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Many experts widely forecast a potentially significant surge of opportunistic fraud by financially stressed consumers looking for an insurance bailout during today's pandemic.

The Great Recession of 2008-10 ignited a similar fraud spike such as torched SUVs, home arsons, false business inventory losses, and workers compensation injury claims. Many consumers assumed insurers wouldn't miss the money. These lessons are why the property-casualty insurance industry is preparing for a similar potential pandemic-related fraud influx in the very near future. …

Behavioral science closes truth gap

Leveraging behavioral science throughout the policy lifecycle is an innovative way to help convince more customers to avoid opportunistic fraud during these perilous times — and beyond. And for good reason.

Opportunistic fraud typically happens when ordinarily honest people exploit a sudden and unexpected chance to defraud their insurer. Such scams can be soft or hard. Soft fraud involves exaggerating the truth or omitting parts from the full truth. For example, an auto policy costs less at inception or renewal if a licensed teenage boy who lives in the household is not listed as a driver. *He doesn't even drive the vehicle that much, right?* Or at claim time when the accident happens, and the policyholder embellishes a sore back or neck (whiplash). "Hard" fraud involves more-serious and often dangerous situations, such an insurance agent stealing client premiums without buying coverage, or burning your home for an insurance payout.

Leveraging behavioral science can reduce soft and hard opportunistic fraud. At the same time, it can build a culture of better customer relations that encourages more honesty long after the pandemic subsides.

Behavioral science is based on gaining insights from human behavior. These insights can help insurers influence more customers to answer questions truthfully, make honest claims or policy applications. There are two main ways to enhance self-disclosure: Make it easy to be truthful, and difficult to lie. This applies to policy applications and claims.

Make truthfulness easy

Two ways to make truthfulness easier are to:

- Simplify questions

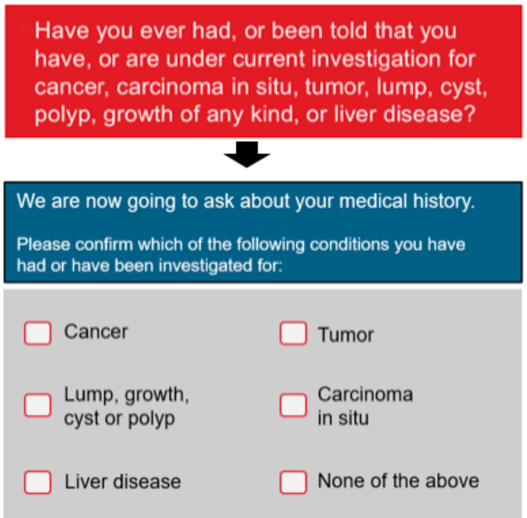
- Reduce the stigma of admitting to the truth.

Simplify questions. One way to simplify questions on an insurance application and lessen the mental load on customers is to ask each question, one at a time. Sometimes several questions are put together as an ease-of-use tactic for customers. Yet this can force customers to spend more time thinking through all the scenarios the answers can encompass, instead of allowing them to quickly answer and move on.

A life-insurance example provides useful guidance that property-casualty insurers can adapt to their own environment. The goal is to ask about medical history when a complex list of possible medical conditions is combined into a single, easy-to-understand question.

Asking about multiple medical conditions all at once may take up less space on the policy application. However, the applicant's attention to the listed medical conditions may decline when they try to read through the complicated list. Fewer but lengthier questions do not always mean better disclosure. Complexity can impose cognitive overload on customers to answer fully and truthfully. The outcome of designing application questions in this manner can be lower disclosure rates of pre-existing conditions, which is critical information to properly underwrite the policy.

The below chart shows how to simplify a question to reach better customer disclosure.[3] Credit Matt Battersby, Chief Behavioral Scientist for Reinsurance Group of America.



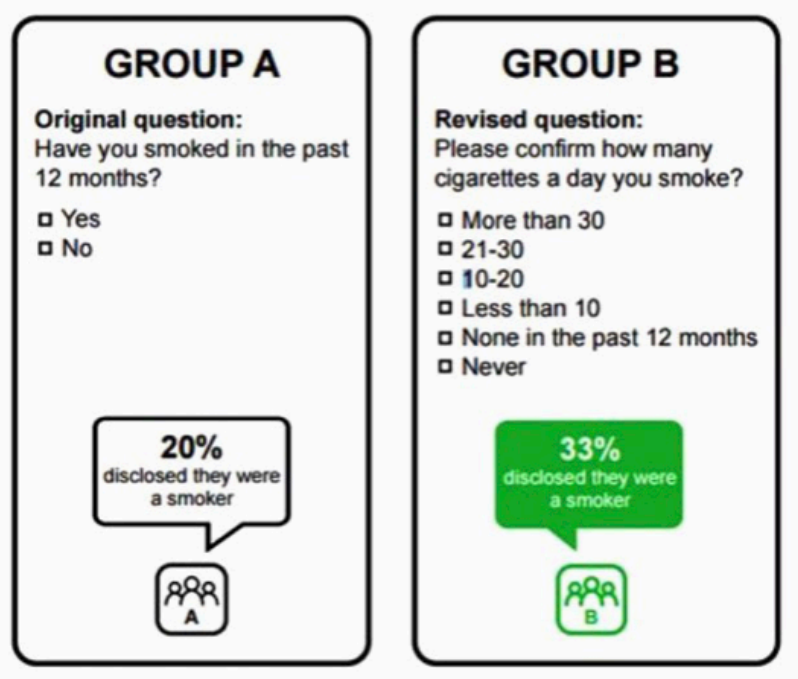
Reduce truth stigma. Customers may avoid answering certain questions truthfully because of the social stigma attached to the behavior listed in the questions. This is especially true for a life insurance application when asking about smoking and drinking. Behavioral science says that “yes” or “no” answers may not be the best approach.

Doing so can weigh heavily on customers to admit to behavior they perceive as stigmatized. It is easier to talk yourself out of admitting you smoke, than to admit how often you smoke. By normalizing the questions and answer choices, customers are more-inclined to admit to certain behaviors.

Answering “Yes I smoke” feels psychologically different than answering “You have a few cigarettes throughout the year.” Customers are more likely to admit they frequently smoke than admit they are a “smoker.” It is easier to tell the truth when given a less-threatening answer option instead of lumping people into a large and negative category of bad habit.

Phrases that reduce this stigma and better normalize the behavior also can be useful. For example, “When was the last time you…?” can result in better disclosure than asking “Have you ever…?” Customers feel comfortable in knowing the behavior to which they admit is normal, rather than something that most people have never even tried.

You can also reduce truth stigma by asking questions that assume cigarette usage by moving away from the more-threatening “yes” or “no” question. In other words, provide a range of assumed cigarette usage options can lead to significantly higher disclosure by customers. In this example below, RGA saw a 20-percent smoking disclosure rate increase to 33 percent. This is an astounding 65-percent increase in disclosure.[3]



More truth: video-record phone answers

How can behavioral science make it harder for customers to lie? First, blend recorded video statements with honesty pledges.

The digital insurer Lemonade uses behavioral science that should cause other insurance companies to take notice. Lemonade asks customers to make a video recording of themselves explaining their insurance claim.

The insurer also asks claimants to take an honesty pledge at the same time.[1] This makes it harder to lie: Claimants watch themselves make their statement, and they know the statement is being recorded.

Clear honesty statements increase honest disclosure. As more insurers move away from field claims-adjusting in response to COVID-19 and as part of ongoing efficiency strategies. Thus, they rely on more statements recorded over the phone.

Customers can find it easier to lie when they aren't talking face to face. The human connection to the insurer employee on the other end of the phone call is reduced, rendering the transaction more impersonal. Lemonade bridges that "human" gap and brings customer's face into a scenario that reduces the temptation to lie.

This new-generation way of adjusting claims can make it harder for customers to commit soft fraud. Imagine the potential for ensuring fuller truthfulness of claims across all lines of insurers — home fires or burglaries, auto damage or crash injuries, workers compensation injury claims, to name just some.

Popup honesty nudges

Social norming combined with popup honesty nudges on digital auto-insurance applications and claims also can produce more-truthful answers, the UK firm Dectech has discovered.

Dectech embedded a popup in auto-insurance applications: “95% of insurance customers fill in their forms fairly and accurately and make honest insurance claims — be one of them.” The message came up right before asking, “Have you ever been caught speeding?” The popup helped make it difficult for the test subjects to lie.

People had to think about honesty. They realized honesty is a social norm — right before responding to a question they might answer with lie.

The positive result: 55% increase in honest online auto applications.[2]

Leverage public awareness

Anti-fraud consumer awareness campaigns are another potentially effective approach to behavioral science. Outreach campaigns historically have informed consumers about issues and causes — including insurance fraud. In theory, more people will change their behavior and attitudes for the better if they know more about the topic. If the public knows large gatherings of people increases their chances of getting COVID, everyone would avoid such gatherings, right?

Such campaigns often earn wide general consumer awareness. But the specific behavioral “ask” — the call to reinforce good behavior or change bad ones — can fall flat. When considering public awareness campaigns, it is important to focus on what the consumer can do as a call to action, rather than issue broad statements that can be glossed over because they think the message does not apply to them. A prime example is when COVID-19 hit and health officials wanted people to wash their hands to prevent the spread of the virus. The initial messaging focused on a broad statement of asking the public to wash their hands. Without a clear call to action, there was a low adoption rate of washing hands more often. When officials switched tactics and individualized the message to “Wash your hands,” it became a personal call to action, and adoption rates rose.

Ineffective campaigns also run the risk of messages not reaching the audience at all, thus creating possible backlash.

Public awareness campaigns are most-effective with a specific target audience … and clear call to action

Once those two pieces are in place, then:

• Create a simplified call for change or support

• Leverage the perfect messenger

• Strategically communicate the message.

Avoid normalizing fraud. When awareness campaigns focus on the large financial impact that insurance fraud has on the insurance industry, showing how many consumers are committing fraud can be counter-productive. This approach can make insurance fraud seem like a social norm — “everyone does it.” More people might be encouraged to inflate a claim to claw back the purportedly high premiums they have paid for years without making a claim.

An example is a campaign that tells consumers the millions or billions of insurance dollars stolen by insurance fraud — yet provides no context. The general public is not aware of how much is paid out in claims each year. Thus, they so they have no context for gauging the human damage or personal impact of fraudulent claims paid out.

Creating a campaign that shows the specific personal consequences of getting caught humanizes the danger. This can better promote honesty and reduce false claims.

Show human consequences. Most individuals who commit soft fraud believe no one will notice, and that a large insurance company can afford it. These consumers often ignore their likely personal peril if they are convicted. For example: You will lose your job and career, shame yourself to your family and community, drain your savings, and even go to jail.

Real risks, penalties in Pennsylvania

To see best practices in behavioral science for consumer outreach, look to the Pennsylvania Insurance Fraud Prevention Authority. “Know the Risks …Know the Penalties.” is the evergreen tagline of this ongoing, award-winning public-awareness campaign. The premise is that more consumers are less likely to commit insurance fraud if they know what this crime is, the severity, its high risks of getting caught, and serious personal consequences.

The ads thus detail the human impact of committing insurance fraud, and how this crime can directly impact a would-be fraudster's life.

Certainty of being caught. Insurance fraud is a felony in Pennsylvania, and you will get caught. That's the repeated message of numerous television, digital, social media and radio ads.

Each ad scenario depicts a decision point where everyday consumers make unwise choices in real-life settings involving different scams. The ads focus primarily on consumers who inflate their claim. If you commit insurance fraud you can be arrested, and owe restitution, fines and penalties, the ads warn. You'll also earn a criminal record that can cost you your job and prevent you from securing a job in the future. The high probability of dire consequences also instills fear and dread — an effective, visceral fraud deterrent.

"Our campaign goal is to reduce opportunistic fraud by making consumers aware of the personal consequences of committing insurance fraud. So, when people are faced with a chance to commit fraud, they think about those consequences before making a bad decision they'll live with for the rest of their lives," says the IFPA's Executive Director Tom Donahue.

Generically saying insurance fraud costs the average policyholder $200 more in premiums a year is less of a fraud deterrent than warning about a deeper personal cost, in explicit human terms.

This approach stemmed from the IFPA's rigorous consumer-attitude research. Some 67% of consumers in the state believed that only a few or almost no insurance fraudsters get caught. Also, 64% of consumers strongly or somewhat agreed that insurance fraud usually goes unpunished.

Name-calling and insults. IFPA took behavioral science to a new level of bluntness with radio and TV ads that used personal insults. The goal was to turn fraudsters into social outliers — thus also marginalizing insurance fraud itself.

The campaign showered consumers with ads that flat-out insulted real-life fraudsters who were reported in the news. The campaign was titled: **"See How They Lie."**

Big, bold headlines called the fraudsters *liars, losers, dumb thugs* and other handy pejoratives. "They think they can get away with insurance fraud, but they're only fooling themselves," the ads said.

“Clueless in Clearfield” tells the true-life story of a fraudster who claimed he was carjacked, when in fact he hid his car and falsely reported it stolen. He was caught and suffered the dire legal and personal consequences of committing insurance fraud.

“Desperate in Doylestown” tells of another true-life fraudster who wasn’t in his car when it was struck by a hit-and-run driver. The tells his friend that he’ll receive a lot of money from the insurance company for his fake injuries. In both cases, the criminals were caught and suffered the consequences.

The IFPA’s anti-fraud messages thus were unmistakable, loud, easy to understand at a visceral level, and equally easy to remember. This was behavioral science re-programming consumer’s attitudes about insurance fraud.

Tactically, over-the-top bluntness also cut through the clutter of competing messages cascading down on consumers in Pennsylvania every day. Depending on the research, the average U.S. consumer sees up to 10,000 ads a day.

Portray fraud fighters in ads. Those troubling findings prompted the IFPA to focus on the certainty of being caught and punished. Insurers have highly trained investigators who look into suspicious claims, the IFPA’s latest ads warn. Trained law enforcement professionals also vigorously investigate and prosecute insurance fraud in Pennsylvania. The IFPA thus features a detective, agent or investigator in its ads.

The latest television ad is titled “Crash and Buy.” The fraudster is seen being led away in handcuffs. It portrays a detective who shows up unannounced at a fraudster’s door. The tagline goes: “It’s not a matter of if you’ll get caught, but when.”

The radio version features the same scenario. However, the announcer says at the end: “If you commit insurance fraud you will get caught. Over the last five years Pennsylvania insurance fraud professionals have made over 2,200 arrests with convictions of over 1,000 individuals who’ve paid $11 million in restitution and $4 million in fines, penalties and court costs. Suspicious claims get investigated and prosecuted.”

Derek gets a surprise call. A recent radio ad titled “Surprise” follows a fictitious fraudster named Derek through his claim process. The adjuster flags a suspicious claim and sends it to the insurer’s Special Investigation Unit. Derek is surprised to receive a call from a fraud investigator. He’s even more surprised when a detective then contacts him.

Derek is prosecuted for insurance fraud, a felony in Pennsylvania. He faces possible jail time, plus thousands of dollars in fines and attorney fees.

These are just a few examples of the IFPA's messages urging consumers to think twice about the consequences of false claims. Visit **"www.helpstopfraud.org."** for more information and live examples of the many ads.

Closing the disclosure gap

Behavioral science can make it easy for insurance consumers to be truthful, and harder to lie. As insurers understand their customers' needs and behavior, insurers can adopt simple but effective, science-based behavioral strategies that lead to better truthfulness and positively affect fraud losses."[3]

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Endnotes

1. Andreas Ortmann, **"Lemonade and the Question of (Laboratory) Evidence,"** Core Economics, Dec. 18, 2017.

2. Dectech, "**Insurance Fraud Prevention,"** Accessed on Oct. 8, 2020.

3. Battersby, Matt, "**Behavioral Science and Insurance,"** Dec. 18, 2018.