

The FCA's behavioural experiment on insurance add-ons



How did we do this research?

Consumers participated in simplified online shopping tasks that represented key elements of buying a main product (such as a laptop) and optional insurance (such as gadget insurance against losing it). Variations across tasks allowed us to explore whether different ways of selling add-on insurance affect how consumers shop around and make decisions.

The experiment was designed in collaboration with London Economics as part of the FCA's market study on general insurance add-ons.

7 scenarios to pin-point the effects of different elements of an add-on sale

1,514 YouGov survey panel members participated

5 different types of main products and associated insurance

The format of the add-on sale can have powerful effects:

Buying insurance separately



Insurance



1 in 20 did not identify the cheapest deal correctly

£72

Average price paid for insurance



3 in 20 did not shop around for insurance

Showing both main product and add-on prices up-front



Main Product

Insurance



4 in 20 did not identify the cheapest deal correctly

£89

Average price paid for insurance



3 in 20 did not shop around for insurance

Add-on price revealed after main product first selected



Main Product

Insurance



5 in 20 did not identify the cheapest deal correctly

£102

Average price paid for insurance



13 in 20 did not shop around for insurance

Monthly vs annual price format also matters

With monthly prices for an annual contract:

- less shopping around
- more likely to accept first offer without looking any further
- more confusion about total cost
- higher prices paid for insurance

+50%

larger losses as a result

Based on: Iscenko, Z., Duke, C., Huck, S. and Wallace, B. (2014) *How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation*, FCA Occasional Paper 3; and London Economics (2014) *Study into the sales of Add-on General Insurance Products: Experimental consumer research*. A report for the FCA.

Find more results and detail at: www.fca.org.uk/occasional-paper-3