

Infographics and Investment Decision Making

Clear communication is crucial in the domain of pensions and insurances. Especially when clients have to make financial decisions based on provided information. This information needs to be clear and understandable to make the best decision possible. An example of such a financial decision is portfolio choice and what funds to pick in a DC pension portfolio. In most cases this implies that the consumer has to make a choice from an offered list of investment possibilities, typically mutual funds. In this paper we investigate whether explanatory infographics in communication material allow for better financial decisions

An important source of mutual fund information is the statutory prospectus. *But retail investors rarely read the prospectus*, let alone rely on it for investment decisions because they consider it to be too detailed and complex (ICI 2006).¹ Regulators responded by introducing summary sheets that emphasize key information (Kozup and Hogarth 2008). However, this did not induce all investors to behave optimally (Choi, Laibson and Madrian 2010), which is possibly explained by the fact that although the amount of information is reduced, little attention has been paid to the accessibility of it.

In Europe, Key Investor Information Documents (henceforth KIIDs) were introduced in 2012 for investment funds sold in the European Union. But, in contrast to the narrative US summary sheet, these mandatory documents contain *visual representations or infographics* that make the (regulated) content more accessible to investors and facilitates their understanding of the information. Previous research has taught us that the way in which information is presented

¹ About 60 percent (26 percent) of mutual fund investors find the prospectus difficult (very difficult) to understand (ICI 2006).

influences financial decisions. For example, Bertrand et al. (2010) and Bertrand and Morse (2011) show that visualizations and framing of information for consumer and payday loans can both positively and negatively affect loan demand. However, so far, the effectiveness of infographics in mutual fund information documents has not been investigated.

In this paper I test whether introducing infographics in summary sheets increases accessibility of key information and hence benefits investor decision making. Infographics make risk and fee information visually salient and assists investors in comparing and choosing between funds. Using an incentivized survey, experiment participants are asked to invest in three (anonymized) MSCI Europe index funds.² The rational investor should realize that all funds have the same risk profile in terms of expected returns and (systematic) risk. Therefore, the incurred fees should be minimized by allocating all wealth the cheapest fund. However, if fund risks and fees are difficult to compare then investors might erroneously diversify across funds incurring ‘preventable fees’. Preventable fees are fees incurred in excess of the minimum and are avoided if the optimal decision is made. The hypothesis is that infographics make it easier to understand the key features of the funds, thereby increasing the comparability of funds and reducing the amount of preventable fees incurred – thus making better (cheaper decisions).

The main contribution of this paper is that it will provide a detailed analysis of the impact of infographics on investment decisions. Although some evidence on the effectiveness of visual disclosure exists (Lusardi et al. 2017), a systematic evaluation of how infographics improve investment decisions does not. Understanding these mechanics is important as considerable resources are devoted to the evaluation and redesign of financial markets disclosure. Moreover,

² This ensures that differences in idiosyncratic risk, non-portfolio services and reputation effects are non-salient to investors.

consumers have an increasing responsibility for their own financial planning such that the consequences of costly investment mistakes are increasing. Visualized disclosure can help in reducing costly investment behavior through two channels. First, preventable fees are lower because respondents can easily verify, based on the standardized relative risk indicator, that the mutual funds have the same risk level and conclude that there is no need for (costly) diversification. Second, infographics increase the saliency of fund fees which results in a reduction of the fees paid. This is because salient fee-information attains a higher weight in decision making (Bordalo, Gennaioli and Shleifer 2013).