utility maximising

Behavioural Economics

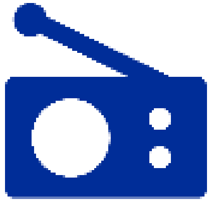
- Predictably irrational
- Present biased

Classic v Behavioural - example

Local store

Radio

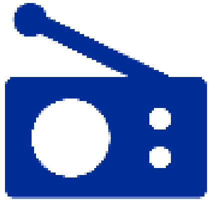
£20



High Street store

Same radio

£10



Classic v behavioural - example

Local car dealership

Car

£30,000

Another car dealership

Same car

£29,990

Classic v behavioural - example

Local store

Radio

£20

High Street store

Same radio

£10

Most people will instinctively want to save £10 for the radio but not for the car.

£10 should always have the same value from an economic point of view.

Local car dealership

Car

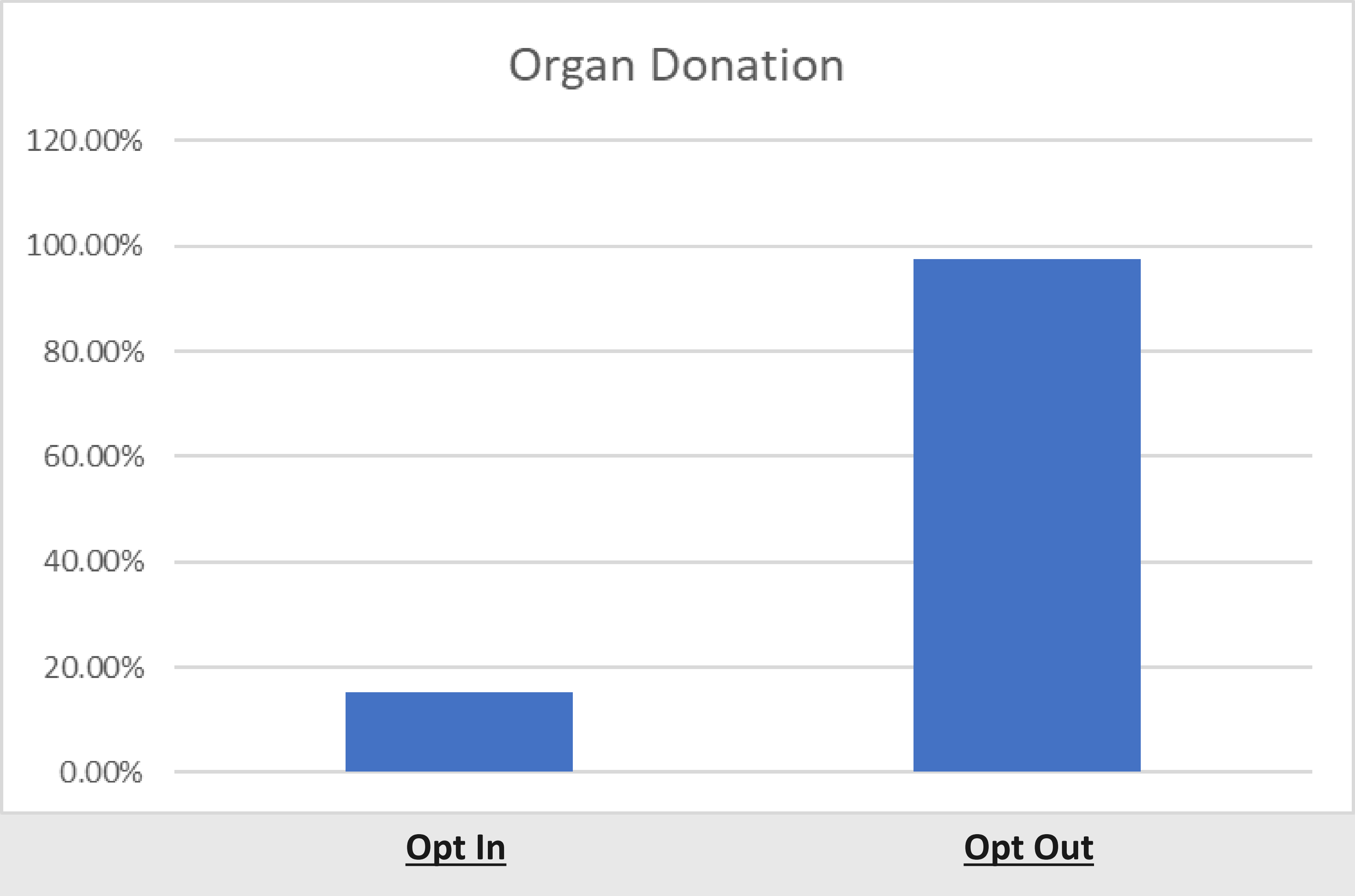
£30,000

Another car dealership

Same car

£29,990

Classic v behavioural - example



Study on Organ donation

AVIVA

System 1 v System 2 thinking

System 1	System 2
• Automatic, fast	• Reflective, slow
• Unconscious	• Conscious
• Associative	• Analytic
• Low energy consumption	• High energy consumption

System 1 v System 2 thinking - exercise

The colour of the word (not the word itself)

Blue
Green
Red
Blue
Green
Red
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System 1 v System 2 thinking - exercise

The colour of the word (not the word itself)

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System 1 v System 2 thinking - exercise

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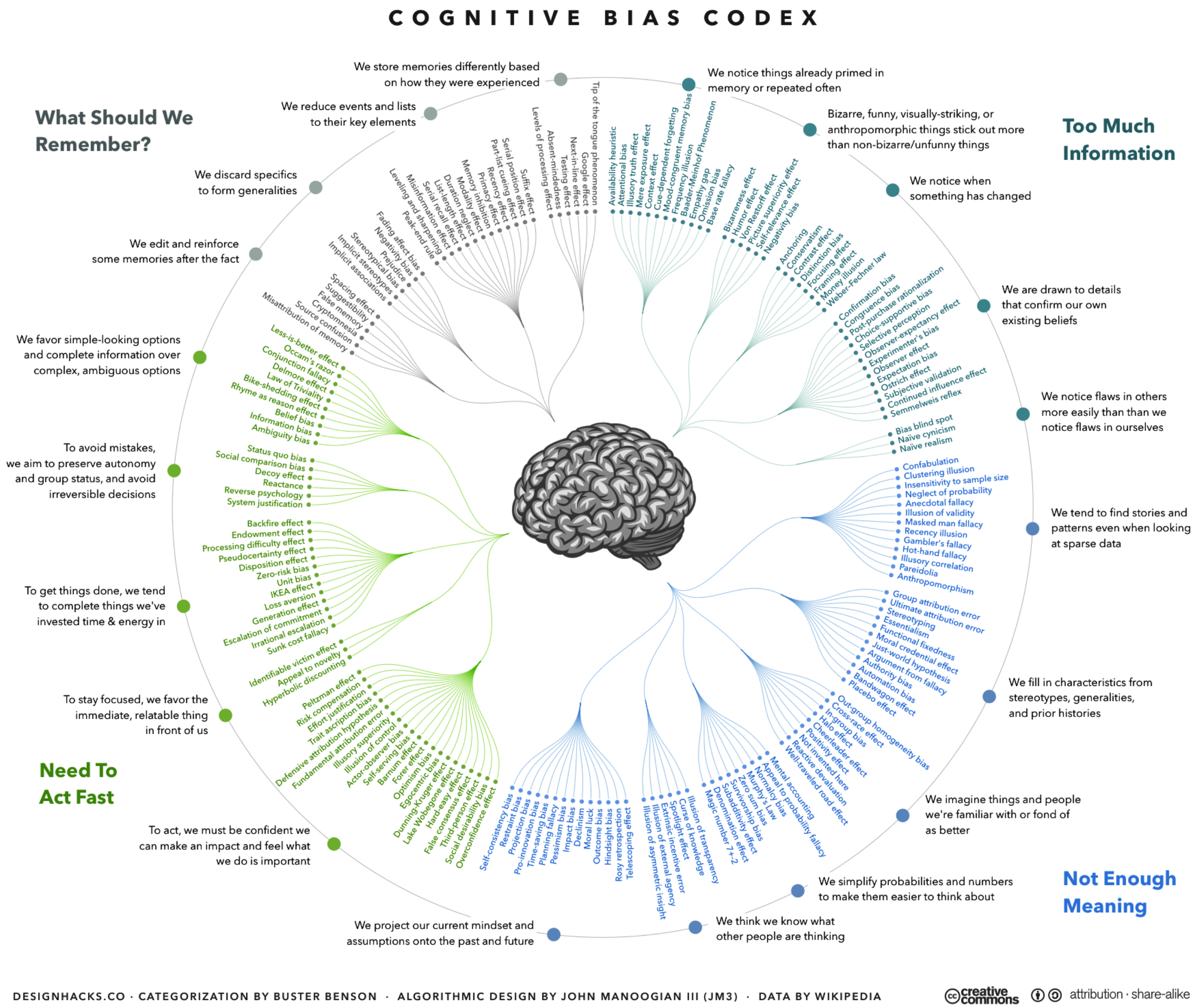
Nudges (there are a lot of them!)



Nudges

MINDSPACE – the nine key influencing principles of Behavioural Science

Messenger	We are heavily influenced by who communicates information to us
Incentives	Our responses to incentives are shaped by predictable mental shortcuts such as strongly avoiding losses, hyperbolic discounting, and mental accounting
Norms	We are strongly influenced by what others do
Defaults	We 'go with the flow' of pre-set options
Salience	Our attention is drawn to what is novel and seems relevant to us
Priming	Our acts are often influenced by subconscious cues
Affect	Our emotional associations can powerfully shape our actions
Commitments	We seek to be consistent with our public promises, and reciprocate acts
Ego	We act in ways that make us feel better about ourselves

Messenger

- Messenger
- Incentives
- Norms
- Defaults
- Salience
- Priming
- Affect
- Commitments
- Ego

We are heavily influenced by who communicates information to us:

- Figures of authority
- Someone like me
- Someone I like

Messenger

- Messenger
- Incentives
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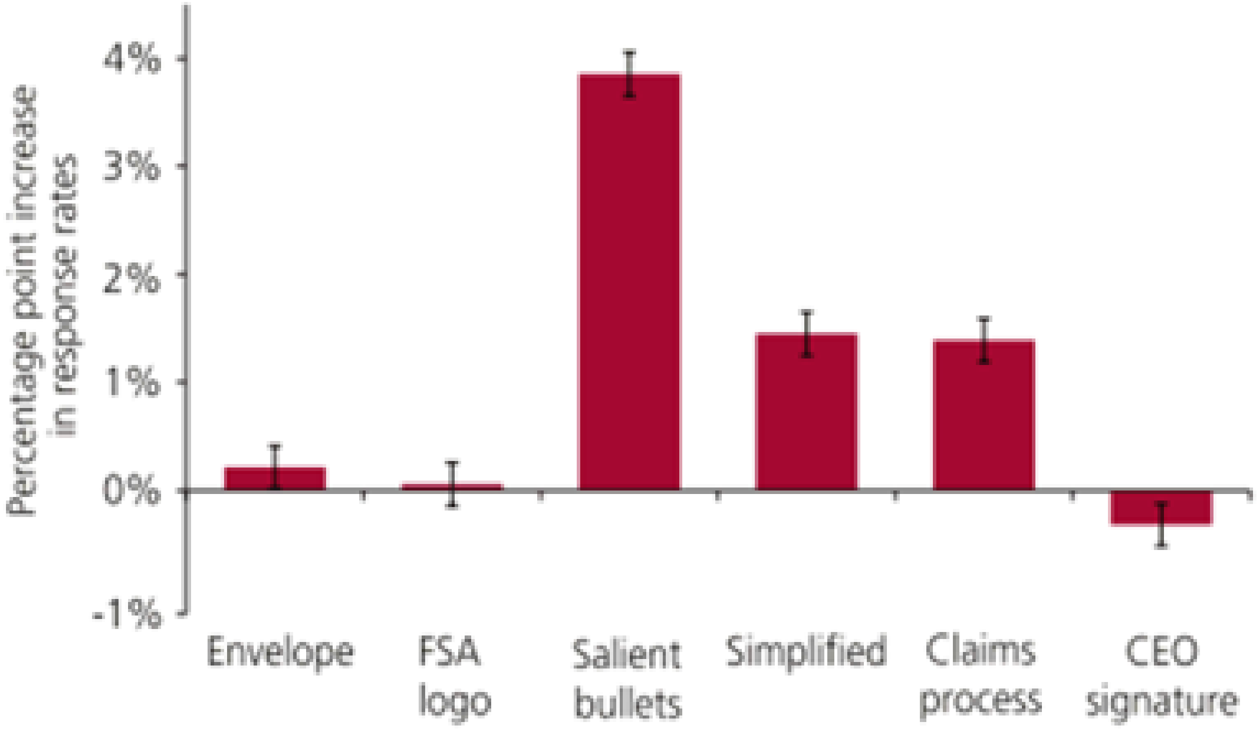
Financial services



Source: Adams, P., & Hunt, S (2013). Encouraging consumers to claim redress: evidence from a field trial: occasional paper no 2. The Financial Conduct Authority.

Incentives

- Messenger
- Incentives
- Norms
- Defaults
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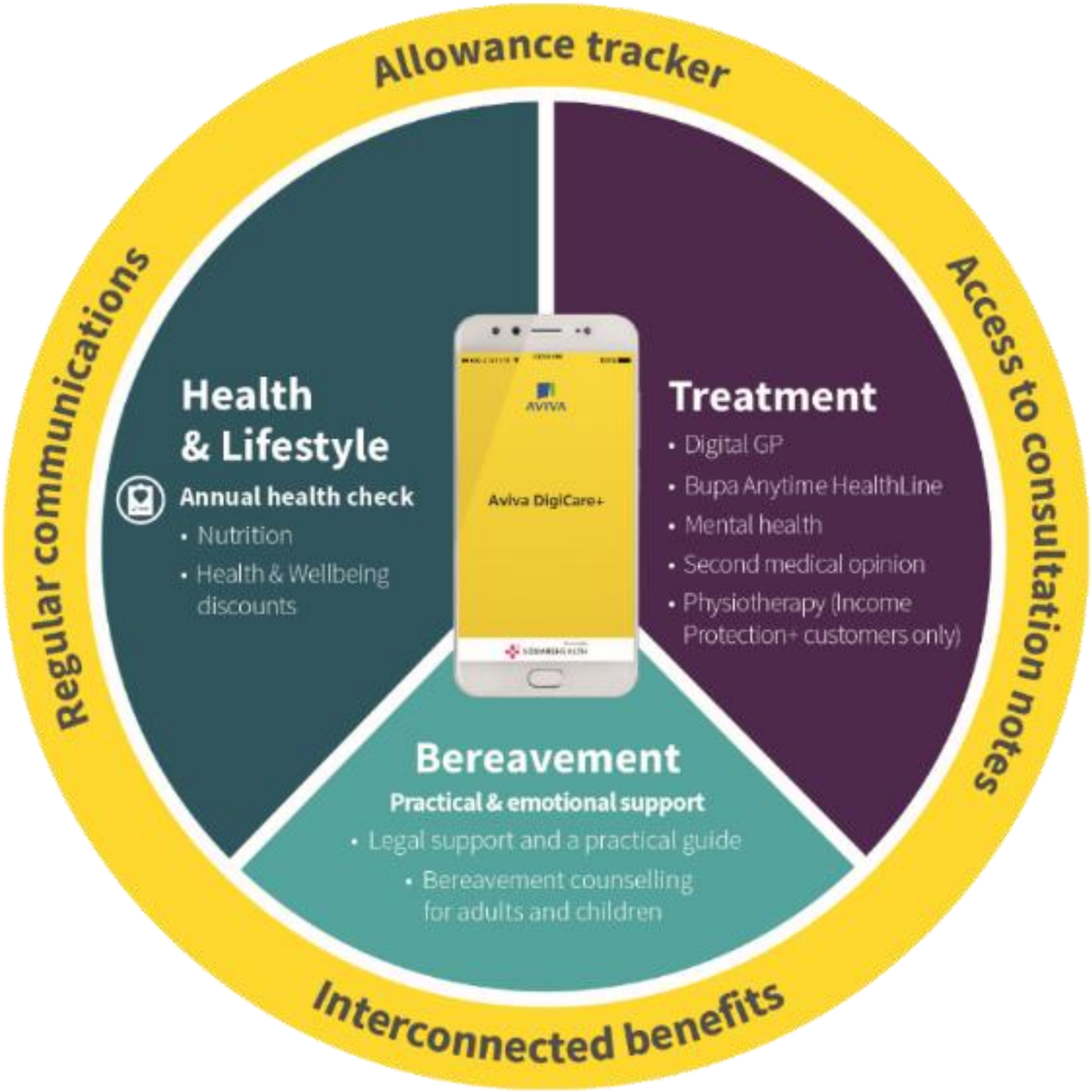
- Affect
- Commitments
- Ego

Our responses to incentives are shaped by predictable mental shortcuts such as:

- strongly avoiding losses
- mental accounting
- hyperbolic discounting

Incentive - tools



Norms

- Messenger
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- Norms
- Defaults
- Salience
- Priming
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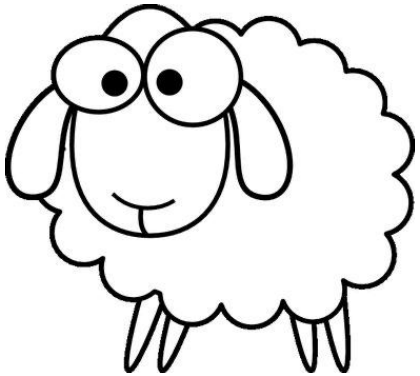
- Commitments
- Ego

We are strongly influenced by what others do



Defaults

- Messenger
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We 'go with the flow' of pre-set options

Defaults - tools

- Messenger
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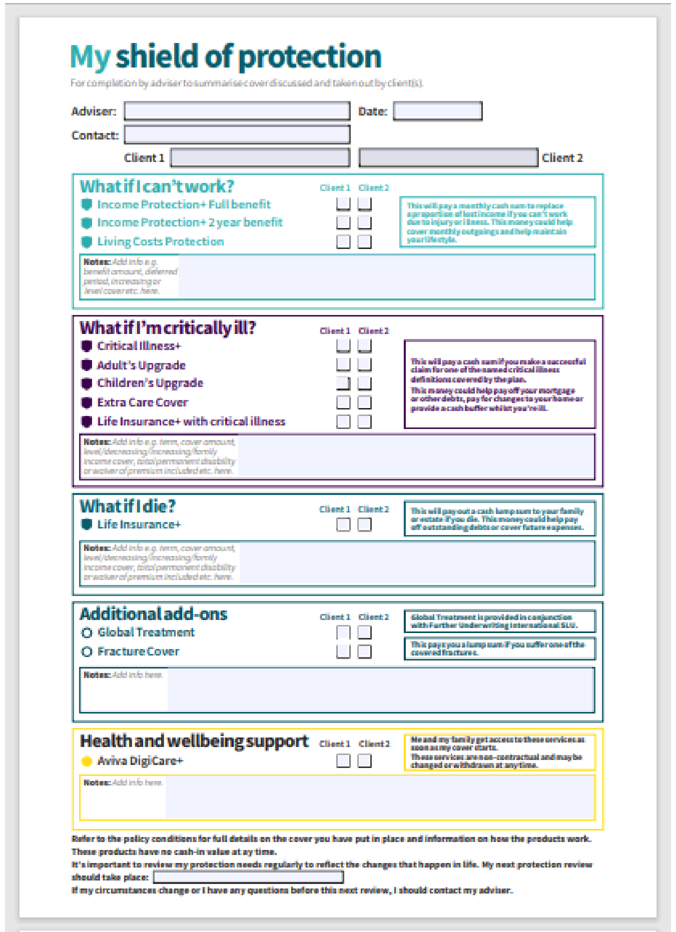

My shield of protection

For completion by adviser to summarise cover discussed and taken out by client(s).

Adviser: Date:
Contact:
Client 1 Client 2

What if I can't work? (Client 1 / Client 2)
- Income Protection+ Full benefit
- Income Protection+ 2 year benefit
- Living Costs Protection

This will pay a monthly cash sum to replace a proportion of lost income if you can't work due to injury or illness. This money could help cover monthly outgoings and help maintain your lifestyle.

Notes: *Add info e.g. benefit amount, deferred period, increasing or level cover etc. here.*

What if I'm critically ill? (Client 1 / Client 2)
- Critical Illness+
- Adult's Upgrade
- Children's Upgrade
- Extra Care Cover
- Life Insurance+ with critical illness

This will pay a cash sum if you make a successful claim for one of the named critical illness definitions covered by the plan.
This money could help pay off your mortgage or other debts, pay for changes to your home or provide a cash buffer whilst you're ill.

Notes: *Add info e.g. term, cover amount, level/decreasing/increasing/family income cover, total permanent disability or waiver of premium included etc. here.*

What if I die? (Client 1 / Client 2)
- Life Insurance+

This will pay out a cash lump sum to your family or estate if you die. This money could help pay off outstanding debts or cover future expenses.

Notes: *Add info e.g. term, cover amount, level/decreasing/increasing/family income cover, total permanent disability or waiver of premium included etc. here.*

Additional add-ons (Client 1 / Client 2)
- Global Treatment
- Fracture Cover

Global Treatment is provided in conjunction with Further Underwriting International SLU.
This pays you a lump sum if you suffer one of the covered fractures.

Notes: *Add info here.*

Health and wellbeing support (Client 1 / Client 2)
- Aviva DigiCare+

Me and my family get access to these services as soon as my cover starts.
These services are non-contractual and may be changed or withdrawn at any time.

Notes: *Add info here.*

Refer to the policy conditions for full details on the cover you have put in place and information on how the products work.
These products have no cash-in value at ay time.
It's important to review my protection needs regularly to reflect the changes that happen in life. My next protection review should take place:
If my circumstances change or I have any questions before this next review, I should contact my adviser.

How to apply Behavioural Economics

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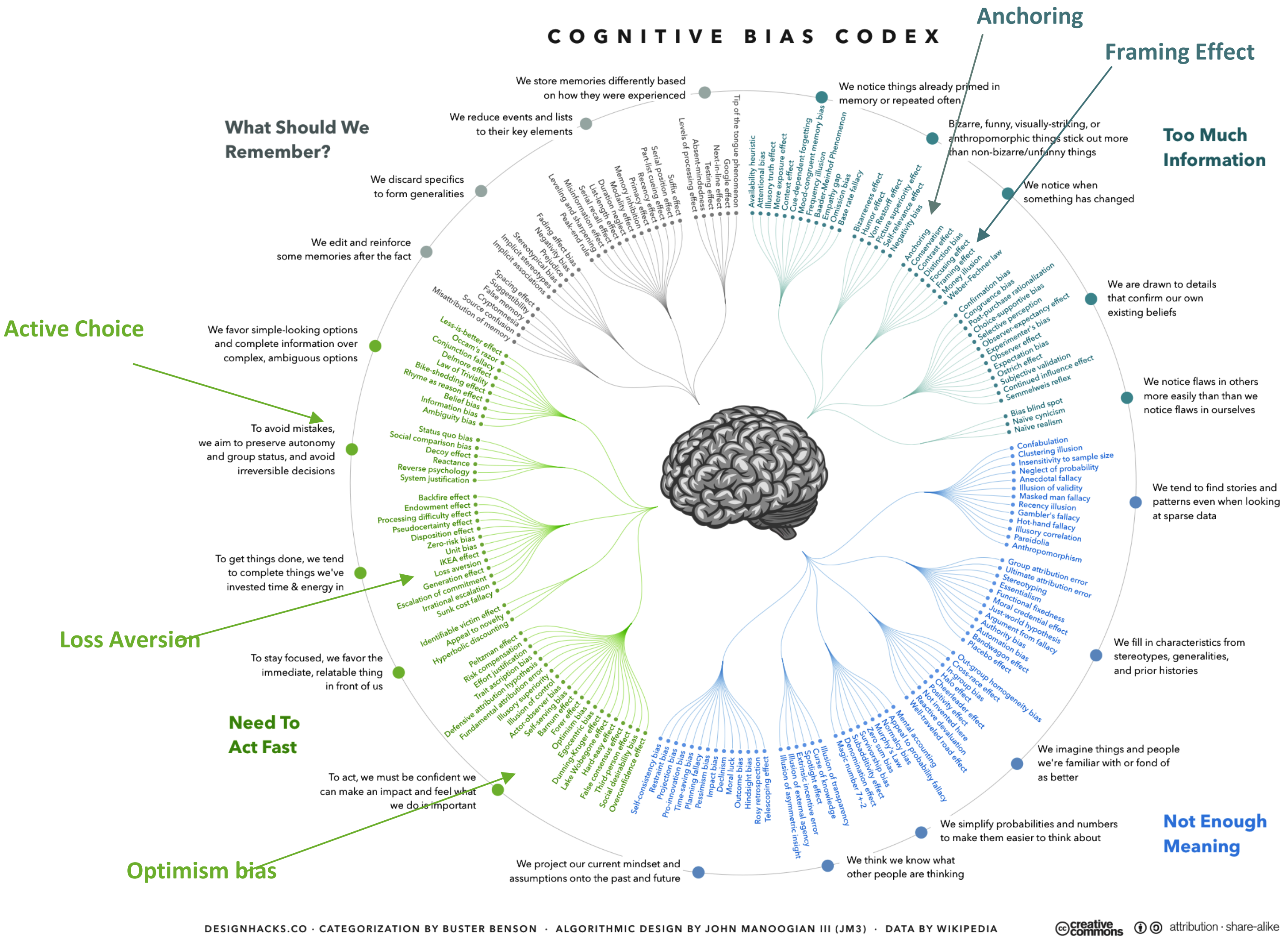
Nudges (there are a lot of them!)

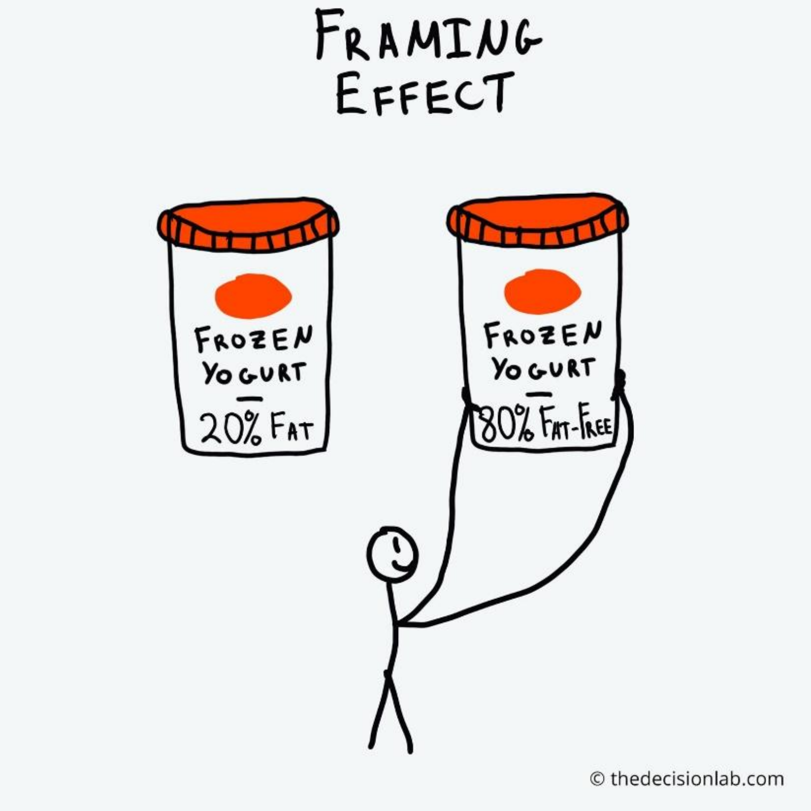
We will look 5 most impactful in insurance discussions

1. Framing
2. Anchoring
3. Loss Aversion
4. Optimism Bias
5. Active Choice



Framing

Which would you buy?

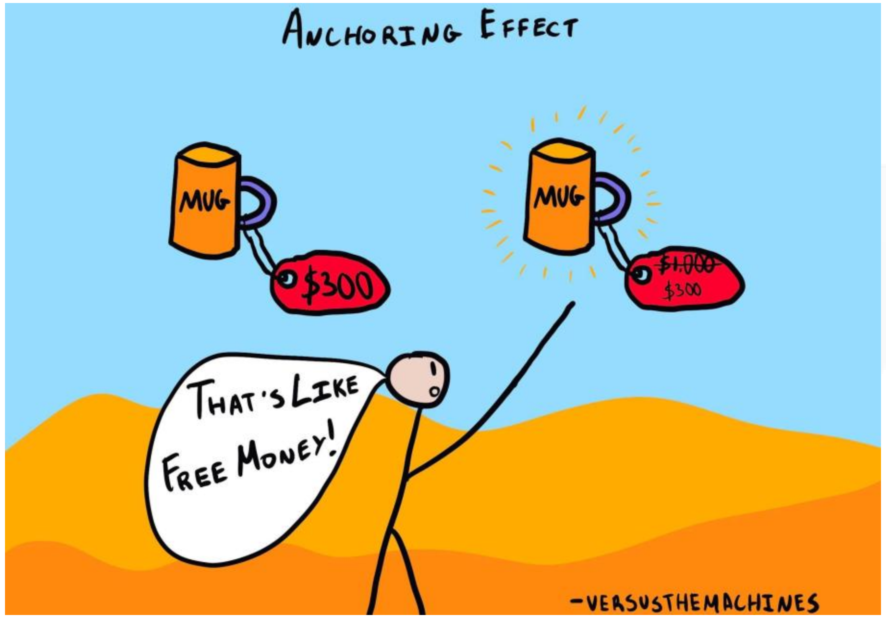


Framing – words can influence thinking (and purchasing)

Framing – in an insurance market

- Use of words is key
- Avoid
  - Insurance → Protection, Cover
  - Mortgage → Debt
  - Quote → Design bespoke solution
  - Apply → Qualify (not everyone can have protection cover)
  - Policy → Safety Net
  - Premium → Allocate, Set aside
  - Cancel → Lose (So "Cancel policy" becomes "Lose [valuable] protection")

Anchoring



Anchoring – value is often set by anchors which we then use as a reference point when making decisions

Anchoring


Created by Salvo Russo

WINE LIST

WINE BY THE GLASS

WHITE

Biecher & Schaal Grand Cru, Riesling France	10
Sancerre Paradis, Sauvignon Blanc France	10
La Raia, Gavi di Gavi Italy	9
El Enemigo, Sémillon Argentina	8
Argento, Pinot Grigio Argentina	8

ROSÉ

Ultimate Provence France	7
Argento Rosé Argentina	6

RED

Badia A Passignano Antinori, Chianti Classico GS Tuscany • 2018	15
Argento Single Block, Organic Malbec Argentina	10
Chateau Smith, Cabernet Sauvignon USA	10
Vivanco Reserva, Rioja Spain	9
Château La Gasparde France	9
Yealands, Pinot Noir New Zealand	8

Anchoring – value is often set by anchors which we then use as a reference point when making decisions

Anchoring – in an insurance market

Using a **bigger picture** (the benefit) to create an anchor point so that the preferred choice (paying the premium) is **more acceptable**

"Average UK household expenditure per year is over **£X**. You can protect your family for this amount for the next 10 years should you become seriously ill, get a disability or die for just **£X** each month"

Anchoring – in an insurance market

- Use detail on the Bank Statement

Account name:	Smith P & T
Account number:	11875429
Sort code:	41134
Branch identifier code:	187/34b

Date	Type	Description	Paid Out	Paid In	Balance
19/01/18	DD	Swimming lessons	£62.00		£376.51
22/01/18	DD	Mobile	£24.44		£352.07
22/01/18	DR	Petrol Station	£55.00		£297.07
22/01/18	DR	Supermarket	£100.00		£197.07
24/01/18	DD	Homeserve	£6.66		£190.41
25/01/18	ATM	Cash	£100.00		£90.41
29/01/18	CR	Mr Smith Pay Day		£3,451.00	3,541.41
29/01/18	DR	Petrol Station	£35.00		3,506.41
30/01/18	DR	Pet Insurance	£26.00		3,480.41
31/01/18	CR	Mrs Smith Pay Day		£1,236	4,716.41
01/02/18	DD	Mobile	£23.90		4,692.51
01/02/18	ATM	Cash	£50.00		4,642.51
02/02/18	DD	Payment Shield	£26.50		4,616.01
02/02/18	DD	Water Bill	£25.80		4,590.21
02/02/18	DD	Council Tax	£149.00		4,441.21
02/02/18	DD	Mortgage	£710.53		3,730.68

Have to Pay	**£765.24**
Would Like to Pay	[illegible]
Luxury	£868.19
Cash	£450.00

Loss Aversion

Loss Aversion - The thought of losing something now is more powerful than gaining something in the future

- it hurts more to lose £200 than it feels good to win £200

Loss Aversion – in an insurance market

Framing a question as either a loss or a gain…

- What would you have to give up?
- How would you benefit from having cover in place?

Putting Loss into Perspective

- Ask what the worst outcome would be if the action wasn't taken.

Loss of Choice

- The cost of delay.

200k Sum Insured Non Smoker

Age	Term	Premium	Total Premium over term
45	20	£ 128.20	£ 30,768.00
50	15	£ 177.60	£ 31,968.00
55	10	£ 246.20	£ 29,544.00

Standard rates as at Aug-14

Loss Aversion – retaining business

What may the client be losing now?
Position other benefits that may be **exclusive** to the customer such as:

- Aviva DigiCare+
- Macmillan support

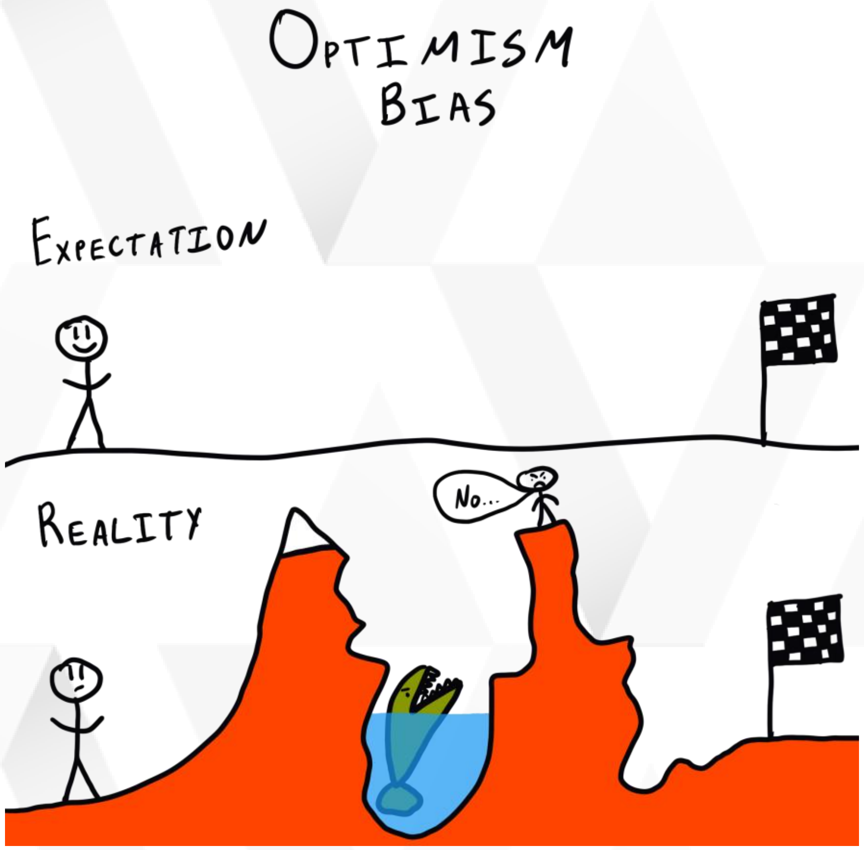
- As you enjoy the **peace of mind** your protection currently gives you, we would like to help make sure you are not **losing** it and ensure you remain suitably protected no matter what.

- If you decide to take out protection again in the future, it is possible that you will no longer **qualify**. As you get older the risk of health issues increases and these are taken into account when you take a policy out – this may result in higher costs or not being offered cover.

- If you then decide to take out protection again in the future, it is likely that it will be **more expensive** than you are currently paying because the price rises each year as you get older.

Optimism

Optimism – the tendency to overestimate positives



Optimism – in an insurance market

- People prefer to think that a relatively likely event won't happen to them
- Important to avoid scare tactics but challenge their perception

For adviser use only. Not approved for use with customers.

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Income Protection+

Objection handling tips

There are often many reasons why customers might think they don't need income protection cover. Here, we offer some tips for dealing with common objections they may have, so you can help your customers get a better understanding of their protection needs.

Never ill

"I'm never ill, and even if I am I'll be back to work within 6 months"

- The average length of an income protection claim across all customers in claim during 2021 was 7 years and 5 months. (Aviva Individual Protection claims data 2021. Excludes claims received for 12 month and 2 year limited benefit income protection policies.)

Nobody wants to think about a long term illness, but it's important to ask how your customer would cope over a longer period of illness.

Have sick pay

"I'll get sick pay from my employer, so that should cover me"

- Ask what happens if they change jobs? – will those benefits be available through their next employer? Also, do they know exactly how much sick pay they will get and for how long?

54% of employers surveyed in 2018/19 only paid Statutory Sick Pay[1], that's £99.35 per week in 2022[2]. Source: [1]Department for Work and Pensions (DWP) Sickness absence and health in the workplace: understanding employer behaviour and practice, July 2021. [2]GOV.UK, Statutory Sick Pay (SSP). Contains public sector information licensed under the Open Government License v3.0.

Deferred periods can be extended up to 104 weeks so the cover only begins when other support would end – ensuring your customer only pays for the cover they need.

Plenty of savings

"I don't need income protection cover because I have plenty of savings"

- In the financial year ending (FYE) 2020, the period immediately prior to the coronavirus (COVID-19) pandemic, average weekly spending in the UK was £587.90. Source - ONS Family Spending in the UK April 2019 to March 2020 Contains public sector information licensed under the Open Government License v3.0.

How long would savings last? Ask your customers what they're saving for, and would they want to give this up in the event they couldn't work for a period of time?

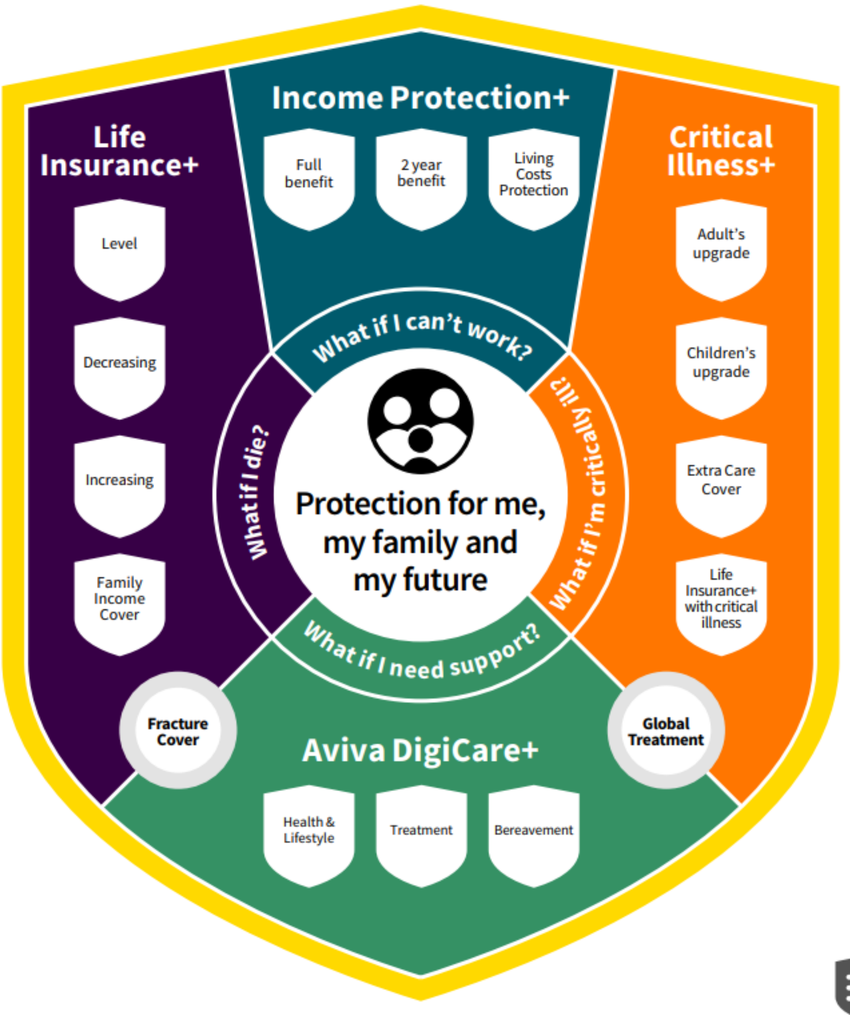
Optimism – in an insurance market

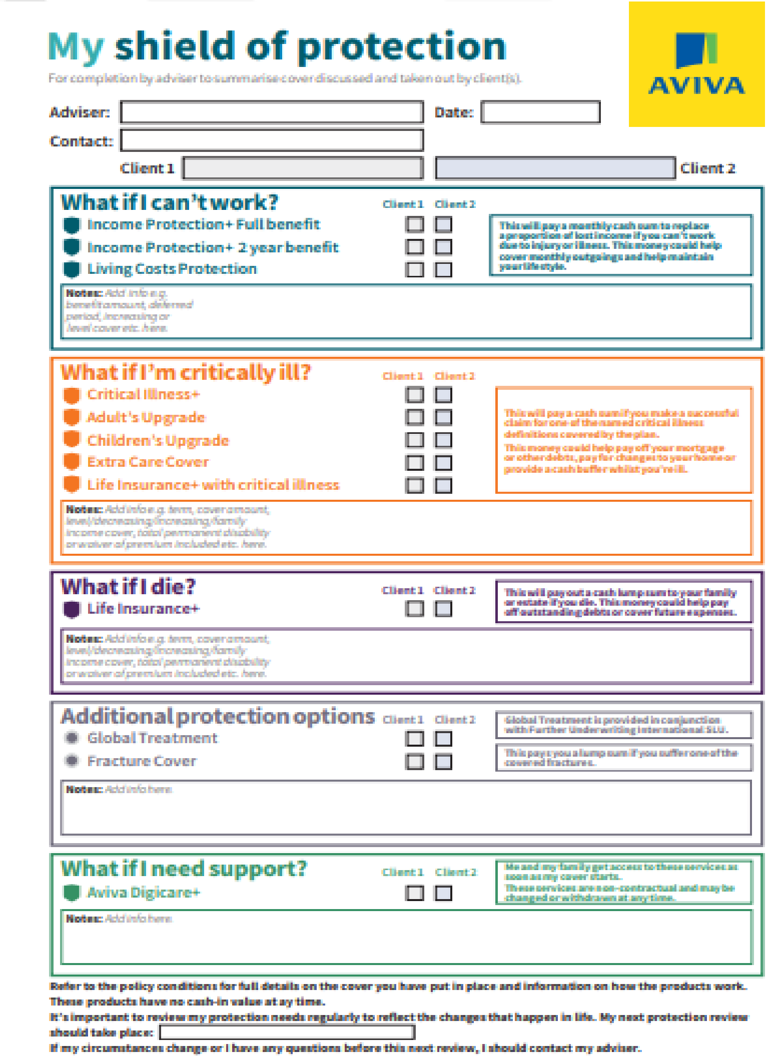
- Allow them to personalise it - ask them what their “Plan B” is if the worst were to happen?
  - this way, the likelihood is put in context of the potential downside from the clients perspective
  - we can’t judge how they see the downside ourselves

Active Choice

Active Choice – making conscious and deliberate choice

Active Choice – in an insurance market





My shield of protection

AVIVA

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Client 1 Client 2

What if I can't work?

	Client 1	Client 2
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Income Protection+ 2 year benefit	☐	☐
Living Costs Protection	☐	☐

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	Client 1	Client 2
Critical Illness+	☐	☐
Adult's Upgrade	☐	☐
Children's Upgrade	☐	☐
Extra Care Cover	☐	☐
Life Insurance+ with critical illness	☐	☐

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What if I die?

	Client 1	Client 2
Life Insurance+	☐	☐

This will pay out a cash lump sum to your family or estate if you die. This money could help pay off outstanding debts or cover future expenses.

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Additional protection options

	Client 1	Client 2
Global Treatment	☐	☐
Fracture Cover	☐	☐

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This pays you a lump sum if you suffer one of the covered fractures.

Notes: *Add info here.*

What if I need support?

	Client 1	Client 2
Aviva Digicare+	☐	☐

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Refer to the policy conditions for full details on the cover you have put in place and information on how the products work.

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It's important to review my protection needs regularly to reflect the changes that happen in life. My next protection review should take place:

If my circumstances change or I have any questions before this next review, I should contact my adviser.

Active Choice – in an insurance market

- Ok, let me explore if there are any avenues we can go down that will help with the affordability without you having to lose all the protection you have now – does that sound ok?

- Here are **some options** to make your premium more affordable if that could help:
  - Reduce the pay-out amount: this will make your premium less expensive, and your loved ones be protected for some critical costs
  - Remove one or more of the rider benefits you are covered for, keeping just those that are the most critical should the worst happen
  - If short term affordability is an issue, we also have a premium holiday option that we can discuss
  - If you would like to take up any of these options, I can arrange for a financial consultant to call you to discuss

- Otherwise, would you like to keep your cover the same and remain fully protected?

Learning outcomes

By the end of this session you will:

- Have an understanding of the science behind Behavioural Economics
- Know the MINDSPACE nudges
- Have considered where and how Behavioural Economics can help deliver better customer outcomes.
- Have an understanding of the 5 most impactful nudges for the Insurance Market
- Have considered how you may be able to use them

Good luck