**Go above and beyond for your client.**

Tools you can customise by OnePath Life Insurance

**CATEGORY – Getting started, the value of advice**

TOPIC – The science behind why we need life insurance

**SOCIAL MEDIA**

Use or customise the below post most likely to resonate with your clients via social media such as LinkedIn or Twitter. Your posts can link directly to the articles on our website, or you can customise a link to your own white-labelled versions of the articles.

***Tip:*  Spread the word with #clarity**

#clarity is a hashtag we’ve added to the material to promote life insurance education. We encourage you to get on board and help grow engagement and confidence in the life insurance industry by using it when you post on social media.

**SOCIAL MEDIA POST**

Australians are good at talking ourselves out of life insurance. She’ll be right, right? It turns out there are some scientific reasons why we struggle to engage with life insurance. And this highlights exactly why we need it. Read more #clarity

<Link to the article below either on your website or within the social platform>

**FLYER/NEWSLETTER/WEBSITE ARTICLE**

This article has been white-labelled to allow you to use the content (without having to seek our permission) as a customer flyer, newsletters or on your website.

***Tip*: Complement your advice**

You could also use the articles to complement your advice, sending specific articles to clients who have expressed concerns about their insurance or who have yet to take up insurance you have recommended.

**ARTICLE**

**The science behind why we need life insurance**

Life insurance protects our future financial circumstances against unexpected illness or injury.

Deep down, most of us probably know that’s a good investment in our future. But the truth is many people struggle to engage with life insurance enough to actually buy it. And for those that do, more struggle to keep it, review it and feel comfortable with it.

Some of the issues are based on effort – life insurance isn’t an easily accessible product, and it requires people to read an entire product Disclosure Statement (PDS) or spend a lot of time with financial advisers if they really want to understand it.

However, some of the issues people have in engaging with life insurance are rooted in natural human behaviour, and research in behavioural science allows us to understand what those causes are.

**We’re overconfident**

A famous American study found that 93% of American drivers rate themselves as **better than average[[1]](#endnote-1)**.

Obviously that is statistically impossible and can’t be true. However people often fall prey to something called **comparative optimism**, which simply means we often think we’re “better than average”.

We think that good things are more likely to happen to us, whereas bad things are more likely to happen to others.

This overconfidence tends to make us think life insurance is more relevant for other people than it is for us, even though that’s probably not the case.

**We only respond to things that come to our mind easily**

**Availability heuristic** is a term that describes how things that come to mind more easily are believed to be far more common, and more accurate reflections of the real world[[2]](#endnote-2).

For example, reports of shark attacks and airplane accidents often lead people to believe that such events are much more typical than they truly are.

This sheds light on why surfers on Australia’s east coast have started taking out shark attack insurance. About 15 people are attacked by a shark each year, and around 1 is fatal[[3]](#endnote-3). Yet statistically, people are more likely to be struck by lightning (about 10 people die each year from lightning strikes in Australia, with a further 100 injured),[[4]](#endnote-4) let alone suffer a heart attack like over 7,000 Australians each year[[5]](#endnote-5).

Because a lot of the events that lead to life insurance claims aren’t necessarily newsworthy, or don’t come to mind as easily, we tend to underestimate the likelihood of them happening to us.

**We dislike uncertainty and ambiguity**

The **Ellsberg Paradox** states that we have a tendency to favour the known over the unknown – including known risks over unknown risks[[6]](#endnote-6).

A simple example is how avoidance of uncertainty leads people to avoid participating in the stock market due to the unknown risks, with many preferring to lock in a known interest rate[[7]](#endnote-7).

With our health, and therefore our life insurance, it’s difficult for us to estimate our chance of ever needing to claim, which can make it very hard to see the relevance of life insurance.

**We struggle to empathise with our future selves**

People naturally find it very hard to imagine what it’s like to be in any emotional state other than the one they’re currently in. This is called the **hot-cold empathy gap**[[8]](#endnote-8).

For example, when a person who is dieting feels full, they struggle to determine how well they will be able to handle the temptation to eat certain foods later, at a time when they’re going to be hungry.

Given the many emotions we experience in daily life, it’s very difficult for us to predict how we will behave or make decisions in the future.

We might take out insurance in a rational state, but when our premium goes up we may ignore the rational factors of the decision and respond more emotionally. That can prevent us from holding on to life insurance cover we really need

**We sharply discount the future compared to the present**

The further out in the future benefits are, the less value they are perceived to have[[9]](#endnote-9).

This carries through to many parts of life. We have wonderful intentions for ourselves. Our future selves have excellent self-control, make responsible financial decisions and choose to eat healthy. But most of the time our diet starts tomorrow, and that rainy day saving keeps getting pushed back.

In the present moment our choices are impatient and we seek immediate gratification. This is called our **present bias**.

It’s no wonder we find it difficult to pay small insurance premiums today for the benefit of larger protection in the future – we’re just not wired for it.

**We can become overloaded by options**

The abundance of options we’re presented with is well intentioned and based on a simple assumption: more choice means more freedom.

But having too many options is actually associated with lower satisfaction, sometimes even unhappiness – causing us to simply go with a default option, and even delay or avoid making the choice altogether. This is an experience called **choice overload**[[10]](#endnote-10).

In the case of life insurance, we’ll often outsource our decisions to experts, whether that’s a professional in the field such as a financial adviser, a ratings agency or comparison site which simplifies the choice to a recommendation score. That can help us make confident choices from a vast array of product offerings.

**The conclusion? Life insurance saves us from ourselves**

We’ve evolved to make decisions in the present about simple trade-offs and risks we face right in front of us. But the modern world is full of complex decisions involving risks and far-off future benefits, which can make it hard to know what’s best for us.

Life insurance can help you avoid the traps and pitfalls of complex decisions, as it’s designed to accurately assess and price your personal risks.

Additionally, if you have life insurance, you help to control some of the natural behaviours people tend to exhibit. Having cover in place helps to mitigate against any negative outcomes associated with these behaviours, such as a tendency to be overconfident, or avoid uncertainty.

Importantly, life insurance allows you to be confident that you’ve got the protection you really need for yourself and the people you love.

**Want to know more?**

If you’d like to discuss any of the content in this article and how it may apply to you, please call me on XXXXXXXXXX.

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2. Tversky, Amos; Kahneman, Daniel (1973). Availability: A heuristic for judging frequency and probability. Cognitive Psychology. 5 (2): 207–232. [↑](#endnote-ref-2)
3. https://www.abc.net.au/news/2017-02-22/how-deadly-are-your-regular-activities-the-conversation/8293356 [↑](#endnote-ref-3)
4. https://www.abc.net.au/news/2017-11-30/how-to-be-safe-in-a-lightning-storm/9205742 [↑](#endnote-ref-4)
5. https://www.heartfoundation.org.au/about-us/what-we-do/heart-disease-in-australia/heart-attack-fact-sheet [↑](#endnote-ref-5)
6. Ellsberg, D. (1961). Risk, ambiguity, and the savage axioms. The Quarterly Journal of Economics, 75(4), 643-669. [↑](#endnote-ref-6)
7. Easley, D., & O’Hara, M. (2009). Ambiguity and nonparticipation: the role of regulation. The Review of Financial Studies, 22(5), 1817-1843. [↑](#endnote-ref-7)
8. Loewenstein, G. (2005). Hot-cold empathy gaps and medical decision-making. Health Psychology, 24(Suppl. 4), S49-S56. [↑](#endnote-ref-8)
9. Laibson, D. (1997). Golden eggs and hyperbolic discounting. Quarterly Journal of Economics, 112, 443-477. [↑](#endnote-ref-9)
10. Schwartz, B. (2004). The paradox of choice: Why more is less. New York: Ecco. [↑](#endnote-ref-10)