The psychology of insurance claims
Insights for optimising the customer experience
The psychology of insurance claims

As insurance companies look to maintain their competitive advantage and increase customer loyalty, one particular challenge they face is in claims management. According to Accenture’s Claims Customer Survey published in 2014, as many as 83% of customers who were unsatisfied with their claims experience intended to switch to a new provider, or had already done so.

The psychology behind insurance claims may provide some useful insight to address this challenge. The claims journey begins with a series of decisions by the customer – and behavioural economics teaches us that in insurance, as in other areas of finance, these decisions are often irrational, leading in turn to a disappointing claims experience.

“The best, most consumer-focused financial services companies ensure that their customers are steered towards the most suitable products.”

Martin Wheatley, former Chief Executive, FCA

By better understanding the emotional biases behind the initial insurance purchase decision, providers can take steps to ensure that customers make the right choice at the outset. As Martin Wheatley, former Chief Executive of the Financial Conduct Authority, says: “The best financial services companies, the most consumer-focused, make sure that their customers are steered towards the best, most suitable products.”

‘Framing’ influences decision-making

Dr Greg B Davies, Managing Director and Head of Behavioural Quantitative Finance at Barclays, has carried out some pioneering research to help investors understand their preferences and behavioural tendencies, and has applied behavioural economics principles to the insurance industry to understand the psychology behind claims.

Dr Davies explains that consumer decisions are largely driven by intuitive, emotional thinking. This is faster and requires less effort than logical, deliberative thought, but is often less likely to result in good decision-making. Emotional decisions, he says, tend to be influenced by ‘framing’, i.e. the manner in which the choices are presented. In the same way as with the optical illusion shown below, the ‘right’ answer is seldom the one that first springs to mind.

Which orange circle is bigger?
Financial framing

The concept of financial framing can be illustrated as follows. Two identical outcomes are framed in two different ways: one in terms of the amount that a shareholder in a company can hope to recover in the event of the company going bankrupt, the other in terms of their potential loss.

As the graphic shows, a mere change in wording can cause many people to switch from being risk-averse to risk-seeking.

Imagine you bought £6,000 worth of stock from a now bankrupt company.

There are two alternatives to recover money…

Would you choose A or B?

**Alternative A**
Recover £2,000

**Alternative B**
1/3 chance £6,000 recovered
2/3 nothing recovered

92% go for A

Would you choose X or Y?

**Alternative X**
Lose £4,000

**Alternative Y**
1/3 chance nothing lost
2/3 chance £6,000 lost

67% go for X

How anchoring can create unrealistic expectations

Insurance purchase decisions – like all major financial decisions – can be difficult. When a customer buys home insurance, for instance, they are confronted with an array of information regarding the extent and limits of the cover. Weighing up this information as a basis for a rational, deliberative decision can be a time-consuming and onerous exercise. As behavioural studies show, customers therefore tend to make their choice intuitively, basing it on an ‘anchor’ such as price or brand.

The problem, notes Dr Davies, is that insurance customers tend to anchor on price alone, rather than on the trade-offs that we make with those prices: “As humans, we buy stories,” says Davies. “We do not buy risk/return trade-offs.” Anchoring therefore creates unrealistic expectations at the time of purchase, leading to disappointment if these expectations are not met when making a claim.

The impact of stress on consumer decision-making

According to Dr Davies, customers buy these stories because they offer comfort – and there is a reason for this. Research has shown that financial stress – the idea of expected loss or scarcity of money – has a negative impact on the capacity to make decisions. With insurance purchases, this can become a vicious circle, as a previous stressful claims experience is likely to feed through into a reduced decision-making ability when it comes to renewing insurance.

Improving purchase decisions and the claims management experience

A 2014 consumer research report conducted by the Financial Conduct Authority (FCA) into insurance claimants’ experiences concluded that “a successful claims journey begins at policy purchase, long before the incident that triggers the claim, and accurately assessing the needs and understanding cover at this point are of the utmost importance”.

“There is no greater treasure than the time and the energy which a man devotes to himself.”

Dr Greg B Davies, Managing Director, Head of Behavioural Quantitative Finance at Barclays

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“A successful claims journey begins at policy purchase, long before the incident that triggers the claim.”

FCA, Experience of Insurance Claimants Consumer Research Report 2014
The focus on price by consumers in general insurance works against this to some extent and respondents in the qualitative research had selected cheaper policies without necessarily understanding what trade-off, if any, they were making in terms of cover.

The insights provided by behavioural studies can provide a basis for insurers to improve purchase decisions and thus enhance the claims experience further down the line.

**Possible behavioural design approaches include:**

- Improved communication: insurers can present insurable risks in a way that makes them easier for customers to grasp, taking into account, for instance, the confusion that often surrounds probabilities of occurrence and the way that these are probabilities are expressed.

- Making use of digital: some insurers offer online platforms enabling users to log their personal items, the date on which they bought them and how much they cost. This helps to inform the household insurance purchase decision and can make for a smoother, more positive claims process.

- Tracking of the claim: uncertainty surrounding the length of the claims process and the individual steps involved may be a major source of stress to customers. Digital tracking can show customers in real-time how far their claim has progressed and what stages still remain to be completed.

- Testing assumptions about behaviour: the checks and documentation required to ensure that customers do not provide false information in their insurance claims can make the process onerous. But research has shown that the likelihood of cheating has little to do with factors such as the potential risks and rewards and much more to do with the claimant’s ability to convince themselves of their own honesty while making a fraudulent claim. This self-perception can, however, be influenced by framing: asking customers to sign a declaration of honesty at the top of the claim form rather than at the bottom has been shown to reduce the extent to which information is falsified.

- Other approaches or aspects include holistic planning systems and techniques borrowed from gaming, such as walking customers through complex operations. **Personalisation** can create a decision flow that is tailored to the individual customer, while **human interaction** alongside the use of automation will provide a level of emotional comfort that customers seek when making a daunting financial decision.

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### Claims are an infrequent event – making it difficult to learn lessons

In many areas of life, the misalignment between, on the one hand, an emotional decision based on unrealistic expectations and, on the other, the reality of the outcome, can be corrected over time. Individuals usually learn from past mistakes and recognise patterns so that, over time, intuitive thinking is more strongly grounded in logic.

But this is problematic when it comes to insurance choices. The customer only finds out whether the purchase decision was good or bad when they actually make a claim, which happens relatively rarely: figures from the Association of British Insurers show that the number of customers not claiming each year is between 90% and 98%, depending on the type of insurance.

<table>
<thead>
<tr>
<th>Private motor</th>
<th>Domestic property</th>
<th>Travel insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average claim paid</td>
<td>£2,160</td>
<td>£2,520</td>
</tr>
<tr>
<td>% of claims paid</td>
<td>99%</td>
<td>79%</td>
</tr>
<tr>
<td>Claim pay-out rate per year</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>Number of customers not claiming per year</td>
<td>90%</td>
<td>95%</td>
</tr>
</tbody>
</table>

Source: Association of British Insurers, 26 January 2016.
Key takeaways

• Purchase decisions are often essentially emotional, anchored on incorrect assumptions and expectations, and susceptible to the influence of framing.

• It is only in the (relatively infrequent) event of a claim that customers learn whether their decision to insure was good or bad.

• The stress around many claims experiences in turn affects renewal decisions. A bad experience leads a high proportion of customers to switch insurer.

• Insurers can take steps to optimise the claims experience by supporting the decision-making process through behavioural design, data analytics and digital technology.

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3 'Signing at the beginning makes ethics salient and decreases dishonest self-reports in comparison to signing at the end.' Shu et. al (2012).
4 Association of British Insurers (26/01/2016).

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