BEHAVIOURAL INSIGHTS FOR CONDUCT SUPERVISION:
AN ACADEMIC PERSPECTIVE

Moderator: Pedro Duarte Neves

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Banca d'Italia and FINCONET

International Seminar on Financial Consumer Protection

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The opinions expressed in this presentation are those of the author and do not necessarily coincide with those of Banco de Portugal, the Eurosystem or the European Banking Authority. Any errors and omissions are the sole responsability of the author.

	What are the underlying behavioral vulnerabilities and biases? Why do they exist?	How do markets respond to these biases?	What can be done to enhance individual contexts of choice?
1 “Behavioural insights for conduct supervision”			
2 “Distorted Financial Advice: Evidence and Policies”			
3 “Neurofinance contribution to supervision and regulation”			

1. Presentation by Peter Andrews, 2. Presentation by Luigi Guiso, 3. Presentation by GianMario Raggetti, Maria Gabriella Ceravolo, Vincenzo Farina

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1 "Behavioural insights for conduct supervision"	• Information asymmetries • Consumer myopia		
2 "Distorted Financial Advice: Evidence and Policies"	• Individuals lack knowledge and sophistication in making financial decisions, being highly susceptible to financial advice		
3 "Neurofinance contribution to supervision and regulation"	• Deviations from rationality and self-interest come from memories, biases, context, heuristics and emotions Example: exposure to payments in cash results in greater brain activation than payments in card or smartphone, that is, cash strengthens "the salience of parting with money" (Ceravolo et al, 2009)		

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2 "Distorted Financial Advice: Evidence and Policies"	• Individuals lack knowledge and sophistication in making financial decisions, being highly susceptible to financial advice	• Distortionary advice: banks provide biased advice that steers consumers into the type of loan more favourable to the bank	
3 "Neurofinance contribution to supervision and regulation"	• Deviations from rationality and self-interest come from memories, biases, context, heuristics and emotions Example: exposure to payments in cash results in greater brain activation than payments in card or smartphone, that is, cash strengthens "the salience of parting with money" (Ceravolo et al, 2009)	• Neuroimaging can influence how firms "design and market their products" (Farb, 2013)	

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1 "Behavioural insights for conduct supervision"	• Information asymmetries • Consumer myopia	• Public perception that competitive markets are not working well for consumers • Commercial practices exploit consumer weaknesses • Regulatory approaches have failed to deliver fair outcomes	• Conduct regulators and supervisors can use behavioural insights to: - work together with firms to foster an ethical culture of compliance - simplify individuals' choice environments - improve competition
2 "Distorted Financial Advice: Evidence and Policies"	• Individuals lack knowledge and sophistication in making financial decisions, being highly susceptible to financial advice	• Distortionary advice: banks provide biased advice that steers consumers into the type of loan more favourable to the bank	• Policies that impose unbiased advice or financial literacy campaigns bring aggregate welfare gains (benefit the naïve, but hurt sophisticated borrowers) • Banning advice is welfare reducing
3 "Neurofinance contribution to supervision and regulation"	• Deviations from rationality and self-interest come from memories, biases, context, heuristics and emotions Example: exposure to payments in cash results in greater brain activation than payments in card or smartphone, that is, cash strengthens "the salience of parting with money" (Ceravolo et al, 2009)	• Neuroimaging can influence how firms "design and market their products" (Farb, 2013)	• Two possible solutions to cognitive biases: - limit the bounds of individual rationality (e.g. financial education) - design suitable contexts of choice Example: improve "neuroergonomics" of financial documents

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