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Changes to risk warnings could result in nearly 14% more cash being invested by the public, study says

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New research by The Investing and Saving Alliance (TISA) and the University of Nottingham shows that providing balanced, contextualized risk warnings resulted in an approximately 14% increase in cash invested in stocks and shares.

Women responded by increasing their investments the most, so reformulated risk warnings could help close the gender investment gap.

This is part of a broad industry Inclusive Investing campaign convened by TISA to encourage savers to invest.

Helping people to better understand the risks of investing in stocks and funds means they are more likely to invest. Participants in this study moved around 14% more of their cash into investments when extra context and a graphic making clear the benefits from investing were added to the standard risk warning.

In the trial, participants were asked how they would hypothetically allocate £10,000 between cash savings, stocks and funds.

TISA found that the people who are less likely to invest are the people most sensitive to the improved risk warnings tested. Highlighting long-run returns increased the amount invested by 21% for women, compared with 7% for men. This also had stronger effects among those with low financial confidence.

TISA is calling on the industry to update perfunctory risk warnings, so they actually help consumers make informed decisions about the risk of investing, in line with the Consumer Duty.

This work demonstrates the power of harnessing partnerships between industry and academia to innovate and create better outcomes for UK consumers.

Carol Knight, CEO of TISA, said, "We are calling on firms to think deeply upon the findings of this report and take action to create more inclusive communications for investments, particularly for simple products like S&S ISAs. TISA believes that we, as an industry, can do more within the current regulatory framework to help consumers make better informed financial decisions around investing. Diverting surplus cash balances to investing could build household resilience and deliver better outcomes for consumers."

Nathan Long, Senior Policy Analyst at Hargreaves Lansdown, remarked, "This work that boosts the amount people are prepared to invest in the stock market by over 10% [and] is truly a mic drop moment for the industry.

"Risk warnings are seen by every client on every page of a website and yet don't get the TLC they deserve in order to improve decision making. Instead, they've been shackled by an industry that has been overly cautious on this issue, focusing on disclosure overload rather than improving client comprehension.

"The tests were feasible within the current rules and the consumer duty encourages firms to look at outcomes, not inputs. This work has the potential to be super charged under FCA and HM Treasury plans to bring in Targeted Support, allowing firms to slim down options to help consumers."

Simon Farrant, Head of Business Development at Fidelity, noted; "Informing investors about the risks they take is a critical duty for investment firms and we are pleased to support this work which challenges the traditional thinking in this area. The findings in this report provide new insight and a call to action especially in the context of the differing reactions to standard warnings on men and women, which we believe will benefit both consumers and the industry."

Lavanya Menon, Business Risk Director at Lloyds Banking Group, commented, "This piece of research has been eye-opening—it has uncovered so much valuable insight into the barriers that people, especially women, face when making investment choices. The fact that standard disclosures and warnings can be a barrier was surprising and worrying at the same time. We must now—together as an industry—to use this insight to foster greater inclusivity and help more people feel confident, informed, and supported to achieve their financial goals."

Peter Neufeld, Partner at EY Seren, concluded, "Helping people make better financial choices, both for themselves and the people that matter most in their lives, is at the heart of financial well-being. I am really excited to work with TISA and the membership to improve the way we talk about investment to give consumers more confidence in making decisions that are right for them and will positively impact their future, and create a more inclusive investing environment here in the UK along the way."

More information: How Do Risk Warnings Impact Investment Choice? (2024)

Provided by University of Nottingham

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