

# Facts About Life 2006

## Behavioral Economics: Know What Motivates Your Clients

Facts from LIMRA International  
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Behavioral economics, or behavioral finance, is a field of research that takes in elements of both psychology and economics to learn how people manage risk and make important financial decisions. Researchers in the field have won two Nobel Prizes in economics. Here are several principles of behavioral economics that help explain the decision-making process for buying life insurance:

**Critical Probabilities** — Premature death is both unpleasant to think about and low in probability, so people tend to assume it won't happen to them. This can be a reason not to make a decision to buy life insurance.

**Loss Domain** — Oddly, people hate to lose more than they like to win. They tend to think of insurance premiums as “losses” and undervalue the possible “gain” of a life insurance payment should they die prematurely. This can be another reason not to make the decision to buy life insurance.

**Protection Account** — People are usually willing to spend only so much on insurance — their insurance “account,” as it were. They may focus mainly on home, auto and health and decide they “can't afford” more insurance and fail to adequately insure their life.

**Emotion** — Three key emotional factors involved in the decision are regret, fear and love. Suppose you were diagnosed with a terminal illness. Would you “kick yourself” if you had not bought life insurance before getting sick? That's regret. How worried are you about the possibility of premature death? That's fear. Would purchasing life insurance express your strong feelings about your family? That's love. All of these may encourage people to buy life insurance.

**Search for Information** — Buying life insurance can be complicated. If the “cost” of getting information (time and effort) is too high, people will put it off and not make a decision. Interestingly though, talking about it with friends and family seems to help reduce that “cost” and people will often copy another's decision to buy.

### About LIMRA International

LIMRA International is a worldwide research, consulting and performance improvement organization that helps more than 800 insurance and financial services companies in 60 countries increase their marketing and distribution effectiveness.

*All facts are from LIMRA International's life insurance consumer studies.*

