

How many times have you heard, “How do you take the emotions out of financial decisions?” The answer is that you don’t—you accommodate them, explains MetLife’s **Joseph W. Jordan**

Harnessing emotional behaviour

It might seem odd that individuals do not always make the optimal choice when making financial decisions considering all the materials at their fingertips. As a result of the “Information Age,” the financial services industry has put a high premium on being narrowly deductive and highly analytical. The thought is that if you give people enough information, they will act in their own self-interest—but that’s just not the case.

People do not always behave in a rational, predictable and unbiased manner. Emotions and feelings have a great deal to do with how people make decisions. That is not to say that analytical models, charts and graphs are not important in the decision-making process. They are. Emotions, however, have been ignored for a good part of the Information Age and play a critical role. What we really need is a balance between the intellectual side and the emotional side. That’s where Behavioural Finance comes into the picture - the field of economics that studies how the choices we make are influenced by factors beyond the logic of the situation.

In the financial services industry, the most valuable resource financial advisers have is their ability to connect with people, and that means understanding what goes on in the heads of your clients. It is not that one side of the brain or the other acts alone; rather decisions are made with simultaneous interaction between the two. In the simplest terms, the right brain buys (emotions, connections, belief) and the left brain justifies (facts, figures and analysis).

Focus on income

Financial advisers need to help clients understand that the financial mindset they possessed while saving for retirement does not translate when they have to become their own income provider during retirement. For years, the

discipline that advisers prescribed to their clients was how to build up a large “bag of cash” and the use of asset accumulation models. In retirement, that no longer holds the same level of significance. People around the globe are facing tough decisions on how to create a lifestyle sustaining retirement income that they can depend upon through their retirement years. We also need to rethink how we talk about insurance—it’s no longer about face amounts. It’s about income replacement and here is where behavioural finance comes into the picture.

What’s going on in the minds of your clients

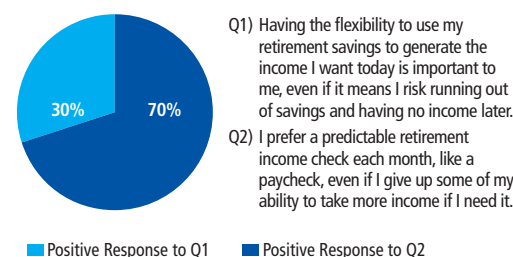
Although there are several behaviours that impact a client’s decision-making ability, consider three behavioural ideas: Framing, loss aversion and experiential biases.

Framing is the way you design or phrase questions to your clients and the way we frame them will affect their choices. Before people can make educated decisions about retirement income, they need to be thinking in terms of income. The scope and consequences of financial decisions need to be reflected in the way we provide information.

Based on a MetLife US Business Marketing Research survey, we can observe the impact that framing has on clients. In the illustration above, note the swing in positive responses based on the orientation of questions from

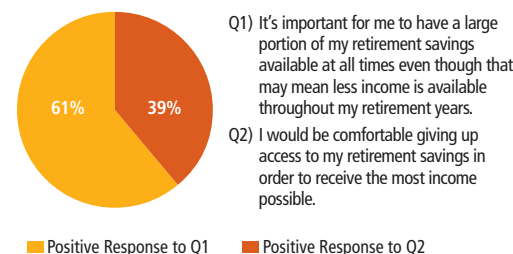
- 金融服務業內有一個想法，就是若給予人們足夠的資訊，他們便會為自己的利益作出決定，但事實並非如此。人的行為往往不理性、不可預測，亦會有偏頗，其決定會受情緒及感覺左右；但並不是說分析模型及圖表在決擇的過程中並不重要。我們實際需要的是知性與感性的平衡。這便是需要行為金融學的原因。
- 當為客戶作退休計劃，有三項行為會影響客戶做決定的能力：思維框框、迴避虧損及經驗引致的偏差。因此理財顧問需要為客戶提供適當的指引。

Question Set A: Income Orientation, age 65 plus



Source: MetLife

Question Set B: Asset Orientation, age 65 plus



Source: MetLife

the ability to enjoy a lifestyle sustaining retirement income and the goal is to make sure they do not run out of income.

Finally, a few words about experiential bias. When people are young, they rely more on analytical capital—facts and figures. However, as your clients age, a different set of facts and analysis are required to generate a lifestyle sustaining retirement income. Unfortunately, at this critical moment, they most likely will intuitively rely more on long-standing financial experiences relating to when they were building capital.

Your advice is needed

Globally, many of the governmental, corporate and even cultural safety nets and entitlements have been fundamentally altered or have been removed. At the same time, retirement ages are now pushed out even further.

As clients move through live stages or when their retirement entitlements change, their needs for protection and accumulation products will change. A retiree’s experience and fear of loss, and the framing of financial decisions in terms of assets instead of a reliable retirement income, means financial advisers, and the guidance they provide, are needed more than ever.

All around the world, both government and corporate retirement solutions and pension plans are going away. Many of the safety nets people once had are disappearing. People are going to create those plans on their own, but they are going to need help. That’s where financial advisers come into creating a solution—forging strong client relationships to ensure retirement income needs are met. That will take an adviser’s knowledge regarding income options and the ability to deliver on the solutions offered.

Joseph W. Jordan, senior vice president, Behavioral Finance Strategies, MetLife

income to assets. Clearly language plays an important role when addressing retirement income planning.

Another observable behaviour is the impact of loss aversion. People value gains and losses differently, and choices expressed in terms of possible gains are favoured over those expressed in terms of possible losses. Behavioural studies illustrate that people tend to be irrationally risk tolerant in protecting capital and that losses have a higher emotional influence even if the gains equate to the same value. The results of studies conducted show that most people will gravitate toward the guarantee of a gain, but willing to take more risk to avoid a loss. In other words, losses loom larger than gains.

Most people fear losing asset value based on what they have experienced and learned during their accumulation years. Help clients comprehend that retirement planning is no longer based on asset value; it is measured by