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A ‘nudge’ for the better in assistance claims journeys

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Companies tend to assume that customers, employees, and suppliers always behave rationally.

Irrational decisions, though ubiquitous, often catch organizations by surprise and create problems of all kinds, including unhappy moments for the customers. But researchers now know that many such choices follow predictable patterns. Insurers can benefit from these findings by learning to create “nudges”—subtle interventions that guide choices without restricting them—and use them for the benefit of their customers.

Behavioral economists combine elements of economics and psychology to understand the many “irrational” factors beyond logical reasoning that also influence buying behavior: habits, emotions, willpower, the framing of alternatives, and the ability and need to trust someone.

Two familiar examples of systematic irrationality are procrastination, i.e., postponing action on an important matter, often until it is too late, and excessive optimism, such as the widespread tendency to overestimate one’s own skills, knowledge, and chances of success.

¹ R. B. Cialdini, N. J. Goldstein, V. Griskevicius, "A room with a viewpoint: Using social norms to motivate environmental conservation in hotels," *Journal of Consumer Research*, Vol. 35, No. 3 (October 2008), pp. 472–482.

With a deeper understanding of how these factors drive behavior, companies can create targeted interventions that “nudge” consumers to make better (safer, easier, more economical) choices—without restricting their freedom to decide against the nudge. Research shows, for instance, that hotel guests are 30 percent more willing to reuse their towels, as they would at home, when they are given a social cue that tells them how other people act in the same situation, e.g., “Most other guests in this room” choose to reuse their towels.¹ Other examples of nudges include defining default choices and making processes easier to start and finish. Of course, the nudges must be used to create win–win situations for insurers and their customers—situations that the companies would be proud to read about in the press.

How a global assistance provider used nudges in customer interactions to increase customer satisfaction and effectiveness

In assistance, nudges can guide various customer behaviors such as choosing approved repair shops after breakdowns, using direct channels in service interactions, and preventing fraud. One global assistance provider tested nudges in its Western European roadside assistance business, which provides limited roadside services in the event of a mechanical breakdown, but does not cover the cost of repairs.

The company had developed a network of approved repair shops, which offered a broad range of benefits to the customers (incl. superior quality standards and discounts on the repair) and achieved consistently higher customer satisfaction scores than non-approved repair shops. The objective of the test was to improve customer service and satisfaction by having more customers benefit from this approved repair network.

Over 20 nudges were designed and tested on a large scale—in over 7,500 cases of breakdown assistance. The nudges selected for use improved upon what the assistance provider was already doing without radically changing the way the company worked.

Exhibit

The CHOICES framework of behavioral drivers created by McKinsey's Behavioral Insight Lab helps determine relevant interventions.

CHOICES ¹	Drivers of behavior	Examples of interventions
Context	People gauge information relative to other, mostly implicit benchmarks	Prime: Playing German music in a wine store significantly increases sales of German wine
Habit	People often act and judge without deliberation, following habits or mental shortcuts	Expect errors: To reduce the risk of customers losing cards, ATMs usually return the card first, then dispense cash
Other people	People are influenced by what other people do, say, or think	Tell about others: Tax fraud is reduced by ~15% when taxpayers are informed that most people actually do not commit fraud
Incentives	People respond to "objectively" better offers	Give immediate gratification: Little treats for good deeds today (eg, cash for going to the gym) can help fight procrastination
Congruence	People act to preserve a positive and consistent self-image	Activate commitments: Public commitments work better than promises to oneself (eg, to quit smoking)
Emotions	People are influenced by emotions and the physical state of their bodies	Create "yes" emotions: A photo of a happy/attractive person had the same demand effect for a bank as a mortgage-rate cut of 100 basis points
Salience	People take in messages that are easier to process and remember	Show consequences: Regular information on energy usage and price increases drives energy consumption down more than twice as effectively as yearly updates

¹McKinsey's Behavioral Insight Lab developed the CHOICES framework based on research in behavioral economics, including the work of Dan Ariely, Uri Gneezy, Daniel Kahneman, John List, George Loewenstein, and Richard Thaler.

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For example, the assistance provider built on one of behavioral economics' most powerful insights: "Losses loom larger than gains."² Capitalizing on this, the assistance provider's service representatives described the approved repair shops as the natural, default choice, framing the benefits (e.g., the discount and superior service level) as something that would be lost if the customer went elsewhere—a subtle shift away from merely listing the advantages of choosing an approved repair shop.

Another nudge built on the insight that people tilt in favor of the salient attributes of options that are personally relevant in the specific context, the moment of choice. Since assistance policies do not cover the cost of repairing a vehicle breakdown, customers typically focus mainly on quality and pricing. To nudge customers to attach more value to quality in such cases, the assistance provider's customer service representatives explicitly told them about the quality of the approved repair shops, including in fact better outcomes and longer-lasting repairs. This led more customers to go to an approved repair shop—even among customers with a breakdown close to home and thus near their own familiar repair shop.

²D. Kahneman and A. Tversky, "Prospect theory: An analysis of decision under risk," *Econometrica*, Vol. 47 (1979), pp. 263–291.

Another small but effective nudge: at the start of the conversation, the assistance specialist expressed empathy (“I am sorry that your car broke down; it must be terribly inconvenient for you”). The more personal connection that this established between customer and specialist also correlated with a higher share of offers accepted and vehicles arriving in approved repair shops.

Significant positive impact for company and customers

As a result of the nudges, the volume of cars received by the assistance provider's approved repair shops increased by up to nine percentage points. Customers who took part in the pilot expressed 13 percent higher satisfaction. In addition, the increase in volume should allow the assistance provider to negotiate an even better repair service for their customers in the future.

Satisfied with the results of the pilot project, the global assistance provider is now looking at applying nudges to other business segments and regions. Its aim is not only to increase efficiency and effectiveness, but also to continue to strengthen customer satisfaction and employee motivation.

Beyond assistance claims journeys, nudges have attractive potential in other areas of the customer journey, such as brick-and-mortar sales and direct channels. Players can also use nudges to enrich product design thinking and to influence the behavior of suppliers and employees. Behavioral insights often reveal areas where small changes can yield a big all-around improvement. Along with classic incentives and educational boosts, nudges thus offer a way to strengthen the insurance industry's repertoire of actions to create superior value for both companies and customers.

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