A Systematic Literature Review on Factors affecting Financial Risk Tolerance

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Abstract:
Financial risk tolerance is a crucial determinant of investment behaviour, yet its underlying factors remain multifaceted and complex. This review paper investigates the interplay between biopsychosocial factors and financial risk tolerance, aiming to clarify the relationship shaping individuals' propensity for risk in financial decision-making.

Biological factors, encompassing genetic predispositions and neurological processes, influence risk perception and decision-making. Recent advancements in neuroscience have highlighted the role of brain structures such as the amygdala and prefrontal cortex in assessing risk, shedding light on how individual differences in neural functioning contribute to diverse risk-taking behaviors.

Psychological factors, including cognitive biases, personality traits, and emotional responses, play a pivotal role in shaping risk tolerance. Cognitive biases such as loss aversion and overconfidence influence risk perception, while personality traits like openness to experience and conscientiousness moderate risk-taking tendencies. Emotional responses, particularly fear and greed, exert significant influence over risk assessment and decision-making processes.

Social factors, ranging from cultural norms to socio-economic status, also impact financial risk tolerance. Cultural attitudes toward risk, familial influences, and peer pressure shape individuals' risk preferences and investment choices. Moreover, socio-economic factors such as income level and education contribute to disparities in risk tolerance, reflecting broader societal structures and inequalities.

Understanding the intricate interplay between these biopsychosocial factors give valuable insights into individual differences in financial risk tolerance. Such insights are important for financial advisors and policymakers in tailoring investment strategies and regulatory frameworks that align with diverse risk preferences and societal contexts. Moreover, recognizing the multifaceted nature of risk tolerance underscores the importance of interdisciplinary approaches integrating insights from neuroscience, psychology, and sociology to comprehensively address this complex phenomenon.

Keywords: Financial Risk Tolerance, Altman's Scores, Coopers Taxonomy

Introduction

The highest level of volatility that a person is willing to tolerate when making financial decisions is known as their financial risk tolerance. It is crucial to remember that risk tolerance is a multifaceted mindset. Financial, physical, social, and ethical are its four dimensions. Risk tolerance is recognized as a crucial component in savings and investment decisions, as well as other household objectives, whether

in the context of professional practice or empirical study. Risk tolerance has been quoted as a factor in decisions about investment products, asset allocation schemes, and portfolio build-up tactics. Individual risk tolerance may also be considered while making decisions about insurance or "risk management." Each household's ideal portfolio decisions are heavily influenced by their level of risk tolerance. Demographic characteristics like gender, marital status, age, occupation, time horizon, income, liquidity demands, portfolio size, investment knowledge, and attitude toward market volatility may all have an impact on an investor's appetite to manage risks. Individual investors' demographic characteristics might be utilized to differentiate between different financial risk tolerance levels, and a correlation between these factors could be created to forecast an individual's risk tolerance.
The association between a number of variables and financial risk tolerance is examined in this review paper. It explores the multifaceted character of FRT and looks at how diverse elements from several fields, including psychology, economics, and biosociology, affect a person's risk tolerance. Financial advisors, legislators, and researchers can more accurately determine the elements that influence an individual's FRT and suggest suitable investment options by having a greater grasp of these variables.

Review of literature

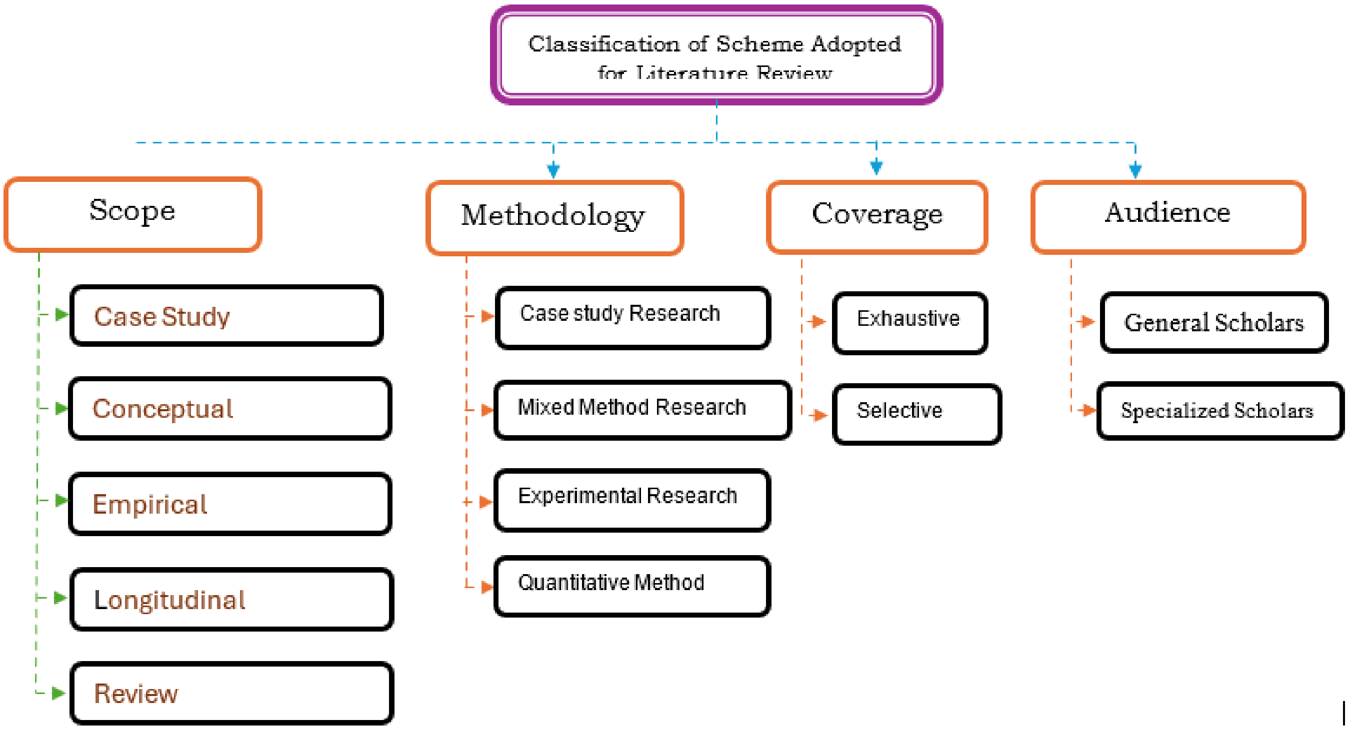
As part of this literature review study is concern one of paper on financial risk tolerance, factors influencing financial risk tolerance, were categorized and studied based on the finding of the study of the few Research articles based on conveyance selection method (Guiso, L., Sapienza, P., & Zingales, L. (2013)) some of the paper is mention number of citation of study
A brief review of literature will help in finding out reference for the further study as far as literature review is concern generally, there are two types of traditional literature surveys, and researchers often summarize, analyze, evaluate and critically interpret ideas from articles published by other researchers (Wakefield, 2014). This approach typically uses a subjective approach, provides no criteria for selecting articles, and reviews a limited number of studies. For example, the number of articles and the choice of research areas are based on the personal judgment of the authors. In contrast, SLR is conducted using well-defined research techniques, research questions, data extraction, and data presentation (Kitchenham et al., 2008).

- To provide an up-to date literatures review of financial risk tolerance
- To provide a Classification of Exiting literature Based on Four Tier Classification of Literature
- To identify the publisher and citation of selected articles for study,

The current study sought to classify the existing financial risk tolerance literature published in reputed journals. The rest of this paper is organized as follows: Section 2 provides four-level classification of the literature review, and Section 3 reveals the results of the study. Section 4 reveals the key findings and conclusions of this study, along with suggestions for his future research.

International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Section-2 Four level Classification scheme for Literature Review



Section 3 Taxonomy of existing literature

This section of the study provides the answer of second objective about classification of study based on taxonomy. Several classification scheme have been Proposed in the literature for analysis the past research articles for helpful for future study. The objective of Financial Risk Tolerance's taxonomy is to provide a multidisciplinary representation of activities. Various aspects of Financial Risk Tolerance's base on the cooper's taxonomy suggested by J Randolph (2009) based on scope of study, methodology of the study , coverage area of the study as well as sample unit, It represents the collected Financial Risk Tolerance data in well classified form that are nicely grouped. About 50, research papers, appeared in journals, books and proceedings are reviewed, published in distinguished science cited journals, with a view to have depth understanding, the taxonomy existing literature is tabulated in Table.

Scope	**Methodology**	**Coverage**	**Audience**	**Researcher And Year Of Publication**
Conceptual	Experimental Research	Selective	General Scholars	Nadya Septi Nur Ainia, Lutfi Lutfi 2019,Ms. R. Suyam Praba 2016, Carmen Keller And Michael Siegrist 2006,L Omark 2015
			Specialized	Mubarokah Bunyamin And Norwazli Abdul Wahab 2021,J Gilliam Et Al 2013,B Toews 2015,Swaminathan S. Sivarajan 2018, C Newton 2016,Kanchan Kathial 2019,H Baker Et Al 2012,Yrd And Anbar 2010,M.

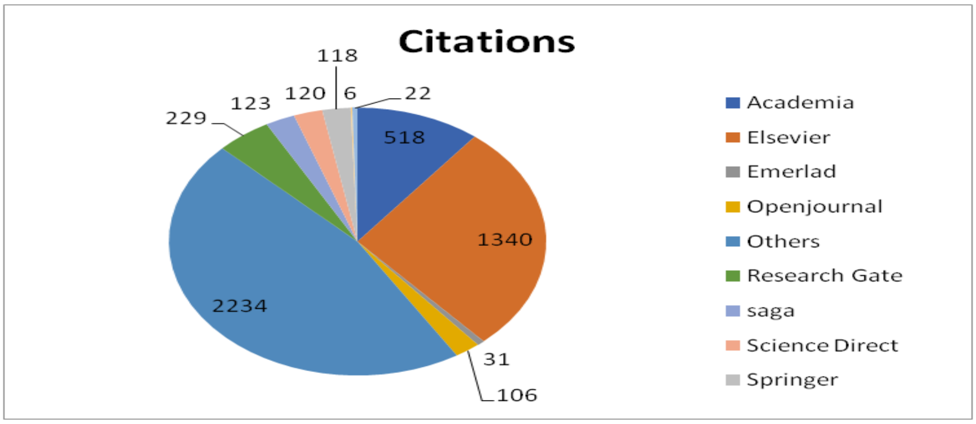
			Scholars	Kannadhasan 2015
	Mixed Method Research	Exhaustive	General Scholars	M Kannadhasan Et Al 2016,Ms Bhoomi Patel E Al 2017,John Grable And Ruth H. Lytton 2003,H Thanki Et Al 2022 Selamah Abdullah Yusof 2015,Fernando Fernando And David Anderson Pribadi 2022,M Awais And M. Fahad Laber 2016,Md Mahfuzur Rahman 2019,Sanjeet Kumar And Prashant Kuma 2020
		Selective	General Scholars	
		Selective	Specialized Scholars	Stephen Kuzniak Et Al 2015,Sherman Hanna And Peng Chen 1998,W Murhadi Et Al 2023,Malgit Amos Akims And Ambrose Jagongo 2017,V Gujrathi Et Al 2023,Ayub And Chowdhury 2023
	Quantitative Method	Selective	Specialized Scholars	Ryan Gibson Et Al 2007, John Grable And Ruth H. Lytton 1999, Rui Yao & Angela L. Cur 2011,H Patel Et Al 2021
Empirical	Experimental Research	Exhaustive	General Public	Michael Et Al 2016
			Specialized Scholars	Dr. Vijay Gondaliya And Mr. Govind Dhinaiya 2014,G Çera Et Al 2010,Suné Ferreira And Zandri Dickason-Koekemoer 2020,Reema Sharma 2020,Sonali Patil And Dr.Kalpana Nandawar 2014
		Selective	Specialized Scholars	Sahil Goyal And Saloni Jain 2020
	Mixed Method Research	Selective	General Scholars	Ali Bayrakdaroglu 2016,Manit Mishra And Sasmita Mishra 2016,Leon Angie 2019,Abed Rabbani Et Al 2017,Arya Samudra Mahardhika And Yanuar E. Restianto 2023, Nasim Mohammadi And Afsaneh Soroushyar 2021, N Mauliddah Et Al 2023,Dr. Ebrahim Kunju Sulaiman 2012,J Grable Et Al 2008 G Çera Et Al 2021
			Specializ	John E. Grable And So-Hyun Joo 2013,Heena Thanki And Narayan Baser 2019, Elsa Huhtala 2018

			ed Scholars	Jaimie Sung And Sherman Hanna 2019
	Quantitative Method	Selective	General Scholars	J Grable 2021
				Vineetha Mathew Et Al 2022
				Basil John Thomas 2018
			Specialized Scholars	Rahmawati Et Al 2015
				Cecilia Hermansson And Sara Jonsson 2021
Review	Quantitative Method	Selective		Mr. Binit Patel And Dr Govind Dave 2019

Section 4 Publisher's Outlay and total no of citations

This section provides the answer of third objective about classification of the articles used for the study based on publisher and total citation of the articles from publishers. In addition, we provide a classification of these studies based on the number of citations and number of articles from publisher.

Journal	No Of Articles
Academia	4
Elsevier	4
Emerlad	1
Open journal	1
Others	24
Research Gate	3
Saga	3
Science Direct	1
Springer	2
Taylor And Francis	1
Willey	1



The systematic literature review on factors affecting financial risk tolerance reveals a significant concentration of citations and a diverse range of journal contributions. The pie chart shows that "Others" dominate citations with 2234, followed by Elsevier (1340), Academia (518), and Research Gate (229), indicating the reliance on less frequently recurring but impactful sources. Elsevier, with a large citation count, highlights its role as a significant contributor to foundational research. In contrast, the accompanying table demonstrates that the majority of published articles (24) also fall under the "Others" category, reflecting the diverse spread of journals and platforms explored in this review. Academia and Elsevier each contributed 4 articles, while Research Gate and Saga added 3 articles each, showing moderate engagement. Notable publishers like Springer, Emerald, and Wiley each contributed a small number of articles, highlighting a wider reach of publications rather than dependency on specific journals. The disparity between the number of citations and articles suggests a pattern where a few articles from prominent sources are heavily cited, emphasizing their impact and relevance in the field. This analysis highlights both the diversity and concentration in the literature, reflecting the multifaceted approach to studying financial risk tolerance.

Section 5 Conclusion, Managerial Implications, Limitations and Future scope of study

The systematic literature review on factors affecting financial risk tolerance provides a comprehensive synthesis of existing research, identifying key influences such as psychological, demographic, economic, and environmental factors. The dominance of citations from sources like Elsevier and Academia, along with a substantial contribution from the "Others" category, highlights the diverse range of studies informing this field. Cooper's taxonomy classifies this review as integrative, aiming to summarize, synthesize, and evaluate prior research while uncovering thematic patterns. The study not only identifies highly cited sources but also emphasizes the multifaceted nature of risk tolerance research, offering a balanced exploration across journals and contributing significantly to understanding this complex area.

The findings have significant implications for financial managers and policymakers. Financial institutions can utilize these insights to design personalized investment products and client advisory services that align with individual risk profiles. Enhanced client assessment tools, based on diverse demographic and behavioral factors, can improve decision-making and strategy development. Managers should integrate cultural, economic, and psychological influences into financial planning processes, ensuring better alignment with clients' needs. Policymakers can also use these findings to develop educational programs and regulations promoting financial literacy, enabling individuals to make informed financial decisions in line with their risk tolerance.

This study faces several limitations. The scope is constrained to synthesizing existing research, potentially overlooking emerging factors and trends in financial risk tolerance. The reliance on broad categories such as "Others" and specific journals might lead to an incomplete representation of niche but relevant studies. Additionally, the focus on quantitative insights may undervalue the importance of qualitative perspectives in understanding subjective influences. Temporal constraints also pose a challenge, as older studies may not reflect the impact of recent technological or economic changes on risk tolerance behavior.

The study opens avenues for future research. Emerging technologies, such as AI and fintech, should be investigated for their role in shaping financial risk tolerance, especially in younger and tech-savvy demographics. Cross-cultural studies can provide comparative insights into how cultural and economic contexts influence risk behavior. Behavioral and psychological drivers warrant deeper exploration through longitudinal and qualitative studies. Meta-analytical reviews could statistically evaluate the impact of various factors, enhancing the robustness of conclusions. Finally, with the growing importance of sustainability, future research could explore how environmental, social, and governance (ESG) concerns influence modern investors' risk profiles.

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