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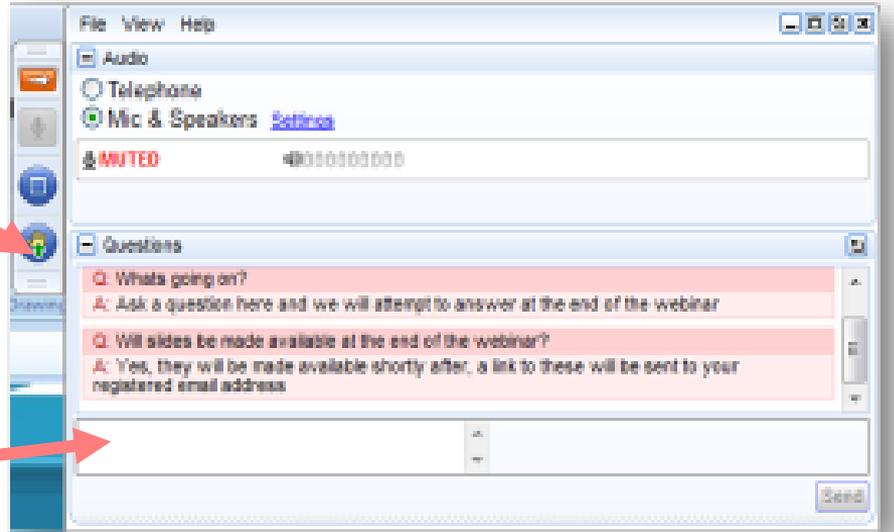
**JUST.**

**Behavioural Finance**

# WELCOME

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To raise your hand in the webinar, click here



To ask a question, please type here. We will respond during the webinar or shortly afterwards

# LEARNING OBJECTIVES

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**By attending this session, delegates will be able to:**

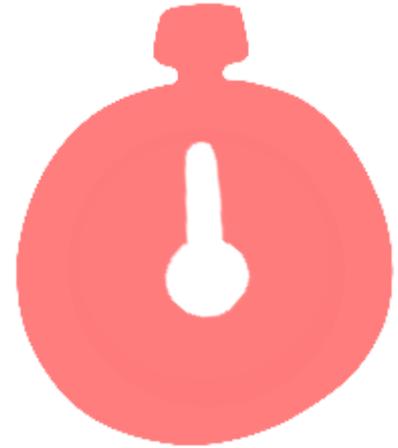
- Identify key common behavioural biases.
- Discuss the regulator's concerns.
- Recognise where biases may arise in the advice process.
- Explore ways in which good practice can positively use the impact of behavioural research.

## CONUNDRUM

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R E T I R E M E N T

How long should it last?



## NOT A STRAIGHTFORWARD ANSWER!

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$${}_{t|1}q_x = q_{(n+t)} \prod_{i=n}^{n+t-1} (1 - q_i)$$

# TOO MUCH INFORMATION?

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*...Information can overwhelm, confuse, distract or even deter people from making choices. The risk of ‘information overload’ is particularly high in this market as the choices consumers face are very complex....*

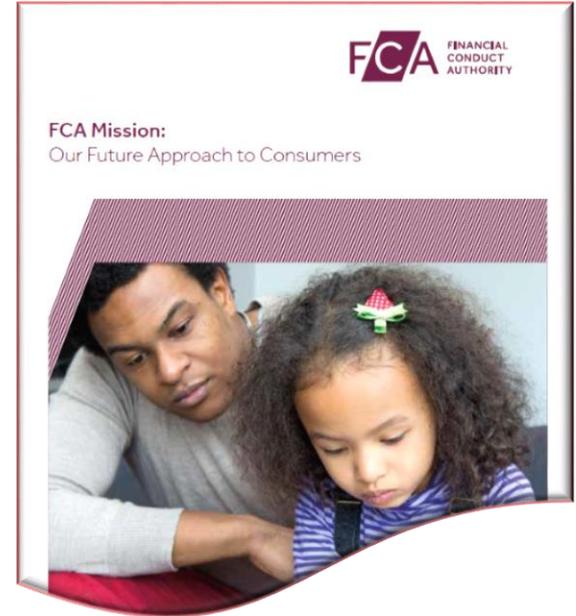
FCA July 2017

# THE VISION

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An approach to regulation which can ..

- Take account of the differing characteristics of today's consumers
- Provide as much certainty as possible to market participants.



# MIND THE GAP!

## MPs launch inquiry into pension freedoms

money  
marketing

By **Katie Marriner** | 20<sup>th</sup> September 2017 3:03 pm

### Committee shows particular concern over pension scams

The Work and Pensions Select Committee wants evidence on whether there are gaps in the advice and guidance market and if customers are changing their behaviour after getting advice as part of its inquiry into the pension freedoms.



Work and pensions committee chair Frank Field

AJ Bell senior analyst Tom Selby adds:  
“The reforms are essentially a massive experiment of human behaviour.....”

## FREEDOM AND CHOICE

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*These reforms create more choices for individuals, and we want people to be **equipped and ready to make informed decisions.***

## DECISIONS – IDEAL FORMULA

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Access

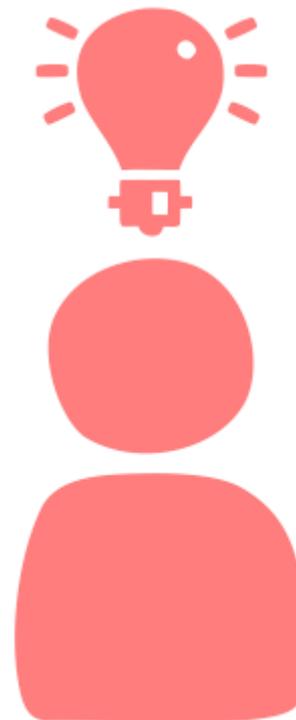
- information about choices

Assess

- offers in reasoned way

Act

- purchase of best solution



Source: OFT 1224, March 2010

## DECISIONS – THE RISKS

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Access

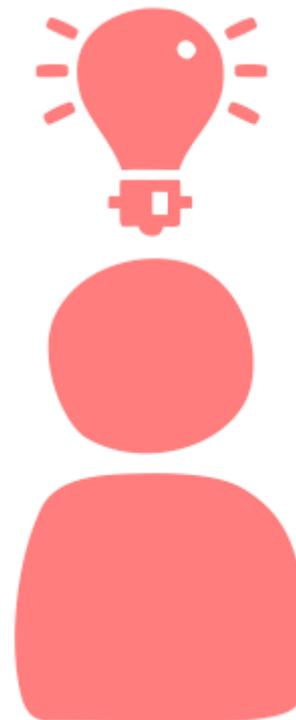
- Limited foresight / access to info.

Assess

- Choice overload

Act

- Inertia / indecision

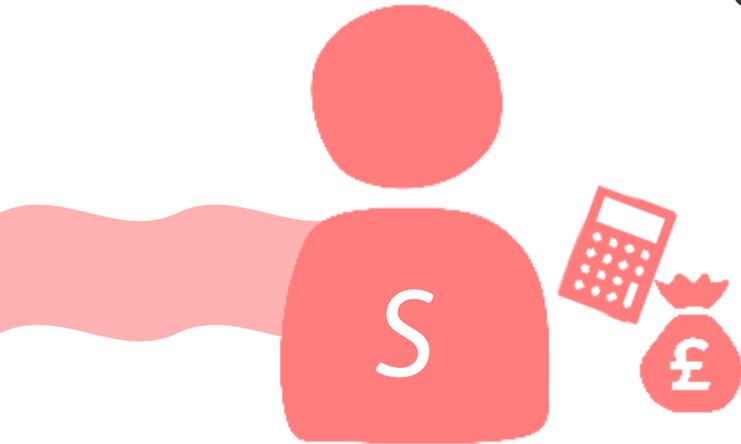


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## MEANWHILE, BACK IN THE REAL WORLD..

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Behavioural research  
shows us that consumers are not....  
economically rational  
“super consumers”



# WHAT HAPPENS NEXT?

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## Hot Hand fallacy

- greater chance of further success in additional attempts

## Gambler fallacy

- more frequently than normal
- = less frequently in the future

## Probability misjudgement

- small probabilities adversely affecting decisions

# UNSCRAMBLING THE INFORMATION

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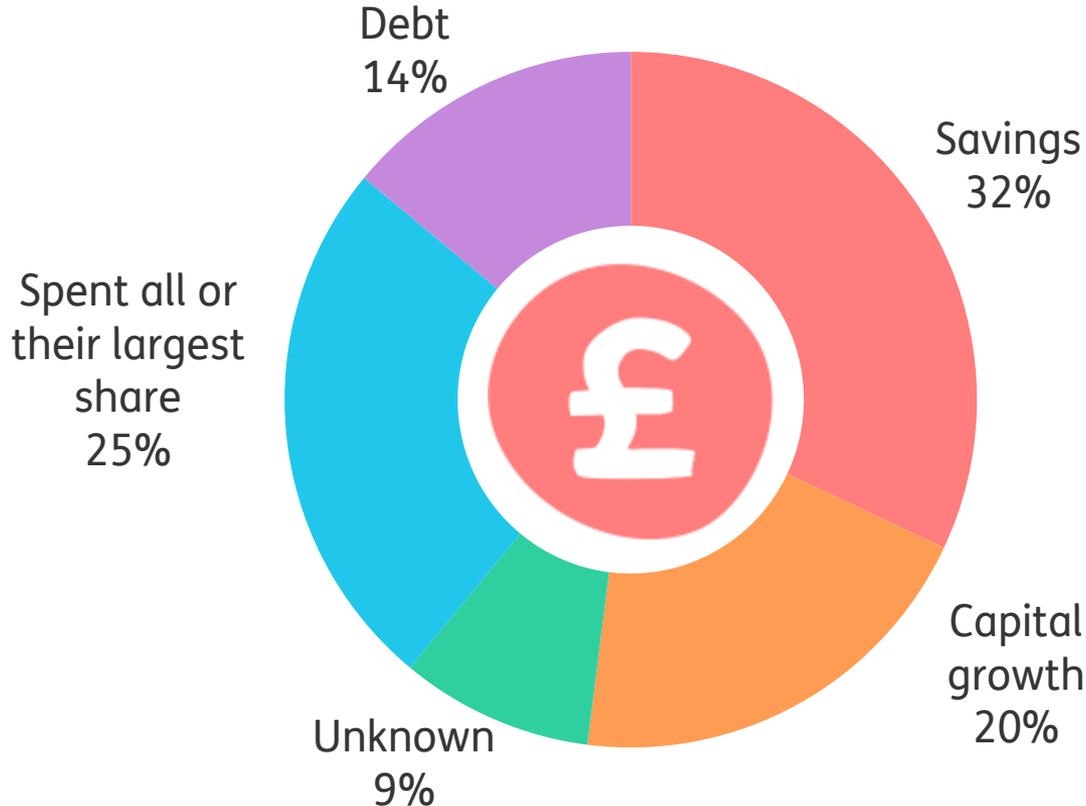


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# FULL WITHDRAWAL - WHAT ARE THEY DOING WITH IT?



Most consumers saved or invested the withdrawn money, a minority spent it

## QUOTES

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**'I KNEW I DIDN'T WANT TO LEAVE IT IN THE PENSION POT, BECAUSE MY VIEW IS THAT THERE WON'T BE ANYTHING LEFT BY THE TIME I PULL IT OUT...I'VE NEVER BELIEVED IN PENSIONS.'**

Female (60-79), £10k-£30k pot, full withdrawal

# FCA CONCERNS DUE TO 'MISTRUST'

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- Missing out on the benefits of staying invested for longer.
- Missing out on employer contributions.
- Paying more in charges and/or tax.
- Running out of pension savings sooner than expected.



# FCA CONCERNS DUE TO 'MISTRUST'

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- Choosing unsuitable investment strategies.
- Not being able to access their savings as and when it suits them.
- Losing guaranteed annuity rates (GARs).
- Losing means tested state benefits.



# FAR FROM IDEAL

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Low levels of:

- Financial capability
- Financial resilience
- Confidence in ability to make financial decisions

*...coupled with **behavioural biases**, make it **difficult** for firms to **expect consumers** to always take **responsibility** for their decisions and actions.*

# MEDIA INFLUENCE

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**“I’VE SINCE REALISED I HAVE ANOTHER ONE  
...WITH THE GOVERNMENT SAYING THEY WILL STOP  
PEOPLE CASHING IN, I MIGHT DO THAT ONE AS  
WELL. IT WAS ON THE TELLY THIS MORNING.”**

Female (53-54), £31k-£75k pot, full withdrawal

# EXPERIMENT

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£2 up for  
selling A rather  
than B



Most sold TV B to retain £10, rather than make £12

Gain £12 for every TV sold

Lose £10 for every TV NOT sold

# LOSS AVERSION



■ emotional value

“A loss that is identical in money terms to a gain is valued up to 2.5 times more than the gain”

# PARTIAL WITHDRAWAL

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Withdrawing tax-free proportion = new norm

Many perceive this money as 'windfall'

**I'VE GOT SOME SAVINGS. I'VE GOT SOME RAINY  
DAY MONEY –  
BUT THIS WAS LIKE FREE MONEY**

Male (55-59), £30k-£75k pot, partial withdrawal

## THE POWER OF THE PRESS?

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*“The use of the term ‘annuity’ reduces the number of consumers who choose the annuity, even though consumers appear to value the underlying characteristics of the annuity”*

FCA OP5 December 2014

# THE NEW TOPIC OF CONVERSATION...

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..OH, I'M GOING TO CASH IN MY PENSION...

..OOH, THAT'S QUITE AN IDEA..

# AVOIDING THE SHORTCUTS

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While mental shortcuts often allow people to make efficient and rewarding decisions, they can sometimes lead to poor decisions.

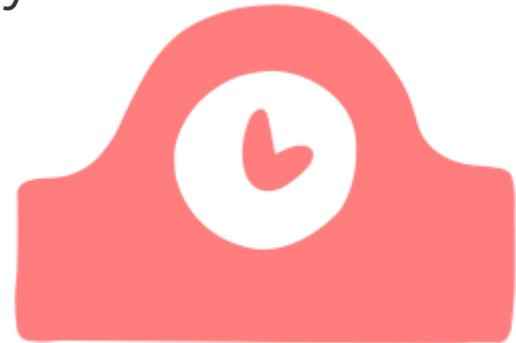
For example, most people tend to be affected by **present bias** which makes us discount future gains in favour of (smaller) present ones.

In some cases, products and services may be designed or advertised to take advantage of these shortcuts

# TIME TO PLAN?

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- Present bias – ‘Live for today!’
- Time varying preferences – ‘I’ll do it tomorrow’
- Limited foresight – ‘What will this cost me today?’
- Status quo bias – ‘Keep things as they are today’
- Projection bias – ‘My views will never change’



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## GO WITH THE FLOW?

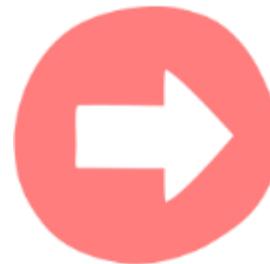
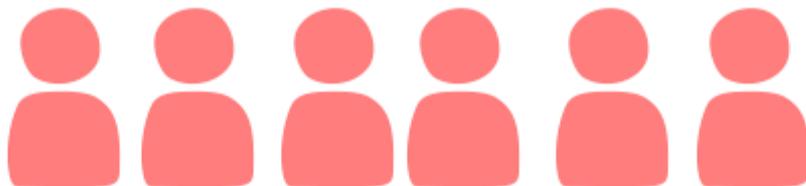
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- Herding – ‘everyone is doing it’
  - FCA Retirement Outcomes Review, interim report 2017
- Default option bias – likelihood of choosing that marked as default

Q. % of NEST members in default fund?

99%

- Settling – ‘This meets my needs. No need to look any further’



\*Professional Pensions July 2013

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# SHOPPING AROUND?

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## Consumer Perceptions and Problems

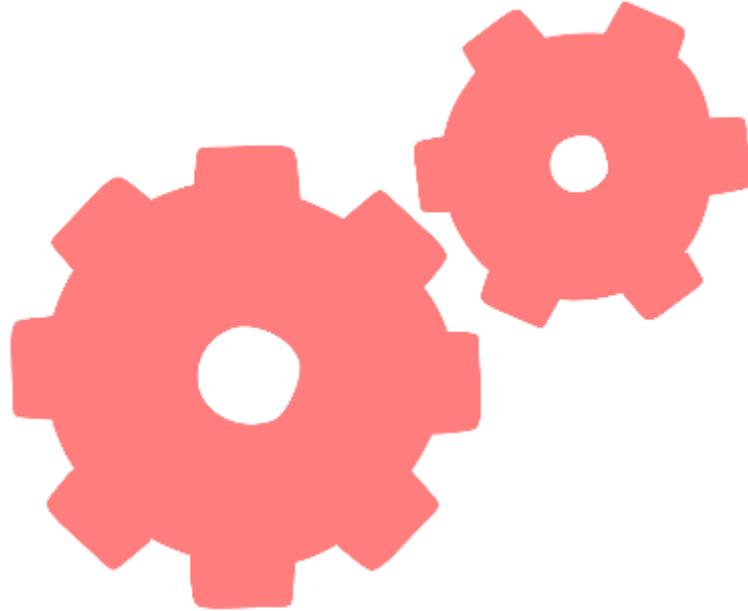
- Not much to gain by moving
- Little difference in products
  
- No idea where to go
- Difficulty in comparing drawdown propositions
- Focus on general features
  - Brand recognition or
  - Trust
  
- Lack of familiarity
- Often scared of a scam
- Existing provider = 'safe bet'.



# SCIENCE OF PERSUASION

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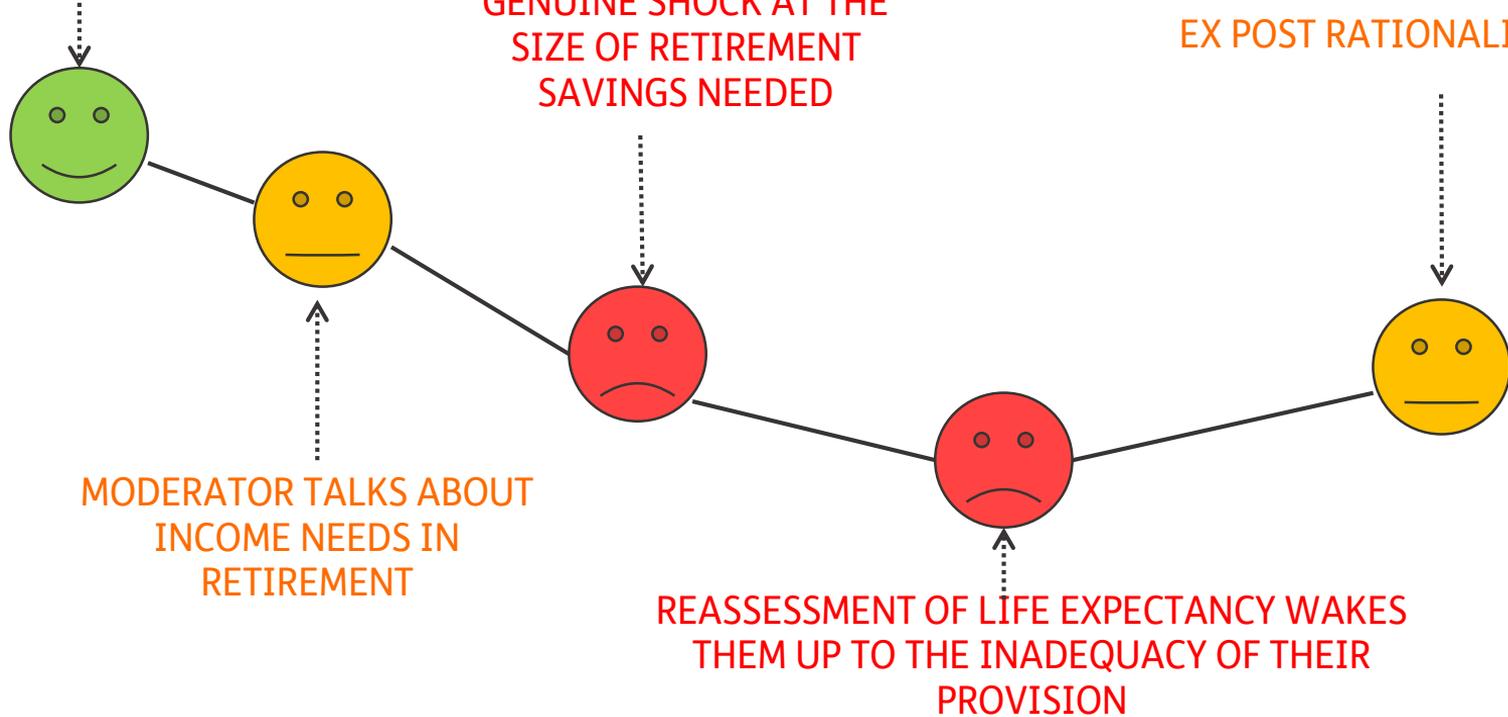
- Reciprocity
- Scarcity
- Authority
- Consistency
- Liking
- Consensus



# ROR - POST-DECISION EXPERIMENT

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INTERVIEW START

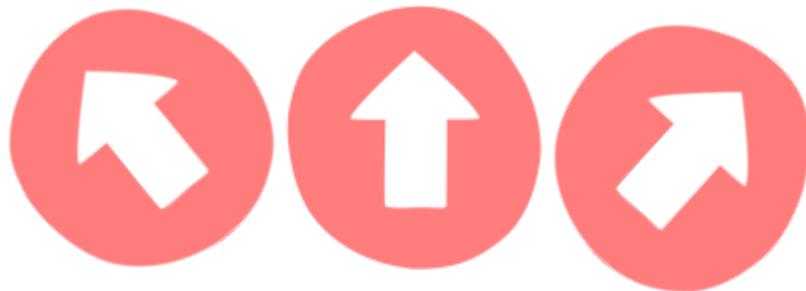


# POST-DECISION EXPERIMENT

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**MAYBE AFTER WHAT WE'VE HEARD I THINK I'VE BEEN A BIT BLINKERED. THAT'S WHAT I'M THINKING NOW. HAVE I BEEN TOO BLINKERED, TOO SET ON A CERTAIN PATH?**

Female (55-59), £10k-£30k pot, partial withdrawal



## POLL QUESTION

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Is an understanding of behavioural bias something that is already used in your firm to help to achieve better outcomes for clients?

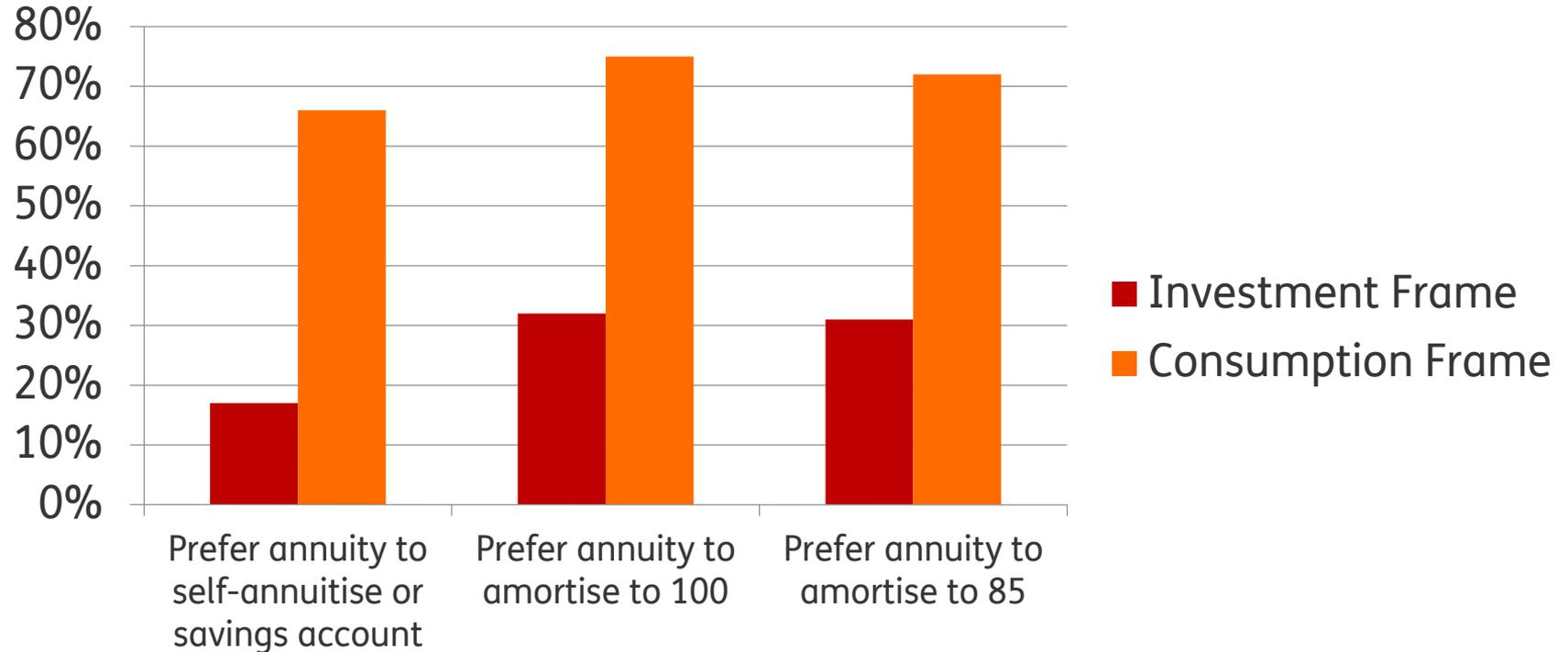
1. Yes
2. No

## WHAT'S IN THE FRAME?

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We expect firms to **frame decisions** for customers (their “choice architecture”) based on real world **consumer behaviours** and not to exploit biases.

# FRAMING RESEARCH - FCA



FCA Does the framing of retirement income options matter? A behavioural experiment December 2014

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# VULNERABILITY AND BEHAVIOURAL BIAS

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We also expect them to exercise extra care where consumers may be vulnerable.

Best practice should take on board positive uses of behavioural research to help customers towards better outcomes.

FCA 2017



# HERE TO HELP – BEHAVIOURAL BIAS TOOL

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## ADVICE PROCESS AND BEHAVIOURAL ECONOMICS

Bias Insight and Action is a new interactive guide to help you integrate behavioural economics into your advice process. It identifies nearly 50 different touchpoints where behaviours can arise and includes suggestions to counter negative behaviours.

### ADVICE PROCESS AND BEHAVIOURAL ECONOMICS

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[Click to begin](#)



#### INITIAL DISCUSSION

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[Find out more](#)



#### AGREE OBJECTIVES

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[Find out more](#)



#### PRESENT OPTIONS

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[Find out more](#)



#### RECOMMENDATIONS AND IMPLEMENTATION

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[FIND OUT MORE](#)

# POLL QUESTION

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Would you like more information on the Behavioural Bias tool?

1. Yes
2. No

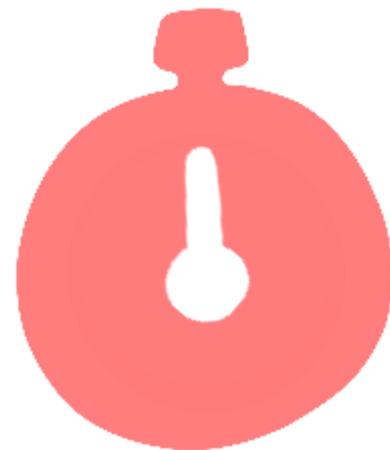
## CONUNDRUM

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R E T I R E M E N T

How long should it last?

E N T I R E  
T E R M



**JUST.**

# LEARNING OBJECTIVES

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**By attending this session, delegates will be able to:**

- Identify key common behavioural biases
- Discuss the regulatory concerns
- Recognise where biases may be presented in the advice process
- Explore ways in which good practice can positively use the impact of behavioural research

# IMPORTANT INFORMATION

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It is our intention that the information contained within this presentation is accurate. We have taken all reasonable steps to ensure that it is up-to-date and, where relevant, reflects the current views of our experts. However, we do not accept any liability for errors or omissions in the information supplied and if you require clarification on anything, our recommendation is that you contact us at the address below for verification, or call 0345 302 2287.

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**Behavioural Finance**