



Prioritizing People: How Behavioural Insights Impact Financial Services

NOVEMBER 13, 2024



PANELISTS



Tanjim Hossain
PhD
Professor,
University of Toronto
Director, BEAR



Shannon O'Malley
PhD
Director,
Member Experience Design,
Meridian Credit Union



Meera Paleja
PhD
Leader,
Behavioural Insights Practice,
Ontario Securities Commission



Introduction to Behavioral Economics:

What is it and why does it matter for decision-making and deviations from rational thinking?



Lottery Choice

SCENARIO 1:

- **Lottery A:** Win \$1000 with a 90% chance.
- **"Lottery" B:** Win \$900 for sure.

Most choose **Lottery B** over **Lottery A**.

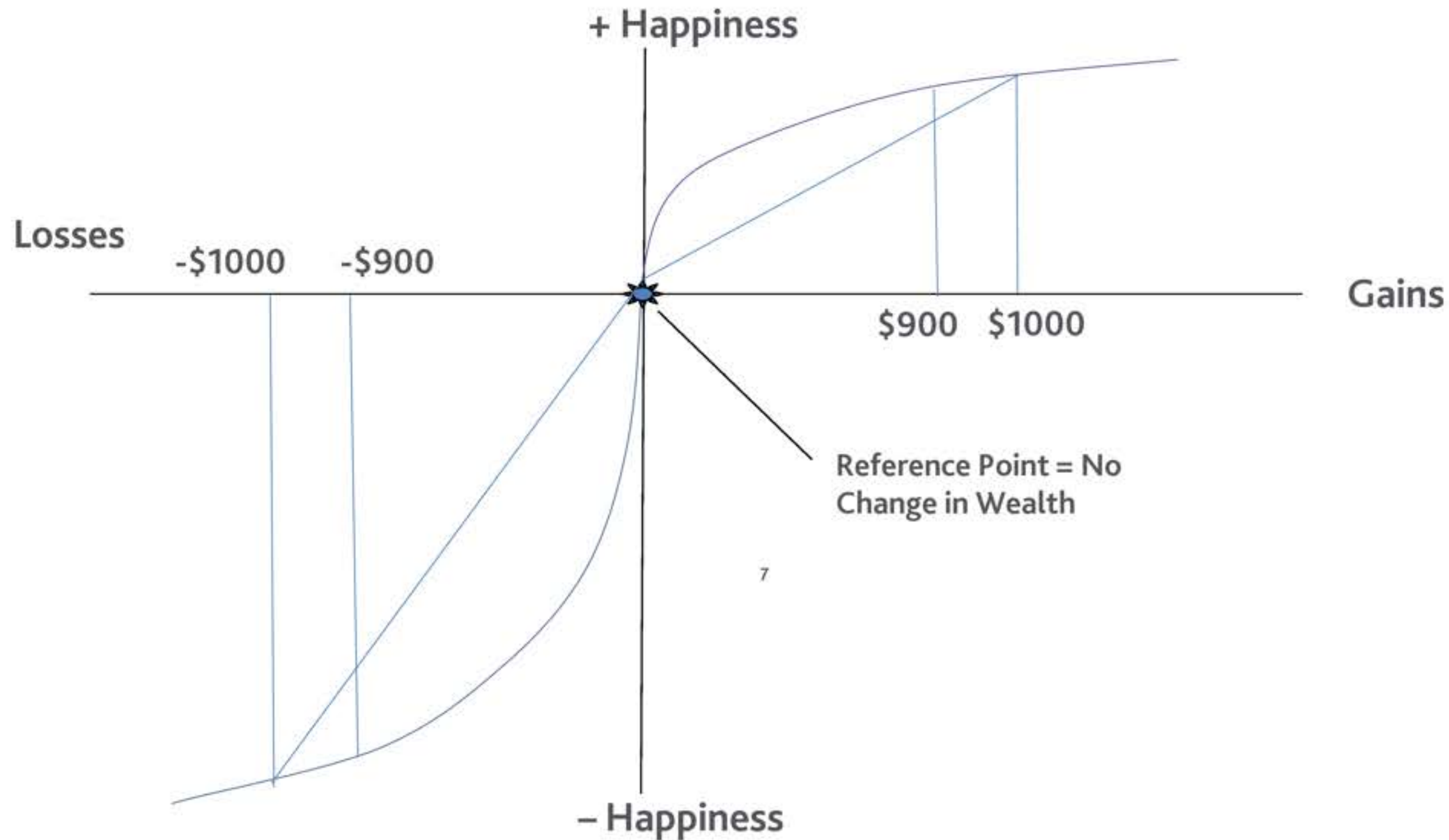
SCENARIO 2:

- You start with \$1000.
- **Lottery C:** Lose \$1000 with a 10% chance.
- **"Lottery" D:** Lose \$100 for sure.

Most choose **Lottery C** over **Lottery D**.



Prospect Theory - Kahneman and Tversky (1979)



INSIGHTS FROM THE PROSPECT THEORY:

- People evaluate losses and gains relative to a Reference Point.
- Diminishing sensitivity for both gains and losses.
- Losses loom larger than gains (loss aversion).

Carrots Dressed as Sticks

Factory workers in China are incentivized with bonuses based on meeting productivity targets:

- **Gain:** A 4-week program where workers receive RMB 80 each week they meet the productivity target.
- **Loss:** The total promised RMB 320 at the end of the 4-week program is reduced by RMB 80 for each week that productivity falls below the target.

The loss frame increases productivity by an additional 1%. Robust to variations, loss aversion is manifested along the dimension that it affects incentives.



Disclosure and Salience

People are not infinitely attentive and focus on more salient information.

- Price tags that include sales tax lead to an 8% decrease in demand.
 - Alcohol demand drops more with excise taxes (included in the price) than with sales taxes.
- Higher shipping fees in eBay auctions increase total revenue.
- Disclosing mandatory fees resulted in a 28% decline in overall revenue on Stubhub.com.
- In the past five years, the Competition Bureau has fined Cineplex, Ticketmaster, and Stubhub for misleading pricing practices.



Impact of Making Fees Salient

When the shipping fee is buried in the item description, a \$1 increase in the fee boosts revenue by \$1.13. However, displaying shipping and handling (S&H) in the title eliminates this effect.

- Evidence from the US, Taiwan, and Ireland shows that clearly disclosing S&H increases overall revenue.
- eBay now displays S&H on the search page, resulting in a revenue increase.
- Consumer trust and perceptions of the seller also play a key role in revenue impact.



How Well Do People Understand Uncertainty?

How do people form beliefs when information sources are correlated?

- People tend to overvalue strongly correlated information, a phenomenon known as correlation neglect, while undervaluing weakly correlated information.
- Additionally, they often believe their information is more certain than it actually is, a bias known as overprecision.
- The combination of overprecision and correlation neglect leads to the underestimation of weakly correlated information.



Aggregating Many Signals

- When aggregating sequential information, people tend to overemphasize recent data, known as recency bias.
- They also overreact to surprising information and are often overconfident in their own knowledge, failing to fully leverage the wisdom of the crowd.
- Additionally, they underestimate how much aggregated information can reduce uncertainty.
- While information aggregation leads towards market efficiency, it occurs at a slow pace.





The Future of Client Engagement:

Why are personalized, behaviour-driven interactions becoming essential?



The Value of Behavioral Coaching



Better Client Outcomes

- More likely to adhere to a plan
- More diverse portfolios
- Superior Sharpe ratio



Better Outcomes for FAs

- Greater trust
- More likely to consult FA in the future
- Increased perceived benefits of working with FA



How Can Advisors Apply Behavioral Insights?



Leading with
curiosity and
empathy



Harnessing
the perception
of control



Implementing
planning and framing
techniques



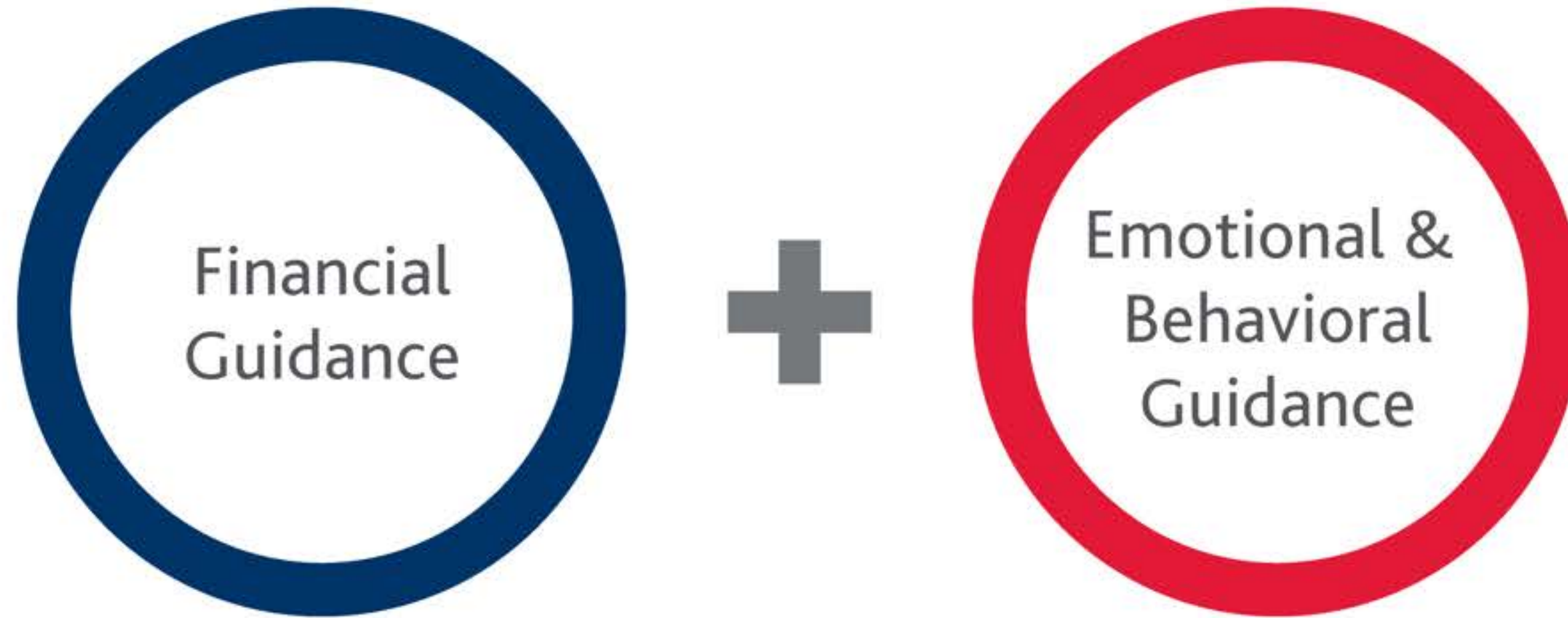


The Evolving Role of AI and Technology:

How can behavioural finance offer a competitive edge to advisors?



Many people are likely to adopt a combined approach to managing their finances.





Behavioral Insights and Investor Protection:

How do behavioural insights
complement the approaches
currently used by financial
regulators?



Behavioural Insights: A Complementary Approach

- Origins and assumptions of modern Canadian securities regulation are rooted in a disclosure-based regime.
- Behavioural Insights (BI) offer a critical assessment of the limitations within this framework.
- By incorporating BI, regulators can enhance the effectiveness of investor protection efforts.

BI serves as one valuable tool in the regulatory toolbox.



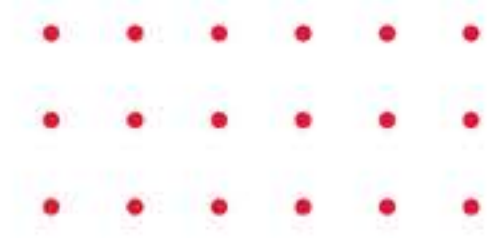


Expanding Behavioural Insights in Retail Investing:

In which areas have regulators applied behavioural insights to better understand individual investors' experiences?



Recent Research in BI at the OSC



**Artificial Intelligence and Retail Investing:
Use Cases and Experimental Research**

Behavioural Insights Research



OSC ONTARIO SECURITIES COMMISSION

**Artificial Intelligence and Retail Investing:
Scams and Effective Countermeasures**

Behavioural Insights Research




OSC ONTARIO SECURITIES COMMISSION

Research Report

Digital Engagement Practices:

Dark Patterns in Retail Investing



OSC ONTARIO SECURITIES COMMISSION

Research Report

November 2022

Digital Engagement Practices in Retail Investing:

Gamification & Other Behavioural Techniques



OSC ONTARIO SECURITIES COMMISSION INVESTOR OFFICE

**Gamification Revisited:
New Experimental Findings
in Retail Investing**

Behavioural Insights Research



OSC ONTARIO SECURITIES COMMISSION

**A Behavioural Insights Analysis of the Effects
of Environmental, Social, and Governance
Factor (ESG) Disclosure and Advertising by
Investment Funds on Retail Investors**

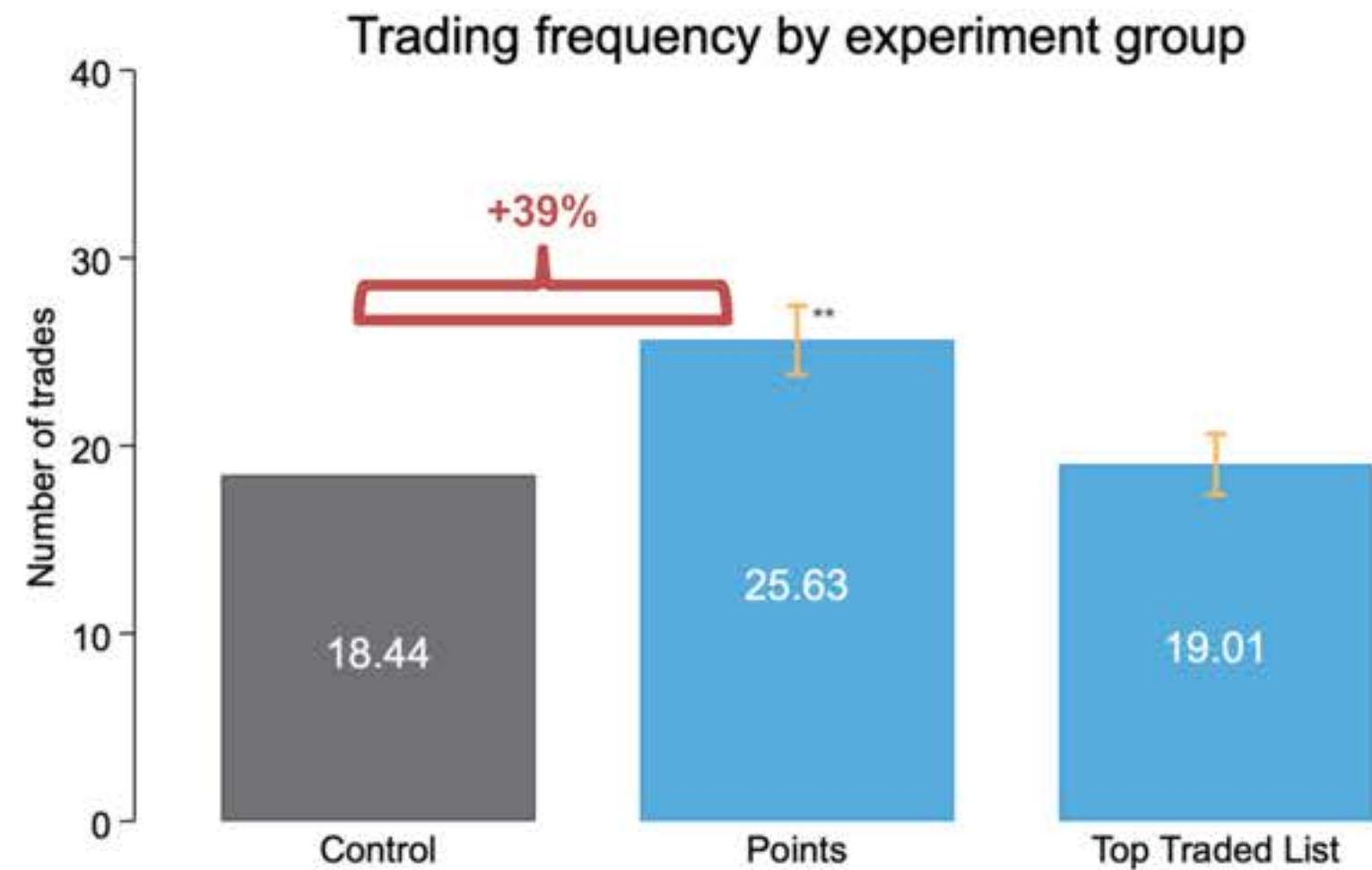
Behavioural Insights Research



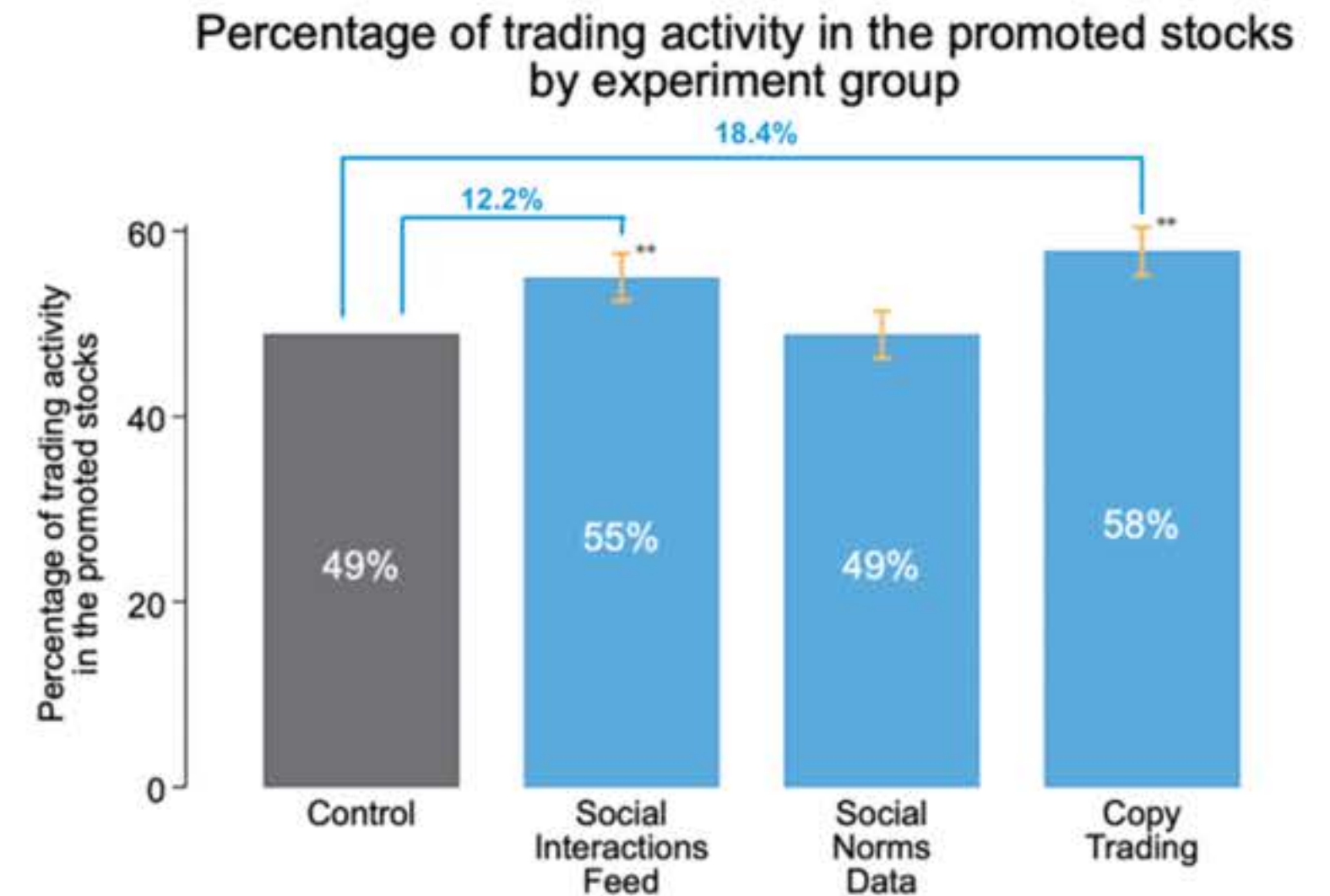
OSC ONTARIO SECURITIES COMMISSION

Gamification Techniques Influence Behaviour

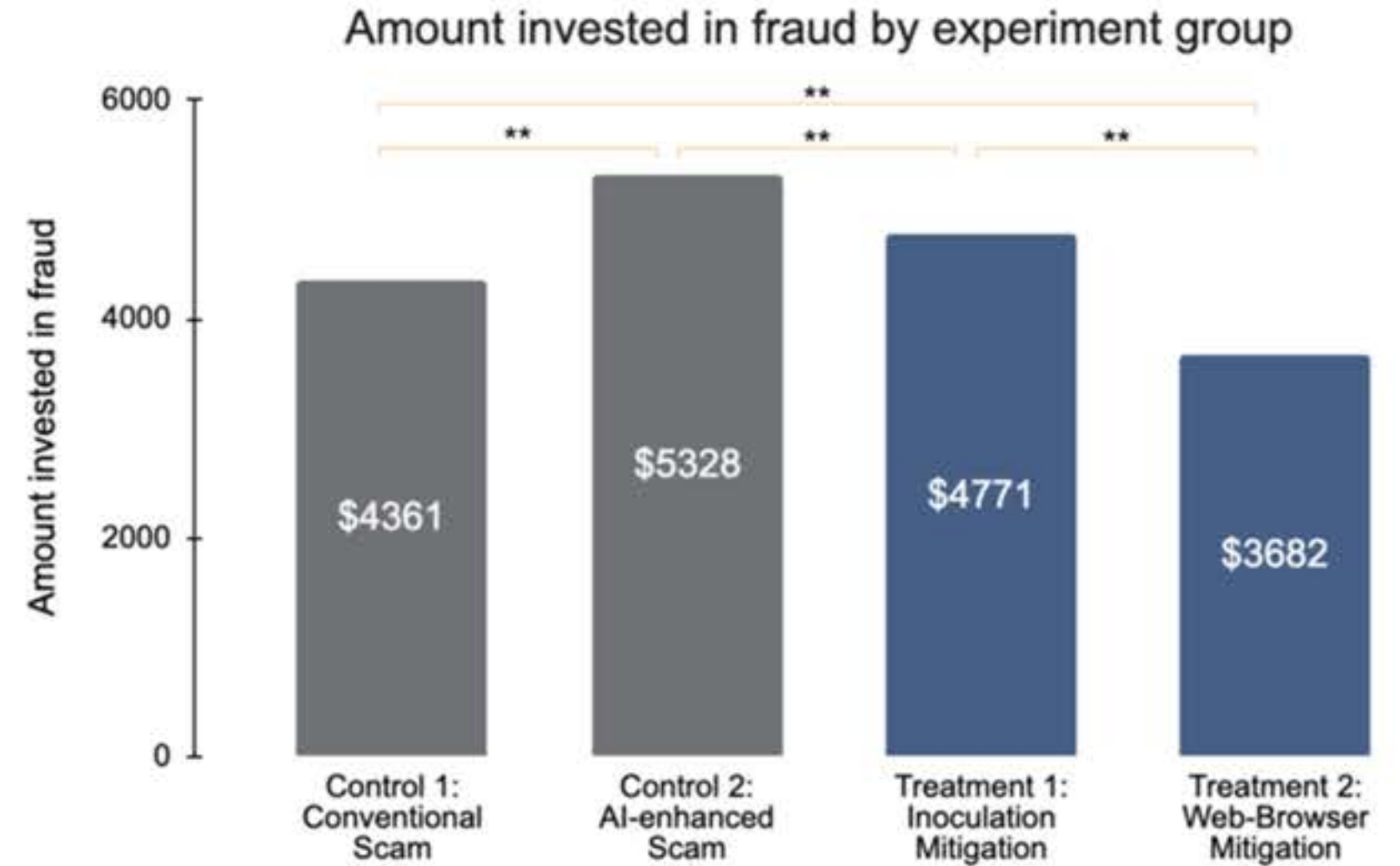
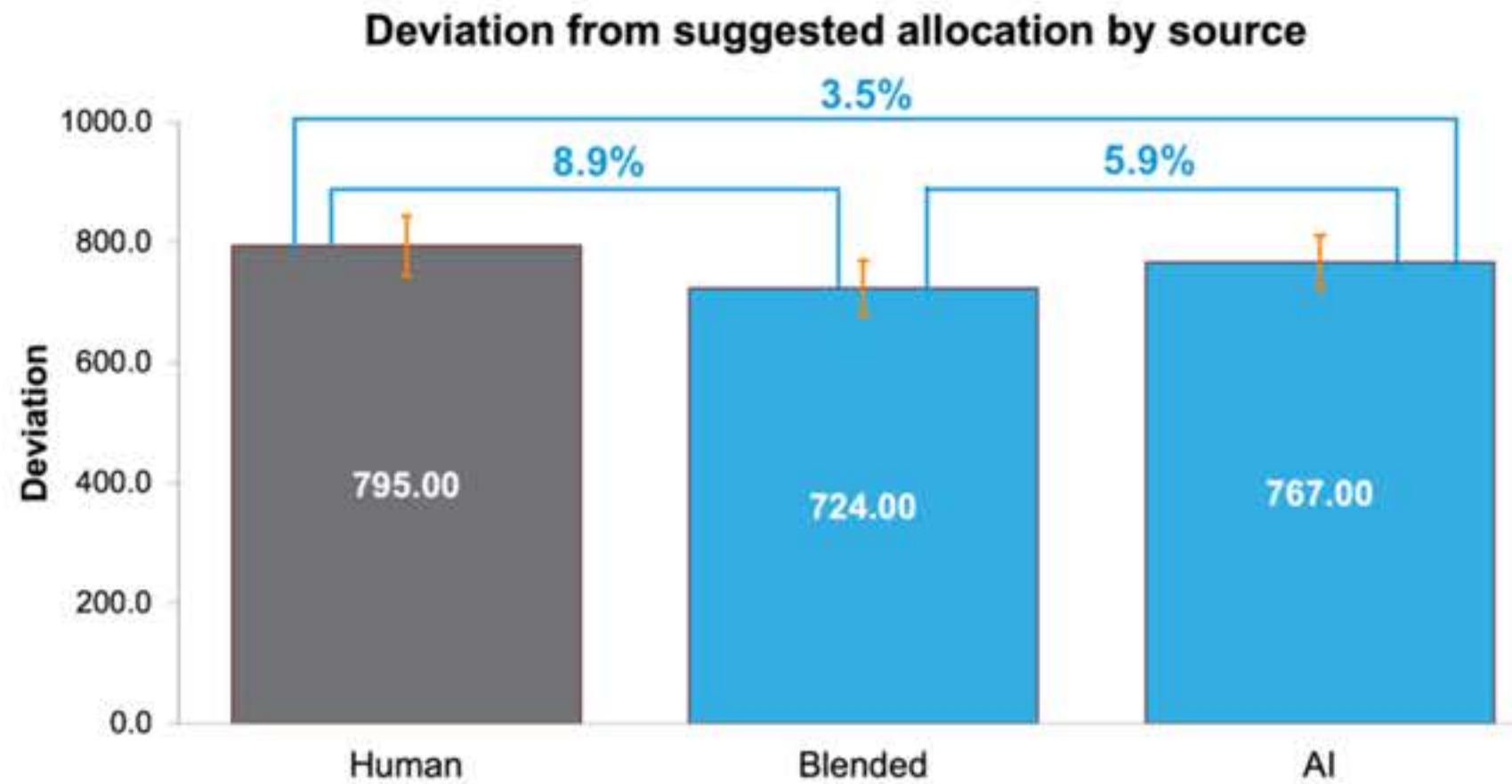
Rewarding participants with points led to an almost 40% increase in trading frequency.



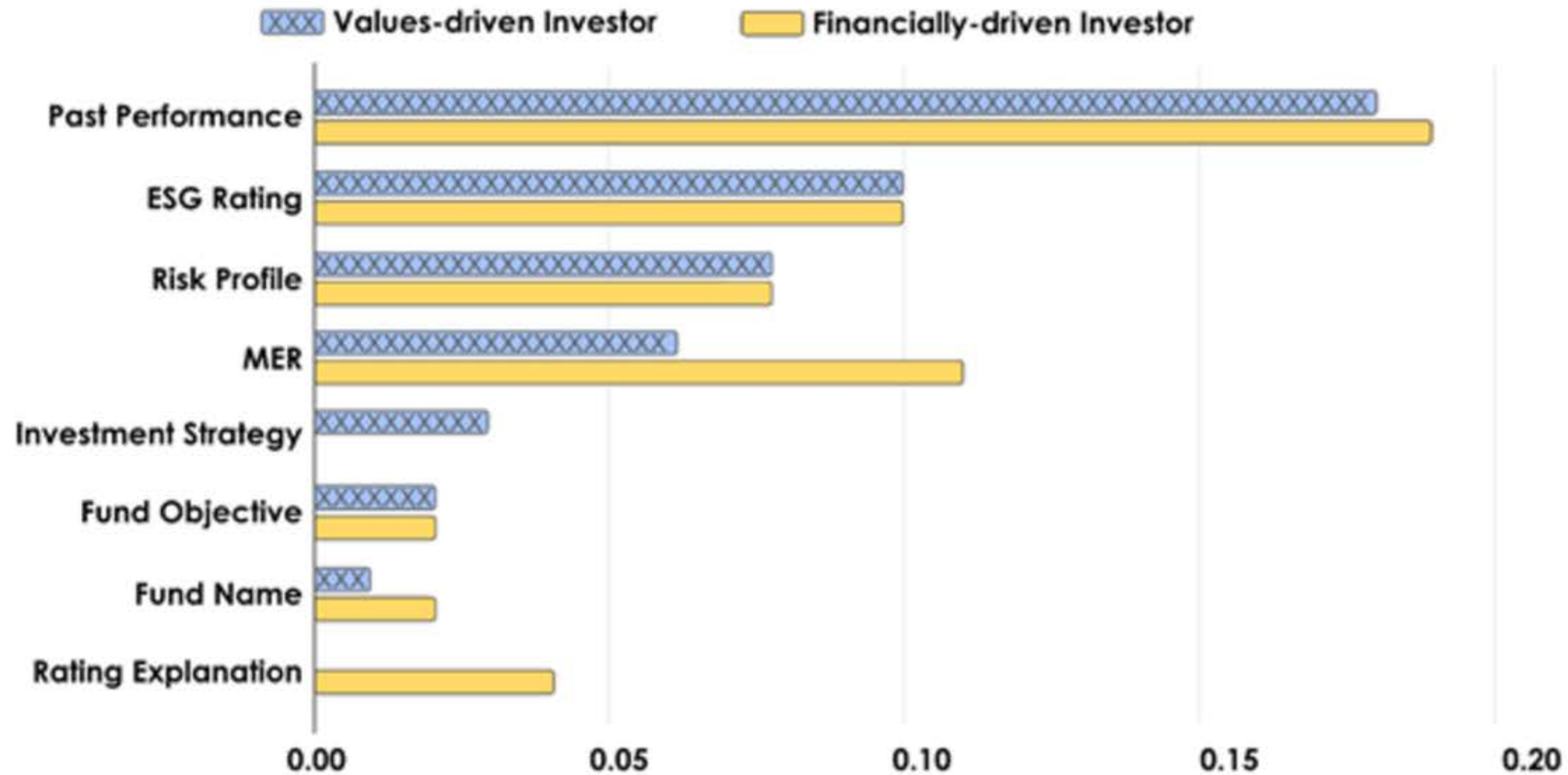
Promoting stocks on a social feed or through a copy trader led to 12% and 18% more trading in those stocks.



AI Advice is Increasingly Accepted and AI Scams are a Risk



ESG Ratings Influence Investor Decisions



Q & A



Tanjim Hossain

Professor, University of Toronto
Director, BEAR



Shannon O'Malley

Director, Member Experience Design,
Meridian Credit Union



Meera Paleja

Leader, Behavioural Insights Practice,
Ontario Securities Commission

To learn more about our
courses, certificates and
designations, visit csi.ca.

Questions?
Visit support.csi.ca