Turning Good Intentions into Actions:
Challenges for the Provision of Financial Advice

Financial advisers and regulators focus on ensuring that advice is accurate and appropriate for the consumer. Although clearly important, this is only half the story. For good advice to be useful it has to be acted upon, and many people fail to act when provided with good advice. As the market for financial advice broadens from highly motivated and financially literate high earners to a wider demographic, the rift between receiving advice and taking action is likely to become an increasing problem.

In our review and analysis conducted for AXA, we identify some of the key psychological factors related to the successful transformation of intentions into actions, drawn from diverse areas of behavioural economics and psychology. We focus in particular on consumer personality, adviser attributes, and the content and delivery of the advice itself. By understanding the psychology behind action-taking, it should be easier to tailor advice so that it stands a better chance of being acted upon.

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It's a familiar situation: you're in a new city and are a little lost. You ask a native for directions, and they go out of their way to give you a meticulous sequence of lefts, rights, and straight-ons to guide you to your destination. Thankful, you set off, and within a couple of minutes find yourself as bewildered as you were before you asked. What went wrong? Your kind direction-giver was so concerned about giving you the correct information, they didn't consider how hard it would be for you to act upon their advice.

When people are given hard-to-follow directions, they may take a circuitous route but they persevere and eventually reach their destination. When people are given hard-to-follow financial advice, they are likely simply to give up. And in doing so, they risk losing tens of thousands of pounds over their lifetime, having to rely on the state to provide for them in later life, and forgoing the peace of mind and the physical wellbeing that comes with a sense of financial security.

Giving people information is not enough to drive action – people often know what they should do, but still don't do it. In a survey run by YouGov, 79% of respondents agreed with the statement 'I should save more, but I don't'[a]. Moreover, even intention does not guarantee action. Researchers at JPMorgan Fleming found that 40% of their respondents said they were going to increase their savings in the next 12 months, but only a quarter had actually done so in the past 12 months. People are overly optimistic about their future behaviour.

The factors affecting people's ability and inclination to follow advice span many areas of behavioural economics and psychology. As we are interested in the extent to which people can be pushed towards acting on their good intentions, we have used the framework from research on persuasion, and examine the effects of the consumer's characteristics, the adviser's characteristics, and the message communicated, including the medium through which it is delivered (Figure 1).

Figure 1. Attributes in how people follow advice

Understanding the Consumer

Traditional economic theory paints consumers as rational agents who spend their time making appropriate decisions to maximise their financial utility. We have found that although this may be true for a small proportion of the population – economists, generally – most people's decisions are less than rational. Our financial decisions are influenced by the way in which options are described: we prefer to pay £1 a day over £350 a year; if we think of a windfall as a bonus, we blow it, if we think of it as a rebate, we save it; and so on. We also fear regret too much, and are disproportionately loss-averse.

As well as having many financial biases, we are also irrational in our degree of inertia. Our behaviour is driven by defaults: we are likely to join a company pension scheme if that is the default option when we start work, and our allocation of pension savings between risky and risk-free assets tends to follow the options given to us – if most of them are risky, we go more risky, and if most are safe, we play it safer.

When Economic Rationality Fails[b]

An Israeli kindergarten was plagued by parents arriving late to pick up children. In an economically rational move, they started charging parents who arrived late. Lateness *increased*.

Once charges were introduced, people started seeing punctuality as a financial rather than moral issue, and many were happy to pay, whereas they had found the guilt of being late more motivating.

Compounding the problem, we are often unaware of our irrationality. One thing people are good at is post-rationalisation, and we know that people come up with plausible justifications for their decisions, even for decisions that they didn't actually make.

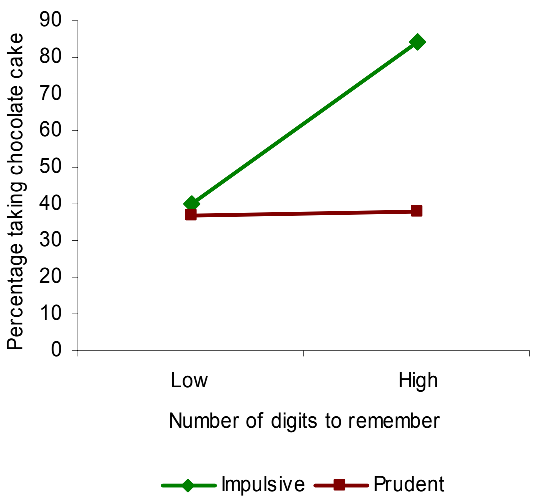
Our inertia and propensity for post-rationalisation suggests that sometimes we need to be *persuaded* to make decisions that benefit us in the long run, by harnessing some of the biases described above. But everyone's different, and some people need more help to make the right decisions than others. To identify those who need most help, we turn to personality.

Impulsivity

Most people have a tendency to hyperbolic discounting by overweighting the present, being willing to forgo a larger delayed reward for one that is smaller but immediate. Impulsive people lie at one end of this spectrum, finding it hard to think outside the present, meaning they struggle with delaying gratification; procrastinating on unpleasant tasks like paying bills; and not considering the consequences of overspending.

To address impulsivity, we need to understand what causes it. We have two internal systems for making decisions, often called 'hot' – passionate, emotional, and impulsive, and 'cold' – reflective, conscious, and looking at the long game. Impulsive people are driven more by their 'hot' systems. That said, we all vary in our degree of impulsivity – using our 'cold' system to make decisions is hard, time-consuming work, and if we have other things on our mind, we are prone to making impulsive choices. This is shown strikingly in Figure 2[c], where participants chose one of two snacks – chocolate cake or fruit salad – as payment for taking part. While they chose, they also had to remember a sequence of either two or seven digits to recite later. Those who had the longer sequence to remember were more likely to choose the – impulsive and unhealthy – chocolate cake over the fruit salad. Looking closer, researchers found that it was the impulsive participants who were most strongly affected by remembering digits.

Figure 2. If impulsives have a lot on their mind they default towards immediate gratification



The same logic applies to financial planning. Impulsive people are less likely to plan ahead or save for the future, and so represent a higher proportion of people with ‘problem’ finances. To compound the problem, impulsives are also least likely to act on advice: their intentions will be good, but when things get difficult, they’re likely to move onto doing something else that’s more rewarding in the moment.

There are several strategies for minimising the effect of impulsivity. One is to minimise the delay between advice and action – to use immediate motivation to overcome the natural inclination to put things off. Another is to recruit the ‘hot’ system to increase motivation for taking action, by making the beneficial consequences of taking action more concrete or ‘real’; akin to using the mechanism Jim Bowen deployed in Bullseye saying ‘look what you could have won’, and giving the contestant a close-up view of the caravan or speedboat they have forgone – or in this case, would forgo by not optimising their finances.

Finally, giving people a small immediate reward for taking action, such as a free gift or cashback, can push impulsive people towards taking action.

Efficacy

The second key issue is one of efficacy – the skills, knowledge and psychological make-up that allow people to get things done. Some people are fatalistic toward their finances, so are less likely to act on advice because they don’t believe it will make a difference. Others intend to act on advice, but lack the skills to go through with their action. Yet others intend to act, find it hard to get things done, and decide that they never wanted to act in the first place.

Sometimes efficacy is more important than intentions themselves. Researchers asked 600 coronary heart disease patients what action they intended to take to improve their health, and how much confidence they had that they were able to achieve their intentions. A year later, intentions were unrelated to patients’ actions, but the more they thought they were able to take action, the more action they actually took[d].

There are several ways of improving efficacy. First, it is important to give consumers confidence in their own ability to manage their finances, so they do not give up before they have started. Second, it is important to make things as easy as possible to complete. This could be at a psychological level – giving people a better understanding of what they need to do to achieve their goals – or at a more practical level: something as simple as giving people a labelled folder to store their financial documents, or a wallchart with a plan of action, may improve efficacy. Finally, timing is everything – the longer people wait to take action, the less likely they are to remember what they need to do, and the more likely they are to lose confidence in their ability to achieve their financial aims.

Know thy Adviser

Knowing about consumers gives an adviser a head-start in persuading them to take action, but it is not a one-way street. Consumers use what they know about the adviser to decide whether they are going to act on the advice they’re given. Some of the findings from psychological research are unsurprising: people are more likely to act on advice from advisers with expertise; advisers they trust; advisers who are confident in their advice, and advisers who they think have the same goals as their own.

Other findings are less intuitive: people act more on advice they have paid for over advice given for free, though having to pay may discourage advice-seeking in the first place; people can be more likely to act on advice from advisers who are similar to themselves, whether in world view or attributes as simple as being of a similar age or the same sex.

Paying for Advice[e]

Students earned money by answering questions on dates in American history. Half could pay $4 to see another student’s estimate. The other half saw it for free. Those who paid made estimates closer to the other student’s.

One explanation is that people engage in a dissonance-reduction exercise: ‘I don’t like wasting money. I paid good money for this advice. So to avoid it being a waste, I’d better act on it.’

Implications to help advisers turn intentions into actions are:

- *Confidence:* Adding caveats to advice – ‘we are not responsible for the consequences’ – may harm perceived confidence and so reduce action.
- *Similarity:* Any new advice service should demonstrate it shares the motivation and values of the target consumer group
- *Payment:* A token investment of money, time or effort to get advice may motivate people more to act on the advice
- *Track Record:* It may take time for a new source of advice to gain enough credibility to motivate action. Conversely, any credentials should be emphasised to the consumer

Medium and Message

As we argued at the start of this review, advice is more than information. It needs to combine giving appropriate information, and making it as easy as possible to act on that information. So the last component of understanding how to turn advice into action is *what* advice is given and *how* the advice is delivered.

On message, a piece of information can be phrased in many different ways – how much detail should be given, should goals be described abstractly or practically? Research shows that several factors improve action. These include:

- *Simplicity*: Most financial action plans are quite complex. Action may be improved by dividing the action into manageable 'chunks'. Also, getting people to act immediately will also help with complex goals.
- *Specificity:* Describing advice in terms of the nitty-gritty that needs to be done is more motivating than high-level 'this is why you're doing it' aims, although a combination of both is probably most effective.
- *Feel-Good Factor:* People continue with tasks that make them feel good, so giving positive feedback, and comparing their performance to that of an inferior helps keep motivation high.
- *Channel Specificity:* Naturally, action-taking is improved if it is possible to take the action using the same medium as that through which the advice is given – so if the advice is phone-based, ensure action can be taken using the phone too.

Advice can be delivered through many different channels: face-to-face, telephone, over the web, and so on. The channel chosen influences the effectiveness of the advice. Some of the reasons are practical – certain groups of people do not own computers, so would find it substantially harder to get web-based advice, and younger, more web-experienced people are more likely to find such advice trustworthy. Other influences are psychological. Researchers showed that people prefer receiving advice through more 'human' channels – like audio or video – rather than using text or a computer avatar, but that in a simple task the medium through which advice was delivered did not affect uptake. In the more complex case of financial advice, it is likely that a non-human channel for delivering advice would not only reduce the attractiveness and hence uptake of the advice, it might also reduce motivation to follow detailed instructions through to fruition.

Summary and Research Questions

Two important sets of issues have emerged from our analysis of existing research. The first is that giving people information is not enough to motivate action. People have many internal barriers to action, but are often unaware of them, preferring to post-rationalise indecision rather than act. To overcome this inertia, advice needs to be structured in a way that makes it *easy* and *psychologically rewarding* to act. The second is that there are several types of intervention that can increase action-taking. Of these, two seem particularly relevant. One involves practicalities: whether action can be taken immediately rather than having to wait, how daunting the action required appears, and so on. The other involves the psychological acts of persuasion and motivation. This leads us to a few hypotheses we would like to test:

1. The sooner people are allowed to take action, the more likely they are to act.
2. The easier it is to take action, the more likely people are to act.
3. The more persuaded people are to take action, the more likely they are to act.

Experiment Overview

To test these hypotheses, we will shortly be undertaking a piece of new experimental research. It will put people in a situation where, as with financial advice, they have to decide whether to take action – and so end up better off – or not bother. We will ask a representative sample of 1,000 adults to complete an online survey for a reward.

We will offer all participants the chance to complete a further task to earn extra money. Different people will have to act in different conditions: some will be able to take action immediately, others will have to wait; some will be given basic information, others will be given information along with advantages and disadvantages for acting or not acting, and others will be given persuasive arguments for acting. We will examine which of these factors is most important in encouraging people to act, and, by looking at the demographics and personality of the people who do take action, we will see which segments of society benefit most from each intervention.

By investigating whether our three hypotheses are borne out by the data, and the relative importance of the delay, complexity and persuasion, we will gain insights into the ways in which financial advice could be given to maximise its follow-through.

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