The nudge towards honesty

by Patrick Fagan, Associate Lecturer at Goldsmiths University.

A recent survey by Zurich Insurance has uncovered the extent of lying among insurance customers, with one in five admitting to lying to insurers. But why do they lie, and what can insurers do about it?

First things first: we all lie, and anyone who says otherwise is lying. For example, a diary study by Dr Bella DePaulo and colleagues found that people tell on average between one and two lies per day. Another study asked respondents if they had lied over the last 24 hours, and the majority had. Lying is, essentially, hardwired in us all.

Of course, there are huge implications for the insurance sector as a result. While Zurich's survey found that one in five respondents were likely to lie when shopping for insurance, it also found that 82% knew that wrong information registered on an insurance form could render the policy invalid. Furthermore, the Association of British Insurers claims that insurance fraud adds £50 to every household's annual motor insurance bill.

So, the question is "why lie?" Zurich's survey discovered several factors:

- just over one in five do so because they are not totally sure of the correct information;
- thirteen percent lie in order to save money;
- one in ten are scared of the consequences of being truthful;
- and eight percent do not take the process seriously.

However, there is another interesting possibility. To understand it, one must first travel back a few million years in our evolutionary history.

Do we lie to get even?

A fascinating study by primatologists Sarah Brosnon and Frans de Waal put two capuchin monkeys next to one another after having trained them to perform a small manual task. The first monkey performed the task and was paid with cucumber, which it gladly ate. The second monkey, however, was paid with a grape. Having seen this, when the first monkey was tested again and paid once more with cucumber, it threw this fruit in the researcher's face, shook the bars, and held its paw out expectantly.

The experiment demonstrated that fairness is a very strong, and deeply innate, driver of behaviour. We are hardwired to reject and punish unfairness, even if it is personally costly to do so.

Coming back to the present day, surveys have consistently shown that insurance is (perhaps) the least trusted industry! A recent PwC report found that less than a third of consumers trust insurers, with the industry even falling behind banks**. Consumers often do not understand how their premium has been calculated, and some consumers feel that their claims have been resolved unfairly.

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If consumers feel manipulated and deceived by their insurer, they may well experience an innate, primal urge to redress this perceived unfairness through deception of their own. In fact, a series of experiments

* - www.zurich.co.uk/landing/tellmeliestellmesweetlittlelies.htm
** - www.pwc.blogs.com/press_room/2014/10/pwc-research-financial-services-industry-faces-bigger-problem-than-lack-of-trust-apathy.html

by psychologists at the University of Massachusetts demonstrated that people lie more frequently, and severely, to people who they perceive to be deceptive.

This may, therefore, be partly a trust issue. It is easier than ever for insurers to be transparent and equitable, and this honesty may in turn encourage consumers to have more empathy. However, there are three other ways in which insurers can address the issue of white lies.

Encourage good behaviour or punish bad behaviour?

The first way to tackle the idea of the ‘white lie’ is to nudge people into being more honest. A wave of research has slowly eroded the idea of consumers as rational maximisers. The government, for example, has had a great deal of success using the Behavioural Insights Team to nudge people into paying their taxes, rather than using information for rational persuasion. In other words, appeal to a sense of fairness and gut instincts rather than rational definitions of right and wrong. Indeed, in Zurich’s survey, only 21% said they would be less likely to lie to insurers if the consequences were clearer.

An example nudge comes from a paper in which it was found that having to write a brief description of a superhero made individuals more prosocial: specifically, when subsequently asked if they would volunteer to tutor children, the superhero-primed group committed to over twice as many hours a week***. Similarly, research has shown that priming people with the idea that they were being watched (for example, by displays of religious iconography or pictures of eyes) can make them more honest.

Another way of nudging consumers towards honesty is to forge a personal relationship with them. The ‘online disinhibition effect’ refers to the fact that a lack of social connectedness causes people to act less ethically when online. This suggests that people are more likely to lie when filling in insurance forms online; indeed, Zurich’s survey found that over half of respondents felt more comfortable lying online.

The second tactic for insurers is to introduce new methods of reporting claims. Part of the problem is that self-report surveys can be extremely unreliable. First and foremost, this is because it is very easy for respondents to lie in surveys; however, people are also simply unaware of (and thus unable to report) the non-conscious drivers of their own behaviour.

As an illustration, a study recently published in the British Medical Journal found that 0.5% of births were reportedly the result of immaculate conception!****. In fact, Zurich’s survey found that almost one in ten respondents claimed to “never lie” - which is almost certainly untrue! >

*** - www.neurosciencemarketing.com/blog/articles/superhero-super-priming.htm
**** - www.independent.co.uk/life-style/health-and-families/health-news/americas-virgin-births-one-in-200-mothers-became-pregnant-without-having-sex-9012360.html

Advances in technology and psychology now allow for much better rates of deception detection. For example, research has shown that reaction times when verbally answering questions can be used as an indicator of deception; since a 'cognitive load' is required to "make up" answers. Alternatively, insurers might ask claimants to complete an implicit (i.e. reaction time) test online; these have previously been used by researchers to get to the truth where self-report is unreliable. One study even found that implicit testing could predict deception to a 91% accuracy.

The third and final tactic in the fight against fraud is to stop asking customers altogether. Significant advances are being made in the world of telematics (the long-distance transmission of computer-based information), allowing claimants' data to be collected automatically and without human input: from the time and location of a crash, to a driver's tendency to break the speed limit.

Further, leaps and bounds in big data, biometrics, and the 'internet of things' mean that this solution will soon be available beyond car insurance. For example, Whistle is a smart dog collar which collects data on its canine owner's sleep and activity patterns and allows for intelligent health inferences – ostensibly useful information for pet insurers.

So, in the near future we may well live in a deception-free utopia (or dystopia, perhaps!). Until that day, however, insurers might benefit from nudging consumers towards honesty, and being more transparent themselves - in order to build a more empathic relationship with customers. ●

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