

A checklist to better investment decisions

✓ Calum Mackenzie reveals Aon Hewitt's checklist for trustees to help remove behavioural bias from decision making

We all struggle with information overload, so it is no surprise that when making complex investment decisions we might succumb to behavioural biases. Aon Hewitt has been working with behavioural insight agency Behave London to research the behavioural biases involved when trustees make investment decisions. Checklists have always been one way of managing information overload and our research has shown their value when making investment decisions.

Inspired by Atul Gawande's book, *The Checklist Manifesto*, we have worked with Behave London to create a checklist that trustees can use in meetings to help take the bias from decision making – not to tell them *what* to do, but *how* to do it.

Surgical checklists save lives.

Investment checklists help investments

Checklists are used by surgeons every day – what if we could take the routines we see in a trustee meeting, and use a checklist to help us make better decisions?

The Aon Hewitt research was driven by behavioural science; it was all about finding answers that help trustees in real life. There are two ways to influence behaviour: covert and overt. If you were trying to stop a person speeding you might place a road hump in the way, an overt way of slowing them down. You might also paint the road markings closer together, to make them slow down without realising why (it simply feels

faster). That is a covert measure.

A checklist is an overt measure; it acts as a road hump to your thinking. Our checklist covers six key brain biases everyone has, but which get in the way of decision making in trustee meetings. It shows you how to think about your thinking!

Even if we think checklists will not help us, they do

To test the checklist, we had defined benefit trustees complete an online survey on investment decision making. Half the trustees were randomly assigned to complete the answers with the checklist. The other half did not have the checklist. Without the checklist trustees were faster, less correct, and just as supremely confident in their ability compared with their checklist-using counterparts. The checklist-using trustees were slower/more considerate, more correct, and still as supremely confident as their non-checklist counterparts. Those with the checklist correctly answered 71 per cent of questions compared to just 58 per cent for those left to fend for themselves.

An example of behavioural biases – being affected by authority

Take this scenario:

'The day job of one of the other trustees on your board is in corporate finance and he regularly manages the finance for the company's M&A activity. He has made successful and considered decisions in these areas in the past. You

are considering the allocation to bonds in the fund. He is adamant that the board should reduce the allocation to bonds.'

When thinking about his input, you might want to consider the authority effect: Are you allowing a person's authority from a different area (in his case, corporate finance) to unduly influence you about an area in which he has no authority (bonds)?

Why this is important

We all like experts to assist with decision-making; it is important to have the facts. Even though we correctly tend to bow to someone else's experience when they are an authority on a subject, we also tend to lend these people's opinions more weight. Even in subject areas where they are not truly an 'authority'.

The bottom line

An influential figure who is out of their knowledge comfort zone but reluctant to admit this presents a danger to your scheme. Especially if they are wrong! Be wary of situations where trustees and advisers just 'nod along' – taking the value of the opinion of the authority figure for granted, just because they are confident.

Get your hands on a brain crib sheet

To read about the other behavioural brain biases we all share – and how to reduce their influence – you can download the checklist for free from Aon Hewitt's website at aonhewitt.co.uk/trusteechecklist and read all the research behind it.

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