

Wiser For Others? When Delegated Financial Decision-Making Outperforms Self-Directed Choice

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ABSTRACT

While neo-classical finance assumes rational decision-making that maximises a decision maker's expected utility function, novel research demonstrates that the cognitive biases of loss aversion, omission bias, and regret aversion distort individual financial choices. Synthesising experimental evidence from behavioural economics, medical decision-making, and social psychology, this paper builds a unified cross-bias framework examining whether delegated financial decision-making can mitigate these biases. The analysis finds that delegation improves decision quality conditionally: mitigating loss aversion requires accountability from the delegate; reducing omission bias requires explicitly defined roles; attenuating regret aversion requires insulation from real-time client observation. These findings challenge conventional financial advisory design and propose structures under which delegation can outperform self-directed financial choice.

INTRODUCTION

Delegated financial decision-making is becoming more than just a peripheral industry in the finance realm; it is also changing the way we make choices. In the United States alone, the financial advisory industry comprises roughly 330,000 personal financial advisors, a figure projected to grow about 10% over the decade to 2034, far faster than the average occupation (U.S. Bureau of Labor Statistics, 2025). In a world where millions of people routinely hand over consequential financial decisions to another person or institution, it is worth investigating whether surrogate decision-making can actually improve decision quality, and under what conditions it can attenuate the biases that hinder individuals from making wise decisions for themselves.

While the merits of surrogate decision-making provide ample motive to study its impact on decision quality, the demerits of individuals making decisions alone compel us to study this phenomenon too. Loss-averse investors sell winners too early and hold losers too long (Odean, 1998), demand an equity premium far above what standard risk aversion predicts (Benartzi & Thaler, 1995), and through omission bias and inertia fail to enrol in retirement plans that would benefit them financially (Madrian & Shea, 2001). If millions of people are already delegating these decisions, the pressing question does not remain

whether people should hand choices to advisors, but it rather becomes whether the institutions people hand these decisions to are built to capture delegation's bias reducing potential. Often, through conventional features like advisor 'skin in the game' and real-time client oversight, the biases that could be attenuated by delegation are actually reintroduced. The gap this paper addresses is the one between institutions that only make delegated decisions, and institutions that are structured to actually attenuate biases.

While classical financial theory assumes that principals and agents are individuals capable of processing information efficiently and making decisions that maximise expected utility (Friedman & Savage, 1948), novel research has dismantled this assumption.

The loss aversion theory was formalised within Kahneman and Tversky's (1979) prospect theory, which proposed that individuals weight losses approximately twice as heavily as equivalent gains. Moreover, subsequent research rigorously documented omission bias, the preference for harm caused by omissions over equal or lesser harm caused by acts (Baron & Ritov, 2004); and regret aversion, the systematic avoidance of choices likely to generate anticipated regret (Zeelenberg, 1999). These biases are inherently present in individuals making financial decisions for themselves, and can lead to costly financial mistakes such as excessive portfolio conservatism or failure to enrol in retirement savings schemes (Benartzi & Thaler, 1995; Thaler & Benartzi, 2004).

However, under certain conditions, these biases weaken and may even disappear when decisions are delegated to someone else rather than made by the individual themselves. This asymmetry has a formal name: Solomon's Paradox, inspired by King Solomon who made wise decisions for others yet fell short in making wise decisions for himself (Grossmann & Kross, 2014).

The pattern showcasing the attenuation of decision-hindering biases in surrogate decision-making has been documented in the finance domain extensively in the last decade. Loss aversion is significantly reduced when subjects make decisions on behalf of others, but only in the loss domain (Andersson et al., 2016), with corroborating evidence confirming a 13-percentage-point shift toward risk acceptance under delegation (Mengarelli et al., 2014). Furthermore, omission bias weakens as role distance and clarity of responsibility increase (Zikmund-Fisher et al., 2006) and a meta-analysis confirms that the bias nearly disappears under clear social-role responsibility ($g=-0.05$) (Yeung et al., 2022). Regret aversion can be attenuated by choosing for others: participants of a study were less influenced by anticipated regret while choosing for someone else rather than for themselves, with the study also observing trends towards higher risk-taking and expected-value-seeking (Kumano et al., 2021).

The framing and mechanisms that underlie this mitigation are not uniform in nature. While responsibility and accountability are both pivotal factors in reducing loss aversion, accountability specifically reduces loss aversion in mixed prospects while not affecting probability weighting (Pahlke et al., 2015). Omission bias remains substantial when responsibility is unclear ($g=0.60$) (Yeung et al., 2022). Regret aversion

might be reintroduced by a feedback structure of the decision environment that includes audience observation (Kumano et al., 2021).

Collectively, this body of evidence points to a gap that has not yet been directly addressed in current literature. Loss aversion, omission bias, and regret aversion have each been shown distinctly to weaken when a delegated decision is made, yet there is no existing work that has examined these three biases together within a single financial decision-making frame, with an extensive analysis of the mechanisms underlying these biases.

This paper will study whether delegated financial decisions are higher in quality than self-directed financial decisions. The paper seeks to understand whether distance from a decision leads to a reduction in the impact of the loss and risk aversion biases, the omission bias, and the regret aversion bias.

As Pahlke, Strasser, and Vieider's (2015) dissociation between accountability and responsibility demonstrates, manipulation of multiple conditions may only affect one bias while leaving an adjacent one entirely unaffected. This paper's assessment of each bias in a parallel form is one of its most novel contributions.

By building a unified cross-bias framework that is capable of identifying which structural conditions attenuate each bias, this paper addresses a significant gap in existing literature. This paper asks the questions: across the specific biases of loss aversion, omission bias, and regret aversion, can it be proven that delegated financial decision-making improves decision quality? And if so, under what structural conditions does this improvement hold, and under what conditions does it collapse?

This paper finds that under delegation, the biases of loss aversion, omission bias, and regret aversion are conditionally attenuated in financial decision-making. Loss aversion is reduced specifically by the accountability mechanism in delegated decision-making: while mere responsibility for outcomes does not diminish loss aversion, when delegates must justify their choices, loss aversion in mixed-prospect decisions falls significantly (Pahlke et al., 2015; Andersson et al., 2016). Omission bias greatly reduces when the delegate holds a clearly defined role, but remains prevalent when responsibility is ambiguous (Yeung et al., 2022; Zikmund-Fisher et al., 2006). Regret aversion is reduced when advisors decide independently on the behalf of their clients, but this attenuation only holds when the feedback structure does not allow for real-time monitoring of the delegate by the agent (Kumano et al., 2021).

These findings urge the reconsideration of the conventional design of financial advisory relationships, such as delegation tasks where delegates are encouraged to have 'skin in the game' or operate under vague orders. These issues inadvertently reintroduce the biases the delegation system is created to eliminate. This paper proposes a structure implementing accountability without shared personal stakes in outcomes, explicit fiduciary roles, and advisory processes that do not allow for real-time client observation in order to design a delegation framework that learns from experimental evidence to attenuate biases.

The paper will proceed as follows. The first section establishes the theoretical mechanism connecting all three biases to argue that ‘deciding for others’ operates through a psychological channel where personal stake is reduced, and construal levels are altered. The following sections examine loss aversion, omission bias, and regret aversion respectively, each section ending with a discussion of the potential changes in the design of financial advisory and delegated-decision institutions to optimize the quality of the decisions they make for their clients.

THE THEORETICAL MECHANISM

Before examining the role of different biases in the production of decisions, we will establish why there exists a disparity in the qualities of self-made decisions and surrogate decisions. Standard economic theory provides no reason to expect this, as we assume that preferences are stable and context-independent, and that a rational agent choosing on behalf of a principal will maximise the utility of the principal in a way that the principal would have done themselves (Friedman & Savage, 1948). This section identifies overlapping behavioural channels through which delegated decisions differ from self-made ones, and argues that these channels share the mechanism of a reduced personal emotional engagement with the outcomes of the decisions.

Regulatory Focus and the Costs of Choosing

A psychological channel influencing the quality of decisions is the channel of regulatory focus. Higgins’ regulatory focus theory compares a ‘prevention orientation’ where individuals prefer security, and a ‘promotion orientation’, where individuals prefer advancement. This distinction is further explored in Polman’s research across several studies: Polman and Vohs demonstrate a shift in this orientation depending on who the decision is being made for; personal decisions tend to be prevention-focused whereas decisions made on behalf of others tend to be promotion-focused, oriented around avoiding errors of omission (Polman & Vohs, 2016).

In the first two studies of this research, personal choosers were more content with choosing from smaller sets of options, displaying prevention focus, where more options implied a higher chance of choosing incorrectly. On the other hand, proxy choosers were more satisfied choosing from larger sets of options, which displayed promotion focus (Polman & Vohs, 2016).

Two boundary conditions in this research have direct bearing on the argument of this paper. First, the promotion-focus was observed to have disappeared when proxy decision-makers were made to feel socially close (interdependent) with the person they were deciding for. In these situations, proxy choosers behaved like personal choosers by exhibiting similar amounts of discomfort with larger choice sets (Polman & Vohs, 2016). Second, the differences also did not persist under the framings of accountability, when agents were expected to justify their choices to principals.

The Self-Other Asymmetry in Risk Preference

As explored by Hsee and Weber (1997), the self-other divide extends beyond the loss domain. Their findings demonstrated that participants overestimated others' propensity to take risks regardless of operating in the gain or loss domain, although the effect was made nearly negligible when the "other" became a specific, known person rather than an abstract one. This suggests that the asymmetry tracks psychological distance rather than the principal's identity (Hsee & Weber, 1997). A meta-analytic pattern uncovered by Batteux, Ferguson, and Tunney (2019) confirmed the general asymmetry across many studies; it also corroborated the finding that people are more risk-averse for themselves than others under gains, but more risk-seeking for themselves than others under losses (Batteux et al., 2019).

Both these psychological channels meet on one common ground: biases driven by personal emotional engagement with outcomes should weaken under delegation. However, the boundary conditions identified across this literature, such as social distance (Polman & Vohs, 2016; Hsee & Weber, 1997), accountability structure (Pahlke et al., 2015; Polman & Vohs, 2016), and 'self' construal orientation (Polman & Vohs, 2016), predict that the attenuation of biases is conditional. The following three sections will test this prediction against loss aversion, omission bias, and regret aversion in turn.

LOSS AVERSION

What is Loss Aversion?

Loss aversion can be defined as "response to losses [being] more extreme than the response to gain. The displeasure associated with losing a sum of money is generally greater than the pleasure associated with winning the same amount." (Tversky & Kahneman, 1981, p.454). It is worth noting that loss aversion is quite distinct from the bias of risk aversion. Risk aversion is a general preference for certainty over uncertainty, and is driven by utility function curvature. Unlike loss aversion, risk aversion applies symmetrically across gains and losses (Pratt, 1964; Arrow, 1965). Loss aversion and risk aversion can be frequently observed to co-occur and are often conflated in the applied finance literature (Benartzi & Thaler, 1995), but this section will show how they distinctly respond to different mechanisms under delegation.

Loss aversion plays a significant role in hindering people from making the choices that maximise their utility function, especially in the finance domain. The equity premium puzzle, the finding that stocks have outperformed bonds over the last century by a large margin (Benartzi & Thaler, 1995), is largely attributed to the bias of myopic loss aversion. Similarly, frequent portfolio evaluation exposes investors to short-term paper losses, and thus triggers loss-averse overreactions (Benartzi & Thaler, 1995).

However, these effects can extend beyond the equity markets. For example, in the housing market, sellers anchor listing prices to the purchase price, refusing to sell at a nominal loss even when the market has moved (Genesove & Mayer, 2001). The disposition effect can be observed in the stock market as well: as

selling an underperforming stock would cement a loss, individual investors sell winners too early but hold on to losers too long (Odean, 1998). Moreover, the 'Save More Tomorrow' scheme was built precisely to circumvent this loss aversion issue by ensuring that take-home pay never nominally decreases (Thaler & Benartzi, 2004).

The Mechanisms under which Risk Aversion and Loss Aversion Operate

A landmark study by Andersson et al. (2016) conducted a large-scale incentivised experiment in Denmark, investigating loss aversion and risk aversion in delegated financial decision-making. Subjects were randomly assigned to four treatments: deciding for oneself only, for another person only, for both, or hypothetically. A Multiple Price List format was displayed across four lottery screens, two with possible losses and two without. Andersson et al. found that in the gains-only domain, there was no difference between the subjects making choices for themselves and for others. However, in the domain where losses were possible, subjects deciding for others switched to riskier gambles significantly earlier. The paper concluded that people made more "dispassionate" choices for others as losses became less salient.

This pattern has been corroborated independently in an experiment by Mengarelli et al. (2014) as well. In the experiment, participants were presented with three tasks, where choices were segregated as rewarding the self or rewarding someone else. In the 'other' condition, approximately 45% of participants chose the risky option, compared to only 32% choosing the risky option in the 'self' condition. This 13-percentage-point shift was largely attributed to reduced emotional engagement with the outcome once the decision-maker was distanced from it. However these findings raise the question: is the shift genuine, or are subjects simply expecting risk-seeking behaviour from others?

An incentivised lottery-choice experiment was conducted by Chakravarty et al. (2011) at IIM Ahmedabad, India, which can help answer this question. The CRRA (Constant Relative Risk Aversion, measuring an individual's aversion to risk) coefficient was found to be 0.32 lower when deciding for others than when deciding for the self ($p < 0.001$). Moreover, a belief elicitation task demonstrated that subjects' beliefs about others' risk preferences closely matched their own (6.35 vs 5.95 safe choices, a non-significant difference), thus ruling out the alternative explanation that subjects chose less cautiously because they assumed others were more risk-seeking. This suggests that the shift in the amount of loss aversion and risk aversion is a real change under delegation, and is not simply projection.

Establishing that the effect of delegation can be observed in inhibiting the onset of loss aversion in decision-making, it is also crucial to consider the mechanisms that drive this and the conditions under which this effect holds. In 2015, Pahlke et al. conducted two experiments to measure the impact of delegation of decisions on loss aversion and probability weighting. The Responsibility treatment involved having subjects decide for themselves and an anonymous other, with both receiving identical payoffs. In the gain domain, risk aversion was observed to have increased, while risk seeking increased in the loss domain, and in mixed prospects loss aversion did not change at all. In the Accountability treatment, the

methodology was accompanied by a 1/12 chance of subjects having to justify their choices to the recipient. Consequently, in mixed prospects, loss aversion fell significantly, while probability weighting was not affected. Therefore, responsibility moved probability weighting but not loss aversion, while accountability moved loss aversion but not probability weighting.

This experiment clearly demonstrates that ‘deciding for others’ is not a unitary mechanism that works in isolation; rather, it is subject to framing, and it also may yield distinct results in the loss or gain domains. The evidence studied above suggests that financial advisors and asset managers deciding on behalf of clients should, theoretically, be less loss-averse than self-directed retail investors (Benartzi & Thaler, 1995; Odean, 1998). However, agency costs from misaligned incentives may reverse this effect if the delegate’s own financial interests are at stake with the decision outcomes (Jensen & Meckling, 1976; Mengarelli et al., 2014).

The most developed treatment of this condition can be attributed to Gennaioli, Shleifer, and Vishny (2015), in their theoretical model of the money-management industry, providing a nuanced view of this tension. In their model, investors are unable to take on risks by themselves due to anxiety and delegating these choices to a trusted advisor effectively reduces their risk aversion, thus enabling them to access equity returns they otherwise would have not been able to obtain. However, the model also pivotally notes that the profit-maximising strategy for the financial advisor is to accommodate the client’s existing beliefs and biases rather than to correct them in order to not break trust, which is the very mechanism through which delegation reduces anxiety.

The model’s own welfare analysis conclusively demonstrates that investors are better off with delegation than without it, despite investor underperformance net of fees. This is in part due to the anxiety reduction and risk-taking that is enabled by trust, which has real value relative to a world where everyone must invest alone (Gennaioli et al., 2015). This trade-off between the attenuation of biases and the incentive for the agents to maximise their own gains in delegated decision-making suggests that the structure of delegation is critical to determining its outcomes.

Policy Recommendations

If accountability is a mechanism that specifically reduces loss aversion, the optimal delegation structure would include elements of responsibility, which would help attenuate risk aversion via probability weighting, and accountability as well, which would attenuate loss aversion via a justification requirement. A system with only responsibility placed on the delegate, without the need to justify their choices to the principal, would capture only half of the bias reduction.

Mandated delegated decision points, such as retirement plan defaults administered through professional advisors, should also ensure that the agent’s own wealth is not co-invested in the same vehicle. Thus, by insulating the agent from emotional stake, this institutional structure largely contrasts with the

conventional regulatory wisdom that advisors should too have “skin in the game” in order to align incentives (Jensen & Meckling, 1976).

The evidence examined in this paper suggests, thus, that the reduction in loss aversion, which is one of the greatest benefits of delegating financial decision-making, can be maximised when the delegate does not share in the personal consequences of the decision (Andersson et al., 2016; Pahlke et al., 2015), and accountability is present in the delegation structure.

OMISSION BIAS

What is Omission Bias?

Omission bias is the preference for harm caused by omissions over equal or lesser harm caused by acts (Baron & Ritov, 2004, p.74). A typical demonstration of this was when parents demanded vaccine death-risk be much smaller than disease death-risk before vaccinating, thus treating vaccine harm as categorically worse than disease harm (Ritov & Baron, 1990). Spranca et al. (1991) highlight this asymmetry as more than a status quo preference, or a present bias: omission bias actually reflects a moral distinction between acts and withholding acts, and this asymmetry persists even when omission is not the status quo and produces worse outcomes.

For the argument of this paper, the separation of omission and status quo biases is pivotal as well. Status quo bias is the preference for the current state of affairs regardless of whether maintaining it requires action or inaction (Samuelson & Zeckhauser, 1988). On the other hand, omission bias is specifically about the moral and emotional asymmetry between acts and omissions, independent of which option is the default. This separation matters specifically in the matter of proxy decision-making as delegation, for the larger part, only changes who is acting (and therefore changes the emotional load of commission), but it may or may not change what is perceived as the default option.

The activation of omission bias is also determined by reference-point dependency: framing an unmanaged portfolio as a ‘loss from omission’ or a ‘neutral default’ determines whether the bias activates at all (Baron & Ritov, 1994).

The consequences of this bias in the finance domain are substantial. Omission bias inhibits consumers from making decisions that would have left them better off. More specifically, it even produces the underuse of beneficial financial interventions, such as failing to enrol in retirement savings plans, failing to rebalance portfolios, failing to purchase insurance, or not trying to switch from dominated products to superior ones (Madrian and Shea, 2001; Choi et al., 2001). However, it would be imprudent to label this bias as ignorance; omission bias is largely fueled by an asymmetric emotional cost of action versus inaction, where perceived causation gives rise to concerns of circumstance and agency, which deter individuals from making choices that maximise their utility functions (Ritov & Baron, 1990).

The Conditional Attenuation of Omission Bias through Delegation

Now, before we draw an analogy between the medical field and the financial field in the discussion of a study by Zikmund-Fisher et al., it is important to note that both medical and financial decisions share the structural features that lead to the activation of omission bias most strongly. Both decisions are high-stakes and involve choosing between an active intervention carrying visible risk and passive inaction whose costs may be delayed. While unconditional certainty may be available in areas of the medical field that may not be available in the financial field, the study discussed below contains a medical scenario of adequate ambiguity to draw a valid comparison.

Zikmund-Fisher et al. (2006) conducted a demographically stratified internet survey with 2,399 respondents. Subjects were randomly assigned to one of four roles: patient, parent, physician, or medical director. They had to choose whether or not to administer an active treatment, which was survival-maximising but carried procedural risk, or continue with passive non-intervention which entailed higher overall mortality.

The findings demonstrated that the propensity to choose active treatment increased distinctly with role distance as patients, parents, physicians, and medical directors increasingly chose the active treatment at progressively higher rates. It was also found that greater emotional activation was independently correlated with choosing active treatment. This study concluded that omission tendencies stemmed from an internal distinction between direct and indirect causation, but this distinction was offset as multiple responsibility roles were explored. The same could be said for the finance field, where individuals may not be inclined to 'act', but on the advice of external counsel, where the role is distanced from the outcome, they may be pushed towards making that decision.

However, the relationship between omission bias and decision delegation is not as straightforward as suggested by Zikmund-Fisher et al. A recent meta-analysis by Yeung, Yay, and Feldman (2022) adds some nuance to the claim of delegation eliminating omission bias. By compiling 21 samples from 13 articles (49 effect sizes), the meta-analysis found that while the overall omission-commission asymmetry was statistically significant ($g=0.45$), it was heavily moderated by two variables that are directly relevant to delegation (Yeung et al., 2022). Firstly, when a social-role responsibility for the target was made clear, the bias was essentially absent ($g=-0.05$). When responsibility was unclear, however, the bias was substantial ($g=0.60$).

Moreover, the bias was roughly three times stronger when the decision-maker was judging harm to themselves ($g=1.42$) than when they were judging harm to others ($g=0.46$) (Yeung et al., 2022). This confirmed that the self-other asymmetry explored in the earlier sections also holds for omission bias even though the magnitude of the asymmetry is smaller.

A further complication concerns whether omission bias tested in laboratory settings can actually translate into actual real-life behaviour. Ritov and Baron (1990) contribute to this discussion by finding that omission bias as measured in judgement tasks (rating the advisability of a decision) does not always

translate into omission bias in actual choice behaviour. In their five experiments, spanning scenarios involving investment switches and trade policy, acts that led to the worse of two outcomes were consistently rated worse than omissions leading to the same or even worse outcomes (Ritov & Baron, 1990). It is also worth noting, however, that this difference was mostly only noticeable for emotional reactions. This caveat was confirmed by the meta-analysis, where it was concluded that in Baron and Ritov's study, the asymmetry was much stronger for morality and blame judgements than for decisions (Yeung et al., 2022). For the financial delegation argument, this distinction is pivotal as financial decisions in particular are inherently choice behaviours, so the magnitude of omission bias in real financial delegation contexts may be less than the literature would suggest, though it is still meaningful.

Inaction in the financial field can be disastrous. Investors who “do nothing” and fail to enrol in retirement plans, or even fail to purchase insurance may suffer from the same emotional asymmetry between action and inaction that patients and medical directors exhibit in Zikmund-Fisher et al.'s medical context. Delegating a decision to an advisor with a defined mandate (analogous to the physician role) should attenuate this bias by shifting the causal attribution to the advisor.

Beyond delegation, the reference-point dependency identified by Baron and Ritov (1994) also plays a role in the activation of the bias: how clients perceive a situation impacts whether they consider it something worth acting upon or not. Reframing a perceived omission into a perceived commission should, per the omission bias literature, even increase the psychological cost of inaction and thereby increase principals' propensity to act (Ritov & Baron, 1990; Baron & Ritov, 1994).

Policy Recommendations

Financial policy should ensure that delegated decision-makers have explicitly defined mandates rather than ambiguous advisory relationships, especially since role-based responsibility framing clearly moderates omission bias (Yeung et al., 2022). While an advisor in an ambiguous ‘information-only’ role occupies a low-responsibility position where the bias would still persist, advisors in high-responsibility roles would lead to near-zero omission bias (Yeung et al., 2022).

Moreover, as the bias is method-dependent and design-dependent rather than uniform across all conditions (Baron & Ritov, 1994; Yeung et al., 2022), the policy lever should target design architecture such as implementing default framing and explicit consequence statements, rather than relying solely on delegation. Opt-out defaults for retirement savings enrolment such as in the Save More Tomorrow design exploit this principle by reversing the more common omission and commission roles. The combination of role-clear delegation and commission-framed defaults is more likely to mitigate biases rather than delegation alone.

REGRET AVERSION

What is Regret Aversion?

Regret aversion can be defined as when “people consider the experience of regret to be unpleasant and that they tend to make so-called regret minimizing choices” (Zeelenberg, 1999, p.97). It is also a driving force for multiple other biases: excessive caution, status quo bias, and even outright decision avoidance are all results of regret aversion.

It is also worth clarifying that regret aversion is conceptually distinct from loss aversion: while loss aversion concerns the weighting of realised gains and losses relative to a reference point (Kahneman & Tversky, 1979), regret aversion concerns the anticipated emotional response to a comparison between what happened and what could have happened (Zeelenberg, 1999).

Regret aversion is also fundamentally distinct from risk aversion. Zeelenberg (1999) demonstrated that depending on the feedback structure of the decision environment, anticipated regret can produce risk-averse or risk-seeking behaviour. In experiments where only the outcome of the safer option was revealed, approximately 70% of participants chose the safer gamble, but when only the outcome of the riskier option was revealed, around 60% chose the riskier gamble itself (Zeelenberg, 1999). The behavioural effect reversed depending entirely on which option offered feedback, and thus participants who anticipated feedback self-reported significantly more regret-related justifications for their choices (Zeelenberg, 1999).

If regret is contingent on personal investment in the decision, the decision-maker should ideally be distanced from the decision. Delegation may function as a structural mechanism for severing this bias entirely: if someone else makes a financial choice, the decision-maker is virtually removed from the causal chain that connects choice to outcome. Therefore, the anticipated regret, which would only be felt with a sense of personal authorship of the decision, becomes less prominent (Zeelenberg, 1999).

Delegation Mitigates Regret Aversion

An experiment conducted by Kumano, Hamilton, and Bahrami (2021) used a paired design with 50 dyads. In each pair, one participant was assigned as a decision-maker while the other was a passive observer and potential beneficiary. On each trial, the decision-maker chose between two gambles, saw both the actual outcome and the counterfactual one, and rated their emotional response on a scale of -50 to +50 (Kumano et al., 2021).

The results revealed two effects: firstly, the beneficiary effect where participants were less influenced by anticipated regret while choosing for the partners rather than for themselves, with the study also observing trends towards higher risk-taking and expected-value-seeking (Kumano et al., 2021). Secondly, the audience effect was also observed: when the partner was physically present to observe the decision and its outcomes, participants acted more conservatively and there were increased experienced regret ratings as

well (Kumano et al., 2021). The researchers thus concluded that self-interest, financial and reputational, explained the overall pattern.

Kray and Gonzalez (1999) also conducted three studies examining job choice, major selection, and negotiation advice, finding that a person making a decision for themselves considers more attributes of the choice with a relatively uniform distribution of weights across the attributes compared to someone offering advice, who considers fewer dimensions and weights them unequally (Kray & Gonzalez, 1999). The compression of dimensions has multiple implications: positively, reduced dimensionality protects the advisor from paralysing multi-attribute regret. Negatively, if the single dimension the advisor focuses on is not the dimension most important to the client, delegation may even end up producing a well thought-out decision that is built entirely off the wrong requirements (Kray & Gonzalez, 1999).

Financial advisors acting as proxy decision makers should show reduced regret-driven caution through fewer instances of overly conservative recommendations motivated by the fear of regret-inducing counterfactuals (Kumano et al., 2021; Kray & Gonzalez, 1999). Real world advisory relationships frequently involve conditions that persistently reintroduce regret sensitivity, such as in face-to-face meetings where the advisor formulates a recommendation while the client watches, followed by quarterly reviews that persistently remind the agent of the principal's observation. These interactions function as the "audience" in Kumano et al.'s design, and suggest that the reductions in regret aversion can be weakened when the advisory relationship is most visible and interactive.

Policy Recommendations

Financial delegation systems must control the timing and visibility of feedback since the feedback structure of the decision environment determines whether regret aversion drives caution or risk-seeking (Zeelenberg, 1999). Advisory review cycles should be structured so that advisors can develop and refine recommendations before the client observes either the decision made, or the outcomes in order to insulate the decision from the audience effect (Kumano et al., 2021).

Furthermore, advisory tools should flag the single most decision-relevant dimension or variable in order to prevent the zero-weighting of critical dimensions, which might have been naturally compressed by the delegate (Kray & Gonzalez, 1999). When paired, these features can make the financial advisory structure more beneficial.

CONCLUSION

This paper examined whether delegated financial decision-making improves decision quality, and under what conditions it does so. The evidence across all three biases suggests that while delegation helps improve decision quality, it does not do so uniformly or automatically.

Loss aversion is attenuated under delegation, not merely through responsibility to bear consequences of choices, but also through accountability (Andersson et al., 2016; Pahlke et al., 2015). Omission bias weakens when the delegate holds an explicit, defined responsibility for the principal, and remains substantial when responsibility is diffuse (Yeung et al., 2022; Zikmund-Fisher et al., 2006). Regret aversion is reduced when deciding for others, but becomes prominent again under audience observation (Kumano et al., 2021). The conditions of structured accountability without shared stakes, role-clear delegation structures, and observation-controlled advisory processes are pivotal in a delegation framework that can outperform both unstructured delegation and self-directed choice.

Taken together, these conditions describe what well-designed delegation institutions should look like. These institutions must depart sharply from conventional practices in order to work most efficiently. They must hold delegates accountable through a justification requirement while insulating them from shared financial stake (Jensen & Meckling, 1976); assign them explicit, high-responsibility mandates rather than ambiguous advisory roles, and pair that delegation with commission-framed defaults; and control the timing and visibility of feedback so that advisors form recommendations before client observation. These prescriptions bear directly on the design of retirement default systems, fiduciary regulation, and the fast-growing robo-advisory sector, and they position bias-aware delegation as a structural complement to the choice-architecture and libertarian-paternalism tradition rather than a substitute for it.

Two limitations constrain these conclusions. Firstly, this paper is a cross-domain synthesis rather than a single empirical test: its framework is assembled from evidence spanning behavioural economics, social psychology, and medical decision-making. The role-distance findings on omission bias are transposed from medical contexts (Zikmund-Fisher et al., 2006) into financial ones. Secondly, the three conditions have not yet been tested jointly within one financial delegation setting due to them being spread across separate literatures. The natural next step is a direct experimental test that manipulates accountability, role clarity, and observation together in a single financial task, which would confirm whether the three mechanisms operate independently or interact in ways a piecemeal reading of the evidence cannot reveal.

Since millions of people are already handing over their financial decisions for someone else to make, the question is extended beyond whether delegation happens or not: it rather becomes a question of whether the institutions through which it happens are designed to capture the bias-reduction benefits that existing literature has already pointed out.

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