RISK-TAKING APPETITE OF GENERATION Z INDIVIDUALS

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Abstract : *In this research paper we look into the various factors that affect the investment decisions and risk taking preferences of Generation Z on the basis of various factors that are included in risk profiling. The study has been conducted on primary data that has been collected to do analysis on the similarities and differences between prior generations with Generation Z.*

Keywords: Generation Z, Risk Appetite, Post Millennials, Peer Perception

I. Introduction

In the current world, Generation Z has a vast amount on data and resources available at their disposal through means of internet, print media, friends and family. Especially through the internet, they are more comfortable as well as reliant on data they see and receive online. This leads to the perception of knowledge to the minds of many of these post millennials. There has been a vast attraction towards investment banking by individuals as they start actively trading at a comparatively much younger age as compared to previous generations. In our study we look into which range majority of post millennials come into when talking about risk classes, as well the aspect of peer perception on the basis of investment decisions by these post millennials. Risk profiling is an important factor for both individuals as well as financial institutions in their own ways. Being aware of your own individual risk profile helps you manage your portfolio in the correct ratio so as to optimize your returns. Whereas for institutions, this comes into play to target their customers with regards to different financial products relevant to the new generations risk preferences. The paper focuses on few key factors that influence these risk-taking preferences and focus on understanding more about Generation Z.

II. Review of Literature

a) (Klement, Kathleen-doyle, & Smith, n.d.), Investor Risk Profiling: An Overview

This paper talks about how risk profiling should be done and how multiple factors come into play while risk profiling and how it is changing with time. It also talks about the importance of risk profiling and how investment managers bank on them to create and suggest new investment products to their target clientele.

b) (Olsen & Cox, 2001), The Influence of Gender on the Perception and Response to Investment Risk: The Case of Professional Investors

This paper relates very close to our research objectives in the way of talking about how gender plays a role in the perception of the investment risk taken up by individuals around the world. They come to the conclusion that female investors with the same amount of experience and knowledge as their male counterparts tend to take lesser risk than male investors.

c) (Kuzniak, Rabbani, Heo, Ruiz-menjivar, & Grable, 2015), The Grable and Lytton risk-tolerance scale : A 15-year retrospective

This paper shows the 15 year history of the Grable and Lytton risk-tolerance scale. The Grable and Lytton risk tolerance scale helps in measuring the risk tolerance or their willingness to participate in risky financial activity. This research shows the descriptive response data for the scale and also evaluates the scales reliability. A use of t and Anova test was done, but the numbers were spread out due to large sample size.

d) (Linciano & Soccorso, 2012), Assessing investors ' risk tolerance

It is a study on the questionnaires being used to measure investor's risk tolerance. This paper focuses on the Italian investment firms. Quantitative analysis techniques based on specifications of a utility function. It states the reasons as to why certain types of questions have to be asked regarding investment knowledge, objectives etc. of investor. Bar graphs and histograms were used to display data. Tips on language, structure, layout, reliability, verifiability were given by this paper.

e) (Dangmei, 2016), Understanding the Generation Z : The Future Workforce

This paper defines Generation Z, and states why the study on Generation Z is important. It informs us as to how important it is to study about Generation Z because of the change in lifestyle, work style and attitude. The characteristics of Generation Z such as informal way of communication, work expectation and heightened optimism are explained in this paper. Their preferences at workplace such as transparency, self-reliance, personal freedom, work environment and flexibility are described. It shows how vital it is to do research on Generation Z as the characteristics are extremely different from the previous generations.

III. Research Design

Scope of the study

We have considered Generation Z as our sample base. The target investors are youth aged between currently between 16-24 years. These investor's risk taking preferences are measured and differentiated based on gender. The aim of doing so is to understand the difference between earlier generations and Generation Z.

Statement of problem

Analyzing risk is always arduous due to the ever changing factors that affect different individuals. Understanding Generation Z is important for financial "institutions" to understand their target market and come up with financial products. Thus in this paper we understand risk taking preferences of Generation Z individuals on the basis of various dependent factors.

Objectives of the study

a. To understand the significance of gender in the on risk classes in investments among Generation Z individuals.

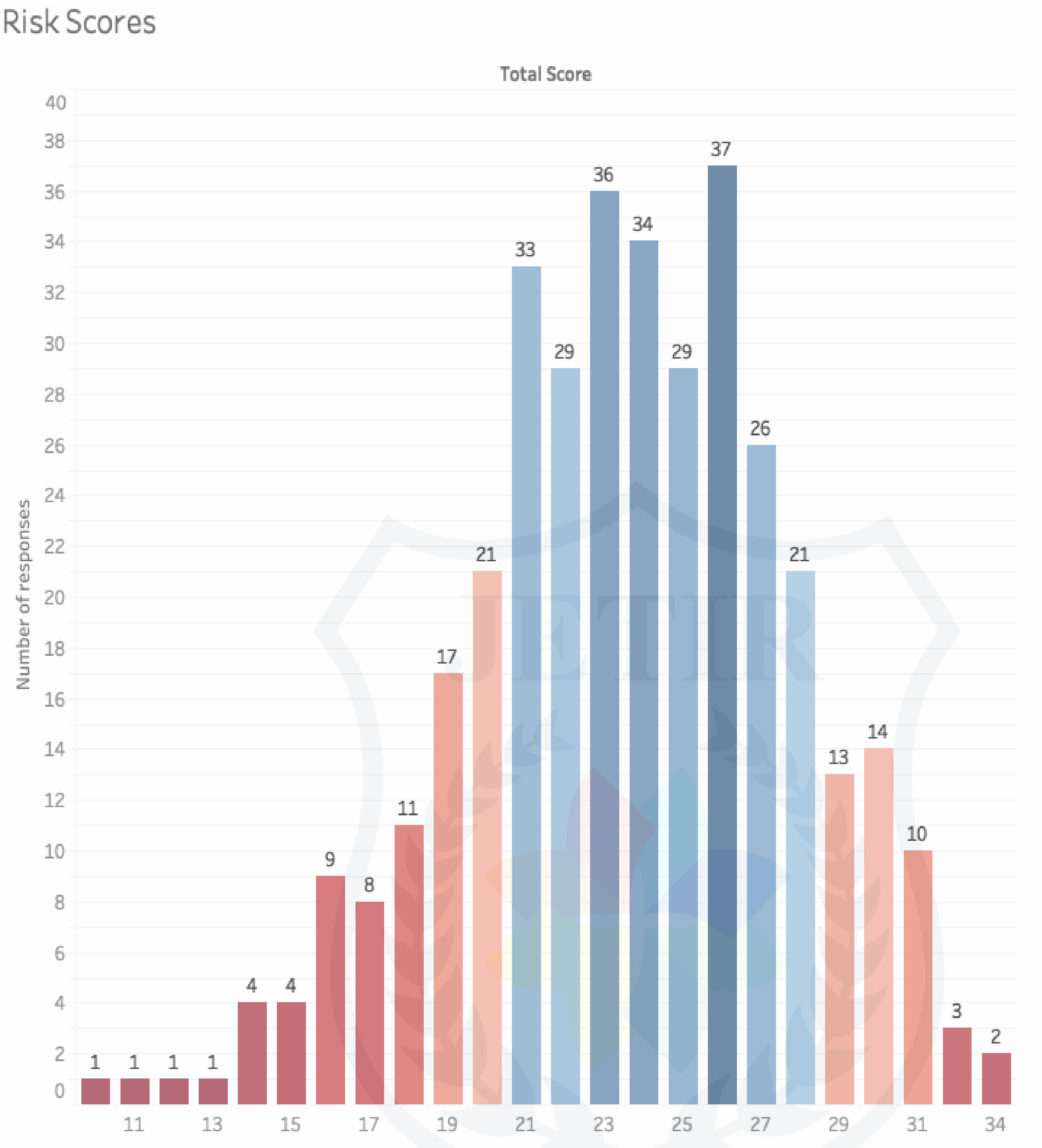
b. To understand the relation between peer perception and the investment reality of Generation Z individuals.

Source of data

We have used primary data as our source of data for our analysis. We ran a survey of around 350 Generation Z individuals and collected responses both online and offline.

Limitations of the study

1. Study is conducted only in the commerce field.
2. Research is conducted only in Bangalore, India.
3. The risk appetite can change based on time, and cash inflow.
4. The psychological factor can come into play and investor can take irrational investment decision.



5. Suggesting asset allocation based on the investor's age can lead to oversimplification and can cause errors

Analysis and Hypothesis

We have two main objectives for the study that we have proved using different tests. Following are the various hypotheses.

Hypothesis 1

H0 = There is no significant impact of gender on the risk classes in investment for Generation Z individuals.

H1= There is a significant impact of gender on the risk classes in investment for Generation Z individuals.

To prove the following hypothesis, we ran a paired sample t-test where the data was split into two on the basis of the gender collected in the primary data and tests were conducted against Q7 and Q9 in our questionnaire.

The reason we took the following responses to analyze the risk taking preference is that these questions directly relate to the preference of the individual without taking into consideration the capability of the individual.

As the paired sample t test was run, the following results were generated.

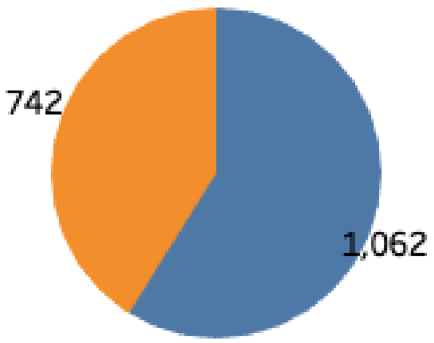
Paired Samples Test[a]

Gender			Paired Differences					t	df	Sig. (2-tailed)
			Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
						Lower	Upper			
MALE	Pair 1	Gender - VII	-1.2685	1.0619	.0723	-1.4109	-1.1261	-17.557	215	.000
	Pair 2	Gender - IX	-1.6250	.9563	.0651	-1.7533	-1.4967	-24.974	215	.000
FEMALE	Pair 1	Gender - VII	-.3784	1.0905	.0896	-.5555	-.2012	-4.221	147	.000
	Pair 2	Gender - IX	-.6351	.9046	.0744	-.7821	-.4882	-8.541	147	.000

From these results as we see, the tests were run for all 4 scenarios, Male:Q7, Male:Q9, Female:Q7, Female:Q9. On all the 4 following test values, the significance level is at 0.000 which is lesser than the benchmark of 0.005.

The basically means that the H0 is rejected and the H1 is accepted. This means that there is a significant impact of gender on the risk classes in investment for Generation Z individuals

The test has also been used to prove that men take more risks as compared to women in investments, supporting the studies that have been conducted on previous generations. Here stating that it is the same even in Generation Z.



The pie chart shows the sum of responses for 100 male and 100 female respondents from the survey, where it shows that the sum score that it comes to for women is 742 as compared to 1062, hence proving that male individuals tend to take more risk than their female counterparts

Hypothesis 2

H0 = There is no relation between peer perception and the investment reality of Generation Z individuals.

H1 = There is a relation between peer perception and investment reality of Generation Z individuals.

To prove the following hypothesis, we ran a linear regression test on the data we collected from the questionnaire on Q5 and Q8

As seen, Q5 focuses on the peer perception that is there on the minds of an individual along with Q8 that focuses on the investment reality of the individual. We ran a linear regression test where the dependent variable is the peer perception and the independent variable is the investment reality of the individual.

As the test was run, following are the results that were generated:

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.188	1	9.188	15.438	.000[b]
	Residual	216.029	363	.595		
	Total	225.216	364			

a. Dependent Variable: V

b. Predictors: (Constant), VIII

From this test, what we can deduce that the H0 would be rejected and the H1 would be accepted where this proves that there is a relation between peer perception and investment reality of Generation Z individuals. This is due to the significance level that shows at 0.000 as compared to the benchmark of 0.005. As it is lower than the benchmark, the null is rejected.

IV. Findings

i. Generation Z although different from earlier generations, do still follow similar characteristics from earlier generations

ii. There is a relationship between peer perception and investment reality of generation Z individuals

iii. Gender still does play a role in the risk-taking capabilities of individuals.

iv. Generation Z has a greater understanding of investment markets due to the situations and information they are exposed to, hence more confident in taking up higher levels of risk.

V. Conclusion

A very important aspect of financial planning is measuring the risk appetite of individuals and risk profiling them. A financial planner's job is to understand the behavioral and personal factors behind an investor's willingness and ability to take risk. This study has showcased the significant impact of gender on the risk-taking appetite of individuals which supports theories from previous studies on prior generations that women take lesser risk when compared to men. The study also proves that there is a relation between peer perception and investment reality of Generation Z individuals. The perception of an individual by their peers have the tendency to change when they are aware of the type of investments they take up and the risks that they have undertaken. Generation Z would be the next target market of financial institutions in the upcoming years.

VI. References

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