

vocatus:



**Portfolio
management in the
insurance industry**

Understanding purchase behavior

Price competition, price comparison calculators and – not least of all – the current phase of low interest rates have profoundly affected the profitability of German insurers. More than ever, it is vitally important at every interface that offers advice and products for sale to take full advantage of people's wishes with regard to coverage and their need for assistance.

This makes it all the more important to understand customers and their purchase behavior and structure the portfolio accordingly. Based on insights derived from behavioral economics, we will show you four possible solutions with which you can successfully structure your product portfolio – because you can often optimize it by avoiding false assumptions.



False assumptions

- Your customers make rational decisions, just like a *homo oeconomicus*
- Your customers are aware of the price ranges for insurance, and are able to precisely assess the price-performance ratio
- Your customers want as much supplementary insurance and as many assistance services as possible – and for very little money, regardless of whether they actually need these features
- Your customers have the ability to assemble a completely individual insurance product from a multiplicity of modules

Choose the right wording

Automobile insurance

People think it's more likely that a specific event will occur if they find it easier to imagine it happening. When describing the features/services that an insurance policy provides, it is therefore crucial to use the right wording so customers will be persuaded that a given event might arise.

Willingness to pay

| | | | |
|--------|---------------------------------------|----------------------------------------------------------------------------------------------|---------------|
| Case 1 | Animal insurance | Insurance covering damage to own car which arises in connection with animals | €25.10 a year |
| Case 2 | Animal accident insurance | Insurance covering damage to own car which is due to collision with animals | €29.00 a year |
| Case 3 | Wild animal accident insurance | Insurance covering damage to own car which is due to collision with wild animals (e.g. deer) | €28.30 a year |

Source: Vocatus AG

13%
more
turnover

Close more deals

Animal insurance (Case 1) offers the most comprehensive features/services, but the description is less concrete and not geared towards a specific event (as happens with Cases 2 and 3). Notwithstanding this, more respondents are willing to take out the more expensive wild animal insurance (Case 3) than the cheaper and more wide-ranging animal insurance (Case 1).

So if your customers find it easier to imagine some potential loss or damage (and subsequent claim), they'll be likelier to take out a policy. They're primarily guided by emotionalizing and easy-to-understand information, so price differences between two thresholds will make very little impact.



Focus on the essentials

Term life insurance

When assessing the benefits of an insurance package, customers use the individual components to come up with an average. This means they only want to pay for what they actually use, a fact we verified by conducting a study.

Package 1 (€11 a month)

Accelerated death benefit: If you have a serious illness with a life expectancy of less than 1 year, the sum insured is immediately paid out to you personally

Immediate benefit if you have cancer: If you're diagnosed with cancer, 10% of the sum insured is paid out to you personally

Flexible adjustment of installments if you're in financial straits: If you become unemployed, you can rearrange your policy so the sum insured is reduced, but you don't have to pay premiums and you won't lose the cover that's provided

24/7 email support: Free information about insurance T&Cs and new products

Safety/security warnings when travelling: Free phone-based information about safety/security warnings when travelling abroad

Free access to videos: Regular availability of new videos with tips about a healthy diet

Package 2 (€11 a month)

Accelerated death benefit: If you have a serious illness with a life expectancy of less than 1 year, the sum insured is immediately paid out to you personally

Immediate benefit if you have cancer: If you're diagnosed with cancer, 10% of the sum insured is paid out to you personally

Flexible adjustment of installments if you're in financial straits: If you become unemployed, you can rearrange your policy so the sum insured is reduced, but you don't have to pay premiums and you won't lose the cover that's provided

Source: Vocatus AG



20%
more
turnover

Less is more

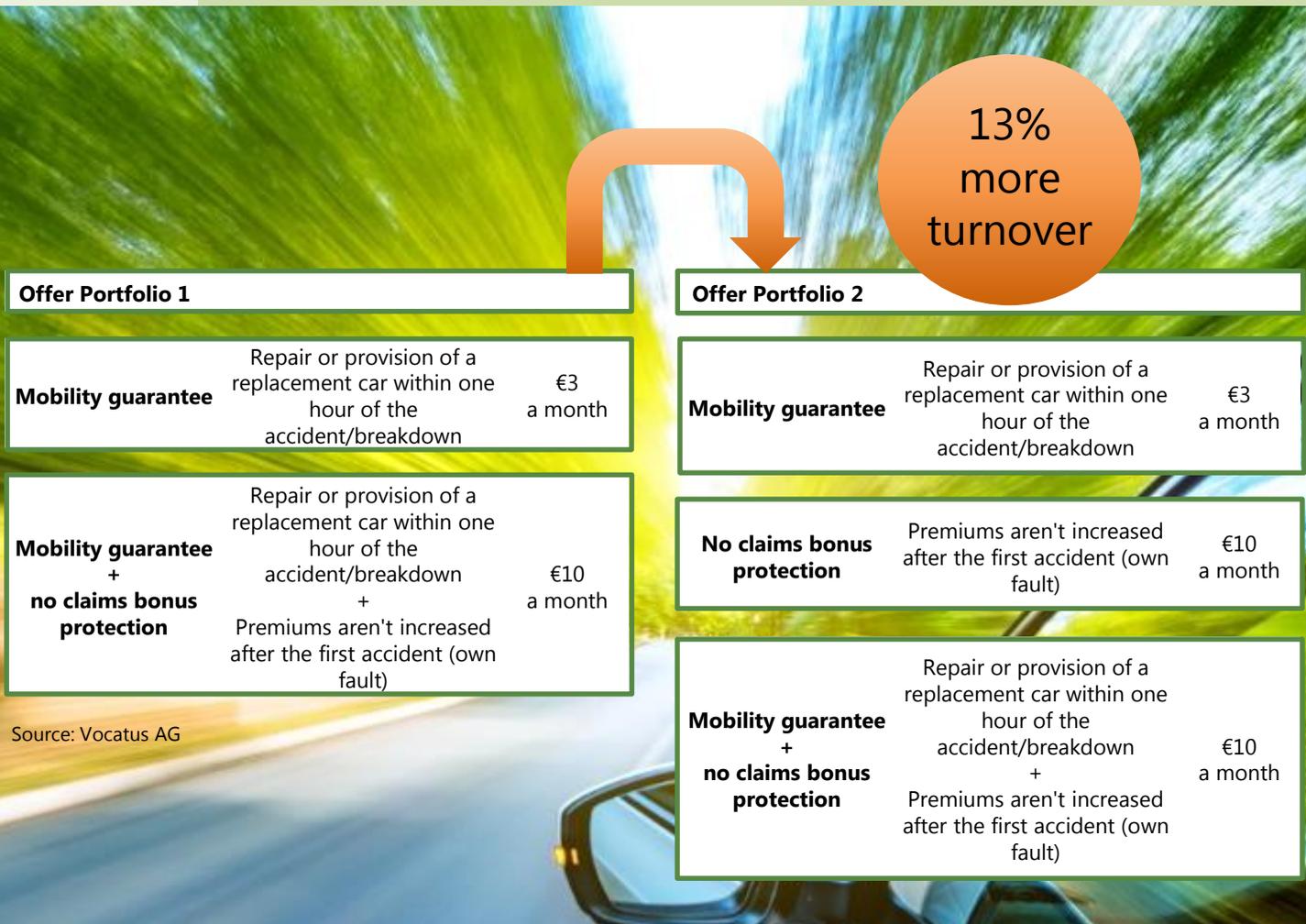
There's less demand for the package containing additional (less important) components, even though it promises a much wider range of services for the same price as Package 2. By using this procedure, you can generate approximately 20% more turnover.

Extra components in an offer which are nonetheless perceived as unnecessary will reduce willingness to pay. Insurance customers are rapidly overwhelmed by excessive (and too specialized) features/services, and they also get the feeling they're paying too much overall. When structuring their product portfolios, customer-centered product developers will ensure they focus on the crucial elements of the insurance policy instead of offering customers as much as possible for their money.

An optimal portfolio strategy

Automobile insurance

Preference for a particular product can be deliberately increased by adding an unattractive option to the offer portfolio. This to some extent serves as a "decoy" that will influence the customer's decision so they're likelier to choose the more comprehensive alternative.



Source: Vocatus AG

Help customers to choose

In Offer Portfolio 1, customers have to choose between two options (inexpensive individual feature vs. more expensive complete package). In the case of Offer Portfolio 2, the choice is supplemented by adding the "decoy" (option at the same price as the complete package). By using Offer Portfolio 2 it was possible to achieve a 13% increase in turnover.

Simply making this minor change means that prospects view the offer portfolio differently. They're likelier to opt for the comprehensive complete package, and less likely to choose the inexpensive individual solution. They now recognize advantages that they don't notice in Offer Portfolio 1.

Preselect options

Household contents insurance

People are reluctant to make decisions: If a specific option is already selected in a form, most of us will find it easier to stick with this choice. By contrast, if people have to decide for themselves which options to choose, they'll quickly tire of having to make decisions and will stop after just a few items.

| | |
|------------------------------------------------------------------------------------------------------------|------------|
| Household contents insurance with basic coverage for your home (maximum of €49,000 coverage/claim). | |
| Insured risks: fire, lightning, storm, hail, and burglary (annual premium) | €95 |
| <input type="checkbox"/> Co-insurance for gross negligence | + €10 |
| <input type="checkbox"/> Theft of household goods from hospital, changing room or automobile | + €10 |
| <input type="checkbox"/> Theft of bicycle up to a value of €500 | + €20 |
| <input type="checkbox"/> Theft of household goods when travelling | + €20 |
| <input type="checkbox"/> Help in case of emergency / loss or damage (e.g. locksmith, tradespeople) | + €25 |

| | |
|---------------------------------------------------------------------------------------------------------------|------------|
| Household contents insurance with basic coverage for your home (maximum of €49,000 coverage/claim). | |
| Insured risks: fire, lightning, storm, hail, and burglary (annual premium) | €95 |
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| <input checked="" type="checkbox"/> Theft of household goods from hospital, changing room or automobile | + €10 |
| <input checked="" type="checkbox"/> Theft of bicycle up to a value of €500 | + €20 |
| <input checked="" type="checkbox"/> Theft of household goods when travelling | + €20 |
| <input checked="" type="checkbox"/> Help in case of emergency / loss or damage (e.g. locksmith, tradespeople) | + €25 |

19%
more
turnover

Source: Vocatus AG

Simplify decisions

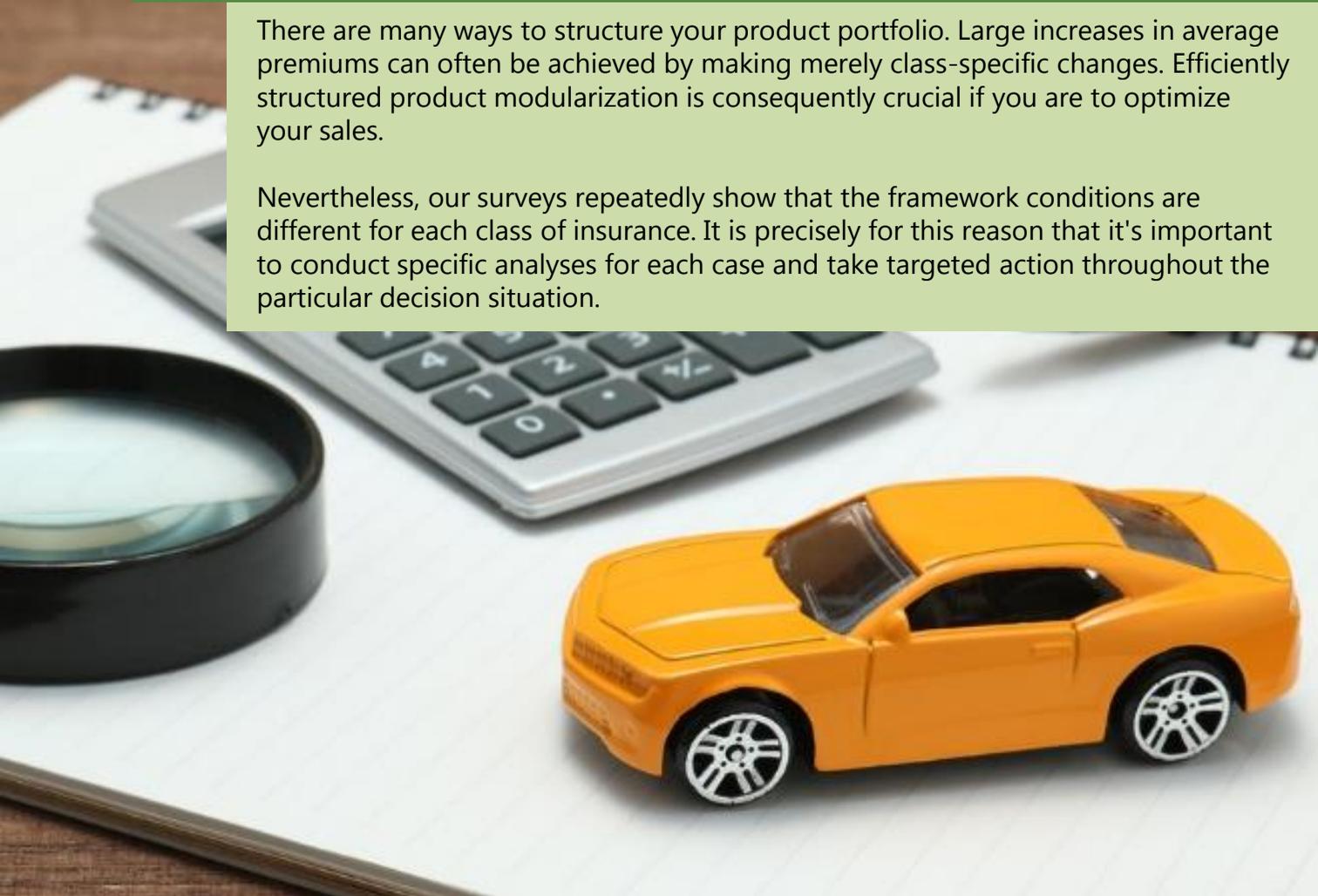
We used household contents insurance to test this phenomenon: One test group had to explicitly select extra features (opt-in), whereas the other test group could deselect them (opt-out). The result: 19% additional turnover could be achieved with the second group.

So make it easier for your customers to reach a decision, and make a preselection for the most popular product variants and/or combinations of modules. When modularizing your product portfolio, make sure it isn't divided into excessively small units. Do your utmost to limit the number of decisions your customers have to make.

Every type of insurance is different

There are many ways to structure your product portfolio. Large increases in average premiums can often be achieved by making merely class-specific changes. Efficiently structured product modularization is consequently crucial if you are to optimize your sales.

Nevertheless, our surveys repeatedly show that the framework conditions are different for each class of insurance. It is precisely for this reason that it's important to conduct specific analyses for each case and take targeted action throughout the particular decision situation.



Every touchpoint is different

Moreover, the various touchpoints via which customers ultimately take out insurance are just as different as the individual types of cover. Regardless of the product, one can state that 1-1 advice (in person) is still more popular than internet-based touchpoints.

At every touchpoint, the product portfolio and the way it's presented will directly impact on the purchase decision and the choice of product. Particularly within the context of 1-1 advice, the correct presentation of an optimally targeted offer portfolio can effectively identify and exploit customers' expectations of the features/services and their choice of product. The GRIPS® decider typology developed by Vocatus can also be used to train representatives or bank advisors so they can reliably recognize their customers' willingness to pay. In online sales, an offer portfolio that has been optimized by using behavioral economics can even become the sole lever to increase sales – even without deploying the 'discount joker' that will inevitably squeeze margins.

vocatus:



Over many years, our projects have consistently received both national and international awards:

- 2017** Award from *brand eins*: "Best Consultant"
- 2016** Award from *brand eins*: "Best Consultant"
- 2015** Image study: Gold for "Innovation", Silver for "Consulting Expertise"
- 2014** GRIT Report: Top 20 most innovative market research institutes in the world
- 2013** ESOMAR: Winner of "Research Effectiveness Award"
- 2012** ESOMAR: Winner of "Research Effectiveness Award"
- 2012** Image study: Gold for "Innovation"
- 2010** ESOMAR: Winner of "Award for the Best Methodological Paper"
- 2010** German Market Research Prize: Winner of "Best Study"

Please contact us if you'd like to discuss your portfolio management for insurance and other financial products:

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