Nudging healthy behaviors

The need for behavioral economics is perhaps greatest in health care, says EY’s Gautam Jaggi. With chronic diseases threatening already-strained funding systems, governments and insurers are realigning incentives to drive behavioral change.

Health care is about to undergo a historic shift, and it will be driven by behavioral change. To understand the magnitude of what lies ahead, consider that there have been two major advances in health outcomes in human history. The first was improved hygiene, which led to huge reductions in illnesses and infections. The second big wave, which we’ve been riding for the past few decades, has been breakthrough drugs and medical devices. These have wiped out some diseases (smallpox), taken others to the brink of extinction (polio) and transformed still others from death sentences into manageable chronic diseases (HIV).

Ironically, we are now at a point where we are becoming victims of our own success. The success of breakthrough drugs in increasing longevity has indirectly contributed (along with changing lifestyles) to a growing epidemic in chronic diseases that has worrying repercussions for governments and their thinly-stretched budgets. Already, chronic diseases account for about 75% of health care costs. And while genetic and environmental factors contribute to chronic diseases, behavioral factors play a huge role. The next big advance in health outcomes will therefore have to come from behavioral change.

This behavioral change revolution is being accelerated by the confluence of three catalyzing trends. The first is changing incentives. To bring costs under control, governments and insurance companies are moving away from fee-for-service (e.g., paying doctors for the number of operations they conduct) and toward pay-for-performance (e.g., paying doctors for how much they improve the health of their patients).

The second catalyst is the rise of new technologies that empower patients and leverage real-time information – mobile apps, sensors, social media. These platforms connect patients and doctors, enabling better prevention and real-time disease management, all of which are much cheaper ways of containing chronic diseases.

The third catalyst is the widespread acceptance of behavioral economics. Although the discipline has been around since the 1970s, when Daniel Kahneman first started publishing in the field, it has only come into vogue in a big way over the past decade. For the first time, policymakers and others are designing “nudges” based on biases in human behavior.

The interplay between these three catalysts has some unique implications for the use of behavioral economics in health care. For one, they support each other and are mutually reinforcing: behavioral economics can make sure that new incentive structures are as effective as possible, while mobile technologies can effectively track patients’ behavior and give them real-time feedback on their actions. A second implication is that, while behavioral economics has typically been used by companies in many industries to entice consumers to make bad decisions (e.g., pricing or advertising products in ways that entice us to make impulse purchases or consume junk foods), health is one sector in which the incentives are now aligned so that the private sector is motivated to nudge people to make good decisions. As governments and insurance companies change incentives, companies across the health ecosystem – hospitals, pharmaceutical enterprises, medical device manufacturers, and others – will increasingly find themselves in the health outcomes business. In this world, they will make more money by nudging individuals to make healthy decisions than by getting them to make unhealthy ones.

In today’s challenging times, governments across the world are grappling with budgetary constraints. But the budget problem is often really a health care cost problem – health care costs have been outpacing inflation in many markets and, if unchecked, threaten to cannibalize other spending priorities. And, as already discussed, the health care cost problem is really a behavioral change problem, since chronic diseases drive the vast majority of health care costs.

To address their fiscal challenges, what policy makers really need therefore, are new solutions to get people to adopt healthy behaviors. At a time when incentives are being redrawn, private enterprises could be an important part of the solution, because for the first time, everyone’s interests are aligned around nudging individuals toward healthy behaviors. 

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