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How Do **Risk Warnings** Impact Investment Choice?

Summary of Findings

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Prepared for

TISA



Foreword

The findings of this research are striking: if you can help people to better understand the risks of investing in stocks and funds, they are *more* likely to invest. This is because many individuals perceive the probability of making losses from equities to be higher than it often is. Improved messaging can help. In this study, highlighting the higher returns that can be achieved over time from mainstream investing leads to a c.14% increase in the amount invested.

The FCA estimates 11.8m of the UK population hold the majority of their investible assets of over £10k in cash. Approximately 44% of this group have some appetite to take risk, yet don't¹. Men were over one and a half times more likely to invest than women in May 2022². TISA's research with Oxera found that over 40% of women who had over £5,000 in a Cash ISA or bank account said that they did not invest as they did not want to put their money into a risky investment³.

The findings from this research help to address this entrenched problem. They are even more striking when you consider we found the groups of people identified by the FCA who are less likely to invest, are the people most encouraged to invest once presented with a more balanced risk warning in our experiment. Highlighting long-run returns (as part of the risk warning) increased the amount invested by 21% for women, compared with 7% for men. It also had stronger effects among those who are older, with above-median incomes and education, and those with low financial confidence.

Standard risk warnings for mainstream investments are not doing the job of helping people make an *informed* decision about the risk and reward trade-off and how it fits with their wider financial goals. They are routine and offer little by way of meaningful information: "*The value of investments can fall as well as rise. There is a chance you might not get back what you put in.*" Such a statement doesn't do enough to help consumers evaluate different types of investment risk – the statement reads as true for gambling as it does for investing in a managed fund within a Stocks & Shares ISA. Nor do current risk warnings help consumers make the mental trade-offs that are inevitably required when deciding which product might help them meet their financial goals.

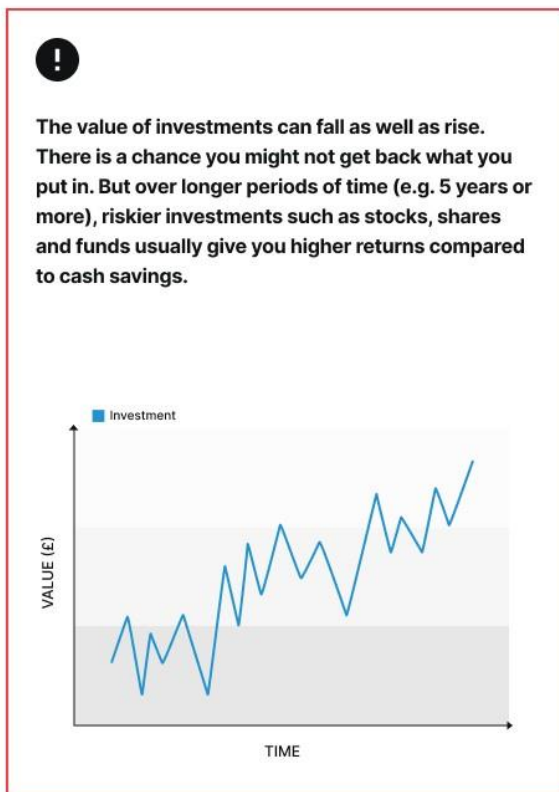
The balanced risk warnings we formulated and tested provide context and draw attention to the historically higher potential returns offered by stocks, shares and funds when invested over longer periods of time. The statement can be backed up by evidence too. As an example, the 2019 Barclays Equity Gilt Study used historic data from 1899 onwards to demonstrate that there is a 76% probability of returns on UK equities outperforming returns on cash savings over a 5-year period, (71% at 3 years, 91% at 10 years). US data spanning a 200 year period shows that stocks typically outperform cash by 5.4% per year⁴.

¹ [Consumer Investments Strategy - 2 Year Update | FCA](#)

² <https://www.fca.org.uk/publication/financial-lives/fls-2022-consumer-investments-financial-advice.pdf>

³ <https://www.tisa.uk.com/wp-content/uploads/2022/11/FINAL-OXERA-REPORT-FOR-PUBLICATION.pdf>

⁴ Siegel, J. J. (2002) *Stocks for the Long Run*, 3rd edition, New York, McGraw-Hill.



This helps people understand investments in relation to savings – the most likely alternative product they could choose. It gives people context to understand how investments fit into a wider portfolio.

Two further risk warning interventions tested positively in our research: 1) providing information about diversification; and 2) providing information about the benefits of drip-feeding (regular saving) into investments.

Both interventions demonstrate that consumers are more willing to invest more when such messages are shown to them. Explaining diversification in simple terms helped more people move their cash into funds. There was an increase in people moving their money to stocks and funds (on average 4%) with 85% of this increase flowing into funds⁵. The drip-feed message increased people’s likelihood of spreading investment over 12 months by 14.2%, on average allocating £830 of their investment

to be spread.

Further research will be required to establish whether these same findings would be replicated in real life. However, the scale of this research provides confidence that current risk warnings for mainstream investments are not promoting good outcomes for all consumers and more can be done.

In our joint report with Oxera in 2022, TISA called on the financial services industry, along with the Government and the FCA, to take stock of the problems holding people back from sensibly investing and to take concrete steps to remedy the situation for future retail investors. TISA and its members have demonstrably taken action to do so and welcomes others to join forces to create better outcomes for consumers.

⁵ However, it’s important to note the findings are less statistically certain than for those of Phase 1 testing.

TISA is particularly grateful to the University of Nottingham for undertaking this study. The project has benefited from the input of several TISA members. However, the authorship, contents and findings of the report belong to the authors only. We would like to thank Oxera and CMS Law for their excellent support and Fidelity, Hargreaves Lansdown and Lloyds Banking Group for their sponsorship and support too. Our thanks also go to EY-Seren who provided the design work on the risk warnings in the report⁶.

Faith Reynolds
Adviser to the board at TISA



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Research Objective

Individuals in the UK hold large savings balances for extended periods of time wholly in cash savings, forgoing the higher returns to be earned from stock or fund investments. Returns from stocks and funds can be volatile in the short-term, but over the medium and long term, the returns from stock and fund investments consistently exceed the returns from cash savings. This leaves cash savers at a disadvantage as they miss out on higher returns.

Many individuals engage in this type of saving behaviour. The FCA finds that 61% of the UK population with investible assets of over £10k hold all or most of that money in cash.⁷ Previous research by Oxera in collaboration with TISA found evidence of the underlying causes. Its work found the reasons included individuals overestimating the probability of losses being made on stock and fund investments. The research also found these misperceptions are worse among particular groups of savers, such as females and those less financially confident.

What can we do to help individuals make better choices about their savings decisions? We should be reluctant to mandate how consumers hold their assets, but the evidence strongly suggests that a significant proportion of consumers are holding assets at below-par returns due to these misconceptions. Behavioural science has demonstrated how, in many domains, relevant and timely information disclosures can influence individual choices in positive ways.

In our research, we applied the information disclosure approach to the messaging shown to individuals in a hypothetical saving and investing journey in a randomised-control trial. The information disclosures – messages – we incorporate make clear in simple terms the benefits of medium-term investing in stocks and funds, plus diversifying the drip-feeding those investments. Designed to overcome the potential misperceptions held by individuals, we show these additional messages and effective at positively changing investing choices.

Research Design

Our research design used a randomised controlled trial in which a large sample of individuals drawn from a leading survey platform pool were asked to engage in a hypothetical saving and investing choice journey. Our first phase of the study restricted the sample to individuals earning at least £20,000 per year⁸. Our sample slightly over-sampled women compared with the general population, reflecting the makeup of the online panel. The average age, education level and ethnic breakdown of the sample matched that of the general population.

We asked individuals to express a choice as to how they would invest £10,000 over a period of 7-years or longer – a time period over which stocks and funds consistently outperform cash savings and over which non-pension savers commonly make choices over where to save or invest. We provided options of saving the money in cash savings, or investing in individual stocks (tech or pharma) or funds (tech or global). These options were chosen to

⁷ [Consumer Investments Strategy - 2 Year Update | FCA](#)

⁸ To secure the necessary number of research participants, our second phase research removed the required individual earnings.

offer participants a range of risk profiles (tech being riskier than pharma; and range of diversification (global being more diversified than tech). The control group in the study were given standard explanations of the features of cash savings, stocks and funds. Treatment groups were shown additional messaging. Comparing the choices of individuals in the control and treatment groups over how to allocate the £10,000 allows us to measure how the additional messaging changes choices.

Experiment I: Highlighting long-run returns from stocks and funds

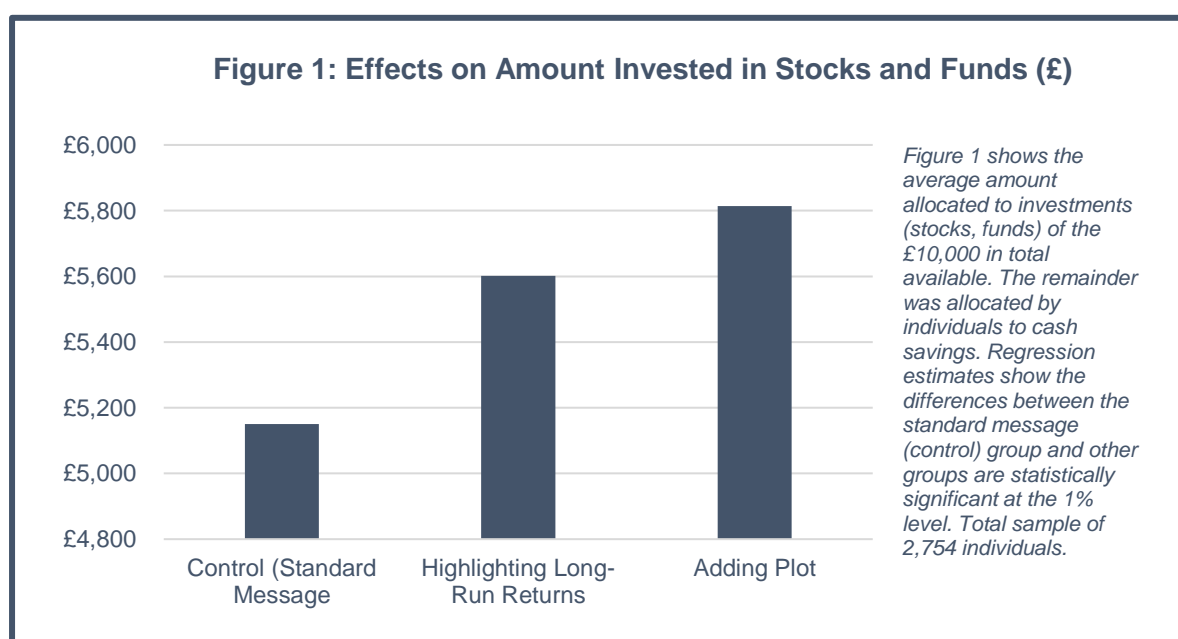
We first tested a message that emphasises the higher long-run returns to be gained from stocks, shares and funds compared to cash savings.

The control group were shown a standard risk warning: *“The value of investments can fall as well as rise. There is a chance you might not get back what you put in.”* This message resembles the standard “risk warning” shown during consumer journeys on saving and investing platforms.

A first treatment group were shown this additional message, following on from the message shown to the control group: *“But over longer periods of time (e.g. 5 years or more), riskier investments such as stocks, shares and funds usually give you higher returns compared to cash savings.”*

A second treatment group were shown the same message as the first treatment group, with the addition of a plot illustrating the higher average long-run returns from stocks and funds compared with cash savings.

Figure 1 below shows the effects of the treatment on the amount invested in stocks and funds. Both treatments increase the amount invested. Highlighting long-run returns causes an approximate 10% increase in the amount invested (approximately £500), while including the plot causes a further 4% increase in the amount invested (approximately £200).



In further analysis, we show that the effects of these treatments differ across different groups by their characteristics. The treatment effects on the amount invested are larger among females, individuals who are older, individuals with above-median incomes and education, and those with low financial confidence. Among these groups, the long-run returns treatment increases the amount invested by 10-15%, which is higher than the average 10% effect observed in the sample. Among some sub-groups, the effect size was notably higher.

Highlighting long-run returns increased the amount invested by 21% for women, compared with 7% for men. This finding is particularly promising because the groups with the strongest treatment effects are also those shown to suffer most from overestimating of the riskiness of stock and fund investments in the previous TISA/Oxera study. This suggests that our information disclosures may be effective at overcoming the misperceptions held by these groups.

Experiment II: Messaging diversification, drip-feeding and liquidity

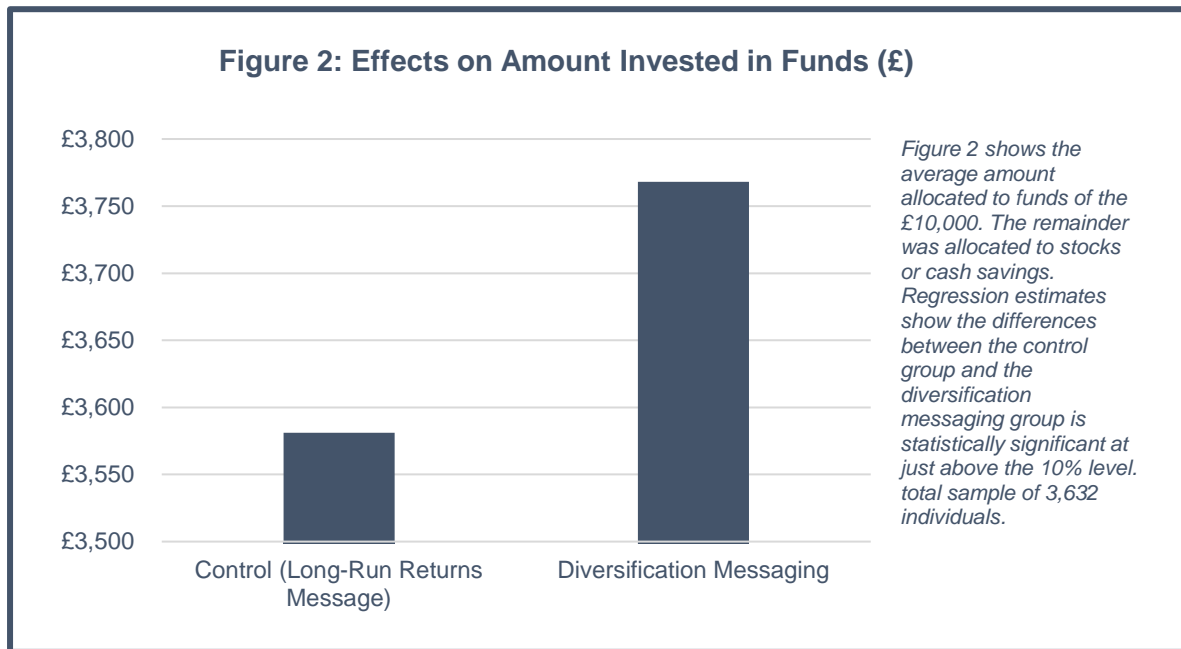
In a second experiment, we tested three additional messages on diversification, drip-feeding and liquidity (ability to access the money held in the account immediately). Individuals faced the same choice of how to invest £10,000 in the same options as in the first experiment. In this experiment, the control group were shown the same messaging as in the treatment highlighting the long-run returns from Experiment I. Hence, this experiment builds on the findings from Experiment I. Each treatment included an illustration on screen accompanying the message.

The diversification messaging treatment added the message: *“You can reduce your risk by spreading your investment across multiple stocks, shares or funds. This means that if the price of one stock or share goes down, it will have less overall effect on the value of your investment or fund. This means you avoid putting all your eggs in one basket”*

The drip-feed messaging treatment added the message: *“By investing regularly you can reduce the risk of varying prices. You invest gradually over time. You hold any uninvested money in cash until it is invested. As the value of your investments goes up and down, the price you pay will vary. Over time, the amount you pay for the investments will average out. This helps reduce the risk that you pay one price for a single, large investment one day, but the value drops the next day.”*

The liquidity messaging treatment added the message: *“You can access your money at any time when you save or invest.”*

Figure 2 below shows the effects of the diversification messaging, which was to increase the amount invested in funds by approximately £200, or 5.6%. Among those shown the diversification message, the overall amount allocated to stocks and funds increased by approximately £210, so the vast majority of the increase in investing was seen in greater holding of funds. Though it should be noted that the effect of this treatment is less statistically significant compared with the effects observed in Experiment I.



As for Experiment I, there is evidence that the diversification messaging had stronger effects on particular groups. The messaging had a stronger effect in encouraging uptake of funds among females, those of younger age, those below median education and those above-median saving. This again suggests that the messaging affects groups differently, with a notably larger effect on females as for Experiment I.

The drip-feed message caused a 50% increase in use of the drip-feed option. While in the control group individuals used the drip-feed option for approximately items summing to £1,800 of their £10,000 investment, in the drip-feed treatment group this increased to approximately £2,600. The drip-feed treatment did not affect the amount invested in cash savings, stocks or mutual funds, hence the effect we observe is purely on how individuals choose to invest their allocations as lump-sum vs drip-feed.

Additional analysis shows no effect from the liquidity messaging. This may have arisen due the long time period over which individuals were asked to make their hypothetical investing choices (7 years), rendering liquidity concerns low priority.

Discussion

The results here demonstrate that messaging can have statistically significant and financially meaningful effects on individuals' choices over whether to allocate assets to cash savings, stocks and funds. These messages may be effective because they are counterpoint to misconceptions held by individuals about the riskiness of stocks and funds, and/or reservations about diversification and investing lump-sum amounts. It is notable that the messages prove most effective at changing the saving and investing behaviour in the study of individuals in those groups previous research finds suffer most from misconceptions regarding the risk/reward balance of stock and fund investing.

Our findings come with two main caveats. First, while the experimental design used in the experiment resembled a standard consumer journey, it can only do so in a hypothetical setting in which consumers are not financially vested in their decisions. In a real-world setting, there is potential for the responses of consumers to be stronger as they have a greater incentive to pay attention to the disclosures as presented in the journey. However, in the real world setting it may be more difficult to overcome consumer mis-conceptions compared to in the hypothetical choice environment. Our research shows that messaging can change behaviour, and while this impact is likely to translate into the real world the exact size of the impact is likely to be dependent upon a number of factors.

Second, one element of the consumer decision process not taken into account in the current research design is the role of advisers. A substantial portion of the Stocks and Shares ISA market, for example, is accounted for by advised sales. The treatment effects we observe in the research design here may vary in a setting in which the adviser also has input into the consumer decision.

Further research in a real-world journey would therefore be highly valuable for learning more about the efficacy of these information disclosures and their potential to be deployed in consumer choice journeys.

Conclusion

Over 5.2 million people in the UK have an appetite for investing but are currently saving the majority in cash savings, thereby foregoing the higher returns to be gained from stock and fund investments.

The research presented here shows that, in a hypothetical saving and investing scenario, information disclosures can work to positively improve outcomes. A set of messages: that message the higher returns to be earned from stocks and funds in the medium term; the advantages of diversification; and the advantages of drip-feeding - these are all effective at changing individuals' choices in positive ways. The effects of these interventions are larger among the groups of individuals who previous research suggest under-invest in stocks and funds due to misperceptions of the riskiness of these types of investments.

This research provides promising evidence of the effectiveness of information disclosures, in the hope that future work will test their efficacy in real-world saving and investing scenarios.

Acknowledgements

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The research experiments presented here were pre-registered with AsPredicted.org Effect of Risk Information Framing on Investment Decisions”, available on request. Ethical approval for this research to be conducted was obtained from the Research Ethics Board at the School of Economics, University of Nottingham, available on request.

Further details of the design and analysis are provided in the technical report is available at www.tisa.uk.com .

Any omissions or errors are those of the authors.