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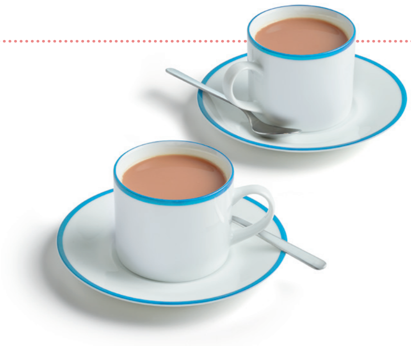
INTEGRATING BEHAVIOURAL ECONOMICS INTO YOUR ADVICE PROCESS – INITIAL DISCUSSION



Our 'Bias Insight and Action' tool shows almost 50 ways that behavioural economics can influence a typical retirement advice process, and suggests actions to help you overcome them. This article focuses on the initial meeting with a potential client.

The advice process usually begins in earnest at the next stage but there are biases and behaviours that can influence the impression you create during this initial meeting that we can explore.

The initial meeting is your chance to promote you and your firm. It's also your opportunity to understand what your prospective client is looking for and find out more about their circumstances. Inevitably, you'll want to discuss the commercial aspects and terms of business too (as well as assess whether the prospective client meets your criteria).

Creating a connection

As you establish your company's credentials: its size, years in business, growth and reputation, be mindful of the influence of 'herding'. Herding is the tendency to follow the crowd – to do what other people are doing without making independent decisions. If your prospective client shares common characteristics with many of your existing clients it can help convince them that you're the right person to look after their interests. So if you have clients that are in the same business or who are facing the same issues, you can create a connection that will help persuade people that they're in good hands.

Paying it forward

Another technique that can help is 'reciprocity'. This is a very powerful tool. We have an innate sense of fairness. If someone treats us well we feel almost compelled to repay their kindness. You can create this feeling of goodwill in any number of ways. For example, make the first consultation at your expense, give of your knowledge generously and don't overtly 'sell' (people will appreciate not being put under any pressure). And look for little ways to help – introduce them to someone they'll appreciate knowing, sponsor them for membership of the local club. All these things can go a long way.

The other half of your initial conversation is likely to focus on the prospective client and may cover their financial history, an explanation of the main options they'll need to consider and perhaps an understanding of their health and lifestyle issues. These could all include behavioural influences.

Acknowledging without criticising

If you're reviewing someone's financial history, avoid any criticism of financial decisions they've made in the past. This is obvious, but reminding people about any previous errors will just make them feel bad. This is called 'regret aversion'.

Capping what springs to mind

If you discuss the range of options available, watch out for 'availability bias', this is a tendency to make judgements based on how easily an example comes to mind. George Osborne's famous Budget statement that 'no one need ever buy an annuity again' may be easily recalled to dismiss annuities as poor value. This isn't about recommending annuities over drawdown, but simply shaking off prejudices that can lead to poor decisions.

Identifying other influencers

'Herding' may come into play here too. Clients may have read or heard from friends that more and more people are taking drawdown and this can be a powerful influence which can be difficult to shift.

People feel more comfortable if they're part of the 'crowd', but as an adviser you're responsible for making a personal recommendation in the best interests of the client.

Removing the rose tinted glasses

'Optimism bias' is another behaviour to be mindful of when discussing someone's health and lifestyle. We are naturally inclined to view the world positively and this can be a very effective coping strategy when things don't go well in life, but it can also lead to clients understating their health or lifestyle issues. They may gloss over any poor lifestyle choices or put a positive spin on any health issues, which could impact their income and longevity expectations. It might also mean that their legacy requirements aren't properly assessed.

These are just a few of the behavioural biases that can come into play during the initial meeting. As the advice journey continues, many more pre-conceptions are likely to emerge that can obstruct sound decision making if left unchecked.

Read these articles to discover how behavioural economics and biases impact other stages in the retirement advice process:

Stage 2 AGREEING OBJECTIVES
Stage 3 THE PERIL OF TOO MANY OPTIONS
Stage 4 BEHAVIOURS REVISITED

Visit justadviser.com for insight and ideas on how to work with biases to create better retirement outcomes

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1313220 06/2019