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Women dislike financial risk taking, research finds

New research from Cass Business School explains individual attitudes to risk and loss

Researchers from Cass [Business School](#) and the [University of Bristol](#) have discovered that women are more risk averse than men when it comes to financial risk taking.

The report '[Quantifying Loss Aversion: Evidence from a UK Population Survey](#)' identifies key characteristics about individuals that explain their attitude to risk and loss.

The paper also finds that young and old people are more risk averse than middle aged people.

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 was conducted by YouGov with 4000 respondents. 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 were:

- In line with existing research, women tend to be more risk averse than men.
- Young people and older people tend to be more risk averse than middle-aged people. Young people are 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.
- Those without children are more risk and loss averse than people with children.
- 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.
- *Guardian* readers tend to be the most risk and loss averse, while *Financial Times*, *Times*, *Telegraph* readers are the least, followed by *Daily Mirror*, *Daily Record*, *Daily Express*, *Daily Mail*, *Sun* and *Star* readers.
- Liberal Democrat voters are the most risk and loss averse, while Scottish National and Plaid Cymru Party members the least. Labour and Conservative voters are somewhere in the middle.

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.

“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.”

“On the other hand, men’s investment overconfidence can lead to ‘reckless adventurism’. This is not necessarily desirable at older ages close to retirement, since there is less time to recover from a severe fall in stock markets. To avoid this, ways need to be found of guiding men away from this type of behaviour. Again, one way to do this is to design a gender-neutral default investment fund to involve a less aggressive investment strategy at older ages than men may otherwise choose.

“There are also clear benefits from improved financial understanding. Risk and relative loss aversion are lower as is the willingness to take risks when facing losses the greater is an individual’s level of financial understanding.”

Read the paper ‘*Quantifying Loss Aversion: Evidence from a UK Population Survey*’ [here](#).



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Notes to Editors

Technical note about the research

The research was carried out in conjunction with [YouGov](#) who conducted a survey designed by the authors. The authors are Professor David Blake and Dr Douglas Wright, Cass Business School, and Professor Edmund Cannon, University of Bristol. The full paper, 'Quantifying Loss Aversion: Evidence from a UK Population Survey', is available [here](#).

The purpose of the survey was to assess whether individuals were risk averse or loss averse when it comes to investment decision making. Under risk aversion, it is assumed that investors recognise that risk taking is unavoidable and that they construct their investment portfolio to maximise their expected utility (or welfare). Risk averse investors can be induced to take on higher risk investments if the expected return is sufficiently high. Under loss aversion, investors are assumed to focus on gains and losses in their investments and this leads to a very different type of investment behaviour. It is common for investors to become risk averse if their investment has made a significant gain. It is also common for them to take risks in the face of losses to try and recover from the losses.

The survey asked respondents a series of questions in order to quantify their degree of risk and loss aversion. Respondents were offered a series of different risky prospects, each involving only two equally probable outcomes. For each prospect, respondents were offered the choice between the risky prospect and a certain prospect that was initially set to equal the expected value of the risky prospect. The aim was to determine the 'certainty equivalent' which is the certain amount that made the respondent indifferent between that amount and the risky prospect. The certainty equivalent was obtained by a series of six steps using an iterated bisection method. In each succeeding iteration, the certain amount was reduced (increased) by 50% of the difference between the values of the risky and certain prospects if the respondent's previous choice had been to accept (reject) the certain prospect; the respondent was then asked to choose again. After six iterations, the result of this process is an interval in which the certainty equivalent should lie and we took the midpoint of this interval as the estimator of the indifference value.

The authors would like to know how the findings in this study compare with those in other countries. They would welcome the opportunity to work with researchers from different countries to conduct the questionnaire (suitably translated).

About the Pensions Institute

The [Pensions Institute](#) at [Cass Business School](#) undertakes high quality research in all fields related to pensions, to disseminate the results of that research to both the academic and



practitioner community, to establish an international network of pension researchers from a variety of disciplines, and to provide expert advice to the pensions industry and government.

About Bristol University

[Bristol](#) is one of the most popular and successful universities in the UK, ranked in the world's top 50 in the QS World University Rankings 2020. Bristol is at the cutting edge of global research. We have made innovations in areas ranging from cot death prevention to nanotechnology.