

Overcoming the Cost of Being Human



Greg B Davies, PhD
Head of Behavioural-Quantitative Finance
@GregBDavies

For Communication only to *Mindful of Investing in Retirement*

This is a communication to professional investors only

Which holiday would you choose?

Expensive, but exciting holiday

vs.

Cheap, but dull holiday



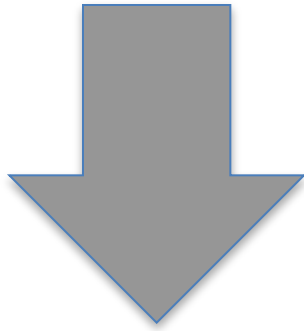
Bali



Bournemouth

Which holiday would you choose?

Reason: "It's exciting!"



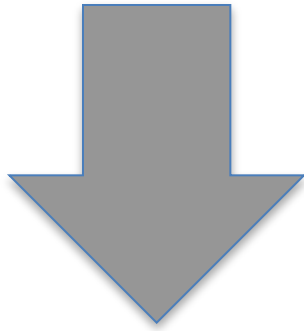
Bali



Bournemouth

Which holiday would you *Reject*?

Reason: "It's expensive!"



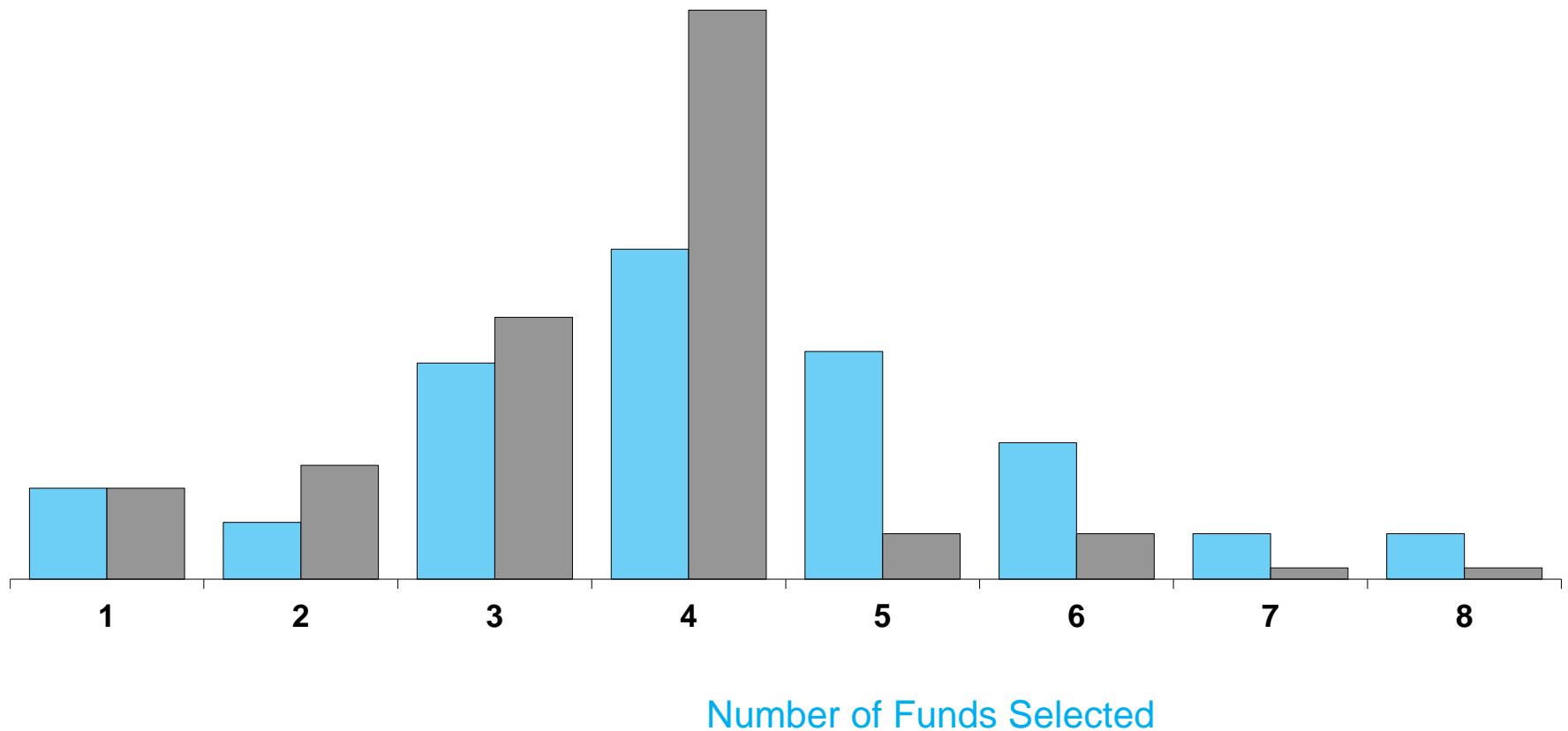
Bali



Bournemouth

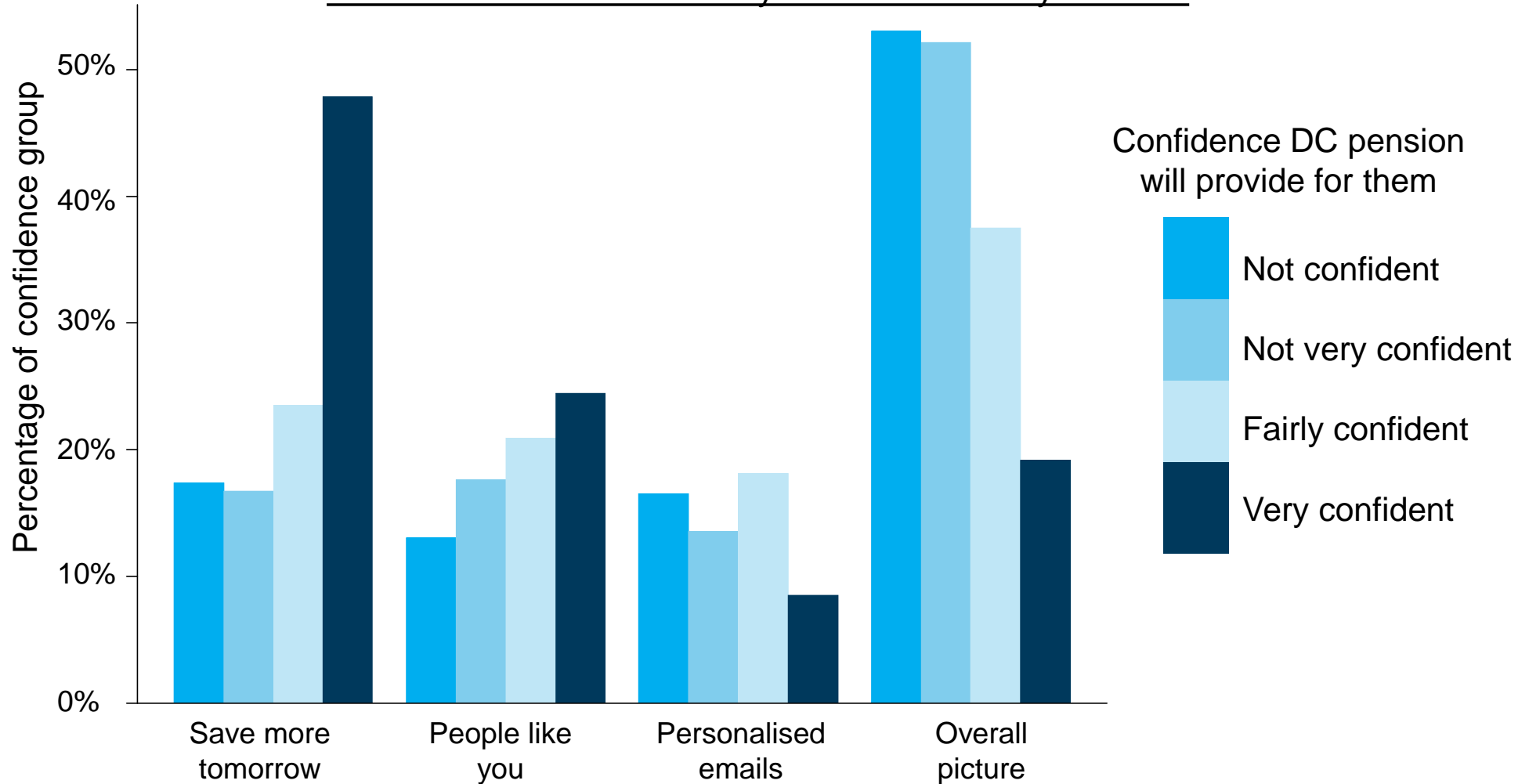
Choice architecture matters!

Morningstar.com subscribers presented with 8 funds to construct portfolio



Who would choose to be *Nudged*?

Which Intervention would you be most likely to use?



The cost of the “bandwidth tax”

Your car is having some trouble and requires £X to be fixed

You can pay in full, take a loan, or take a chance and forego the service at the moment...”

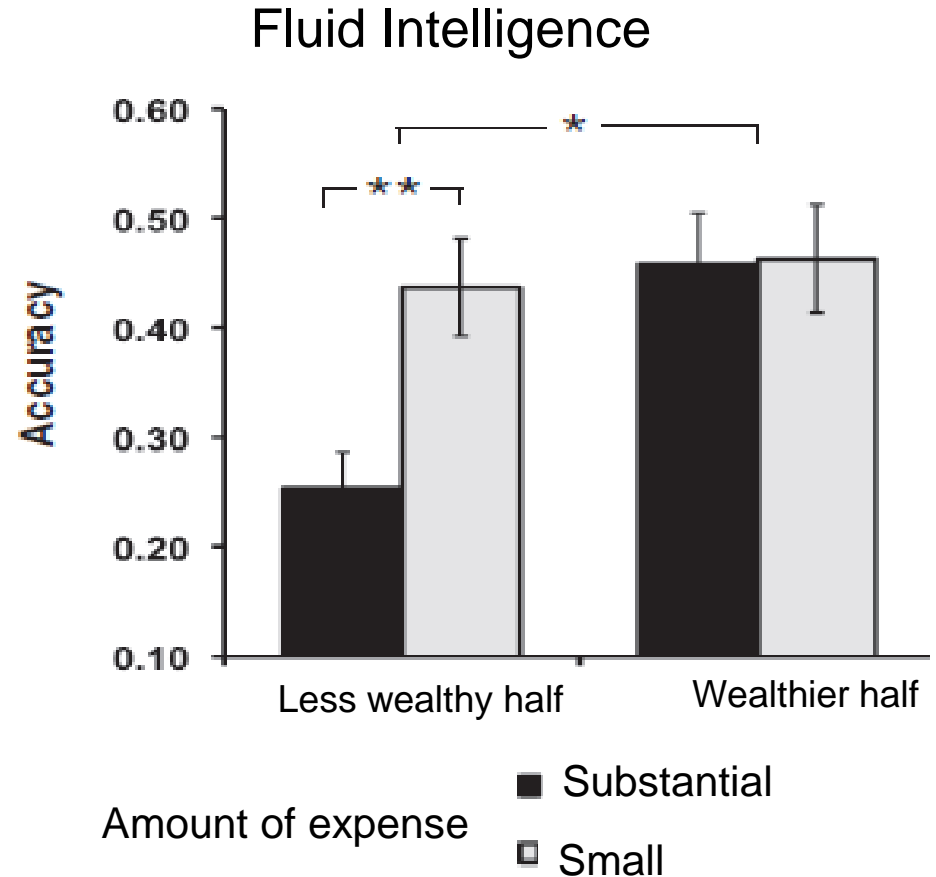


Chart adopted from Anandi Mani, Sendhil Mullainathan, Eldar Shafir, Jiaying Zhao (2013). Poverty Impedes Cognitive Function. *Science*. Vol(341): 976-980.

What does it take to be confident and informed?

Knowledge

Engagement

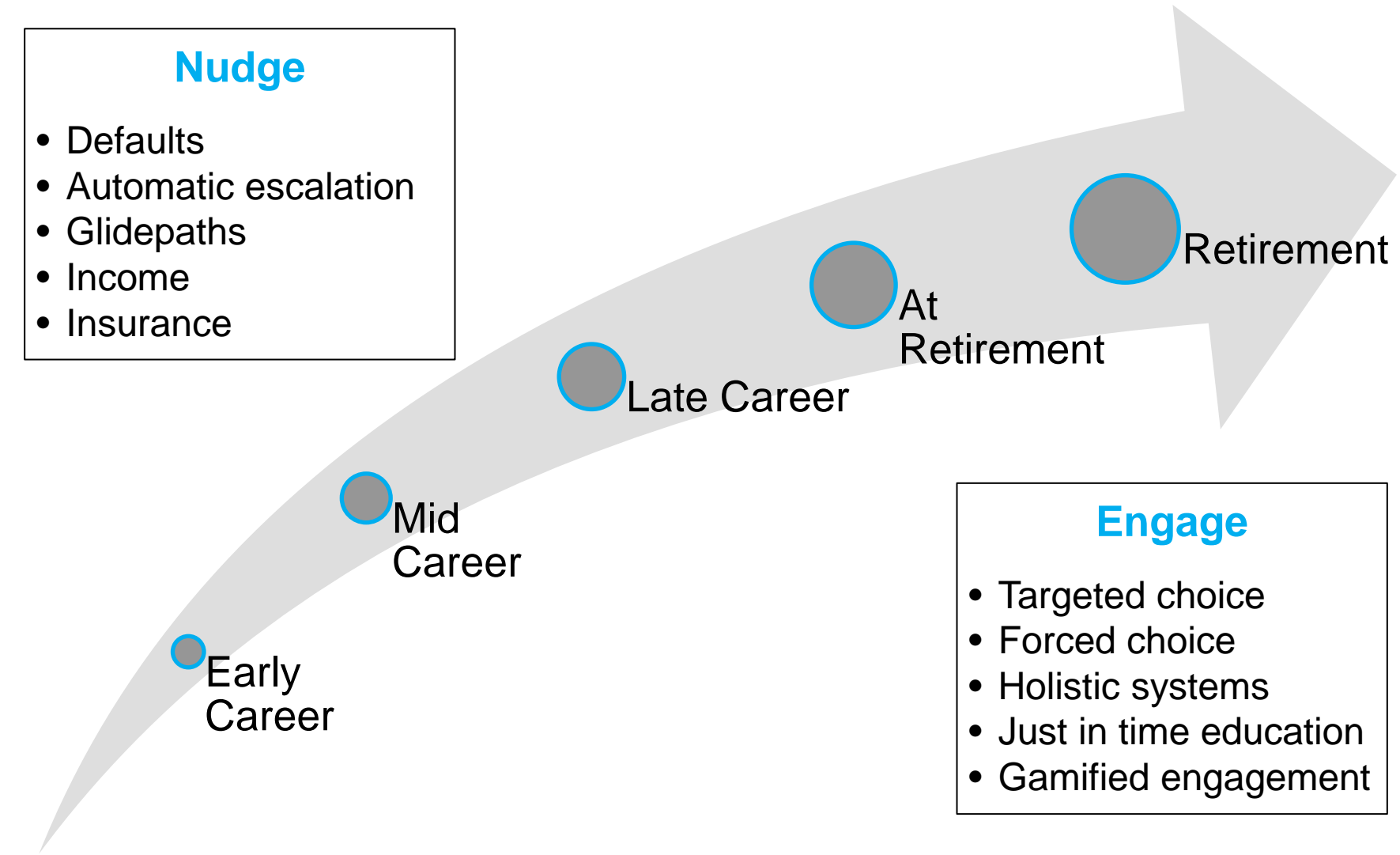
Comfort

Examples

What do investors need, and when?

Nudge

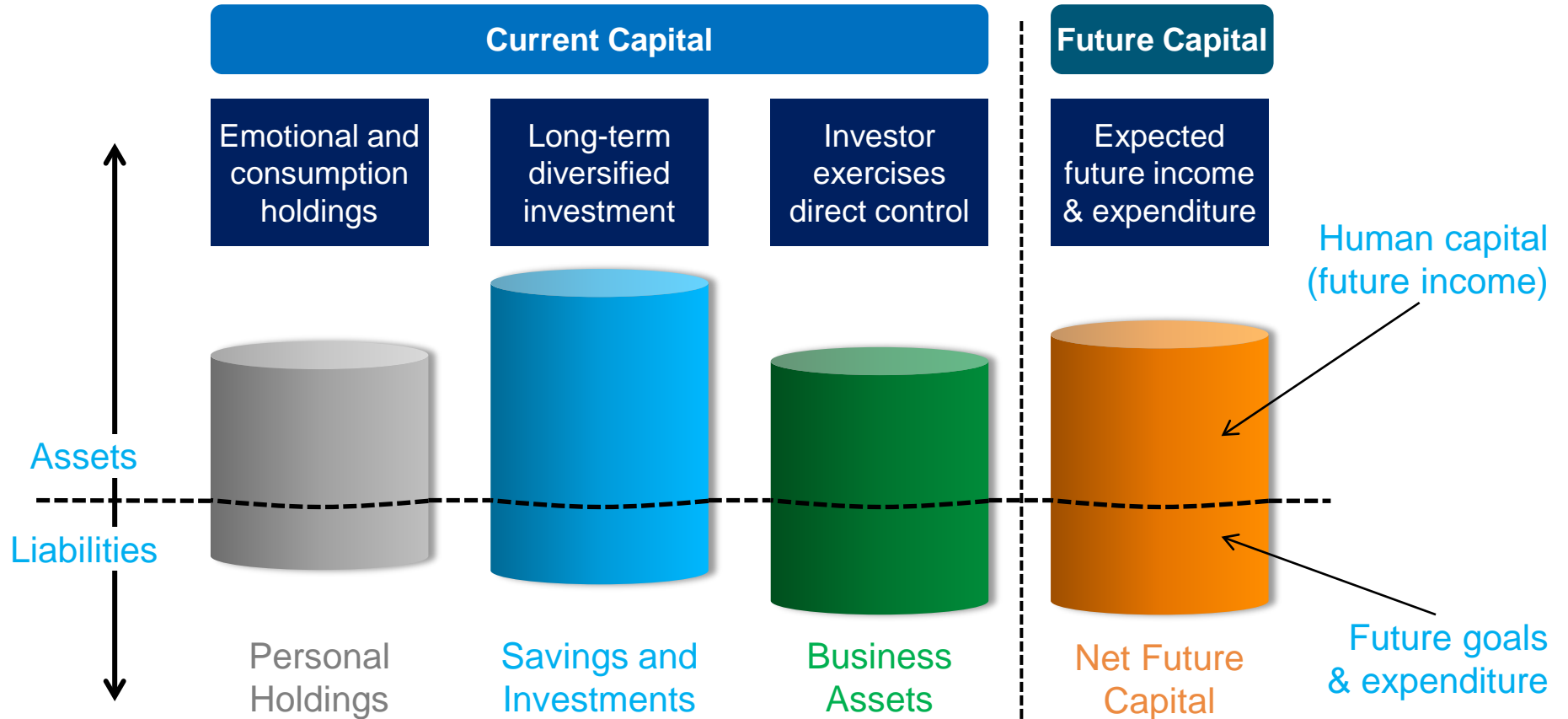
- Defaults
- Automatic escalation
- Glidepaths
- Income
- Insurance



Engage

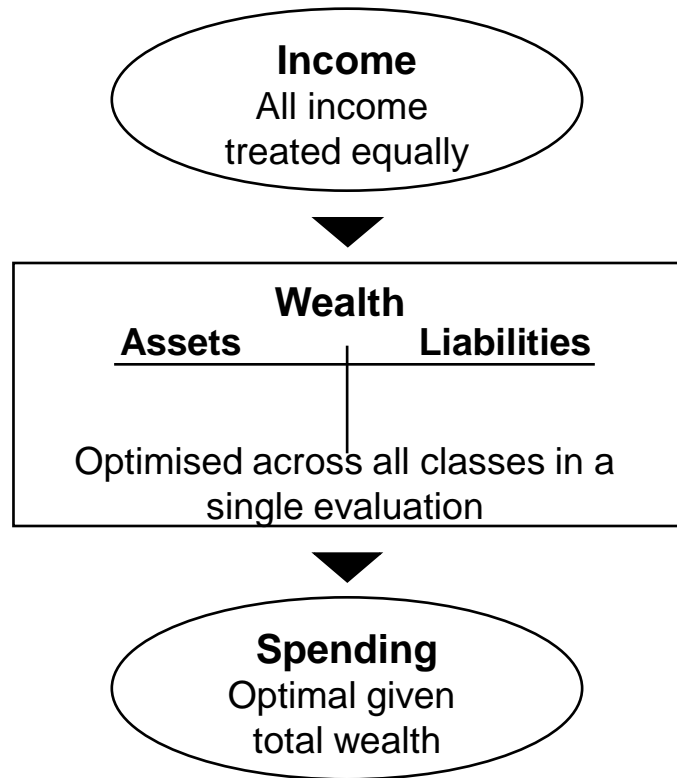
- Targeted choice
- Forced choice
- Holistic systems
- Just in time education
- Gamified engagement

Financial decisions are complex and inter-connected

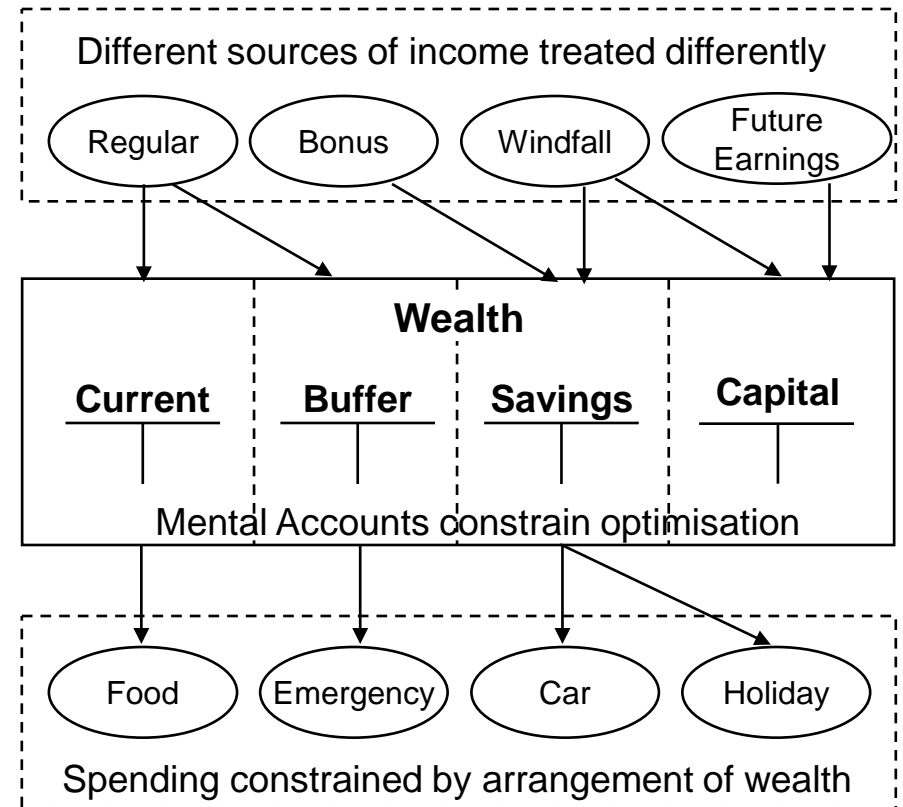


Mental accounting: good or bad?

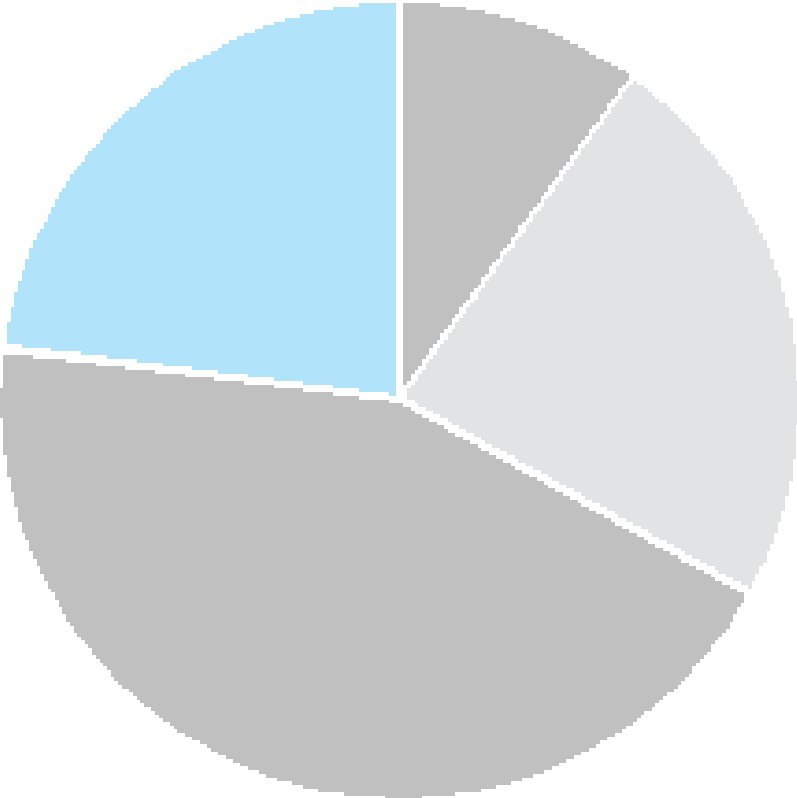
'Classical' Economic Model



Mental Accounting Model



Goals-based investing: 'jam jar' approach

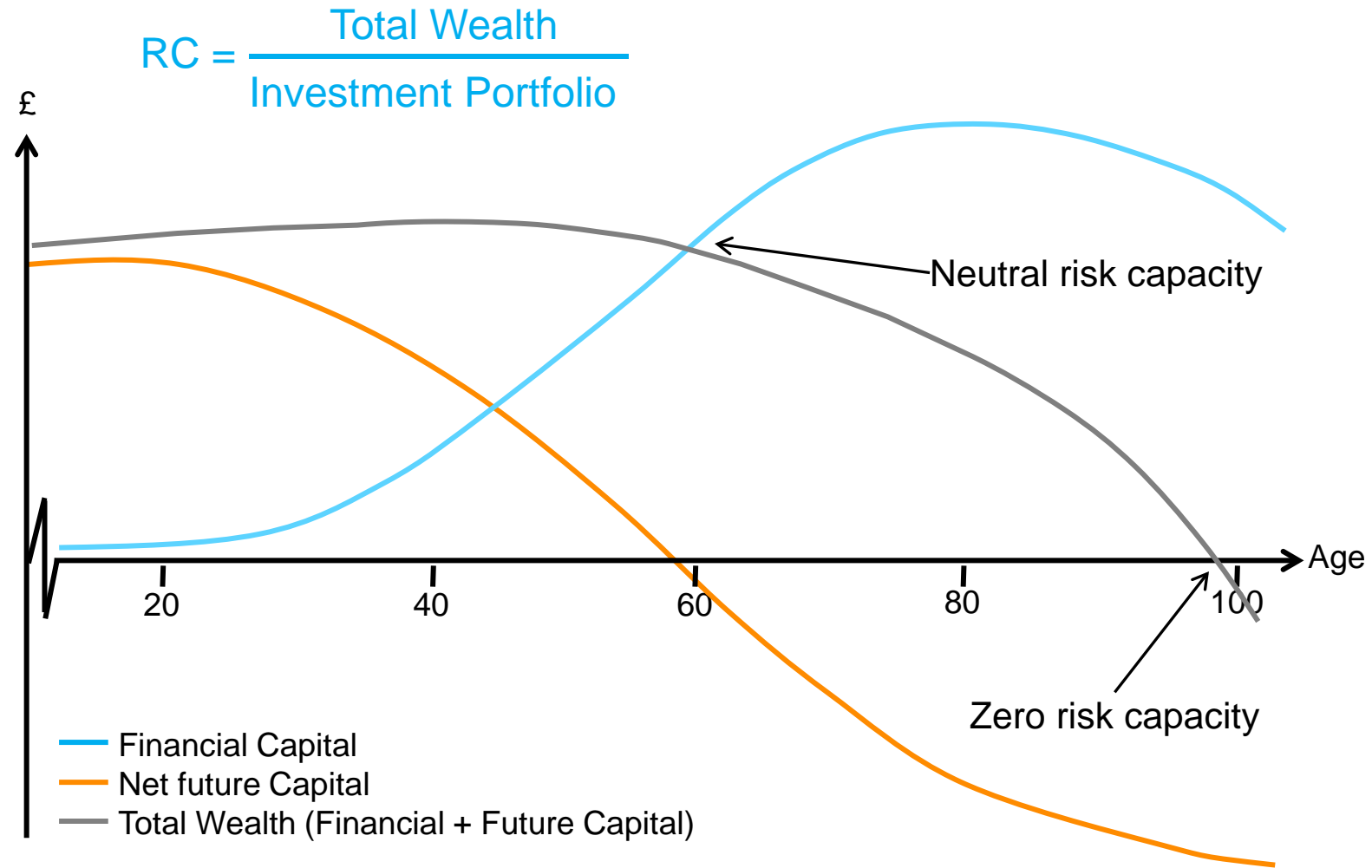


Total Wealth Investment Portfolio



Multiple Investment Pots

Understanding Risk Capacity



A toolbox for behavioural design

- **Holistic Systems**

- Just in time education
- Decision support systems
- Planning systems
- Gamification techniques

- **Personalisation**

- Life-moments
- Targeted communication and offers
- Personalised defaults
- Targeted decision flow

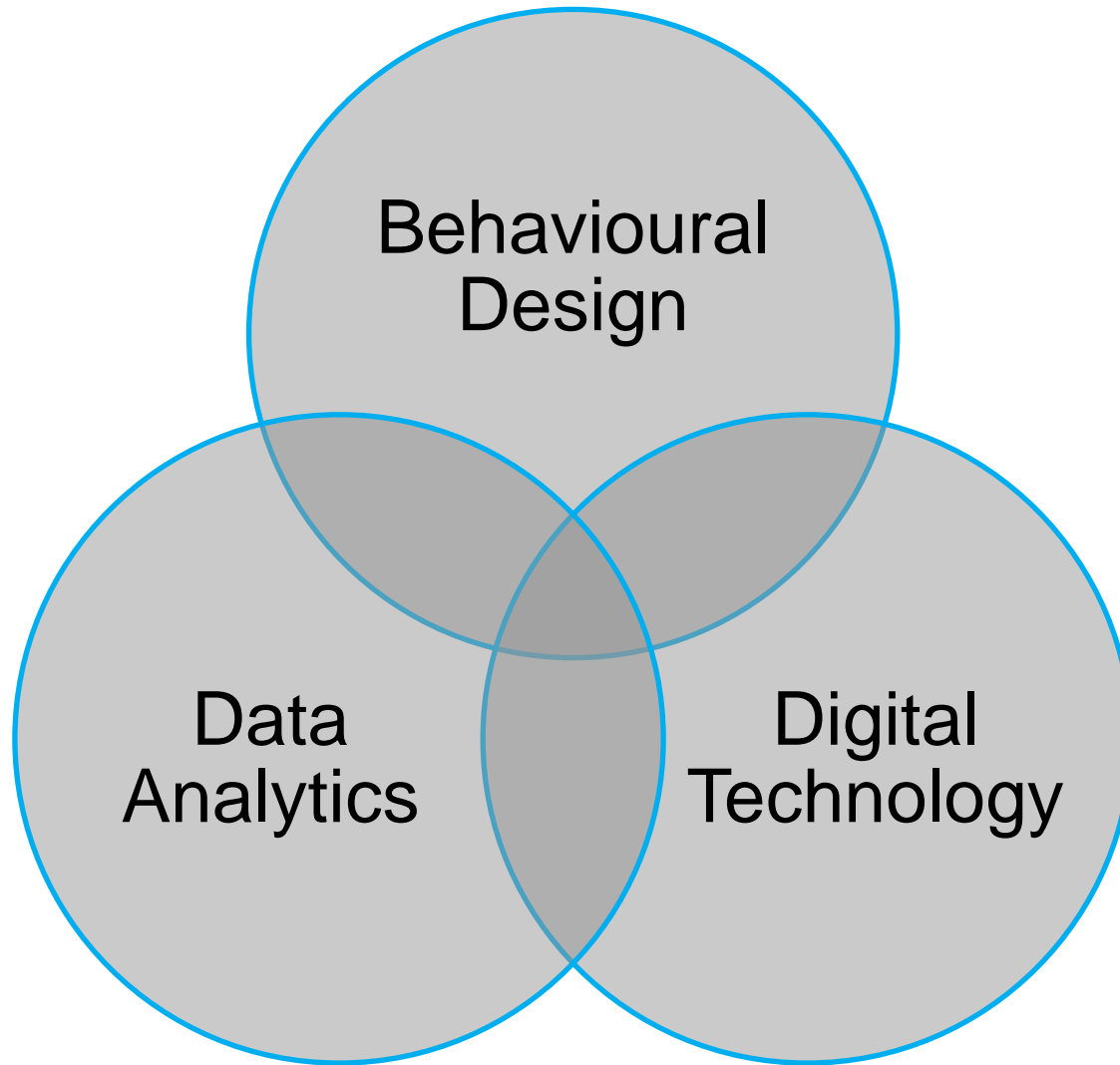
- **Choice Architecture**

- Simplified purchase processes
- Compelled choices
- Pause points
- Designing for comprehension

- **Human Interaction**

- Providing emotional comfort
- Responding to uncertainty
- Responding to values
- Complexity and communication

The sweet spot for improving financial behaviour



White Paper
Overcoming the cost of being human
(or, The pursuit of anxiety-adjusted returns)

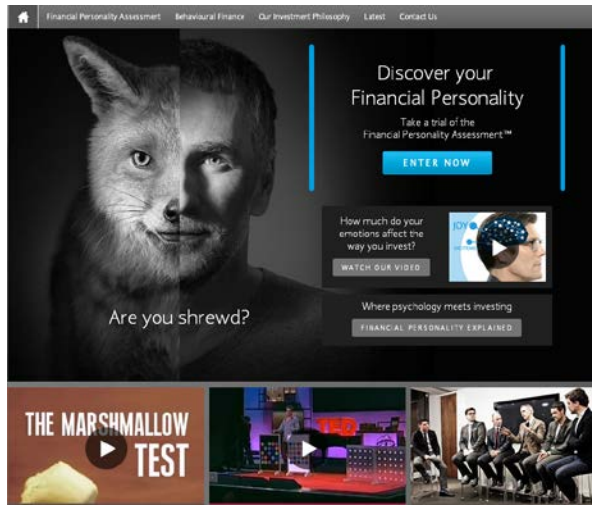


White Paper
Asset allocation at Barclays



Wealth Briefing Awards 2014

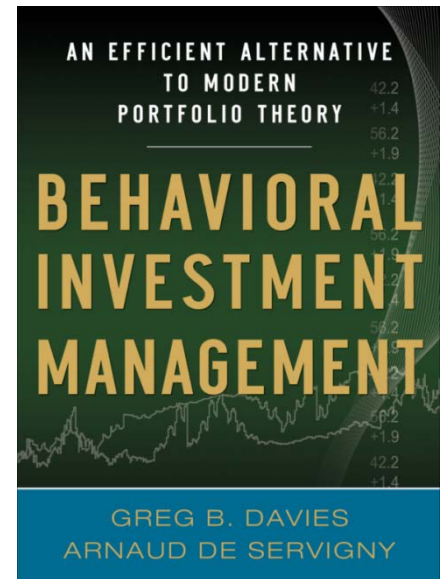
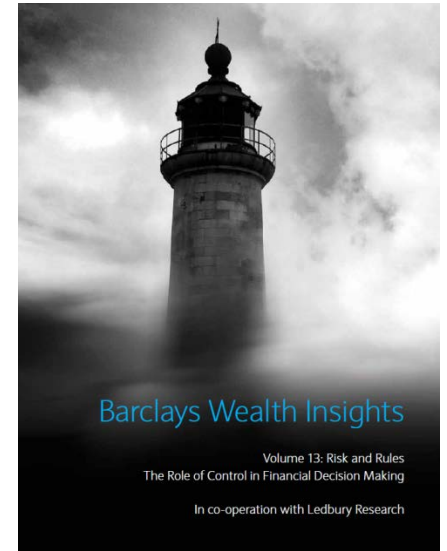
Winner: *Outstanding Contribution to Wealth Management Thought Leadership*



Martin Wheatley, Former Chief Executive, FCA

"The best financial service companies, the most consumer-focused, go to considerable pains to make sure their customers are steered towards the best products and the most suitable. We should applaud these firms and learn from them:

[Firstly] Greg Davies at Barclays Wealth, who is now doing pioneering work to both help investors understand their preferences and behavioural tendencies, as well as to use this knowledge to achieve better investment performance"



Disclaimer

This document has been issued and approved by Barclays Bank PLC. Where information in this document has been obtained from third-parties, the sources are believed to be reliable but we do not represent or warrant its accuracy, and such information may be incomplete or condensed. This document does not constitute a prospectus, offer, invitation or solicitation to buy or sell securities and is not intended to provide the sole basis for any evaluation of the securities or any other instrument, which may be discussed in it. Any estimates and opinions included in this document constitute our judgement as of the date of the document and may be subject to change without notice. Past performance is not an indication of future performance.

This document is confidential. It may not be reproduced or disclosed (in whole or in part) to any other person without our prior written permission. Law or regulation in certain countries may restrict the manner of distribution of this document and persons who come into possession of this document are required to inform themselves of and observe such restrictions. We or our affiliates may have acted upon or have made use of material in this document prior to its publication.

Barclays offers wealth and investment management products and services to its clients through Barclays Bank PLC and its subsidiary companies. Barclays Bank PLC is registered in England and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No. 1026167. Registered Office: 1 Churchill Place, London E14 5HP.