(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?

Final Retiree = Citizen

PAYG = Simple decisions

Funded = Distributed decisions

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

2 Choice Sets

What options are available for individuals?

Final Retiree = Beneficiary / Client

Financial Services

Employer

2 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?

2 Choice Sets

What options are available for individuals?

Adviser Z

Financial Services

Employer

Final Retiree = Beneficiary / Client

3 Decisions

Choosing investment contributions, investment funds, withdrawals, and annuity selection

Final Retiree = (Future) Me

What are the defaults?

How are choices presented?

- Cash (or similar) as investment fund default?
- What are the range of contribution options?
- How easy is it to withdraw money easily?

Path Dependency
A

Social Narratives
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Information Asymmetry
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Examples

Regulator action : Improving retirement defaults

Industry trend : Introducing passive funds into the market

Long-run structure : Investment philosophies

Supporting individual decisions : Annuity choices

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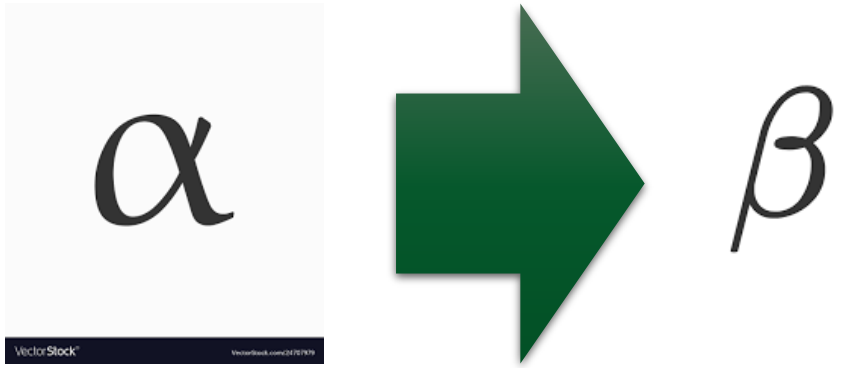
Industry trend : Introducing passive funds into the market



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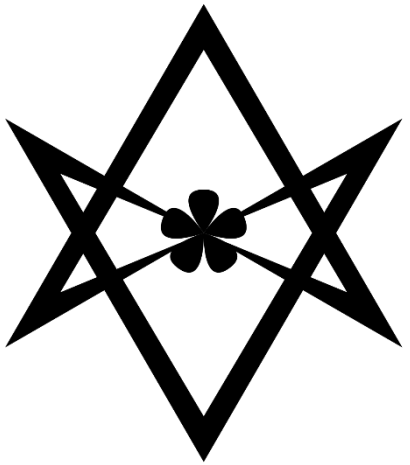
Long-run structure : Investment philosophies



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Examples

Supporting individual decisions : Annuity choices

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

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