The keys to unlocking greater investment in Stocks and Shares ISAs

Evidence from a consumer survey

Prepared for

TISA

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Foreword

Sensibly investing for the long term is important. Investing allows people to access the benefits of compound returns, providing the ability to earn much better long-term returns than cash. Investing helps people achieve their lifetime financial goals. It helps people build financial resilience. It helps guard against the corrosive impacts of inflation, which is now more important than ever.

The current cost-of-living crisis is affecting millions of households. For many, the crisis has reduced or eliminated their ability to invest for the future. For these people, once this crisis is over, a key financial priority will be resuming plans to put money aside, for their longer-term goals and to improve their financial resilience. For others fortunate enough to have a store of savings, they are seeing high inflation eroding the purchasing power of savings held in cash.

Whether it is now or in the future, TISA believes that millions of people in the UK would benefit from sensibly investing for the long term, in simple products like Stocks and Shares ('S&S') ISAs.

In its last Financial Lives Survey, the Financial Conduct Authority (FCA) estimated that nearly 8.6m consumers held more than £10,000 of investible assets in cash.[1] Furthermore, according to HMRC data, over 60% of the money in Junior ISAs is held in cash, despite the decades-long investment horizon that people have for such investments.[2] Somehow, the UK's retail investment market is not working for very large cohorts of UK society.

When the FCA announced its Consumer Investments Strategy in September 2021, it pointed out the risk of consumers suffering future detriment from holding too much cash. The FCA was right to identify this risk. High inflation is eating away at people's hard-earned savings (e.g. sitting in bank accounts and Cash ISAs earning low interest rates). People's dreams are being eroded, as well as their financial resilience.

The financial services industry, along with the Government and the FCA, need to take stock of the problems holding people back from sensibly investing and take concrete steps to remedy the situation for future retail investors.

We commissioned this study to: 1) help inform the industry on how to effectively communicate the benefits of investing to consumers (within S&S ISAs); and 2) provide new insights to the Government and the FCA on the scale of the problem and the types of consumer support initiatives that future legislation and regulation ought to enable for retail investors.

This study finds the following.

- Engagement remains the major problem—over 70% of people who have not invested in S&S ISAs have never even considered doing so.
- People grossly overestimate the risk of losing money from investing, even over long-term time horizons, compared to historical performance.
- Many people with their savings in cash have very long time horizons, meaning that they are exposed to significant detriment from inflation.

[1] FCA (2021), 'FCA sets out plan to tackle investment harm', press release, 15 September.
[2] HMRC (2021), 'Annual Savings Statistics', June, https://www.gov.uk/government/statistics/annual-savings-statistics (last accessed 12 August 2022). Statistics based on provisional 2019–20 data for Junior ISAs.

- People find the journey of investing in a S&S ISA journey time-consuming and complex—much still needs to be learnt from behavioural science about creating effective communications and information to drive good outcomes.
- The customer base for S&S ISAs is not representative of UK society, with women, those living outside the South East (and particularly outside London), and those of lower socio-economic groups under-represented. The FCA has signalled the importance of stepping up efforts on inclusion.[3]

Calls to action

Given that low engagement is the major problem, the Government urgently needs to review the legislative framework around the prompts, nudges, alerts, and suggestions that firms are (not) allowed to deliver to unadvised people as financial guidance. Firms ought to be enabled to deliver personalised guidance that: explains the risks of holding too much cash; encourages affected people to act; and helps those people choose an appropriate investment.

People are calling out for industry to provide simpler and clearer information on S&S ISAs. The benefits of diversified funds and having a fund manager to manage risk should be better communicated.

A joint approach is needed between the FCA and the industry to ensure people obtain a more balanced and accurate appreciation of the risks (as well as the benefits) of investing. Better disclosures are clearly necessary, through a range of sources, to help consumers become well informed. It does not serve people's best interests to be left with a distorted perception of investment risk.

Last, a joint approach is needed between industry, the FCA and Government on creating a more inclusive retail investment market. TISA welcomes the Government's willingness for MiFID to be redesigned, so we can create an investment regime that better suits the needs of the people who would benefit from sensibly investing for the future.

Thank you and how to get involved

A big thank-you to Oxera for undertaking this study, and also to abrdn, Coutts, and Nationwide Building Society for sponsoring this important initiative.

TISA will be using the research findings to develop communication prototypes aimed at improving engagement and sensible investing within S&S ISAs. We welcome interested firms and stakeholders to join this project.

Prakash Chandramohan
Strategy Director

TISA

[3] FCA (2021), 'Diversity and inclusion in the financial sector – working together to drive change', DP21/2.

Key findings

Oxera, along with Accent Market Research, was asked by TISA to conduct a consumer survey to investigate who is more likely to invest in Stocks & Shares ISAs (S&S ISAs) and what would encourage more consumers to invest in S&S ISAs. In this section we briefly summarise the key findings of the online survey, conducted on 2,002 people from 8 June to 4 July 2022.

We collected data on three samples of participants: those who had already invested in a S&S ISA (the '**S&S ISA sample**'); those who had a Cash ISA, but had not invested in a S&S ISA (the '**Cash ISA sample**'); and those who had not invested in either a S&S ISA or a Cash ISA but held a bank account in which they kept savings of at least £5,000 (the '**bank account sample**').

There are two groups of consumers who do not invest in S&S ISAs: 1) those who engage with S&S ISAs but drop out of the customer journey before investing in them because the consumer journey is complex and time-consuming; and 2) those who do not engage with S&S ISAs in the first place. Both groups can be encouraged to invest in S&S ISAs.

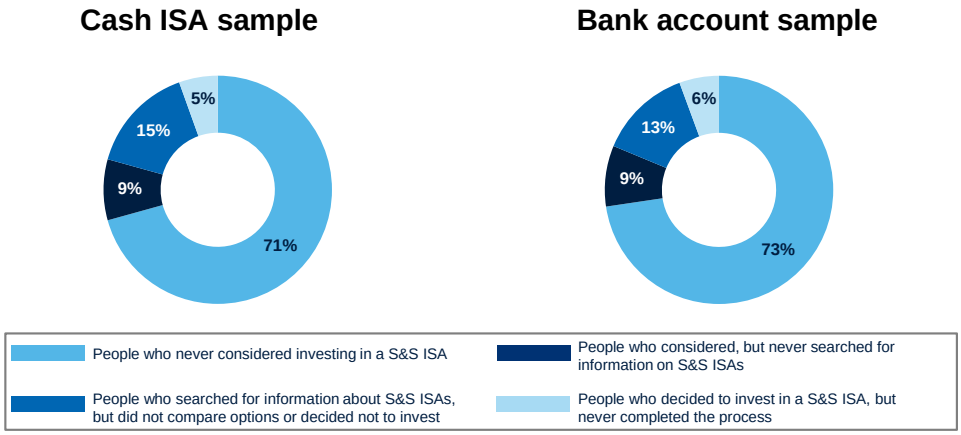
The survey indicates that many consumers choose not to invest in S&S ISAs because they are averse to losses. Importantly, we find that in general consumers substantially over-estimate the likelihood of losing money from investing in S&S ISAs, especially over longer time horizons. While it may not be possible (or even advisable) to change levels of loss aversion, consumers could be better informed about the likelihood of losing money from investing in S&S ISAs.

Consumers from across the UK population invest in S&S ISAs. However, controlling for other factors, individuals who are male and from higher socioeconomic groups are more likely to invest in S&S ISAs. Consumers living in the South East (and, in particular, London) also appear to be more likely to invest in S&S ISAs.

Most consumers do not engage with S&S ISAs

Over 70% of the people in our sample who had not invested in a S&S ISA had not considered investing in a S&S ISA, as shown in the figure below.

Most consumers do not engage with S&S ISAs



Note: Based on a comparison, not a regression result.[4] We categorised a 'don't know' answer to any of the questions as a 'no'.

Source: Oxera.

[4] Regression analysis is an econometric technique. In simple terms, it allows us to control for many factors, in order to identify which factors are meaningful and statistically significant. Specifically, it estimates the relationship between a set of explanatory variables and the variable of interest (known as a dependent variable). This allows us to isolate and quantify the effect of a single variable. For example, we use regression analysis to quantify the relationship between gender and whether a consumer has invested in a S&S ISA, while controlling for other variables such as age, income, region, etc. (see section 2).

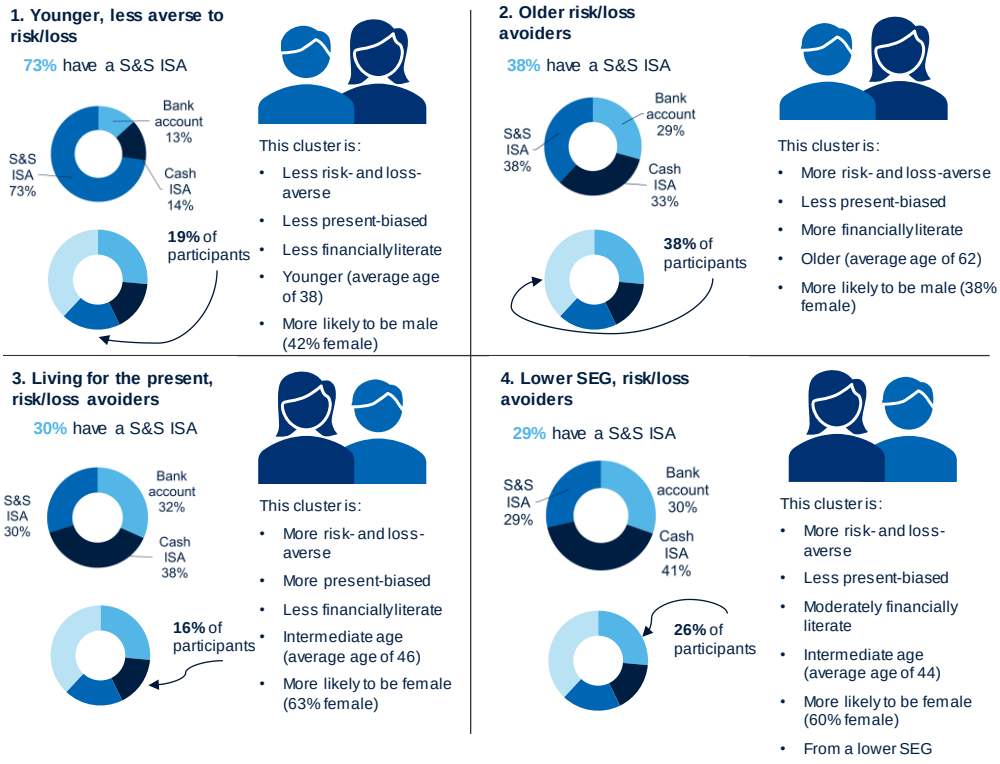
Demographics and behavioural biases affect whether consumers choose in invest in S&S ISAs

Consumers from across the UK population choose to invest in S&S ISAs. However, when controlling for other factors through regression analysis, we find that people are more likely to invest in a S&S ISA when they are:

- individuals who agree that 'people like you' buy S&S ISAs; are less loss-averse and risk-averse; and have a correct understanding about how S&S ISAs function;
- male, from higher socioeconomic groups, and live in the South East (and, in particular, London).

Using a data science approach we find that S&S ISA consumers fall into one of the four clusters shown below.[5]

The four clusters



Note: Loss aversion refers to consumers' preferences for avoiding losses over making the equivalent gains, while risk aversion refers to consumers' preferences for certainty over uncertainty. These types of bias are linked to one another and both are common in the population as a whole.[6]

Source: Oxera.

[5] We used clustering analysis, which uses an algorithm to determine the correlations between variables, to identify different groups of consumers based on their levels of risk and loss aversion, age, financial literacy, present bias and socioeconomic group. More detail is given in section 2.
[6] For example, see Holzmeister F., Huber, J., Kirchler, M. and Lindner, F. (2020), 'What Drives Risk Perception? A Global Survey with Financial Professionals and Lay People', *Management Science*, **66**:9, pp. 3977–4002.

Many consumers with longer savings horizons plan to keep their savings in cash, despite rising inflation

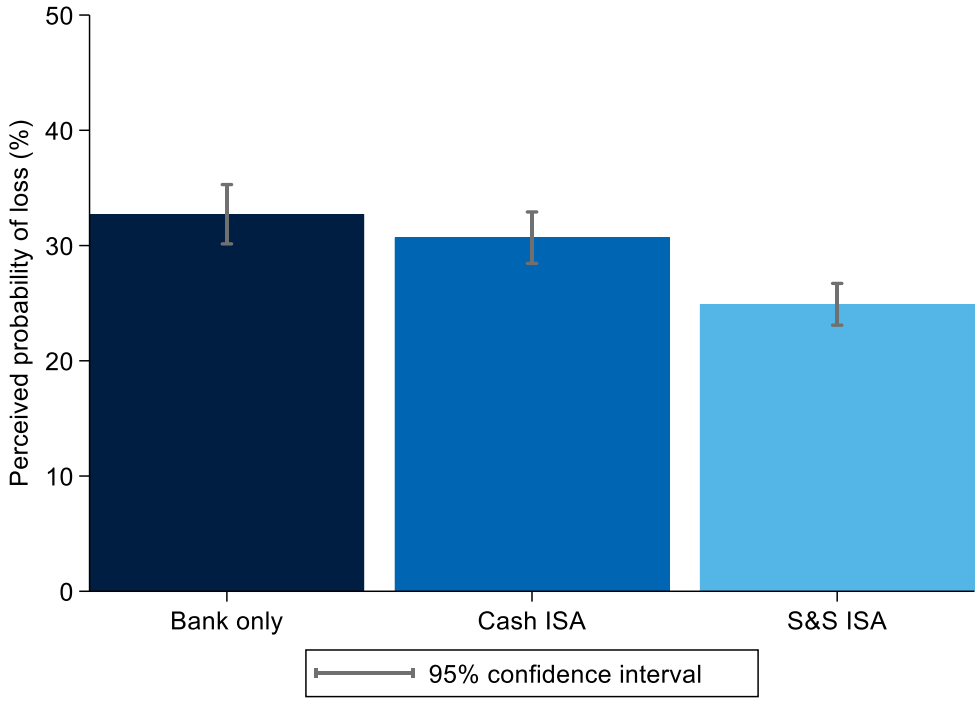
Now that the UK has entered a high inflation environment, the risk of eroded purchasing power (from not investing) has become a reality. Importantly, we find that many consumers with longer savings horizons still plan to keep their savings in cash. Of those consumers who know when they are likely to withdraw their savings, **over 85%** do not expect to withdraw the savings in their Cash ISA or bank account in the next four years.[7]

Of those consumers who expect to withdraw their savings after five or more years, only a minority said that higher inflation would make them more likely to invest in a S&S ISA (**28%** in the bank account sample, and **29%** in the Cash ISA sample).

Consumers substantially over-estimate the likelihood of realising a loss from an investment in a S&S ISA in equities

Consumers may not realise that they are losing out by holding cash, as in general they do not appear to be well informed about investing. As shown in the figure below, the *perceived* probability of realising a loss (i.e. money invested going down) over a ten-year period was **over 30%** for the Cash ISA and bank account samples and **over 25%** for the S&S ISA sample.

Consumers substantially over-estimate the likelihood of realising a loss from an investment in a S&S ISA in equities over a ten-year period



Note: Based on a comparison, not a regression result. Based on answers to the question: 'What do you think is the probability of losing money (i.e. your investment going down) in a Stocks and Shares ISA in equities, over a 10 year investment period?'.

Source: Oxera.

[7] This excludes people who do not know when they are likely to withdraw the savings in their Cash ISA or bank account, who represent 60% of the Cash ISA sample and 72% of the bank account sample. However, if we include those people who say that they 'don't know' when they plan to withdraw their savings, 25% of the bank account sample and 17% of the Cash ISA sample still have savings horizons of five or more years.

For illustration, the historical probability of realising a loss from investing in the FTSE100 over a ten-year period is **3.5%**.[8] While we cannot comment on future stock market returns, the historical FTSE100 benchmark may be higher-risk than the diversified funds available to, and chosen by, many consumers.

When comparing consumer perceptions of the likelihood of realising a loss over one, five or ten years, we see that consumers under-appreciate the effect of longer time horizons on the likelihood of realising a loss.

This finding is important, because higher loss aversion is correlated with choosing not to invest in S&S ISAs. We also find that **over 30%** of participants in the Cash ISA and bank account samples said that they did not invest in a S&S ISA 'because I did not want to put my money in a risky investment' (this was the most popular answer).

This finding can also help explain the gender gap: we find that, on average, women are (a) more loss-averse than men, and (b) more pessimistic than men about the probability of realising a loss from investing over five or ten years. Indeed, **over 40%** of women in the Cash ISA and bank account samples said that they did not invest as they did not want to put their money into a risky investment.

The customer journey creates barriers to investing in S&S ISAs

Complexities in the customer journey appear to be barriers. For example, **27%** of participants considered that it was difficult or very difficult to work out the differences between different types of S&S ISA, and how to choose a fund. Further, the Cash ISA and bank account samples found the experience of finding information about S&S ISAs complicated and time-consuming. The S&S ISA sample found it straightforward and easy, but still time-consuming.

Certain terms resulted in negative emotional responses, particularly 'diversification', 'active and passive funds', and 'tax-free wrapper'. In both the Cash ISA and bank account samples, **at least 74%** of participants did not have positive emotional responses to any of these terms.[9]

The main barriers to investing in S&S ISAs do not appear to be a lack of trust, or fees and charges

Over 92% of participants in the Cash ISA and bank account samples said that a lack of trust in financial services providers did not stop them from investing in a S&S ISA. **Over 81%** of participants in the Cash ISA and bank account samples said that the fees and charges on S&S ISAs did not stop them from investing in a S&S ISA.

Ensuring inclusive marketing to address disparities

Inclusive marketing and engagement activity may help to address the disparities based on gender, where people live, and socioeconomic group. For example, inclusive marketing could seek to address the perception that 'people like you' do not invest in S&S ISAs.

[8] Period covered: 1 January 1984 (when the FTSE100 was created) to 20 July 2022. Assuming reinvestment of dividends, and asset management fees of 0.5%. Based on daily returns. Asset management fees applied on a monthly basis. We see similar results for the FTSE250—see the main body of the report.
[9] Positive responses: 'comfortable'; 'informed'. Negative responses: 'anxious'; 'confused'; 'turned off'. Other responses: 'don't know'; 'prefer not to say'. Calculated as the number of participants who did not respond with 'comfortable' and/or 'informed', as a percentage of the sample.

Informing consumer expectations to increase engagement

While it may not be possible (or even advisable) to change levels of loss or risk aversion, consumers could be better informed about the levels of risk and the probability of realising a loss when investing in S&S ISAs. This would be likely to affect the decision over whether to invest in S&S ISAs. Indeed, at least **51%** of participants in the Cash ISA and bank account samples said that they would be 'more likely' to invest if 'funds are less likely to lose money in the long run' and/or 'funds are low risk'.

Relatedly, **21–30%** of participants in the Cash ISA and bank account samples said that they would be 'more likely' to invest in funds if 'funds have a professional investment manager' (compared with **44%** of the S&S ISA sample). We infer that the benefits of having a fund manager to manage risk should be more widely communicated by the industry.

Investing in S&S ISAs is correlated with having a good understanding of how S&S ISAs function, including correctly understanding that customers can withdraw from S&S ISAs at any time. Thus, effectively communicating the features of S&S ISAs to more consumers is likely to lead to more consumers wanting to invest.

Providing simpler and clearer information to improve the customer journey

Many consumers stated that more clarity on the differences between funds, and simpler information about S&S ISAs, would make them more likely to invest in a S&S ISA. The average stated score out of 10 (across the samples) for the impact of these options was **4.6–7.0**.[10] These two factors may be more highly valued by those consumers who did engage in the market (but did not buy a S&S ISA).

In addition, **36–43%** of consumers said it would be helpful to have 'An online tool or app where I can input information about myself and the website tells me the most appropriate investment for me'. Currently, such an app would count as an 'advised' sale.

In terms of information channels, some consumers said that information from 'trusted public figures or influencers (e.g. Martin Lewis)', 'an independent quality-rating website (e.g. Defacto)', or 'a price comparison website' would help them make a decision about S&S ISAs. The average stated score out of 10 (across the samples) for the impact of these options was **5.0–6.7**.[11]

Many consumers also stated that 'regular updates about my Stocks and Shares ISA as I progress towards my goals' would make them more likely to invest in a S&S ISA. The average stated score out of 10 (across the samples) for the impact of this option was **4.9–7.3**.[12]

[10] Where 10 was 'very much so', and 1 was 'not at all'.
[11] Where 10 was 'very much so', and 1 was 'not at all'.
[12] Where 10 was 'very much so', and 1 was 'not at all'.

1 Introduction

Oxera, along with Accent Market Research, was asked by TISA to conduct a consumer survey to investigate the following questions.

- Which type of consumer is most likely to invest in S&S ISAs? (section 2)
- What is the extent of the consumer detriment (of those not investing in a S&S ISA)? (section 3)
- What are the barriers to investing in S&S ISAs? (section 4)
- What would encourage more consumers to invest in S&S ISAs? (section 5)

1.1 The survey

We conducted an online survey of 2,002 participants from 8 June to 4 July 2022. The sample therefore contains only consumers with online access.

The survey was designed using insights from behavioural economics, drawing on the existing literature on consumer behaviour. It took participants around 20 minutes to complete, and elicited information on: savings and investment choices; perceptions of S&S ISAs; financial literacy; behavioural biases; and demographics.

We collected data on three samples of participants:

- 814 participants had already invested in a S&S ISA (the 'S&S ISA sample');
- 649 participants had a Cash ISA, but had not invested in a S&S ISA (the 'Cash ISA sample');
- 539 participants held a bank account in which they kept savings of at least £5,000 (the 'bank account sample'). These participants had not invested in either a S&S ISA or a Cash ISA.[13]

The sample contained participants from across the UK in the age range of 18–79 (inclusive). The sample had a similar coverage in terms of age, gender, income and region to the HMRC 2018–19 annual savings statistics.[14]

More detail can be found in the technical appendix to this report.

1.2 The analysis

We analysed the data in three ways.

- Comparison of the samples in a figure—for example, a figure showing the geographic locations of the three samples (S&S ISA sample, Cash ISA sample, bank account sample).[15]

[13] These participants answered with 'at least £5,000' to the question: 'On average, over the last 3 years, approximately how much have you had saved in your bank account(s) which you consider to be savings?'
[14] See HMRC (2021), 'Annual Savings Statistics', June, https://www.gov.uk/government/statistics/annual-savings-statistics (last accessed 12 August 2022). HMRC estimates certain statistics about the number of people who have invested in S&S ISAs and/or Cash ISAs, based on a sample of people. At the time of writing, the latest available HMRC data refers to 2018–19.
[15] When concluding on the statistical significance of these comparisons, we used the Mann–Whitney test. The Mann–Whitney test compares the medians of different samples, and is non-parametric (i.e. it relies on fewer assumptions about the distribution of the data than parametric tests). The 95% confidence interval grey bars shown in the figures are based on a parametric test and therefore give only an indication of the statistical significance.

- Regression analysis, where we used econometrics to control for many factors to identify which factors were meaningful and statistically significant.
- Clustering, where we used a data science algorithm to identify clusters of consumers.[16]

In this report we make it clear how we have reached our conclusions, and where we are inferring a finding.

More detail can be found in the technical appendix.

[16] Clustering does not show causation; rather, it shows how different factors are correlated. We selected the input factors for the algorithm and used our judgement in interpreting the results—for example, in deciding how many clusters lead to the most informative outcome.

2 Who invests in Stocks & Shares ISAs?

In this section, we describe the different factors that are correlated with the decision to invest in S&S ISAs. This is based on our regression and clustering analysis.[17]

Box 2.1 Key messages

Consumers from across the UK population invest in S&S ISAs. However, when controlling for other factors, individuals who are male and from higher socioeconomic groups are most likely to invest in S&S ISAs. Consumers living in the South East (and, particularly, London) also appear to be more likely to invest in S&S ISAs.

We also find that consumers are more likely to invest in S&S ISAs when they: agree that 'people like you' invest in S&S ISAs; are less loss- and risk-averse; and have a correct understanding about how S&S ISAs function.

Source: Oxera.

2.1 The gender gap, regional differences, and socioeconomic inequality

Although consumers of all genders, and from all regions and socioeconomic groups invest in S&S ISAs, they are significantly more likely to invest if they are male, live in the South East (particularly London), or are from the highest socioeconomic group. Age and income have less of an impact on consumers' investment decisions. Table 2.1 summarises these findings.

Table 2.1 The gender gap, regional differences, and socioeconomic inequality

Variable	Effect on choice to invest in a S&S ISA instead of a *Cash ISA*	Effect on choice to invest in a S&S ISA instead of a *bank account only*
Consumer is in the **lowest socioeconomic group** (DE), rather than the highest (AB)	**18% less** likely to invest in a S&S ISA	**15% less** likely to invest in a S&S ISA
Consumer **lives in London**, rather than Wales	**16% more** likely to invest in a S&S ISA	**14% more** likely to invest in a S&S ISA
Consumer is **male**, rather than female	**8% more** likely to invest in a S&S ISA	**6% more** likely to invest in a S&S ISA

Note: Based on the average margin regression results. All results statistically significant at the 1% level. Full regression results can be found in the technical appendix. The 'London effect' is present when comparing London with all other regions, not just Wales.

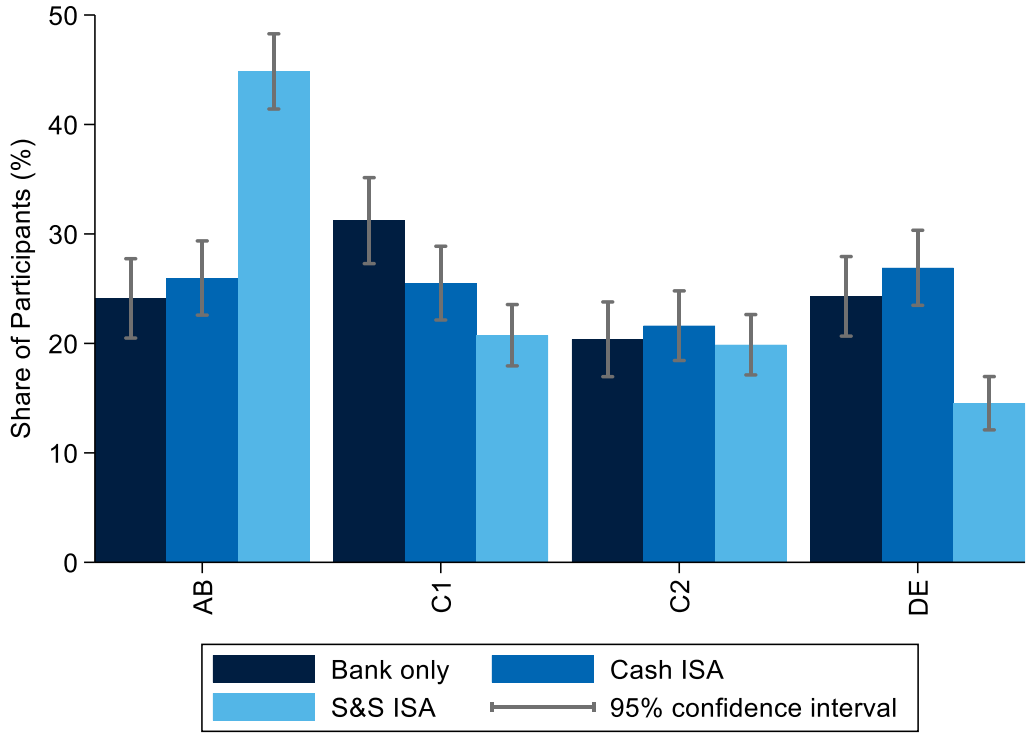
2.1.1 The impact of socioeconomic groups

Consumers from all socioeconomic groups invest in S&S ISAs.[18] However, as Figure 2.1 shows, people in the highest socioeconomic group (AB) are significantly more likely to invest in S&S ISAs than in Cash ISAs or bank accounts. This is not the case for the other socioeconomic groups. The regression results (where we control for other factors such as income) show

[17] We focus on the key regression results; full regression results can be found in the technical appendix.
[18] Socioeconomic groups are defined based on profession, where: AB indicates senior or intermediate managerial, administrative or professional; C1 indicates supervisor, clerical, junior managerial, administrative or professional, or student; C2 indicates manual worker with industry qualifications; and DE indicates a manual worker with no qualifications or unemployed. For those who are retired, their socioeconomic group is based on their profession before they retired.

that a consumer in the highest socioeconomic group (AB) is 17% more likely to invest in S&S ISAs than a consumer in socioeconomic group DE.

Figure 2.1 Share of participants in the S&S ISA, Cash ISA and bank account only groups by socioeconomic group



Note: Based on a comparison, not a regression result. Socioeconomic group is defined based on profession, where socioeconomic group AB indicates senior or intermediate managerial, administrative or professional; C1 indicates supervisor, clerical, junior managerial, administrative or professional, or student; C2 indicates manual worker with industry qualifications; and DE indicates a manual worker with no qualifications or unemployed. For those who are retired, socioeconomic group is based on their profession before they retired.

Source: Oxera.

2.1.2 The impact of region lived in

Consumers living in all regions of the UK invest in S&S ISAs. However, consumers living in London, and possibly the wider South East region, are more likely to invest in S&S ISAs than consumers living in the rest of the UK.

Even when controlling for other factors (such as income) in the regression analysis, a consumer who lives in London (compared with Wales) is 16% more likely to invest in a S&S ISA than a Cash ISA, and 14% more likely to invest in a S&S ISA than a bank account.[19]

[19] Compared with the HMRC 2018–19 annual savings statistics, in our sample a higher proportion of S&S ISA holders and a lower proportion of Cash ISA holders live in London. However, this is balanced by the HMRC data (compared with our sample) having a higher proportion of S&S ISA holders, and a lower proportion of Cash ISA holders, living in the South East. Our survey and HMRC data find a similar proportion of S&S ISA holders in the combined regions of London and the South East. The differences between our survey and HMRC data may be due to (a) differences in sampling approach; (b) differences in how consumers define 'London' compared with the surrounding area; or (c) changes in the population between 2018–19 and 2022. To be conservative, we add the caveat that the regression result on the impact of 'living in London' may also be the case for consumers living in the rest of the South East.

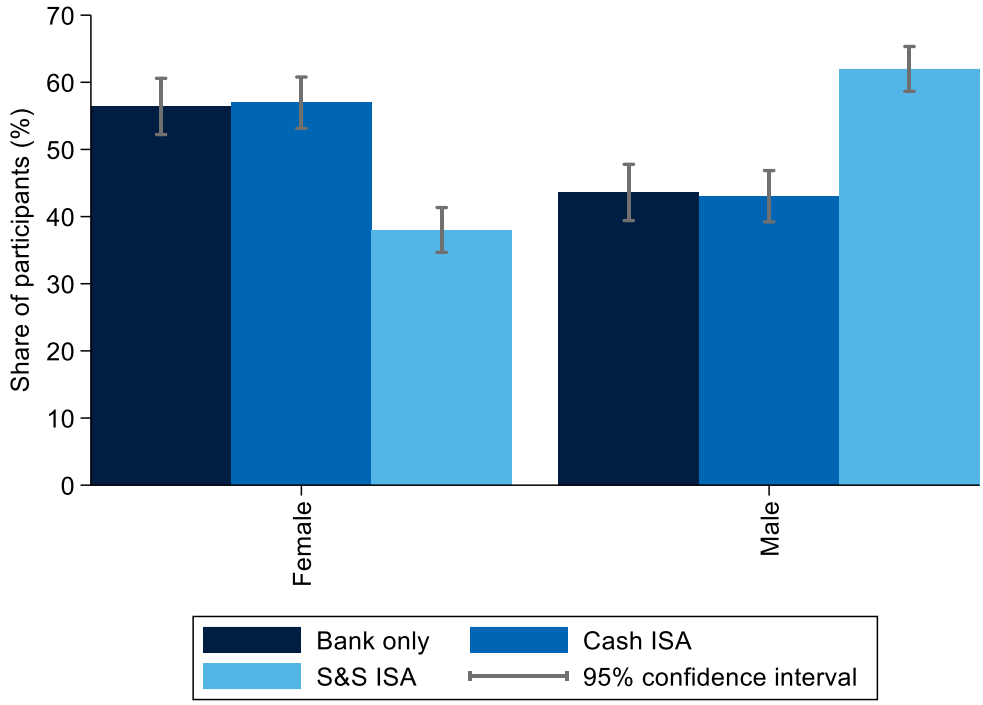
2.1.3 The impact of gender

While both men and women in the sample invest in S&S ISAs, we find that there is a significant 'gender effect'. Figure 2.2 shows that, while over half of the Cash ISA and bank account only samples are female, only 38% of the S&S ISA sample are female.

The difference in whether to invest in a S&S ISA between men and women is statistically significant even when controlling for other factors (such as income) in the regression analysis: consumers who are male are 8% more likely to invest in a S&S ISA than a Cash ISA, or 6% more likely to invest in a S&S ISA than a bank account.

The potential causes of the gender gap are discussed in section 3.

Figure 2.2 Share of participants in the S&S ISA, Cash ISA and bank account only groups by gender



Note: Based on a comparison, not a regression result. The figure does not show the number of non-binary participants due to too few data points (<10).

Source: Oxera.

2.1.4 The impact of income and age

The regression results indicate that (after controlling for other factors, including socioeconomic group, gender, etc.) income is not a significant factor in determining investment decisions.[20]

The impact of age on investment decisions is nuanced:

[20] Compared with the HMRC 2018–19 annual savings statistics, our samples for both S&S ISAs and Cash ISAs comprise, on average, people of higher income. Specifically, our sample has more S&S and Cash ISA holders in higher income brackets and fewer participants in lower income brackets than the HMRC sample. This difference is unlikely to have an effect on our results or conclusions, as we did not find that income is a significant factor in determining investment decisions.

- on the one hand, consumers in the Cash ISA sample (average age 50 years old) and bank account sample (55) are older on average than consumers in the S&S ISA sample (47). Age is also an important factor in the clustering analysis (see section 2.5 below);
- on the other hand, the regression results show that (after controlling for factors such as loss aversion) being one year older makes consumers (only) 0.1% less likely to invest in a S&S ISA compared a Cash ISA.[21]

Taken together, these results suggest that older consumers are less likely to invest in S&S ISAs than younger consumers. However, we infer that this is driven mostly by the correlation between age and loss aversion (and other factors). In other words, as consumers become older, they become more loss-averse. We infer that it is this greater loss aversion that makes them less likely to invest in S&S ISAs.

2.2 Loss aversion, risk aversion and 'people like you'

Being less loss-averse and less risk-averse, and believing that 'people like you' are likely to invest in S&S ISAs, also make people significantly more likely to invest in S&S ISAs. This result is shown in Table 2.2.

Table 2.2 Loss aversion, risk aversion, and 'people like you'

Variable	Effect on choice to invest in a S&S ISA instead of a *Cash ISA*	Effect on choice to invest in a S&S ISA instead of a *bank account only*
Thinks that **'people like you' are very likely to buy a S&S ISA**, compared with not stating an answer	**40% more** likely to invest in a S&S ISA	**28% more** likely to invest in a S&S ISA
Consumer is **highly loss-averse**, compared with low loss aversion	**18% less** likely to invest in a S&S ISA	**19% less** likely to invest in a S&S ISA
Consumer is **highly risk-averse**, compared with low risk aversion	**9% less** likely to invest in a S&S ISA	**7% less** likely to invest in a S&S ISA

Note: Based on the average margin regression results. All results statistically significant at the 1% level. Full regression results can be found in the technical appendix.

Source: Oxera.

2.2.1 The impact of peer effects

Significantly, peer effects appear to be an important determinant of whether consumers choose to invest in a S&S ISA. A simple comparison of the answers by sample to the question on peer effects is shown in Figure 2.3.

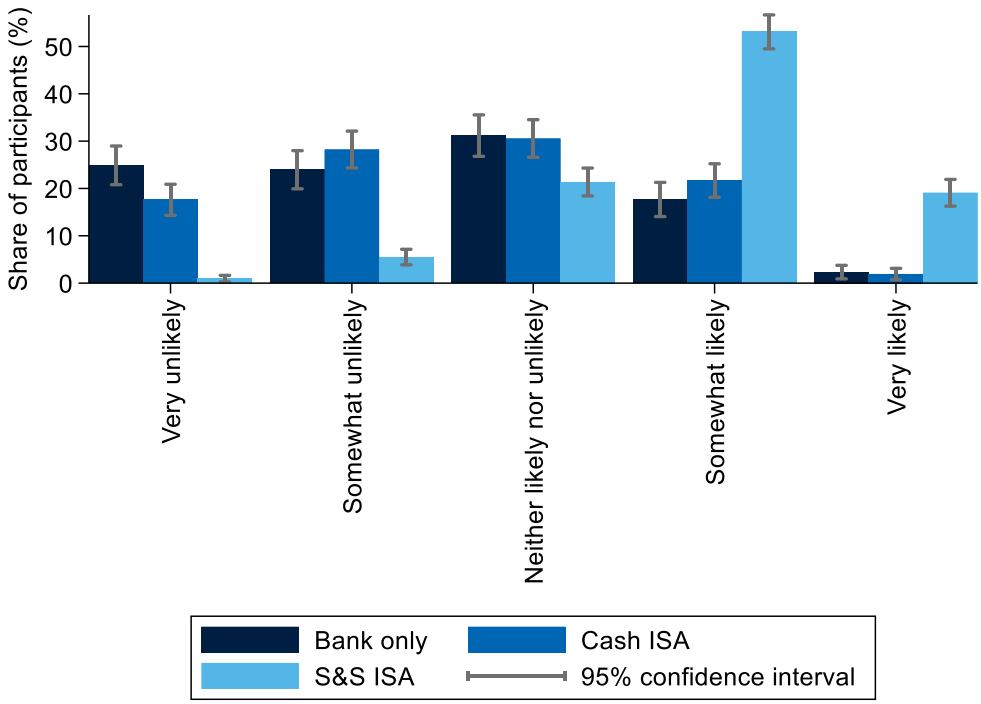
The regression results show that (when controlling for other factors) consumers who think that 'people like you' are 'very likely' to invest in a S&S ISA are 40% more likely to invest in a S&S ISA themselves, compared with people who choose not to answer the question. Similarly, consumers who

[21] Compared with the HMRC 2018–19 annual savings statistics, our sample appears to have a higher proportion of S&S ISA holders and a lower proportion of Cash ISA holders who are aged under 44. This means that our regression result—that being one year older makes consumers (only) 0.1% less likely to invest in a S&S ISA compared with a Cash ISA—may (if anything) overstate the impact of age.

select ‘very unlikely’ are 29% less likely to invest compared with people who choose not to answer the question.[22]

This indicates that peer effects play a role in consumers’ decisions to invest, or not, in a S&S ISA. Other studies confirm that peer effects are important in investment decisions; for example, consumers are more likely to invest when their neighbours have experienced good stock returns,[23] and consumers can be deterred from investing when it is not the social norm among their peer group.[24]

Figure 2.3 How likely do you think people like you are to invest in Stocks and Shares ISAs?



Note: Based on a comparison, not a regression result. Based on answers to the question ‘How likely do you think people like you are to invest in Stocks and Shares ISAs?’

Source: Oxera.

2.2.2 The impact of loss aversion and risk aversion

Loss aversion is the tendency to prefer avoiding a loss to making an equivalently sized gain (i.e. where consumers are sensitive to losing money relative to their reference point). Risk aversion refers to the tendency to prefer certainty to uncertainty.

Loss aversion and risk aversion are examples of behavioural biases. While the term ‘biases’ could imply that these are mistakes to be avoided, loss aversion and risk aversion can also be genuine preferences if consumers are engaged

[22] The coefficients on the ‘people like you’ variable should be interpreted as an upper bound on the impact of peer effects on investment decisions. This is because there is a risk of reverse causality in this question; i.e. people could think that people like them invest in S&S ISAs solely because they themselves invest in a S&S ISA. However, given the (large) size of the coefficients, we infer that (even if there is a degree of reverse causality) peer effects are likely to be a material factor in consumers’ decisions to invest in S&S ISAs.
[23] Kaustia, M. and Knüpfer, S. (2012), ‘Peer performance and stock market entry’, *Journal of Financial Economics*, **104**:2, pp. 321–338.
[24] Gomes, F., Haliassos, M. and Ramadorai, T. (2021), ‘Household finance’, *Journal of Economic Literature*, **59**:3, pp. 919–1000.

and well informed. Just because someone is highly loss-averse or risk-averse does not mean that they are mistaken or poorly informed.

As shown in the economics literature, many consumers are loss-averse,[25] and many are risk-averse.[26] The two biases are connected,[27] with loss aversion possibly explaining much of the observed risk aversion.[28] In our survey, we elicited both loss aversion and risk aversion, which allows us to isolate the effect of each one on investment decisions.

The regression analysis shows that consumers who are highly loss-averse are 19% less likely (than consumers with low loss aversion) to invest in a S&S ISA than in a Cash ISA, and also 19% less likely (than consumers with low loss aversion) to invest in a S&S ISA than in a bank account.[29]

Consumers who are highly risk-averse are 9% less likely (than consumers with low risk aversion) to invest in a S&S ISA than in a Cash ISA, and 7% less likely (than consumers with low risk aversion) to invest in a S&S ISA than in a bank account.[30]

We therefore conclude that loss aversion and risk aversion are important determinants of whether consumers choose to invest in a S&S ISA.

The effects of loss aversion and risk aversion on investment decisions are all the greater because S&S ISAs are widely perceived by consumers as being risky, and consumers in general over-estimate probabilities of losing money from investing in a S&S ISA in equities. This is discussed in sections 3 and 4.

2.2.3 The impact of present bias

Present bias refers to the preference for receiving something today rather than (receiving more) at a future date.[31]

Given that S&S ISAs have more uncertain returns over the short term than over the long term, we might expect people who exhibit more present bias to prefer holding their savings in Cash ISAs or a bank account. However, present bias is not a significant variable in the regression analysis.

Nevertheless, present bias is a factor in the clustering analysis (section 2.5). Therefore, we can infer that, while present bias does not appear to cause consumers to avoid investing in a S&S ISA, it is correlated with not investing in a S&S ISA.

[25] Zeisberger, S. (2021a), 'Do people care about loss probabilities?', *Journal of Risk and Uncertainty* (forthcoming).
[26] Zeisberger, S. (2021b), 'What is risk? How investors perceive risk in return distributions', working paper.
[27] Holzmeister, F., Huber, J., Kirchler, M., Lindner, F., Weitzel, U. and Zeisberger, S. (2020), 'What drives risk perception? A global survey with financial professionals and laypeople', *Management Science*, **66**:9, pp. 3977–4002.
[28] Zeisberger, S. (2021b), 'What is risk? How investors perceive risk in return distributions', working paper.
[29] Participants were asked how much they would be prepared to lose if there were a 50:50 chance of losing this and a 50:50 chance of winning £500. High loss aversion: willing to lose less than £250. Medium loss aversion: willing to lose exactly £250. Low loss aversion: willing to lose over £250.
[30] In Holt and Laury (2002), participants were asked to choose between a low-risk, low-return scenario (A) and a high-risk, high-return scenario (B), in which option B becomes increasingly less risky over time. High risk aversion: more than four safe choices. Medium risk aversion: four safe choices. Low risk aversion: less than four safe choices. See Holt, C.A. and Laury, S.K. (2002), 'Risk Aversion and Incentive Effects', *American Economic Review*, **92**:5, pp. 1644–1655.
[31] Participants were asked a series of questions about whether they would prefer to receive money today or in three weeks' time. The five sets of options were: £50 today, or £50/£60/£70/£80/£90 in three weeks. Participants were presented with the next option if they selected '£50 today'. High present bias: selected '£50 today' 4–5 times. Medium present bias: selected '£50 today' 2–3 times. Low present bias: selected '£50 today' 0–1 times.

2.3 The impact of investment goals

Consumers' investment goals have an impact on whether they are likely to invest in a S&S ISA, as shown in Table 2.3.

We asked participants what the most important goal was in relation to their savings or investments. Consumers saving for their children, retirement or a new car were significantly more likely to invest in a S&S ISA than in a Cash ISA or bank account, compared with people who had 'no specific purpose' for their investment.[32]

Consumers saving for 'my education' compared with 'no specific purpose' were also more likely to invest in a S&S ISA than a Cash ISA or bank account.

By contrast, consumers saving for 'unexpected expenses' were less likely to invest in a S&S ISA than people saving for 'no specific purpose'. This may reflect the fact that savings for 'unexpected expenses' might have to be withdrawn at short notice.

When we control for the choice of investment goal, we find that the timeframe over which consumers expect to withdraw their savings is not a significant variable in the regression analysis.[33]

Table 2.3 Savings and investment goals

Variable	Effect on choice to invest in a S&S ISA instead of a *Cash ISA*	Effect on choice to invest in a S&S ISA instead of a *bank account only*
Investment goal of **'children'**, compared with no specific purpose	**10% more** likely to invest in a S&S ISA	**10% more** likely to invest in a S&S ISA
Investment goal of **'my education'**, compared with no specific purpose	**14% more** likely to invest in a S&S ISA	**19% more** likely to invest in a S&S ISA
Investment goal of **'retirement'**, compared with no specific purpose	**10% more** likely to invest in a S&S ISA	**6% more** likely to invest in a S&S ISA
Investment goal of **'new car'**, compared with no specific purpose	**8% more** likely to invest in a S&S ISA	**10% more** likely to invest in a S&S ISA

Note: Based on the average margin regression results. All results statistically significant at the 1% level. Full regression results can be found in the technical appendix. Other options included: no specific purpose; holiday; home improvement; mortgage deposit; and unexpected events.

Source: Oxera.

2.4 Untangling the effect of financial literacy and a correct understanding of S&S ISAs

Financial literacy refers to the level of knowledge needed to make financial decisions, such as an understanding of inflation and compound interest rates.

[32] Despite this, people who were saving for retirement were not all in the S&S ISA group; a large proportion of cluster 2, typically older people with savings goals including retirement, had only Cash ISAs and Bank accounts, and only 38% of people in this cluster had a S&S ISA.
[33] As a sensitivity, we included the timeframe (in years) over which people plan to withdraw their savings. This was statistically significant when the savings goal was not included, which suggests that the expected timeframe is a factor for investment decisions, but has a small effect (people are 0.2% more likely to invest in a S&S ISA compared with a Cash ISA for an extra year in the expected savings horizon). The timeframe over which people plan to invest no longer has an impact once saving goal is also controlled for.

There is some evidence from the literature that those with low financial literacy are less likely to invest in equities than those with high financial literacy.[34] Additionally, some have argued that it would be 'rational' for people who know they have low financial literacy to avoid investing, as they know that they are not well placed to make decisions about equities.[35]

Better financial literacy can only be a good thing for consumers, in helping them to make informed decisions about their savings and investments. However, we find that the impact of financial literacy on the likelihood of investing in a S&S ISA is nuanced.

On the one hand, the level of financial literacy is not an important variable on its own in the regression analysis.[36]

On the other hand, financial literacy is a factor in the clustering analysis (see section 2.5 below), and it is also correlated with identifying that equities funds are lower risk than cryptocurrency.

Further, knowledge and understanding of S&S ISAs is a significant variable in the regression analysis. Those who correctly understand that money can be withdrawn from a S&S ISA at any time are 14% more likely to invest in a S&S ISA than a Cash ISA. Those who correctly understand that the returns from an ISA are not taxable are 4% more likely to invest in a S&S ISA than in a Cash ISA. This is shown in Table 2.4.

Table 2.4 Financial literacy and correct understanding of S&S ISAs

Variable	Effect on choice to invest in a S&S ISA instead of a *Cash ISA*	Effect on choice to invest in a S&S ISA instead of a *bank account only*
Correctly understands that money can be withdrawn from a S&S ISA at any time, compared with an incorrect answer to this question	**14% more** likely to invest in a S&S ISA	**14% more** likely to invest in a S&S ISA
Correctly understands that tax is not due on the returns/interest earned in an ISA, compared with an incorrect answer to this question	**4% more** likely to invest in a S&S ISA	**10% more** likely to invest in a S&S ISA
High financial literacy, compared with low financial literacy	No statistically significant effect	**0.9% more** likely to invest in a S&S ISA

Note: Based on the average margin regression results. All results statistically significant at the 1% level. Full regressions results can be found in the technical appendix.

Source: Oxera.

[34] van Rooij, M., Lusardi, A. and Alessie, R. (2011), 'Financial literacy and stock market participation', *Journal of Financial Economics*, **101**:2, pp.449–472.
[35] Calvet, L.E., Campbell, J.Y. and Sodini, P. (2007), 'Down or Out: Assessing the Welfare Costs of Household Investment Mistakes', *Journal of Political Economy*, **115**:5, pp. 707–747.
[36] Definition of financial literacy is based on two questions drawing on the standard 'big five' financial literacy questions. High financial literacy: two correct answers. Medium financial literacy: one correct answer. Low financial literacy: no correct answers. We find that financial literacy is not a significant variable for whether people have a S&S ISA compared with a Cash ISA, and has only a small impact (0.8%) on whether people have a S&S ISA compared with a bank account only.

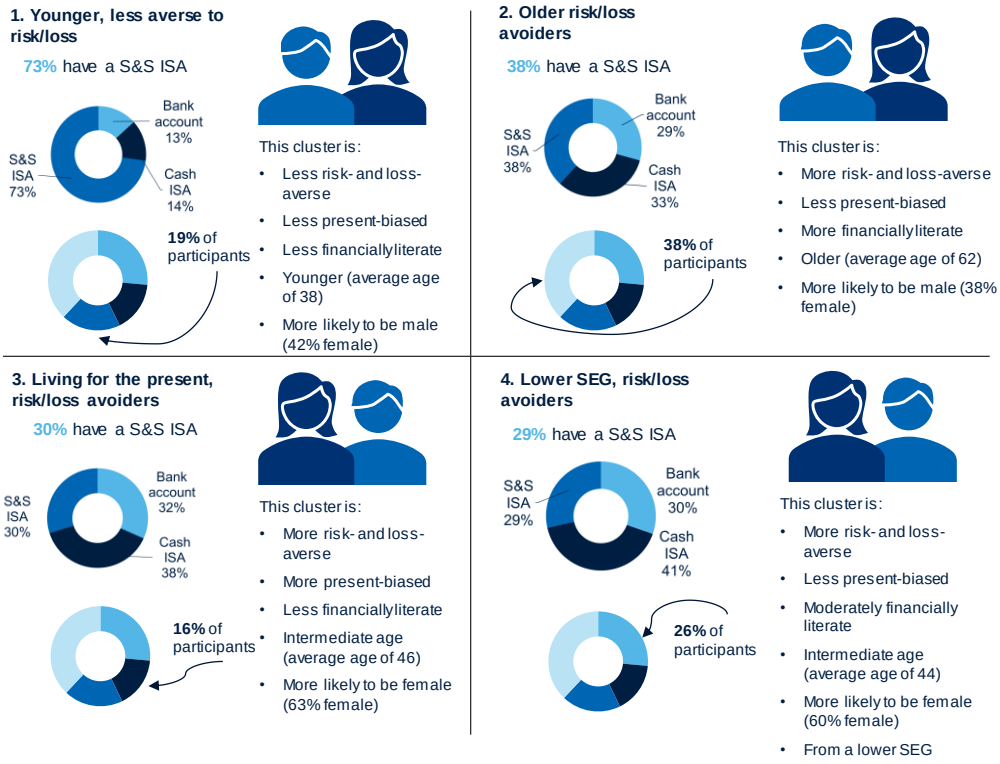
2.5 There are four clusters of consumers

To understand how different characteristics are correlated with each other, we used the data science technique of clustering analysis.

Clustering (which is calculated using an algorithm) identifies groups of individuals with similar characteristics, based on how different characteristics are correlated with one another.[37] Within each cluster these consumers have broadly similar characteristics to each other.[38]

The clustering analysis indicates that there are four main clusters of consumers, as summarised in Figure 2.4.

Figure 2.4 Summary of the four clusters



Note: Gender was not used as an input variable as (when it was used as an input variable) it split clusters along predictable lines (i.e. into predominantly female and male clusters, with the latter more likely to invest in a S&S ISA). The full results for the clusters are in the technical appendix.

Source: Oxera.

Whether a consumer has invested in a S&S ISA is not an input variable to the clustering analysis. However, as the variables in the clustering are important in determining investment decisions, we find that the decision to invest in a S&S ISA is linked to the clusters. Consumers in cluster 1 are most likely to invest in

[37] These were decided upon as they are all continuous variables and therefore optimal to use in clustering analysis. Most produced significant results in the regression analysis. These variables are also likely to be correlated with one another.

[38] The input variables for the clustering are: age; financial literacy; loss aversion; risk aversion; present bias; and socioeconomic group. Gender not selected as an input variable as (when it was an input variable) it tended to split clusters along predictable lines (i.e. into predominantly female and male clusters, with the latter more likely to purchase a S&S ISA). Clustering carried out using the k-means method. The number of clusters is determined by calculating the residual sum of squares associated with each number of clusters, and selecting the number of clusters at which the rate of decrease in the residual sum of squares slows down substantially (i.e. equivalent to the 'kink' in an 'elbow plot').

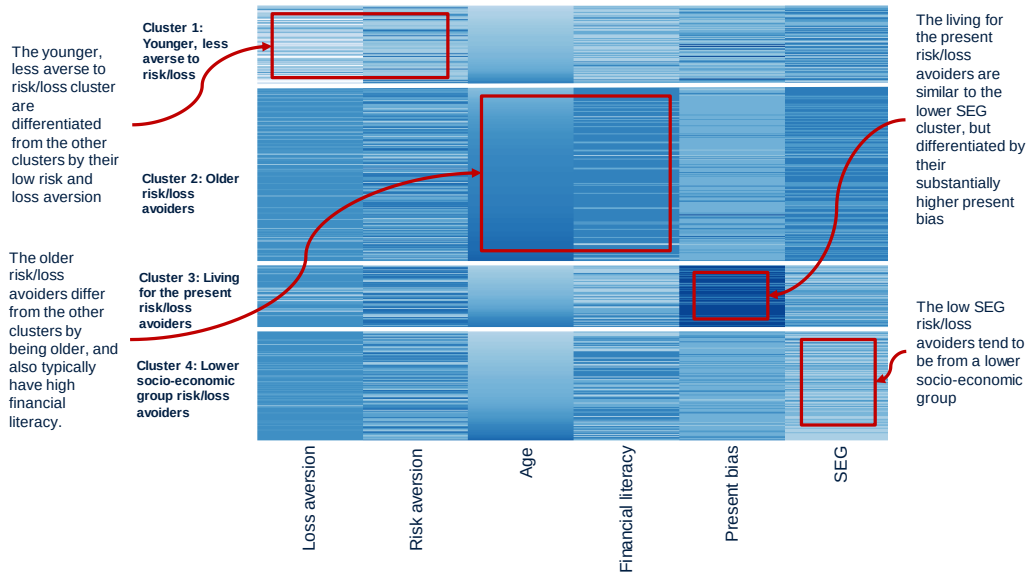
a S&S ISA.[39] This implies that more tailored marketing or communications about S&S ISAs targeted at clusters 2, 3 and 4 could be effective in encouraging more take-up.

Figure 2.5 visualises the clusters. Each row represents a consumer in our sample. The rows (i.e. consumers) are ordered from top to bottom by the clustering algorithm, which also separates them into the four clusters.

Dark blue indicates high scores on these variables (e.g. older age, more loss-averse), while light blue indicates low scores (e.g. younger age, less loss-averse):

- cluster 1 has many light blue rows for risk and loss aversion, indicating many customers with low risk and loss aversion;
- cluster 2 has many dark blue rows for age and financial literacy, indicating many customers with high age and high financial literacy;
- cluster 3 has many dark blue rows for present bias, indicating many customers with high present bias;
- cluster 4 has many light blue rows for socioeconomic groups, indicating many customers in low socioeconomic groups.

Figure 2.5 Clusters of customers by characteristics



Note: Customers are clustered along the dimensions of loss aversion, risk aversion, age, present bias, financial literacy and socioeconomic group (SEG).

Source: Oxera.

Within clusters 2, 3 and 4, higher age is correlated with greater risk aversion and loss aversion. We infer that this may not be the case for cluster 1 because,

[39] The 72% figure refers to the proportion of younger risk-seekers **in our sample** who have invested in a S&S ISA, not the proportion of younger risk-seekers in the wider population who have invested in a S&S ISA. This is because we targeted our sample at consumers who have invested in S&S ISAs, in order to make sure we could analyse what makes these consumers different from other consumers. The end result is that we have a higher proportion of consumers who have invested in S&S ISAs in our sample than in the UK population. Therefore, we should interpret the clustering results as being broadly indicative of which types of consumer are likely or unlikely to invest in S&S ISAs.

as consumers in cluster 1 become older—and more loss- and risk-averse—they will ‘drop out’ of this cluster and join another cluster.

3 What is the extent of the consumer detriment?

This section explains why we should care that many consumers are excessively holding cash instead of investing in S&S ISAs.

Box 3.1 Key messages

While investing will not be appropriate for all consumers, the benefits of investing are not being enjoyed by everyone. In particular, women, consumers living outside London, and those from lower socioeconomic groups are less likely to invest in a S&S ISA.

As the UK has now entered a high inflation environment, the detriment from holding long-term savings in cash could be sizeable. Despite this, a large proportion of the Cash ISA and Bank account only samples have savings horizons of five years or longer. Many consumers with long savings horizons say that high inflation would not affect their decision to invest in a S&S ISA.

This may be because consumers overestimate the risks of investing. We find that—relative to historic trends—consumers overestimate the chances of losing money when investing over five or ten years. This finding is important, as we find that higher loss aversion is correlated with choosing not to invest in S&S ISAs.

Source: Oxera.

3.1 Some demographic groups are missing out on the benefits of investing

While investing will not be appropriate for all consumers, the benefits of investing are not being enjoyed by everyone (as discussed in section 2).

Some groups of consumers are less likely to invest in (and therefore benefit from) S&S ISAs. In particular, women, consumers living outside London and those from lower socioeconomic groups are less likely to invest in a S&S ISA. This indicates that these groups may be suffering a detriment at present.

Targeting people from these underserved demographics could help them reap the financial benefits of investing, leading to a reduction in gender, regional and socioeconomic inequalities.

3.2 People with longer-term savings horizons who keep their money in cash are exposed to a loss of purchasing power

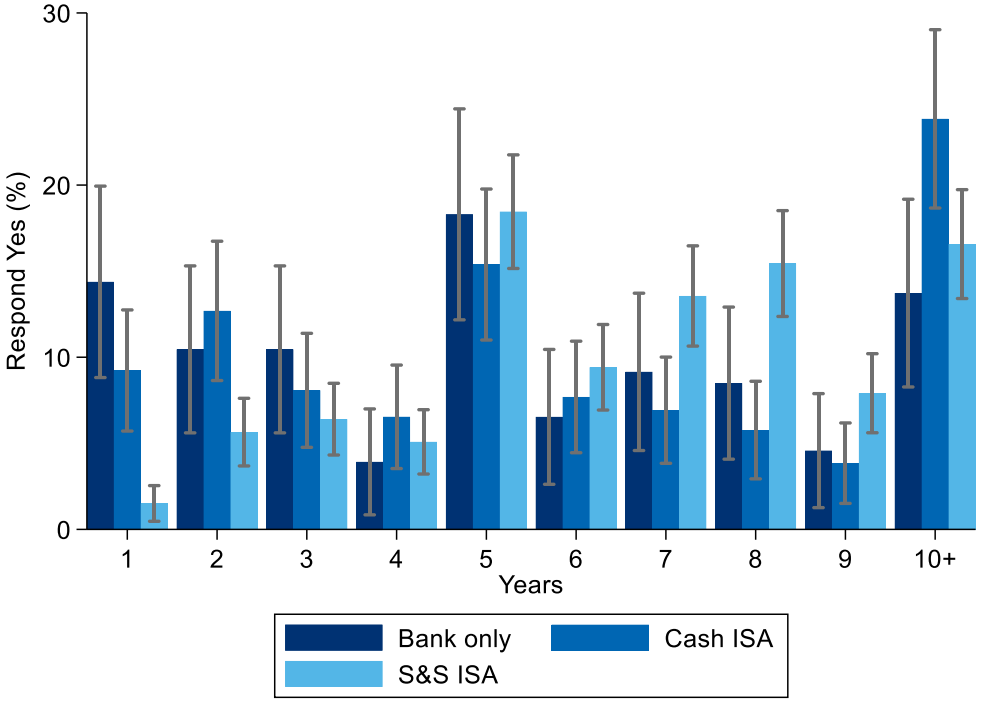
Now that the UK has entered a high inflation environment, the detriment from holding long-term savings in cash (e.g. bank accounts and Cash ISAs) is increasing. The majority of our sample did not know when they would withdraw their money.

Of those consumers who knew when they were planning to withdraw their savings (40% of Cash ISA sample and 28% of bank account sample), a large proportion have savings horizons of five years or longer: 85% of the Cash ISA sample and 89% of the bank account sample had savings horizons of five or more years.[40]

The length of consumers' expected savings horizons by sample is shown in Figure 3.1. Given the current economic climate, this implies that a large proportion of consumers will have their purchasing power eroded over the long term.

[40] The figures exclude consumers who 'don't know' when they will withdraw their savings in their Cash ISA or bank account. Consumers who 'don't know' when they will withdraw their savings constitute 72% of the bank account and 60% of the Cash ISA sample.

Figure 3.1 When do you expect to withdraw the money in your bank account/Cash ISA/Stocks and Shares ISA? By sample



Note: Based on a comparison, not a regression result. The figure excludes people who say that they 'don't know' when they will withdraw the savings from their ISA or bank account. Consumers who 'don't know' when they will withdraw their savings amount to 72% of the bank account and 60% of the Cash ISA sample.

Source: Oxera.

Some of these consumers with long-term savings horizons will have legitimate reasons for keeping their savings in a bank account or Cash ISA. For example, investing is unlikely to be right for a consumer who experiences variability in their income (e.g. due to self-employment), and therefore cannot guarantee a constant stream of income. These consumers may need their money sooner than expected and may want to choose an investment with greater certainty over the short term.

However, there is some evidence to suggest that consumers' investment decisions arise from poor understanding of the S&S ISA product. In many cases, we would expect that, for an engaged and well-informed consumer, the recent increases in inflation will make them more likely to want to put their savings into a S&S ISA.

Despite this, many consumers with long savings horizons say that high inflation would not affect their decision to invest in a S&S ISA. This is shown in Table 3.1.

A higher proportion of consumers in the S&S ISA sample (than in the Cash ISA and bank account samples) reported that increases in inflation would make them 'more likely' to invest in S&S ISAs. This might suggest that the S&S ISA sample have a better understanding of the potential for S&S ISAs to shield them from inflationary risks. We infer from additional regression analysis that

this difference between samples is not primarily because the rising cost of living is reducing disposable income.[41]

This suggests that more work may be needed to help people understand the risks of saving in cash over longer periods of time. Industry could also do more to help identify people with high cash savings and communicate to them the costs of holding cash.

Table 3.1 How do you think the recent increases in inflation (as seen in the rising cost of living) will impact your likelihood of putting your savings in a Stocks and Shares ISA?

	Bank account sample	Cash ISA sample	S&S ISA sample
Much less likely	9%	10%	1%
Somewhat less likely	12%	2%	7%
Neither more nor less likely	38%	32%	23%
Somewhat more likely	23%	24%	49%
Much more likely	6%	4%	16%
Don't know/prefer not to say	11%	10%	4%

Note: To exclude people who could have a genuine need to be able to access their savings (e.g. for an emergency), the above results include responses only from participants who stated that they expect to withdraw the savings in their ISA or bank account after ≥5 years.

Source: Oxera.

3.3 Consumers are missing out on the benefits of investing, as they do not appear to have a balanced understanding of the risks of S&S ISAs

Alongside evidence that consumers may be underestimating the benefits associated with S&S ISAs, there is evidence that consumers across all three samples may be overestimating the risks of investing.

We asked consumers about their expected probability of loss from investing in a S&S ISA in equities over a one-, five- and ten-year investment horizon. We find that—relative to historic results—consumers overestimate the chances of losing money when investing over five or ten years.

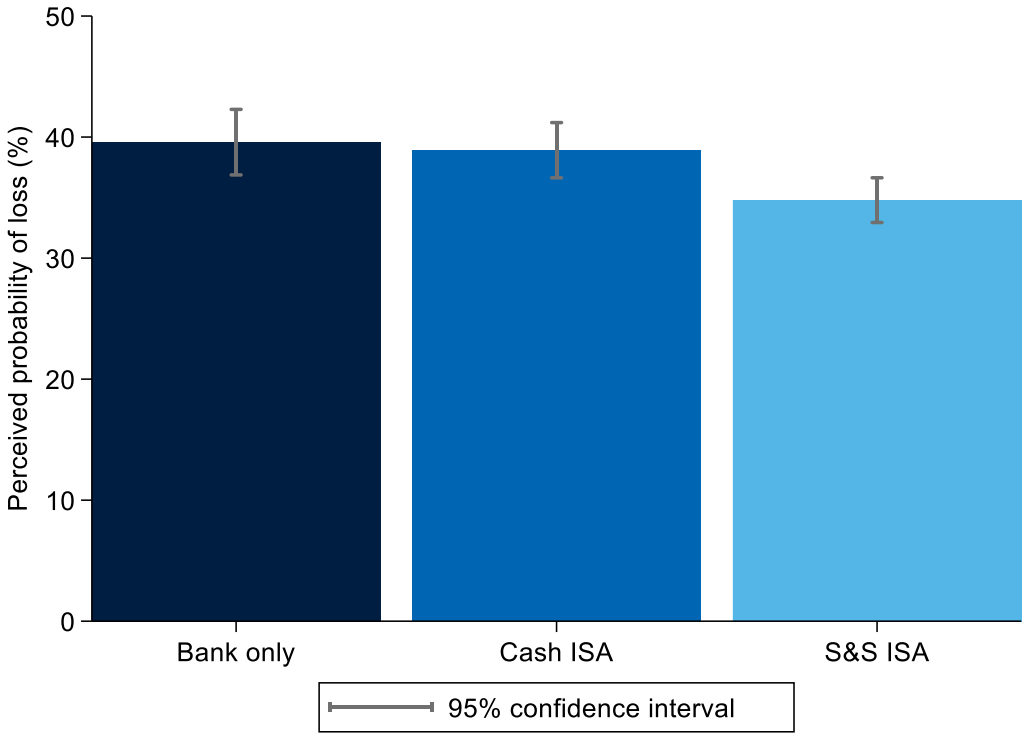
This is an important result, because (as discussed in section 4) the largest barrier to investing in a S&S ISA appears to be customers' perceptions of the risks.

As shown in Figure 3.4, the average consumer had a loss expectation over a ten-year period (i.e. expectation of money invested going down) of over 25% in all three samples. In the Cash ISA and bank account samples, consumers had an even greater perceived probability of loss, at 33% and 32% respectively.

[41] An alternative explanation could be that consumers in the Cash ISA and bank only samples are stating that they are less likely to put their savings into a S&S ISA in the current climate due to inflation reducing their disposable income, and therefore reducing their ability to invest for the future. However, we conducted another regression analysis that confirmed that, even when income is controlled for, the consumers in the Cash ISA and bank account samples still say that they are less likely to invest in a S&S ISA as a result of inflation, compared with the S&S ISA sample. We can therefore infer that, to the extent that income is correlated with disposable income, lower disposable income is not driving the differences between the samples in answering this question.

As expected, the perceived probability of loss was higher over a one-year and five-year investment period, as shown in Figure 3.2 and Figure 3.3.

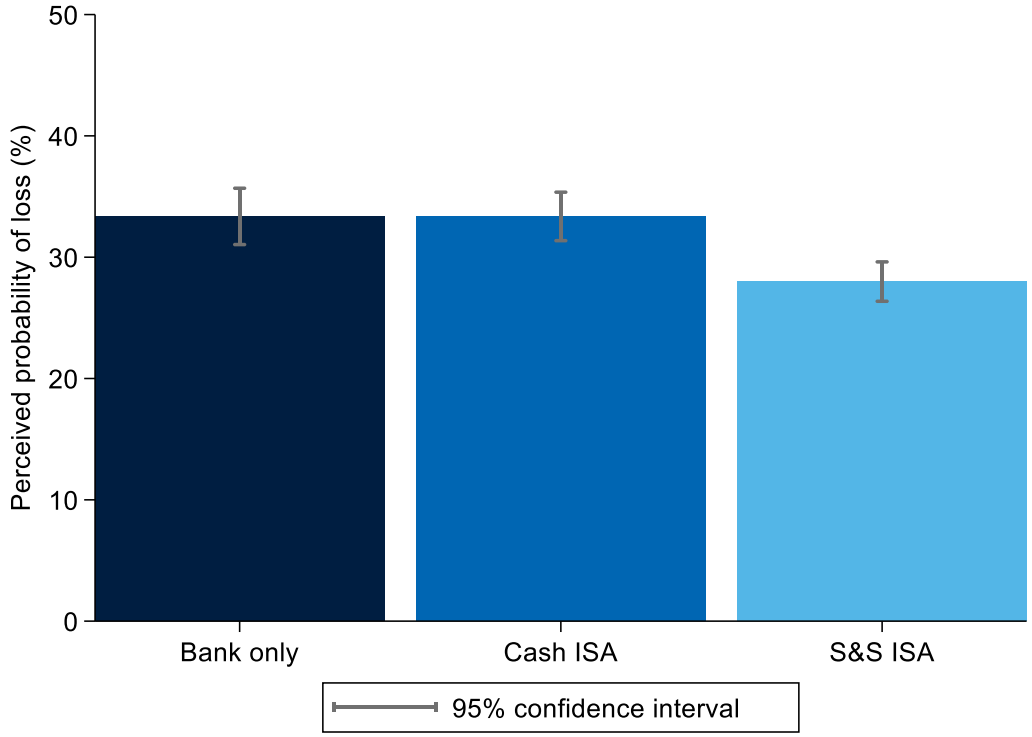
Figure 3.2 Expected probability of realising a loss from investing in a S&S ISA in equities over a one-year investment period



Note: Based on a comparison, not a regression result. Based on answers to the question: 'What do you think is the probability of losing money (i.e. your investment going down) in a Stocks and Shares ISA in equities, over a one year investment period?'

Source: Oxera.

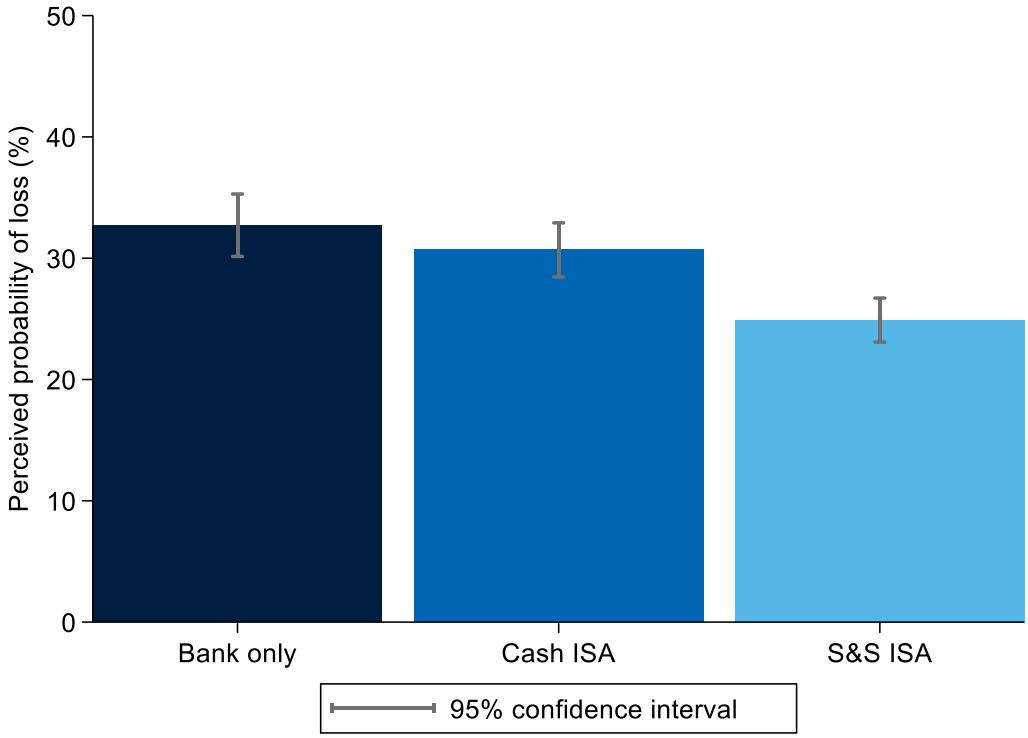
Figure 3.3 Expected probability of realising a loss from investing in a S&S ISA in equities over a five-year investment period



Note: Based on a comparison, not a regression result. Based on answers to the question: 'What do you think is the probability of losing money (i.e. your investment going down) in a Stocks and Shares ISA in equities, over a five year investment period?'

Source: Oxera.

Figure 3.4 Expected probability of realising a loss from investing in a S&S ISA in equities over a ten-year investment period



Note: Based on a comparison, not a regression result. Based on answers to the question: 'What do you think is the probability of losing money (i.e. your investment going down) in a Stocks and Shares ISA in equities, over a ten year investment period?'

Source: Oxera.

For the purpose of illustration, Table 3.2 shows that the historic probability of realising a loss from investing in the FTSE100 over a ten-year period is 3.5%.[42] This means that the average participant estimated the losses over a ten-year time period to be over seven times greater than historical averages from the FTSE100 would suggest.

[42] Period covered: 1 January 1984 (when the FTSE100 was created) to 20 July 2022. Assuming dividends are reinvested, and asset management fees of 0.5%. Based on daily returns. Asset management fees applied on a monthly basis.

Table 3.2 Historic probabilities of realising a loss

	Assumptions about asset management fees	One-year investment period	Five-year investment period	Ten-year investment period
FSTE100	Zero	26.3%	10.8%	2.7%
FTSE100	0.5%	27.0%	11.8%	3.5%
FTSE250	Zero	28.0%	2.5%	0.0%
FTSE250	0.5%	28.8%	3.0%	0.0%

Note: Period covered depended on data availability: 1 January 1984–20 July 2022 for the FTSE100, and 1 January 1986–20 July 2022 for the FTSE250. Assuming dividends are reinvested. Based on daily returns. Asset management fees applied on a monthly basis. Assuming higher asset management fees would increase the historic probability of realising a loss. These data are not projections of future returns and do not constitute financial advice.

Source: Oxera analysis, based on Bloomberg data.

Our findings are consistent with findings in the wider literature: that consumers overestimate the probability of realising a loss;[43] that many consumers are more pessimistic about stock market returns than historical averages;[44] that consumer perceptions of stock market risks are often incorrect;[45] and that investment decisions are affected by stock market expectations.[46]

It is also possible that consumers' apparent overestimation of the probability of realising a loss is driven by recent stock market turbulence, as the survey was conducted in June–July 2022 (a period characterised by economic uncertainty and rising energy prices emanating from the Russian invasion of Ukraine).

However, while we cannot comment on future stock market returns, the historical FTSE100 or FTSE250 benchmark may be higher risk than the (diversified) funds chosen by many consumers. This means that funds may have a lower probability of realising a loss than investing (only) in the FTSE100 or FTSE250.

This suggests that more may need to be done to aid consumer understanding of S&S ISAs. While the FCA's Consumer Duty emphasises that consumers should be 'given the information they need' to enable them to 'make informed decisions about financial products and services',[47] the evidence suggests that many consumers do not have a full understanding of S&S ISAs. In particular, many consumers substantially overestimate the risks of S&S ISAs and underestimate their benefits over cash.

More research is needed into the causes of this discrepancy. Further research could, for instance, focus on the risk warnings on S&S ISAs, and the impact of educational literature to allay consumers' concerns about the risks of S&S ISAs.

[43] Strucks, M. and Zeisberger, S. (2022), 'Why Do People (Not) Invest? The Role of Return and Risk Expectations', working paper.
[44] Hurd, M., Van Rooij, M. and Winter, J. (2011), 'Stock market expectations of Dutch households', *Journal of Applied Econometrics*, **26**:3, pp. 416–436.
[45] Holzmeister, F., Huber, J., Kirchler, M., Lindner, F., Weitzel, U. and Zeisberger, S. (2020), 'What drives risk perception? A global survey with financial professionals and laypeople', *Management Science*, **66**:9, pp. 3977–4002.
[46] Zimpelmann, C. (2021), 'Stock Market Beliefs and Portfolio Choice in the General Population', CRC TR 224 Discussion Paper Series, no.258, University of Bonn and University of Mannheim, Germany.
[47] FCA (2022), 'PS22/9: A new Consumer Duty', p. 50.

3.4 Women are missing out on the benefits of investing because, on average, they predict a higher probability of realising a loss over five or ten years

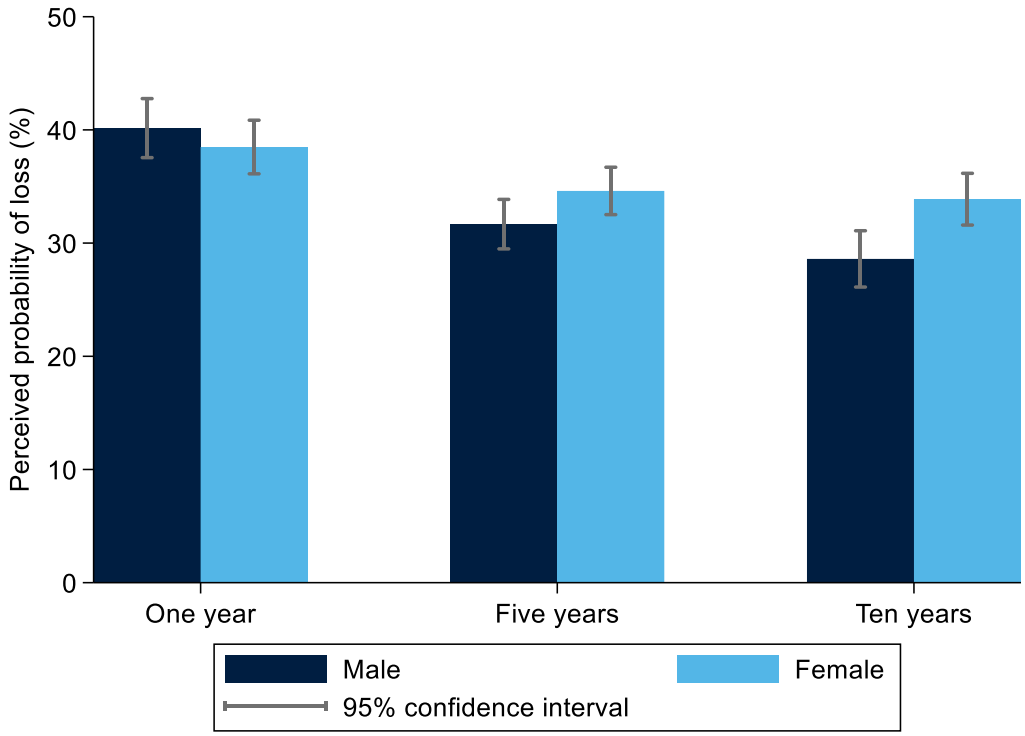
Expectations of losses from investing in S&S ISAs vary by gender, as shown in Figure 3.5. Over a time horizon of ten years, women predict a significantly higher probability of loss than men do, on average.[48] Therefore, we infer that one reason why women are less likely to invest in S&S ISAs is that women have different loss expectations from investing. Additionally, as discussed in section 4.3, there is some evidence to show that women are, on average, more loss-averse.

The combination of these two factors means that women are more likely to miss out on the benefits of S&S ISAs than men, exposing them to reduced purchasing power compared with their male counterparts. However, women live longer than men on average,[49] and already see reduced purchasing power due to the gender pay gap.[50] Women also already experience a significant savings gap compared with men, with women aged between 21 and 53 holding just half of the investments held by men of the same age group.[51]

This suggests that more work is needed to encourage more women to invest and close the gender investment gap in S&S ISAs. This could include marketing that specifically targets women, and further research into solutions that encourage women to invest. Encouraging more women to invest in S&S ISAs could help to tackle financial inequality between the genders.

[48] This effect is statistically significant at the 1% level according to Mann–Whitney tests.
[49] The latest ONS figures suggest that life expectancy at birth between 2017 and 2019 was 79.4 years for men and 83.1 years for women. See Office for National Statistics (2020), 'National life tables – life expectancy in the UK: 2017 to 2019', September, https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2017to2019 (last accessed 23 August 2022).
[50] This was 7% among full-time employees in 2021, rising to 15.4% among employees of all hours. See Office for National Statistics (2021), 'Gender pay gap in the UK: 2021', October, https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2021, (last accessed 23 August 2022).
[51] See NatWest, 'Overcoming the gender investment gap', https://www.natwest.com/investments/our-insights/gender-investing-gap.html, (last accessed 23 August 2022).

Figure 3.5 Expected probability of realising a loss from investing in a S&S ISA in equities over a one-, five- and ten-year investment period, by gender



Note: Based on a comparison, not a regression result. Based on answers to the question: 'What do you think is the probability of losing money (i.e. your investment going down) in a Stocks and Shares ISA in equities, over a ten-year investment period?' Graph shows the average expected probability of losing money in a S&S ISA in equities across all participants of the sub-sample and gender.

Source: Oxera.

4 What are the barriers to investing in Stocks & Shares ISAs?

As described in section 3, consumers substantially over-estimate the likelihood of realigning a loss from investing in a S&S ISA. In this section we explore the other barriers that stop consumers from investing in S&S ISAs.

Box 4.1 Key messages

Most consumers do not engage with the topic of S&S ISAs: 72% of both the Cash ISA and bank account samples had not considered investing in a S&S ISA. Both those who engage, and those who do not, could be encouraged to invest in S&S ISAs.

Complexities in the customer journey appear to be barriers. For example, working out the differences between different types of S&S ISA, and choosing a fund, were both seen as difficult or very difficult by 27% of participants. Further, the Cash ISA and bank account samples found the experience of finding information about S&S ISAs complicated and time-consuming. The S&S ISA sample found it straightforward and easy, but still time-consuming.

Certain terms resulted in negative emotional responses, particularly 'diversification', 'active and passive funds', and 'tax-free wrapper'. In both the Cash ISA and bank account samples, at least 74% of participants did not have positive emotional responses to all of these terms, with many feeling anxious or confused by the language. An inference we can draw is that terms used to describe S&S ISAs may be a barrier to some consumers making the decision to invest.

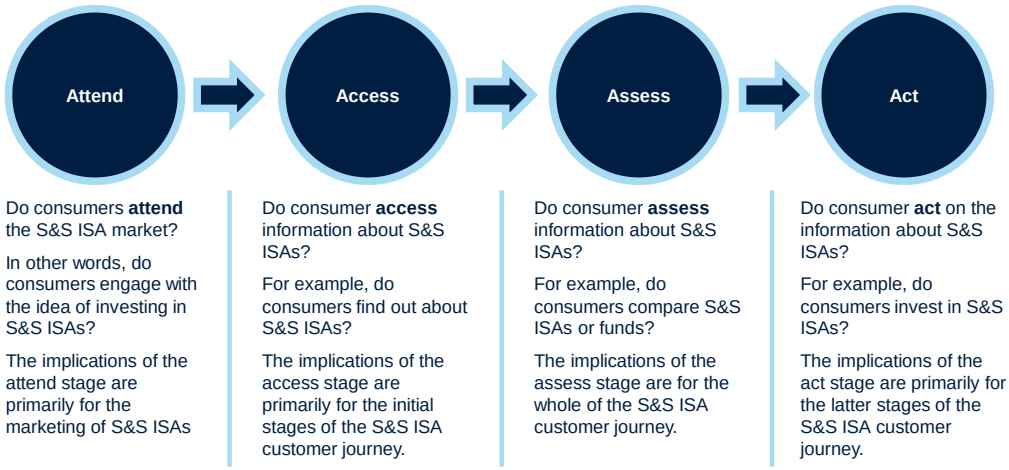
We find that the main barriers to investing in S&S ISAs do not appear to include a lack of trust in financial services providers or the fees and charges on S&S ISAs. Over 92% of participants in the Cash ISA and bank account samples said that a lack of trust in financial services providers did not stop them from investing in a S&S ISA. Over 81% of participants in the Cash ISA and bank account samples said that the fees and charges on S&S ISAs did not stop them from investing in a S&S ISA.

Source: Oxera.

4.1 Most consumers 'drop out' of the customer journey at the 'attend' stage

We use the '4 As' framework to describe the S&S ISA customer journey from initial engagement to the act of purchasing a S&S ISA. The four As are shown in Figure 4.1.

Figure 4.1 The 4 As framework

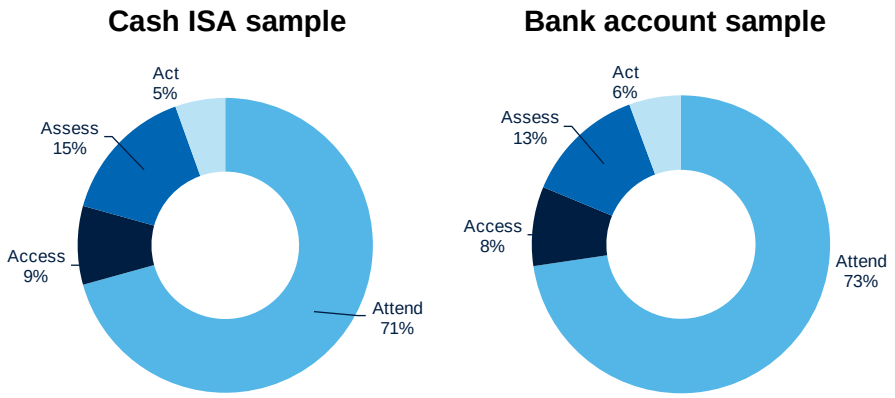


Source: Oxera, based on Fletcher, A. (2020), 'Engaging the disengaged: why does it matter, and why is it hard?', *Agenda*, June.

Most consumers do not attend (or engage in) the market: 72% of both the Cash ISA and bank account samples had not considered investing in a S&S ISA, as shown in Figure 4.2.

We can also see that more consumers drop out at the assess stage than at the access or act stages. This implies that comparing the options for S&S ISAs and funds is a harder task for consumers than searching for the information, or completing the consumer journey.

Figure 4.2 Where consumers 'drop out' of the S&S ISA customer journey (Cash ISA and bank account samples)



Note: Based on a comparison, not a regression result. We categorised the answer 'don't know' to any of the 4 As as a 'no'. Assess-stage 'drop-outs' include participants whose answers indicate that they have attended, accessed and assessed the market, and they have 'decided to invest in a Stocks and Shares ISA but not yet completed the process'.

Source: Oxera.

Reasons why consumers are not engaging in the market, including preferences, peer effects, and savings goals, are discussed in section 2.

Having established that most consumers drop out before engaging in the market, we now explore the main barriers to investing in a S&S ISA.

4.2 What are the main barriers?

We conducted the regression analysis (outlined in section 2) on the (minority of) consumers in the Cash ISA and bank account samples who did engage in the market.[52] We infer from these results that, when we exclude from our analysis the participants who did not engage in the market, the key messages are similar to when these customers are included in our analysis (i.e. similar to our main regression results).[53]

We also asked a series of questions about what consumers perceive to be the main barriers to investing in S&S ISAs.

4.2.1 The main barrier appears to be the perceived riskiness of S&S ISAs

The most common answer to why consumers had not invested in a S&S ISA was 'because I did not want to put my money in a risky investment', as shown in Figure 4.3.

This also shows that those customers who dropped out of the customer journey at the Access or Assess stages are equally likely to say 'yes' to this answer as those who did not engage in the market.[54] This implies that the perceived riskiness of S&S ISAs does not diminish when consumers start to learn more about them.

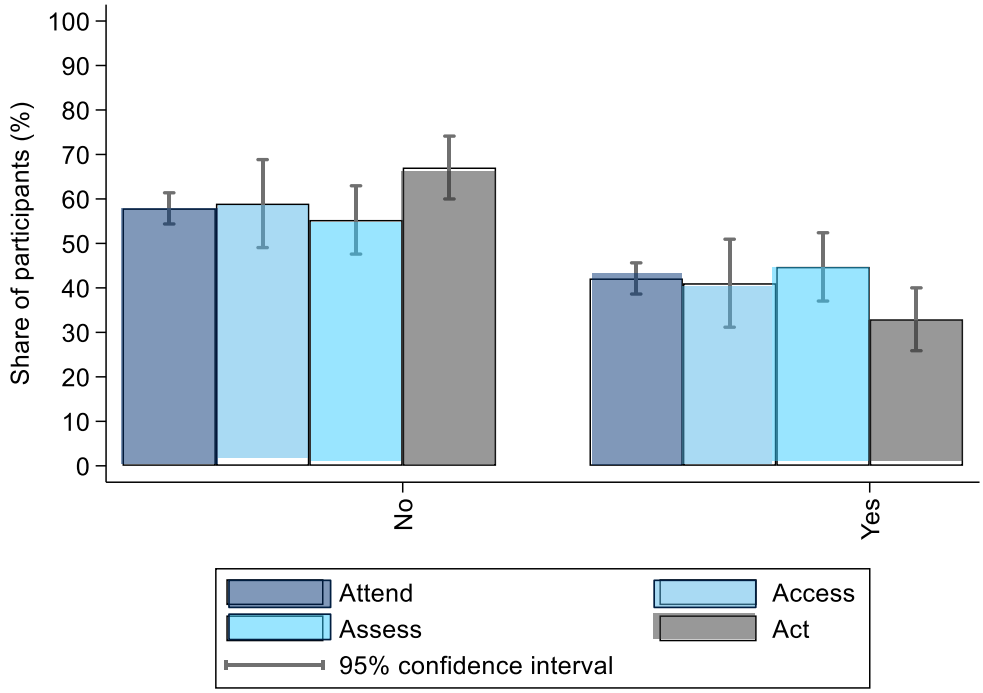
We note that, whilst many consumers are unwilling to invest in S&S ISAs due to their perceptions of the likelihood of realising a loss, many of the same consumers are likely to invest in equities (and other investments) through their pension. This is likely to be because of default options (as opposed to better consumer engagement with pensions): saving for a pension is the default option due to auto-enrolment; and the default option of fund will invariably include equities.

[52] Consumers who did engage in the market, or 'attended' the market, are defined as those who answered 'yes' to the question 'have you ever considered investing in a S&S ISA?', which constituted less than 30% of both the Cash ISA and bank account samples. Those who did not engage, or were held up at the attend stage, answered 'no' to this question.

[53] We have conducted the same regression analysis as outlined in section 2 on smaller samples of participants—i.e. those consumers in the Cash ISA and bank account samples who do attend, access and assess the market. Using smaller samples means that we lose some statistical power, and cannot conclude on statistical significance for most variables. However, we observe that (on the whole) the variables that are statistically significant and meaningful in the main analysis appear to result in effects in the same direction for the smaller samples of consumers.

[54] We also infer that those customers who dropped out of the customer journey at the Act stage may be less likely to say 'yes' to this answer than consumers who dropped out at other stages, but this result may be driven by the small sample size of consumers who dropped out at the Act stage.

Figure 4.3 Question: Why did you not choose to invest in a Stocks and Shares ISA? Answer: because I did not want to put my money in a risky investment



Note: Based on a comparison, not a regression result. Data excludes S&S ISA sample. Attend: participants who did not attend the market. Access: participants who attended but did not access information. Assess: participants who accessed information but did not compare options, and those who compared options but answered 'no' to 'have you ever decided to invest in a S&S ISA but not yet done this?'. Act: those who assessed the market but did not buy a S&S ISA.

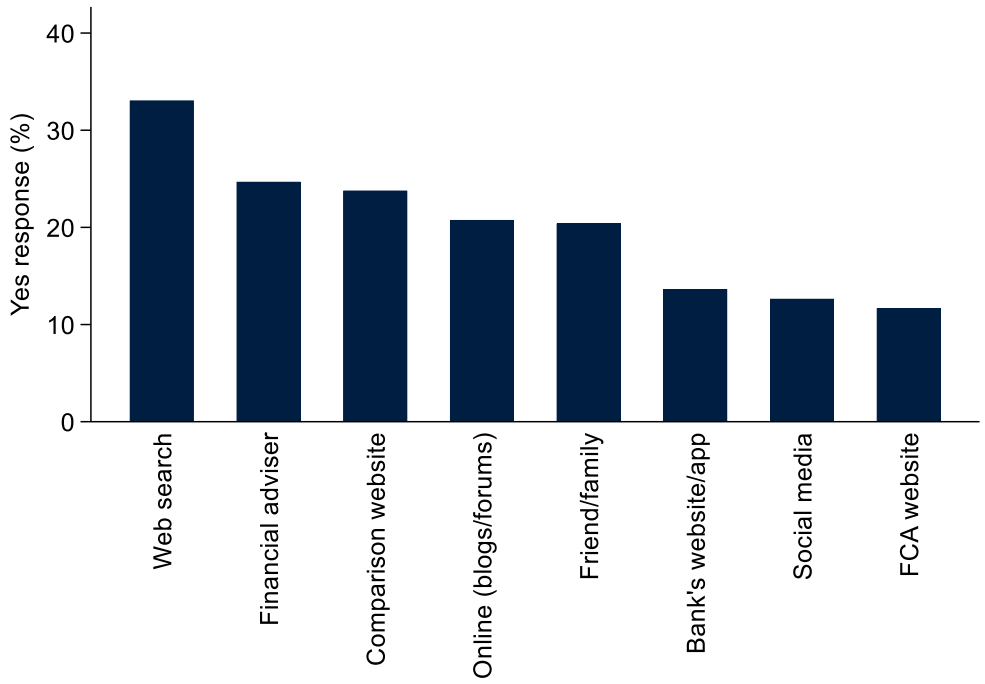
Source: Oxera.

Corroborating this result, we know (from section 3.3) that on average consumers expect the probability of realising a loss over five or ten years to be substantially higher than historical trends.

4.2.2 There are barriers in the customer journey

Web searches were the most common source of information on S&S ISAs, followed by professional financial advisers, comparison websites, online blogs and friends and family. This is shown in Figure 4.4.

Figure 4.4 Where did consumers who bought S&S ISAs find their information?



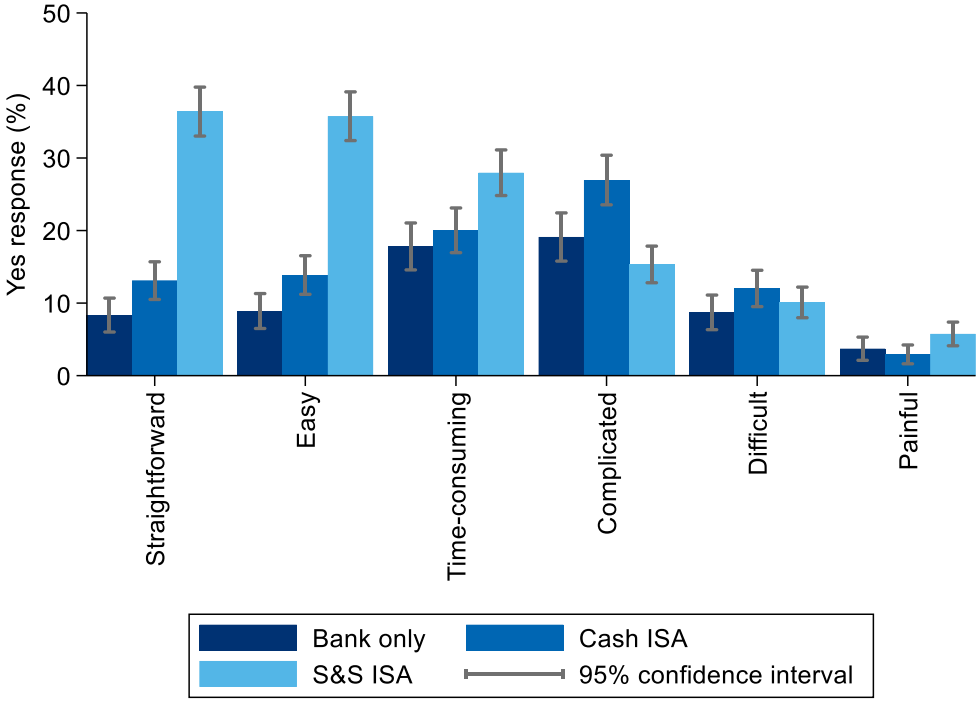
Note: Based on a comparison, not a regression result. Participants could select multiple options. S&S ISA sample only. Options were: My friends or family; My financial advisor; A web search; Online articles or blogs or forums; Social media; Comparison websites; The news; My bank's website or app; The Money Advice and Pensions Service (also known as Money Helper); The Financial Conduct Authority website. None selected 'The News'.

Source: Oxera.

Many consumers find it time-consuming to find information on S&S ISAs

Consumers found it time-consuming to find information on S&S ISAs, although S&S ISA customers also found it easy and straightforward. This is shown in Figure 4.5.

Figure 4.5 'How did you feel about the process to find information about Stocks and Shares ISAs?'



Note: Based on a comparison, not a regression result. Participants could select multiple options. Certain (contradictory) combinations of options were not permitted, e.g. difficult plus easy.

Source: Oxera.

Many consumers find it difficult to work out which S&S ISA and fund to invest in

Over a quarter of participants found it difficult to select which fund to invest in, or work out the differences between different S&S ISAs. This is shown in Table 4.1.

Additionally, 25% of people found it difficult or very difficult to understand the language used to describe S&S ISAs. This rises to 34% for women, as we note in section 4.3.

Further, there is some evidence from the literature that people tend to overestimate their own literacy.[55] Therefore, we might expect this self-reported data to provide a lower bound on the proportion of people who actually find it hard to understand the language used.

[55] For example, see: Mahmood, K. (2016), 'Do People Overestimate Their Information Literacy Skills? A Systematic Review of Empirical Evidence on the Dunning-Kruger Effect', *Communications in Information Literacy*, **10**:2, Article 3.

Table 4.1 'How easy did you find it to do the following?'

	Proportion of participants stating that it is 'difficult' or 'very difficult'
Select which fund to invest in	27%
Work out the differences between different types of Stocks and Shares ISAs so you could compare them	27%
Understand the language used to describe Stocks and Shares ISAs	25%
Select a Stocks and Shares ISA to invest in	24%
Match what you wanted/needed with the Stocks and Shares ISAs on offer	24%
Complete the purchase of a Stocks and Shares ISA	18%
Find information about Stocks and Shares ISAs	16%

Note: This question was asked of participants who said that they had looked for information about S&S ISAs. Potential answers: very easy; easy; somewhat easy; difficult; very difficult; don't know; prefer not to say.

Source: Oxera.

Common industry terms result in negative emotional responses

As shown in Table 4.2, the S&S ISA sample were more likely to respond with positive emotional responses to common industry terms. The table also shows that 'rate of return', 'investments' and 'inflation' receive more positive emotional responses than 'diversification', 'active and passive funds' and 'tax-free wrapper'. For these terms, the S&S ISA sample feel significantly more comfortable than the Cash ISA and bank account samples, as shown in Figure 4.6.[56]

We infer that many consumers feel uncomfortable with the language that is commonly used by the industry to describe S&S ISAs, and that this may be a factor that deters people from engaging with the information and investing. For example, consumers may not be comforted by terms such as 'diversification', which is important as diversification can shield them against risk, which is an important barrier to investing for many consumers (see section 4.2.1). Consumers might be encouraged to engage if more familiar terms were used, although further research is needed to test this hypothesis. In order to be effective, the communication of how funds manage risk could use different (simpler) terms that help people to understand the benefits and risk management features within the product.

[56] This is confirmed by a Mann–Whitney test.

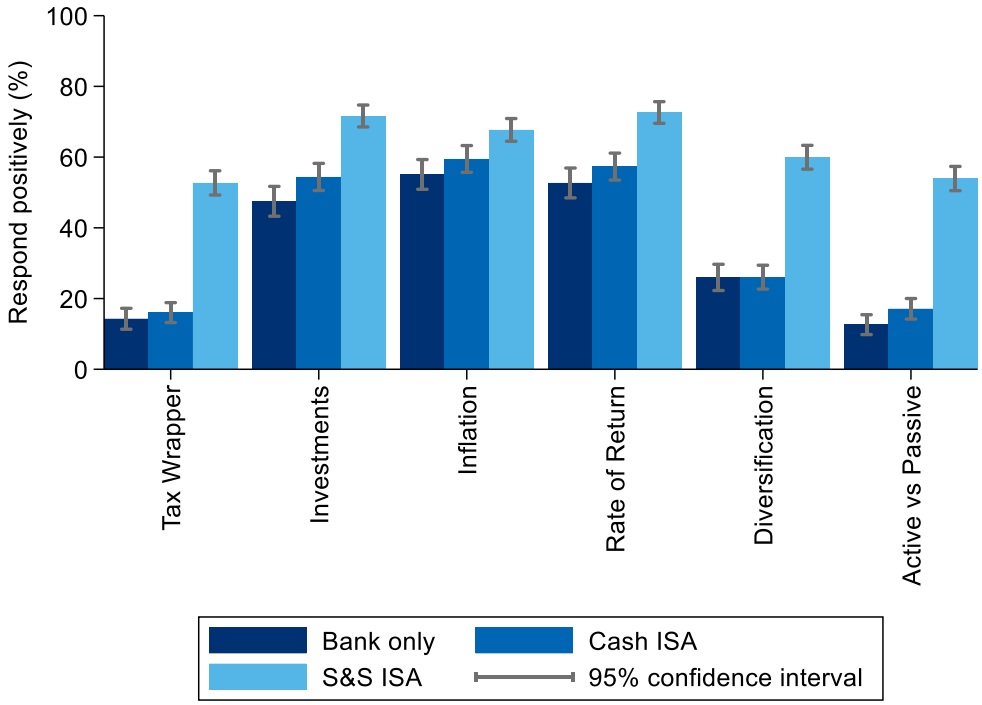
Table 4.2 Proportion of consumers who did *not* have positive emotional responses

Industry term	Bank account sample	Cash ISA sample	S&S ISA sample
Rate of return	47%	43%	27%
Investments	52%	46%	28%
Inflation	45%	41%	32%
Diversification	74%	74%	40%
Active and passive funds	87%	83%	46%
Tax-free wrapper	86%	84%	47%

Note: Participants were asked: 'How do you feel about each of the following terms?' Positive responses: 'comfortable'; 'informed'. Other responses: 'anxious'; 'confused'; 'turned off'; 'don't know'; 'prefer not to say'. Calculated as the number of participants not responding with 'comfortable' and/or 'informed', as a percentage of the sample. Certain (contradictory) combinations of options were not permitted, e.g. 'confused' plus 'informed'.

Source: Oxera.

Figure 4.6 Proportion of positive emotional responses to industry terms, by sample



Note: Based on a comparison, not a regression result. 'Active vs passive' refers to 'Active and passive funds'. Positive emotional responses are defined as answering 'comfortable' or 'informed' to the question 'how do you feel about the following terms?'. Participants could select multiple options from 'anxious', 'confused', 'turned off' and 'don't know/prefer not to say', although certain non-sensical combinations (such as 'anxious' plus 'comfortable') were forbidden. If a participant selected a positive and another response, this was counted as a positive emotional response.

Source: Oxera.

4.2.3 The main barriers do not appear to be lack of trust, or the fees and charges

Participants were asked whether trust in financial services providers, or the fees and charges on S&S ISAs, were the reason why they did not invest in S&S ISAs. In response:

- less than 9% of both the Cash ISA and bank account samples said that they did not invest in a S&S ISA because 'I don't trust financial services providers';
- less than 21% of both the Cash ISA and bank account samples said that they did not invest in a S&S ISA because 'I didn't want to pay the fees and charges on a Stocks and Shares ISA'.

4.3 What is causing the gender gap?

While we cannot definitively conclude on what is causing women to be less likely than men to invest in S&S ISAs, we can see that women and men give, on average, different answers to certain questions.

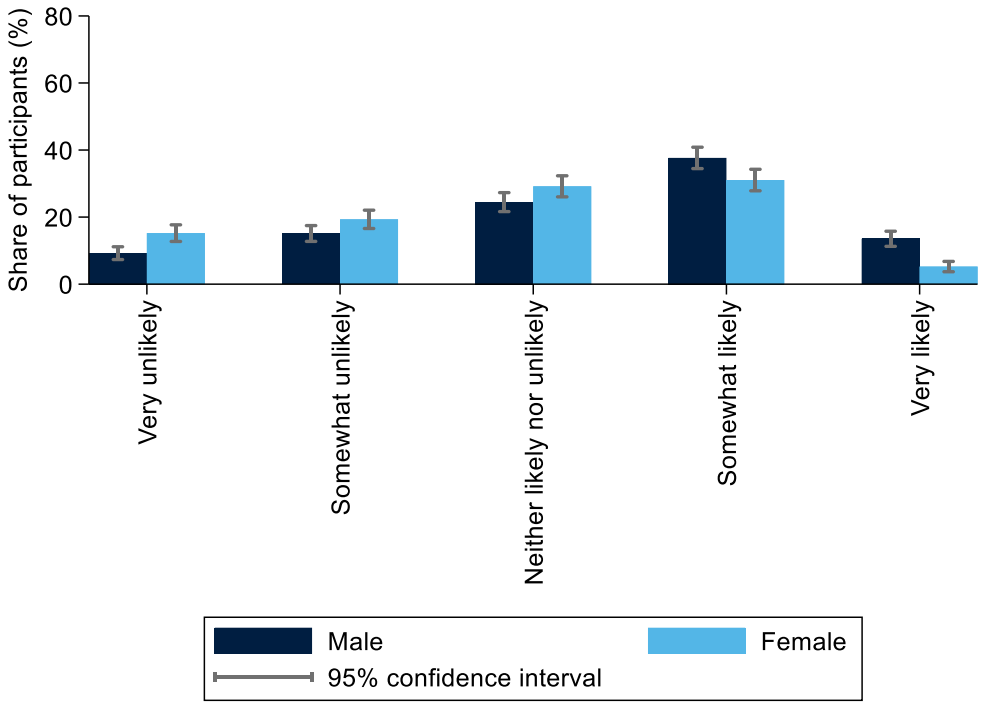
Given what we know about barriers (loss aversion, risk aversion, etc.), it is then important to note the following.

First, as shown in section 3.3, **on average women expect a higher probability (than men do) of losing money from investing in S&S ISAs in equities**. This is the case when comparing women and men in all three samples.

Second, **on average women are more loss-averse than men**. For example, 84% of women are highly loss-averse, compared with 76% of men (across all three samples). This result is driven mainly by the differences between women and men in the Cash ISA and bank account sample; women and men in the S&S ISA sample show similar levels of loss aversion.

Third, **fewer women (than men) report that 'people like you' are likely to invest in S&S ISAs**. This implies that 'peer effects' are less prevalent for women than for men. This is shown in Figure 4.7.

Figure 4.7 'How likely do you think people like you are to invest in Stocks and Shares ISAs?'



Note: Based on a comparison, not a regression result. Data includes all three samples (i.e. Cash ISA, bank account, S&S ISA).

Source: Oxera.

Fourth, **on average, women are less likely (than men) to give a positive emotion-based response to six common industry terms**.[57] This implies that the industry's use of language may be contributing to the gender gap.

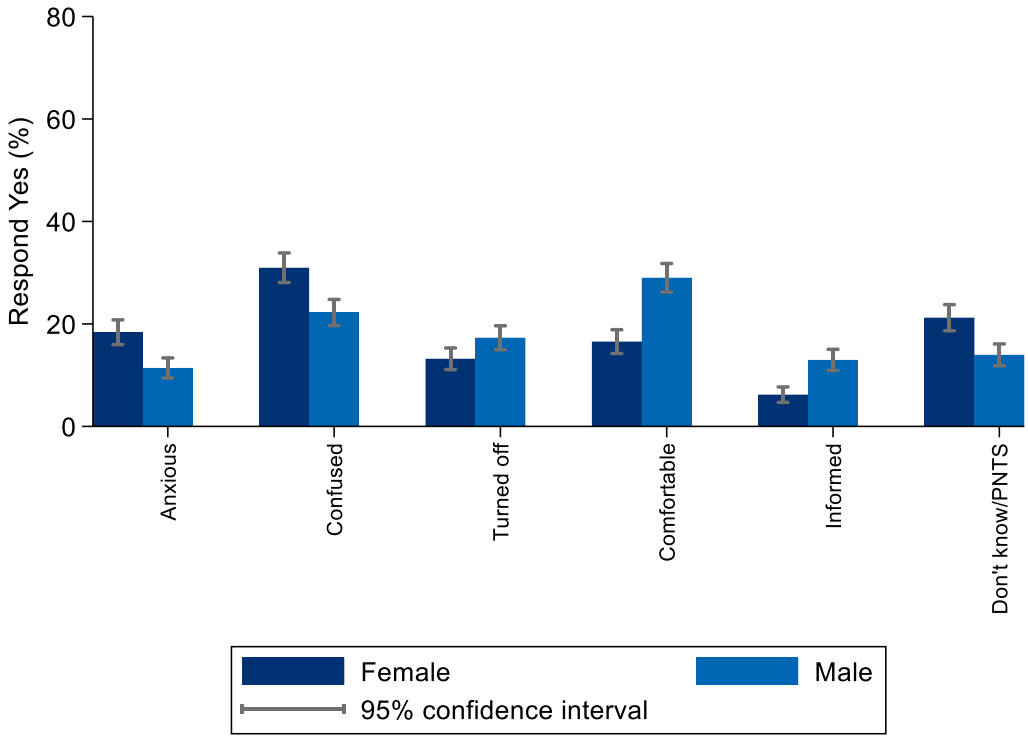
Specifically, we find that, on average:

- women are less likely (than men) to feel 'informed' about all six terms;
- women are less likely (than men) to feel 'comfortable' with the terms 'tax-free wrapper', 'diversification' and 'active and passive funds', a result that is statistically significant.[58]

Correspondingly, we see that women tend to be more likely (than men) to state that they are 'anxious' or 'confused' (or reply 'don't know' or 'prefer not to say') about the terms. Figure 4.8 shows this trend for the term 'diversification'.

[57] The terms tested were: Rate of return; Investments; Inflation; Diversification; Active and passive funds; and Tax-free wrapper.
[58] According to Mann–Whitney tests.

Figure 4.8 'How do you feel about the following terms?' 'Diversification'



Note: Based on a comparison, not a regression result. Data includes all three samples (Cash ISA, bank account, S&S ISA). PNTS, prefer not to say.

Source: Oxera.

Fifth, **on average, women find it less easy (than men) to complete the S&S ISA customer journey**. This is shown in Table 4.3.

Table 4.3 'How easy did you find it to do the following?'

	Proportion of women stating that it is 'difficult' or 'very difficult'	Proportion of men stating that it is 'difficult' or 'very difficult'
Select which fund to invest in	31%	24%
Work out the differences between different types of Stocks and Shares ISAs so you could compare them	33%	22%
Understand the language used to describe Stocks and Shares ISAs	34%	18%
Select a Stocks and Shares ISA to invest in	29%	20%
Match what you wanted/needed with the Stocks and Shares ISAs on offer	28%	20%
Complete the purchase of a Stocks and Shares ISA	21%	15%
Find information about Stocks and Shares ISAs	20%	14%

Note: This question was asked of participants who said that they had looked for information about S&S ISAs. Potential answers: very easy; easy; somewhat easy; difficult; very difficult; don't know; prefer not to say.

Source: Oxera.

4.4 Cryptocurrency is seen as more exciting than S&S ISAs

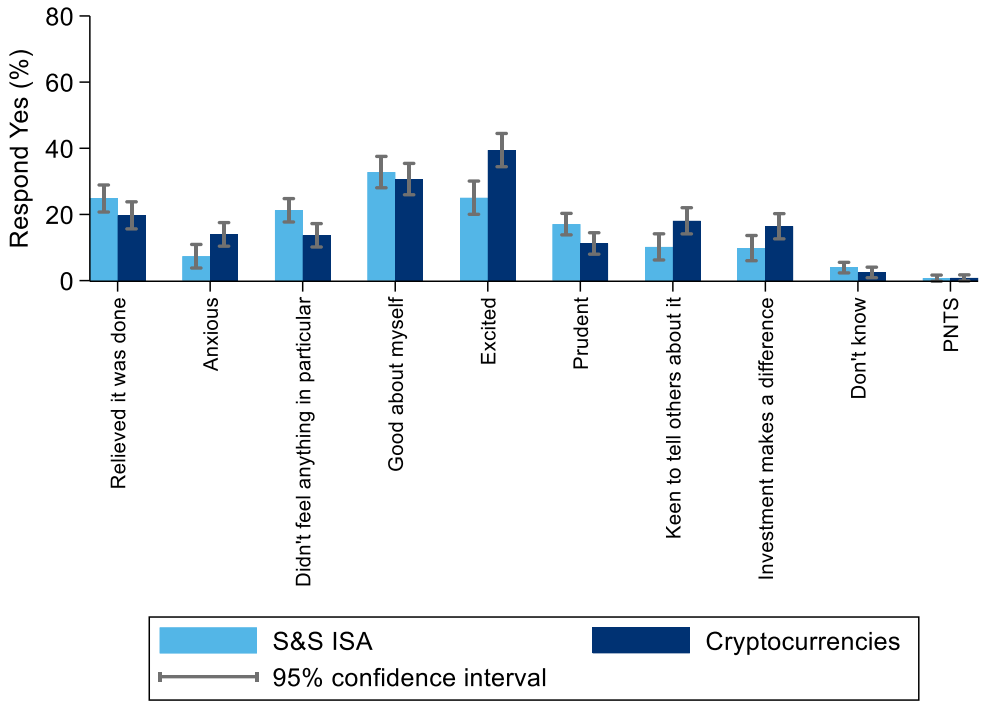
In 2021 the FCA found that 38% of consumers who bought cryptocurrency did so 'As a gamble that could make or lose money'.[59] It is therefore unsurprising that we find that cryptocurrency is seen as more exciting than S&S ISAs. This is shown in Figure 4.9.

People who invest in cryptocurrency are also more likely to want to talk about it with friends and family and to feel that their investment is making a difference. In comparison, people who have invested in a S&S ISA are more likely to feel prudent or good about themselves, or relieved that the experience is over. They are also more likely to not feel anything about their investment.

We can therefore conclude that S&S ISAs, while making consumers feel prudent, are not necessarily generating the same feelings of excitement as cryptocurrency. One route to encouraging consumers to invest in S&S ISAs might be through marketing the product to appear more exciting and something which consumers want to talk about. Or, alternatively, to strengthen the connotations of prudence and feeling good about oneself so that they become more of a unique selling point.

[59] FCA (2021), 'Research Note: Cryptoasset consumer research 2021', chart 17.

Figure 4.9 'How did you feel after investing in S&S ISAs/ cryptocurrency?'



Note: Based on a comparison, not a regression result. The answers to the cryptocurrency question include participants from all three samples (who have bought cryptocurrency), whereas the answers to the S&S ISA question come from the S&S ISA sample alone. PNTS, prefer not to say. Certain (contradictory) combinations of options were not permitted, e.g. 'anxious' plus 'relieved'.

Source: Oxera.

While our survey was not targeted at cryptocurrency investors, 365 participants said that they had invested in cryptocurrency. Based on this sub-sample, we know that cryptocurrency investors are, on average:

- less risk-averse and less loss-averse than our whole sample;
- younger (37 years old) than our whole sample (50 years old);
- more likely to be male (63% male) than our whole sample (51% male);

We also know that 36% of the S&S ISA sample have invested in cryptocurrency, compared with 6% of the Cash ISA sample and 6% of the bank account sample. We infer from this that there is a group of consumers who, being less risk-averse and less loss-averse, invest in both S&S ISAs and cryptocurrency.

5 What would encourage more consumers to invest in Stocks & Shares ISAs?

As described in section 3, consumers substantially over-estimate the likelihood of realigning a loss from investing in a S&S ISA. As described in section 4, most consumers do not engage with S&S ISAs and when they do engage they find that the customer journey is time-consuming and complex.

In this context, in this section we highlight potential ways to encourage more consumers to invest in S&S ISAs, and therefore reduce the consumer detriment highlighted in section 3. While investing in S&S ISAs will not be suitable for all consumers, there are many who do not invest in S&S ISAs but for whom it would be appropriate.

Box 5.1 Key messages

Ensuring inclusive marketing and engagement activity may help to address the disparities based on gender, where people live, and socioeconomic group. For example, inclusive marketing could seek to address the perception that 'people like you' do not invest in S&S ISAs.

Given that in general consumers substantially over-estimate the likelihood of losing money from investing in S&S ISAs, consumers could be better informed about the likelihood of losing money from investing in S&S ISAs. This would be likely to affect the decision over whether to invest in S&S ISAs.

Effectively communicating the features of S&S ISAs to more consumers is likely to lead to more consumers wanting to invest. Many consumers stated in our survey that more clarity on the differences between funds, and simpler information about S&S ISAs, would make them more likely to invest in a S&S ISA. The benefits of having a fund manager to manage risk could also be more widely communicated.

In addition, 36–43% of consumers said that it would be helpful to have 'An online tool or app where I can input information about myself and the website tells me the most appropriate investment for me'. Currently, such an app would count as an 'advised' sale.

In terms of information channels, some consumers said that information from 'trusted public figures or influencers (e.g. Martin Lewis)', 'an independent quality-rating website (e.g. Defacto)', or 'a price comparison website' would help them make a decision about S&S ISAs. Many consumers also stated that 'regular updates about my Stocks and Shares ISA as I progress towards my goals' would make them more likely to invest in a S&S ISA.

Source: Oxera.

5.1 Ensuring inclusive marketing and consumer communications

While we have not assessed marketing materials and customer communications for S&S ISAs, this survey reveals that the current customer base is not fully representative of the wider population.

Ensuring inclusive marketing and consumer communications could help to:

- reduce the gender gap;
- increase investment in S&S ISAs across all regions of the UK;
- address peer effects ('people like you');
- increase social mobility (i.e. increase investments from lower socioeconomic groups).

For example, this could take the form of including more representative customer personas in marketing materials. Targeting these messages at specific groups of people might also prove effective.

5.2 Informing expectations and perceptions of risk and loss

It might not be possible or even advisable to change levels of loss aversion or risk aversion, because (as discussed in section 2.2.2) these may be genuine preferences.

The perceived likelihood of realising a loss in S&S ISAs is a key barrier to investing in S&S ISAs. Informing accurate perceptions of loss likelihood will help to encourage more consumers to enjoy the benefits of investing. Indeed, at least 51% of participants in the Cash ISA and bank account samples said that they would be 'more likely' to invest in funds if 'funds are less likely to lose money in the long run' or 'funds are low risk'.[60]

Our finding that people overestimate the likelihood of realising a loss has also been established by very recent literature, based on an experiment on US consumers.[61] That study also found that informing consumers about the historic likelihood of realising a loss encouraged consumers to invest more in equities.

5.3 Providing more regular, simpler and clearer information

Participants rated (out of 10) what effect different pieces of information about S&S ISAs, or features of S&S ISAs, would have on their decision to invest in them. As shown in Table 5.1, the most impactful were information (regular post-sales updates, simpler information, more clarity on funds).

These potential pieces of information and features were generally seen as more useful by the S&S ISA sample, and least useful by the bank account sample.

'More certainty about where the stock market is headed' could also be thought of as information (as well as a feature of S&S ISAs). The popularity of this option ties into our findings about loss aversion, but may be affected by the time period when the survey was conducted (i.e. during a time of economic uncertainty).

[60] Question: 'To what extent would each of these factors make you more likely to invest in funds?' Answers (for which participants had the options: 'less likely'; 'no impact'; 'more likely'; 'don't know'; 'prefer not to say') included: 'funds are less likely to lose money in the long run', and 'funds are low risk'. Other answers were also presented.
[61] Strucks, M. and Zeisberger, S. (2022), 'Why Do People (Not) Invest? The Role of Return and Risk Expectations', working paper.

Table 5.1 To what extent would each of the following make you more likely to invest in (another) Stocks and Shares ISA?

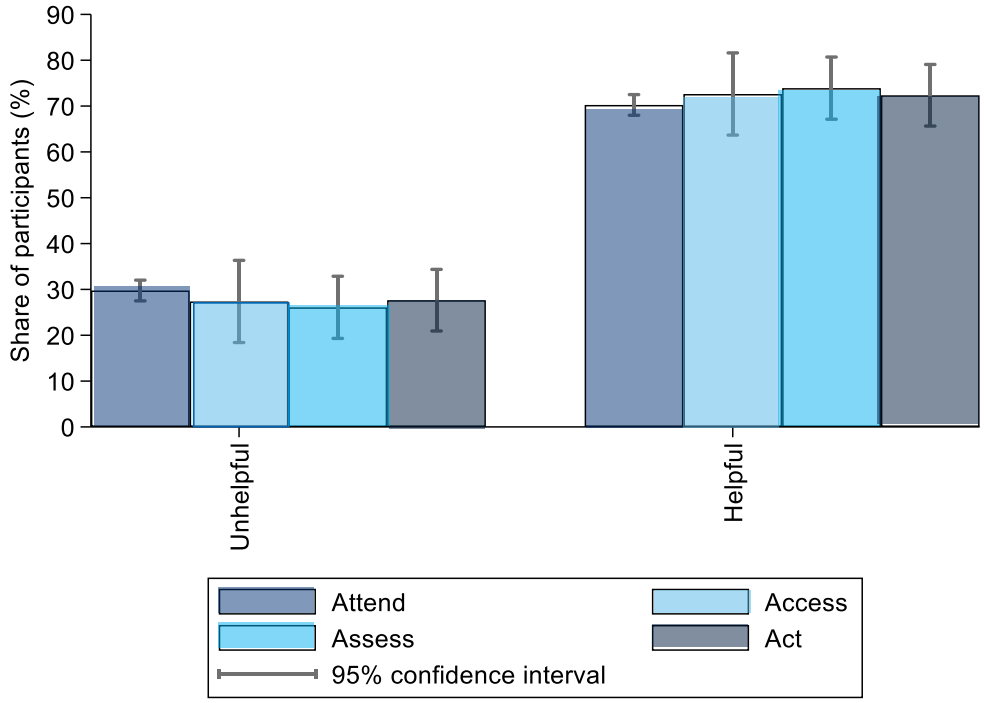
Average score out of 10	Bank account sample	Cash ISA sample	S&S ISA sample
Information about Stocks & Shares ISAs			
Regular updates about my Stocks and Shares ISA as I progress towards my goals	4.93	5.62	7.26
Simpler information about Stocks and Shares ISAs	4.67	5.50	6.96
More clarity on the differences between funds	4.62	5.53	6.88
Features of Stocks & Shares ISAs			
More investments to choose from in a Stocks and Shares ISA	4.00	4.88	6.80
More certainty about where the stock market is headed	4.59	5.44	6.64
Lower fees	4.55	5.49	6.49
An online app to track my savings	4.34	4.92	6.44
Fewer investments to choose from in an Stocks and Shares ISA	4.31	4.82	6.33

Note: Where 10 was ‘very much so’, and 1 was ‘not at all’. Participants could also select ‘don’t know’ or ‘prefer not to say’. The options were presented to participants under the two headings ‘Information about…’ and ‘Features of…’

Source: Oxera.

When we split out the responses about ‘Simpler information about Stocks and Shares ISAs’ and ‘More clarity on the differences between funds’, we see that these options are just as valued by participants who did engage in the market. This is shown in Figure 5.1 and Figure 5.2.

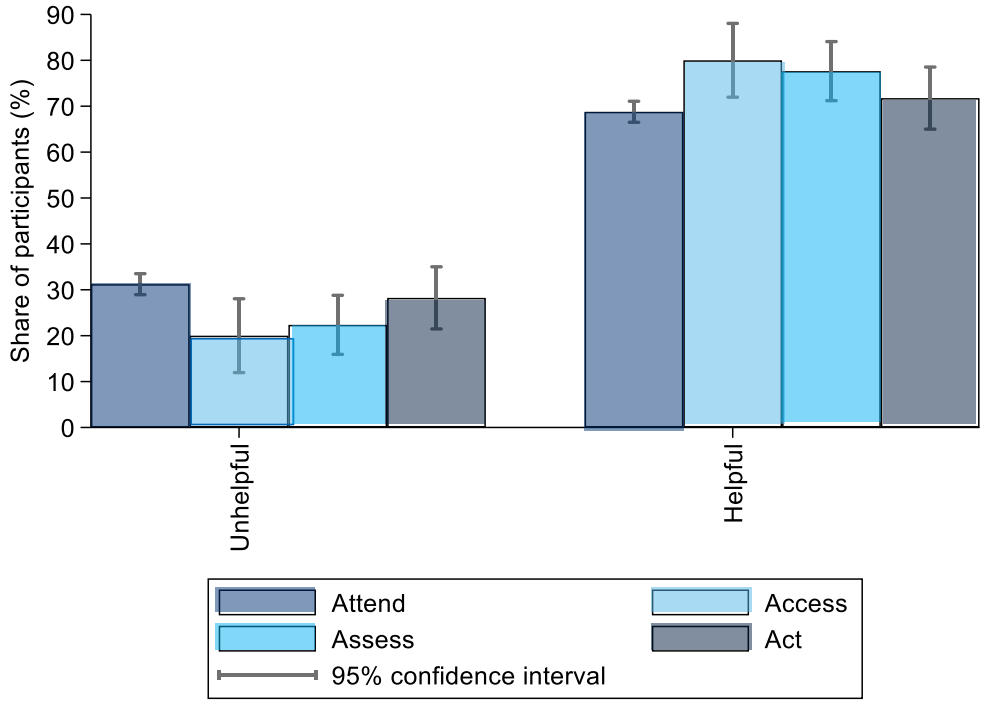
Figure 5.1 To what extent would each of the following make you more likely to invest in (another) Stocks and Shares ISA? Simpler information about Stocks and Shares ISAs



Note: Based on a comparison of the responses (i.e. not a regression result). 'Helpful' defined as a rating of ≥5 out of 10. Attend: participants who did not attend the market. Access: participants who attended but did not access information. Assess: participants who accessed information but did not compare options. Act: those who assessed the market but did not buy a S&S ISA.

Source: Oxera.

Figure 5.2 To what extent would each of the following make you more likely to invest in (another) Stocks and Shares ISA? More clarity on the differences between funds



Note: Based on a comparison of the responses (i.e. not a regression result). 'Helpful' defined as a rating of ≥5 out of 10. Attend: participants who did not attend the market. Access: participants who attended but did not access information. Assess: participants who accessed information but did not compare options. Act: those who assessed the market but did not buy a S&S ISA.

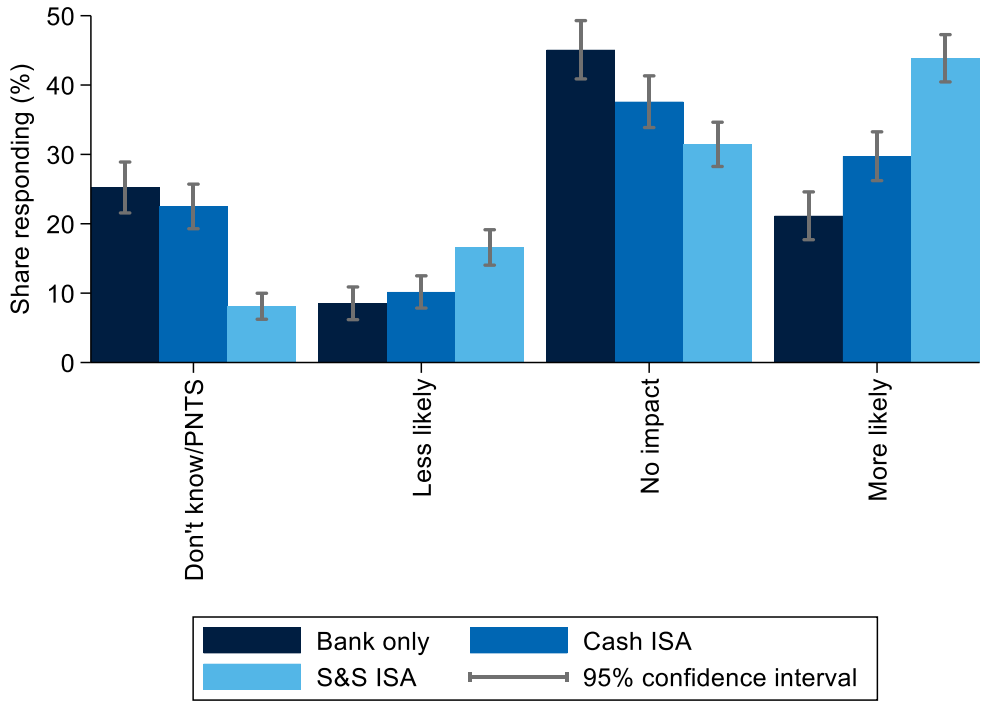
Source: Oxera.

5.4 Telling the positive stories that reinforce good understanding

Many consumers thought having a professional fund manager would make them 'more likely' to invest in funds (44% of the S&S ISA sample; 30% of the Cash ISA sample; 21% of the bank account sample). This is shown in Figure 5.3.

Consumers in the Cash ISA and Bank account samples were more likely to select 'don't know' or 'prefer not to say'. We infer from this that they are less likely (than the S&S ISA sample) to hold a pre-formed opinion about professional fund managers. Thus benefits of having a fund manager could be more widely communicated, especially in terms of managing risk.

Figure 5.3 To what extent would each of these factors make you more likely to invest in funds? 'Funds have a professional investment manager'



Note: Based on a comparison of the three samples (i.e. not a regression result). PNTS, prefer not to say.

Source: Oxera.

Investing in S&S ISAs is correlated with having a good understanding of how S&S ISAs function, such as correctly understanding that customers can withdraw money from a S&S ISA at any time. Therefore, communicating the features of S&S ISAs to more consumers effectively is likely to lead to more consumers wanting to invest.

5.5 Reaching consumers where they are

We asked participants what sources of information on S&S ISAs would most help them to make a decision about S&S ISAs. Information from trusted public figures, independent quality ratings, and price comparison websites were seen as more helpful than online communities. This is shown in Table 5.2.

Table 5.2 To what extent would the following help you make a decision about Stocks and Shares ISAs?

Average score out of 10	Bank account sample	Cash ISA sample	S&S ISA sample
Information from trusted public figures or influencers (e.g. Martin Lewis)	5.18	5.51	6.57
Information from an independent quality-rating organisation (e.g. Defacto)	5.05	5.59	6.74
Information from a price comparison website	5.03	5.61	6.56
Information via an online community (e.g. Reddit, MoneySavingExpert)	4.68	5.40	6.41

Note: Where 10 was 'very much so', and 1 was 'not at all'. Participants could also select 'don't know' or 'prefer not to say'.

Source: Oxera.

5.6 Providing guidance and post-sales online tools

We asked participants how helpful different online tools would be in understanding the benefits of S&S ISAs.

Online tools were seen as helpful by many in the S&S ISA sample, and also by many of those in the Cash ISA and bank account samples who had engaged with the market.

The most popular online tools were tools that (a) would track the potential growth of the investment; and (b) would provide guidance on the most appropriate investment.

We note that 'An online tool or app where I can input information about myself and the website tells me the most appropriate investment for me' would currently count as an 'advised' sale.

The survey was not designed to fully assess the impact of financial advice on investment decisions. For financial advice to be successful in encouraging disengaged consumers to invest in a S&S ISA, those customers would first need to engage in financial advice. This suggests that new ways of engaging this market are needed.

Given that over 70% of both the Cash ISA and bank account samples do not even consider investing in a S&S ISA, the trigger for seeking advice is not clear. Additionally, financial advice has its own engagement barriers to overcome before it can be seen as the go-to solution. Based on other research by TISA, 51% of consumers agree or strongly agree with the statement that 'paid-for financial support is not aimed at someone like them'.[62]

In our survey, we find that 45% and 47% of the Cash ISA and bank account samples respectively answer 'unlikely' or 'very unlikely' to the question: 'How likely do you think people like you are to invest in Stocks and Shares ISAs?'[63] We hypothesise that there is a possible overlap between the consumers who see financial advice as not for people like them, and the consumers who think that people like them are unlikely to invest in S&S ISAs.

[62] TISA (2021), 'This time it's personal: Enabling consumers to make better savings and investment decisions', July.
[63] This excludes people who answered 'don't know'/'prefer not to say' to this question.

Table 5.3 Would the following tools help you to understand the benefits of a Stocks and Shares ISA when purchasing online or via an app?

Proportion answering yes	Bank account sample (who did engage)	Cash ISA sample (who did engage)	S&S ISA sample (all)
An online tool or app where I can input information about myself and the website tells me the most appropriate investment for me	36%	43%	36%
An online tool or app that helps me learn more about stocks and shares as I save	37%	41%	31%
An online tool or app where I can see the potential growth of my Stocks and Shares ISA over time, depending on the investments I choose	42%	40%	40%
An online tool or app where I can aggregate all my financial products in one place and see how the Stocks and Shares ISA fits into my overall finances	23%	32%	31%

Note: Participants were asked whether the following tools would be helpful for them in understanding the benefits of a S&S ISA. Regarding the bank account and Cash ISA samples, the results are for those who have attended the market, i.e. who have considered investing in a S&S ISA.

Source: Oxera.

5.7 Sustainable investing does not appear to attract many consumers to invest in funds

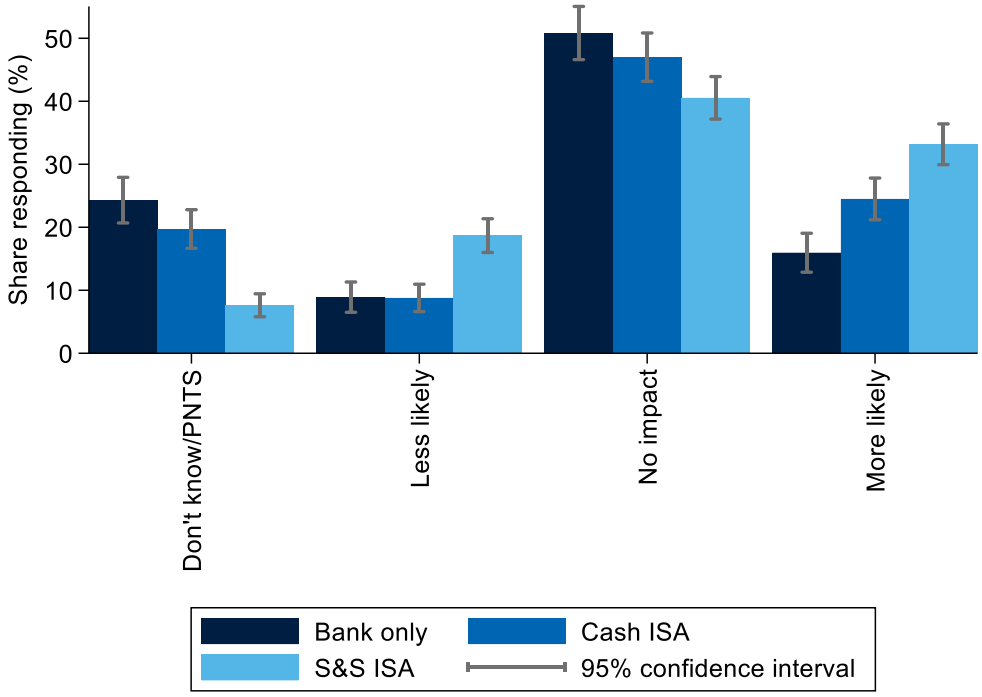
Sustainable investing does not appear to attract many consumers to invest in funds, with the most common answer being ‘no impact’ for all three samples. This is shown in Figure 5.4.

Despite this, sustainable investing may be necessary to meet the challenges of climate change and global net-zero targets. For example, the International Energy Agency projects the need for $3.5tn in annual global investments to build the infrastructure needed for a green economy, while the FCA notes that ‘Actors across the spectrum of financial services can be a force for good’ in the transition to net zero.[64]

Our results indicate that many consumers are not engaging with these investment goals. This could be because these investments may not appear to offer the certainty and stability which consumers require. Industry could consider how consumers may be encouraged to consider ESG investments, and more research may be needed into how to make these investments attractive to more consumers.

[64] International Energy Agency (2017), ‘Deep energy transformation needed by 2050 to limit rise in global temperature’, March. FCA (2021), ‘A strategy for positive change: our ESG priorities’, November.

Figure 5.4 To what extent would each of these factors make you more likely to invest in funds? Funds enable me to make a responsible impact (as I can choose a fund with high environmental sustainability credentials)



Note: Based on a comparison of the three samples (i.e. not a regression result). Other answers were also presented to participants. PNTS, prefer not to say.

Source: Oxera.

A1 Technical appendix

A1.1 Descriptive statistics

Table A1.1 gives a breakdown of the proportion of people of each gender, in each socioeconomic group, in each age bracket, and in each region of the UK in our sample.

Table A1.1 Descriptive statistics

Variable	Proportion in sample
Age bracket	
Under 25	3.3%
25–34	16.0%
35–44	23.9%
45–54	13.9%
55–64	16.6%
65+	26.3%
Gender	
Male	51%
Female	49%
Non-binary	0.2%
Socioeconomic group	
AB	33.1%
C1	25.1%
C2	20.6%
DE	21.2%
Region	
East Anglia	10%
East Midlands	7%
West Midlands	9%
London	13%
North East	5%
North West	12%
South East	13%
South West	8%
Yorkshire	9%
Northern Ireland	2%
Scotland	9%
Wales	5%

Source: Oxera.

A1.2 Clustering results

Table A1.2 gives an overview of the characteristics of participants in each sample. It shows the average financial literacy, risk aversion, lottery score, present bias number, socioeconomic group and age (in years) of participants in each of the clusters.

Table A1.2 Characteristics by cluster

	Cluster 1: Younger, less averse to risk/loss	Cluster 2: Older risk/loss avoiders	Cluster 3: Living for the present risk/loss avoiders	Cluster 4: Lower socioeconomic group risk/loss avoiders	*Notes*
Mean financial literacy	0.505	1.78	0.79	1.13	*Out of 2, higher = more literate*
Mean risk aversion	1.74	5.84	5.68	5.28	*Out of 10, higher = more risk averse*
Mean lottery score for loss aversion	335	78.3	104	75.1	*Out of 650, higher = less loss averse*
Mean present bias number	1.03	1.28	4.46	1.22	*Out of 5, higher = more present-biased*
Mean socioeconomic group	2.19	1.49	2.64	3.32	*1=AB, 2=C1, 3=C2, 4=DE*
Mean age (years)	38.4	62.5	45.5	44.1	*n.a.*

Source: Oxera.

A1.3 Regression results

Table A1.3 gives the main regression results, showing the impact of the variables on whether the participant invests in a S&S ISA compared to a Cash ISA (first specification) or a bank account (second specification).

The regression specification is a Probit model, which can tell us the impact of the independent variables on a binary outcome variable, e.g. whether the participant has a S&S ISA or a Cash ISA (first specification) and whether the participant has a S&S ISA or a bank account only (second specification). We use clustered standard errors.

Table A1.3 Regression results

Variable	S&S ISA vs Cash ISA	S&S ISA vs bank account
Age	-0.001	-0.005
	(0.000)*	(0.001)**
Gender		
Male	0.083	0.063
	(0.027)**	(0.016)**
Goal		
Children	0.100	0.096
	(0.008)**	(0.016)**
Holiday	0.022	-0.014
	(0.020)	(0.020)
Home improvements	0.027	-0.025
	(0.030)	(0.003)**
Mortgage deposit	0.044	0.086
	(0.011)**	(0.008)**
My education	0.140	0.194
	(0.010)**	(0.024)**

New car	0.080	0.103
	(0.008)**	(0.027)**
None of the above	0.046	-0.087
	(0.004)**	(0.024)**
Retirement	0.100	0.061
	(0.021)**	(0.010)**
Unexpected expenses	-0.022	-0.021
	(0.002)**	(0.030)
Socioeconomic group		
C1	-0.054	-0.063
	(0.002)**	(0.013)**
C2	-0.085	-0.047
	(0.016)**	(0.019)*
DE	-0.180	-0.151
	(0.010)**	(0.033)**
Financial Literacy		
High	-0.055	0.009
	(0.024)*	(0.001)**
Medium	-0.027	0.004
	(0.013)*	(0.003)
Risk aversion		
High	-0.088	-0.077
	(0.014)**	(0.002)**
Medium	-0.071	-0.028
	(0.008)**	(0.001)**
Loss aversion		
High	-0.182	-0.193
	(0.057)**	(0.085)*
Medium	-0.062	-0.114
	(0.031)*	(0.083)
Present bias		
High	-0.025	0.014
	(0.026)	(0.005)**
Medium	0.019	-0.018
	(0.014)	(0.008)*
Income		
Less than £10,000 per year	-0.153	-0.127
	(0.039)**	(0.013)**
More than £150,000 per year	-0.247	-0.126
	(0.089)**	(0.038)**
£10,000 to £15,000 per year	-0.146	-0.039
	(0.034)**	(0.008)**
£100,000 to £150,000 per year	-0.154	-0.045
	(0.040)**	(0.019)*
£15,000 to £20,000 per year	-0.172	-0.134
	(0.041)**	(0.016)**
£20,000 to £25,000 per year	-0.135	-0.127
	(0.035)**	(0.018)**
£25,000 to £30,000 per year	-0.094	-0.060

	(0.050)	(0.017)**
£30,000 to £40,000 per year	-0.152	-0.042
	(0.041)**	(0.005)**
£40,000 to £50,000 per year	-0.172	-0.065
	(0.044)**	(0.007)**
£50,000 to £60,000 per year	-0.180	-0.072
	(0.058)**	(0.023)**
£60,000 to £80,000 per year	-0.099	-0.081
	(0.035)**	(0.037)*
£80,000 to £100,000 per year	-0.126	-0.081
	(0.021)**	(0.006)**
Job level		
Intermediate managerial, administrative or professional	0.000	0.014
	(0.016)	(0.026)
Manual worker (with industry qualifications)	0.053	-0.039
	(0.008)**	(0.012)**
Manual worker (with no qualifications)	0.105	0.056
	(0.005)**	(0.022)*
Senior managerial or professional	0.156	0.046
	(0.052)**	(0.015)**
Student	-0.003	-0.221
	(0.001)**	(0.036)**
Supervisor; clerical; junior managerial, administrative or professional	0.013	-0.016
	(0.006)*	(0.008)*
Unemployed due to ill health	0.094	0.106
	(0.019)**	(0.006)**
Unemployed for another reason	0.106	0.056
	(0.009)**	(0.019)**
Region		
East Midlands	0.072	0.167
	(0.021)**	(0.031)**
East of England (East Anglia)	0.118	0.078
	(0.019)**	(0.013)**
London	0.160	0.141
	(0.011)**	(0.010)**
North East	0.165	0.072
	(0.001)**	(0.006)**
North West	0.100	0.128
	(0.018)**	(0.014)**
Northern Ireland	0.091	0.151
	(0.009)**	(0.004)**
Scotland	0.067	0.105
	(0.004)**	(0.022)**
South East	0.056	0.081
	(0.008)**	(0.013)**
South West	0.048	0.053
	(0.013)**	(0.000)**
West Midlands	0.110	0.100

	(0.006)**	(0.003)**
Yorkshire and the Humber	0.138	0.110
	(0.001)**	(0.003)**
Expected probability of loss over a five-year investment period	0.000	0.001
	(0.000)	(0.001)
People like you invest		
Neither likely nor unlikely	0.085	0.067
	(0.020)**	(0.010)**
Somewhat likely	0.265	0.233
	(0.049)**	(0.072)**
Somewhat unlikely	-0.115	-0.088
	(0.055)*	(0.023)**
Very likely	0.401	0.281
	(0.168)*	(0.112)*
Very unlikely	-0.291	-0.319
	(0.215)	(0.176)
Q32_correct	0.035	0.011
	(0.008)**	(0.009)
Q33_correct	0.149	0.140
	(0.005)**	(0.019)**
Q34_correct	0.041	0.109
	(0.006)**	(0.027)**
Q37a_correct	-0.069	-0.021
	(0.009)**	(0.004)**
Q37b_correct	0.020	0.056
	(0.000)**	(0.014)**
N	1,396	1,300

Note: * p<0.05; ** p<0.01. Regression results show **average marginal effects**, i.e. the average additional probability of investing in a S&S ISA compared to a Cash ISA or bank account if the variable increases by one unit (for linear variables), or for the variable compared to a base case (for factor variables), averaged across all values of the variable. The regression was carried out on the full sample, i.e. participants at all stages of the customer journey. Base cases are for the factor variables are female (for gender), no specific purpose (for savings goal), low (for financial literacy, risk aversion, loss aversion and present bias), retired (for job level), Wales (for region), and 'prefer not to say' (for whether people like you invest in a Stocks and Shares ISA). Q32_correct, Q33_correct, Q34_correct, Q37a_correct and Q37_b correct refer to questions testing participants' knowledge of Stocks and Shares ISAs, specifically Q32_correct means that the participant understands what is held in a Stocks and Shares ISA, Q33_correct implies that they understand when they can withdraw from a Stocks and Shares ISA, Q34_correct implies that they understand the tax benefits of a Stocks and Shares ISA, and Q37a_correct and Q37b_correct implies that they understand that Stocks and Shares are safer and provide higher returns on average than cryptocurrency. Our specification includes both socioeconomic group and job level (the former of which is based on both the latter and the latter before retirement).[65]

Source: Oxera.

[65] Including both socioeconomic group and job level does not remove the statistical significance for either variable. Each variable provides new information: the socioeconomic group variable tells us how all socioeconomic groups compare to the default group (AB); while the job variable tells us how consumers with all jobs compare to retired people (the default), all other things being equal. We ran robustness checks to verify that when either of these variables are removed, the coefficients and marginal effects for the other variables do not change significantly.

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