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Influencers in Financial Decision Making

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Executive Summary

Reason or Emotion - What Drives Financial Decision Making?

Dale Carnegie said, “When dealing with people, remember you are not dealing with creatures of logic, but with creatures of emotion, creatures bristling with prejudice, and motivated by pride and vanity.”¹

Critical to the success of the structured settlement industry is understanding the impact that reason and emotion play in the settlement process. As with most things, balance is key, but one should not ignore that most people do not act on logic and reason. Human beings make emotional decisions based on bias and then justify them with reason and logic. Recognizing the role of **emotional intelligence**² is critical to achieving sound settlements that leave people feeling positive and optimistic about their financial well-being today and in the future.

The traditional focus of settlement consultants and the life insurance industry on the features offered by structured settlement annuities, applicable tax codes, and legal issues may be overemphasized. Instead, by addressing **emotional triggers**³ in financial decision-making through approaches to settlement discussions, greater efficacy of persuasion can be achieved. This paper will discuss the role human emotion has in financial decision making.

¹American lecturer, author, 1888-1955

² "Emotional Intelligence: skill in perceiving, understanding, and managing emotions and feelings." *Dictionary.com Unabridged*. Random House, Inc. 18 Aug. 2015. <[Dictionary.com http://dictionary.reference.com/browse/emotional_intelligence](http://dictionary.reference.com/browse/emotional_intelligence)>.

³Granger, Russell. *The 7 Triggers to Yes: The New Science Behind Influencing People's Decisions*. McGraw-Hill, 2007.

Science of Emotions and Decision Making

To understand the role emotions play in decision making, one needs only look to science. Dramatic developments in field of neuroscience in the last decade have provided startling insights into how the brain really works. It is possible to now see, in real time, how blood, oxygen and neurons flow, activating various parts of the brain and watch the various components of the human brain light up when they are activated. By introducing a scenario requiring a decision, one can watch the brain's decision-making process at work. Logic and reason have a place, but not the place always thought. In fact, *emotions* rule decision making. From the time we are born, each person builds an emotional database of human experiences. This individual navigation system for lives triggers immediate, automatic decisions that are based upon accumulated experience. Persuasion techniques that stimulate the amygdala⁴ (the roughly almond-shaped mass of gray matter inside each cerebral hemisphere, involved with the experiencing of emotions) can win people over faster and more easily. According to neuropsychologist Dr. Richard Restak, "We are not thinking machines; we are feeling machines that think."⁵

Aristotle was fascinated by the power of persuasion and wrote three volumes on the subject, surmising that logic, reason and cognitive thought were always the most effective ways to persuade other people. He believed it was a human failing to allow ourselves to be persuaded by emotion. Scientists, psychologists and researches have followed the Aristotle line for over two millennia – until it was discovered this thought was wrong.

⁴ "amygdala." *Dictionary.com Unabridged*. Random House, Inc. 19 Aug. 2015.
<Dictionary.com <http://dictionary.reference.com/browse/amygdala>>.

⁵ Restak, Dr. Richard. *The Life of the Brain*. Joseph Henry Press, 2001.

People face decisions every day. The brain is inundated by literally thousands of decision-making requests. Some are simple while others are others complex. A few are significant, and many are trivial. Deep analytical evaluation of each would be extremely overwhelming. Triggers help us make quick, automatic decisions in an efficient and effective way based upon each individual's unique database of accumulated personal experiences.

Tapping into these triggers when attempting to persuade others, is key. In his book, *The 7 Triggers to Yes: The New Science Behind Influencing People's Decisions*, author Russell Granger says evaluating the seven triggers and determining which are most likely to activate the other person's decision-making process is essential to keying into the ones that are most important in a given situation. The seven triggers identified by Granger include: Friendship, Authority, Consistency, Reciprocity, Contrast, Reason Why and Hope.⁶

In the role of the settlement consultant, initiating the Friendship trigger is important from a business development standpoint when cultivating a new client relationship or referral source. Granger explains that the Friendship trigger is a cue that was built into our emotional system at birth. "We bond with and trust those who care for us. We are more easily persuaded by those we believe to be like us. To activate the Friendship trigger, we need to find common interests. Friendship generates trust and trust activates a powerful internal trigger."⁷ As one might expect, the Friendship trigger makes it easier to activate the other triggers.

When meeting with clients for the first time, it is also important to activate the Authority trigger. When clients have complex issues to resolve, they need to believe that their expert

⁶Granger, Russell. *The 7 Triggers to Yes: The New Science Behind Influencing People's Decisions*. McGraw-Hill, 2007.

⁷Granger, Russell. *The 7 Triggers to Yes: The New Science Behind Influencing People's Decisions*. McGraw-Hill, 2007.

(attorney or consultant) has the necessary knowledge and experience to solve their problems. Everything the expert does and says will either add to or subtract from this initial impression.

Activating both the Friendship and Authority triggers at the same time generates a powerful first impression, which can lead to successful persuasion.

Emotional Intelligence in Consumer Purchasing Decisions

The science of behavioral economics – a study of psychology that relates to economic decision-making processes – indicates people have a tendency to focus on numbers when making purchase decisions, but it is the subliminal emotional aspects that really drive these decisions. Emotional Intelligence (EI) factors heavily in the concept of behavioral economics. Emotional Intelligence is a skill in perceiving, understanding, and managing emotions and feelings.⁸

According to Deborah Baldwin of Better Business, “Research proves that when given a choice outside of price and convenience, decision makers are willing to make a change and purchase what they subjectively feel is better for their tenants. Factors such as appearance, hand-feel, and sustainability now come into play when the decision is not based solely on price point and availability.”⁹

The development of Emotional Intelligence includes four main aspects¹⁰. First, is perceiving emotions or being aware of emotions in oneself and other people. Second, is learning to disconnect from thoughts and feelings, especially when they are unhelpful. This can be particularly challenging if those thoughts and feelings provide a positive feeling but may prove to sabotage goals, financial or otherwise. The third aspect is developing an effective emotional

⁸ "emotional intelligence." *Dictionary.com Unabridged*. Random House, Inc. 19 Aug. 2015. <Dictionary.com http://dictionary.reference.com/browse/emotional_intelligence>.

⁹ Baldwin, Deborah. *betterbusiness.torkusa.com*. 30 October 2013. 3 March 2015.

¹⁰ Lear, Helen Parker and Wayne. *financialplanningmagazine.com*. 10 October 2011. 17 August 2015.

orientation. In other words, being present with one's emotions and using them to guide one's actions. Fourth is committing to valued goals and actions. It is pointless to become aware of, and deal with emotions, if doing so is not for the purpose of something greater. For example, committing to goals and actions is important, as this leads to having a fuller, richer, more meaningful life. Honoring the commitment is where people tend to fall short.

Emotional Intelligence in Structured Settlements

Human beings are not naturally wired to make good investments decisions and developing Emotional Intelligence is challenging. Because people possess numerous inherent biases, impulsivity frequently tends to overrule logic and sound planning for the future. This collection of behavioral biases is constantly limiting people's abilities from making good financial decisions.

What is lacking in the ability to make investment decisions is made up for in other areas. People are naturally good in areas that do not involve thinking about the future, such as adapting to our immediate physical and social environments. Instant response to immediate desires, and at times, gratification of those desires are often the biggest challenges to overcome when going through the settlement process. The temptation to opt for a traditional cash settlement is so strong and more often edges out more prudent and thoughtful planning for a sound financial future. This is where a skilled settlement planner who recognizes an underdeveloped EI in the injured party can be most helpful and persuasive.

Significant to achieving effective structured settlements is understanding emotional intelligence as it relates to developing a settlement plan. Remember, a productive dialogue cannot happen without the Friendship and Authority triggers activated. The importance of responding to immediate objectives and desires cannot be overstated and in fact, may play an

even more important role than designing future payment streams when trying to persuade the injured person and his/her family that a structured settlement is the best approach.

Prudential recently produced a television commercial, “The Prudential Magnets Experiment”, where people were asked to stick words on a wall that represented significant life events.¹¹ Good things were on yellow magnets, and bad things were on blue. The left side of the board reflected their pasts and the right side, their futures. The visual image of yellow versus blue was very telling. The past included an even mix of blue and yellow words. The right side, however, was mostly yellow. Generally, in the long-run, people were thinking optimistically about their future. The people’s realization, and Prudential’s message, was that even with optimism, one needs to be prepared for life’s challenges which are sure to come, as evidenced by the past.

This illustration is powerful in its simplicity. Looking at the past, one cannot escape the realities life brings. Being prepared with a financial plan that can address future challenges or make it easier to meet future goals, can be empowering. The idea is to not let the focus of the settlement consultant’s communication be solely on educating the injured person about the technical aspects of tax-free structured settlement annuities, but rather to plug into the emotions associated with settlement. Devoting appropriate homage to the past and to the accident and the feelings of loss, grief, anger and sadness are important and necessary in order to activate the Friendship Trigger, allowing for a meaningful discussion about the present and the future.

Traditionally, consultants and advisors are trained to conduct needs analyses about immediate and future objectives. This step in the settlement process may be occurring

¹¹ *Bring Your Challenges*. Perf. Brandi Jamille Brown, Cory Llewellyn, Gillian DiAddezio, Glen Mayes II, Janie Smith, Nancy Crandall Andrew Spencer Dawson. n.d. Commercial Video.

prematurely and without exploring a more fundamental issue that can drive success or failure: Behavior.

Money, Emotion and Motives

Understanding behaviors and helping injured people to conduct an honest assessment of their past financial behavior is critical to the settlement design process. As human beings, our biases cause a variety of feelings and result in certain behaviors. The fundamental question is do these behaviors set people up to fail in their attempt to manage their finances? If so, do people want to change problem behaviors that leave them financially unstable?

People perceive, value and treat money differently. But regardless of how they interact with it, money and financial circumstances play a major role in people's lives. Money can provide security, freedom and power, and lack of it can leave one feeling inadequate and trapped in undesirable circumstances.

So why do some people seem to attract it, while others are unable to hold on to it? Patterns in how people think about and manage money are often related to negative emotions such as guilt, fear and anxiety. Certain events related to managing money—like opening a bank statement, paying bills or denying oneself small, but unnecessary luxuries— can trigger an intense emotional reaction.

It is these overwhelming, and often times, negative emotions that lead to impulsive and destructive money behaviors.

“How you do money is how you do everything. For example, poor eating choices are typically a result of filling a hole or need with food. People who overspend are often trying to

fill that same hole with shoes or the latest video game” says Maureen Campaiola, CNBC Money Breakthrough Coach.¹²

Intense emotional reactions can be linked to one’s beliefs and attitudes about money. People have learned from early experience the value of self-denial and self-deprivation in money matters. Or maybe money was always taboo in the home. Perhaps they were taught that one should feel guilty about money. A classic example is that “only the poor go to heaven” or maybe money was unstable and scary “you could wake up poor in the morning”.¹³

Attitudes that contribute to guilt, fear and anxiety about money can cause people to simply want to escape rather than deal with financial planning and decision making.

According to Ms. Campaiola, “money and denial typically go hand and hand. Denial is simply refusing to recognize or acknowledge a situation. This refusal to look at the situation has caused more people to create serious financial issues for themselves. For example, when the bank statement comes in, instead of opening it you throw it in a pile where you will “look at it later”? Do you often get overdraft notices because you don’t know how much money you have in your checking account? Or, the last time you deposited money into your savings account was when your grandma sent you money on your birthday (hint: she’s been dead more than ten years). These are all symptoms of money denial.”¹⁴

Acceptance, rather than avoidance, decreases the intensity of one’s negative emotional reaction to money, improving Emotional Intelligence. One can make a choice and turn towards, rather than away from money problems. Maureen urges that “changing your financial situation requires you to be willing to look at all the ways in which you sabotage your financial stability.

¹² Campaiola, Maureen. *A Debt Free Stress Free Life*. 18 August 2015. 19 August 2015.

¹³ Campaiola, Maureen. *A Debt Free Stress Free Life*. 18 August 2015. 19 August 2015.

¹⁴ Campaiola, Maureen. *A Debt Free Stress Free Life*. 18 August 2015. 19 August 2015.

Being willing to look at these issues is liberating. Because in that moment of saying, “yes, I am willing to look at this and figure it out” one becomes energized, motivated, and powerful. You become a person standing in your power around money. The more you are willing to go deeper and deeper, to peel back the layers, the greater the transformation.”¹⁵

Spending the time and effort to learn about the injured person’s attitude about money before engaging in any conversation about future needs, goals and objectives creates a better framework in which to have any discussion about the future. A settlement consultant can be far more empathetic armed with an understanding of people’s personal feelings about financial issues.

Gender Differences in Attitudes Toward Money

Women differ from men in many ways including their attitude toward money. Recognizing these differences and communicating to them enhances the ability to persuade.

Generally speaking, women avoid risk more than men do and feel greater pain when they lose money. The result is that women tend to shy away from more volatile investments such as stocks and turn to more conservative investments, including annuities. Risk mitigation is very important to women, in large part because they have greater longevity. Life insurance, joint and survivor benefits, and long-term care can be especially important to help prevent women from outliving their assets. Applying this significant gender difference in settlement negotiations is vital to appealing to women’s financial attitudes.

Women – more than men – seek financial peace of mind. According to Eve Kaplan, CFP of Kaplan Financial Advisors, “Peace of mind is seven times more important to women than

¹⁵ Peterson, Richard. *Inside the Investor's Brain: The Power of Mind Over Money*. Wiley, 2007.

wealth accumulation per se. Women want a greater voice in relationships when it comes to big-ticket decision-making. Women tend to stress the link between their personal lives (marriage, children, careers) and financial advice, making it easier for the settlement planner to connect financial advice-giving with real-life examples of relevance to a woman and her family. Statistics, charts and numbers may appeal to an engineering mind-set (this can be both men and women) but the emotional connection between money and feelings clearly resonates more with women.”¹⁶

Handling the Emotions Associated with Sudden Wealth

According to the Bureau of Labor Statistics, some 30 percent of U.S. households will probably inherit wealth. It is estimated this percentage may increase in the future, as nearly two-thirds of people over 60 expect to leave an inheritance to their kids averaging a median amount of \$64,000.¹⁷ The most consistent advice given by skilled financial advisors is to hold off making any major financial decisions and do nothing with the money – at least in the beginning.

Susan Bradley, Founder of Sudden Money Institute, says, “Life events such as inheritances are big transitions that require change management.”¹⁸ (Bradley) Inheritors who are not used to managing large sums of money can be victims of their own enthusiasm and emotions. Sound advice that is consistently given by financial professionals is to slow down.

¹⁶ Kaplan, Eve. Women and Money: Why They Avoid Risk and Lack Confidence When Making Decisions. 20 November 2012.

¹⁷ Nason, Deborah. cnbc.com. 24 November 2013. 17 August 2015.

¹⁸ Bradley, Susan. Sudden Money: Managing a Financial Windfall. Wiley, 2000.

Robin Young, a certified financial planner and owner of Northstar Financial Planning, actually provides her clients with a letter for them to send to friends and family (who are often notorious for extending an open hand when learning of the windfall):

“My financial advisor has advised me not to make any unnecessary decisions until I have gone through the lengthy process of organizing and determining what my financial situation will look like long-term. Managing this transition is much harder than it looks from the outside. I am relieved to be going slowly in the beginning.”¹⁹

Whether a large sum is inherited or is derived as a settlement from a wrongful death or injury, the same principles apply. Plaintiff attorneys and settlement consultants would do a great service to their clients who will be receiving a settlement by telling them to slow down. Unique to recipients of injury settlements is the added and more complicating factor of dealing with an injury.

The loss of the ability to do something one could do before an injury can be emotionally devastating. Whether it is being able to enjoy a sport they once could, or travelling, or playing with a child, or working in a satisfying career, the inability to do what one once could requires time in which to adjust. Cathartic, and dangerous, is money. Yearning for a way to gratify oneself, it is easy to see how emotions can overrule one’s sensibilities by impulsively turning to money to buy or do something that brings pleasure, albeit may be temporary. The notion is not unlike a person who overeats or does not eat healthfully in order to mask depression or

¹⁹ Nason, Deborah. *cnbc.com*. 24 November 2013. 17 August 2015.

avoidance. In the end, a person will feel regret for having made a decision adverse to his/her best interests.

Empathy: A Critical Skill In Effective Negotiations

Effectively expressing empathy in a negotiation by stepping into one's counterpart's shoes can help gain significant compromises.

Asking questions, especially open-ended ones shows the counterpart you want to understand their most difficult concerns. It will be difficult to get to the heart of these issues unless the right information gathering and sharing atmosphere is created. Using open-ended questions and phrases like what, how, where, why, tell me about, describe and explain are critical because they send the message of sincere interest in the counterpart's response. Closed-ended questions, by contrast, often make the counterpart feel defensive and more likely to close up.

It is important to sincerely listen to understand. To truly demonstrate empathy one must be genuinely interested in his/her counterpart's responses and seek to fully understand his/her perspective. Sincerity is critical. If empathy is used in a manipulative way to get information, it probably will fail and trust will be weakened. Importantly, genuinely seeking to understand the counterparts' concerns also comes across.

It is important to show an understanding of the details. Specifically articulate them back, using phrases such as "Let me make sure I fully appreciate what you're saying..." and "I think I understand what you're expressing. Is it...?" and "if I were in your shoes I would probably feel the same way and want to...". Drilling down on concerns and issues shows how much you care. This is far more effective and convincing than just saying "I understand." Use this to create reciprocal expectations of concern and concessions.

Demonstrating empathy is not just an exercise in being nice. Expressing it should be accompanied with an expectation that the other side reciprocate and fully appreciate your concerns. Only then will such mutual understanding create an environment in which the parties can more easily and seriously consider and make the major concessions that flow from their concerns. Fully appreciating how difficult it is for a counterpart to make a serious concession helps them make that move. That is a major reason why empathy is a critical skill in negotiations.²⁰

Fisher and Ury define skilled negotiating as "Back and forth communication where some *interests* are shared and some are opposed."²¹ The purpose of negotiating is seeing if you can get your *interests* achieved through an agreement. An *interest* is *why* you want something, not *what* you want. When negotiators start working from the standpoint of interests, they can begin to work with the other party to explore alternative solutions.

Joint problem solving versus a series of compromises where one party may win and one may lose is the first step towards using your negotiating skills towards achieving better results. Recognizing the reasons why people act the way they do, and having the ability to communicate to a broad range of behavioral styles offers the skilled negotiator the ability to reach satisfactory outcomes more consistently. Following a process or strategy is fine, but understanding the styles and emotional drivers of the people with whom you are negotiating, and changing your approach to communicate more effectively can be the key to success.²²

20 negotiationinstitute.com. 10 September 2009. 17 August 2015.

21 Ury, Roger Fisher and William. Getting to Yes. Penguin Books, 1991.

22 Wachtel, David. negotiations.com. n.d. 10 August 2015.

Conclusion

A unique opportunity is presented to settlement consultants as they counsel their clients. Showing empathy, building trust, and by initiating two of the seven key triggers, Friendship and Authority, a consultant can begin to lay the groundwork for financial recovery and prosperity for injured people and their families. Time spent connecting emotionally, will allow for a higher quality discussion surrounding reasoning and facts. In other words, building the bridge that connects emotion with reason will promote a feeling of satisfaction and empowerment for the injured person.

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