

Actuaries Summit

Think Differently



**Actuaries
Institute**

21-23 May 2017 • Grand Hyatt Melbourne





SIMPLE

Robert Kerr

FREE CHOCOLATE

- Please help choose a chocolate from the selection to your left or right



- How easy was it to choose?
- How satisfied are you with the choice?

Agenda

- Is Choice Good?
- Product Complexity
- Consumer Issues
- Principles for Simple Products
- Design Principles
- Simple Products



IS CHOICE GOOD ?

Principle: Basis of Insurance

- If Insurance can be offered
 - Easily
 - With small administrative cost
- Then a risk averse person should prefer a small premium rather than the potential large loss



- Lots of evidence that people aren't rational and don't act like this
- People have emotions, prejudices, and biases

- People don't understand the likelihood or seriousness of risk
- People over estimate the likelihood of minor events but underestimate the likelihood of devastating events
- This doesn't benefit the individuals or society



Two questions

- Is choice good for you?
- What is the impact of complexity?

Jam experiment

Up scale grocery store

Consumers had a tasting booth with either

- 6 choices of Jam
- 24 choices of Jam

Investigated

- Initial attraction to tasting booth
- Subsequent purchase



When choice is demotivating: Can one desire too much of a good thing?

[http://faculty.washington.edu/jdb/345/345%20Articles/Iyengar%20%26%20Lepper%20\(2000\).pdf](http://faculty.washington.edu/jdb/345/345%20Articles/Iyengar%20%26%20Lepper%20(2000).pdf)

- Most popular flavours removed – strawberry, raspberry
- Limited choice chosen by a sample of students scoring the flavours from names and chose
 - 2 top, 2 middle and 2 bottom flavours
- Consumers offered to taste and given a \$1 discount voucher to buy



| | Limited Choice | Extensive Choice |
|---------------------|----------------|------------------|
| Potential Customers | 368 | 368 |
| Encountered display | 242 | 260 |
| Stopped at display | | |
| | | |



| | Limited Choice | Extensive Choice |
|---------------------|----------------|------------------|
| Potential Customers | 368 | 368 |
| Encountered display | 242 | 260 |
| Stopped at display | | 145 |
| | | 60% |

| | Limited Choice | Extensive Choice |
|---------------------|----------------|------------------|
| Potential Customers | 368 | 368 |
| Encountered display | 242 | 260 |
| Stopped at display | 104 | 145 |
| | 40% | 60% |

Consumers exposed to more choice
more likely to be attracted



| | Limited Choice | Extensive Choice |
|---------------------|----------------|------------------|
| Potential Customers | 368 | 368 |
| Encountered display | 242 | 260 |
| Stopped at display | 104 | 145 |
| | 40% | 60% |
| Purchased | 31 | |
| | 30% | |

| | Limited Choice | Extensive Choice |
|---------------------|----------------|------------------|
| Potential Customers | 368 | 368 |
| Encountered display | 242 | 260 |
| Stopped at display | 104 | 145 |
| | 40% | 60% |
| Purchased | 31 | 4 |
| | 30% | 3% |

Consumers exposed to limited choice more likely to purchase

Choice can be good

If there is only a limited choice an increase in choice is good.

Previous tests had shown increase in choice was beneficial but the increase was from 2 to 6 items

Choice can be good

Dinner at a new restaurant hope to order favourite dish

More items offered on the menu, the more satisfied these customers will be, on average

| Please place your order at the bar where you will be given condiments and cutlery. If you are seated outside please have your table number ready. | |
|---|----------------------------------|
| SNACKS, Starters & Light BITES | |
| Soup of the Day | \$3.50 |
| Served with warm bread and butter | |
| Bacon Roll | \$3.00 |
| Nachos | regular \$5.95 sharing \$8.95 |
| All served with melted cheese | |
| - Traditional salsa with sour cream and guacamole. | |
| - Chili con carne, jalapeños and sour cream. | |
| - Mexican chicken, jalapeños and sour cream. | |
| - Haggis with pepper sauce. | |
| BBQ Chicken Wings | regular \$5.25 sharing \$9.95 |
| Served with a dressed salad and sour cream or fiery chili sauce. | |
| Haggis Bon Bons | \$4.95 |
| Served with a dressed salad and tomato-chili jam. | |
| Chicken Bandito Fillets | \$4.50 |
| Slices of chicken in a light mexican coating, served with coleslaw, sauce and a dressed salad. | |
| Freshly Baked Ciabatta Rolls | \$5.95 |
| Served with a dressed salad and coleslaw garnish. | |
| - Pulled Pork with Apple and Chili Jam | |
| - Chicken, Rice and Cranberry | |
| - Tuna Mayo with option to add cheese or onion | |
| - Honey Roasted Ham, Cheese and Chutney | |
| - Carrotion Chicken | |
| - Proven Marie Rose | |
| + Chips / Soup | |
| Crofter's Platter | \$9.95 |
| Honey roasted ham, various cheeses, pitá and chutney, served with a dressed salad and bread. | |
| Fisherman's Platter | \$12.95 |
| (Seasonal only: Dec/Jan - September) | |
| Smoked mussels, proven marie rose and smoked salmon, served with a dressed salad and bread. | |
| KIDS MEALS \$4.50 | |
| - Scampi & Chips | |
| - Macaroni & Chips | |
| - Burger & Chips | |
| - Mini Crofter's Platter | |
| Kids Sides | \$0.50 |
| Choose from: beans, peas, garlic bread, salad. | |
| - Chicken Bandito Fillets & Chips | |
| - Platin Ham or Cheese Roll & Chips | |
| TRADITIONAL Homemade Meals | |
| Lasagne | \$8.50 |
| Choose two sides from: chips, garlic bread or dressed salad. | |
| Macaroni Cheese | \$7.95 |
| + Baby Tomatoes & Bacon | \$8.75 |
| Choose two sides from: chips, garlic bread or dressed salad. | |
| Beer Battered Haddock | \$8.50 |
| Served with homemade tartare sauce and a choice of chips and peas or dressed salad. | |
| Scampi | \$7.50 |
| Served with homemade tartare sauce and a choice of chips and peas or dressed salad. | |
| Steak & Guinness Pie | \$8.95 |
| Served with chips or potatoes plus vegetables. | |
| Chicken, Bacon & Leek Pie | \$8.95 |
| Served with chips or potatoes plus vegetables. | |
| Chilli Con Carne | \$8.00 |
| Served with rice and dressed salad. | |
| Grilled Chicken Breast | \$7.50 |
| With dressed salad or vegetables plus chips or potatoes. | |
| Cajun Chicken Breast | \$8.00 |
| With dressed salad or vegetables plus chips or potatoes. | |
| Chicken Breast, Haggis & Pepper Sauce | \$9.50 |
| With dressed salad or vegetables plus chips or potatoes. | |
| Hickory Chicken | \$8.50 |
| Chicken roasted with bacon, cheese and BBQ sauce, served with dressed salad or vegetables plus chips or potatoes. | |
| Markie's Warm Chicken & Bacon Salad | \$8.95 |
| Sliced chicken breast and bacon tossed with mixed salad and garlic croutons then drizzled in a caesar dressing. | |
| BURGERS | |
| Beef Burger | \$4.50 |
| Served in a fresh ciabatta roll with dressed salad and coleslaw garnish. | |
| Cheeseburger | \$5.00 |
| Served in a fresh ciabatta roll with dressed salad and coleslaw garnish. | |
| Grilled Chicken Breast | \$5.00 |
| Served in a fresh ciabatta roll with dressed salad, lemon mayo and a salad-coleslaw garnish. | |
| Breaded Chicken Burger | \$4.50 |
| Served in a fresh ciabatta roll with dressed salad, lemon mayo and a salad-coleslaw garnish. | |
| Markie's Monster Burger | \$6.50 |
| - Beef | \$7.00 |
| Served in a fresh ciabatta roll with bacon, bbq sauce and onion rings with a dressed salad and coleslaw garnish. | |
| Markie II Mega | + \$2.50 |
| Double up your beef or chicken burger. | |
| Extras: | |
| Salsa / Jalapeños / Sour Cream | \$1.00 |
| Ban / Sweet Chilli | \$1.00 |
| Bacon / Barbeque Sauce | \$1.00 |
| Cheese | \$0.50 |
| Chips | \$2.00 |
| SIDES | |
| Chips | \$2.00 |
| Basket of Curly Fries | \$4.00 |
| Basket of Chips | \$3.00 |
| Cheesy Chips | \$3.50 |
| Cheesy Curly Fries | \$4.50 |
| Dressed Salad | \$2.50 |
| Garlic Bread | \$2.00 |
| Sweet Potato Fries | \$2.50 |
| Onion Rings | \$2.50 |
| Vegetables | \$2.95 |
| Garlic Bread with Melted Cheese | \$2.50 |
| Coleslaw | \$1.00 |
| Curly Fries | \$2.25 |
| Dips | \$0.50 |
| Garlic Mayo / Lemon Mayo / Marie Rose / Salsa / Hot Chilli Sauce / Sweet Chilli Sauce / Sour Cream / BBQ Sauce / Carrotion Sauce | |



- Where you know what you want
- Choice is good



- Where not sure
- Choice overload
- ... Decision Conflict Situation
- People change choice from an optimising heuristic to a satisfying heuristic

3 in 5 Australians find choice makes it harder to decide

A recent shopping trip to buy a new phone seemed simple enough but when faced with a dizzying choice of features and prices, she cracked.

“I wish I hadn’t bought it. I felt like I should get the expensive one but I’ve wasted money on something I don’t need.”

“I was trying to make a decision very fast and I went for the expensive phone with all the gadgets, which I just don’t use. I made the wrong choice.”

news.com.au

WITH OVER 80 EVENTS

National | World | Lifestyle | Travel | Entertainment | Technology | Finance | Sport | Video

The Australian dollar is higher

Australian share market set to open higher

Finance news you need to know today

"Greatest abuse of power I've seen"

business retail

Three in five Australians find the overabundance of choice on the shelves makes it harder to choose

MARCH 1, 2017 2:23PM

Ad closed by Google

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Why this ad? @

News research says three fifths of Australians are plagued by too much choice.

Belinda White has serious buyer's remorse.

"I wish I hadn't bought it. I felt like I should get the expensive one but I've wasted money on something I don't need."

The public servant from Sydney is a classic case of someone left bamboozled and



Does this apply to Insurance?

Health Insurance Plans in US

- Choosing Health Insurance
 - Complicated
 - Boring
 - But Important



Health Insurance Plans in US

- Analysed Health Insurance plan choice for over 20,000 employees
- Choice of 48 different plans from same insurer with same doctor network
- Plans differed in deductibles and premiums payable
- 61% chose plans inferior to others
- Average overspend of 41%

<http://jamanetwork.com/journals/jama/article-abstract/2475470>

<https://www.cmu.edu/news/stories/archives/2015/december/health-insurance-complexity.html>



Product Complexity

Choice calls for crackdown on unreasonably lengthy online consumer contracts



Lucy Cormack



Show comments

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Consumer advocate Choice has shone a light on unreasonably long online contracts, after a review of the Amazon Kindle terms and conditions found the document took almost nine hours to read.

The contract for the popular e-reader amounts to some 73,198 words and takes the average reader eight hours and 59 minutes to read – longer than Shakespeare's *Hamlet* and *Macbeth* put together.



- Kindle e-reader contract
 - 73,198 words
 - 9 hours to read
 - Longer than *Hamlet* and *Macbeth*
- From insurance contracts to mobile phone plans or iTunes accounts, consumers are shown to be increasingly unlikely to read lengthy contract terms before ticking a box or signing their name.

Consumer Research on General Insurance Product Disclosures

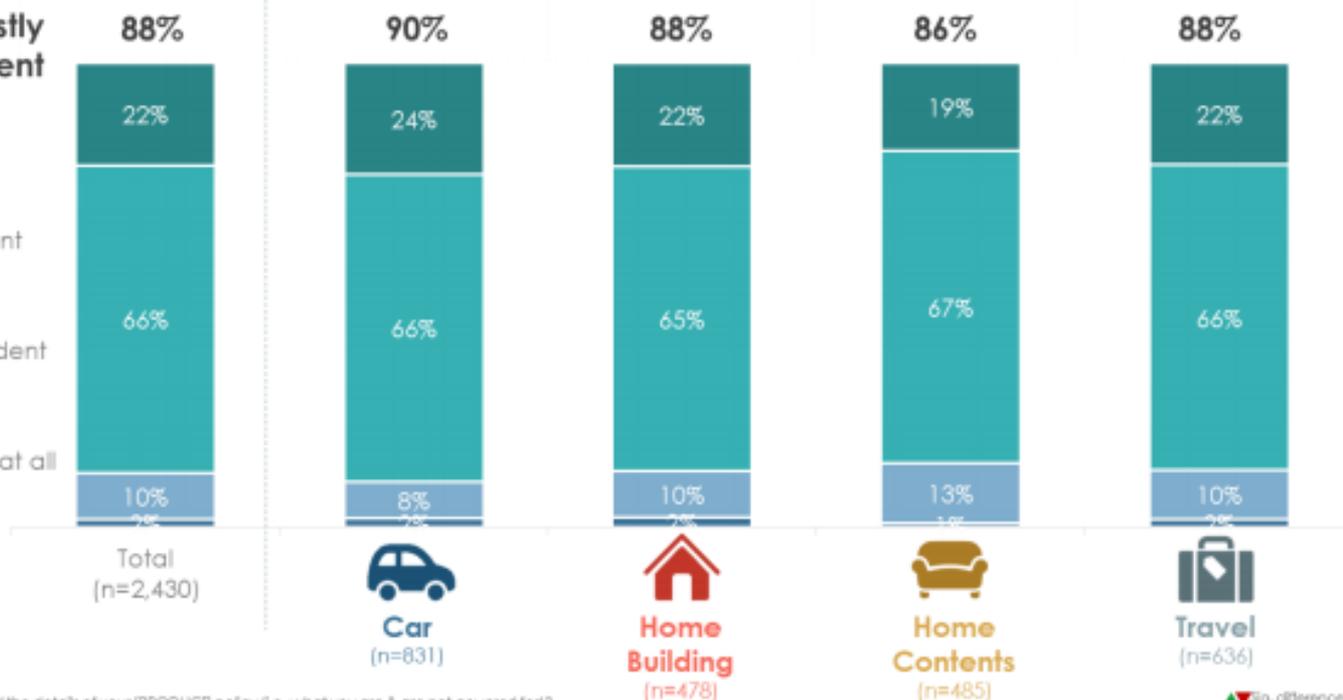
Research findings report

February 2017

Confidence in understanding of policy details

Completely or mostly confident

- Completely confident
- Mostly confident
- Not very confident
- Not confident at all



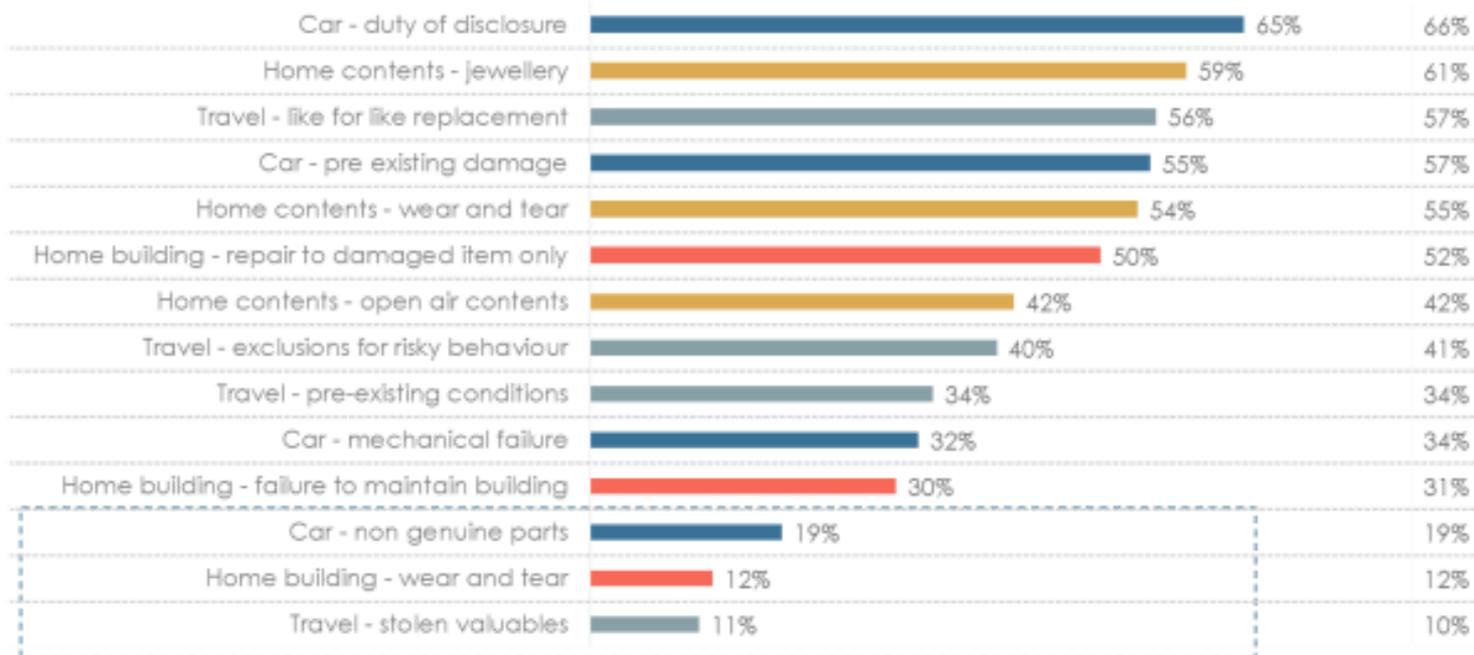
C1. How confident are you that you fully understand the details of your [PRODUCT] policy (i.e. what you are & are not covered for)?
 Base: All respondents for each product (refer to chart)

▲ ▼ sig. difference of 95% confidence



% CORRECT UNDERSTANDING OF SCENARIOS TESTED

Amongst those who are 'confident' in their understanding





Whole of Life

Customers 'only read 15%' of insurance documents they receive

Fiona Murphy

@cover_fiona

26 August 2016



0 Comments



Insurance customers ignore 85% of the information sent to them by providers, according to research from SunLife.

The insurer said on average insurance products come with "more than 25,000 words of explanation written in PhD level language."



Test of Australian Products

Flesch Reading Ease Scale

| Flesch score | Readability level |
|--------------|---|
| 90-100 | Very easy (easily understood by an average 11-year-old) |
| 80-89 | Easy |
| 70-79 | Fairly easy |
| 60-69 | Standard (easily understood by 13- to 15-year-olds) |
| 50-59 | Fairly difficult |
| 30-49 | Difficult |
| 0-29 | Very difficult (suitable for university graduates) |

Retail Product

| Readability Statistics | |
|----------------------------|-------|
| Counts | |
| Words | 2974 |
| Characters | 16691 |
| Paragraphs | 204 |
| Sentences | 95 |
| Averages | |
| Sentences per Paragraph | 1.2 |
| Words per Sentence | 19.6 |
| Characters per Word | 5.4 |
| Readability | |
| Passive Sentences | 25% |
| Flesch Reading Ease | 23.9 |
| Flesch-Kincaid Grade Level | 14.7 |
| OK | |

| Flesch score | Readability level |
|--------------|---|
| 90-100 | Very easy (easily understood by an average 11-year-old) |
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| 30-49 | Difficult |
| 0-29 | Very difficult (suitable for university graduates) |

Super Plan

| Readability Statistics | |
|----------------------------|-------|
| Counts | |
| Words | 16037 |
| Characters | 79031 |
| Paragraphs | 1018 |
| Sentences | 384 |
| Averages | |
| Sentences per Paragraph | 1.3 |
| Words per Sentence | 25.7 |
| Characters per Word | 4.8 |
| Readability | |
| Passive Sentences | 28% |
| Flesch Reading Ease | 36.9 |
| Flesch-Kincaid Grade Level | 14.4 |
| OK | |

| Flesch score | Readability level |
|--------------|---|
| 90-100 | Very easy (easily understood by an average 11-year-old) |
| 80-89 | Easy |
| 70-79 | Fairly easy |
| 60-69 | Standard (easily understood by 13- to 15-year-olds) |
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Simple Products



UK Review into Simple Products

**Sergeant Review *of*
Simple Financial Products:
Interim report**

July 2012

A basic premise

Simple processes and products
allow straightforward purchasing decision.

Benefits

- Consumer trust.
- Consumers purchase products that meet their needs.
- Benefit Consumers and Society

Issues identified

- The challenge of making good choices in what seems to many to be an overwhelmingly complicated market place with a very wide range of products, some of which are complex and difficult to understand.

There is such a wide range of products and services available that even where there are Simple Products on offer, it is hard for consumers to identify them.



How has this happened?





Principles for Simple Products



8 Principles

- 1. Essential product features**
- 2. Clear, straightforward and standardised language and presentation**
- 3. Standardised product names**
- 4. A limited number of reasonable conditions, options, and exclusions.**

8 Principles

- 5. Straightforward and clear purchasing process for the consumer.**
- 6. A clear pricing and return structure**
- 7. Ancillary fees and charges are transparent, reasonable and predictable.**
- 8. Clear methods of informing the consumer about prices and any changes, as well as regular updates on their product.**



Take off has been slow

Barclays first bank to gain 'simple product' kitemark under scheme aimed at making savings and insurance products more transparent

By CAMILLA CANOCCHI

PUBLISHED: 22:13 +10:00, 2 August 2014 | **UPDATED:** 22:13 +10:00, 2 August 2014



 7
View comments

Barclays is the first bank to see one of its financial products being granted the kitemark for 'doing what it says on the tin' following a new initiative commissioned by the Government to make it easier for people to choose savings accounts and other products while protecting them against unexpected catches.

The British Standards Institution said a Barclays' fixed term life insurance policy, underwritten by Aviva, was the first financial product to receive its 'simple product' certification as it met its nine principles, which include clear pricing, simple language and a straightforward buying process.

The certification scheme was commissioned by the Treasury following a review which concluded that consumers were finding it hard to compare deals when buying a financial product because of a lack of transparency and other complexities.

<http://www.thisismoney.co.uk/money/news/article-2714011/First-simple-product-kitemark-granted-Barclays.html>

Barclays Life Insurance from Aviva

September 2014 Barclays: Term



BRONZE

Simplicity is generally a good thing so adding simplicity must be even better, right?

Well, not exactly. If your car manufacturer took out all the complex computer management in your car it would certainly be simpler, but it would also be slower, use more fuel and be less safe.

....

ABI pulls out of Simple Products

- Difficult to get agreement
- Concerns over mis-advice
- Focus on other work to improve customer outcomes



Can Good Design Make It Simpler?

Dieter Rams



- Joined Braun in 1955
- Chief of Design at Braun from 1961 to 1997
- Described his design approach as
“Less, but better”
- One of the most influential Industrial designers of 20th century
- He created 10 principles of good design
- Heavily influenced Jonathan Ive the chief designer at Apple.

1. Innovative
2. Makes a product useful
3. Is Aesthetic
4. Makes a product understandable
5. Is unobtrusive
6. Honest
7. Long Lasting
8. Thorough to the last detail
9. Environmentally friendly
10. As little design as possible



Simple Products



Zimele



- Insurance in South Africa out of reach of low –income population
- Insurance industry set out to increase usage among low – income black population
- Mzansi (General Insurance) and Zimele (life insurance) products launched in 2006/7

Zimele Standards

- Standardised Policy Terms
- Minimum standard documentation
- Maximum Prices
- Maximum Cover

Zimele Products

- Funeral Cover
- Family Funeral Cover
- Parent Funeral Cover
- Credit Life
- Life Cover
- Physical Impairment Cover

Funeral Insurance

- Only exclusions
 - Suicide 2 years
 - temporary natural causes – max 6 months
- Maximum R20,000
- Age at entry 14-18 to 65+
- Maximum Price

| Age | Price R20,000 per month |
|--------------|-------------------------|
| Less than 55 | R85 |
| 55 to 65 | R125 |
| 66 to 74 | R165 |
| 75+ | R485 |

- 13 companies
- Led to near equivalent policy (NEP) product development



Summary



Insurance is complex

**Complexity puts consumers off
purchasing**

Simple Product Guidelines



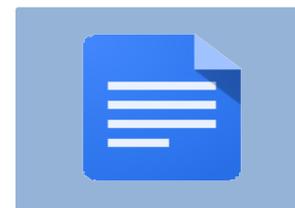
Product
Features



Language



Name



Terms and
Conditions



Purchasing



Return



Fees



Update

Simple Design Guidelines



innovative



**makes a product
useful**



aesthetic



**makes a product
understandable**



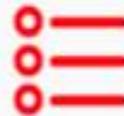
unobtrusive



honest



long-lasting



thorough



**environmentally
friendly**



**as little design
as possible**



Simple Products exist and are successful

Principle 1. Good design is Innovative



Lemonade™

 Health I.Q.



HAVEN^{life}

trōv



synerScope



The possibilities for innovation are not, by any means, exhausted. Technological development is always offering new opportunities for innovative design. But innovative design always develops in tandem with innovative technology, and can never be an end in itself.

Principle 2. Good design makes a **product useful**



A product is bought to be used. It has to satisfy certain criteria, not only functional, but also psychological and aesthetic. Good design emphasizes the usefulness of a product whilst disregarding anything that could possibly detract from it.

Principle 3. Good design is aesthetic



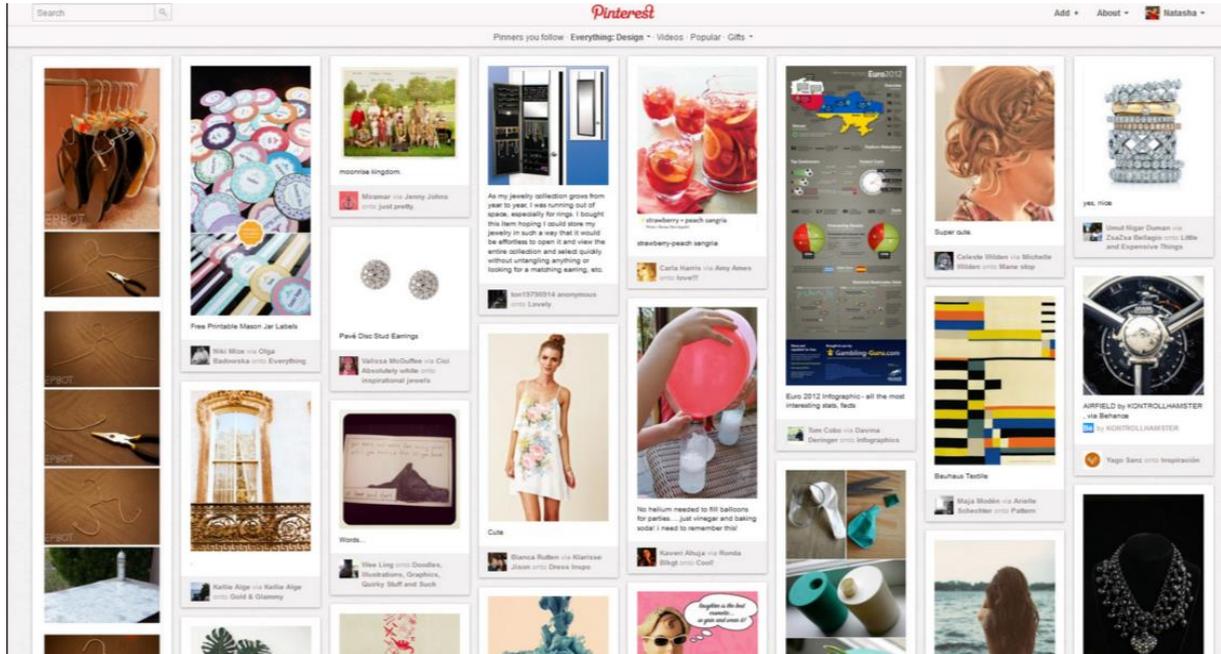
The aesthetic quality of a product is integral to its usefulness because products are used every day and have an effect on people and their well-being. Only well-executed objects can be beautiful.

Principle 4. Good design makes a product understandable



It clarifies the product's structure. Better still, it can make the product clearly express its function by making use of the user's intuition. At best, it is self-explanatory.

Principle 5. Good design is unobtrusive



Products fulfilling a purpose are like tools. They are neither decorative objects nor works of art. Their design should therefore be both neutral and restrained, to leave room for the user's self-expression.

Principle 6. Good design is honest



It does not make a product more innovative, powerful or valuable than it really is. It does not attempt to manipulate the consumer with promises that cannot be kept.

Principle 7. Good design is long lasting

It avoids being fashionable and therefore never appears antiquated. Unlike fashionable design, it lasts many years – even in today's throwaway society.



Principle 8. Good design is thorough down to the last detail



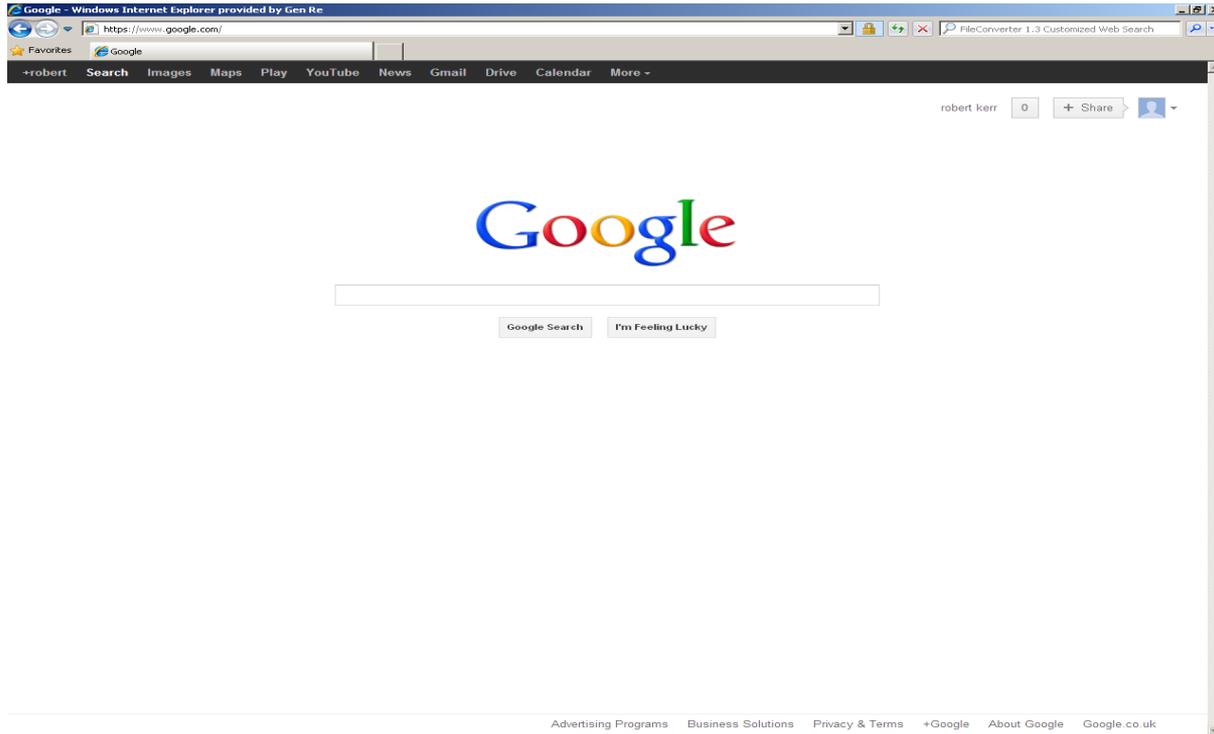
Nothing must be arbitrary or left to chance. Care and accuracy in the design process show respect towards the consumer.

Principle 9. Good design is environmentally friendly



Design makes an important contribution to the preservation of the environment. It conserves resources and minimizes physical and visual pollution throughout the lifecycle of the product.

Principle 10. Good design is as little design as possible



Less, but better – because it concentrates on the essential aspects, and the products are not burdened with non-essentials. Back to purity, back to simplicity.

Ping An

- Long Term Personal Accident Policy
- Sold via an app



Ping An

- Benefit
 - Sum assured on
 - death by accident
 - Severe disability on accident
 - 10 times Sum assured if in public transport
 - 120% Premiums on
 - death by sickness
 - maturity
- Premiums paid 5/10 years
- Benefit period 20/30 years
- Only Occ class 1-4 (5-7 excluded)

Ping An Insurance App



Sales

- **100 Million RMB(\$ 20m)** Gross Premium New Business Income
- **In one Day**