

Financial Risk Tolerance in India: A Study of its Different Facets and Influencing Factors

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Abstract

Financial Risk tolerance is the level of risk an investor is willing to accept while making an investing decision. There is always an element of risk that is involved while making an investing decision. Risk tolerance may vary from person to person. It accounts to the capacity the investor can withhold before making such decisions. An aggressive investor may conceal greater risk compared to a conservative investor. The purpose of the study is to provide a key perspective to factors, such as the geographical factor, home ownership, the factors that affect decision-making, and the health status of the individuals, that have not been thoroughly explored as of now. Our study aims to answer how such factors in addition to commonly used factors impact the Financial Risk Tolerance.

The study is based on primary data collected through structured questionnaire to capture various dimensions of financial risk tolerance. Mann Whitney, a non-parametric test, is conducted to understand the relationship between Financial Risk Tolerance (FRT) and the geographical location of an individual, FRT and status of home ownership, Financial Risk Tolerance (FRT) and difference in the attitude of genders toward investments, satisfaction level and gender. It was observed that Financial Risk Tolerance and the geographical location of the respondent were unrelated. The results suggests that there is no certain relationship present between Financial Risk Tolerance and the status of home ownership. The results also suggests that there is a difference in the attitude of genders toward investment. Moreover, there is a significant difference in the level of satisfaction for different genders.

Keywords

Financial Risk Tolerance (FRT), Demographic variables, Attitude Level, Health Status, Geographical Location

Introduction

“The key to successful investing is managing risk rather than eliminating it”. A certain risk is involved in every investment, which should be considered when deciding if the expected returns are worthwhile. Risk is the most crucial constraint in investment decisions which makes every individual think about this factor in financial decisions.

Considering the ephemeral nature of investment value, risk tolerance might be defined as the amount of risk an investor is willing to take. Therefore, a person's financial risk tolerance is the highest amount of risk they are ready to accept while making a decision that might result in a loss.

Knowing their level of risk tolerance allows investors to plan their entire portfolio and decide how to invest as all investments carry some level of risk. The apparent response is that people endure risk in exchange for rewards, or perhaps higher returns. Return and risk are two facets of the same coin. In a cutthroat market, bigger risks imply larger potential rewards. Even yet, safer (lower risk) investments tend to provide lower returns. At present, investors invest in various financial securities. The most common ones are bonds, mutual funds, EFTs, bank products, options & annuities. While fixed