Bachelor of Arts (VS)- Insurance Management

Semester VII

Discipline Specific Elective Course -7.2 (Dse-7.2)- Behavioral Insurance

CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
BEHAVIORAL INSURANCE (DSE- 7.2)	4	3	-	1	12th	-

Learning Objectives:

- To equip students with knowledge and skills related to behavioral insurance.
- To differentiate behavioral insurance from traditional insurance models.
- To introduce key concepts of behavioral economics and their relevance to insurance.
- To explain behavioral economic frameworks, such as behavioral lifecycle theory.
- To understand consumer decision-making under uncertainty and risk.
- To provide comprehensive insights into consumer behavior in the context of insurance.
- To explore applications of behavioral finance in insurance.
- To familiarize students with emerging technologies, data usage, ethical considerations, and future trends in behavioral insurance.

Learning outcomes: After completion of this course:

- Understand the foundations of behavioral insurance and how it differs from traditional insurance models.
- Analyse how behavioral economics and consumer psychology influence insurance behavior.
- Explore decision-making biases, heuristics, and emotional responses that affect insurance buying and claims behavior.
- Apply concepts from behavioral finance to insurance-related choices.
- Evaluate the ethical, regulatory, and technological aspects of behavior-based insurance.

Course Content (Theory 45 Hours + 30 hours Practical)

Unit I: Foundations of Behavioral Insurance 10 Hours

Introduction to behavioral insurance: evolution and emergence of behavior-based models, traditional vs. Behavior-based underwriting and pricing, foundations from behavioral economics: heuristics and biases: representativeness, availability, anchoring, loss aversion and

framing effects in risk decisions, bounded rationality in insurance choices, prospect theory and its relevance to insurance products, role of psychology in insurance contexts: cognitive psychology and behavioral tendencies, emotion and affect in risk perception, perceived control and optimism bias in insurance planning, frameworks and models: dual-process theory: system 1 vs. System 2 thinking, behavioral lifecycle theory, decision-making under uncertainty vs. Risk

Unit II: Consumer Behavior in Insurance **10 Hours**

Insurance decision-making: role of perceived risk and subjective probability, trust and credibility in insurance brands, complexity aversion and information overload, behavioral influences on purchase behavior: framing and presentation of policy options, default options, inertia, and status quo bias, peer effects and social norms in policy adoption, post-purchase behavior & claims psychology: moral hazard and behavioral loyalty, regret aversion and satisfaction post-claim, complaint behavior and perceived fairness, communication & agent behavior: behavioral nudges in agent-customer interaction, visual framing, simplification, and behavioral scripting, role of storytelling and narratives in influencing risk perception.

Unit III: Behavioral Finance Applications in Insurance **10 Hours**

Introduction to behavioral finance concepts: time inconsistency and intertemporal choice, present bias and its implications for long-term insurance, hyperbolic discounting and savings-linked insurance, biases impacting financial and insurance behavior, overconfidence, self-attribution bias, and insurance over-/under-purchasing, mental accounting: earmarking insurance for certain risks, ambiguity aversion vs. Risk aversion, prospect theory in premium and payout design: reference points in perceived value of premiums, diminishing sensitivity to large vs. Small claims, utility curvature and behavioral demand elasticity, behavioral approaches to insurance product structuring: designing around biases: deductible framing, bundling, and coverage options, perceived fairness of pricing: community vs. personalized premiums, Case examples from microinsurance and inclusive insurance models.

Unit IV: Technology, Data, Ethics, and the Future **15 Hours**

Behavioral data & digital insurance models, data sources: telematics, wearables, mobile apps, and smart home devices, gamification, nudges, and reward structures, dynamic pricing based on behavior, case studies of behavior-based insurance: vitality (discovery, John Hancock), root insurance, lemonade, metro-mile, success metrics and user engagement strategies, failures and limitations of behavioral models, ethical, legal, and regulatory considerations; data privacy, consent, and GDPR implications, algorithmic fairness and transparency, surveillance vs. Empowerment debate, future trends, predictive behavioral models using AI and machine learning, integration of behavioral insurance in public policy and welfare schemes, social scoring and ethical dilemmas.

Practical: The learners are required to:

- Design a structured questionnaire aimed at identifying the presence and impact of cognitive biases within the insurance industry.
- Simulate insurance decision-making under uncertainty applying prospect theory principles.
- Evaluate the impact of digital technology and insurtech innovations on the delivery, efficiency, and quality of insurance services.
- The learners are required to do practical from unit 1, 2, & 3.

References

- Thaler, R. H. (2015). *Misbehaving: The making of behavioral economics*. W. W. Norton & Company.
- Kahneman, D. (2011). *Thinking, fast and slow*. Farrar, Straus and Giroux.
- Ackert, L. F., & Deaves, R. (2010). *Behavioral finance: Psychology, decision-making, and markets* (2nd ed.). South-Western Cengage Learning.
- Thaler, R. H., & Sunstein, C. R. (2009). *Nudge: Improving decisions about health, wealth, and happiness* (Rev. ed.). Penguin Books.