

Risk Perception and Investment Behaviour among Women Investors: A Review of Literature

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Abstract

Investment behaviour has traditionally been explained through rational financial models which assume that investors make decisions based on objective evaluation of risk and return. However, empirical evidence increasingly shows that financial decision-making is influenced by psychological and behavioural factors. Behavioral finance has therefore emerged as an important field that integrates psychology with financial economics to better understand how individuals make investment decisions. Among the various behavioural determinants, risk perception has been identified as a crucial factor affecting investors' choices and participation in financial markets. Risk perception is the subjective interpretation of the uncertainty associated with investment decisions. Individuals often evaluate financial risks differently depending on their knowledge, experience, emotional disposition, and socio-economic background. This paper reviews the existing literature on risk perception and its influence on investment behaviour, with a particular focus on women investors. Studies indicate that women tend to perceive financial risks differently from men and often exhibit more cautious investment behaviour. Understanding these perceptions is essential for designing financial products and policies that encourage broader participation in financial markets. The review highlights key theoretical perspectives, empirical findings, and research gaps in the literature. The paper concludes by emphasizing the importance of financial literacy and behavioural awareness in shaping investment decisions among women investors.

Keywords: Risk perception, investment behaviour, women investors, behavioral finance, financial decision-making.

1. Introduction

Investment decisions play a vital role in determining the financial stability and long-term wealth of individuals. In modern financial systems, individuals are presented with numerous investment opportunities such as equities, mutual funds, bonds, insurance products, and retirement savings plans. Choosing among these alternatives requires investors to evaluate both potential returns and associated risks.

Traditional financial theories, particularly the Efficient Market Hypothesis (EMH), assume that investors behave rationally and process all available information efficiently while making financial decisions (Fama, 1970). According to this perspective, investors carefully analyze risk and return characteristics of investment options and choose portfolios that maximize expected utility.

However, several studies have challenged this assumption of rational behaviour. Empirical evidence suggests that investors frequently make decisions influenced by psychological biases, emotions, and subjective judgments rather than purely rational calculations (Thaler, 1999). These insights led to the development of behavioral finance, a field that combines principles from psychology and economics to explain anomalies in financial decision-making.

One of the central psychological constructs in behavioral finance is risk perception. While financial risk can be objectively measured through statistical indicators such as variance and volatility, individuals often perceive risk differently based on personal beliefs and experiences (Slovic, 1987). As a result, two investors exposed to the same financial information may interpret risk differently and make contrasting investment decisions.

Risk perception is particularly relevant when examining investment behaviour among women investors. Research indicates that women often display greater sensitivity to financial risk and may adopt more conservative

investment strategies compared to men (Barber & Odean, 2001). Despite these tendencies, women investors have demonstrated strong financial discipline and long-term investment consistency in many studies.

Over the past decade, women's participation in financial markets has increased significantly due to rising educational attainment, workforce participation, and improved access to financial services. Nevertheless, gender disparities in investment participation remain evident in many economies.

Understanding how women perceive financial risk is therefore essential for policymakers, financial advisors, and institutions aiming to promote financial inclusion and empower women investors. This review paper synthesizes existing literature on risk perception and its impact on investment behaviour, highlighting key findings and research gaps relevant to women investors.

2. Theoretical Foundations of Risk Perception

Behavioral Finance Perspective

Behavioral finance challenges the assumption that investors always behave rationally when making financial decisions. Instead, it recognizes that individuals rely on cognitive shortcuts, emotions, and psychological biases while evaluating financial information (Kahneman & Tversky, 1979).

Prospect Theory, introduced by Kahneman and Tversky (1979), explains how individuals evaluate gains and losses under uncertainty. According to this theory, people tend to exhibit loss aversion, meaning that losses are perceived as more painful than equivalent gains. This asymmetry influences how investors evaluate financial risks.

Thaler (1999) further expanded the behavioral finance framework by introducing concepts such as mental accounting, which explains how individuals categorize financial outcomes and make decisions based on psychological framing rather than objective evaluation.

These theoretical perspectives highlight the importance of subjective perceptions in financial decision-making.

3. Concept of Risk Perception

Risk perception refers to the subjective assessment of the probability and severity of potential losses associated with a decision (Slovic, 1987). Unlike objective risk, which can be measured through statistical models, perceived risk is influenced by psychological and social factors.

Weber, Blais, and Betz (2002) emphasized that risk perception varies across different domains such as financial, health, and social decisions. In the context of financial markets, perceived risk often determines whether individuals choose to invest in risky assets such as stocks or safer instruments such as savings accounts and government bonds.

Several factors influence investors' perception of financial risk. These include financial knowledge, prior investment experience, income level, age, and access to financial information (Lusardi & Mitchell, 2014). Individuals with higher financial literacy are generally better equipped to evaluate financial risks and make informed investment decisions.

Risk perception also depends on market conditions. During periods of economic instability or financial crises, investors tend to perceive higher levels of risk, leading to reduced participation in equity markets.

4. Risk Perception and Investment Behaviour

Investment behaviour refers to the patterns and decisions individuals exhibit when allocating their financial resources among various investment options. Risk perception plays a crucial role in shaping these decisions.

Studies have consistently shown that individuals who perceive financial markets as highly risky tend to avoid volatile investment instruments and prefer safer alternatives such as fixed deposits and insurance policies (Grable & Lytton, 1999).

Conversely, investors with lower perceived risk are more willing to participate in equity markets and diversify their investment portfolios. Research suggests that financial education and exposure to financial markets can reduce exaggerated risk perceptions and encourage greater investment participation.

Another important factor influencing risk perception is access to financial information. Investors who regularly follow financial news and market trends often develop more accurate assessments of financial risks.

5. Gender Differences in Risk Perception

A significant body of literature has examined gender differences in financial decision-making. Many studies have found that women tend to exhibit higher levels of risk aversion compared to men (Byrnes, Miller, & Schafer, 1999).

Barber and Odean (2001) found that men trade more frequently in financial markets due to greater overconfidence, whereas women adopt more cautious investment strategies. However, the study also found that excessive trading among men often reduces investment performance.

Similarly, Jianakoplos and Bernasek (1998) observed that women tend to allocate a smaller proportion of their portfolios to high-risk assets such as stocks. This behaviour may stem from differences in financial confidence, income stability, and investment experience.

Despite these differences, women investors often demonstrate strong financial discipline and long-term investment focus. Studies suggest that women's cautious investment approach may contribute to more stable long-term financial outcomes.

6. Factors Influencing Risk Perception among Women Investors

Several factors influence how women perceive financial risk and make investment decisions.

Financial literacy is one of the most significant determinants of risk perception. Lusardi and Mitchell (2014) emphasize that individuals with greater financial knowledge are more likely to understand financial products and assess associated risks accurately.

Socio-cultural factors also play an important role. In many societies, women historically had limited involvement in financial decision-making, which may influence their confidence and risk tolerance.

Income level and employment stability also affect investment decisions. Individuals with stable income sources may be more willing to invest in risky assets because they have greater financial security.

Access to financial advisory services can also influence risk perception. Professional financial advice can help investors better understand investment opportunities and manage financial risks effectively.

7. Implications for Financial Institutions and Policymakers

Understanding risk perception among women investors has important implications for financial institutions and policymakers.

Financial institutions should design investment products that align with the risk preferences of women investors. Providing transparent information about investment risks and returns can help investors make informed decisions.

Financial literacy programs are also essential for improving women's confidence in financial decision-making. Educational initiatives can help investors understand market dynamics and reduce exaggerated perceptions of financial risk.

Policymakers should also promote gender-inclusive financial policies that encourage women's participation in financial markets.

8. Research Gaps and Future Directions

Although existing studies provide valuable insights into risk perception and investment behaviour, several research gaps remain.

First, most studies focus on developed economies, while limited research has been conducted in emerging markets such as India.

Second, many studies rely on cross-sectional survey data, which may not capture changes in risk perception over time.

Future research should explore longitudinal approaches and incorporate behavioral experiments to better understand how risk perception evolves with financial experience.

9. Conclusion

Risk perception plays a critical role in shaping investment behaviour among individual investors. Behavioral finance literature demonstrates that investors often rely on subjective judgments when evaluating financial risks, leading to variations in investment decisions.

Women investors tend to exhibit greater sensitivity to financial risk, which often results in more cautious investment behaviour. However, this cautious approach may also contribute to more disciplined long-term investment strategies.

Promoting financial literacy and improving access to financial information can help investors better understand financial risks and make more informed investment decisions. Policymakers and financial institutions should therefore focus on developing gender-inclusive financial initiatives that empower women investors and enhance their participation in financial markets.

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