

BEHAVIOURAL INSIGHTS and Retail Investor Protection



ΕΠΙΤΡΟΠΗ
ΚΕΦΑΛΑΙΑΓΟΡΑΣ
ΚΥΠΡΟΥ

25

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INTEREST IN BI BY FINANCIAL REGULATORS



- Protection of the Retail Financial Investor
- Design appropriate interventions
- Encourage people to make better financial choices for themselves
- Design programs and initiatives
- Better understanding of how investors make decisions



MORE BEHAVIOURAL BIASES IN FINANCIAL DECISIONS



- Infinite Choices
- Complexity
- Present-future trade-off
- Risk and uncertainty
- Numeracy skills
- Emotions at play
- Financial illiteracy
- Lack of experience



BEHAVIOURAL BIASES OF THE RETAIL INVESTOR



- Anchoring and framing
- Loss aversion
- Optimism bias
- Hyperbolic discounting (present bias)
- Incentive-caused
- Oversimplification tendency
- Overconfidence
- Hindsight bias
- Mental accounting
- Herding
- Etc...



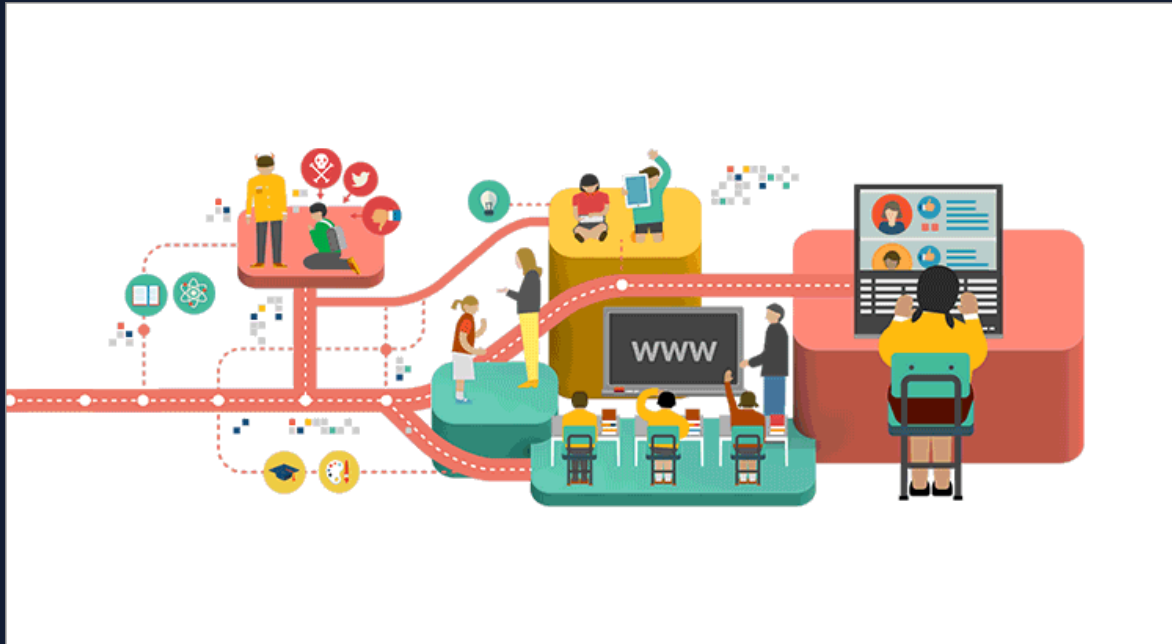
USE OF **BI** TO COUNTER **BI**?



- Firms shape consumer choices:
- Product design, marketing communications, sale processes, financial information disclosures, etc.
- Evil nudges (?!)
- **BI** informed regulatory interventions are not easy.
- But experiments show **BI** can be a powerful and essential regulatory tool.



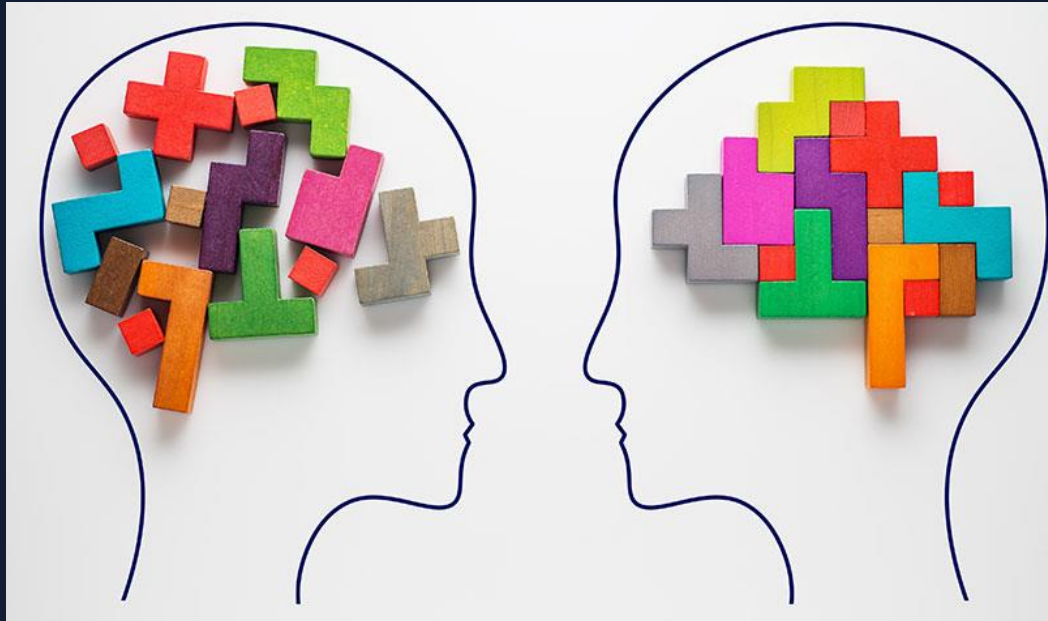
EXAMPLES OF BI INFORMED INTERVENTIONS



- SPAIN: Investor Financial Literacy
- NETHERLANDS: Financial Information Disclosure
- USA: Precommitment Strategies to “Save More Tomorrow”



BI, A POWERFUL REGULATORY TOOL



- Application of **BI** in supervision being developed.
- More research, experiments and applications are needed.
- An important and growing strand of contemporary financial market regulation.
- **Thank you!**