Behaviour in the spotlight

Tony Vidler | Strictly Business | 02 June 2014

A new Sherriff arrived in town a couple of months ago. The New Zealand Financial Markets Authority's new CEO, Rob Everett, gave an interesting briefing by way of introduction. There was a very strong warning for the short term, and an intriguing line of thinking for the longer term. Both the warning and the thinking focused on behaviour.

Everett's first key point that served as a warning for the short term was:
"Poor systems
Poor Management
Poor Decisions
Poor Controls...
...will be responsible for more regulatory action"

In light of the focus on Discretionary Investment Management Services and Anti-Money Laundering requirements, this is as strong a warning as any Kiwi financial adviser can expect. It was equally clear that their behaviour in meeting compliance obligations would carry significant weight.

Translation? Get your structure and processes and controls right. If you don't even try to, the walls will come crashing down.

The NZ advice sector is now entering a new regulatory phase. It is no longer about using the right documents in the right order, and having good intentions. What you do as an adviser, as well as what you do as a business person, now matters. It is behaviour as well as process upon which we shall be assessed by the regulator going forward.

Moving on to the far more intriguing area that will influence the shape of the industry for some years to come was this from Everett: "Behavioral economics is revealing secrets on why people behave the way they do, and that needs to be factored into regulatory thinking and advice processes and client understanding..."

In fact, behavioural economics has already begun to change how advice is delivered, providing better client engagement by providing better client experiences.

An excellent example of behavioural economics being applied in the real world can be seen at financial planning dealer group, Hillross, in Australia. Owned by AMP, Hillross is a nationwide network of financial planning companies. It went through a couple of years of research, design and then testing on how to use the knowledge from behavioural economics in order to work better with clients.

During the process, it became apparent that many compliance-focused advice documents were getting in the way of helping clients engage, and act.

Now, the Hillross advice documents are rich in graphics and plain text, and present complex information in ways that positively influence people to act. Most importantly, their advice process essentially begins with understanding the client by targeting the question that actually matters most: "What is your idea of financial freedom?"

So how did Hillross use the lessons of behavioural economics to change the advice process in a heavily prescriptive jurisdiction? They've certainly applied lessons such as providing context for framing, as that eases client choice and encourages action, and they clearly understand and are working to avoid information overload wherever possible, and focusing on future benefits.

But the real lesson from behavioural economics that has been applied seems to be "manage the behaviour of both the adviser and the client simultaneously". Hillross achieved that by bringing the attention of the adviser and the client both back on to "why" rather than "what".

Understanding *why* clients behave the way they do and why they make the decisions they do could ultimately prove to be the single most important thing an adviser does. It also just might re-shape the entire industry.

Tony Vidler is an AFA and principal of Strictly Business which provides advice to the financial advice industry to help financial advisers become better practitioners and build more profitable businesses. Tony was the financialalert Person of the Year 2011.

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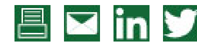

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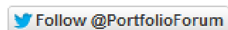

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