

The Hidden Forces Behind Financial Decisions

Centrepont – Risk and Returns Roadshow
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Behavioural finance

Agenda and learning outcomes



Better understanding

Behavioural Finance provides deeper insights into the psychology behind financial decision-making.



Greater impact

Recognising cognitive factors helps identify what truly influences subsequent financial decisions.



Client success

Understanding biases leads to more effective client guidance through the financial maze, helping clients make informed decisions and better financial choices.

Behavioural finance

3 key principles



Two thought systems

Our default is System 1 (intuitive). System 2 (analytical) requires effort. People resist reading lengthy documents.

Information framing

How information is presented directly impacts decisions. Small changes in presentation can improve understanding.

Environmental anchors

People gravitate toward familiar reference points. Changing context can shift anchors.

1

Intuitive



**Fast, automatic,
intuitive, emotional.**

**Reacts to cues, looks
for patterns.**

2

Analytical



**Slower, conscious,
effortful, logical.**

**Explores possibilities
and probabilities.**

Behavioural finance

1. Two thought systems

Insight

Recognise people are often reluctant to seek out extensive information or engage with lengthy documents.

It is our responsibility to educate, remove complexity and facilitate informed decisions, and check clients understanding

Poll Question

Self-reflection - Two thought systems

Applying the dual-process theory, which of the following thought systems do you find yourself relying on most in decision-making?

- a) System 1 (intuitive) – Fast, intuitive, emotional, and effortless.
- b) System 2 (analytical) – Slow, deliberate, logical, and effortful.



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2. Environmental anchors



Shape decisions

Clients rely heavily on past experiences, environment, family, friends, colleagues or online information.



Influence

This can disproportionately influence judgments, leading clients to overlook other relevant options or data.



Shifting anchors

By changing order or context, we can shift people's anchors toward more beneficial financial decisions.

Behavioural Finance

2. Environmental anchors



Advice strategy

Highlights the value of an insurance philosophy to position strategy. First, present a full range of risk management strategies, highlighting protection and finally the costs of each option.



Impact of anchoring

Client may rely too heavily on the first piece of information they encounter when making decisions. For example, the initial discussions or recommendations can influence how much someone is willing to spend.



Insurance scenario

Client initially considers **modest** insurance with limited coverage as their anchor. First thought is cost, which becomes psychological reference point for decisions.

Behavioural finance

3. Information framing

Information presentation

Small changes to how information is presented can help people better understand.



Framing insurance

Framing as protection rather than expense increases perceived value.

Storytelling power

Stories, claims statistics and testimonials significantly impact decisions.



Behavioural finance

3. Information framing

Immediate vs. Long-Term

Life insurance can cover immediate debts **vs** provide long-term financial stability for your family.

Highlighting benefits

Reduce taxable income now **vs** comfortable retirement later.

Emphasising gains vs. Losses

70% chance of yielding positive returns **vs** 30% chance of losing money.

Poll Question

3 key principles

From your professional perspective, which of the three core principles of Behavioural Finance do you believe most effectively support clients in making sound financial decisions?

- a) Two thought systems (automatic vs. conscious)
- b) Environmental anchors (External cues e.g. peer behaviour)
- c) Information framing (way options are presented)
- d) All the above



Behavioural finance

Communication strategies for advisers

Simplify complex concepts

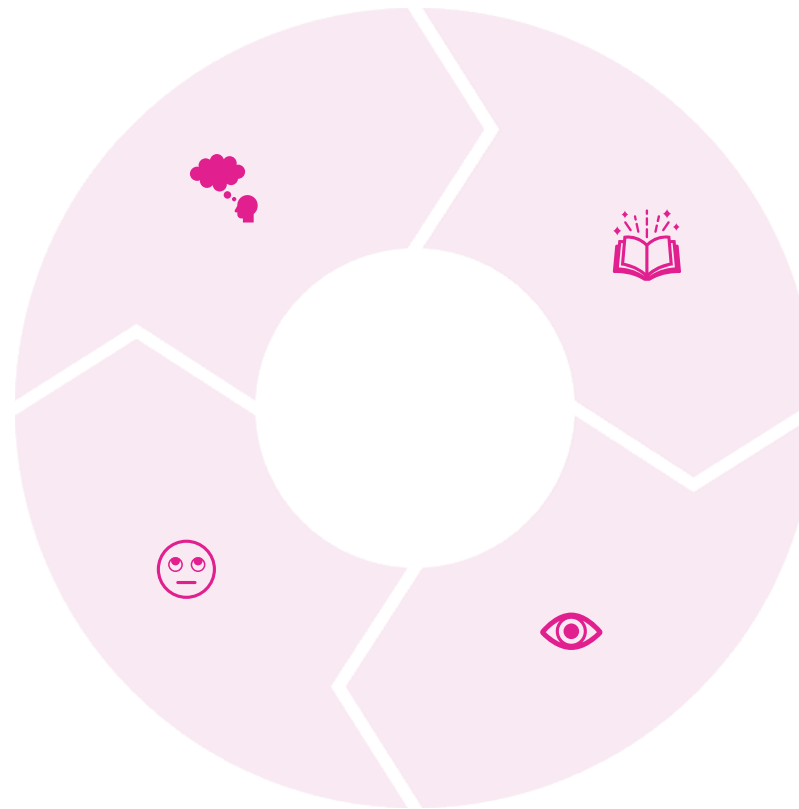
Break down complicated financial ideas into accessible language.

(Two thought systems)

Validate emotions

Acknowledge feelings while guiding toward rational decisions.

(Environmental anchors)



Empowering choices

An opportunity for control reduces anxiety, making clients feel confident rather than pressured.

(Information Framing)

Client engagement

Use storytelling, statistics, graphs and charts to make abstract concepts concrete.

(Key take-out)



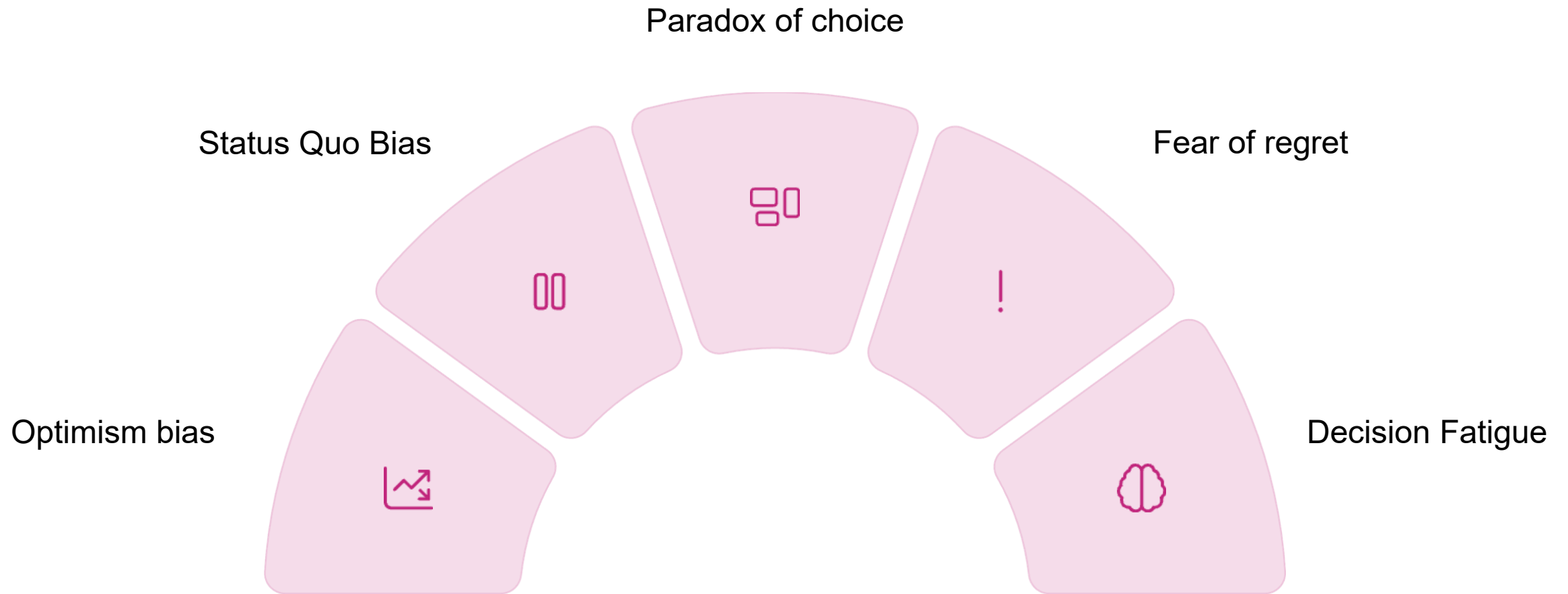
Cognitive biases in financial decision-making



Behavioural Science to **help** clients make **better** decisions

Biases in financial decision-making

5 key cognitive biases



Biases in financial decision-making

The role of advisers in addressing bias

Education role	Help clients recognise their own biases.
Planning function	Create strategies that account for emotional factors.
Support aspect	Provide rational perspective during emotional times.
Value addition	Transform bias awareness into better outcomes.

Advisers serve as psychological coaches as much as financial experts. This dual role creates significant value beyond product selection.





Biases in financial decision-making

1. Optimism bias

Optimism bias is the tendency to **overestimate positive** financial outcomes while **underestimating risks**.

- This can lead to **inadequate preparation** for setbacks, unrealistic expectations about insurance or investment returns and underestimating future expenses.
- While optimism can drive motivation and goal-setting, **unchecked optimism** bias may result in poor financial planning, insufficient savings and excessive risk-taking.

Acknowledging this bias can help individuals make more balanced and informed financial decisions.

Biases in financial decision-making

1. Drivers of optimism bias

Confirmation bias

We learn more from positive information that supports our optimism.

Attention is drawn to positive information we believe applies to us.



Overconfidence bias

Subjective confidence exceeds objective accuracy.

We believe we're better than average at most things.



Bias in imagining the future

We engage with positive thoughts of the future more readily.

"Dreaming" of wealth sustains us despite low probabilities.

Biases in Financial Decision-Making

1. Optimism bias and advice implications

62%

Life insurance through Super provides a suitable level of cover.¹

\$666,000

Average Loan for Owner-Occupiers.²

\$142,000

Average Group Super Death claim.³

\$524,000

Reality check.

Too optimistic about meeting their individual needs.



Biases in Financial Decision-Making

1. Optimism bias and advice implications

70%

Nest egg for comfortable retirement or prevent reliance on Age Pension.¹

\$595,000

Savings required for comfortable retirement at age 67 – single.²

\$206,091

Median balance by age 65 – 69 – male.³

\$388,909

Reality check.

(NB: Gender gap, median vs average and regional)



1. ASFA – Survey on superannuation and retirement – November 2024
2. ASFA Retirement standard – December quarter 2024
3. ASFA 30th June 2022. ATO Latest available 1st April 2025
4. www.abs.gov.au/statistics - December 2024



Biases in financial decision-making

2. Status quo biases

Status quo bias is the tendency to **stick with existing** financial decisions and strategies, **even when better** options are available.

- This can lead to inertia, where individuals **avoid necessary changes**—such as reviewing insurance, adjusting investments, or switching financial providers—due to fear of uncertainty or loss.
- While stability offers comfort, **excessive reliance on the status quo** may hinder financial optimisation and adaptation to evolving economic conditions.

Acknowledging this bias encourages proactive decision-making and informed financial adjustments.

Biases in financial decision-making

2. Drivers of status quo bias

Inbuilt resistance

We have an inbuilt bias to avoid change. Unless there is a dramatic reason to change... people don't!

Effort barrier

Switching strategies or policies feels like too much work or have limited time to research alternatives.

Preference for familiarity

We prefer to stick with what we know.

Biases in financial decision-making

2. Status quo and advice implications

Scenario 1



Couple kept \$100,000 in low-interest savings for a 10 years despite inflation eroding value.



Missed opportunities

Ignored diversification recommendations and inflation due to comfort with existing arrangement.



Cost of inaction

The purchasing power would decrease to approx. \$92,700 due to inflation outpacing investment return.



Solution approach

Regular review, education and recommend gradual transition highlighting the opportunity cost of inaction.

Asset ¹	Average	Min.	Max.
Australian Shares	8.8%	-3.5%	24.1%
International	13.2%	-12.5%	31.2%
US (S&P500)	16.3%	-12.2%	37.8%
Aust. property	8.4%	-20.5%	26.1%
Intl. property	5.4%	-21.5%	37.2%
Australian Bonds	2%	-9.7%	7.3%
Intl. Bonds (A\$ hedged)	1.7%	-11.7%	6.3%
Cash	1.9%	0%	4.5%
Inflation ²	2.7%	0.8%	6.6%

1. Vanguard asset class tool – 10-year annual returns year to 31 December 2015 – 24

2. <https://www.rateinflation.com/inflation-rate/australia-historical-inflation-rate/>

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Scenario 2



The recommendation at annual review to your client (aged 40) is to change insurer and save \$1000 per year.



Missed opportunities

The saving could be used to increase concessional superannuation contributions or mortgage repayment.



Cost of inaction¹

Client doesn't invest \$1,639 (gross) into Super the retirement benefit would be approx. \$149,666 lower.



Solution approach

Highlights the long-term benefits of wealth protection and creation.

Biases in financial decision-making

2. Status quo and advice implications

1. Illustration purposes only. Based on 39% tax rate (including Medicare) less 15% contribution tax assuming a 7% net return and 5% annual growth in contributions.



Biases in financial in decision-making

3. Paradox of choice

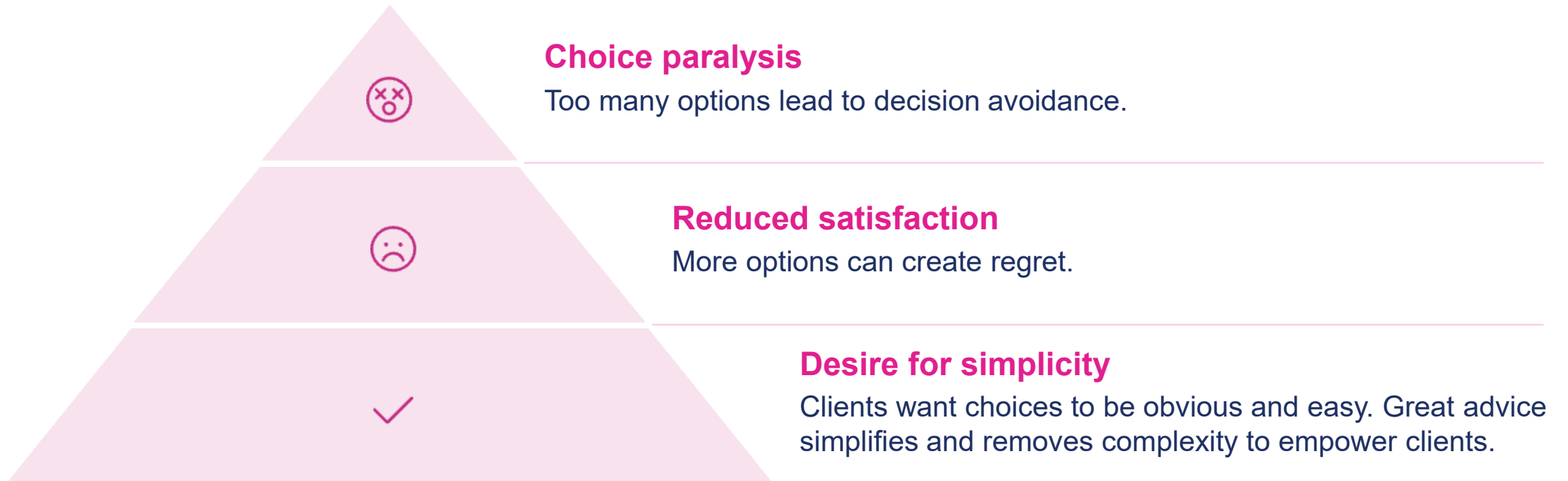
The paradox of choice suggests that having **too many options** can lead to decision **paralysis, anxiety, or dissatisfaction**.

- When individuals face an **overwhelming** number of financial strategies, they may struggle to make a confident choice, fearing they might make the wrong one.
- This can lead to **procrastination** or sticking with familiar financial habits instead of selecting better alternatives.

Simplifying choices, setting clear financial goals, and focusing on key factors can help overcome this bias and improve decision-making.

Biases in financial decision-making

3. Drivers of paradox of choice



Scenario 1

Client faced with 30+ fund options became overwhelmed and made no choice at all. Default Balanced option is suboptimal for their needs.

The solution

Adviser narrowed choices to three options based on risk profile and goals.

Explore the client understanding, then most importantly check clients understanding.

Biases in financial decision-making

3. Paradox of choice and advice implications

The outcome

The client can confidently make an informed decision and selected an appropriate long-term investment option, the importance of regular reviews and adjustments.

All lead to higher satisfaction and better understanding of their choice.

Biases in financial decision-making

3. Paradox of choice and advice implications

Scenario 2

Clients can process a few choices effectively, but too many lead to fatigue and hesitation.

When making a product recommendations, what is the optimal number of choices?

The solution

The optimal number of choices typically falls between 2 to 4, enough to provide variety without causing paralysis.

Clients rely on your strategy expertise; product is the vehicle.

The outcome

Strategy first, so clients can confidently make an informed decision.
Which waiting period is appropriate? What is the client willing to spend?

This leads to better strategy outcomes and higher satisfaction.

Option ¹	Score	30 days	90 days
1	83/49	\$1,991	\$1,208
2	81/54	\$1,510	\$985
3	83/64	\$1,775	\$1,150
4	83/59	\$1,446	\$920
5	83/41	\$1,506	\$1,002
6	81/59	\$1,705	\$1,083
7	86/59	\$1,500	\$996
8	81/31	\$1,426	\$917



Biases in financial decision-making

4. Fear of regret

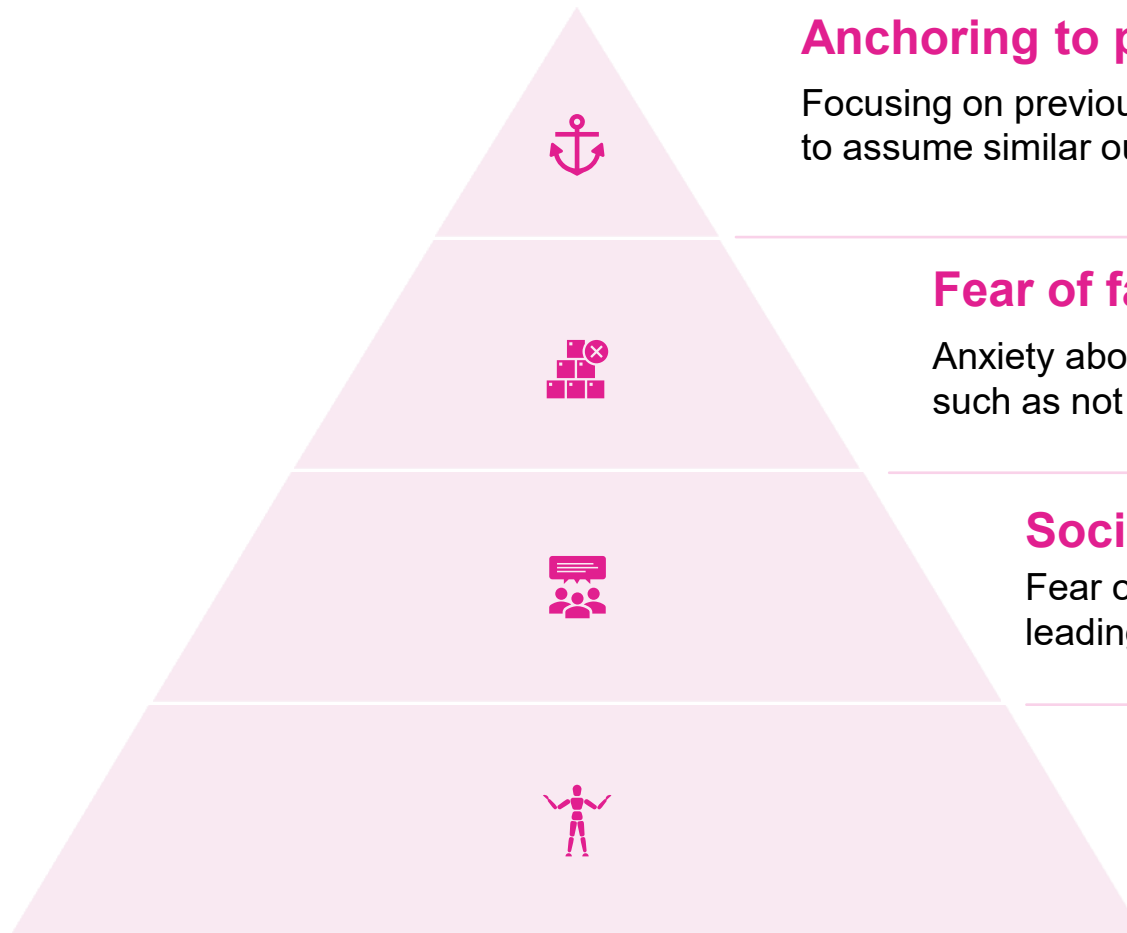
Fear of regret is the tendency to **avoid making decisions** due to the worry that they may lead to **future regret**.

- This anticipation can result in **inaction**, especially when updating insurance or investments.
- Those affected by this bias may **delay** important financial decisions, **hesitate** to invest, or **second-guess** their choices.

Overcoming this fear involves having clear financial goals, focusing on long-term strategy rather than short-term emotions, and accepting that some level of uncertainty is unavoidable in financial decision-making.

Biases in financial decision-making

4. Drivers of the fear of regret



Scenario 1



Clients postpone drafting a will because they fear regretting their decisions about asset distribution and worried about complexity.



Missed opportunities

This delay is at the expense of practical or optimal outcomes e.g. intestacy, avoiding conflict, loss of control, tax etc.



Cost of inaction

The lack off or a poorly drafted will likely to trigger lengthy probate, higher legal/admin costs, reducing inheritances.



Solution approach

Financial advisers leverage their deep client insights and trusted relationships to provide tailored estate planning guidance.

Biases in financial in decision-making

4. Fear of regret and
advice implications

Scenario 2



Client aged 55 has poor cashflow and is considering cancelling trauma cover due to increasing premiums.



Missed opportunities

Understands increased health risks at this age and is also worried could be without cover, when most likely to claim.



Cost of inaction

The cashflow is likely to deteriorate, hence trauma policy is the logical place to start, doing nothing is not an option.

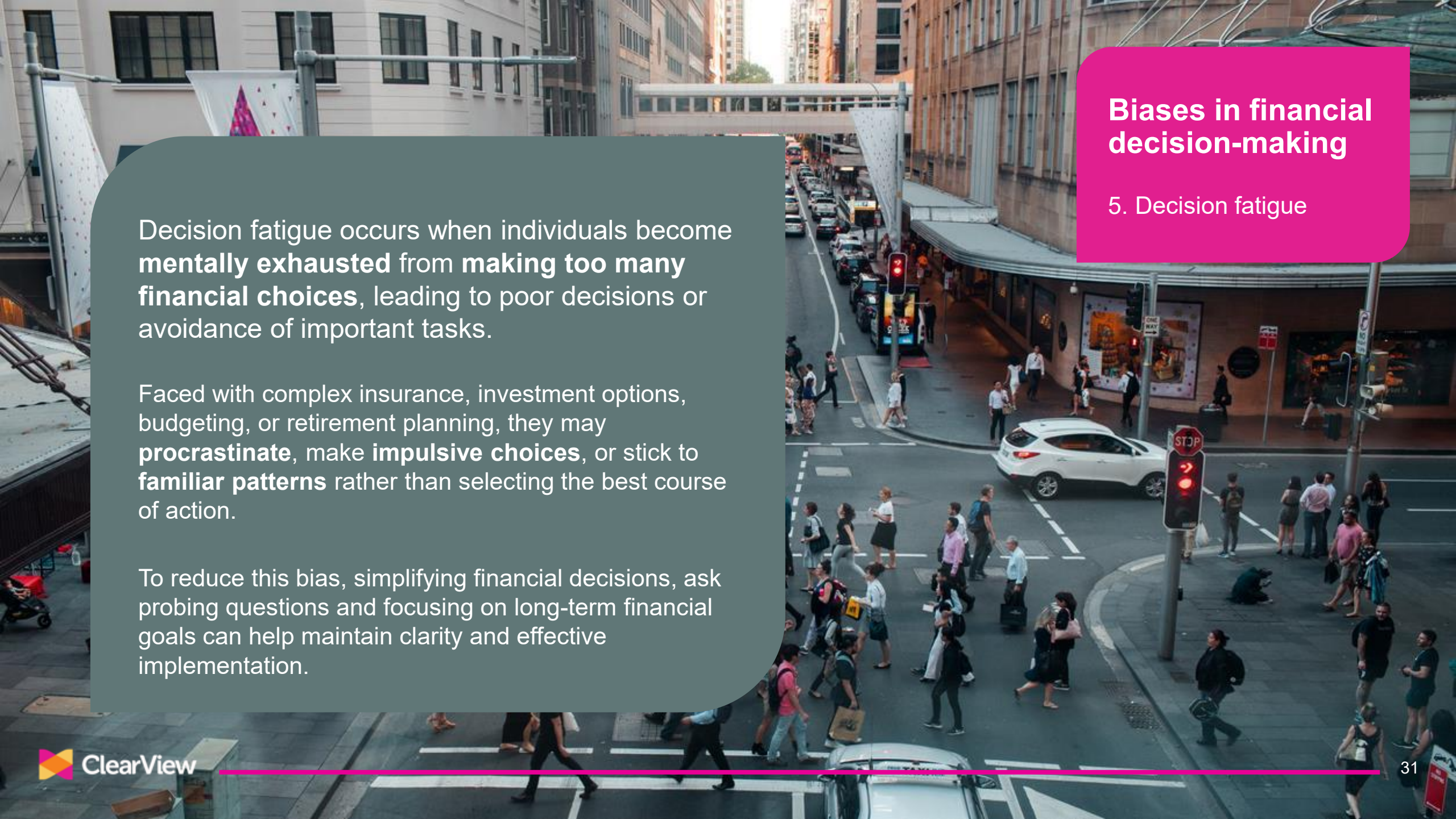


Solution approach

Recommend full medical before making any changes. Complete a full review, may include formulating a run-off strategy for trauma cover to overcome fear and any regret.

Biases in financial decision-making

4. Fear of regret and advice implications



Biases in financial decision-making

5. Decision fatigue

Decision fatigue occurs when individuals become **mentally exhausted** from **making too many financial choices**, leading to poor decisions or avoidance of important tasks.

Faced with complex insurance, investment options, budgeting, or retirement planning, they may **procrastinate**, make **impulsive choices**, or stick to **familiar patterns** rather than selecting the best course of action.

To reduce this bias, simplifying financial decisions, ask probing questions and focusing on long-term financial goals can help maintain clarity and effective implementation.

Biases in financial decision-making

5. Drivers of decision fatigue



Biases in financial in decision-making

5. Decision fatigue and advice implications

Scenario 1

Faced with recommendations for a full suite of risk protection, the client was unsure which need to prioritise first.

Clients can be overwhelmed by too many options.

The solution

Provide clear comparisons on strategy and needs, focus on their core needs first.

Break down the strategy into manageable steps.

The outcome

Deliver a manageable implementation strategy to avoid poor choices or inaction, leaving client underinsured or with unsuitable cover.

Simplifying the process and focusing on key priorities can ease this fatigue.

Biases in financial in decision-making

5. Decision fatigue and advice implications

Scenario 2

New plan with recommendations to a pre-retiree couple including non-concessional contributions. 8-year age differential and one partner was overwhelmed with the scale of the strategy.

The solution

Each partner in a relationship need an opportunity to express their financial priorities and concern without undue influence. Break down the strategy into digestible steps.

The outcome

Deferred younger partner's contributions, review regularly. Important to uncover the real reason for the concern. Access or investment risk? Over time, she gained a deeper understanding of the strategy, enabling her to make informed decisions and experience greater satisfaction.

Poll Question

6 key cognitive biases

Based on your professional experience, which cognitive bias tends to most significantly influence your clients decision-making?

- a) Optimism bias
- b) Status quo bias
- c) Paradox of choice
- d) Fear of regret
- e) Decision fatigue



Biases in financial in decision-making

Key takeaways for
client success



Ethically nudge clients

Use bias understanding
to guide decisions
without manipulation.



Respectfully challenge

Question assumptions
that may be driven by
cognitive biases.



Education is key

Help clients understand
their own biases to make
better decisions.



Engage your BDM

Access additional
resources e.g. ClearView
Estate planning guide.

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Questions



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