



Behavioural Finance & Behavioural Economics: Achieving Behavioural Change

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Background

- Experience in applying Behavioural Finance & Behavioural Economics developed financial markets.
- Now being to the broader challenge of Client Engagement across financial services.
- Claradan has extensive academic support both in the UK and in the US
- Claradan is driving a campaign to promote the ethical use of Behavioural incentives in influencing consumer decision making.



Background

- Financial Markets for 20 Years+ London, Dubai & Tokyo
- Studied and Applied Behavioural Finance & Economics for the past Decade
- Member of the International Association for Research in Economic Psychology (IAREP), Society for Judgement & Decision Making (SJDM), Strategic Partner of the Academy of Behavioural Finance & Economics (AOBF)



Behavioural Finance

"Behavioral finance is the study of how psychology affects financial decision making and financial markets."

Hersh Shefrin (2001)

- Identifies and explains those scenarios where decision making can be described as 'irrational' or 'biased'
- Increasingly influential as it highlights the gulf between expected behaviour and the reality of human reactions



Behavioural Economics

“Behavioural Economics is a discipline that is interested in the same questions as economics without assuming that people are rational”

Dan Ariely, Duke University

- Popularised by the book ‘Nudge’ which uses BE to facilitate behavioural change
- Has become synonymous with “Nudge” and “Choice Architecture”



Psychological Pitfalls

- **Procrastination**
 - Deferring important tasks to a later date i.e. Engaging in pensions and retirement savings
- **Inertia**
 - Inaction in relation to retirement saving
- **Loss Aversion**
 - A strong preference to avoiding a loss than receiving a gain. (*The emotional impact of a loss can be 2-3 times greater than an equivalent gain*)



Pension Industry Examples

- Auto Enrolment
- Save More Tomorrow™
- Fund Choice
- Peer Benchmarking
- Government Behavioural Incentives Team

"The sooner the new team starts looking into ways to change people's behaviour towards pensions, the better. Our pensions saving crisis does not allow us to wait any longer."

Joanne Segars Chief Executive, NAPF



Decision Making & The Environment

- Human Behaviour is **Repetitive**
- Human Behaviour is **Predictable**
(*Behavioural Sciences*)
- Past behaviour alone is not a predictor of future behaviour.
- What influences patterns of Behaviour is the feedback loops each different **Environment** creates.



Concept of “Nudge”

“Decision makers do not make choices in a vacuum. They make them in an environment where many features, noticed and unnoticed, can influence their decisions. The person who creates that environment is, in our terminology, a choice architect.” **NUDGE Blog**



Behavioural Change





Feedback Engineering

- Controlling the information that is fed back to clients can influence their behaviour in favour of a desired outcome.
- Engineering the feedback loops clients respond to enables behavioural change to be **instigated**



Tools of Behavioural Change

A Multidisciplinary Approach

- **The Right Information** – *Behavioural Finance*
- **The Right Presentation and Communication** – *Behavioural Finance & Behavioural Economics*
- **The Right Mechanism** – *Behavioural Economics “Nudge”*



The Right Information

- Understand what **drives** client behaviour in today's environment (*BF*)
- Understand how those drivers are likely to **influence** current behaviour (*BF*)
- Understand what **information** (*Positioning, framing, marketing, feedback*) to achieve your desired outcome(*BF*)



The Right Communication

- **Multi Portal**
- **Client Engagement** (*BF & BE*)
- **Positioning & Framing** (*BF*)
- **Using Psychological Pitfalls in Your favour** (*BE*)
- **Data Visualisation** (*BF & BE*)



Data Visualisation

Av. Workdays per Year 225

11 Days





The Right Mechanism

- **Choice Architecture** – *Non invasive choice manipulation*
- **Personal** – *Beyond segmentation*
- **Proactive** – *Delivering information **NOT** making it available!*
- **Behaviourally Astute** – *Make the psychological pitfalls work for you.*
- **Feedback Engineering** – *Peer benchmarking etc.*



Applications

Pensions & Savings

- Increase Scheme Participation
- Increase Scheme Contribution Rates

Wealth Management

- Increase Take up of Financial Planning
- Increase Interaction with Financial Planning

Group Treasury

- Hedging of Behavioural Risk Through Behavioural Change – *Prepayment, Deposit Gathering, Bad Loans etc.*



Summary

- Human Behaviour is **Repetitive** and **Predictable** - it is the Environment and the feedback this creates that Influences Outcomes.
- Engineering the type of feedback clients get influence client behaviour towards desired goals
- Behavioural Finance and Behavioural Economics are the Key Tools Required to achieve this.



Closing

Ethical consideration is paramount when using behavioural incentives to influence consumer decision making.



THANK YOU

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