

Acting (ir)rationally:

Behavioral Economics and the Consumer Affect



"Standard economics assumes that we are rational, but we are far from rational in our decision making. Our irrational behaviors are neither random nor senseless; they are systematic and predictable. We make the same mistakes over and over because of the wiring of our brains."

- Dan Ariely, author, *Predictably Irrational: The Hidden Forces That Shape Our Decisions*

Behind every action is a behavior. Neoclassical economics assumes people act rationally and make decisions in their best interest; unfortunately, this is often not the case. A new wave of behavioral science, called behavioral economics, puts irrational behavior at the center of study and research.

Taking a closer look, behavior economists recognize we do not always act in a rational way that is in our own self-interests. Based on the assumption that decision-making is often 'predictably irrational,' behavioral economist's research explores how these decision errors follow certain patterns that are well understood and can be used to influence a desired outcome.

In this article, we will provide an overview of some of the principles that drive decision making and explore how these principles can be used to promote a sustainable behavioral change, and ultimately, use "nudges" to achieve a desired outcome.

LOSS AVERSION

Imagine this: a person is more unhappy when they lose a \$10 bill than they are happy when they gain a \$10 bill. This concept [people tending to put much greater weight on losses than they do gains] is a principle in behavioral economics called "loss aversion."¹ In essence, loss aversion refers to how people judge loss versus gain, and make decisions based on the weight they assign to either. In other words, people tend to put much greater weight on losses than they do gains, even if the net effect is the same. In fact, studies show loss has roughly twice the disutility of an equivalent dollar gain.² For businesses and product sales, this decision error can be used to promote a certain behavior as one acts in a manner to avoid the loss.

In developing a product like the Life.io platform, the use of loss aversion on incentive design and copy is pertinent. For example, Life.io utilizes "regret messaging" to encourage users to engage by creating the perception that by not taking a certain action, they are losing out on something valuable. Paired with a strategic incentive structure, the platform is set-up to promote sustainable engagement. Users are reminded of the potential gains they could have earned should they have engaged more frequently.

Seem familiar? Loss aversion is also applied in non-technical markets. Retailers use catch lines like: "Hurry, while stock lasts" to create the feeling that by not acting quickly, the consumer sacrifices the opportunity to receive the best option.

By understanding the theories of behavior, "choice architecture" can be designed to influence behavior in a predictable way.

PRESENT BIAS

Most know healthy choices are the right choices, yet are still tempted into making an unhealthy decision knowing it will negatively impact their wellbeing. Unfortunately, whether it be the consumption of chocolate cake, or hanging up your sneakers to watch a favorite show; human tendency is to focus on the immediate benefits of a situation and undervalue future implications.^{3,4}

The main driver for this disconnect between the intended action (e.g. going on diet) and the actual action (e.g. eating the chocolate cake) is because the future impact of an action is not as salient in the present moment.

When designing the Life.io incentive structure, detailed thought is given to offset this disconnect and reward users with positive feedback and points in real time for the action taken. The rewards structure is architected such that low value incentives are distributed frequently in conjunction with larger value prizes being awarded less frequently. This approach has proven to be successful in promoting short term engagement and long term loyalty. Frequent rewards are a salient reminder to perform an action, while the larger prize creates stickiness and excitement for the user.

In addition to incentives, the Life.io model helps users better understand the correlated effects of how their behavior impacts their long-term health. Provided with a health adjusted “age” and “score,” the results enable users to understand how their current state impacts their future health. This ensures a level of mindfulness regarding how actions taken today impact future results.

STATUS QUO/DEFAULT BIAS

One’s battle with self control is not a new phenomenon. The struggle with resisting temptation and pre-committing to a certain outcome dates as far back as Homer’s description of Ulysses. In an effort to avoid temptation of the Sirens, Ulysses instructs his men to tie him to the mast of the ship. Although a Ulysses pact still exists today, luckily there are easier ways to stick to a new habit.

New habits are difficult to create as we tend to fall back into old habits and take the path of least resistance. Even if the intention to form a new habit is strong, individuals disproportionately stick with the status quo.⁵ The more barriers placed between the current state and the desired action, the greater the chance of defaulting back to the preexisting state.

In an effort to remove obstacles and create a clear path for healthy decision making, Life.io combined the three influences of wellbeing (physical, mental, and financial) into one application, allowing the delivery of a holistic and robust solution in one convenient environment. Along with an intuitive and seamless user experience, this “one stop shop” is available on the web and a mobile device, ensuring ease in ability to track behavior and the timely delivery of relevant content via preferred channels.

Not only are users incentivised, but they are also promoted to take small, achievable steps towards reaching their goals. These “micro-goals” narrow the gap between the user’s daily actions and the end goal, helping to make the process even more attainable.

FRAMING

Ever notice that another response can be realised if the situation is presented slightly differently while the same facts still apply? That is because outcomes can be influenced depending on the manner in which they are framed⁶. As an engagement tool, Life.io has a deep understanding of how to deliver messages for a desired outcome. Continuously performing A/B testing on its outreach communications, we assess the success of one email compared to another as certain phrases are tweaked. While the core message stays the same, this methodology ensures that our team is continually improving and optimizing the marketing message. The features and content on the platform are framed to be aspirational and attainable for all levels of engagement, and communications are continuously assessed to ensure they are delivered on the right day, at the right time, with the right message to achieve the highest engagement.

*Remember, next time you reach for 80% fat free crisps, ask yourself:
would you still eat them if they said 20% fat crisps?*

ABOUT LIFE.IO

Life.io is a leading customer engagement and data analytics solution bridging the gap between life carriers and their policyholders. By helping people achieve their goals, Life.io enables carriers to become human again, achieving their promise to help people live healthier, happier lives, while providing them with security and trust. Built on a foundation of science, Life.io uses behavioral economics, social psychology, and personalized content to nurture a community of highly engaged consumers. By utilizing Life.io, carriers capture these insights and use them to build brand loyalty, accelerate growth, minimize policy risk, and streamline the underwriting process.

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