



# Human Behaviour and the Life Insurance Application Journey

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# 1. Introduction

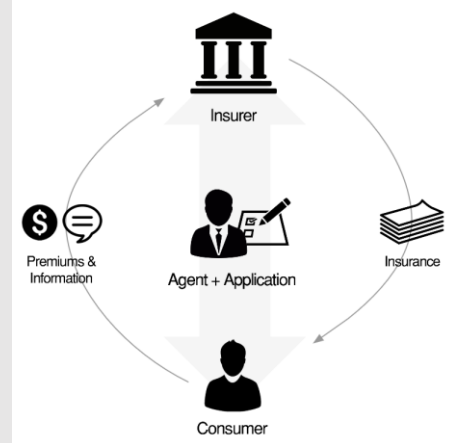
Life insurance is a tool that provides protection and financial security to people in cases of unexpected death or injury, allowing their families to carry on their way of living and reduce the burden on government social welfare initiatives (OECD Secretariat, n.d.). Despite its near universal applicability as a risk management tool, there still remains a great deal of confusion, and even skepticism, regarding life insurance. The complexity of the life insurance decision (How much income do your survivors need every year after you are gone? Should you choose term life or permanent life insurance policy?), negative perception of the application process, and even consumers' preferences for avoiding the topic of their deaths, all contribute to them not initiating or completing the life insurance journey.

## What is life insurance?

Life insurance is a contract between a policyholder and an insurance company whereby the company promises to pay out a sum of money to a designated beneficiary upon the policyholder's death, in exchange for regular payments today, called 'premiums'. As seen in Figure 1, the main stakeholders include the policyholder (i.e., consumer) who purchases life insurance, the insurance agent or advisor who helps process the application, and the insurer (i.e., insurance company) who receives premium payments in exchange for future protection.

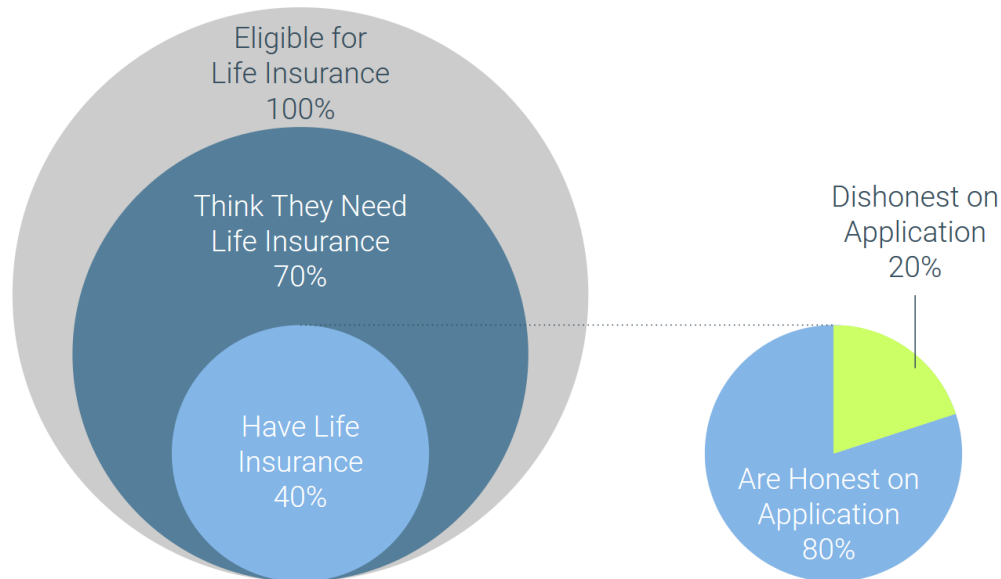
There are multiple types of life insurance available to meet the specific needs of individuals. The two main types of life insurance are term life, which provides protection for a shorter, specified period of time; and permanent life (whole or universal), which provides lifetime protection as well as the added benefit of cash value, a savings component that helps accumulate tax-deferred wealth over time.

Figure 1. The life insurance cycle



As a result, there are significant gaps in the market between people who are eligible for life insurance protection, those who recognize a need for it, and those who actually own some form of life insurance (Life Happens & LIMRA, 2017). The extent of the gap is illustrated in Figure 2. Only 70% of those eligible for life insurance think they need it, and a much lower proportion of individuals are adequately protected. A recent study by investment firm Edward Jones (2017) revealed that most Canadians are underinsured and unprepared for unforeseen serious life events that could lead to prolonged loss of income.

Figure 2. Gaps within the current life insurance landscape



In addition, polls in the United Kingdom show that only an estimated 80% of those that have life insurance claim to be honest to their insurer, implying that at least 20% of applicants knowingly withhold or submit false information (Bobatoo, n.d.). The presence of dishonest behaviour that makes use of the information asymmetry between insurer and applicants undermines the insurance application process. When consumers do not honestly disclose information on the application, insurers are less able to gauge the accurate level of risk with insuring the individual. As a result, total premiums are raised to cover fraudulent claims, and honest applicants end up paying the price for individuals who choose to be dishonest (Tonenciuc, 2015). These higher premiums further deter additional prospects, adding to the pool of the uninsured, and encourage others – who would ordinarily be honest – to cheat the system.

The purpose of the research is to look at the life insurance application journey from a behavioural economics lens. Contrary to traditional economic theory, consumers undergoing this journey are emotional, cognitively lazy, and susceptible to social influences, which can lead to suboptimal decision-making.

We are particularly interested in the following questions:

- a) What are the perceptions of the insurance industry generally held by consumers, and how does it influence their life insurance application journey?
- b) Why are consumers dishonest in disclosing risk information on the application, and how can we encourage honesty?

With consumers' behavioural tendencies in mind, we propose four sets of behaviourally informed solutions to increase the uptake of life insurance while simultaneously improving customer experience and honest risk disclosure:

- (1) Consumer education** – Insurers can help consumers cultivate a more positive perception of life insurance by making the topic more accessible and relevant. Short and engaging two-minute videos and online tutorials can allow consumers to familiarize themselves with basic concepts and get a preview of what to expect in the seemingly daunting application process. Moreover, these educational tools can be delivered at key events in a consumer's life (e.g., marriage or birth of a child) to make future planning more personally relevant.
- (2) Advisor training** – There are multiple parts of the underwriting process that can be confusing, embarrassing, or uncomfortable for both applicants and advisors. Developing guidelines for advisors on how to effectively interact with applicants to help them navigate the human aspects of the application process (e.g., answering embarrassing questions) will provide a better experience for both parties. Such intricacies of the advisor-applicant interaction can be built into current training programs.
- (3) Transparency** – To increase consumer trust in the process (and reduce the notion that insurance companies are “out to get you”), insurers can increase transparency to consumers at every touchpoint. For instance, they can use explanation pop-ups to provide clarity on why some questions are being asked and how it will be used in the underwriting process.
- (4) Personalization** – Consumers are increasingly expecting personalized interactions, both in-person and online. Personalized touchpoints help provide a more positive customer experience, and are likely to encourage trust and honest behaviour. Moreover, using customizable features – such as the ability to upload the beneficiary's photo on the digital application – can spur positive emotions and serve as additional motivation to overcome other hassle factors during the application process.

The rest of the report is organized as follows. First, we present our understanding of the life insurance application journey and identify relevant behavioural barriers for consumers undertaking this journey. Next, we discuss findings from our primary research to better understand consumers' attitudes toward life insurance and why they are not always honest in disclosing risk information. Building on our findings from research, we then propose a set of behaviourally informed solutions to tackle this challenge. Finally, we conclude with a discussion on how the FinTech revolution is reshaping the life insurance landscape and how insurance companies can take advantage of this digital opportunity.

## 2. Methodology

Our research began with a review of existing academic literature in the life insurance space. The goal was to understand some of the obstacles facing the industry, as well as to develop an initial view of consumer sentiments. To help corroborate these findings and uncover further insights, exploratory interviews were held with six consumers regarding their perception of the insurance industry, barriers they experienced along the process, and the accuracy of the information they provided. We also held a co-creation session for additional input, where we presented an excerpt of an existing insurance application form and encouraged 25 non-advisor industry professionals to provide constructive feedback and recommendations from a behavioural and customer-centric approach.

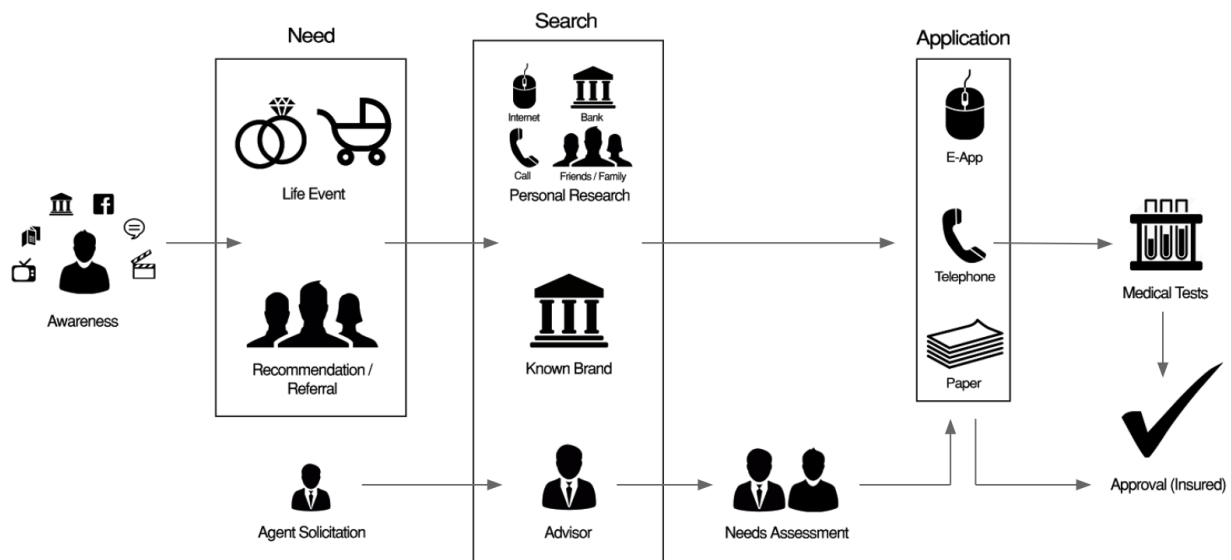
Interviews were conducted with five insurance advisors to construct a holistic view of the insurance application journey. Topics explored included the advisor's view of the application process, their primary roles, the underlying training, and honest disclosure from applicants. Finally, an online survey of policyholders and non-policyholders was conducted to more closely examine specific themes such as honesty in risk disclosure and to provide quantitative support to previous findings. The survey received 335 respondents, 70% of whom were life insurance policyholders. Please refer to Appendix A for detailed demographics of survey respondents.



### 3.The Life Insurance Application Process

The life insurance application journey varies across individuals, with the typical process being spontaneous (Franken et al., 2010). Figure 3 illustrates our representation of this journey in greater detail. Starting from the left, individuals begin with a general awareness and rudimentary understanding of life insurance and follow three basic steps toward becoming insured: (1) recognizing the need, (2) actively searching, and (3) undertaking the application process.

Figure 3. The customer's life insurance application journey



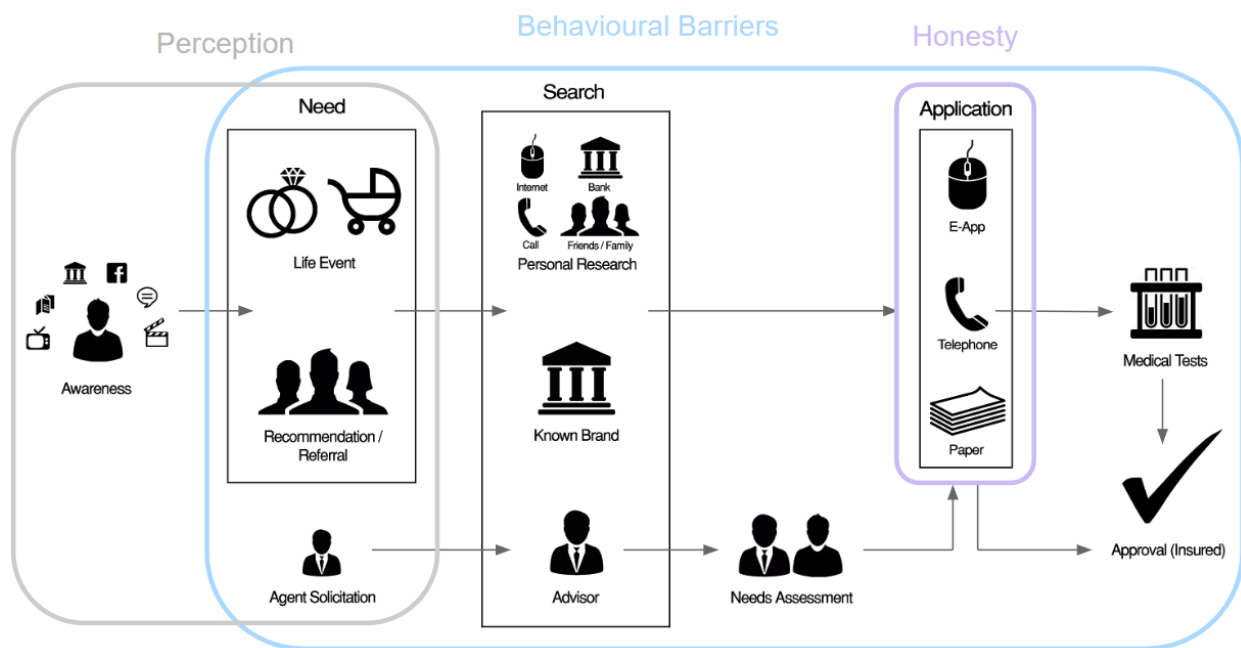
First, to move beyond awareness, individuals need to recognize a personal need for life insurance. This could materialize through the form of some catalyst – typically a life event such as marriage or childbirth – and/or through a trusted recommendation from friends or family. Next, individuals must turn that passive need into action by actively seeking out life insurance. Through various channels, whether personal research, visiting a financial institution, and/or speaking with an advisor, the individual eventually decides on a life insurance product and undertakes the actual paper, telephone, and/or e-application process, before owning a life insurance policy.

## 4. Behavioural Insights

Traditional economic theory suggests that humans are unemotional and forward-looking beings who are capable of analyzing large quantities of information in order to make choices that maximize their overall well-being. The truth is, humans are emotional, cognitively lazy, and more often than not, “irrational” in their decision-making (Thaler & Sunstein, 2008). It is critical to understand how real people behave to identify the behavioural barriers they may face in the life insurance application journey. In the words of Dan Ariely (2008), “our irrational behaviours are neither random nor senseless – they are systematic and predictable. We all make the same types of mistakes over and over, because of the basic wiring of our brains” (p. 239).

Specifically, our research examined three key areas within the customer journey: (1) the individual's perception of life insurance, (2) their inherent human biases, and (3) the honest completion of the application (see Figure 4).

Figure 4. Three primary areas of focus in the life insurance journey



### 4.1. Perception

The insurance industry is easy to misunderstand. Life insurance marketing is vague, consumers have infrequent contact with the material (since it is not mandated by Canadian law), and individuals are averse to thinking about their death (Lesch & Johannes, 2011). This inability to develop familiarity with the process causes it to appear evermore troublesome, and consumers are left with little motivation to take part above and beyond what is perceived to be necessary. In fact, our survey results show that

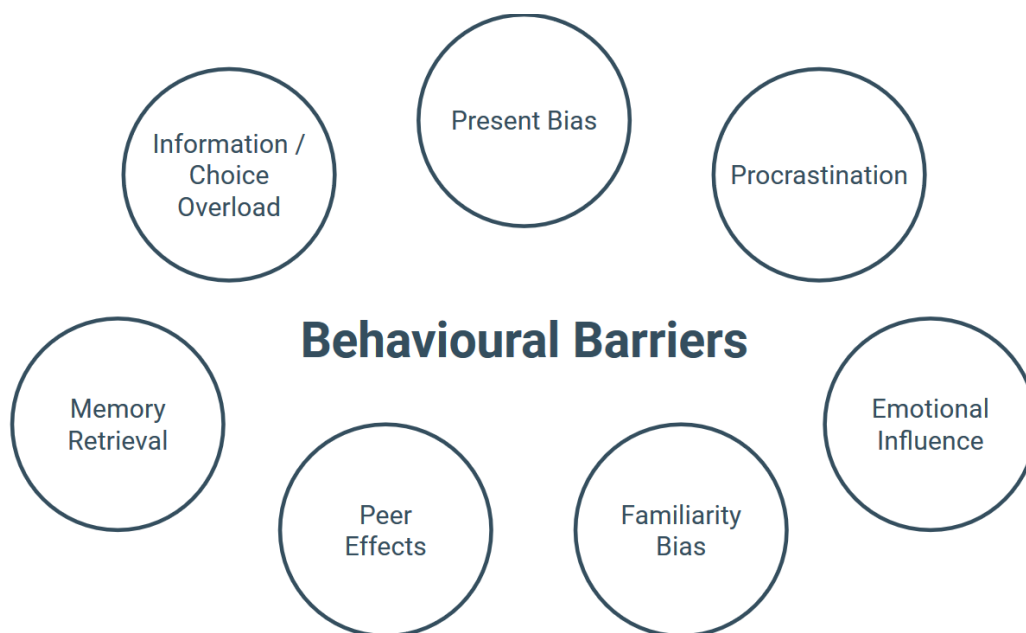
non-policyholders assume the application process is significantly worse than it actually is (i.e., how current insurance policyholders remember it).

Moreover, the idea of purchasing life insurance is heavily tied to the social belief that it becomes necessary after the birth of a child or a major life event. Due to this perception, individuals who have not experienced such an event are less inclined to consider their need for the product. Overall negative views of insurance agents and companies also contribute to further diminished levels of urgency to obtain life insurance (Retzloff, 2010).

## 4.2. Behavioural barriers

Throughout our research, several patterns and recurring themes emerged with regards to the obstacles facing customers' life insurance application journey. We distilled these obstacles into seven key behavioural barriers illustrated in Figure 5. This section will examine the effects of each barrier and their implications for life insurance.

Figure 5. Key behavioural barriers within life insurance



*Information/choice overload* – The human mind has a limited ability to process and digest large quantities of information (Simon, 1955). In the face of a highly complex subject like life insurance, where there are large amounts of information to sort through and evaluate, individuals struggle to come to a comfortable understanding of the decision they are about to make. This information overload may hurt individuals when comparing different policies, leading them to use substandard comparison metrics like price or brand, rather than looking critically at whether the insurance product is best suited for their individual circumstance.

The numerous policy options available to consumers can also overwhelm individuals seeking insurance independently. Choice overload leads to confused individuals who may feel that they will never be able to gain an in-depth understanding of life insurance. As a result, they may delay the purchasing process or abandon it altogether (Ozkan & Tolon, 2015).

***“I’ve read a few articles, and to be honest they (are) lost on me about different types of life insurance [...] I make like halfway through those articles, and it just kind of confuses me.”***

*- Life insurance customer*

**Present bias** – Individuals have a tendency to overweigh immediate rewards and costs over those that are delayed in time (O’Donoghue & Rabin, 1999). This bias implies that consumers may disregard future rewards when present sacrifices are needed (Ainslie & Haslam, 1992). In the case of life insurance, although people are aware of its future benefits, many are still unwilling to make the sacrifice of taking time and effort from the present to complete the application process. Moreover, for individuals who do not have a strong understanding of the benefits of life insurance, their purchasing commitment is weaker. In addition, people tend to overvalue money they currently hold over future financial gains. In this sense, customers may over-focus on methods to reduce current premium costs and end up with a suboptimal product that leaves them underprotected.

***“If we were to do it on our own... we just wouldn’t make the time.”***

*- Life insurance customer*

**Procrastination** – This refers to the tendency to avoid or postpone a task that needs to be accomplished. By delaying a task, individuals subconsciously protect themselves from any stress and anxiety associated with it (Froehlich, 1987).

Therefore, potential life insurance customers with a preconceived notion that application will be a negative experience are also more likely to delay the process. In the study by Beutel et al. (2016), researchers found a significant correlation between age and procrastination wherein younger individuals were more prone to procrastination than older individuals. In the context of life insurance, overconfidence about one’s health conditions or a lack of motivation to begin long-term planning among the younger cohorts can also contribute to this behaviour.

**Familiarity bias** – Individuals have a preference for what is familiar, and are apprehensive against what is unfamiliar (Klein, Cerully, Monin, & Moore, 2010). Unlike medical, home, or auto insurance with which people tend to have more experience, life insurance is foreign and unfamiliar, contributing to consumers’ resistance to consider a purchase. With few touchpoints, a distant benefit, and high complexity, it becomes a challenge to close the familiarity gap and motivate individuals toward pursuing life insurance products.

### 4.3. Honesty

As previously mentioned, honesty is not only relevant to insurance companies that require accurate information to correctly assess the risk they are taking on. Encouraging honesty in insurance applications will also help to keep premiums low for honest applicants and lower the possibility of the insurer denying a claim upon discovery of inaccurate information. Behavioural barriers associated with honest disclosure during application are as follows:

**Emotional influence** – One could argue that emotions are central to the human experience. Yet the same emotions are the source of many hard-to-explain behaviours. There are two opposing effects of emotional influence within the life insurance context. On one hand, negative emotions such as fear surrounding one's mortality cause some individuals to delay future planning. On the other hand, the same emotions encourage others to pursue insurance as a failsafe to put their minds at ease. In particular, strong feelings of love for children and other family members may push individuals to seek out life insurance protection or to become more honest during the application process to ensure a smooth claims process for beneficiaries in the future.

***“(It’s) any scary thing...  
you need life insurance when  
something really bad happens.”***

*- Life insurance customer*

**Peer effects** – People rarely make decisions independent of context. Rather, they take cues and references from others around them on what to choose or how to behave. Research has shown that as an aspect of socialization, individuals internalize the norms and values of their society, and use them as internal benchmarks against which they compare their own behaviours (Mažar, Amir, & Ariely, 2008). Behaviour that is compliant with the individual's internal value system provides positive affirmation while noncompliance leads to negative feelings. In this sense, following along with a family member's product recommendation might make an individual feel good, but may not necessarily provide them with the most appropriate protection. Likewise, lying on an application is acceptable if it is perceived that others within society also behave similarly. Peer effects can thus lead an individual astray along the life insurance journey.

**Memory retrieval** – Human memory is fluid, not specific, so it is a natural challenge for many to recall specific events or information from the past. As memory worsens and life experience increases with age, it becomes difficult for life insurance applicants to accurately provide detailed information for insurers to assess risk. It should be noted that the results of this tendency are difficult to diagnose in practice, since those lying about personal characteristics could also claim forgetfulness.

## 5. Discussion of Findings

The consolidated findings from our primary and secondary research are multifaceted and can be categorized into four distinct sections: (1) general attitudes toward life insurance, (2) the life insurance search process, (3) disclosure of personal information, and (4) the role of advisors. These sections harken back to our research areas of focus – that of perception and disclosure – revealing the intricacies of these effects and their relationship with the aforementioned behavioural barriers that permeate throughout the application process.

### 5.1. General attitudes toward life insurance

Consumer perceptions toward life insurance applications tend to be largely neutral, with the balance of respondents identifying more with positive experiences than negative ones (see Appendix B). This could be an instance of expectation versus reality, since non-policyholders appear to anticipate a more negative application process than policyholders. This pessimism toward life insurance likely contributes to the gaps within the life insurance landscape (Figure 2) by providing more reason to procrastinate.

***“Life insurance for me is one of those things that is not a high area of interest, but you know you need it.”***

*- Life insurance customer*

***“Once it’s taken care of, it feels, ‘It’s done.’”***

*- Life insurance customer*

The large quantity of neutral perceptions could be attributable to the fact that people tend not to think or speak about life insurance in their everyday lives. While most people are aware of the significance of owning some form of life insurance, there is likely a general lack of interest and motivation to become more familiar with the topic across the population, regardless of the level of financial literacy (Retzlaff, 2010). Moreover, once insurance has been secured, at whatever level or in whichever form, the topic is rarely broached again.

Furthermore, customers and advisors seem to agree that life insurance is a product bought out of love, purchased for the well-being of someone other than the policyholders themselves. In fact, the majority of individuals do not recognize the need for life insurance until they have a dependent or a partner in their lives. Making salient the purpose of purchasing life insurance – that is, providing for their dependent or partner – can motivate people to follow through with the insurance journey, in spite of the barriers along the way.

Finally, main complaints about the application process include the amount of paperwork (a major hassle factor), complexity of the information presented, and an inability to easily compare insurance products and brands. Consumers also complain about giving out personal information, which is related to a lack of trust stemming from

unfamiliarity with the insurance underwriting process – the process of assessing the risk of insuring an individual and determining the appropriate cost of insurance to cover that risk.




## 5.2. The life insurance search process

The key drivers that push individuals to actively search for life insurance include childbirth, marriage, and receiving a recommendation from family or friends (see Table 1). Other studies have also found that unique life events have the greatest effect in curbing procrastination and spurring consumers to act (Bulakites, 2014). We also find that the desire to self-educate by conducting one's own research appears to be consistent regardless of the purchase driver, which could be a potential avenue to reach prospects. The fact that millennials' main purchase driver is recommendation should be noted since existing strong peer effects could be utilized to further engage this cohort.

**“The minute you have a child – life insurance.”**

- Life insurance customer

Table 1. Key drivers that push individuals to actively search for life insurance







| Drivers   | Customer Segment   |
|---|--|
| <br>Childbirth     | Individuals in this category are predominantly female between the ages of 35 and 49, with higher income. They are more concerned with privacy, and prioritize fit with the insurance product. They tend to conduct their own research or work with an advisor, and report having a better experience with the application process.   |
| <br>Marriage       | This group tends to be younger, with higher income. They value privacy and fit, but are more price sensitive. They are more likely to conduct their own research or seek a known brand than accepting a recommendation. They generally report having a better experience with the application process.   |
| <br>Recommendation | Individuals in this category are predominantly millennials who are single or partnered with no children. This cohort struggles with the complexity of insurance information and will prioritize reputable brands. While they rely on recommendations, they will also use research to fact check this information. They tend to have a more neutral sentiment toward the application process. |

Results from online survey conducted with 335 respondents. Refer to Appendix A for complete demographics information.

Table 2 shows that while the key drivers for life insurance evolve as an individual ages, they are still characterized by life's milestone events. The disconnect here lies in the lack of interaction advisors have with consumers after the initial policy purchase, since client needs are constantly evolving and a multitude of reinsurance opportunities exist (Slavutin, 2015).






Table 2. Main purchase drivers of life insurance by age segment

| Age  | Drivers  |
|--|--|
| <br>19–34 | <br>Recommendation, Marriage  |
| <br>34–49 | <br>Had a child, Marriage     |
| <br>50+   | <br>Estate planning, Marriage |

Results from online survey conducted with 335 respondents. Refer to Appendix A for complete demographics information.

We also found that individuals use a variety of methods to search for life insurance, predominately through their own research, recommendations from friends or family, and/or through a brand they are familiar with. These methods detailed in Table 3 all point toward customers' desires to be able to distinguish whether a company or advisor is worthy of their trust (Art, 2014). It is interesting to note that, while non-policyholders believe that they will use a combination of channels and conduct thorough research when the time comes, current policyholders in the survey recall a much more spontaneous search process (Franken et al., 2010).

Table 3. Customer segment details by main search method

| Search Method   | Customer Segment   |
|---|--|
| <br>Own Research   | These tend to be young married males who often do not seek help from insurance advisors. They value low prices and speed, and have a more neutral sentiment toward the application process.            |
| <br>Recommendation | These tend to be young married females who prioritize fit (a suitable product and reputable brand) and welcome help from advisors. They carry a more neutral sentiment toward the application process. |
| <br>Known Brand    | These tend to be older married females with children who also prioritize fit. They generally have a better experience with the application process.  |

Results from online survey conducted with 335 respondents. Refer to Appendix A for complete demographics information.

In addition, we found that when searching for life insurance, the most important factors consumers consider include the insurer's reputation, suitability of the product to meet



their needs, and the price. There is a close complementary relationship between finding a suitable product and a reputable brand in that those who prioritized one also tended to prioritize the other. Given that suitability is difficult to compare between the large variety of insurance options, this relationship might reflect the consumer's attempt to use easier measures like brand as a signal for suitability. Those consumers who prioritize price, however, focused strongly on that one particular variable alone.

Finally, non-policyholders tend to be more price sensitive regardless of customer segment. This finding may be due to their lack of familiarity and experience with life insurance decisions, leading them to over-focus on methods to reduce current premium costs rather than looking critically at which insurance product best meets their specific needs. This finding implies that insurers must overcome present bias in marketing their products.

### **5.3. Perceived fairness and disclosure of information**

Perceived fairness refers to consumers' interpretations of the balance in the give-and-take between insurance companies and themselves. Though most consumers believe in a mutual benefit from providing accurate risk information in a life insurance application, a large proportion of consumers still believe that the benefit lies solely with the insurer. This general perception leads many individuals to perceive the interaction as unfair, resulting in a lower willingness to disclose and decreased customer satisfaction and reinsurance intent (Durvasula, Lysonski, Mehta, & Tang, 2004; Tseng & Kuo, 2012).

***"If the organization taking my data was getting value and I'm not, then I'm not particularly keen."***

*- Life insurance customer*

This perception of unfairness is likely driven by consumers' lack of trust for the insurer and unfamiliarity with the underwriting process (Retzliff, 2010). Widespread misconceptions about the industry add fuel to consumer skepticism. For example, when quizzed about what percentage of auto insurance premiums are returned to consumers in the form of claims, consumers estimated a claims ratio of 40%, which is less than half of the true ratio of 86% in that year (Franken et al., 2010; Insurance Europe, 2015). End-user interviews supported the perception that insurers did not side with consumers; instead, they were seen as self-interested parties 'out to get you'.

***"I feel like insurance will find you and get you. Yes, I do."***

*- Life insurance customer*

Another barrier to accurate disclosure of risk information is confusion around the questions themselves. While the majority of consumers claim to perfectly understand why different sections exist within the application, most find it difficult to comprehend the level of detail with which questions are asked. As a result, applicants formulate their own interpretation of why questions are asked and provide responses that suit that interpretation instead. Take alcohol consumption, for example. When prompted to disclose an account of their drinking behaviour, the majority of respondents in our survey say they would omit the occasional drink. Some indicated they would only

reveal their drinking status if they considered it of significance (i.e., drinking from a few times a week up to daily consumption). This variance in question interpretation can be a cause for concern when insurers need to accurately assess consumer risk.

Finally, misconceptions about the behaviours of their peers may also lead to inaccurate disclosure of information during the underwriting process. Concerningly, consumers have a skewed perception about the prevalence of dishonesty within the life insurance application. Almost all consumers believe other applicants frequently lie in the lifestyle section of the life insurance application and at least sometimes lie across all other sections, even though statistics reveal that this is likely not the case (see Figure 2). As discussed in Section 4, peer effects indicate that individuals will be able to use this perceived social norm to rationalize their own dishonest behaviours, thereby perpetuating it (Mažar et al., 2008).

In Sections 6 and 7, we will explore how insurance companies can encourage better disclosure in their life insurance applicants.

#### **5.4. The role of insurance advisors**

As credence goods – where consumers are unable to assess product quality even after purchase – life insurance products are naturally difficult to evaluate. Furthermore, no industry benchmarks are available during the search process, and no formal review of the product exists after issuance (Lesch & Johannes, 2011). There is also limited opportunity to assess product quality through a potential claim, leaving many policyholders uncertain of their purchase (Lesch & Johannes, 2011). This is where advisors can provide value.

***“Explain all of this to me, because I don’t understand exactly what I’m signing my name onto.”***

*- Life insurance customer*

According to a study by the Life Insurance and Market Research Association (LIMRA), more than half of U.S. consumers in each age group would prefer to buy insurance face to face (Retzliff, 2011). Advisors play an important role in bridging many of the gaps between insurers and consumers, helping break down the behavioural barriers that consumers exhibit. Specifically, advisors help consumers understand the future value of life insurance, instill them with confidence for the underwriting process, and advocate for full disclosure on the insurer’s behalf (Stanley, 2010; Yu & Tseng, 2015). They also help keep the insurance dialogue open before and after the sale of a policy, through prospecting and following up with their portfolio of clients (Bennett & Camilli, 2016).

Where the insurer is unable to, advisors strive to develop trust with their clients with a personal touch. This is most often done through a fact-finding process to match the applicant with the correct insurance product. Advisors also set expectations and ease uncertainties consumers may have by answering any questions about the application. Some advisors will participate in the application process, and further probe using follow-

up questions not found directly in the application form, to ensure that no information is left out and no question misinterpreted.

Some individuals will seek an advisor to outsource the mental work of filling out life insurance forms, despite citing high financial knowledge. But regardless of customer segment, individuals are aware of their struggle with information / choice overload, so they desire an advisor who is knowledgeable and easy to understand. Weary of being sold an unsuitable policy, applicants also want to trust their advisor, so they look for genuineness and heavily consider the reputation of the advisor's firm (Art, 2014; Owen, 2016; Retzloff, 2010).

***“With my life it’s crazy. It’s busy. I have two kids, (I’m) working. I try to outsource what I can to just stay sane.”***

*- Life insurance customer*

In general, consumers do not prioritize the need for an advisor during their search, yet the majority of those who end up using advisors report a better experience with the application process (Sharps, Hitsky, Hodgins, & Ma, 2015). Those new to life insurance, in particular, desire more guidance from advisors, indicating a preference for more dialogue and more frequent touchpoints.

Still, there are gaps between what consumers desire and what advisors actually provide. Almost all consumers who used an advisor expressed interest in additional correspondence or follow-up and were open to more frequent check-ins to see if their needs had changed with time; however, only a third of consumers received this service from their advisors (Crawford & Handy, 2014; Retzloff, 2011). Additionally, some advisors do not currently conduct the entire application process themselves, citing a lack of underwriting knowledge and discomfort in knowing the intimate details of their clients' lives. This hesitation can hinder optimal results, since these areas are precisely the ones that consumers struggle with and where they require additional guidance and support.

To conclude, consumers have a strong disinterest in life insurance, which is in conflict with their commonly held belief that insurance is necessary and beneficial (Franken et al., 2010). Coupled with a resistance to long-term planning and negative perceptions surrounding the topic, these countervailing forces can result in an underinsured population. Moreover, those seeking life insurance wish to feel confident that they have made the right decision but lack comprehensible metrics to evaluate the quality and suitability of their insurance product. As a result, they rely heavily on personal referrals and brand reputation; or false metrics, such as price, which do little to broaden their understanding of the product.

To encourage full disclosure and further business opportunities, insurers will have to combat some consumers' negative views of the industry, especially for new prospects, and begin to fill the education gap. Consumers must feel that what they are contributing has value that is meaningful to them (Durvasula et al., 2004). At the end of the day, life insurance is an emotional purchase and requires a human touch, whether that manifests in the presence of an advisor or through other methods of personalization used at various touchpoints.

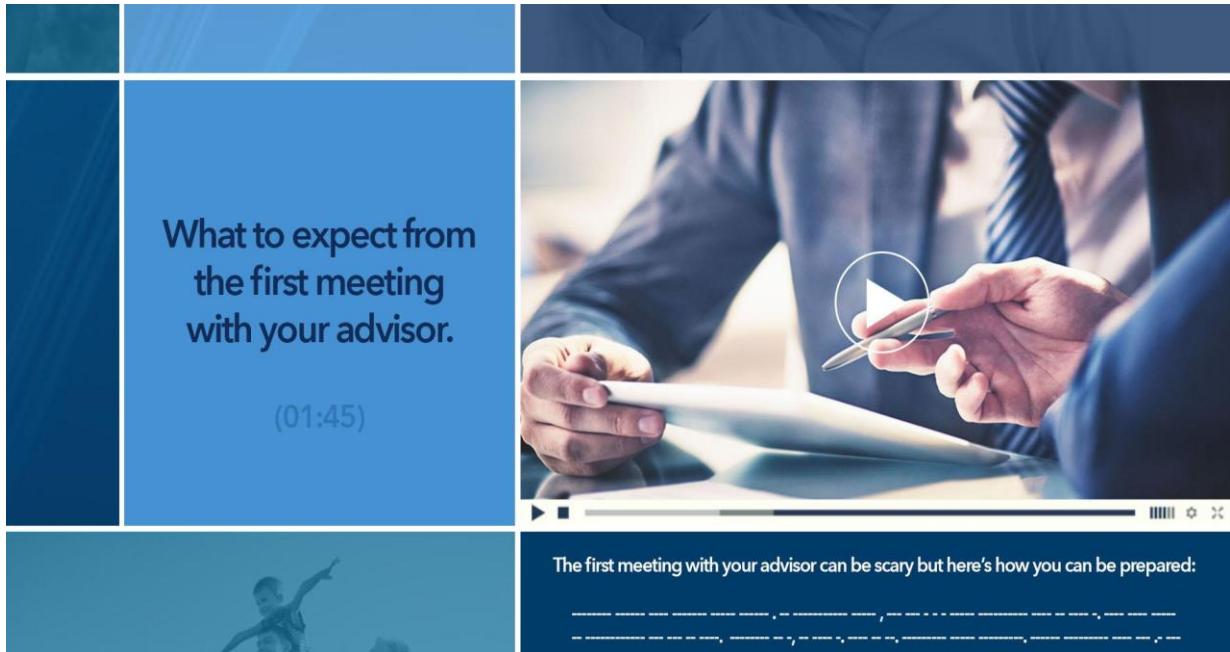
# 6.Recommendations

The previous sections discussed the relevant behavioural barriers, where they arise, and the intricacies of how they affect consumers throughout different stages of the life insurance application journey. This section details how insurance carriers can implement behaviourally informed solutions to increase the uptake of life insurance, while simultaneously improving customer experience and disclosure. Specifically, we recommend (1) providing accessible consumer education, (2) improving advisor training, (3) increasing the level of perceived transparency, and (4) making use of personalization to encourage positive behaviour.

## 6.1. Consumer education

Insurers should strive to deepen customers' understanding around various parts of the life insurance process to familiarize them with various decisions in the journey. As our survey showed, prospective customers are likely to conduct some form of personal research, and providing easily accessible educational resources like videos and short tutorials will be useful. Topics can range from explaining the basics of life insurance (e.g., what is it and who should consider it?), illuminating the application process, explaining how to evaluate and choose between different products, and describing how to prepare for a meeting with an insurance advisor. As illustrated by Figure 6, this information could take the form of videos on the insurer's website(s) or social media channels.

Figure 6. Example of online resource to educate consumers



Above image is for illustrational purposes only and should not be taken as guideline for how video content should be displayed.

Educational resources should be visual to keep viewers engaged, quick (1–2 minutes), and cover a single concept to prevent information overload. A case study of 560,000 video sessions conducted by video marketing firm Breadnbeyond found that there is significant viewer drop-off after the 2-minute mark (Yonata, 2016). Videos should also be easy to understand, using laymen's terms and ideas relatable to the customer to dispel the perception that insurance is inherently overly complex and difficult to understand.

Some of the videos currently used by insurers are similar to advertisements, designed to direct customers to specific products or processes, and this aim is reflected in their tone and visual presentation. Insincerity can easily be detected by cynical customers accustomed to marketing fluff, and can trigger aversion toward salespeople and the product they are selling (Owen, 2016). Instead, insurers can better demonstrate that they have their customers' interests at heart through a purely educational approach.

Online videos can double as a tool for advisors to use during client interactions as well, since advisor turnover can make it difficult to ensure a consistent and deep level of product knowledge across all advisors (Durvasula et al., 2004). Insurers can further improve the effectiveness of these educational tools by targeting consumers at key events in their lives, such as birthdays, marriage, or the birth of a child (Bulakites, 2014). Research by Dai, Milkman, and Riis (2014) have found that individuals are significantly more likely to tackle their goals immediately after a temporal landmark. New Year's resolutions are a great example of this 'fresh-start' effect that has the power to overcome even strong behavioural biases such as procrastination and present bias for a short time. It is, therefore, important to consider the timing of intervention for life insurance education as well.

## 6.2. Advisor training

Currently, each advisor has their own preference for how to interact with consumers, which application methods to use (e.g., online, phone, in-person), and how to conduct underwriting interviews, with some opting not to participate

***“To prevent that [clients from being declined], I think more training needs to be done on an application process, with seasoned advisors helping out, with the underwriters telling the advisors the importance of getting full and in-depth answers to the questions.”***

*- Insurance advisor*

in the application process at all. It would benefit insurers to develop a consistent set of best practices with seasoned advisors as well as underwriters to support new and existing advisors. Research by Schoar and Datta (2014) shows that simple guidelines and rules of thumb are effective as they distill complex information and are easily recalled at the time of use. A list of best practices will help advisors make “reasonably good” decisions without the need to understand all the intricacies behind the underwriting process.



The following list contains a number of topics that insurers can consider when designing such guidelines:

*Trust building* – Information sharing can positively influence the quality of the relationship between insurer and customer or advisor and customer (Yu & Tseng, 2015). While needs assessment and the application process are centered on obtaining information about the customer, it is important for advisors to find ways to balance the information exchange by also disclosing information about him/herself or the insurer. Mutual disclosure will not only strengthen trust, but also ease any psychological insecurity customers may carry into the meeting.

*Framing* – Goal setting has proven to be an effective way to make the future seem more tangible and has been used as an effective method to uncover customers' financial or insurance needs. Interestingly, research has shown that even the expression of time can have an impact in how consumers make decisions. For example, individuals discount future value at a much higher rate when time is expressed as a delay ("in 20 years") as opposed to as a concrete date ("the year 2037") (Read, Frederick, Orsel, & Rahman, 2005).

*Application* – Advisors express a desire for additional training on the underwriting process, as well as technical training on how to use certain application mediums. As the applicant's guide through this often-daunting process, advisors wish to be able to speak to parts of the application that clients are unsure of, while, at the same time, helping underwriters get the pieces of information that matter most for each section. This training can be first conducted in-person, and then key points can be reproduced in a video or a summary sheet format that advisors can revisit when necessary.

*Reminders* – A major purchase obstacle for life insurance is the familiarity bias that works against it due to the lack of touchpoints. Our survey found that once consumers purchased any form of life insurance, they were unlikely to revisit the topic again even if they were underinsured. This is where reminders and active advisor communication can help keep goals salient, and nudge people to action (Karlán, McConnell, Mullainathan, & Zinman, 2010; Rai & Medha, 2013). In experiments by Karlán et al. (2010), monthly reminder messages from a financial institution increased the attainment of savings goals by 5.4% compared to the control group. As per the education interventions, advisors should carefully consider the timing of such reminders and find a communication frequency or method that is suitable for life insurance and their customer specifically.

*Follow-up* – Customer needs evolve over the course of their lifetime. Even if current insurance goals have been met, there remains potential for reassessment or reinsurance. Insurers can aid advisors by flagging customers that potentially require a review based on their personal details (e.g., if clients' original purchase driver was marriage, touching base with them a year or two to review any changes in needs).

In sum, insurance companies should help advisors recognize the importance of their presence throughout the life insurance application journey. This practice would enhance the applicant's experience of the process as a whole and help nurture their relationship with the advisor for potential reinsurance.

### 6.3. Transparency

From the customer's perspective, the promise of insurance is undermined by the perceived complexity and ambiguity in the fine print (Kvalnes, 2012). What can insurers do to remedy their relationship with customers?

Research has drawn a relationship between trust and transparency (Rawlins, 2008). To earn trust, insurers must reflect on how they communicate with customers at every touchpoint, including the provision of information, interaction with customers, or the reception of feedback (Auger, 2011). Research has shown that "sharing of factual and reliable information in an exchange will [...] reduce suspicion of hidden facts or self motives; these aspects will positively increase the perceived integrity and reliability of the trustee" (Yee & Yeung, 2010, p. 148). Joinson, Reips, Buchanan, and Paine Schofield (2010) found that the willingness to disclose personal information is moderated by both trust and privacy, where privacy is of more concern when there is low trust and less concern when trust is high. Thus, as insurers begin to build trust and strive to encourage honest disclosure, it is essential for them to be transparent about their use of customer information as well.

***"I think it's – you do unto others, don't you? If I feel that this organization was being transparent, there was no reason for me to lie to them."***

*- Life insurance customer*

Within the life insurance application, transparency can be demonstrated through simple explanation pop-ups (Figure 7) for specific sections or questions that clarify why such information is being gathered or how they will be used in underwriting. Insurance quotations could also provide a visual breakdown of how specific sections of personal information went into the calculation of the final premium. This way, customers will be able to better understand the value of information they are providing to insurers. These areas within the application will also act as cues or talking points to support advisors in helping their client understand the importance of complete disclosure.

Figure 7. Example of an explanation pop-up to increase transparency



Outside of the application, insurers should be open to direct customer feedback. Advisors will need to convince customers of their genuineness, and be ready to have conversations about their own experience or how each application process may differ with each insurer. Having an honest two-way exchange of information will not only improve trust with customers, but it will also provide timely feedback to insurers to improve upon any unforeseen operational obstacles along the application journey.

## 6.4. Personalization

Customers desire more frequent, meaningful, and personalized communications (Crawford & Handy, 2014). Contrary to the warm and positive image that insurers project in their branding, current application mediums resemble calculated and cold transactions. Instead, insurers should make use of customers' positive emotions surrounding their loved ones, the same emotions that drove them to seek life insurance in the first place, by setting personalized reminders.

Cheema and Bagchi (2011) found that in domains as diverse as savings, studying, and pursuing a sales target, visualizing an end goal enhances performance. The same logic can be applied to life insurance through the use of a visual aid, such as an image of the beneficiary to motivate customers, whether that is within the application itself or a tool used in meetings with the advisor. In fact, a study by Soman and Cheema in the same year (2011) saw an increase in savings behaviours when the pictures of participants' children were used as a goal reminder. Figure 8 illustrates a potential design that juxtaposes just such a visual reminder next to the online application form.

Figure 8. Using visual cues to motivate life insurance customers



The image shows a screenshot of a life insurance application form. On the left side, there is a photograph of a young boy smiling and holding a globe. To the right of the photo, the form has a blue background. The title of the section is "Your family medical history" in bold black text. To the right of the title, in a smaller, italicized font, it says "Why is this being asked?". Below the title, the text asks: "Have either of your parents ever been diagnosed with Huntington's chorea, Parkinson's disease, Alzheimer's disease, amyotrophic lateral sclerosis (also called ALS), hepatitis, or any kidney disorders?". At the bottom of this section, there are two buttons: "Yes" and "No". A mouse cursor is pointing at the "Yes" button.

However, reminders need not be explicit. Shu, Mažar, Gino, Ariely, and Bazerman (2012) conducted a series of experiments to test the effect of ethics salience on dishonesty in self-reporting by changing where signatures (or declarations of honesty) appear in forms. By presenting the commitment to truthfulness first, researchers saw a significant increase in honest self-reports. In the context of motivation in life insurance, the collection of beneficiary information, which often resides near the end of an application, can be moved near the beginning of the application process in order to



keep its effects on motivating a customer through the application process and increasing honesty.

Personalization can also manifest through other touchpoints such as customer profiles on the insurer's website that provide personalized dashboard and recommendations, or through interactions with advisors who are able to recall details about the customer's life and display genuine care. Through scrutinizing and refining the details of each interaction, insurers will be able to provide a much more coherent and consistently positive customer experience to ultimately drive trust and honest behaviour.

## 7. The Way Forward

The global life and health insurance space is a \$3.9 trillion market, with life insurance taking up a hefty 14.8% of the share, or approximately \$577 billion (IBISWorld, 2016; see Appendix C for breakdown). While the market has seen steady growth over the years, traditional insurers face the challenge of slow processes and growing competition from technology-driven new entrants (Capgemini & Efma, 2017; IBISWorld, 2016). Moreover, customers increasingly value digital interactions, especially the young and tech savvy, who use the Internet as the most important touchpoint for their insurance transactions (Capgemini & Efma, 2017). Hence, there is mounting pressure for insurers to evolve and reinvent themselves to meet changing customer needs (PricewaterCoopers, 2017).

This report looks at how insurance companies can address the behavioural barriers consumers may face in initiating and completing the life insurance application process. The proposed solutions rely on better touchpoints (e.g., accessible educational tools, positive interactions), greater personalization, and greater efficiency (e.g., faster and transparent processes). As digital resources are becoming integral to the insurance customer experience, the opportunity for insurers lies in taking advantage of InsurTech – technology innovations to complement the traditional insurance model – to realize the proposed solutions.

There are multiple avenues in which InsurTech may help reduce behavioural barriers in a consumer's life insurance application journey. For one, it can capture and analyze data from multiple sources to offer personalized risk assessment and propose customized solutions. For example, Allstate Canada recently launched a usage-based insurance (UBI) program that uses a wireless telematics device installed in a vehicle to capture real-time data and reward safe driving (Allstate, 2016). Another health insurer, Max Bupa, is working on wearables for consumers in order to track physiology and offer health coaching (Capgemini & Efma, 2017). Moreover, customized digital interactions may help customers overcome the barriers to initiating the life insurance process and following through.

Global investment in InsurTech totaled USD 1.7 billion in 2016, with the volume and value of deals having doubled since 2014 (Accenture, 2017). Yet, InsurTech deals relating to life insurance accounted for only 7% of the total investment in 2016 (Accenture, 2017). With changing market demands, the need to take advantage of opportunities in InsurTech is urgent for insurance companies. InsurTech can offer a fresh and data-driven approach to existing processes – from using new sources of data for underwriting (e.g., sensor technology to monitor customers' health, which can alert them to any early signs of illness) to using advanced analytics to leverage existing data (generating deeper risk insights to develop personalized solutions).

Though insurers expect to see a growing need to enhance interactions with clients and introduce sophisticated solutions, they are not, by and large, taking full advantage of InsurTech opportunities. Insurers overwhelmingly agree (75%) that developing technological capabilities will help them better meet customers' evolving demands, yet the majority are not considering new forms of improvements to address this gap

(PricewaterCoopers, 2017). Without developing technological and behavioural capabilities detailed in this report, insurance companies will find it challenging to remain competitive in the rapidly changing insurance landscape.

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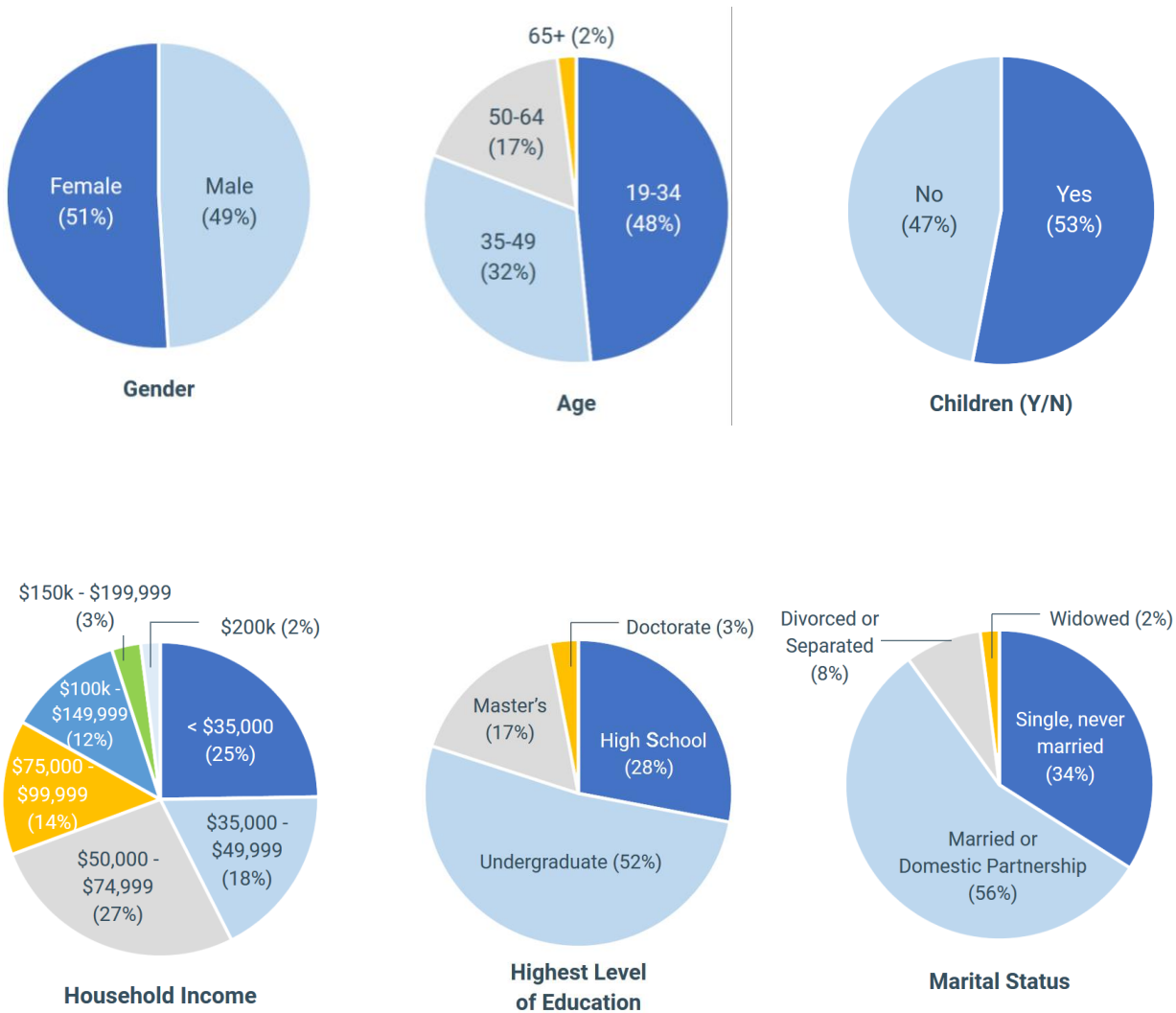
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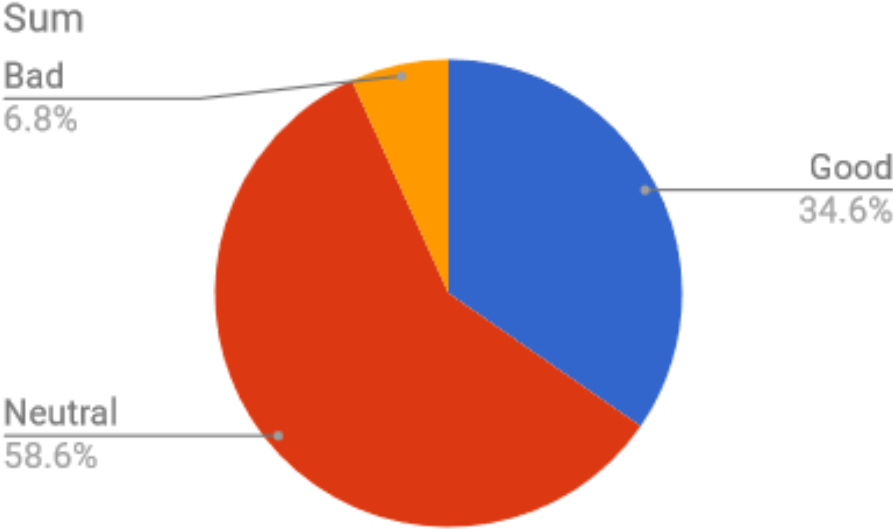
# Appendices

## Appendix A: Online Survey Respondents Demographics Information

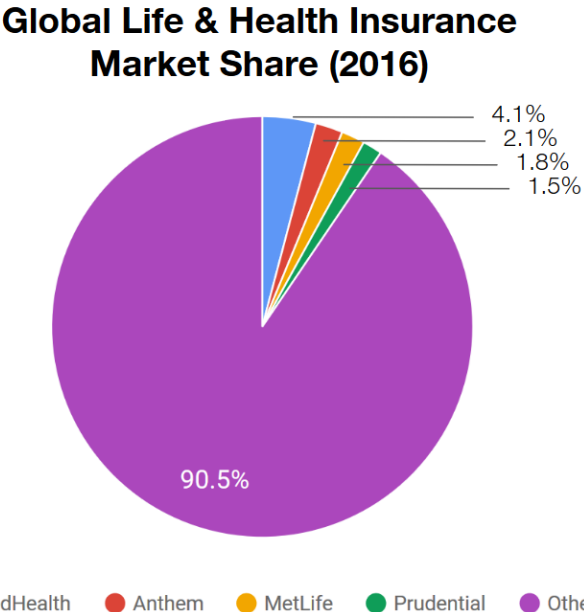




**Appendix B: Consumer Perceptions Toward Life Insurance (from Survey)**



# Appendix C: Global Life & Health Insurance Market Share



The global life and health insurance market remains highly competitive with no particular carrier dominating the space. The largest carrier, UnitedHealth, only has a 4.1% share of the global market share (IBISWorld, 2016).