Women, young and old people are most risk adverse, research finds

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Women, the young and older people are most risk averse when it comes to financial risk taking, according to new research from the University of Bristol and Cass Business School.

The report 'Quantifying Loss Aversion: Evidence from a UK Population Survey' identifies key characteristics about individuals which explain their attitude to risk and loss.

The findings have important implications for both financial advisers and their clients, in particular, men and women who are considering how to invest for the future according to their age group.

An online survey with 4,000 respondents was conducted by YouGov. Participants were randomly selected to be broadly representative of UK residents over 18 years of age in terms of key characteristics, such as gender, age class, marital status, class, education, personality types, financial understanding and income.

The main findings revealed women tend to be more risk averse than men, which reflects existing research.

Young people and older people tend to be more risk averse than middle-aged people, with young people being particularly loss averse.

Single people are less risk averse than partnered people who are, in turn, less risk averse than widowed, divorced and separated people. And those without children are more risk and loss averse than people with children.

Other key findings include:

- People in poor health appear to have lower loss aversion than people in good health.
- Optimists and Type A competitive personalities are less risk and loss averse than pessimists and Type B laid-back personalities.
- Risk attitudes can be affected by an individual's emotional state, with tense individuals having high risk aversion, although people in a neutral state are more loss averse than tense or relaxed

individuals.
- Risk and loss aversion are lower the greater is an individual's level of financial understanding.
- Members of social class A are less risk averse, more willing to take risks to avoid losses and less loss averse than members of social class E. However, members of social class B—lower managerial and professional occupations—are unusually risk and loss averse.
- Risk and loss aversion are lowest for those in full-time employment, followed by those in part-time work. Retirees and the unemployed are very risk and loss averse.

Loss aversion is lowest in Wales, Scotland and London and highest in the East Midlands.

Researchers also looked at people's media and political preferences, finding that Guardian readers and Liberal Democrat voters are the most risk and loss averse.

Scottish National and Plaid Cymru Party members are the least, as were readers of the Financial Times, Times and Telegraph. Labour and Conservative voters are somewhere in the middle.

Professor Edmund Cannon, Professor of Economics in the School of Economics, Finance and Management at the University of Bristol, said: "In retail finance—pensions, savings, insurance—there is a danger that uninformed individuals or households are offered products that they do not fully understand and which are poorly designed to meet their needs.

"Obviously most people cannot be expected to design such products themselves, so it is important that the products are designed appropriately and take account of consumers' preferences.

"Very few studies of preferences analyse such a large data set or a data set which includes such a large range of demographic groups. This research demonstrates how much preferences vary in the population as a whole, but also that there is systematic variation in preferences that could be used to understand behaviour and inform product design."

Professor David Blake, report co-author and Director of the Pensions Institute at Cass, said the findings have important implications for both financial advisers and their clients and by including questions about these characteristics in a client fact find, financial advisers might be able to get a better fix on the true risk and loss attitudes of their clients.

He said: "Advisers can also use the fact find to design nudges to improve their clients' welfare by moving them away from poor investment decisions that reflect their behavioural biases. For example, women, because they are more risk-averse than men, would be more comfortable with lower-risk investments. Over a long investment horizon, such as that involved in building up a pension pot, this behaviour has been described as 'reckless conservatism' – women with the same salary history as men would, on average, have lower pensions as a result.

"To avoid this, ways may need to be found of nudging women away from their comfort zone. One common way to do this is to have a gender-neutral default investment fund that involves a more aggressive investment strategy at young ages than women would normally choose. The same strategy would apply to young people who are also extremely risk averse."

More information: Quantifying Loss Aversion: Evidence from a UK Population Survey. www.pensions-institute.org/wp- … t/uploads/wp1912.pdf