(Applied) Behavioural Finance in Emerging Markets

THE PENSIONS DECISION MAKING VALUE CHAIN: Does it all add up? (with a South African case study)
1. Meta-Decisions
   What choices need to be made, and who makes them?

2. Choice Sets
   What options are available for individuals?

3. Decisions
   Choosing investment contributions, investment funds, withdrawals, and annuities

A. Path Dependency
B. Social Narratives
C. Information Asymmetry

Decision-making Guardrails
Financial sophistication: 60 out of 141
*World Economic Forum 2019*

Highest pension assets to GDP ratio in the world
*National Planning Commission 2012*

High equity market returns: 26.1% over 5 years
*CFA Institute 2012; Johannesburg Stock Exchange 2020*

32% Replacement Ratio
*Benefits Barometer: 2019*

And does the individual even care?
1. Meta-Decisions

What choices need to be made, and who makes them?

- **PAYG = Simple decisions**
- **Funded = Distributed decisions**

**Final Retiree = Citizen**

- Who is trusted? Government or the market?
- Can the economy afford the taxes for PAYG?
- Does the market offer sufficient investable assets for funded?
1. Meta-Decisions

What choices need to be made, and who makes them?

Final Retiree = Citizen

PAYG = Simple decisions

Funded = Distributed decisions

Means-tested State Old Age Pension (“SOAP”)

“Compulsory” savings at discretion of employers

Individual retirements savings from financial industry
Choice Sets

What options are available for individuals?

Final Retiree = Beneficiary / Client

Financial Services

Employer
Choice Sets

What options are available for individuals?

Final Retiree = Beneficiary / Client

Pension Committee “experts”

Employer Committee “experts” + “representatives”

Why committees?

Representation?
Fiduciaries?
Tailoring?
Improved decision-making?

What about the risks of group decision-making?
2 Choice Sets

What options are available for individuals?

Final Retiree = Beneficiary / Client

Pension Committee “experts”

Employer Committee “experts” + “representatives”

Adviser X

Adviser Y

These committees and advisers are creating choice architecture, but have they even heard of it?
Choice Sets

What options are available for individuals?

Final Retiree = Beneficiary / Client

Adviser Z

Financial Services

Employer
3 Decisions
Choosing investment contributions, investment funds, withdrawals, and annuity selection

What are the defaults?

How are choices presented?

Final Retiree = (Future) Me

Cash (or similar) as investment fund default?

What are the range of contribution options?

How easy is it to withdraw money easily?
Path Dependency

Social Narratives

Information Asymmetry

Decision-making Guardrails

Examples

Regulator action: Improving retirement defaults

Industry trend: Introducing passive funds into the market

Long-run structure: Investment philosophies

Supporting individual decisions: Annuity choices
Path Dependency
Social Narratives
Information Asymmetry

Decision-making Guardrails

Regulator action: Improving retirement defaults

Examples
Industry trend: Introducing passive funds into the market

Examples

Decision-making Guardrails

Path Dependency

Social Narratives

Information Asymmetry
Path Dependency

Social Narratives

Information Asymmetry

Decision-making Guardrails

Long-run structure: Investment philosophies

Examples
Supporting individual decisions: Annuity choices

Examples

https://www.nedgroupinvestments.co.za/content/NGISingleSiteContent/Local/Institutional/innovative-retirement-products.html
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Decision-making Guardrails