



Factors Affecting Risk Tolerance: A Systematic Literature Review of Empirical Research.

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ABSTRACT

The study's goal is to present an accurate and organised survey of the literature on risk tolerance. The study aims to investigate different factors which affects risk tolerance and to provide comprehensive literature review. The manuscript beings with a discussion on the risk tolerance. We explore how risk tolerance can be measured with different factors like demographic factors, Financial Literacy, Personality types and how these factors influence investors. The results showed factors like personality types, financial literacy and demographic factors is positively influence risk tolerance. The study makes a novel contribution to the strand literature of risk tolerance among investors. It highlights the substantial knowledge gaps in this field and provides a potential agenda for academicians, research organizations, and funding agencies for future research.

Keywords:

Risk Tolerance, Personality types, Demographic factors, Financial Literacy.

INTRODUCTION

Risk Tolerance can be defined as “Capacity to accept or absorb risk” while making any decision, and it implies for every economic and social decision, whereas the financial risk tolerance can be defined as “ an investor’s attitude towards risk and it can be defined as the amount of uncertainty or investment return volatility that an investor is willing to accept when making a financial decision” (Thanki, 2019)Risk tolerance also is the measurement usually considered by financial institutions when profiling the investors’ intentions towards short-term and long-term investments (Bunyamin, 2021). However, the study makes a novel contribution and investigate the strand literature of risk tolerance among investors and how different factors like financial literacy, demography factor, personality types, affects risk tolerance.

Gender is the most common studied variable in the past studies of risk tolerance. Furthermost findings from past study (Reddy, 2017) investigated that males are more risk taker than women. Even (Banner & Neubert, 2016) study find that much risk tolerance relates positively to both standard and sophisticated investments for male, but only to standard investment for Female. However, there is no relation between risk tolerance with female's sophisticated investments. Such conclusion is justified as males are the main wage earner of households and investment in financial market is one of the ways to grow their income.

To encourage investor participation in financial markets, the Risk tolerance is an important aspect to consider. To energize financial backers' support in the monetary business sectors, RT is a critical viewpoint to consider. The meaning of FRT is underlined by the overseeing head of Joined Abroad Bank Malaysia Berhad (UOB Malaysia) and nation head of individual monetary administrations, Ronnie Lim. During Covid (Coronavirus) pandemic episode in Malaysia since January 2020, he pushed in New Waterways Times (2021) that higher gamble resistance in resources speculation is significant to raise financial backers' support in market open doors during monetary business sectors unstable execution due to pandemic. Ronnie Lim accepts that financial backers' constant cooperation in market valuable open doors is critical to guarantee they accomplish their drawn-out monetary objectives regardless of pandemic difficulties. By really overseeing speculation chances financial backers are taking, they will incorporate versatility into their portfolios. This strength would be the anchor choice highlight support their ventures, rather than being diverted by market instability during the pandemic.

On the bases of the above grounds a detailed study was conducted with the following objective.

- To provide an up-to date literatures review of risk tolerance.
- To provide a clear and concise summary of the literature

REVIEW OF FACTORS INFLUENCE RISK TOLERANCE.

There are a few past examinations directed to inspect the variables important to RT. The examinations investigate the elements affecting buyers' RT in monetary choices and their support in monetary items, like stocks and retirement plans. The discoveries acquired are likewise finished up in many countries' business sectors for more extensive points of view. From the investigations underneath, this study demonstrates that RT can be made sense of by a few significant classifications to be specific segment profiles, demographic contrasts, Financial Literacy, and psychological factors. In this paper, these classes will be talked about further for top to bottom explanation.

DEMOGRAPHIC PROFILE

Demographic factor is the most common studied variable in the past studies of risk tolerance. In (Thanki H. &., 2021) has examined the factors such as Gender, income, marital status, occupation which has resulted significantly influenced the Financial Risk Tolerance of investors. This study was agreed with study of (Queen, 2019) had measured investment risk tolerance amongst Malaysians to govern the factors affecting their investment risk tolerance for retirement plans. The study verified that factors such as age and income level have a significant correlation with investment risk tolerance for retirement plans. But somewhere this

study was not totally agreed with the work done by (Mohan, 2017) financial risk tolerance has relation with the education level, age, marital status, number of dependants, tax benefit associated with financial product and loan structure, but is not related to gender, income level and insurance coverage of the client. (Yalcin, 2021) found that Covid-19 has no impact on financial risk tolerance level, further this study conclude that male participants are more risk tolerant than female participants, and there is a significant association between gender and the risk tolerance level among the non-minority participants.

Even in some study Gender was also common factor which was studied like in (Dawson, 2015) the study explained whether women are less likely to express business start-up intentions because of a less favourable attitude to risk and large proportion of the difference in average levels of intention between gender appears to be associated with attitude to risk. Meanwhile report of (Fisher, 2017) had found that women are less risk tolerance than men not due to gender itself, but because of the gender difference in the other factors that are related to risk tolerance. Whereas the study of (Kumar S. &, 2020) has contributed that women with varying age groups have different level of risk tolerance. Moreover, highly qualified women have different level of risk tolerance in comparison of women who are less qualified.

Moreover, (Zandri Dickason & Ferreira., 2018) proposed that male investors are more risk taker and open minded than female investors. The study also demonstrated that African financial investors are more risk taker than white, non-white, and Asian financial investors in South Africa. Even the study also found that FRT differences among male and female financial investors from different national gatherings. For this situation, white guys are viewed as daring people on better-than-expected risk, when contrasted with white females who would just face a typical challenge, or no risk taker by any stretch of the imagination.

Even some more study was also conducted by (Muktadir-Al-Mukit, 2020) the researcher had measured the correlation between demographic factors with the level of FRT of stock market investors amongst capital market investors in Bangladesh. The study measured level of FRT by portfolio beta and reflected by investors trading patten. From this calculation the study the result was concluded that marital status and family size significantly explain the variety in levels of FRT amongst the stock market investors. (Rajeshkumar, 2017) has examined the relationship between demographic factor with FRT amongst investors. The finding of the study is there is strong significant influences of demographic factors namely gender, religion, age, occupation, marital status, dependents, number of earning person and types of family on FRT. In (ZEESHAN A. S., 2021) has also contributed by examining demographic variables affecting individuals' investment risk tolerance. The finding of the study was the variable like gender, education, and income has positive effect on risk tolerance were as age, work experience, and marital status negatively affect risk tolerance levels amongst individual's investors.

Variables which affect risk tolerance were also studies by (Baruah, 2018) has studied the impact of risk tolerance and demographic factors jointly on level of investment of investors and conclude that Capital Risk Tolerance, Investment Risk Tolerance, and Speculative risk tolerance and income were significantly related to investment and age, gender, marital status, education, and profession were found to be non-significant predictors of investment decision.

FINANCIAL LITERACY

On the other hand, even financial literacy is found to contributed as well to Risk Tolerance. With the context of financial literacy (Thanki H. &, 2021) has studied the impact of financial literacy on risk Tolerance and through his study it was concluded that financial literacy positively influenced risk tolerance, while formal education played an insignificant role. Even with the same conclusion (Bayar, 2020) examined the impact of financial literacy level and demographic characteristics on the financial risk tolerance of the individuals and the study found that financial literacy is significant determinants of financial risk tolerance and suggested that improving financial literacy of the individuals through various education programs will probably raise the demand of financial products with different risk characteristics and in turn contribute to the development of financial sector. (Park, 2022) has studied combined impact of risk tolerance, financial literacy, savings, income, and debt on consumers retirement planning behaviour and all the variable were found to have positive relationships with retirement planning except debt. (Goswami, 2022) has also found that there is a significant association between financial literacy of the respondents and their financial risk tolerance. Even (D. Arpana, 2020) has found strong relation between financial literacy.

PERSONALITY TYPES

Many studies have explored the relationship between risk tolerance and personality traits, including the Big Five personality dimensions. Moreover, Personality types as a variable also have been studied around the globe to identify their contributions to risk tolerance. For instance, (Thanki H. &, 2021) has studied the impact of personality types on risk tolerance and personality type A was found positively correlated with risk tolerance. Even (Thanki H. &, 2019) has found that investors with Type A personalities are more willing to take financial risk than those with Type B. but in the study of (Kannadhasan, 2016) has found that both the personality types are positively related to risk tolerance.

Other than this even some study like (Pinjisakikool, 2018) found that individuals who score high on the big five personality traits of openness, agreeableness and extraversion tend to have a higher risk tolerance. Conversely, those who score high on neuroticism tend to have a lower risk tolerance, (Kumar R. &, 2020) has also conducted study on Big five personality.

FACTORS INFLUENCING RISK TOLERANCE: A THEORETICAL FARMWORK

The Study Cover Extensive literature review on risk tolerance is carried out based on the theoretical framework shown in figure 1. In the study dependent variable is risk tolerance other side the factors that affects risk tolerance are Classify as independent variables.

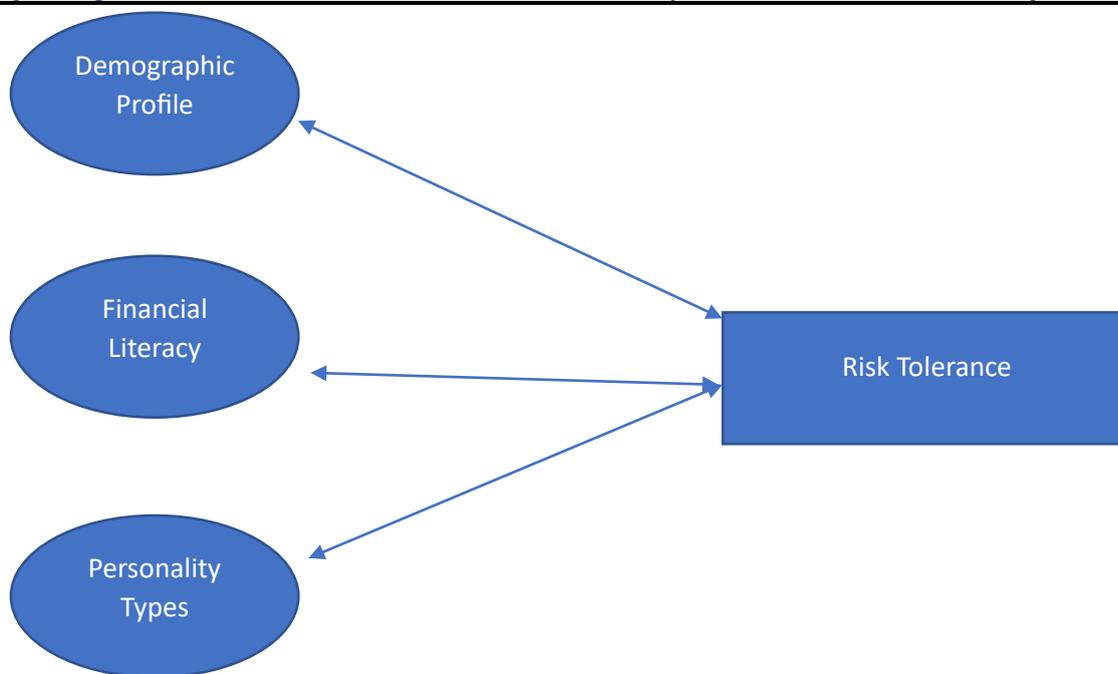


Figure 1.

Theoretical framework for risk Tolerance Influencers.

SUMMARY OF THE LITERATURE ON THE FINDING OF THE INFLUENCERS ON RISK TOLERANCE.

Results of this above study indicating that the Risk Tolerance's contributing factors are represented in Table 1 below.

Table 1. Summary of the Literature on the findings of the Influences on Risk Tolerance.

Variable	Studies	Findings
Gender	Dawson (2015); Fisher (2017); (Kumar S. &., 2020), Yalcin (2021); Zandri Dickason & Ferreira (2018)	Women are less likely to express business start-up intentions due to less favourable attitude to risk; women are less risk tolerant than men due to gender differences in other factors related to risk tolerance; male participants are more risk tolerant than female participants; male investors are more risk taker and open-minded than female investors
Marital status and family size	Muktadir-Al-Mukit (2020)	Marital status and family size significantly explain the variety in levels of financial risk tolerance (FRT) amongst the stock market investors
Education, income, age, work experience, and marital status	Thanki H. &. (2021); ZEESHAN A. S. (2021)	Education, income, and gender have a positive effect on risk tolerance; age, work experience, and marital status negatively affect risk tolerance levels amongst individual investors

Age and income level	Queen (2019)	Age and income level have a significant correlation with investment risk tolerance for retirement plans
Education level, age, marital status, number of dependants, tax benefit associated with financial product and loan structure	(Rajeshkumar, 2017), Mohan (2017)	Education level, age, marital status, number of dependants, tax benefit associated with financial product and loan structure are related to FRT, but not gender, income level, and insurance coverage
Personality types and Big Five Personality Traits	Thanki H. & (2021), Thanki H. &. (2019) Kannadhasan (2016), Pinjisakikool (2018), Kumar R. & (2020)	Personality type A was found positively correlated with risk tolerance and were as some research it was found that both the personality types positively related to risk tolerance. Moreover, higher openness, agreeableness, and extraversion tend to have higher risk tolerance.
Capital Risk Tolerance, Investment Risk Tolerance, and Speculative risk tolerance, income, age, gender, marital status, education, and profession	Baruah (2018)	Capital Risk Tolerance, Investment Risk Tolerance, and Speculative risk tolerance, and income are significantly related to investment; age, gender, marital status, education, and profession were found to be non-significant predictors of investment decision
Financial literacy	Thanki H. &. (2021); Bayar (2020); Park (2022); Goswami (2022); D.Arpana (2020)	Financial literacy positively influenced risk tolerance; financial literacy is a significant determinant of FRT; all variables, including financial literacy, have positive relationships with retirement planning except debt; there is a significant association between financial literacy of the respondents and their financial risk tolerance; there is a strong relation between financial literacy and FRT

CONCLUSION

This study discussed the factors that give an impact on risk tolerance. Hence, less risk tolerance group can be identified by investment firm to provide investment knowledge to increase the risk tolerance level amongst investors. This concept can be useful to people to avoid serious mistake in analysis and strategies investment.

The article discusses the concept of risk tolerance and its importance in making economic and social decisions. Risk tolerance, specifically, refers to an investor's willingness to accept uncertainty or investment return volatility when making a financial decision. The study investigates the literature on risk tolerance among investors and examines how various factors, including demographic factors, financial literacy, and personality types, affect risk tolerance.

Gender is a commonly studied variable in risk tolerance research. Past studies have shown that males are generally more risk-tolerant than females. However, some studies have found that gender is not significantly related to risk tolerance when other factors such as education level, age, and marital status are considered. The article emphasizes that understanding risk tolerance is important for encouraging investor participation in financial markets, particularly during uncertain times like the COVID-19 pandemic. The study aims to provide an up-to-date literature review of risk tolerance and explore the factors that influence risk tolerance in detail.

As the present study is a literature review, there are some limitations to consider. Firstly, in this study literature are studied with limited timeframe. Additionally, the studies reviewed in this paper have been conducted in different contexts, with different methodologies and samples, which may limit the comparability of the findings. Further, the findings presented in this paper are based on self-reported data, which may be subject to biases and limitations. Lastly, the present study is limited to the factors affecting risk tolerance and does not consider other factors that may impact investment decisions.

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