The Role of Risk in Society

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The nature of risk

We don't like risk, or do we? There are many situations that involve risk and which people enjoy. Gambling is an example: the National Lottery has sales of nearly £5 billion a year. There are other risky activities that people participate in and enjoy. When we see people paragliding or bungee jumping, it may look risky to us, yet those taking part do – we assume – enjoy it. Indeed, the thrill of the risk will be one reason for the enjoyment.

Of course, everyday life involves risks. We can regard risk as where there is an unknown future outcome. That may appear simplistic; but some situations have greater variability of future outcomes than others, and it is these where people's attitudes to risk are especially important. People trade off risks against the benefits of what they are doing. Crossing the road or driving a car each carries risks, and this is a part, probably a small part, of the decision as to whether or not to undertake the activity. In other areas, risk is more critical. Those areas include the clearly risky activities such as paragliding but also encompass many financial decisions, such as whether to invest in shares.

We therefore see risk as one dimension of the features of an activity. That risk may or may not be desirable. However, if there are risks, individuals may be able to manage those risks, perhaps by taking compensating action to ensure that the overall risks to which he or she is exposed is acceptable.

When it comes to decisions on personal finance, risk is inevitably important. People need to make up their minds about what risks are acceptable to them; however, risk is a difficult subject, and one issue is whether financial services consumers have what we may regard as "sensible" attitudes to risk. Then, consumers need to understand the risks in financial products, and choose products that are consistent with their needs, which encompass their view about acceptable risks. Financial services firms and advisers have an interest in providing products where the risks can be understood by and are acceptable to consumers.

Risk aversion is an important dimension of risk. When faced with choosing either an uncertain outcome or a certain outcome, where the expected rewards are equal, the risk-averse person chooses the certain option; the

risk-lover chooses the uncertain option. If we Google "people are becoming less risk averse" you find one hit. Google "people are becoming more risk averse" and there are 77. If people's risk aversion is indeed changing, that has important implications for many aspects of society and, in particular, financial services providers.

We can refer to the Aviva Consumer Attitudes Survey for more robust evidence: there is a vast volume of data. Following a review of relevant parts of the Survey, we consider people's awareness of risk in more detail, and then go on to examine some issues that may be colouring people's increasingly hesitant attitudes to accepting risk. In particular, we look at the economic environment; employment; and family structures. We finally consider some issues for financial services consumers and risk.

The Aviva Consumer Attitudes Survey

The data we use is, unless stated otherwise, from the Aviva Consumer Attitudes Survey (CAS), which has involved over 100,000 people in 25 countries over the last five years; the 2008 figures relate to online surveys and face-to-face interviews in December 2007 to February 2008. We will look, in particular, at the evidence in the UK, although we shall also compare the UK with some other countries. For some of the questions we are also able to use the results of the Aviva Omnibus Survey (OS), which is more recent (the second half of October 2008), enabling us to see some impact of the global financial crisis.

We can establish people's attitude to risk from whether they agreed with the statement, "I am prepared to accept a higher level of risk for some of my savings/investments in return for a higher possible return". In 2008, 26% of UK respondents did agree.

This figure was slightly below the overall average in the survey of 30%. The highest figures were found in Hong Kong (46%) and the US (43%). Some western European countries had lower figures than the UK, for example Germany (20%), France (20%) and Italy (18%) where, in each case, there had been a noticeable decline in recent years, implying greater reluctance to accept risk. The UK showed no clear trend, with figures from 22-28% in years 2004-07. However, the impact of the global financial crisis seen in the Omnibus Survey: while the proportion agreeing remained at 26% in October 2008, the proportion disagreeing increased from 45% in the CAS to 59% in the October 2008 OS.

Another question in the CAS asked for comments on "There is no point in investing for the future as you never knew what those investments will be worth". In the UK, 22% agreed, rather less than the overall 31% in the survey (mature economies do tend to have low figures).

The answers to the question have been changing over time: over 2005-07 only 19% in the UK agreed with the statement. This increasing tendency to be sceptical about investing for the future is also apparent in other

western European economies such as France, Spain, Italy, the Netherlands, Germany and Belgium.

Another dimension of risk is illustrated by responses to "It is better to keep your savings as cash than to keep them in a bank or invest". During 2004-07, 6% agreed with this statement, but this had risen to 9% in 2008. Overseas, the preference for cash was generally higher and also increasing. In the October 2008 OS the 9% figure had jumped to 15%, notwithstanding the government support for banks, and there were increases overseas as well.

Risk is also associated with time-preference, and we find that the timescale over which people in the UK plan has been shortening. When asked in the 2008 CAS which timescale is most important when thinking about savings and investments, 31% said "Supplementing my income now", compared to an average of 27% in 2004-07. Only 15% said they had a timescale exceeding 10 years, compared with 19% in 2004-07.[1]

Many people are wary of risk-taking. When asked whether they had enough savings/investments to cope with the unexpected, 47% disagreed (23% saying they strongly disagreed). Stocks and shares posed particular risks: 47% agreed that "buying and selling shares is too risky for me".

When asked whether they were more or less likely to take financial risks than 5 years previously, 13% said more, 39% said less. This compares with averages of 11% and 38% over 2004-07. There may be concern that people do not recollect their risk tolerance five years previously. However, on the face of it, there is a consistent picture where people appear to have become less willing to take risks.

Many people do recognise the benefits of the discipline of saving. 35% believe that the most practical way to accumulate enough wealth to live comfortably in retirement is to save or invest regularly each month.

One of the difficulties that financial services providers face is that customers have only limited trust in them. How much do you trust insurance companies to be honest and fair elicited a response of "a great deal" or "quite a lot" from 18% of UK respondents in 2008. This figure was typical of many mature economies, in contrast to much higher figures such as India, Malaysia and Singapore. While the figure was down on the 22% recorded in 2007, it isn't clear that there is a long-term downward trend, as it was only 11% in 2005. What do consumers say would lead to an increase in trust? The top responses were: do what they say they will do, keep their promises (24%) and offer products with financial guarantees (20%).

The importance of trust is seen in the response to "Which of the following stop you from saving or investing more money than you do now?" In the 2008 CAS, 13% said lack of trust in financial institutions was a factor in the UK, but this had increased to 22% by the October 2008 OS. Risk of

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[1] The October 2008 OS showed little change in these figures.

losing savings/investments was mentioned by 17% in the 2008 CAS, but by 27% in the October 2008 OS.

There appears a strong pattern of evidence of growing risk aversion. Whether this is 'right' or 'wrong' is not something we can say. However, it is worth investigating, as we know that people can determine risk preferences using heuristics and short-cuts that appear, shall we say, not very rational. Furthermore, it will have important implications for consumer behaviour in personal financial markets, and for outcomes of the wealth that is accumulated. There are consequences for providers, who need to understand how and why consumer behaviour is changing. Questions for public policy also arise if we have a society that is increasingly averse to financial risks.

Awareness and understanding of risk

Risk has had a much higher profile in recent years, with government, businesses and individuals.

The UK Government published, in 2008, a National Risk Register, indicating a number of high consequence risks facing the country.[2] The analysis distinguished between the likelihood of the risk occurring and the impact if it did occur. Scoring highest on relative likelihood were attacks on transport, electronic attacks, attacks on crowded places, severe weather and pandemic influenza. The top risks for impact were pandemic influenza, flooding, major industrial accidents, and attacks on critical infrastructure and on crowded places.[3]

We also saw, in 2005, formal consideration of the government's management of risk in a report of the House of Lords Select Committee on Economic Affairs. This concluded that the government had developed a sound and potentially useful framework for the assessment of risk. It found no significant evidence to support the view that Britain has become an increasingly risk-averse society. Indeed, the Committee was sceptical about whether risk aversion can be measured in a way that would allow such a view to be substantiated.[4]

Listed companies are, in accordance with the Combined Code of corporate governance, expected to operate in a framework that enables risk to be assessed and managed, and boards should ensure that risk management systems are reviewed annually. Firms are now encouraged to set out, in their report and accounts, the principal risks and uncertainties affecting their business.[5]

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[2] Cabinet Office (2008), National Risk Register.
[3] We observe in passing that there was no mention of the risk of a global financial crisis.
[4] House of Lords Select Committee on Economic Affairs (2005), Government policy on the management of risk, report, HL paper 183-I.
[5] Arising from the Accounting Standards Board having issued Reporting Statement RS1 in 2005.

Risk plays an important part in the management of businesses. It has been prominent in matters of health and safety at work, but risk goes much wider than this. The construction industry had more fatal accidents at work than any other UK industry in 2006/07. However, it is not those risks that led to the drop in the share prices of construction firms in 2008: that is the product of the collapse of the mortgage market. Those firms that have adopted 'enterprise risk management' have realised the holistic nature of risk.

Related to this, individuals are more aware of risk than before. Not only governments but also individuals recognise that a pandemic is a risk; and the reality of avian flu outbreaks drives home that the risk is real. The terrorist attacks we have seen have demonstrated that risks to security are not theoretical. Individuals at work will be aware of health and safety issues. Those with financial assets or liabilities will have been alerted by the financial tremors of 2007-08, and the customers queuing outside Northern Rock branches realised that risk does not only apply to shares.

We have begun to understand more about hw people behave when faced with risk. For example, they may have a greater concern about downside risk than be averse to risk in general. Two psychologists, Daniel Kahnemann and Amos Tversky devised a theory about behaviour under risk, which they called 'Prospect Theory'.[6] This had a number of propositions, one of which was that people may be 'loss-averse': they try to avoid outcomes that give them a loss compared with the starting position. This also led to the idea that, if people did suffer a loss, they would then take more risks to try and end up without a loss.

These ideas have been associated with the development of behavioural finance. This involves a number of ideas about how people react in risky situations. For example, people may believe that they can control risks that they cannot control. It is also apparent that people's responses to a question on risk depend on how the question is framed. Further, people tend to under-estimate the range of uncertainty. This may match with the behaviour of firms: they may under-estimate the likelihood of what they regard as extreme events. We have seen that with the credit crunch. This means that consumers may not react to risk in the way we logically expect. Disappointingly, it is not clear, in the field of financial services, that financial education can help alleviate the problems.[7]

Another concept is 'myopic loss aversion'. When decision-makers are loss-averse, they will be less willing to take risks if they evaluate their performance frequently.[8] Doctors complain there is more monitoring and over-reporting, leading to harm arising from risk-minimization.[9] This is

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[6] Originally set out in Kahnemann, D. & Tversky, A. (1979), "Prospect theory: an analysis of decision-taking under risk", *Econometrica*, 47, 2, 263-291, and later developed further.

[7] De Meza, D., Irlenbusch, B. & Reyniers, D. (2008), Financial capability: a behavioural economics perspective, report for the Financial Services Authority. .

[8] Benartzi & Thaler (1995), "Myopic loss aversion and the equity premium puzzle", *Quarterly Journal of Economics*, 110, 1, 73-92.

[9] Ieraci, S. (2007). "Responsibility versus accountability in a risk-averse culture", *Emergency Medicine Australasia*, 19, 63-64.

part of what has been termed the 'audit society'.[10] If we now have a society where stock market movements are daily news, and where we can re-calculate the value of a portfolio throughout the day, this extra information (overload?) may lead us to be less comfortable with taking risks. There is evidence that shorter investment horizons and more frequent feedback lead to lower investment.[11] We will think differently about risk as we become more like a 24/7 society. That may be interpreted as risk aversion; or it may be paying more attention to managing risks because we are more aware of them.

Economic uncertainty

We now review economic uncertainty and consumer risk-taking. In times of economic uncertainty, it is fair to expect most people to play safe and avoid exposing themselves to as much risk.

2007/08 is proving one of the most difficult periods ever for economies. It is not, however, the only time there has been a crisis. In the UK, in 1973-74, the FT30 index lost 73% of its value before a rapid recovery in 1975. In 1987 the FT-SE100 index fell by 11% on the 'Black Monday' of October 19; by the end of the month it had fallen by 26%. However, such had been the surge in prices earlier in the year that the index still ended higher at the end of the year than at the beginning.

In the 1990s the stock market rushed ahead. It was not a time of serenity, however. In each of 1990 and 1994 the index at the year-end was lower than it had been at the beginning. There was an Asian financial crisis in 1997-98, which was to exacerbate a crisis in Russia in autumn 1998. That time is also remembered for the $4.6billion loss in the hedge fund Long Term Capital Management, which was bailed out by the Federal Reserve Bank of New York. The problems led to falls in interest rates and stock market prices in the UK that, earlier in the year, were thought to have only a 1% probability.

Nevertheless, the FT-SE100 index rose to 6951 by the end of 1999 (it had been 2423 at the end of 1989). The growth was fuelled by the dotcom boom, and optimism was high, despite the setbacks that had occurred earlier in the decade. A new generation of individual shareholders was born from the privatisations begun in the Thatcher era. The 20th century had seen equities give an investment return about 6% p.a. higher than government bonds. We might add that corporate governance and risk management were now on a more robust footing; and there were new financial and statistical tools for analysing share price movements, and for valuing companies. Arguably, disasters could be avoided. Chancellor of the Exchequer Gordon Brown announced to the Labour Party conference in 2000 that there would be no return to boom and bust.

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[10] Power, M. (1999). *The Audit Society.*

[11] De Meza, D. et al, op. cit

But 2000 was a shock for shares, led by fall of the dotcoms. The share price misery spread, and was heightened by the terrorist attacks of 11 September 2001. By 12 March 2003 the FT-SE100 index had fallen to 3287: it had more than halved in a little over three years.

Was the 2000-03 bear market a surprise? History tells us that markets do suffer significant falls at intervals. However, memories may be short; those events may fade into the past and into insignificance. And along comes another generation for whom these are events that they have read about but have not experienced; now the world is different, we have learned the lessons of these past events. The new generation then learns that there can be new events that catch us unaware.

Stock markets recovered from 2003. The real economy was in fair shape. From 1996-2007 we had steady growth in the UK economy: in only one year was it below 2% (1.8% in 2005). Male unemployment fell from 9.3% in the 1990s to 5.6% in 2007. Company liquidations in England and Wales had soared from 2,592 in the 1960s to 16,683 in the 1990s, but had dropped back to average 13,814 in 2000-07. Average house prices more than doubled from 2001 to 2007. Possessions on mortgaged properties fell sharply: having averaged 0.47% of loans in the 1990s, this dropped to 0.14% in 2000-07.[12]

However, individuals were taking risks. Personal debt soared in the 1990s and into the 21st century. Individual insolvencies quadrupled from the 1980s to the 1990s; then the annual average in 2000-07 was more than double that of the 1990s.[13]

2007-08 were to remind us that we cannot rely on the economy being robust, with financial problems reverberating round the world. In 2007 the UK saw its first bank run for over a century: Northern Rock collapsed, and had to be nationalised. Across the world, the list of financial institutions needing rescue grew almost daily in autumn 2008. We could not be sure that our bank deposits were safe. Bank shares suffered but so did others: the FTSE-100 index fell by 25% from the start of October to the low point of 3665 on 27 October.

The financial problems have affected the real economy, with the UK slipping into recession. The unemployment rate was 6.0% in the three months to October 2008, up from 5.3% a year earlier. Property transactions in the summer were less than half of the corresponding 2007 level. Possessions on mortgaged properties were 41% up in the first half of 2008 compared to the second half of 2007.[14]

The increase in risk aversion in the Aviva Consumer Attitudes Survey was at a time when economic factors were largely performing well. There is the potential for more focussed research on the link between the economy

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[12] The figures in this paragraph are from the Office of National Statistics and Nationwide Building Society.
[13] The figures in this paragraph are from the Office of National Statistics.
[14] The figures in this paragraph are from the Office of National Statistics.

and people's attitudes to risk. Subsequently, the October 2008 OS presents evidence of a sharper increase in risk aversion as economic prospects worsened. This is consistent with other comments: Individual Savings Accounts have moved to more cautious funds[15], while a US writer wrote of risk aversion 'spinning the markets'.[16] This is natural at a time of major global financial instability: we must now expect more.

Employment uncertainty

People are typically risk-averse, but we also expect people to differ in how risk-averse they are. Individuals will be influenced by their own circumstances and experiences, and those of their parents and acquaintances. In this section we shall look at some influences on risk from the area of employment and self-employment.

Self-employment in men in the UK was 11.2% of the sum of self-employment and employment in the 1970s, but this jumped to 15.1% in the 1980s and 18.5% in the 1990s. It had, however, fallen back to 17.0% in 2000-07. The trends for women were similar.[17] Since the self-employed have already chanced their arm, their risk preferences are of particular interest.

We might start by supposing that the self-employed are less risk-averse than average. However, measuring risk aversion is not particularly easy. One way is to observe people's behaviour, such as what risky activities they undertake; and what steps they take to reduce risk (e.g. buying insurance). Some research has found evidence that people who take risks in one area tend also to take risks in another. For example, smokers were less likely than smokers to wear seat belts[18] and more likely to take risky jobs.[19] There is some evidence that a measure of *general* risk aversion is valid, although we have still to allow for people being especially risk-averse in one situation but less so in another.[20]

We can also ask people about their views on and decisions about saving and investment. There is evidence that the self-employed are more risk-tolerant than the employed.[21] This is what we might well expect. However, another study measured risk aversion by examining the amount of term insurance cover and deduced that the self-employed were more risk-averse than average (having allowed for other factors such as education,

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[15] http://www.money.co.uk/article/1000405-risk-averse-britons-switching-to-cautious-managed-isas.htm
[16] http://forextrading.about.com/b/2008/08/14/risk-aversion-spins-the-markets.htm
[17] The figures in this paragraph are from the Office of National Statistics.
[18] Hersch, J. (1996), "Smoking, seat belts and other risky consumer decisions: differences by gender and race, *Managerial and Decision Economics*, 17, 471-487.
[19] Viscusi, W.K. & Hersch, J. (2001), *Review of Economics and Statistics*, 83(2), 269-280.
[20] Mandrik, C.A. & Bao, Y. (2005), "Exploring the concept and measurement of risk aversion", *Advances in Consumer Research*, 32, 531-539.
[21] E.g. Sung, J. & Hanna, S. (1996), *Financial Counseling and Planning*, 7, 11-19; Guiso, L. & Pailla, M. (2005), "The role of risk aversion in predicting individual behaviour", Banca d'Italia discussion paper no. 546.

wealth, age, etc.).[22] However, there may be reasons for thinking that insurance purchases are influenced by factors that make this a poor measure of risk aversion. Or it may be that risk compensation is taking place. While the self-employed may be natural risk-takers, they can also be vulnerable, and may find it appropriate to compensate by careful financial planning that mitigates their overall risks. It would be helpful to have further research to identify the issues and likely responses of the self-employed in this time of major economic uncertainty.

For employees in the UK, the environment has, in some respects, been becoming less uncertain in recent years. Redundancy rates dropped from 0.76% in 2002 to 0.51% in 2007. Working days lost due to strikes have remained lower than in the 1980s. Injuries to workers have shown no signs of increase.[23]

Are people secure in their jobs? The start of the 21st century saw relatively low rates of unemployment in the UK and we may suppose that people have felt confident about taking on board commitments, including mortgages and long-term saving. That is changing. Redundancy rates have risen, particularly in the financial services sector, and the financial crisis of 2008 is expected to lead to more job losses re expected. A survey recorded job security and employment confidence hitting a record low in the summer.[24]

In one respect, employees have seen greater risks: firms have been closing defined benefit (DB) pension schemes. A survey of 100 defined benefit schemes found that only 17% were open to new entrants in 2008, compared to 28% a year ago and about 50% in 2003. About eight in ten schemes were continuing to accrue benefits for current members.[25] DB schemes are generally good for providing financial security for employees, who have some certainty about their pensions. However, most schemes are still exposed to significant investment risks arising from investing in shares in a way that does not provide a close match to their liabilities. Workers will fear further schemes closing or ceasing accruals; and large deficits may force closure of the firm itself, with no guarantee that the Pension Protection Fund will pick up all the pension payments that scheme members expected. It is logical for scheme members to look at their personal savings: if that is in shares, this might be an undesirable build-up of risk.

Many employees have begun saving in defined contribution schemes and are bearing investment and mortality risks that are borne by employers in DB schemes. Again, we need to understand better how this employee risk-bearing affects their risk tolerances for other savings.

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[22] Halek, M. & Eisenhauer, J.G. (2001), "The Demography of Risk Aversion", *Journal of Risk and Insurance*, 68(1), 1-24.
[23] The figures in this paragraph are from the Office of National Statistics.
[24] The Consumer Barometer from Lloyds TSB Corporate Markets.
[25] http://www.personneltoday.com/articles/2008/08/25/47194/final-salary-pensions-continue-to-be-closed-to-new-members.html

Family structures and uncertainty

One way to manage risks is to share those risks with others, and the structure of the family is one way to do this. We share risks with our spouse, with our parents, children and perhaps other relatives.

However, traditional family structures have been breaking down. The marriage rate in England and Wales in 2006 was less than half of what it was in 1986. The proportion of live births outside marriage more than doubled over that period, to 44%. Divorce rates in 2005 suggest that about 45% of marriages will end in divorce.

Household composition has been changing. In 1971 only 6% of households comprised one person under state pension age; that had jumped to 14% by 2007. One person over state pension age represented 12% of households in 1971, up to 15% by 2007. Meanwhile, the figure for one-family households with dependent children, which were 35% of households in 1971, dropped to 21% in 2007.

We must be wary, though, of assuming that these trends will necessarily continue. The divorce rate in England & Wales fell to 1.19% of married men in 2007, compared to 1.22% in 2006 and was the lowest figure since 1981.[26]

What is particularly important is what support is available for older people, often living alone. There are estimated to be 6-7 million carers in the UK,[27] in the sense of looking after a relative or friend who needs support because of age, physical or learning disability or illness.

There are concerns that relying on this informal caring will be a problem. Caring is often done by another member of the household, but more of these have just the one person. In particular, there has been a decline in co-filial residence, i.e. children living with their parents, again making informal care less likely. The lower levels of marriage and higher levels of divorce also has implications for informal caring, though this is offset by increases in cohabitation outside marriage.

It has also been argued that society increasingly has an atomistic perspective, with the principles of choice, rights and autonomy valued above those of community and responsibility.[28] This is consistent with the idea that filial responsibility is declining[29]. We may therefore have to be more careful about the risks we bear in old age.

So, children may not feel as strong a sense of responsibility to their parents as in the past. What responsibilities do parents feel to their children? We should recognise that children will expect to be much better

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[26] The figures in this and the preceding two paragraphs are from the Office of National Statistics.
[27] Beesley, L. (2006). Informal care in England. Background paper to the King's Fund report, *Securing good care for older people*.
[28] Beesley, L. (2006). Op cit
[29] Finch, J. (1995). 'Responsibilities, obligations and commitments' in Allen, I., Perkins, E. (eds), 'The future of family care for older people', London, HMSO.

off than their parents. If we project that real salaries continue to increase at say 2% p.a. then if our children follow us after 30 years then they can expect to be 81% better off than their parents. Even at 1.5% p.a., the figure is 56%. So it may be that parents expect their children to be wealthier than themselves, and do not feel obliged to save for their children's benefit.

A survey asked people which from a list of options would they prefer to happen when they were aged over 60 and needed care and support looking after themselves.[30] The most popular answer was "Stay in my own home with care and support from friends and family". Whether that is feasible, is open to question. If it is not, then government help for elderly people in need will clearly be a key factor.

We cannot suggest that these changes in the structure of families and households have led to the changes in risk aversion from the Aviva Consumer Attitudes Survey. However, people may foresee an old age with less support from family than was common in the past; and while they may expect assistance from the government, they may be reluctant to rely on it. This is an issue that has the potential to change people's behaviour as they save and prepare for old age with increasing feelings of insecurity.

Risk and consumers of financial services products

The risk perceptions of consumers have been studied in detail by marketing professionals. Research into food products has shown that: "in general, the higher value, the more complicated and more involving products are more risky than the lower value, low involvement simpler convenience products"[31] A more general comment is, "Because of the fierce competition in many markets, consumers are inundated by a myriad of similar offerings to choose from and are overwhelmed by conflicting marketing messages"[32] Services, which are intangible, are recognised as more risky than goods.[33]

For financial service products, the market is characterised by large numbers of products, often complex, many very similar, and with limited consumer understanding.[34] When there is 'choice overload'[35] it is not surprising if consumers feel that there are risks for them.

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[30] Wanless, D. (2006). Securing good care for elderly people. King's Fund.
[31] Mitchell, V.-W. (1999), "Consumer perceived risk: conceptualisations and models", *European Journal of Marketing*, 33, 1.2, 163-195.
[32] Matzler, K. (2008), "Risk aversion and brand loyalty: the mediating role of brand trust and brand affect", *Journal of Product and Brand Management*, 17, 3, 154-162.
[33] Mitchell, V.-W., op. cit.
[34] Sandler, R. (2002). Medium and long term saving. Report for HM Treasury.
[35] De Meza, D. et al, op. cit.

Poor knowledge and/or observability are, therefore, important risks for financial services consumers.[36] If we do not understand a product, this does not have to be a barrier to buying: a large number of us buy cars without knowing what is under the bonnet. However, the car is a tangible product, and we can soon find out whether it performs as it should. Financial services are usually different. After buying general insurance we do not understand the quality of what we have bought until we have a claim. When buying a savings product, the rate of return we achieve is something we experience over time. Financial services providers may wish to reflect on the way in which designing products that need less consumer knowledge may have advantages in terms of lower perceived customer risk.

Other risks concern the prospective investment return: this may be volatile; and the adverse consequences may be serious. However, there are further risks: the customer may distrust the product or provider. He or she may have concerns about the solvency of the financial institution. Customers will also be aware of mis-selling that has taken place in the past. They may then be unsure what government or regulatory support will be available if there is a problem; they may fear risk from what they can regard as failures in regulation.[37] It is important for providers to recognise this multi-dimensional perspective of risk from a customer's perspective.

Risk-averse customers can be reluctant to try new products. In this context, brands are important as they can reduce perceived risk as they become consistent and credible symbols of product quality. Risk-averse customers come to rely more heavily on trusted brands. However, it may be argued that risk-aversion does not itself lead to more brand loyalty. There is evidence that risk aversion is positively related to brand trust, and to brand affect (the potential for a brand to elicit a positive emotional response). Then, brand trust and brand affect are positively related to repurchases and attitudinal loyalty.[38] With increasing risk-aversion, there are some messages for financial services providers.

Concluding comments

The Aviva Consumer Attitudes Survey is valuable in highlighting consumers' increased risk aversion in financial services markets. What change there has been in risk aversion more generally is more debatable; however, we know that people's attitudes to risk can depend on the context, and the finding for financial services products is significant.

Some of that risk aversion will be the result of concern about the underlying volatility or uncertainty in the investment return generated by

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[36] Diacon, S. & Ennew, C. (2001), "Consumer perceptions of financial risk", *Geneva Papers on Risk and Insurance*, 26, 3, 389-400.
[37] These risks are discussed by Diacon & Ennew, op. cit.
[38] The comments in this paragraph are derived from Matzler, K., op. cit. His evidence is from a survey of mobile phone users.

the products. Concerns about complex products also play a part. We expect the risks to increase in a time of economic uncertainty.

How bearable that risk is can depend on an individual's prospects for future income, which will reflect how certain is his or her employment or self-employment. It will also depend on the prospects of future outgoings, including the expenditure that may be needed to ensure a secure old age. With less certain family structures and support, people may be hesitant to take on greater risk.

We do not know what is the right risk for people to bear. Some of what appears to be risk aversion may be the result of a society where we now do more (and more frequent) reporting, monitoring and auditing. We keep checking that things are not going wrong. In practice, life is not and cannot be risk-free, and we have to learn to balance risks and other features. Financial services providers have a role to play in helping customers achieve the balance of risk that is right.