At Large

Insight

Is Big Brother Watching?

Behavior incentives offer discounts at the expense of privacy.

By
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> Will my electronic assistant keep track of my comings and goings and notify my homeowners insurance company if I am away from home for too long?

Behavior incentives are a growing trend among insurers, who increasingly use discounts to coax policyholders into desirable actions that are tied to lower risks.

While the premise of behavior incentives is rooted soundly in the insurance ideal of matching risk with pricing, the incentives themselves often are not large enough to change the way whole classes of people behave. And the methods for monitoring compliance are becoming increasingly intrusive.

Of course for every incentive, there is a disincentive.

Although insurers started by offering good-driver discounts without a corresponding penalty, the carrot approach quickly morphed into the carrot-and-stick approach, in which those who do not adopt the desired behavior are penalized with a higher premium or other disincentive.

We see these behavior incentive/disincentive combinations for nearly every type of insurance.

For auto you can receive a discount for installing telematics devices such as Progressive's Snapshot, which monitors your driving habits and reports them to the insurer. If monitoring shows you to be an aggressive driver, you can be hit with a surcharge.

Homeowners insurers can influence the type of windows you install, how high off the ground your house is built (to avoid floods), whether you have a security system, even what kind of dog you own. The disincentives? A much higher premium or even inability to get coverage. And workers' compensation carriers have required companies to set up safety programs that are monitored and tested, in exchange for large premium discounts or "safety awards."

Most recently, health care insurers and employers have begun implementing employee wellness programs designed to align employee choices with employer and insurer risks.

A 2015 study showed 81% of employers with 200 or more employees offered some kind of wellness program, most providing a financial incentive.

These programs sound like a great idea, but there is mixed evidence as to their effectiveness in actually changing long-term behavior or even improving the health of participants. Some critics have said these programs actually discriminate against those who are less healthy and poor.

Then there is the issue of privacy. As insurers look for even more creative ways to monitor behavior in an effort to incentivize "good" choices, the erosion of privacy seems inevitable.

Here are some questions people may be asking.

Will my activity tracking bracelet soon be reporting my vitals to my health insurer, resulting in a higher premium if I make the "wrong" choices? If I am unable or unwilling to make the changes the insurer thinks are appropriate for me, will there be consequences?

Will my driving habits and actual location be constantly monitored by my auto insurer, resulting in surcharges?

Will my electronic assistant keep track of my comings and goings and notify my homeowners insurance company if I am away from home for too long? Will my smoke detector monitor the occupancy of my home and send me an extra bill because I increased my fire hazard by hosting a large party?

What will companies do with all of this data that is collected in the name of improving behavior, health and safety? How will my privacy be protected? How will the data be secured?

History has not shown intentions to be pure or data to be secure. The implications are frightening. How much of an insurance discount is our privacy worth? BR

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