

How to optimise your board behaviour and support great decision-making

At Aon's recent *Better DC Decisions workshop*, Behave London's Hannah Lewis and Aon's Susan Hoare explored the subject of behavioural bias and how — by having a better understanding of their biases — trustees can enhance their effectiveness. Here is a summary of the session.

There is no getting away from it: we are all biased. The ways in which we interpret information, make decisions and interact with other people, are all driven by our personal experiences, our cultural backgrounds and the way that our brains function.

Those biases affect the way that trustees make decisions in board meetings which, in turn, impacts the effectiveness of a defined contribution (DC) pension scheme. That means trustees need to be aware of their own biases and to build a framework for their board meetings that supports effective decision-making.

Be aware of biases

Six important biases that affect us all are:

1. **Authority** — the 'loudest voice in the room' can often hold sway when it comes to board decision-making. That can be frustrating if alternative views are not heard. More worryingly, if an influential figure is speaking outside their area of expertise and is wrong, it is also dangerous.
2. **Groupthink** — it can be hard in a group dynamic to speak out and make waves. But group decisions impacted by groupthink have a low probability of success. There is always a role — and a need — for a devil's advocate who will question a group view, or a trustee who will naturally ask questions.
3. **Loss aversion** — we are typically twice as averse to losses as we are to gains. In very simple terms, we would be more annoyed at losing £20 than we would be happy to find £20 in the street. In pension scheme terms, trustees might be tempted not to sack a manager who is underperforming in the short-term (to avoid crystallising losses) rather than move onto another manager in anticipation of longer-term gains.
4. **Endowment** — we become very attached to ideas or opinions in which we have invested time and thought. It is hard to fight against that attachment, to break away from what you have already done, and to do something new.
5. **Reputation** — everyone wants to conserve their personal reputation, which is why we veer away from asking what might be seen as a stupid question. But board decisions need to be seen in the context of what is best for the pension scheme, not at a personal level.
6. **Status quo** — a 'we have always done it that way' mind-set can easily crush new ideas. Also, doing nothing is an active decision, and as such has consequences attached to it.

Effective decision-making

Being more aware of biases does not mean trustees escape their effect. Using tools and procedures to mitigate the impact of biases helps improve decision-making, as does having an effective framework for trustee board meetings:

- **Make best use of time** — use face-to-face time in meetings for really important items. Sign off previous minutes before the meeting, identify any conflicts of interest before the meeting starts and share progress on actions.
- **Set the right tone** — the chair has a crucial role to play in setting the right environment, creating psychological safety for the board members, framing discussions objectively, and encouraging others to share their views even when these differ from the rest of the board members.
- **Use checklists** — tools such as Aon's [Pension Trustee Checklist](#) help trustees to offset the effect of biases and deliver robust decision-making.
- **Challenge robustly** — ensure that recommendations are challenged, so that trustees are clear on what items were dismissed and what the rationale is for the recommendation. This way will provide board members with greater comfort on the decisions they are being asked to make.
- **Build a framework** — create an effective structure for trustee meetings:
 - Discuss strategy early. If strategy is left until later in the day, everyone is tired and risks making 'default decisions'. Or, worse still, time runs out and strategy is not discussed at all.
 - Build in a time buffer. We always think we can achieve more than we can. That risks rushing through important decisions, or carrying them forward to the next meeting.
 - Don't let routine items hijack meetings. Typically, we underestimate the amount of time we need to cover the easy items and over-estimate the time needed for harder items. It is the routine items where we tend to overrun.
 - Use 'flexi-teams' to pick up items that need to be progressed between trustee meetings. That means selecting trustees with both the right skills AND the time to progress them.

In DC schemes, members' pensions are directly affected by trustees' decisions — there is no sponsor to make up shortfalls, or to provide a guaranteed outcome. It is essential that DC trustees use appropriate procedures, [tools and checklists](#) to make sure their decision-making processes are the best they can possibly be.

We're here to empower results

To find out more, contact talktous@aon.com or visit: aon.com/dcpensionsuk



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