

Behavioural pricing in the home insurance industry

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Executive summary

Change continues to come to the home insurance market.

The FCA and CMA's investigations of dual pricing strategies (in response to the Citizens Advice super-complaint), and the increasing share taken by aggregators, are just two of the pressures limiting insurers' ability to raise premiums. But these are not the most fundamental drivers of market dynamics.

Underlying both of these trends is the basic psychology of the buyer. Consumers desire simplicity. For some, the simplest option is to remain with the current provider. Others are willing to switch – but then they want their choice to be easy. If providers make it easy for consumers to buy a higher-value product, then they will do so. If not, they may default to the cheapest option.

In response to these pressures, insurers can deploy sophisticated *behavioural pricing* tactics which make it easier for consumers to understand and choose the more valuable products offered by brands they can trust. These approaches have the potential to replace dual pricing, if either the FCA or a change in consumer attitudes makes it no longer sustainable.

Behavioural pricing is only the first step in the journey the insurance industry is making towards truly understanding its consumers. The next wave is *cognitive pricing*, an approach based on learning the consumer's conscious and unconscious needs and wants, and shaping both product and price around them.

This report shows how insurers can use first behavioural, then cognitive pricing, to respond to the new reality, continue to provide value to customers and be recognised for it through loyalty and better margins.

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1. INTRODUCTION

Insurers now live in a world where you risk losing control of your own prices.

Between potential FCA and CMA regulation and the race-to-the-bottom contest promoted by the aggregators, it will become even harder for insurers to set a profitable pricing strategy and maintain margins. What is the appropriate response in order to retain a viable business model?

This report examines current pricing policies and the customer mindset in choosing insurance. It highlights the challenges insurers are facing in maintaining pricing power and proposes:

- six behavioural pricing responses that will defend margins in the short to medium term
- a vision for a longer-term direction: the pricing models of the future

If you are involved in marketing or setting consumer-facing prices for your company's products, you should find something useful here.

We would welcome your comments and questions – please drop an email to leigh@irrationalagency.com with your views or queries, or if you'd like to talk further.

1.1 The challenges

Two factors are converging to create pricing pressure in the retail insurance market.

The first is the continuing rise of the aggregator. In an era when Price Comparison Websites (PCWs) are amongst the leading distribution channels, customers have more information at their fingertips than ever before. Just as importantly, that information is presented in a very specific way: to encourage selection of the lowest-price product, regardless of features and suitability. PCWs are not a neutral arbiter, helping customers to choose the right deal: they are designed to create a race to the bottom. But with a twist: only the customers who engage with the PCWs – usually those who are willing to switch provider – will play a part in this race. Customers who don't use PCWs are likely to make

their decisions in a more traditional way.

The second factor is a consequence of the first. In response to margin pressure from the switcher segment, many insurers have relied on increasing margins from loyal customers, through a dual pricing approach. The Financial Conduct Authority is investigating this practice, and in September 2018 pressure for change was applied by a super-complaint filed by the Citizens Advice Bureau. The Competition and Markets Authority responded in January with a set of recommendations that strongly hint at future regulation if providers do not step up. Aviva has responded to these pressures already by announcing the end of dual pricing, and it seems likely that other insurers will follow, pressed by both customers and regulators.

Insurers are being squeezed between the aggregators on one hand, and the regulator on the other. The aggregator represents the engaged customer, while the regulator aims to protect the unengaged customer. To serve both kinds of customer while maintaining a sustainable business return, a deeper understanding of their psychology will be needed.

“When offering policies, insurance providers need to be mindful of their customer’s decision-making process that either motivates or discourages them from shopping for a better deal.”

1.2 The customer mindset

In this context, insurance providers typically deal with two types of customers: those who switch providers regularly and those who don’t.

Buying home insurance can be a tedious and time-consuming process, but there are plenty of people sufficiently motivated to undergo this process on a yearly basis in search of a better deal. While another group of customers are fairly content with their providers and would rather enjoy more time to themselves than scouting comparison websites to save a couple of pounds.

Both these mindsets are completely valid for a customer when seen through the lens of behavioural science. Researchers who study psychology, behavioural economics and the other human sciences have made a series of discoveries about the human brain and its decision processes. These insights tell us why customers behave the way they do. Companies can respond appropriately.

When offering policies, insurance providers need to be mindful of their customer's decision-making process that either motivates or discourages them from shopping for a better deal. The next section looks at the underlying decision making process for both types of consumers.

1.2.1 Customers who switch

Let's first look at customers who switch regularly. Almost 73% of home insurance consumers shop around at renewal, with 80% of them using PCWs to receive a quote. Only 3% chose to stay with their insurer because they had a positive claims experience, while 22% stayed because their current provider offered them a lower premium. While customer service and quality matter, price still plays a dominant role when people choose their home insurance. However, it's not only the value for money that makes price an important factor.

Buying home insurance online is a complex cognitive process for customers. It involves risk analysis, forecasting multiple scenarios, and correctly valuing their property and its contents such that their home is neither overvalued or undervalued. While PCWs have attempted to make this process simpler, they still lack transparency and the guidance that insurance advisors provide. Thus, while the customer starts out with a rational intention of saving money by switching providers, given their limited cognitive ability, the overload of options and information results in irrationality creeping into the decision-making process.

Striking a balance between saving costs and ensuring that the quality of products meets needs means that the cheapest product might not always be the right choice. Information overload can cause confusion and frustration, and a hasty decision may lead to the choice of the wrong product. Here, a barrage of information and choice overload prompt an irrational decision. Equally, it can be difficult for some customers to identify which insurance policy is optimal; they end up choosing an option that is slightly cheaper than their current contract (that being the intention of switching in the first place) and are even willing to compromise on the extent of the cover. Choosing a cheaper

“Choosing a cheaper but not necessarily suitable alternative is made easier by PCWs, where simplicity sometimes tempts customers to skip reading the fine print before selecting their policy.”

but not necessarily suitable alternative is made easier by PCWs, where simplicity sometimes tempts customers to skip reading the fine print before selecting their policy.

Of the 35% of customers who switch providers, PCWs account for nearly half of new business sales¹. In the next section, we suggest some pricing techniques that apply behavioural science in order to maintain margins and offer customers products they genuinely value. But let's first look at customers that don't switch providers and end up paying a higher insurance premium due to dual pricing.

1.2.2 Customers who don't switch

“According to one survey, many customers aged over 75 had held their cover with the same insurance provider for the past 10 years, paying almost double the premium in that time.”

The easiest option for renewal is to remain with the same provider. Customers who value their time at more than the difference they would save when switching providers, find it sensible to pay the additional premium charged by their provider. This is a rational choice. However, not everyone who sticks with their current provider *actively* chooses to do so. According to one survey, many customers aged over 75 had held their cover with the same insurance provider for the past 10 years, paying almost double the premium in that time². Having the same level of trust and loyalty in their financial institutions as 20 years ago, they refrain from switching providers.

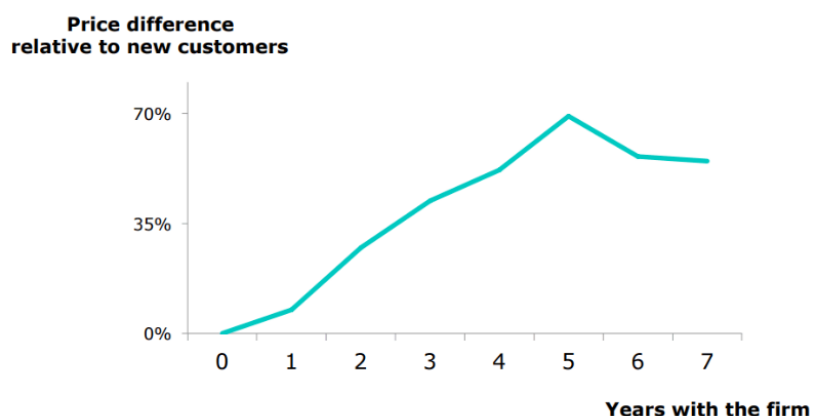
From a behavioural perspective, there are two things going on. From a customer's perspective, it's called being in a state of **inertia** – a tendency to do nothing in a given situation. When faced with making an active decision to either shop around for a policy in search for a better deal or renew their policy with their existing provider, people sometimes chose to take the easier option and do nothing.

The insurance provider, at the same time, has set up a **default** opt out at renewal (automatic renewal unless the customer opts out) to save both them and the customer effort each time the policy matures. This was a clever choice architecture when first introduced. Additionally, if customers receive renewal letters there is a chance they might forget or ignore it, defaulting to continuation. However, due to the increased pressure on firms to maintain margins while at the same time competing with PCWs and offering new

customers cheaper deals, this default has inevitably resulted in loyal customers sticking with the default and paying higher prices. Thus, while they are given an option to reduce their premium costs they consciously or subconsciously fail to exercise it.

Some insurance providers have been following a 'dual pricing' technique, wherein the discounts offered to new customers are offset by charging increased premiums to existing customers at renewal. A study by the FCA has shown that the UK home insurance market has significantly increased premiums over the last five years for customers who don't switch. Essentially, customers are being penalised for being loyal. The figure below illustrates that customers who have auto-renewed their insurance over five years pay 70% more than new customers on average³. This strategy, known as price discrimination, was addressed by the FCA through several measures introduced in 2016. Insurance providers were asked to be more transparent in their renewal letters by disclosing premiums previously paid by customers so as to encourage customers to shop around for better deals⁴. However, this has had limited impact and in their business plan for 2018/19, the FCA has now made it one of their key objectives to address price discrimination in general insurance⁵.

UK home insurance shows markedly increasing premiums over five years if consumers do not switch



Dual pricing relies on people's inertia and on information asymmetry between the insurance provider and its customers. Existing customers are unaware of how the provider arrived at a specific premium and how much other customers are being charged for a similar level of risk. If aware of this, customers would be inclined to shop around for the best deal based on their personal preferences. Dual

“Behavioural pricing is a powerful way of working with the customer’s psychology, helping them see the value you provide, so that they are more willing to pay for it.”

pricing is an indicator of an inefficient market due to information asymmetry resulting in lower public confidence and regulatory interventions. Citizens Advice has recently issued a super-complaint about dual pricing which has penalised loyal customers by more than £4 billion a year.

A thought experiment is useful in this context. If the FCA and CMA abolish dual pricing altogether, how might insurance providers deal with this intervention? We believe the answer lies in creating value for customers, through techniques of behavioural pricing, such that it allows companies to maintain margins without necessarily ‘punishing’ the loyal customer through higher prices.

2. BEHAVIOURAL PRICING AND INSURANCE

In a world where price pressure is coming from both regulators and aggregators, margins must be earned in new places. Behavioural pricing is a powerful way of working with the customer’s psychology, helping them see the value you provide, so that they are more willing to pay for it.

You have undoubtedly seen behavioural pricing around you in retail, online and even in business to business services – although sometimes it disguises itself so we don’t recognise it.

2.1 Six key techniques

There are many techniques of behavioural pricing that are commonly seen in the retail and services world. Our research has identified six techniques that are most suitable for insurance products:

2.1.1 Goldilocks effect

If you’ve ever been offered three options on a product or service – gold, silver and bronze, or large, medium and small – the seller is likely to be using the Goldilocks effect. Buyers tend to gravitate towards the middle option, because of the way their brains unconsciously interpret a range of three items.

“Our minds have an intuitive bias towards a particular option, and this makes it attractive to pick it. It feels easy to make that choice.”

The most expensive item is seen as a luxury option, probably more than most people need. The cheapest option is a discount version which may not have enough features or enough content. The middle one is safe, middle-of-the-road, sensible, and probably just right.

Think of the meals in McDonald's – it's much more common to choose the medium size than small or large. Or the wines on a restaurant menu – would you trust the quality of the cheapest? And wouldn't you worry you were being ripped off if you bought the most expensive? Somewhere in between is usually right.

A psychological effect called *extremeness aversion* is the reason this works. Our minds are naturally suspicious of anything too far outside the norm.

Of course, this does not mean we always choose the product in the middle; if we have a specific reason to go for something at either end, we can override natural instincts. This is true of most behavioural techniques. Our minds have an intuitive bias towards a particular option, and this makes it attractive to pick it. It feels easy to make that choice. We can pick the option our unconscious mind tells us to pick, without thinking too hard, but we need to have a specific conscious reason to choose something else.

Most customers are so busy and distracted that they navigate through half of their life on autopilot. So they are more likely to take the automatic option than any other.

Implementing the Goldilocks effect in insurance: *Offer three different options – typically Bronze, Silver and Gold, or Basic, Enhanced and Super – with different features and levels of cover. Keep margins low on Bronze – this is there to attract price-sensitive customers – and make the money on Silver and Gold*

2.1.2 Default option

Countries where citizens have to actively opt in to become an organ donor tend to have about 15% of their population on the donor register. Other countries, where everyone goes onto the register unless they opt out, have close to

100% participation.

You will have seen this in the commercial world too.

“Are you happy to opt in to receive marketing messages (untick this box if not)?”

“Would you like our standard hotel package that includes breakfast (click here to remove breakfast from your booking)?”

Defaults guide customers to the most likely-to-be-suitable option and allow them to opt in to the version of the product that you want to offer them, unless they make a conscious decision to opt out.

Once again, most customers will accept the standard package because it takes effort and attention to make a change. More engaged customers, and those who have done the research to find out about the competitors, are more likely to actively opt out of the default.

Because of the power of the default option, regulators have ruled that certain kinds of default are no longer permitted. Most companies, for example, have interpreted data collection under GDPR as implying a presumption towards opting out of marketing communications unless the customer actively requests this.

The technique remains powerful, and when used ethically is a legitimate way to help customers choose a product that is likely to suit them.

Implementing Defaults in insurance: *Design a package that is most likely to meet the needs of the majority of customers and make that the default. Allow price-sensitive customers to untick or opt out of some features to reduce price, while others can add extra features to boost coverage. It is important to allow movement in both directions to show fairness – don't automatically include every feature as a default.*

2.1.3 Deferred pricing

Nothing to pay today! Zero APR! It is much easier to shell

out tomorrow's paycheck than today's.

If you can defer payment you can either encourage many customers to pay more money for the same product or get more people to sign up who might be hesitant to pay right away.

This phenomenon in the brain is called *hyperbolic discounting* and there is a lot of detailed psychology research into exactly how much more people will pay at various intervals. Customers will pay much more in 30 days than they will today; but they will only pay a little extra in 60 days compared to 30 days. In fact, you may get most of the impact just by letting them pay 7 days later – you don't need to allow a whole year or even a month for payment. The big difference is 'not today'.

Using Deferred pricing in insurance: *Allow customers to sign up today and pay or cancel in one week (provided they haven't claimed). Paying a premium over the year in monthly instalments is another use of this technique.*

2.1.4 Showing a reference price

"Was £50 – now only £35!"

"Save £200, now only £899"

One of the most common techniques in all of sales and retail is to show a higher price before revealing the true price. This creates a narrative that the product is really worth more than the price you are charging, and therefore the customer is getting a great deal.

A very similar effect is achieved by telling the customer how much they are saving compared to a previous price or other comparison (such as a competitor price).

Because this approach is so powerful, it is also closely regulated in most markets. The reference price must be genuine and not misleading. If it is your own previous price, you must have sold the product at this price for a

commercially meaningful length of time (typically 4 weeks).
As this is likely to be a method you are already using, there is not much more to say about it!

Using Reference pricing in insurance: *Find the relevant set of comparators for each policy: similar products from competitors, alternative products from your own range, past prices for the same product, or the price offered to a different group of customers (e.g. to highlight loyalty benefits). Use these alternative prices to communicate why and when each customer is getting a better deal. Where digital platforms allow, show the reference price only if it is more than 5% higher than the quoted price. If the saving is less than 5%, consider showing it as an absolute amount instead, e.g. "Buy today and save £10" rather than "Buy today and save 4%".*

2.1.5 Price-quality heuristic

Customers usually expect a more expensive product to be better than a cheaper variant. No surprise there. But this effect is so powerful that experimenters were able to give two groups of people the same wine with two different price labels – and they insisted that the one with the more expensive label was different and better, than the apparently 'cheaper' one. When they were placed into a brain scanning machine, the scientists observed a greater blood flow in the reward centre of the customers' brains when tasting the 'expensive' wine.

The upshot: putting a higher price on something makes customers enjoy it more, and rate its quality more highly.

There is a segment of customers who always want the best, and when the best quality, service or feature set is subjective (as it usually is), price is a good way for them to judge which product is superior.

"Reassuringly expensive" – Stella Artois

Using Price-quality heuristic in insurance: *Show your expensive products as a prestige marker, even if you are not charging this customer as high a price for the policy they're getting.*

2.1.6 Price and product differentiation

I took this photo on holiday in Spain. Spot the trick that awaits the unwary tourist...



If you order the 'menu del dia' you pay only €12. But ask for 'menu of the day' and you'll be charged €15.

Most versions of price differentiation are not this obvious or this blatant. But the underlying principle is the same: some customers are willing to pay more than others. In this case, locals are more likely to know the alternatives – they know what's a fair price for a lunch and can easily find another place to eat. A tourist is less price sensitive and will find it harder to hunt for somewhere else. A similar dynamic applies in many other markets.

The FCA and CMA are concerned that the practice of offering different prices to different customers is discriminatory. In fact, even the name for this practice in economic theory is *price discrimination*.

It is still reasonable to assume that some customers are more price-sensitive, while others have more money and are happy to pay for a better product.

Therefore, a more ethical way of applying price differentiation is to offer a range of *different* products at different price points that will appeal to a variety of customers.

Using Price differentiation in insurance: *Research your customers and match their product needs to their price sensitivity – using price as a way to segment the market.*

Some companies focus on policies for higher-value customers (which might have a higher underwriting risk, a demand for better service or simply less price sensitivity). Others focus on the more competitive and higher-volume end of the market where servicing costs are lower. With price differentiation, you can serve both. Offer a basic, core or 'Bronze' policy and you will attract the price-sensitive customer. Offer an enhanced, 'secure' or 'Gold' policy and you'll get the top end of the market. And those who are unsure? Remember the Goldilocks effect – they will buy silver.

If you choose not to (or, after the current FCA review, if you are not permitted to) charge renewal customers a different price for the same policy, an alternative would be to offer an upgraded product. For example, renewal customers could be offered a 15% increase in the value of possessions covered (since customers are likely to have acquired more goods since the last renewal) or a bundled policy covering gadgets or digital assets. This permits a higher price to be legitimately offered – as long as the customer also has the option of returning to the previous policy specification.

2.2 Summary table

Goldilocks effect	Offer three options to guide people towards the middle
Default option	Tick the box for the option that is most profitable, helping customers save mental effort by choosing it
Deferred pricing	Let your customers pay later – even in just a week's time – to encourage them to choose now
Reference price	Display a comparison price, or potential loss, to show customers they are getting a good deal
Price-quality heuristic	Use high prices as a signal to communicate quality and service
Price and product differentiation	Different prices (and different products) for different market segments. Let your customers segment themselves instead of relying on inaccurate targeting approaches.

3. THE FUTURE

Behavioural pricing works today. But there are important lessons to learn from the potential actions regulators may take to limit dual pricing.

Some pricing tactics used in the past have exploited information asymmetry and relied on misleading customers. These are the techniques that regulators usually find the most problematic. Three of the most famous examples from recent years are:

Airlines were told in 2013 not to use “drip pricing”. This approach involved tempting customers with a £4.99 ticket, only to add a whole series of surcharges and difficult-to-avoid extras that result in a much higher price. By the time purchasers get to the checkout stage, they have wasted so much time and been so annoyed by the process that they don't want to back out and start the process again with a competitor. They reluctantly buy the product, but the brand is damaged and the customer has been taken advantage of.

In the past, mobile phone contracts or broadband services were often priced in such a complex way that customers had no way of realistically estimating

what they would pay, or of comparing one supplier with another. This inevitably resulted in less effective competition and customers overpaying.

Bundling of insurance with borrowing – with customers guided into paying for an extra product they didn't want or need – led to the PPI scandal which is still hurting financial institutions 20 years later.

The techniques described in section 2 do *not* rely on misleading customers. Instead they are about making decisions simpler, by showing customers where the value is and helping them choose the product that is right for them.

Even so, the future of pricing will require companies to go beyond making things easy. The next generation of pricing is *cognitive pricing*, a strategy that uses price to actively create more value for customers.

Cognitive pricing

Behavioural pricing – as the name suggests – is about changing customers' *behaviour*. Cognitive pricing is about changing how they *think* and *feel*.

In a world that is becoming focused on experiences not products, in which younger generations want to know the meaning of what they buy, the positioning of insurance services will have to change. If you can influence how your customers feel about you, this will be more powerful in the long term than simply changing their behaviour today.

Pricing is one of the most powerful levers for influencing perceptions. Other marketing approaches can be seen as 'cheap talk': you can claim to have better service or a friendlier brand, but from the consumer's point of view, *"they would say that, wouldn't they?"*. These aspects of your service are intangible, so you need to work harder to get people to believe in them. Pricing is more powerful, because it puts your money where your mouth is.

The best known examples in the past have been luxury goods: for example wine, art or cars. Choosing the most expensive wine sends a signal to your dinner guests or even to yourself – *you are worth the money*.

Buying the most expensive art, outbidding your rival, has

"Cognitive pricing means choosing the feelings and beliefs that you want people to have about your product and using price to communicate those feelings and beliefs."

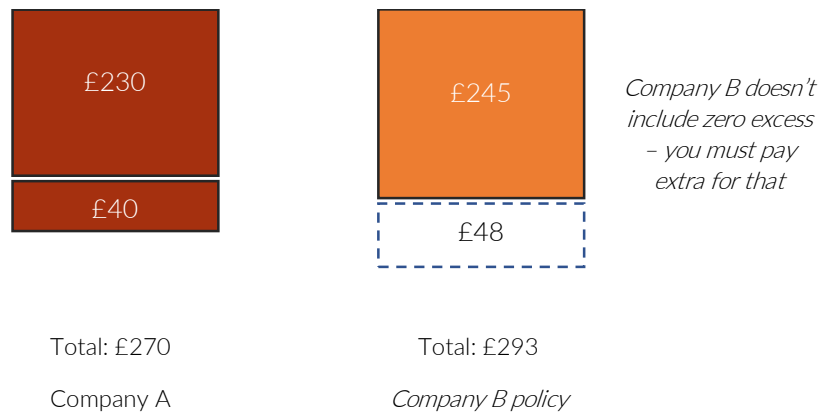
been seen as a way to show off wealth and power. And the most expensive cars are valued, in part, *because* they are most expensive. The price is what makes them exclusive and noticeable.

Cognitive pricing is now moving out of the realm of luxury brands, and into the domain of everyday products.

Cognitive pricing means choosing the feelings and beliefs that you want people to have about your product and using price to communicate those feelings and beliefs. What do you want your brand to stand for? Whatever it is, your pricing should be chosen to send that message.

Retailers have used cognitive pricing to send key brand messages. For example the M&S £12 meal deal for two people reinforces the idea that M&S is a special place for special occasions (“spoil yourself on a night in with your partner”). Other supermarkets have used ‘round pound’ pricing strategies – instead of the 99p ending – to send a signal that they are honest, offering clear and fair deals, implying good value and trustworthiness.

Two short case studies will demonstrate how the cognitive pricing approach could be used by insurers.



Case study 1

Company A, after extensive consumer research, chose a brand strategy of ‘providing a feeling of total security’.

To implement this, they decided on a zero excess feature for their flagship home insurance product.

Inevitably, this made it more expensive than some

competitors. To combat this, Company A decided to show a breakdown of its prices, highlighting where the extra value comes from.

In all our standard products, we include a zero-excess option, worth £40. Our competitors charge extra for this, making their overall price more expensive. If you don't need this option we are happy to remove it and offer a lower cost product for just £230.

The approach was extended to other features as well as the zero excess option. It ensures that customers see and feel the extra value in what they are buying. It turns a higher price into a value message, because customers can easily compare the price of both the core policy and the extra features and see that they are getting a great deal.

Case study 2

Company C was focused on a younger market. They discovered that these consumers were less price sensitive but also less willing to engage with thinking about insurance.

To serve the needs of this market they designed a sub-brand focused on a message of simplicity.

The core home insurance product was designed to provide a basic cover for key risks at a price of £120. Then they created a series of add-on modules for £20 each:

- *Cover for your data: £20*
- *Locksmith cover for your house keys: £20*
- *Legal cover if you have a water leak from a neighbour's property: £20*

This makes each specific risk focused and easy to imagine – working with a part of the brain called *System 3*, where the human imagination resides. The simple, consistent pricing takes away one level of the decision, and simply asks the customer to decide if they can imagine this particular thing happening to them.

The structure also provides a strong upsell route: a monthly or quarterly communication when a new module is

launched, giving customers an opportunity to opt into the new module or the existing ones.

The pricing structure communicates simplicity, makes it easy for a busy person to get what they need, and helps them to clearly understand the benefit of each module they buy.

Cognitive pricing is your way to get ahead of a changing market – positioning yourself for growth, profitability and regulatory compliance into the 2020s and beyond.

Here's how you can use cognitive pricing to both provide and communicate value to your customers.

Step 1: Nonconscious customer research

The first step is to ground your decisions in a clear and rigorous understanding of what your customers really want and need. Your existing customer research will provide insight into this, but is likely to go only as far as the surface. Every customer says they want cheaper prices, better service and to be sure their claims will be paid out.

Newly developed *nonconscious research methods* can get beyond these truisms – past the claimed behaviour and to the true needs underneath.

These new methods include:

Implicit tools: Surveys designed like online games, which use reaction time to measure how customers respond to different words and images. These methods can identify the unconscious drives that customers may not admit to you or even to themselves.

Behavioural conjoint: A technique that shows customers a series of real-life choices between products, simulating the process of buying online, while changing and rotating the key variables to see which ones have the highest impact on customer preferences. This is a way of measuring the tradeoffs that customers will make – for example, to find how much extra they will pay for a familiar brand name or a better guarantee.

System 3 measurement: A new innovation that draws a picture of how customers imagine their future, using a combination of word associations, implicit choices and

neuroscience. When you know how your customers think about the future, you can design products that will meet them there. This approach can help to guide brand language, the design of new services, and keep your products relevant and ahead of the curve.

Immersion groups. A variant on the trusty focus group, in which participants are immersed (using visual prompts and psychological exercises) into a mental environment that reflects their insurance buying mindset. The interviewer uses questioning techniques derived from psychology research, therapeutic practice, stage acting and roleplay to uncover the real drivers of behaviour, getting past the easy 'surface' answers that are given in a typical customer interview.

Step 2: Cognitive pricing design: creating the strategy

The second step is to build a pricing approach based on what you have discovered.

You will often find that your customers have a few core needs or wants in common, and then particular segments have different additional wants. For example, you might find that most insurance customers have a desire to feel emotionally secure, and to have a sense of clarity about what is and is not covered by their policy. Then, one group might be keen to feel that they have the maximum possible coverage with nothing left out. Another group may value digital access to their product status and an automated claims process. A third may want to know that their claims process will be easy, because they have had a bad experience in the past.

A creative pricing design process can take all of these into account, looking at the overlaps between the groups and

needs, and offering a range of products that maximises both market share and margin. Loyal customers can be encouraged to trade up to a more valuable policy while new switchers might be offered a more economical basic package. The pricing approaches for different products will interact – indeed many companies change the structure of the products they offer, in order to support a profitable pricing strategy.

Once you have designed the pricing strategy, monitor it and be ready to adjust when you get new learnings from your customers, and when your competitors respond. If you can anticipate specific reactions, you can plan the response ahead – otherwise, just be agile and ready to keep one step ahead of the competition.

Bringing in the experts

Irrational Agency can help you both with the research step and the pricing design step in this process. If you'd like to learn more, we're always happy to have a conversation about how it could work. Please drop a line to Stephanie Shaarwi (stephanie@irrationalagency.com) or Leigh Caldwell (leigh@irrationalagency.com), or call us on 020 7064 6555.

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