

# Behavioural biases in a modern world



**Hannah Lewis**  
Founder  
Behave London







Tax  
Coffee  
Social distance



Seeking safety  
Groups  
Fairness

# The inspiration



THE NEW F...

THE CH...

HOW TO GET...

ATU

BESTSELLING

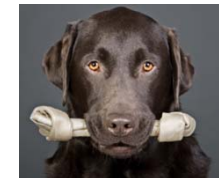
HOW MUCH  
BLOOD LOSS IS  
ANTICIPATED?

MPS Agency Service

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# YOUR 6 MOST INFLUENTIAL COGNITIVE BIASES



# AUTHORITY

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# AUTHORITY



2/3rds of volunteers were prepared to administer a fatal shock, when told to by a legitimate figure.  
*(A man in a white coat!)*



Source: Stanley Milgram, Psychologist, Yale University

# AUTHORITY

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## Why this is important

- ✓ Experts to assist with decision-making
- ✓ Defer to someone else's experience
- ✓ Defer to their authority on a subject in which they are knowledgeable
- ✗ Give people's opinions more weight in subject areas in which they're not an 'authority'.

## Bottom line

Dangerous if an influential figure is out of their domain of expertise, and wrong.



# AUTHORITY

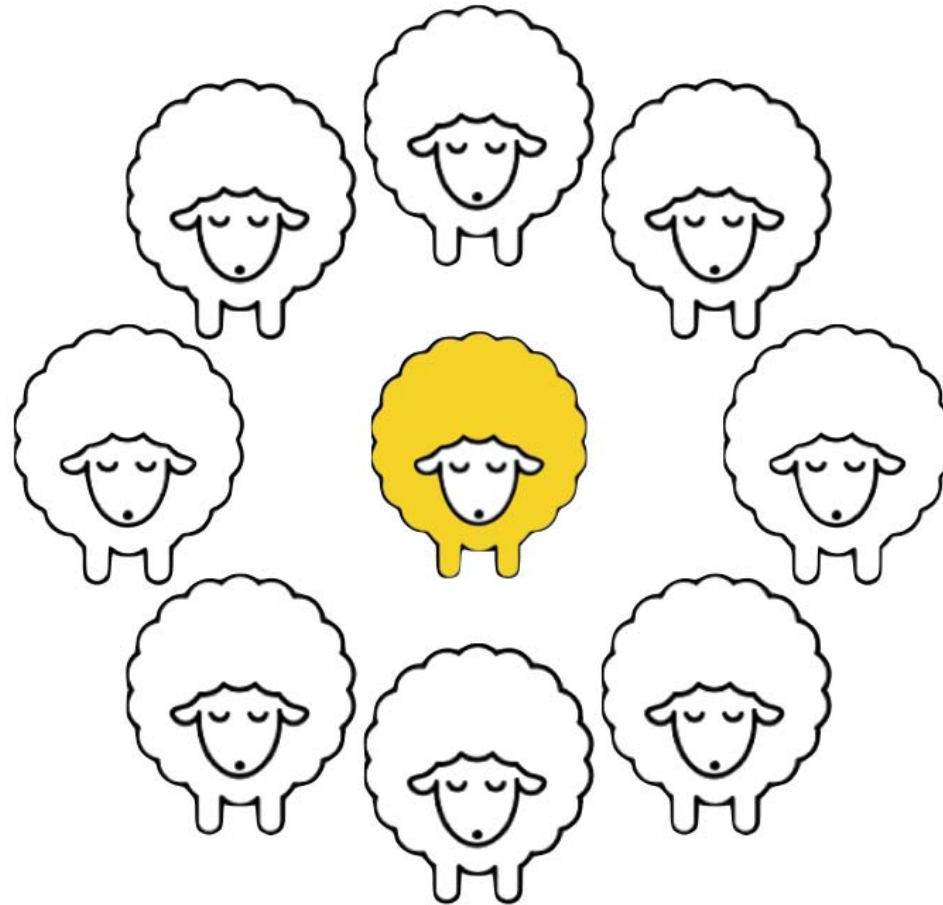
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I am not allowing a person's experience from a different domain to unduly influence me in this domain. Don't bow to authority.

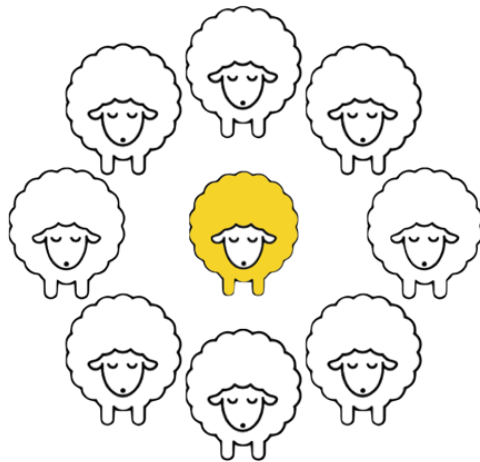
# HERDING AND GROUPTHINK

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# HERDING AND GROUPTHINK

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## Why this is important



Generations ago, sticking with the group provided a greater chance of survival than being alone.



Your herding instinct still remains

## Bottom line

Decisions shaped by groupthink have a low probability of achieving successful outcomes for trustees

# HERDING AND GROUPTHINK

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I have listened to my ‘gut’, and spoken without censoring myself. If I agree with others, it is because I have consciously and effortfully made that choice.

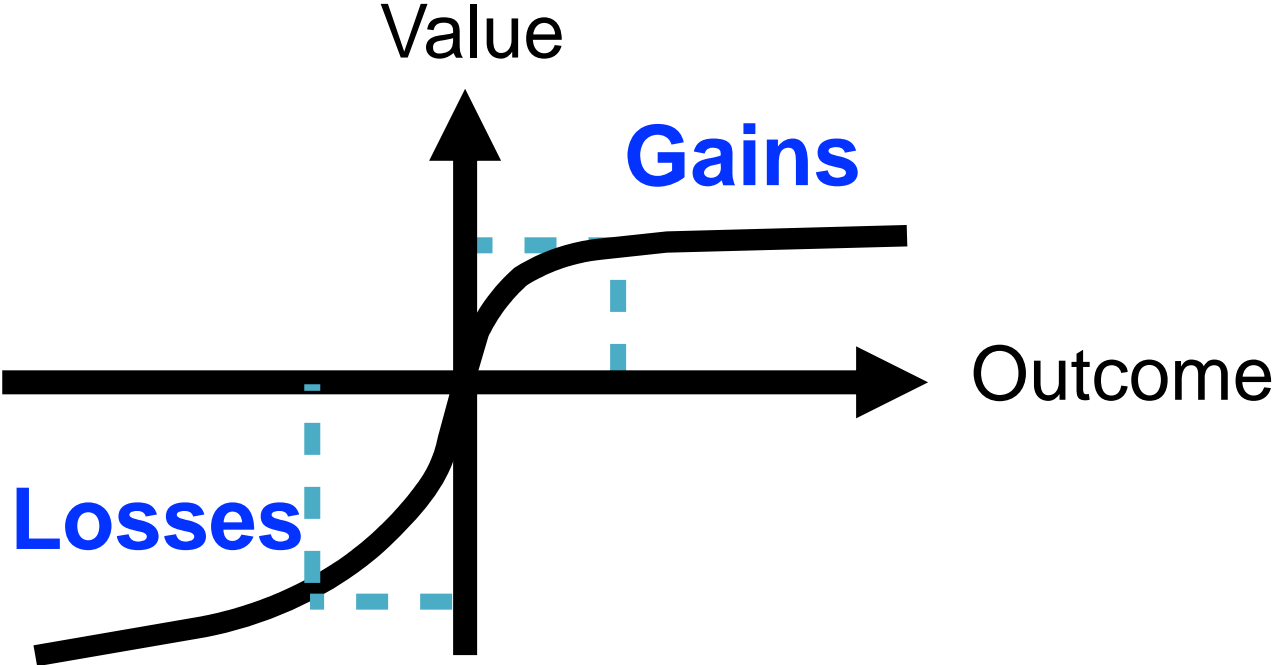
# LOSS AVERSION

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# LOSS AVERSION

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# LOSS AVERSION

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## Why this is important

- ✓ Decision-making is inherently skewed towards averting loss and the risks linked to it.
- ✗ But...the pain of a loss is greater than the pleasure of making the same gain.

## Bottom line

Decisions shaped by averting loss often 'feel' correct even when they are incorrect.

# LOSS AVERSION

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I evaluate loss and gain by using calculations and logic – my feelings about either are not important.



# ENDOWMENT

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# ENDOWMENT

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## Why this is important

- ✓ We value what we own, more than we value what we don't own.
- ✗ We are reluctant to give up what is already 'ours', even when it is clear that we should.  
This includes objects, ideas, or an existing investment strategy.

## Bottom line

If you let the endowment effect drive your decision-making, you simply will not make any decisions at all (if any)

# ENDOWMENT

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I have made this decision ‘as if’ I were not involved previously, ‘as if’ I were giving advice on someone else’s problem.

# REPUTATION AND RESPONSIBILITY

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# REPUTATION AND RESPONSIBILITY

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## Why this is important



We like to decrease the chance of being ostracized or abandoned by our peers.



Often an intuitive, rapid, and automatic tendency, it can affect us unknowingly.

## Bottom line

When the needs of the fund are not aligned with the needs of the trustees, fund performance is at risk.

# REPUTATION AND RESPONSIBILITY

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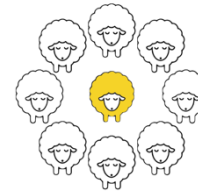
I have made a choice in favour of the best outcome, irrespective of what others may think of me.



Don't transfer authority



Speak your mind



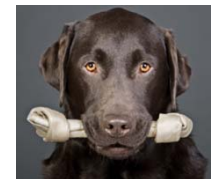
Make active choices



Engage logic



Choose without self-regard



Pretend it's not yours

# STATUS QUO



© marketoonist.com



# STATUS QUO

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## Why this is important

- ✓ We are averse to loss and ambiguity
- ✓ We are the product of our cultural norms
- ✗ We are reluctant to switch from a default
- ✗ Our rapid automatic thinking either fears the downside of change or accepts the implied 'stamp of approval' of the default.
- ✗ Doing nothing is NOT the absence of a decision. It is a decision to do **nothing**.

## Bottom line

Whether through fear or implied approval, doing nothing is not a 'free pass' – it is an active decision

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# STATUS QUO

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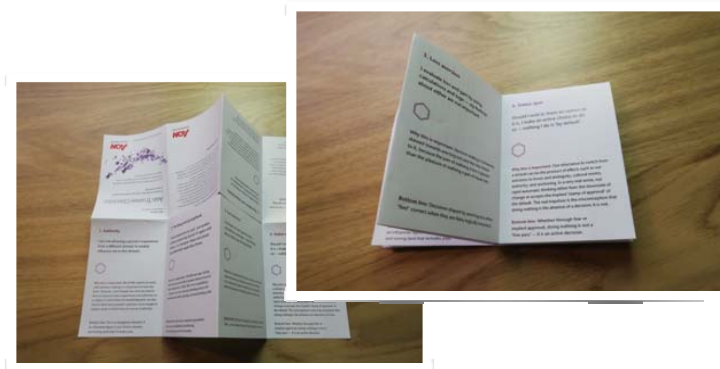
Should I wish to leave an option as it is, I make an active choice to do so – nothing I do is ‘by default’.



# THE TRUSTEE CHECKLIST



**Aon trustee checklist - to help trustees have better meetings and keep their cognitive biases in check.**

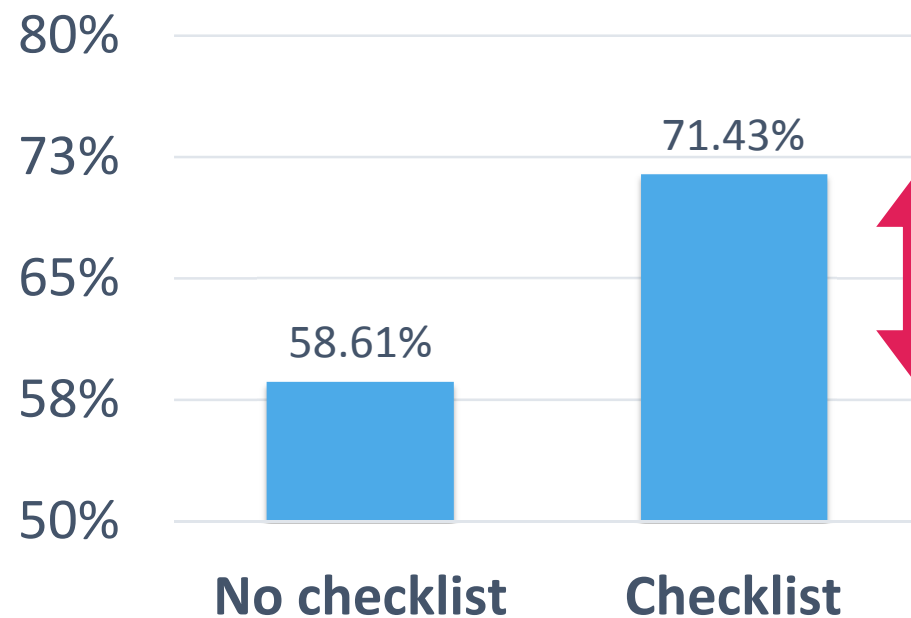


(over 2000 downloads to date)

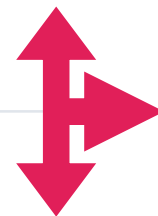
# HOW A CHECKLIST IMPROVES DECISIONS



Proportion of less biased answers



Trustees were **much** less biased when using the checklist.

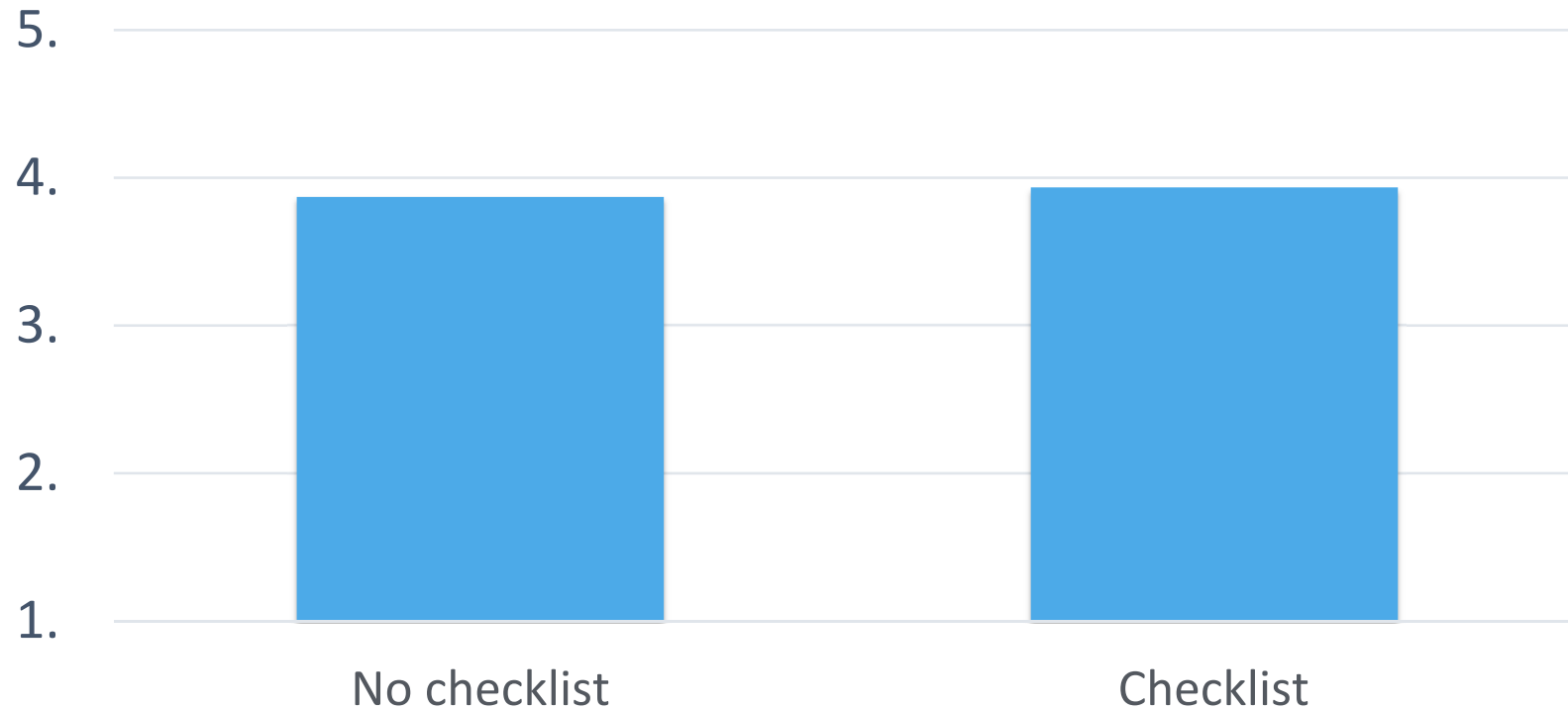


**THIS MUCH**



# Trustee confidence in their answer

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**Make the authority in the room even. Does everyone get a turn to speak around the table? Do you appoint a devil's advocate?**



**Do you have collaboration, or do you have consensus?**



**Where do you most discuss/feel loss in the boardroom? Can you apply a logical framework to it?**



**Think of a reversal of the status quo. What is the downside of your current status quo?**



**What are you hanging on to? What have you 'endowed' as yours?**



**Where are you worrying about your reputation over that of the scheme? Should you be taking more risk?**

# Trustee Effectiveness tools



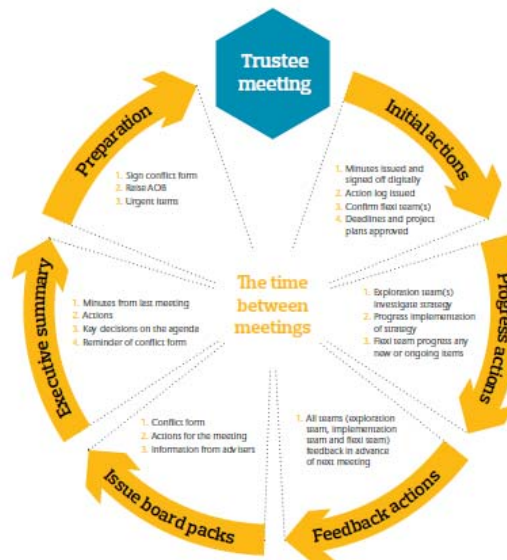
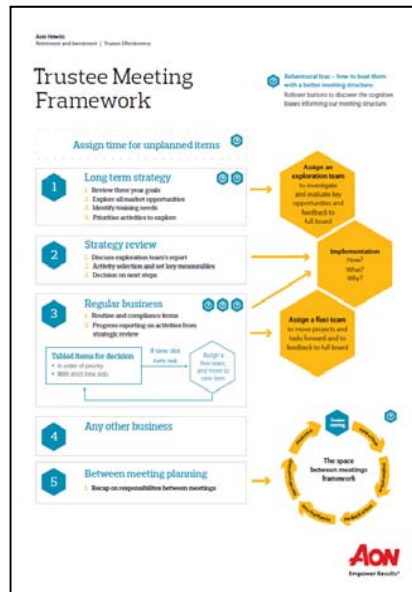
**Susan Hoare**  
Principal Consultant  
Aon



# 1. Planning

## Why is this important?

- Understand
  - where you want to get to
  - the timeframe for getting there
  - interim steps needed



**AON UK Meetings Risk Analyzer**

Opportunities register

Your opportunities

Strength	Weakness
Long term target & sign-off plan 11 Dec 2017	No working triggers 26 Mar 2017

Asset implementation

Interest rate hedging	Duration hedging	Legal growth assets	Use of digital growth assets	Mutual funds asset allocation	Manager selection & monitoring
11 Mar 2017	11 Mar 2017	11 Dec 2017	11 Mar 2017	11 Mar 2017	11 Jun 2017

Operational

Admin, responsibilities & assignments	Stipendia time working with advice	Monitoring of risk & funding position
11 Mar 2017	09 Mar 2017	03 Mar 2017

Comments

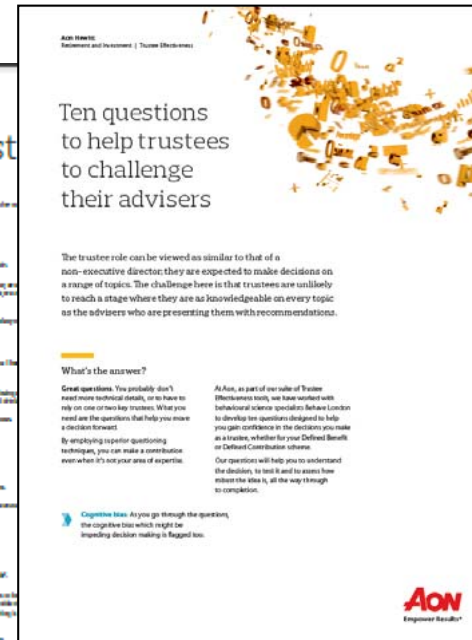
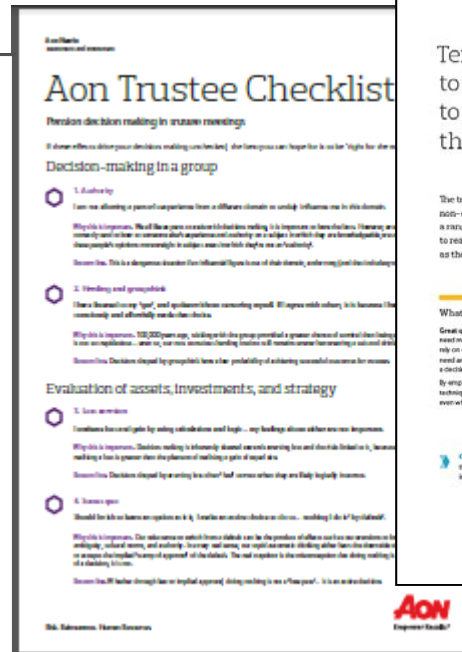
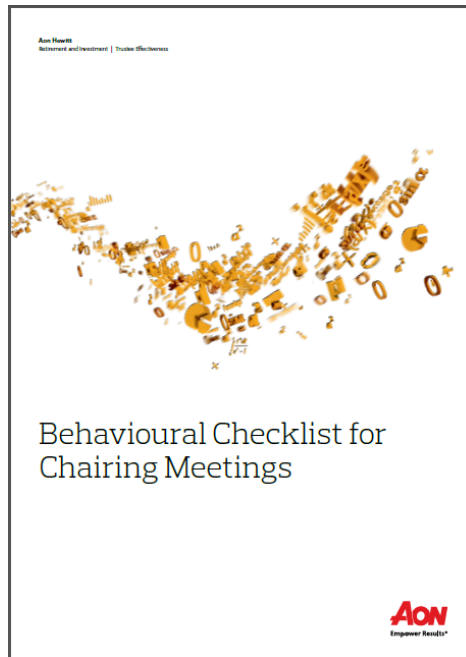
Contract assessment	Contract monitoring & reporting	FTT levy - modelled & reported



# 2. Managing meetings effectively

## Why is this important?

- Understand the Behavioural Biases in Meetings to get better outcomes
- Ensure meetings have strategic focus
- Challenge your Advisers



# 3. Evaluating performance and governance structures

## Why is this important?

- Focus on how the board wants to operate
- Better outcomes
- More effective decision making
- Better decision making



### 2. Forward looking trustee effectiveness review

The forward looking review has been designed in response to the Pension Regulator's latest thinking on 21st Century Trustees and Governance. The review is an expertly facilitated workshop with all trustees with the objective of improving the board's operational effectiveness both now and in the future. This can then flow through to performance objectives and the succession planning of the board to ensure sustainability into the future.

Working with Aon's Talent, Reward and Performance specialists as well as Bahaev London, a behavioural science research company, the workshop combines the latest thinking in personality profiling and behavioural finance with our understanding of how trustee boards operate and the challenges involved in building effectiveness.

Our workshop typically lasts around 3-4 hrs and is divided into three main areas, these are:

- Understanding the balance of governance
- Understanding the personal attributes, skills and experience
- Improving trustee decision making

All attendees are required to complete Aon's award winning personality profile (ADEPT-3D) in advance of the session. The aggregate results will be used to facilitate discussion of collective strengths and areas of potential development as well as the impact these have on decision-making, influencing, communicating and building trust. The workshop will also address potential reserves of fear within the group e.g. groupthink and loss aversion and will identify strategies and techniques to optimise the group's effectiveness.

**ADEPT-3D**

- ADEPT-3D is built on 30 years of personality, leadership, and psychometric research
- Aon structured around the 13 personality traits critical to successful performance

**Bahaev London**

### Governance Viewpoints

Pension Schemes face many challenges, and as we grow one of the key challenges is effective governance now also focussing on this area, with its work on Governance, Aon has a simple process to review

When asked what keeps them awake at night, individuals for a pension scheme regulatory one issues such as lack of knowledge and information. In other words, they worry a ability to make decisions and implement them effectively

Aon is strongly of the view that good governance translates outcomes – reaching funding targets more quickly, more risk, Aon's Governance Viewpoint helps trustees and sg how to ensure that they have the best chance when it comes

Our simple 4-step process provides a framework that has highly effective.

**Step 1: Short questionnaire**  
We will issue all trustees (and sponsors if relevant) with a short online questionnaire that seeks views on how the scheme should run. The questionnaire has fewer than 30 multiple choice questions and typically takes 15 minutes to complete. Responses are anonymous, so while we know how many trustees responded in each way, we do not attribute responses or comments to individuals.

The areas addressed in the questionnaire cover all aspects of governance, including setting strategy, meetings and use of time, decision-making and resources, trustee training and effectiveness, and use of advisors.

**Step 2: Analysis**  
Based on your results and present will share all results focus primarily on:

- Differences in opinion
- Differences in questions that require conflict
- Differences in market practice
- Differences in current approach

**Step 3: Discussion**  
The analysis will be presented at a trustee meeting to scheme, but examples of changes that can arise from such a review include:

- Create clarity on the roles and responsibilities of the various parties involved in running the scheme
- A review of the structure of the trustee board and the wider support
- Reduced meeting agendas with a greater focus on risks and opportunities and a shorter allocation to business as usual items
- The development of a strategic business plan for the scheme
- A revised trustee training programme
- A trustee effectiveness study
- The appointment of an independent trustee
- A review of the way the trustees engage with their advisors
- More efficient decision making and implementation of actions
- Greater use of wider resources, including delegation to subcommittees or advisors
- Updated approach to meeting papers

The common theme in all cases is that trustee boards are reviewing the way in which they can work more effectively, and make better use of their scarce resources – their own time, AON's fee, staff, leads to better outcomes for the scheme.

**Step 4: Action**  
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**Take the first step**  
If any of the previous mentioned, if your trustee board would benefit from taking a step back and considering how they work, or if you're interested in how you stack up against the Regulator's expectations, contact us to take your trustee board through this process.

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Retirement and Investment | Trustee Effectiveness

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**Contact information**  
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**About Aon**  
Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 120,000 employees in 120 countries empower people to thrive by using proprietary data and analytics to deliver insights that reduce complexity and improve performance.

For further information on our capabilities and to learn how our services might be able to help, please visit <http://aon.com/askus>.

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**Trustee Effectiveness**  
Work in harmony

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## Trustee Effectiveness

**Trustees are more time pressured than ever: discover how to get back the time you need to complete all the actions**

### Improving Governance

#### Our Trustee Effectiveness toolkit

- Trustee Effectiveness Review
- Governance Viewpoints
- The Governance Challenge
- The Aon Trustee Checklist
- Strategic Business Plan Example
- Ten Questions to Help Trustees to Challenge their Advisers
- Trustee Meeting Framework
- Between Meetings Organiser
- Behavioural Checklist for Chairing Meetings



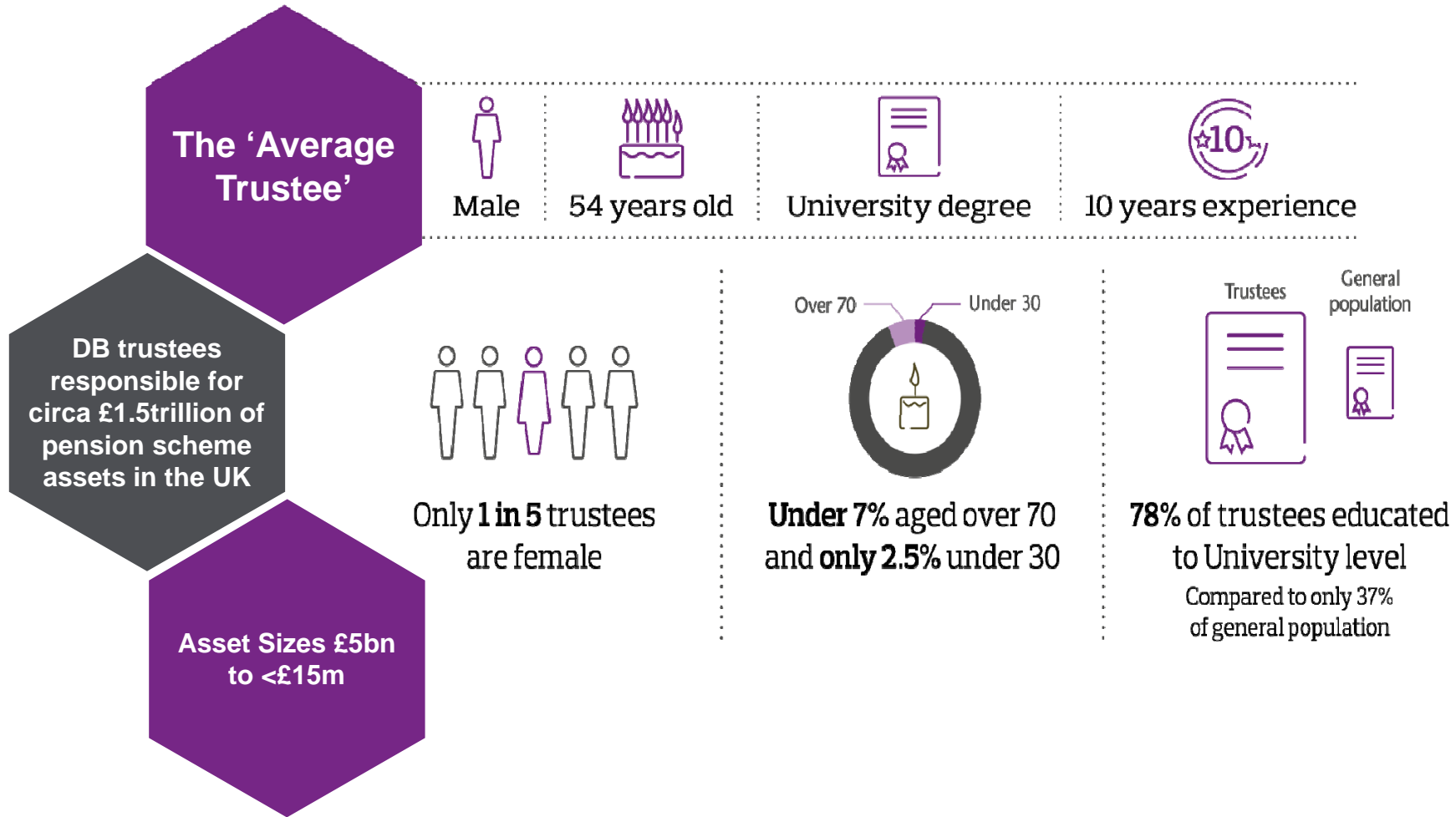
# Trustees and investment decision making



**Betty O'Reilly**  
Senior Investment  
Consultant  
Aon



# What does an average trustee look like?



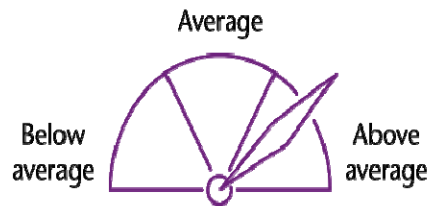
# Attributes of an average trustee

“Trustees exhibit a high level of financial literacy”



**72% of trustees scored 5 out of 5 on a financial literacy scale\***

\*van Rooij et al (2011)



**69% of trustees rated their financial literacy as above average**



**80% invest their own money outside of being a trustee**



**Most characterise themselves as 'Somewhat risk taking'**

# How does the average trustee board organise itself?



**83%** of full trustee boards meet quarterly



On average 10-25% of meetings are spend on investment matters



**84%** think the amount of time they spend on investment is 'about right'



**64%** of schemes have an investment sub-committee



Over 3/4 of these sub-committees meet quarterly

# Costs, Fees and Trustee Decision-Making

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A trustee's primary focus is **investment strategy,**  
**and asset allocation**

Costs and fees are a secondary concern



# Costs, Fees and Trustee Decision-Making



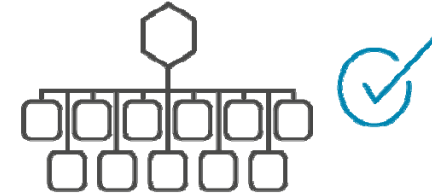
## When choosing the best fund.....



**Nearly 50%**  
of trustees pick an  
actively-managed fund  
over a passive or balanced  
portfolio



Investment consultant  
recommendation did not  
sway large numbers of  
respondents

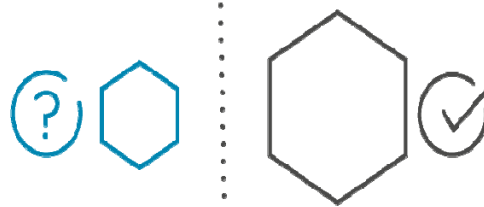


Majority choose a fund  
with more assets  
under management  
over a similarly performing  
emerging fund

# Costs, Fees and Trustee Decision-Making



Trustees are more familiar with explicit fees than implicit fees



Small schemes are less familiar with explicit and implicit fees than large scheme trustees



Securities lending, market-impact costs and swinging price are the least familiar fees

# Selecting Fund Managers and Consultants – What Do Trustees Look For?



## Large schemes value:

Investment philosophy,  
decision-making and  
risk management

in fund managers



## Small schemes value:

Past performance,  
costs and fees, fund size,  
firm size and volatility

in fund managers

# Selecting Fund Managers and Consultants – What Do Trustees Look For?

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**64%** of trustees review their investment strategy at least once a year



**57%** review their investment managers at least once a year



Changing investment strategy is the primary motivation in reviewing investment management

# Selecting Fund Managers and Consultants – What Do Trustees Look For?

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**Schemes value:**

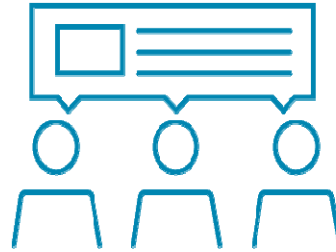
Clear advice, management of risk, understanding  
of situation / scheme / goals of trustees

**in investment consultants**

# Selecting Fund Managers and Consultants – What Do Trustees Look For?



Trustees place considerable emphasis on consultant advice, especially small and medium schemes

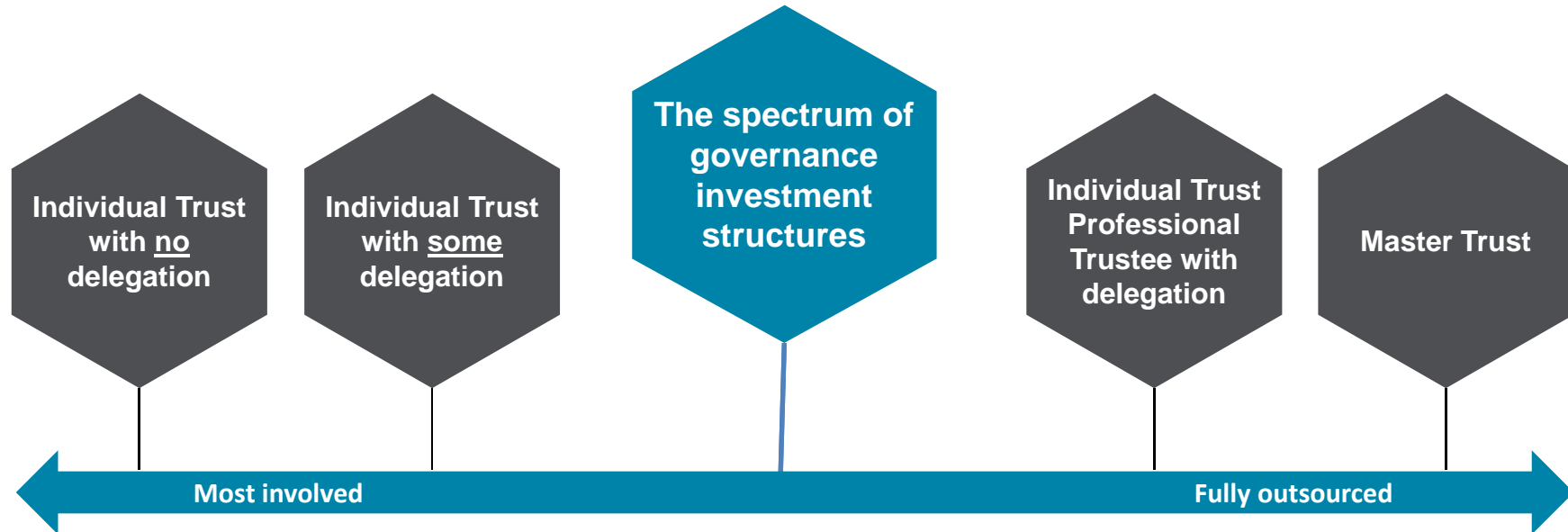


**19%** of schemes do not consider alternatives to the consultant advice



Consultants advice is rarely rejected, **76%** saying rejection is not often

# Managing the Trusteeship Challenge



- The Government has published its **Roadmap for Pensions Reform**. This outlines stringent trustee requirements including *training, experience, qualifications and CPD*
- Outsourcing/delegating some or all trustee responsibilities can solve a number of headaches for time poor trustee boards and plan sponsors
- Compliance requirements are fulfilled, potential for cost savings and better outcomes

# Questions

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## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com>.

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# Payrise & Promotions

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