

# THEATER OF THE MIND

Josh Wright of Ideas42 explains how insurers can use behavioral solutions to help people to be more honest on forms and why it's important to leave customers happy at the end of their overall experience.

by Kate Smith

**J**osh Wright posed an unusual question to his audience at last fall's InsureTech Connect conference: Are humans more like Mr. Spock or Homer Simpson?

The answer, the behavioral economist said, is that we fall somewhere between the logical Star Trek science officer and the emotional cartoon dad. We are a rational yet quirky species, biased toward the present, bad at recognizing probabilities and overconfident in our odds.

"That makes insurance hard for people," Wright said.

Wright is an executive director at Ideas42, a design and research lab that uses behavioral economics to address social problems. He speaks frequently on the role of behavioral economics in financial services and gave a presentation on the topic at InsureTech Connect in Las Vegas.

*Best's Review* caught up with him recently to discuss how behavioral economics can be used to improve the insurance process and experience.

**Your bio says you "design behavioral solutions for problems in financial services." Looking at the insurance industry, what are the main problems you're trying to solve?**

There's a huge scope in the insurance industry. I would start on the consumer side. There are opportunities around honesty and making claims, for example. It's not that people are dishonest

or are trying to deeply cheat. But if there's an opportunity to fudge a little bit, they think other people are doing that and that they are entitled to do it in some way also. So there's a lot of opportunity around honesty of claims.

**Practically speaking, how can insurers make policyholders more honest about claims?**

There was insight from [Harvard Business School Professor] Max Bazerman, where if you ask people to sign their name on a form, such as a claims form, before they fill in their information, versus having them sign after, they're more likely to be honest if they've signed first.

**Why is that?**

They don't know with absolute certainty. Basically the hypothesis is that you're asking them to say they're going to enter this information on this form truthfully, so they're primed for honesty.

If they enter all the information, and after the fact you ask them to attest to it being valid, it may cause them to have to go back and change it or admit to themselves that they lied. So the theory is that you're priming them to tell the truth by having them sign first.

There are going to be some people who are very intentionally trying to cheat in a big way, whatever the process is, but most people are generally trying to be honest, but they fudge a little bit.

**How can insurers use behavioral science to increase customer satisfaction?**

You might think people's experiences with

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**Josh Wright**  
Ideas42

a product or procedure or service are based on some amalgamation of all the time they’ve interacted with that service, meaning you buy the insurance in the beginning, you make a claim, your claim gets paid.

If you’re rating the experience overall, you’d think all those things might be similarly factored in. But, actually, what behavioral science shows us is that the end effect is the most important. If you make an experience less painful and more enjoyable at the end, there’s a recency bias that makes their overall perspective on the entire experience happier.

There have been a number of studies on that. At the InsureTech conference I cited one around colonoscopies. With the colonoscopy test, they randomized people. In one case, they did the normal procedure. In the other case, at the end of the procedure they had a pause moment for about 30 seconds where they didn’t do anything, which means there was almost no pain for people at the time. Not only did those people report lower levels of pain, but they also were more likely to come back and get a colonoscopy five years later, because they had this end effect versus the peak effect in terms of their experience of pain or happiness.

Insurance companies might think about how important it is at the end of the whole experience to leave people feeling quite happy.

#### **Can you give me an example of how they could do that?**

For example, when they’re paying out a claim or fixing a person’s car, they could really go above and beyond to make sure the customer has a really good experience and feels their needs were met. Were they happy with their

experience? Did the problem fully get resolved for them? Focusing on the end part of the process and the interaction with the customer is a huge opportunity.

Most insurance companies, even the ones that are more focused on customer satisfaction, think they need to make the whole process better for people. Which is true, you do need to improve the whole process. But if you’re thinking about where your return on investment is, you should go to the end of the process and make it as pleasurable as possible.

#### **In the auto insurance segment, plug-in devices are being used as behavior-modification tools. Are they an effective way to create desired behaviors?**

I actually think something like [Progressive’s] Snapshot, from a behavioral perspective, is underutilized.

There could be more opportunities to give people real-time feedback about their driving. What if you knew you didn’t want to drive aggressively, and you recorded in your own voice, “Hey Josh, remember to be a calm driver”? It could play a message from your past self telling your current self that you’re driving in a hazardous way.

#### **From a behavioral science standpoint, is hearing that message in your own voice more effective than a computerized voice?**

The most powerful thing might be if I recorded my 12-year-old daughter telling me she wanted me to drive safely. That’s more powerful than a computer telling you the same thing.

Part of having the message in your own voice is that it reminds you that this is something you

yourself want to do. It's not someone else telling you to do it. It's the thing you said you wanted to do. The loved one saying it is even more powerful because it's a personalization of their love for you.

In behavioral economics, we think about how our preferences change over time. We talk about past self, current self and future self. Your preferences are not the same over time. This is a great example. If you ask me whether I want to be a better driver, have a bigger discount, use less fuel by not accelerating, right now, as I sit in my office, I'd say "Sure."

Then I go out driving, and maybe I'm rushing to get somewhere and someone cuts me off. That calm, sitting-at-my-desk self goes away and Mario Andretti comes out.

If you ask me after I've gotten home if I wish I drove less aggressively, the sitting-at-my-desk self again says, "Sure."

So there is some evidence that you can use technology to send your different selves different messages. If I'm sitting at my desk, I want my future self to know that when I drive, I should do certain things. Then, in that moment, my past self is delivering a message.

### **We've talked quite a bit about using behavioral science to interact with the end consumer. How can insurance companies use it within their internal operations?**

In underwriting processes and uses of data, behavioral economics can be quite useful. This is the other side of the coin. You have people who are doing underwriting and handling claims. We should realize those people have their own biases and their mind might not always work in the way they'd ideally like it to work. There are things in the underwriting processes where you'd want to account for human biases. Very closely connected to that is the use of data.

Big data has already hit insurance, but it's hard to get people to use it. Underwriters and claims adjusters look at data, but they're still making the decisions on their own.

We've done some work around how to present that information in a way that doesn't make people feel like the machine is taking over and taking their job.

### **How do you shift that mindset?**

We did some work with judges, who are probably as set in their ways and as cautious about data as insurance adjusters and underwriters. At a pretrial hearing, judges have to make decisions about whether they should hold someone in jail or let

them out before the trial takes place.

If you go talk to judges and ask them if they think a tool that helps with that decision would be a good thing, they'll say, "That tool is a very good idea. That judge over there needs it." It's an example of overconfidence.

We started thinking about what judges really care about. They care whether that person shows up for their court date. And if they do let them out, they are very concerned not only with whether they show up for their court date but also whether they are likely to commit a crime, and if it's likely to be a violent crime.

So we showed them a very simple tool that has three scales on it—crime, violent crime and return for court date. It's a sliding scale that says where they are on a 1-to-5 risk factor. If the risk is relatively high, and the algorithm says they should be kept in jail, it says, "Warning."

When you show that to the judge, they can see very visually what should be done. They still have the power to make a different decision and override it. But they end up following that recommendation at a very high rate. And in that case, the algorithm allows you to keep far fewer people in jail, the crime rate goes down and it costs the government less money.

### **How could that same scenario play out in insurance?**

Imagine something similar with underwriters. The information gets put in, and it can show underwriters a range for a rate and give them a recommended number. But it still gives them power.

You might even let them play around with the recommended number range so they could see some numerical tradeoff if they are high in the range, low in the range or even go out of the range, in terms of what the profitability would be to the firm, how much the customer would be overpaying, etc.

There are ways you can present the data visually that still leave the person with the feeling that they have the power, and they do have the power. You want the humans to be able to override when the machine is doing something that is clearly out of whack.

Often people think of it as machine versus human. There are a number of studies that show the combination of machine and human together beats either one.

The human is able to tell when something is a true outlier and the algorithm is doing something wacky, but then most of the time rely on the algorithm to be incrementally better than them. **BR**