

Behavioural Personal Financial

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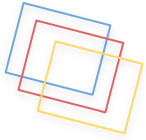
How do you decide?



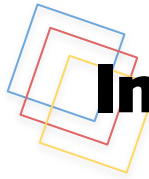
Rational agent



Emotional man



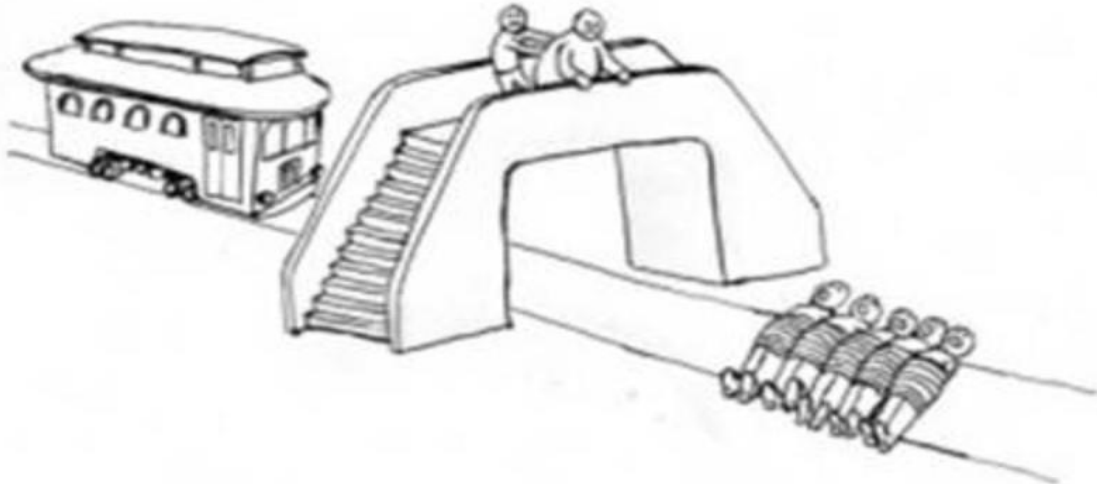
Are you ready?

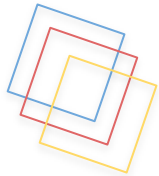


Imagine the following scenario

You are standing on a footbridge with a runaway trolley bearing down on five hapless people. The only way to save these people is to push the fat man standing next to you on the footbridge onto the tracks below.

The man will die, but his body will stop the trolley from reaching the others. (You can't jump yourself because you aren't big enough to stop the trolley).





Ignoring all legal consequences, would you push the fat man off the bridge to save five people at the expense of one person?

Yes, I would: type "1"

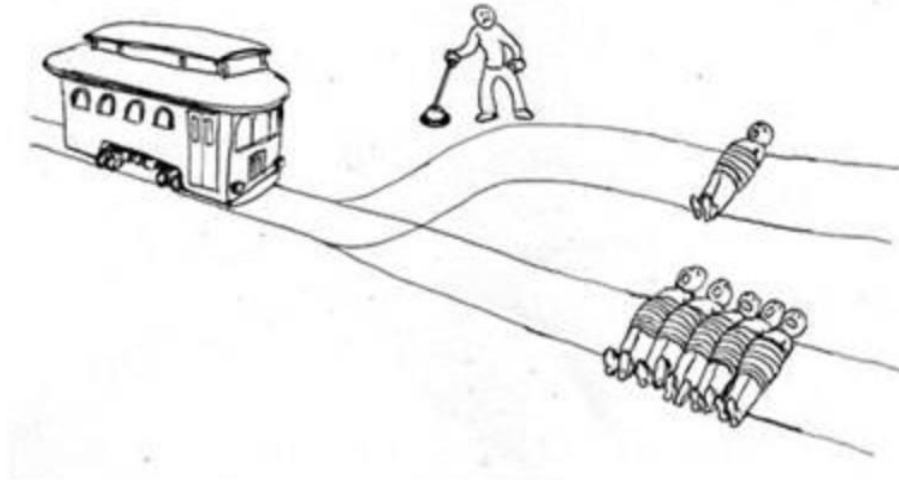
No, I would not: type "2"

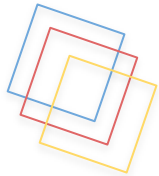


Now imagine the following scenario

You are standing next to a trolley track with a runaway trolley bearing down on five hapless people.

The only way to save these people is to hit a switch that will turn the trolley onto a side track where it will run over and kill one workman instead of five.





**Ignoring all legal consequences, would you hit the switch
to save five people at the expense of one person?**

Yes, I would: type "1"

No, I would not: type "2"



Footbridge problem vs Trolley problem

- In previous experiments, more people tend to choose to kill five people at the expense of one in the “footbridge” problem, and vice versa in the “trolley” problem.
- In the footbridge problem, the action of pushing a person off the bridge to save five repulses most people. The idea of intentionally pushing someone off a bridge triggers strong emotions for most people who responded to this dilemma.
- Unlike the footbridge problem, there is no intention to harm anyone in the trolley problem – harming the one person is just a side effect of switching the trolley away from the five.
- Hence, relative less emotions are triggered in the trolley problem compared to the footbridge problem, which would explain the difference in people’s choice



Cognitive Reflection Test

- A bat and a ball cost 110 baht in total. The bat costs 100 baht more than the ball. How much does the ball cost?
- If it takes 5 machines 5 minutes to make 5 widgets, how long would it take 100 machines to make 100 widgets?
- In a lake, there is a patch of lily pads. Every day, the patch doubles in size. If it takes 48 days for the patch to cover the entire lake, how long would it take for the patch to cover half of the lake?



Which world do you prefer? (1/2)

A) The world where you earn 75,000 baht per month

B) The world where you earn 100,000 baht per month

Assuming that everything else is the same between these two worlds e.g., house and food prices, politics, life expectancy, etc.



Which world do you prefer? (2/2)

C) The world where you earn 75,000 baht per month and everybody else you know earns 50,000 baht per month

D) The world where you earn 100,000 baht per month and everybody else you know earns 125,000 baht per month

Assuming that everything else is the same between these two worlds e.g., house and food prices, politics, life expectancy, etc.



How do our brains work?

1. Triggered by emotional events e.g., footbridge problem
2. Try to save energy e.g., cognitive reflection test
3. Can't help compare ourselves with others

BUT, We think we are somewhat rational.



Agenda

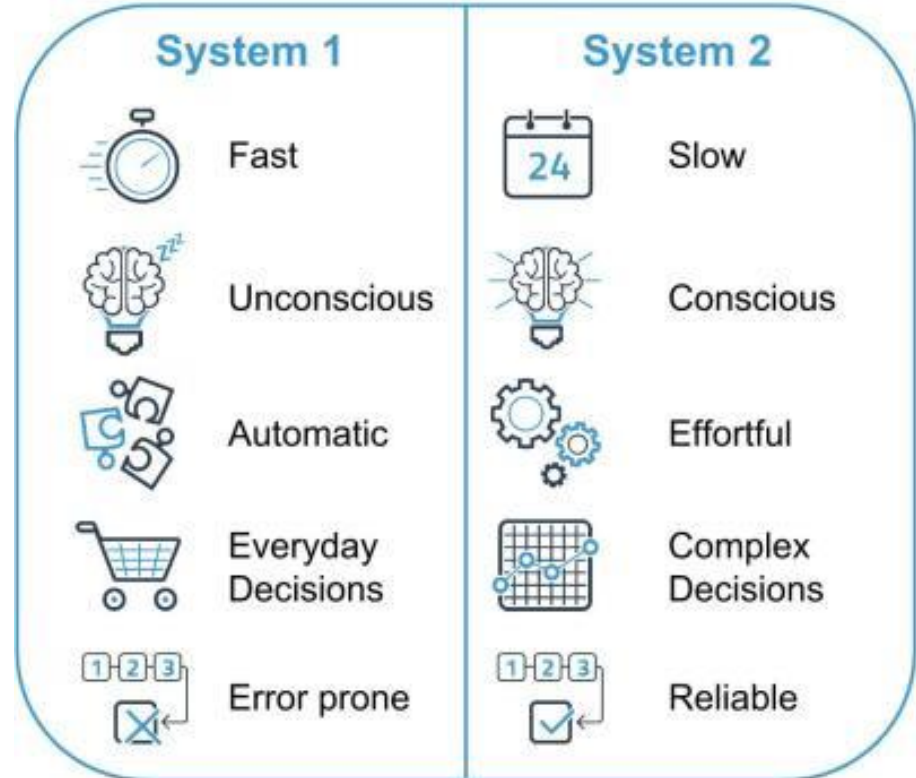
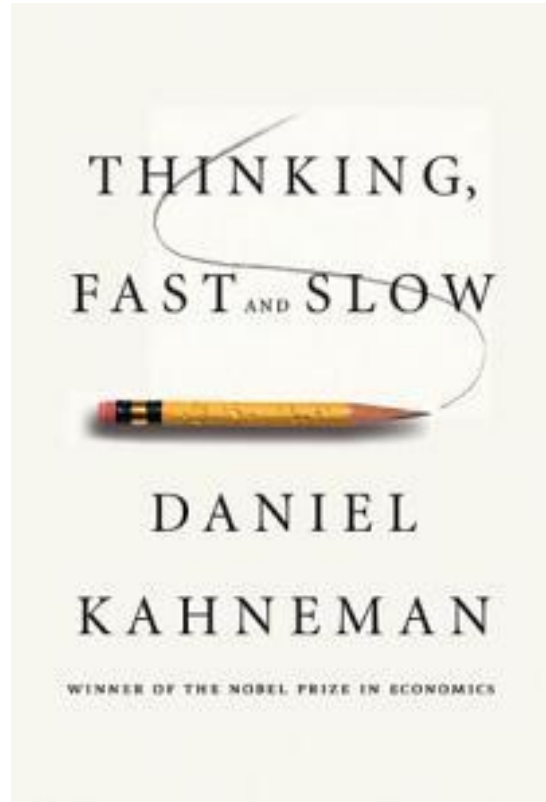
(1) What? System 1 & System 2 Thinking

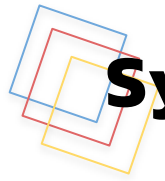
(2) Why? Intention-Behaviour Gap

(3) How? Designing your financial decisions

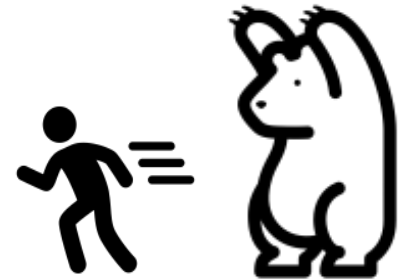
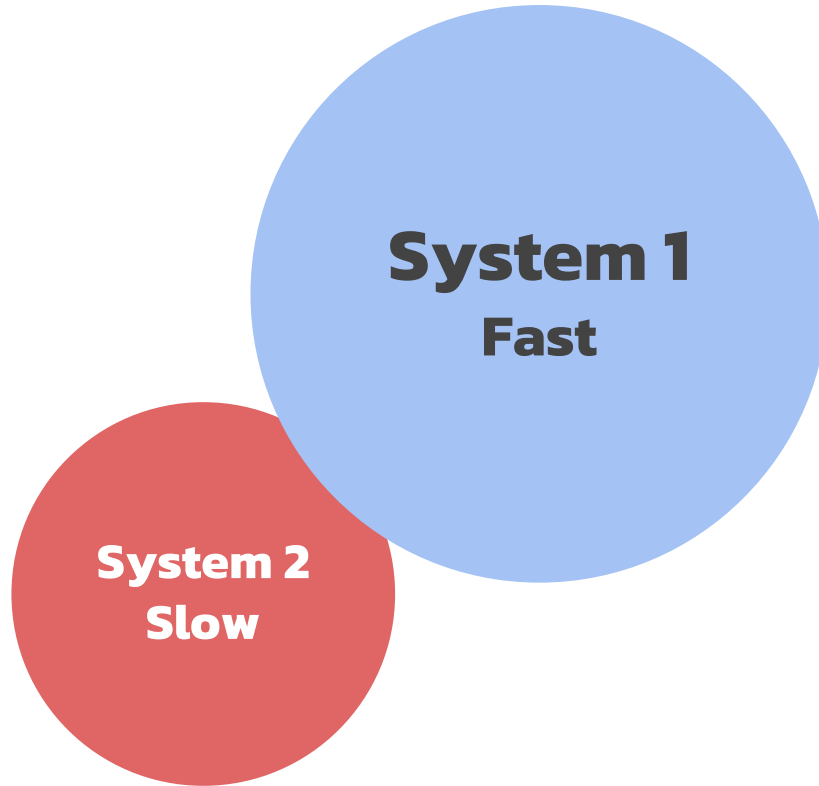


System 1 and System 2 thinking





System 1 and System 2 thinking





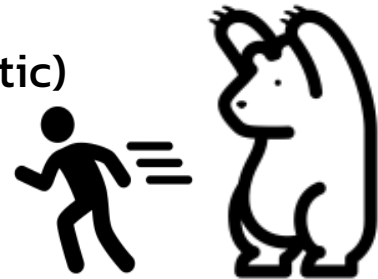
System 1 and System 2 thinking

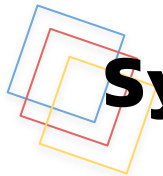
In most situation, the use of System 1 is sufficient.

It would be impractical to think “slow” about everything.

Shortcut (Heuristic)

- Emotion
- Experience
- Social





System 1 and System 2 thinking

If System 1 sees nothing wrong with its derived output, then System 2 will not be triggered to wake up and will continue to lie asleep

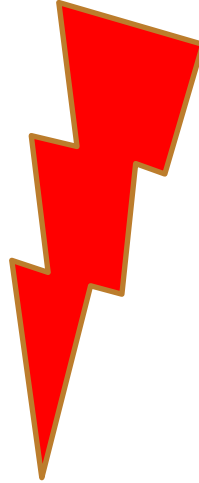
- And that's when judgment biases usually occur...
- Remember the bat and the ball ("how much does it cost?") question?
- If you have encountered this problem for the first time, chances are that the first answer that pops into your head is 10 bath (which is the wrong answer!)
- But given that 10 bath sounds like the right answer, chances are that System 2 will not be called upon when you answer the question



When emotion and cognition collide



Rational agent



Emotional man



When emotion and cognition collide

Emotions are often involved when we face internal conflicts between

what we want to do and what we think we should do

- We want to go out partying when we should be studying for exams
- We want to binge on food but do not want to put on weight
- We want to spend money on an expensive holiday when we should be saving for a deposit to buy a house

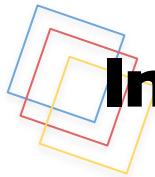


Agenda

(1) What? System 1 & System 2 Thinking

(2) Why? Intention-Behaviour Gap

(3) How? Designing your financial decisions

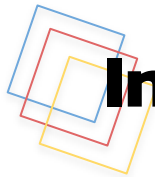


Intention-Behaviour Gap:



NUDGE
THAILAND





Intention-Behaviour Gap:



ทำกับข้าว
กินเอง
ในคอนกรีต



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(2) Intention-Behaviour Gap

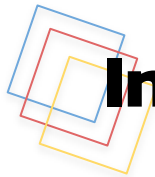
- 1. Present bias**
- 2. Loss aversion**
- 3. Choice overload**
- 4. Optimisation is not that easy**



1. Present bias: Be happy now 😊

“Now” or “Later with larger reward”





Intertemporal Differences

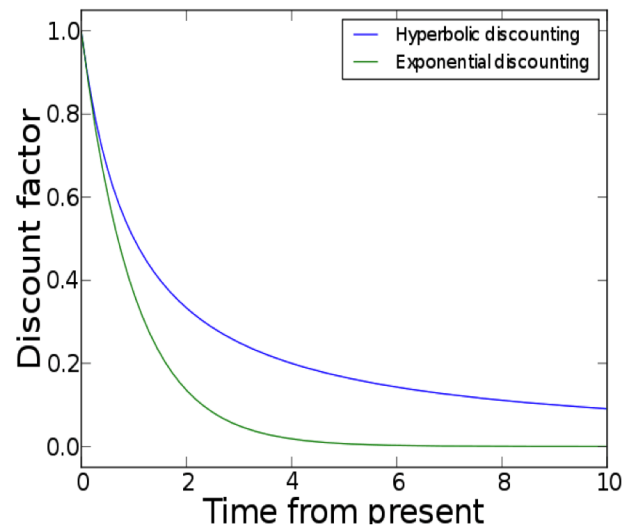
Thaler asked subjects to choose between money now versus more money later, hypothetically (but works for real choices too):

- What amount makes you indifferent between \$15 today and \$X in 1 month? Typical response: $X = 20$. Implied discount rate: 345% per year.
- What amount makes you indifferent between \$15 today and \$X in ten years? Typical response: $X = 100$. Implied discount rate 19% per year.



Hyperbolic Discount Rate

- Instead of exponential discounting, people tend to have a hyperbolic discount rate
- I.e., once a certain time threshold is crossed, the devaluing effect of time diminishes
- That's why most people would prefer to have £100 today instead of £101 next year, but not £100 in 10 years time instead of £101 in 11 years time



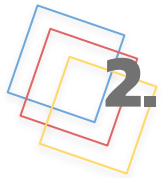


1. Present bias: Be happy now



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**Enjoy spending, forget to
start managing your money**



2. Loss aversion:

loss looms larger than gain

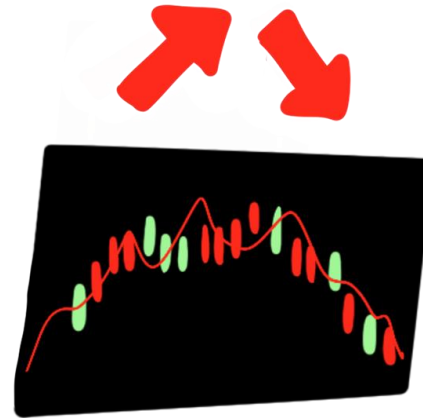
gain  = 😄

loss  = 😭😭



Loss aversion:

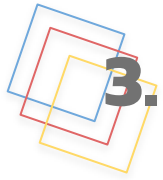
Saving in the saving account VS Long-term investment





Loss aversion:

Afraid of losing, so avoid investing



3. Choice overload:

“Jam Experiment”



24 choices



6 choices



Choice overload:

When having choice overload,

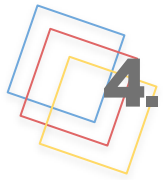
- It takes more time to decide**
- Sometimes, we cannot decide what to choose**
- Less happiness from choosing, regret of not choosing other choices**

For example, there are too many insurance plans to choose, we end up not choosing any plan.



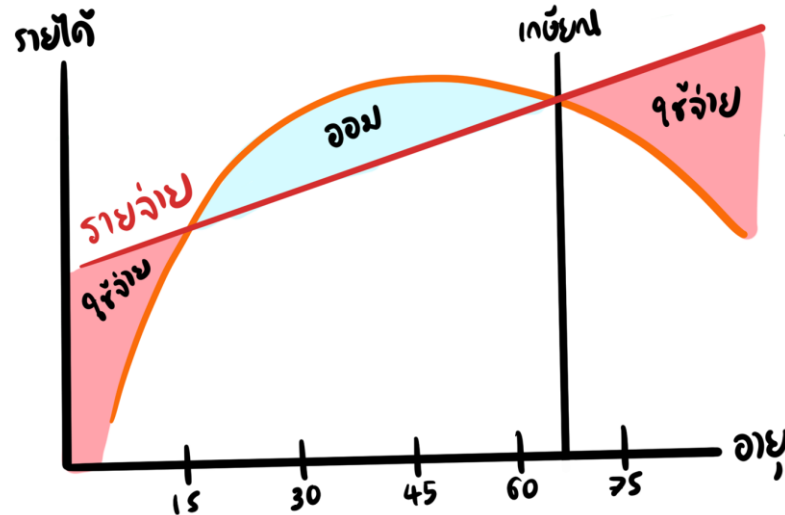
Choice overload:

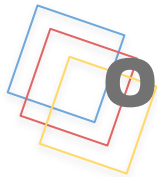
Too many choices, end up not choosing anything



4. Optimisation is not that easy

Life Cycle Theory of Consumption: Individuals seek to smooth consumption throughout their lifetime by borrowing when their income is low and saving when their income is high.



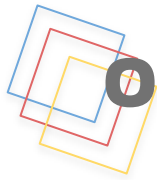


Optimisation is not that easy

To smooth consumption,

when we have excess money, we save for the future.

Then it should not be a problem.



Optimisation is not that easy

- **But**, personal finance is not as easy as learning to ride a bicycle
- **But**, I cannot imagine myself when I get old.
- **But**, spending money is more fun than saving money.
- **If I start saving now, how much should I save?**
- **Will it be enough? Do I have to invest in the stock market? Do I have to buy an insurance?**



Personal Finance

Knowledge

Behaviour



Agenda

(1) What? System 1 & System 2 Thinking

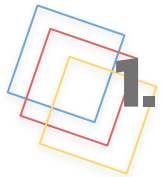
(2) Why? Intention-Behaviour Gap

(3) How? Designing your financial decisions



(3) Designing your financial decisions

- 1. Mental accounting**
- 2. Hot-cold empathy gap**
- 3. Pain of paying**
- 4. Status Quo Bias**



1. Mental accounting:

Money is fungible.

**Same amount of money can be exchanged for many things
such as bubble tea or fried egg over rice.**

But, why don't we feel that way?



Mental accounting:

- **We value things differently**
- **We have our own rules to spend money**

For example,

- **Some people bought an expensive car, but do not want to pay for the parking fee of 20 baht.**
- **Some people do not feel that donating 500 baht is a lot, but spend a long time in comparing prices of soap or shampoo.**

Mental accounting:



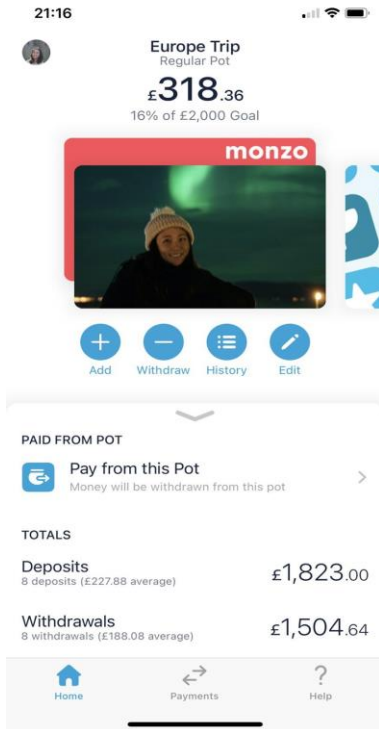


Mental accounting:

**Mental Accounting can help with
both spending and saving money**



Mental accounting:





Behavioural tips #1

“income – saving = expense”

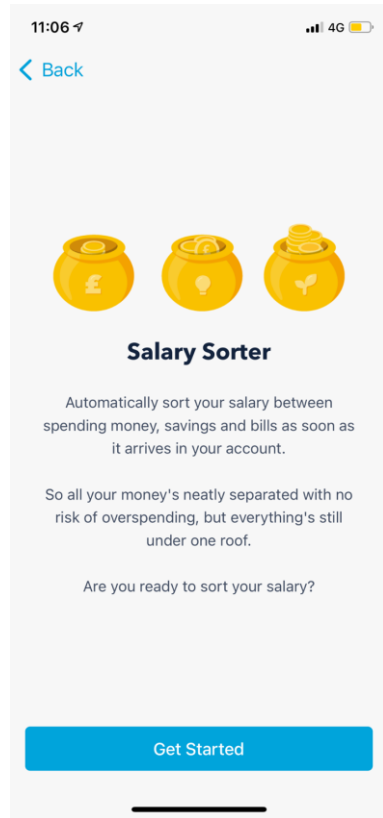
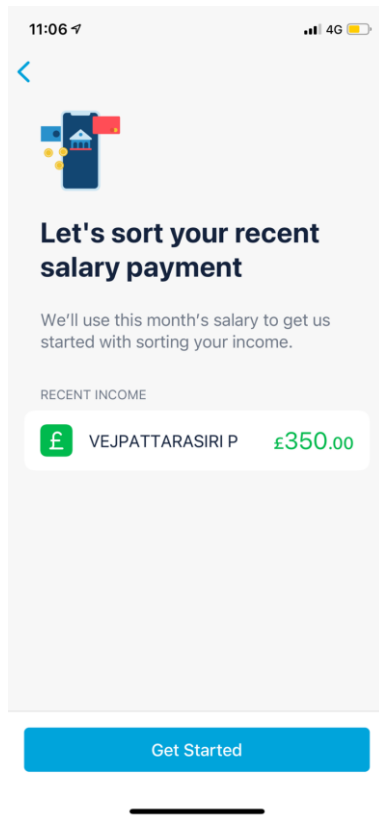
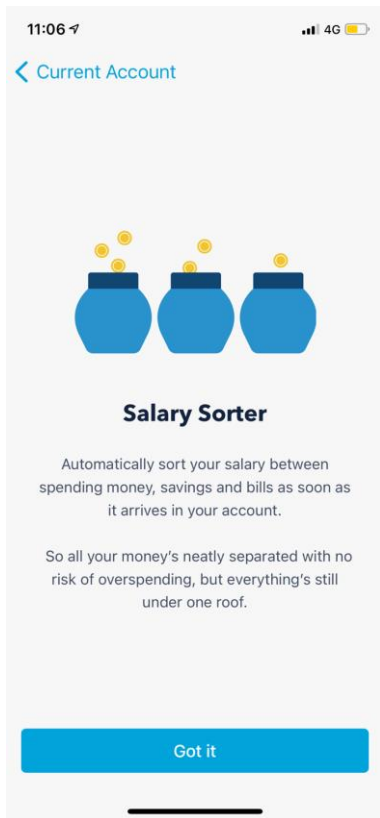
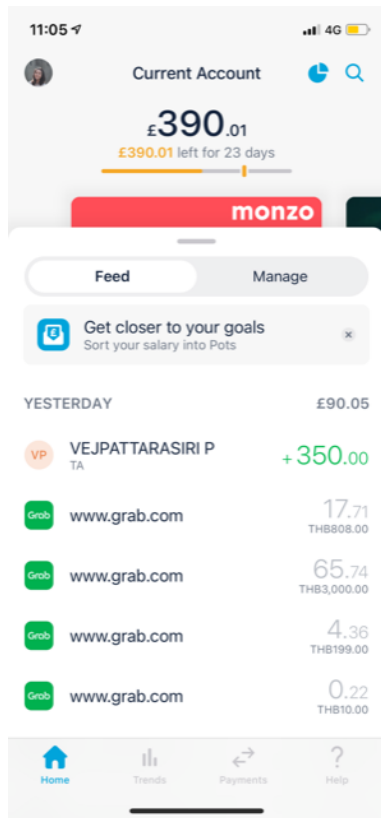


Behavioural tips #2

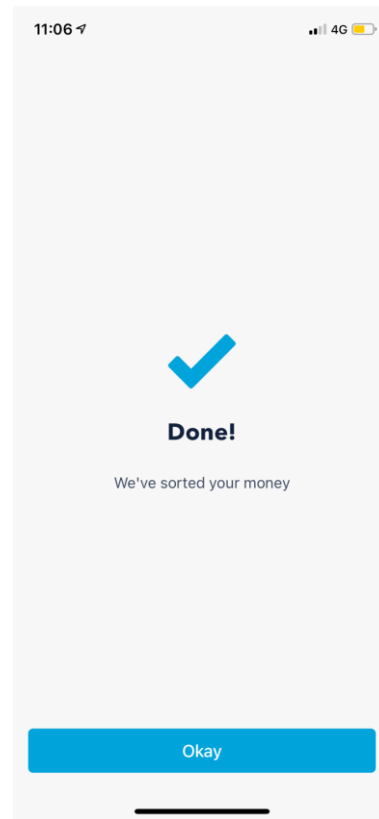
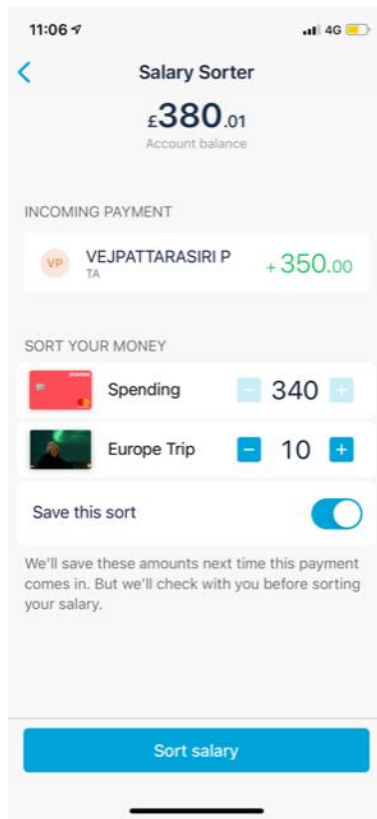
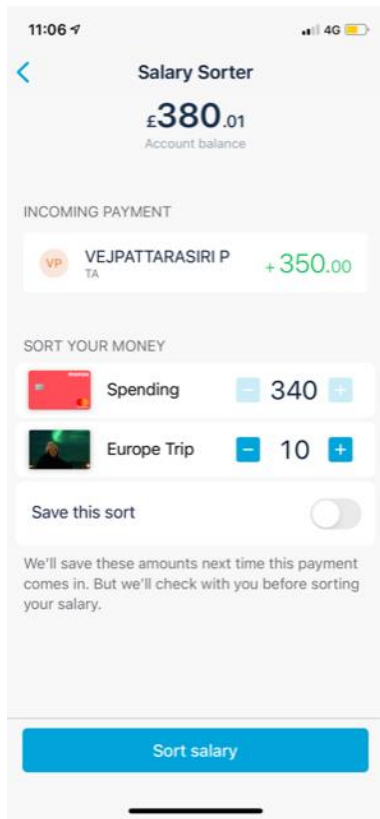
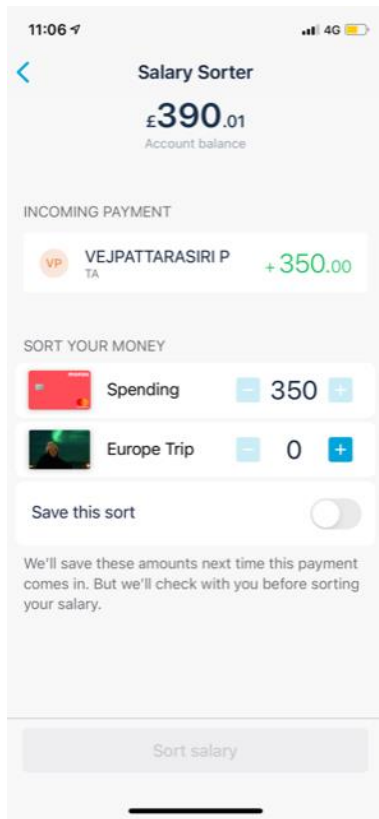
Open your mental accounts

- Saving for **vacation**
- Saving for **retirement**
- Saving for **education**
- Saving for **online shopping**

Example



Example





Behavioural tips #3

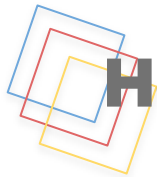
How much do you need for emergency?

3-6 times of monthly expense



2. Hot-cold empathy gap:

Please mind the gap



Hot-cold empathy gap:

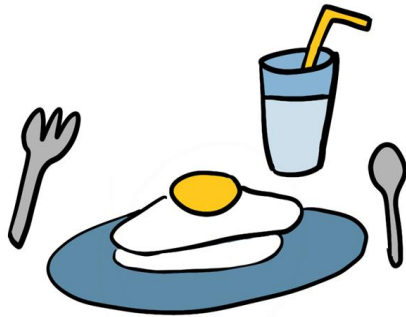
People are often influenced by transient emotions when making decisions that could potentially have a long-term impact in their lives

Hot-to-cold empathy gaps

Cold-to-hot empathy gaps

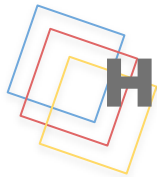
Hot-cold empathy gap:

Normal



Hangry





Hot-cold empathy gap:



Tired from school and life?

Let's shop online



Spend too much money on online shopping?



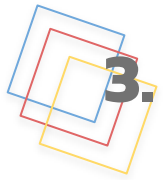
Make it difficult by creating friction





Behavioural tips #4

- **“Put in basket today, but buy tomorrow”**
- **Delete shopping application from your phone**



3. Pain of paying:

Cash vs Credit card

- **Pain from paying in cash is more evident**
- **The feeling of seeing cash given out right away**
- **This may reduce the happiness from buying**



Behavioural tips #5

Increase pain of paying in the cashless society

For example:

- **SMS alert**
- **Transfer money into debit card only in limited amount**
- **Use cash from time to time**



Pain of paying: เราเจ็บปวดเมื่อต้องจ่ายเงินสด



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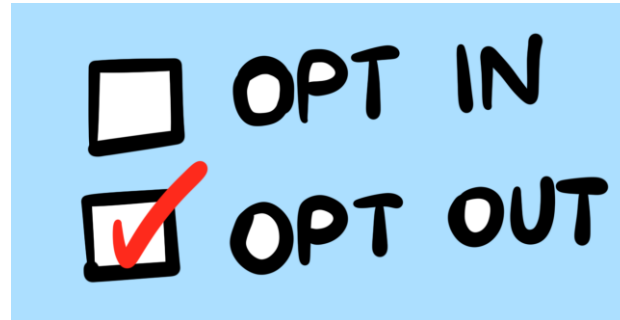
**We feel different when using
Cash vs Credit card**



4. Status Quo Bias:

People usually stick with existing or default option

Easy and/or Lazy

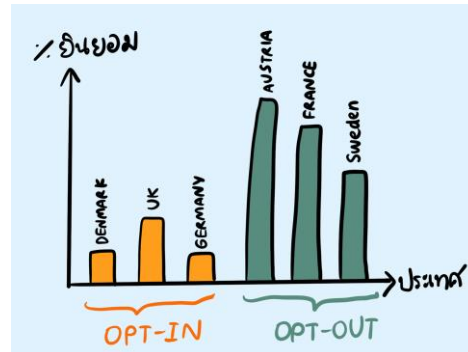




Status Quo Bias:

Example:

Organ donation in the country where donating is by **default** and require people who do not want to donate to **opt out** are seeing higher donation rate comparing with those that require people to opt in





Status Quo Bias:

- We **get used to** having money in savings account even if interest rate is very low
- We want to open investment account but have **inertia**
- We want to change investment strategy but still **haven't done it yet**



Status Quo Bias:

Comfort zone
&
Inertia to change

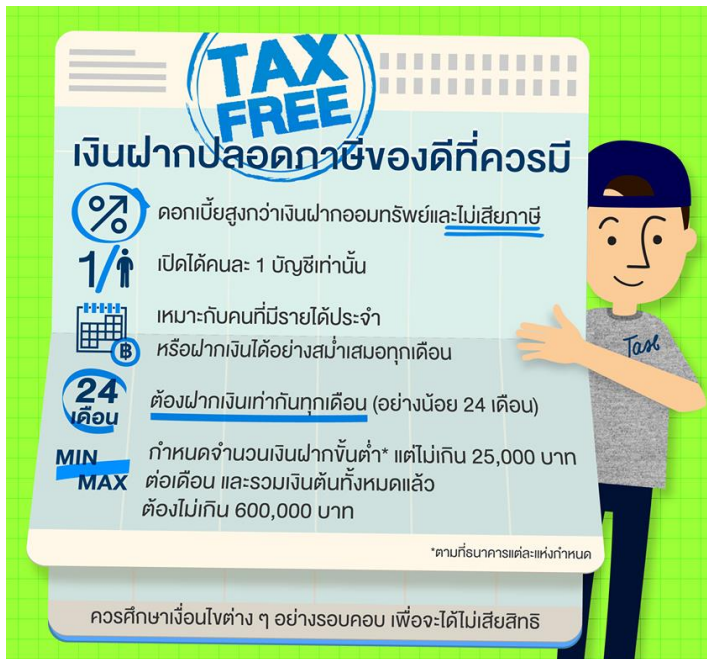


Behavioural tips #6

Save more tomorrow™





- **Automatically enroll everyone in the program (anyone can opt out later, but will be enrolled by default)**
- **Pre-agreed that saving rate will increase when salary increases**
- **Automatically deduct money into savings account**

Behavioural tips #7



TAX FREE

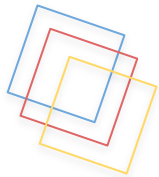
เงินฝากปลอดภาษีของดีที่ควรมี

-  ดอกเบี้ยสูงกว่าเงินฝากออมทรัพย์และไม่เสียภาษี
-  เปิดได้คนละ 1 บัญชีเท่านั้น
-  เหมาะกับคนที่มีรายได้ประจำ หรือฝากเงินได้อย่างสม่ำเสมอทุกเดือน
-  **24 เดือน** ต้องฝากเงินเท่ากันทุกเดือน (อย่างน้อย 24 เดือน)

MIN กำหนดจำนวนเงินฝากขั้นต่ำ* แต่ไม่เกิน 25,000 บาท
MAX ต่อเดือน และรวมเงินต้นทั้งหมดแล้ว ต้องไม่เกิน 600,000 บาท

*ตามที่ธนาคารแต่ละแห่งกำหนด

ควรศึกษาเงื่อนไขต่าง ๆ อย่างรอบคอบ เพื่อจะได้ไม่เสียสิทธิ์



Behavioural tips #8

Mobile Banking ทำได้หลายสิ่ง ยิ่งกว่าไอโฟน

ตอน ตัวช่วยสร้างวินัยการเงิน

ยอดเงิน	
5,000 บาท	
✓ จ่ายผ่านบัตรเครดิต	-500
✓ ยอดโอนเข้า	1,000
✓ ยอดโอนออก	-500



ตั้งเวลาโอนเงิน
ไปบัญชีเงินออม
ทุกวันเงินเดือนออก



สมัคร DCA
ลงทุนอย่างมีวินัย

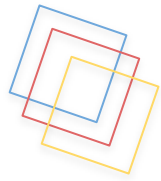
DCA คือ การทยอยลงทุน
เป็นประจำ ด้วยการกำหนด
ช่วงเวลาและจำนวนเงินลงทุน
คงที่ แม้จะราคาหลักทรัพย์
(หุ้น) ในขณะนั้นจะขึ้นหรือลง

เช็กเงินเข้าออกได้
ทำบันทึกรายรับ
รายจ่ายง่ายขึ้น

หมายเหตุ: ธนาคารแต่ละแห่งอาจให้บริการ mobile banking แตกต่างกันไป โปรดสอบถามผู้ให้บริการเพิ่มเติม

www.1213.or.th hotline1213

ศูนย์คุ้มครองผู้ใช้บริการทางการเงิน
ธนาคารแห่งประเทศไทย
Ins.1213



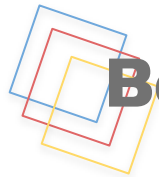
Behavioural tips #9

**Make it automatic
and
increase saving rate every year**



Behavioural tips #10

Which technique do you like the most?



Behavioural tips #10



NUDGE
THAILAND

Do it now 😊