



# **THE RISE AND RISE OF BEHAVIOURAL ECONOMICS**



**Investec Wealth & Investment  
The Ned, London, 18<sup>th</sup> October 2018**

**Stephen Young**

# Outline

- What's the Big Idea? Putting Behaviour (back) into Economics
- 2008 and All That
- Behavioural Economics goes Mainstream
- Behavioural Economics and Financial Services
- Conclusions

# The Big Ideas: Key People

THE  
THEORY  
OF  
MORAL SENTIMENTS.

By ADAM SMITH,  
PROFESSOR OF MORAL PHILOSOPHY in the  
University of GLASGOW.



LONDON:  
Printed for A. MILLAR, in the STRAND;  
And A. KINCAID and J. BELL, in EDINBURGH.  
M DCC LIX.

Facsimile title page of the first edition  
of *The Theory of Moral Sentiments*

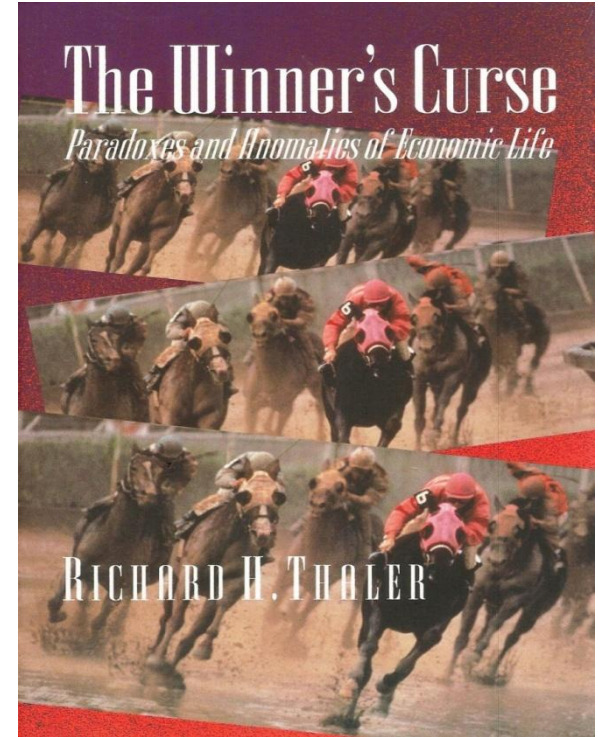
Thinking,  
fast  
and slow



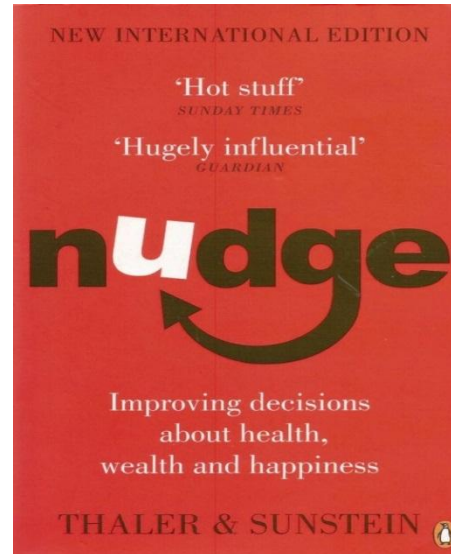
DANIEL  
KAHNEMAN

NOBEL LAUREATE IN ECONOMICS

"Certainly the most important  
psychologist alive today"  
STEVEN PINKER



# 2008



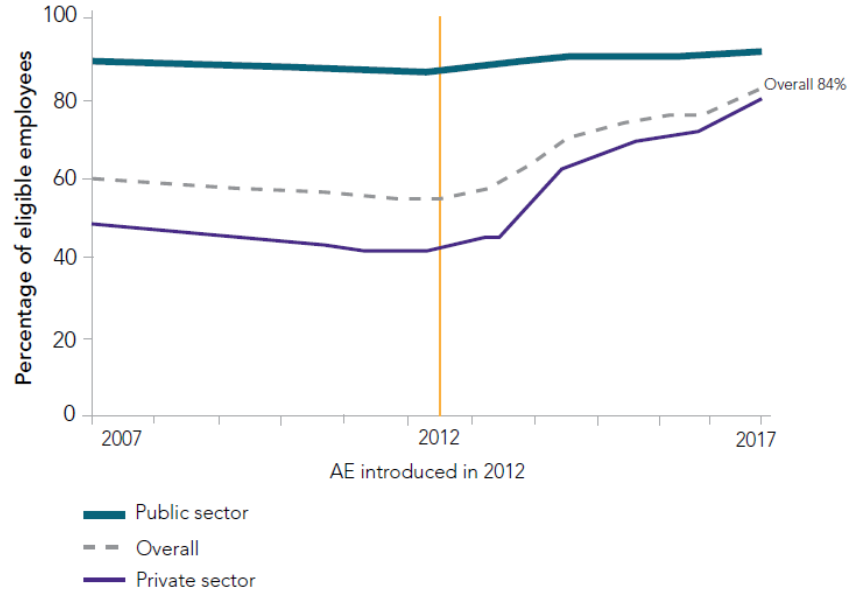
Thaler, Richard & Sunstein, Cass

*Nudge: Improving Decisions About Health, Wealth, And Happiness*

London: Penguin

# The Biggest Nudge: Auto-Enrolment

Figure 2: eligible workers' participation in workplace pensions by sector



Source: DWP estimates derived from the ONS ASHE, GB, 2007 to 2017

## AE: results so far

Proportion of UK staff in a workplace pension scheme:<sup>a</sup>

**84%**, up from 77% last year

**662,978** ✓

employers completed their declaration of compliance between April 2017 and March 2018

Total staff automatically enrolled by March each year



The proportion of private sector eligible staff participating in a workplace pension has increased sharply from

**42%**  
in 2012 to  
**81%** in 2017



Total amount saved by eligible savers in 2017:

**£90.3 billion,**  
up from £86bn last year

# Opening the doors to regulation?

Belief that due to complexity, biases and flawed decisions shown by BE:

- Financial decision-making will be biased and error-prone without government intervention in choice behaviour.
- Government intervention in decision making often seen as best route to enable better choices.

Financial Conduct Authority



Occasional Paper No.1

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# Applying behavioural economics at the Financial Conduct Authority

April 2013

Kristine Erta, Stefan Hunt, Zanna Iscenko, Will Brambley



# Conclusions

Behavioural Economics (BE) can help explain why people may make sub-optimal decisions, often not aligned with standard economic assumptions.

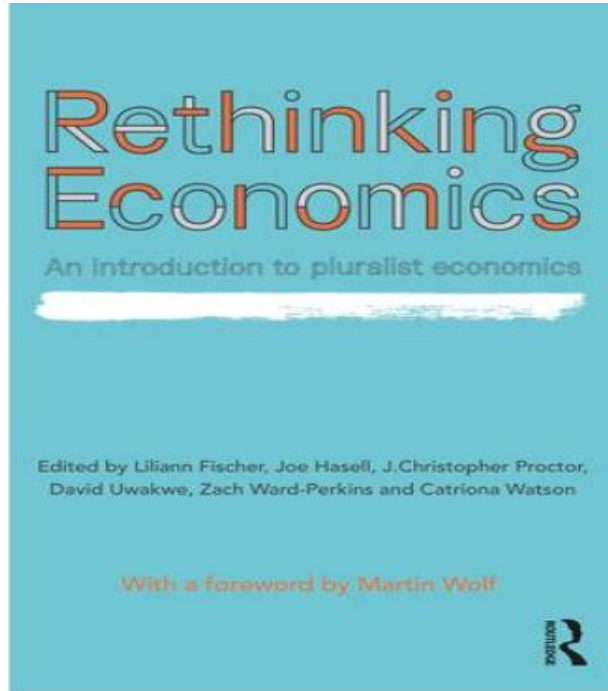
**We should incorporate this knowledge when considering people's decision making - in all aspects of life, including financial.**

BE has become mainstreamed, and is informing policy-making and regulation in the UK and around the world.

**BE is already affecting the UK financial services sector – expect to see more of it.**



# Follow Up



Chapter 6 *Behavioural Economics*, by Stephen Young  
<https://www.routledge.com/Rethinking-Economics-An-Introduction-to-Pluralist-Economics/Fischer-Hasell-Proctor-Uwakwe-Perkins-Watson/p/book/9781138222687>

See details on slides, plus:

Ashraf, N., Camerer, C. F., & Loewenstein, G. (2005).  
Adam Smith, Behavioral Economist *Journal of Economic Perspectives*, Volume 19, Number 3, Summer 2005

Behavioural Insights Team at  
[www.behaviouralinsights.co.uk](http://www.behaviouralinsights.co.uk)

Charlie Munger (1995) *The Psychology of Human Misjudgement*. Speech at Harvard University

Richard Thaler & Shlomo Benartzi (2004) *Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving*. *Journal of Political Economy*, 2004, Vol 112, No 1, Pt 2.

Richard Thaler (2015) *Misbehaving*.

# Biography and Contact

Stephen Young talks and writes about, presents on and teaches behavioural economics - to show how we make choices - not just what we buy, but also our decisions around business, health, the environment and life in general. Stephen's presentations and workshops for clients stimulate audiences to think about how behavioural economics can help to explain and change behaviour in business, in policy and in personal situations.

Stephen lectures at the [University of Brighton Business School](#) and the [Brighton and Sussex Medical School](#), where he creates and delivers engaging interactive workshops for postgraduates from a wide range of backgrounds and disciplines, including MBAs, MSc Marketing, clinicians, commissioners, public health professionals and GPs.

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