



## **Behavioral Economics, Much More Than Application Design**

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Keith W. Brown, SEHOUA, June 2022



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# Agenda



- Behavioral Economics (BE) Definitions
- Gen Re BE History
- Partnership with Suffolk University
- BE Academy
- Application Review
- More than Application Design – Nudge Theory
- Nudging in Website and Customer Service Protocols Design
- Nudging Related to Agents/Producers
- Nudging and Change Management for Underwriters
- Questions



## Behavioral Economics:

The study of psychology as it relates to the economic decision-making processes of individuals and institutions.



# Definitions of Behavioral Economics (BE)



Behavioral economics studies consumer choices, market events and human psychology to help understand their decisions and to try to make more accurate economic models.

Behavioral economics **combines elements of economics and psychology to understand how and why people behave the way they do in the real world.** It differs from neoclassical economics, which assumes that most people have well-defined preferences and make well-informed, self-interested decisions based on those preferences.





# Gen Re – Behavioral Economics Research





- In 2016, Gen Re conducted Behavioral Economics (BE) research related to Individual Life insurance applications. The study successfully determined several BE approaches that insurers could use to enhance their applications from the perspective of **increasing medical and non-medical condition disclosure rates**.
- In 2018, the next iteration of the project focused on medical condition disclosure rates, testing new question designs as well as original treatments from the 2016 study. The study Control was the widely-used **Interstate Compact application question design**.
- In 2020, the latest BE study utilized “real-life” question approaches, inspired by designs from various Individual Life carrier applications used in **Accelerated Underwriting (AU)**. The study Control and one Treatment were based on the most effective approach – the **scale grid design** – from the 2016 and 2018 BE studies.



# 2016 Application Accuracy – Example

## Drug Usage

19%

### Control Group

Have you ever used amphetamines, marijuana, cocaine, hallucinogens, heroin or other drugs except as prescribed by a physician?

- Yes
- No

35%

### Treatment 2 – Product List & Scale

Have you ever used any of the drugs below?

	I use on a regular basis	I used once or more within last 5 years	I used once or more within last 6 to 10 years	I used more than 10 years ago	Never used
Amphetamines	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Marijuana	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cocaine	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Hallucinogens	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Heroin	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other (Please specify)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



# 2018 Application Disclosure – Example



5%

## Control Group – Interstate Compact

Have you ever been diagnosed, treated, tested positive for, or been given medical advice by a member of the medical profession for:

- Any disorder or disease of the brain or nervous system;
- Any disorder or disease of the heart blood vessels or circulatory system;
- Any disorder or disease of the respiratory system;
- Any disorder or disease of the stomach, liver, intestines, rectum, pancreas or abdominal organs;

*Continued...*

For any “yes” answer, please provide details such as date, duration, diagnosis, treatment, medication.

23%

## Treatment 5 – Scale Grid Design

Have you ever been diagnosed, treated, tested positive for, or been given medical advice by a member of the medical profession for a disease or disorder such as:

	Been diagnosed, currently being treated	Been diagnosed within the past 5 years (but not currently being treated)	Been diagnosed more than 5 years ago (& not currently being treated)	Received medical advice but never treated	Never received advice, never been diagnosed or treated
Cancer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Nodules	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Masses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cysts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Benign or malignant tumor or growth	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Polyp	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Melanoma	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leukemia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Hodgkin's or any other lymphoma	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Chronic skin disease	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



## News Release



For immediate release  
May 5, 2022

### **Gen Re and Suffolk University Announce Strategic New Behavioral Economics Relationship**

**Collaboration will expand upon Gen Re's unique BE research,  
provide client training opportunities, and promote client business enhancements**

May 5, 2022 – Suffolk University professors are bringing their expertise in behavioral economics to Gen Re through a unique business relationship designed to benefit the reinsurer's clients in the areas of underwriting, marketing, client engagement, customer service and more.



- BE 101: Fundamentals of Behavioral Economics
  - The standard model, and systematic deviations from it
- BE 201: Behavior in Insurance Markets
  - Applications of BE principles to insurance and customer engagement
- BE 301: Applying Behavioral Economics
  - Designing and conducting experiments
- BE 401: Analyzing Experimental Data
  - The statistical techniques required for processing experimental and other data





## ***Companies tend to avoid redesigning applications and tele-interview scripts. Why?***

- Salesforce pressure
- Cost
- Resource constraints
- IT hurdles
- Filing challenges

All of these are certainly understandable. But this doesn't help the situation, so a suggestion is to ***do an annual review*** of your applications, and ask the simple question: ***How can they be improved?***



# How Can Application and Interview Scripts Be Improved?



To answer that question, companies need data to identify where to look.

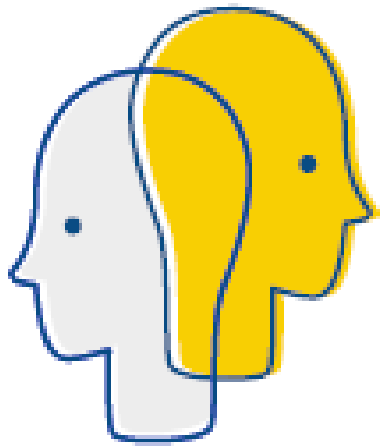
Some data may include which questions are amended most frequently, and why?

Which questions take the most time to complete and why? Then ask yourselves is that okay? Or do we need to take a deeper look at this?

Which questions have the lowest “yes” answer rates. Again, it’s important to find out why this is happening and determine if the response rates are acceptable or if changes are needed.

Consider if claims are overly concentrated in certain medical or nonmedical areas. If so, is that due to question design, or possibly questions that are missing from an application?

Work with your Claims Department to determine if your company lost any litigation on contestable claims due to question design. If the answer is “yes”, figure out what changes are needed.



## The Gen Re Behavioral Economics Academy

*“Details matter. People don’t always think slowly and rationally, so we have to meet consumers where they are – **full of biases, confused, overloaded with information, and yet amenable to nudges and a well-framed offer.**”*

Jonathan Haughton, PhD

Professor & Chair, Economics,  
Suffolk University



NUDGE

A nudge is “any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates. Putting the fruit at eye level counts as a nudge. Banning junk food does not.”

<https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/nudge/>



# Nudging in Website and Customer Service Protocols Design



- **Anchoring** – first impression will bias judgements and decisions; be diligent in deciding what to put in front of customers
- Aesthetics
- Language
- Why? Purpose? (Education, sales, service, engagement)
- Understandable, easy to read, transparent?
- Are choices presented in customers' best interests or in company's best interest?
- Selling product or providing solutions/protection?







- Experiment with purchasers and those that did not purchase to better understand behaviors
- Use data to offer drop downs of the most common reasons for visiting the site
- What level of digital self-service is desired? Price, online solutions, a call, something else?
- If your company utilizes agents, present website visitors with your company's top agents in their area, including pictures, bios and language fluency
- Share positive feedback data to nudge; example - 320 other people your age from x county are Company Y's clients
- Customer Service Forms



# Nudging Related to Agents/Producers



## How do you “nudge” which agents you work with?

- How profitable is their business?
  - Placement rate
  - Claims experience
  - Persistency
  - Average EOI question answer rate
  - Avg age insured
  - Avg file page count
  - Avg # of medical referrals
  - Avg time service
  - Avg underwriter touches per case
  - Use data to influence who you work with





## **What behaviors improve an underwriter's image with the sales force?**

Adverse action messaging: Rated table 6, 250% due to build and diabetes **or**

***Good news! Our offer for Mr. Smith is table 6, 250% due to his diabetes and build. During the next 12 months if Mr. Smith loses 30 pounds or maintains an average HbA1c reading of 6.0 or lower, and the balance of his medical history remains favorable, we'll be happy to complete a rating review on his first policy anniversary to see if his premium can be reduced.***

***Also, Mr. Smith applied for \$500,000, but qualifies for up to \$1,500,000 without further requirements if interested.***

***For Mr. Smith's information, a top doctors rating service at <https://www.castleconnolly.com/> notes Dr. Jones and Dr. Doe are highly rated endocrinologists in his home area.***

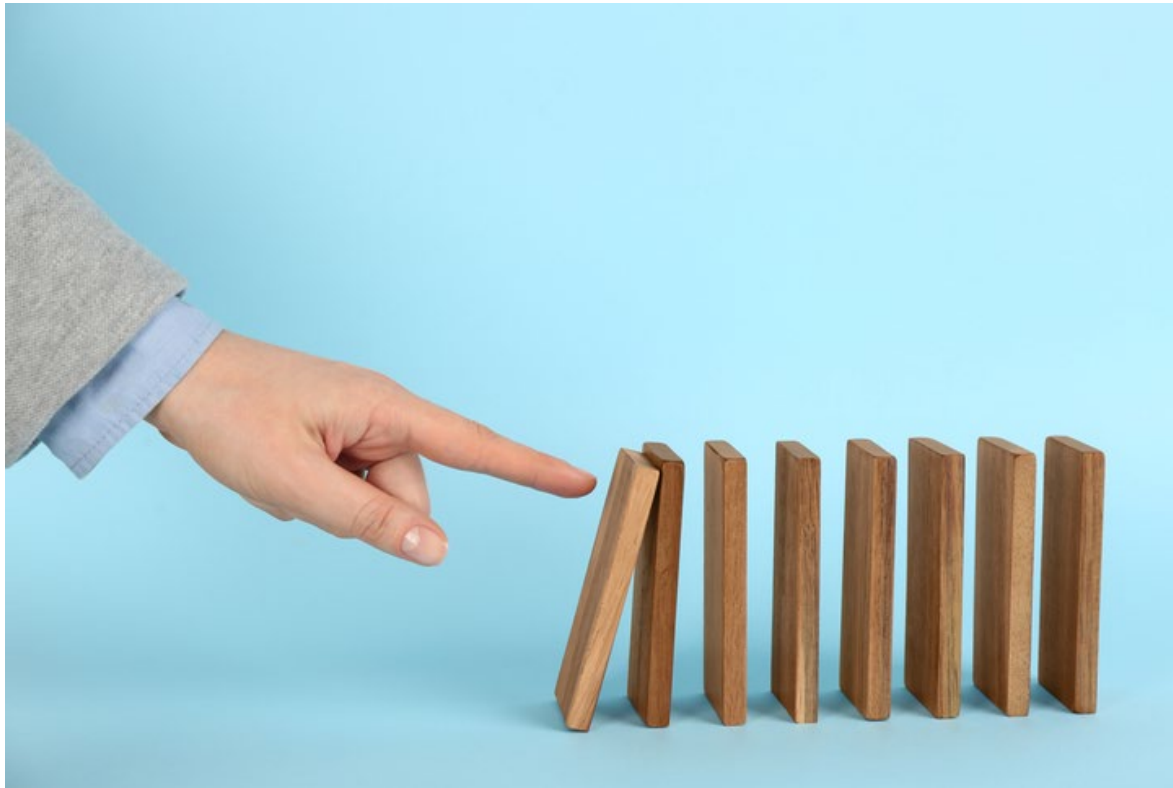
***Discount diabetic supplies may be available at (XYZ site)***



***It is likely that as the digital revolution and customer expectations continue to evolve, many underwriting departments will pursue radical reorganization.***

- Meet w/leadership; clear picture/understanding of future UW vision
- Ensure users’ voices heard; involve end users in vetting; provide optimal equipment
- Why is new tool/methodology better?
- Create opportunities to collaboratively coach one another; chat; buddies
- Train, train, train – not just at beginning
- Create a comprehensive user guide; identify key SME’s for ongoing questions
- Look for organizational inertia and resistance to change; motivate and help align people
- Cultivate, nurture and reward successful adoption – gamification, rewards, financial incentives
- Incremental adoption; small bites; celebrate positive outcomes

# “Nudge” Change Management for Underwriters, contd.



- Share market research, competitive intelligence; competitor best practices; changing market needs and wants
- **Know your Team:** understand diverse perspectives, experience, skillsets of uws, and that resilience (embracing change) varies between individuals
- Be transparent – internal challenges; financials; client experience/engagement; outdated systems, tools, workflows, business models
- Create a safe environment for exploration and experimentation
- Create culture of experimentation; redefine “failure”; stress learning and adapting
- Create future so exciting uws want to pursue it



# Questions?





## Thank you

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