Women and Personal Finance: addressing gender gap in investing

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Introduction:

Investment is from Mars, caution from Venus?

Today women are shoulder to shoulder with men on all economic frontiers. But it is no hidden fact that women face some challenges that have contributed towards gender pay gap. Some of these headwinds include[1]:

i) Women on average have lower earnings than men as women are treated differently by their employers.
ii) Women's lifetime earnings are lower than men as many of them tend to take a career break for child/elderly care.
iii) The average lifespan of women is longer than that of men, leading to their savings being stretched to a greater number of years.

Though we have experienced progress in women taking leadership and C-Suite roles, the issue of the gender investment gap still stands. Despite holding similar levels of debt and savings, men's total net worth is nearly twice that of women[2]. According to a survey conducted by NerdWallet, 48% of women participated in the stock market compared to 66% of men[3]. Even if this difference seems small at any one point in time, it will compound to a large difference by their retirement. Though rigorous research is being done and efforts are made to bridge the investment gap between men and women, there hasn't been much progress.

In my own work in the wealth management industry, a male-dominated field, my client portfolio predominantly consisted of male investors, and women investors were often treated as a monolithic group. Many financial advisors held pre-conceived notions about women investors, seeing them as less confident, sophisticated, and knowledgeable. My aim is to respond to these stereotypes, acknowledge women's financial literacy and address the fundamental reasons for the gender investment gap. Rather than focusing on why women don't invest, this report takes on a different lens and focuses on sources that have contributed to women's interest in taking an active role with their personal finance. Based on the interview conversation with smart, financially independent women who invest, I have derived 4 themes that influence women's interest in personal finance.

<u>1</u>

If parents talk about money to their young daughters as they do to their sons, it can have a lasting impact on the financial literacy and attitudes of women

Because of differences in upbringing, socialization and economic opportunities, there exists a gender-based discrepancy in financial priorities, financial outlook, and money management styles. When asked “what has been your source of interest in personal finance?” one of my interviewees responded:

“*My father is an asset manager by profession which kind of led to an asset management mindset in the house. As kids, we were given a monthly allowance and my parents opened our bank accounts at a very young age. Growing up I remember my parents often discussed with us how our savings are growing. My father never took financial decisions on my behalf but guided me towards them. This helped me build my base knowledge.”*

A common trend that emerged in the responses of this cohort was early exposure to financial literacy that was not influenced by gender biases held by parents. Ninety-three percent of the parents of the interviewed women considered their daughters to be as capable as their sons in all spheres of life including financial management. The frequently held conversations about finances, often over family meals, helped some of the interviewees to develop a healthy relationship with their finances today. One of the interviewees explained she was not excluded from collective family money decisions and was often exposed to topics on spending, saving and impacts of delayed gratification. She said:

“In my family money was never managed as ‘your or my money’ but rather considered as one family unit. All financial decisions were openly discussed and we were very actively involved in it. For example, when I got to know about the housing rent allowance while filing taxes, we discussed it at home and my father guided me on it.”

Most of the interviewees also indicated that they were provided with monthly allowances and encouraged to make their own financial decisions, which has contributed to their confidence and financial decision-making abilities. One such shared memory was:

“I remember in my primary school, my parents gave me a weekly allowance, roughly about less than 10 $CAD. They then gave a choice to either spend it immediately on a snack or to put in my piggy bank to purchase something bigger at the end of the month. I remember them opening a bank account for my savings. But also, this was a very service-level

mechanical process, and I wished my parents taught me more about compounding interest early on."

From these responses, there was a consensus that parents should have open conversations about finances and introduce their daughters to concepts such as compound interest. Compound interest is a powerful financial tool that can help children develop good money management habits and set them up for financial success in the future. Although the concept sounds complex, it is generally easy to grasp and the earlier women learn about compound interest, the more time they have to take advantage of its benefits. One interviewee shared how rewarding her with investment instruments rather than objects of short-term gratification was helpful to develop good financial habits that have served her well so far. Another respondent stated that the investment mindset was embedded in her as a natural path to follow:

"The importance of investment was embedded in me. Like the way I knew I had to go to school, do my undergrad followed by post grad, similarly I knew I had to invest when I get my first paycheck. I grew up with such a mindset."

Even when the parents of interviewees felt constrained about money, they still never held back from holding positive money discussions. Eighty-seven percent of the interviewed women mentioned that they grew up in a home environment where parents openly discussed spending tactics and saving habits. These flash conversations have had a deep influence in shaping their attitudes towards money management.

One of the interview responses also provided a glimpse of how parental gender biases can have a significant negative impact on women's personal finances.

"I *remember my family had some financial issues and amidst those circumstances my father bought an expensive piano. I was 15 years old, and I questioned him on his purchase decision. Instead of listening to me, he blamed and scolded me. He thought his authority was challenged; I feel that incident has made me doubt my decisions taking ability. My family always portrayed that men are more reasonable than women and somewhere even today I feel that I am not very capable in taking financial decisions."*

Her experience demonstrated how biases have influenced the way women are raised and the expectations that are placed upon them. If parents hold the belief that women are not as capable as men when it comes to financial matters, they may not provide their daughters with the same level of financial exposure as provided to their sons. This lack of financial exposure can put women at a disadvantage in their perception of money management.

> Parents may benefit from speaking to daughters about spending and investing. This can help them develop a mindset that will enable them to manage their wealth.

2

Memories of early money struggles positively impacted women's attitude about personal finance

When I asked interviewees “what is your first memory of money?”, I received some interesting responses:

“My father was not in a well-paid job and my grandparents were farmers. I would say we belonged to a lower middle-class level. We did not live paycheck to paycheck but also did not have sufficient savings. My memory about money is that it does not come in easily and we must work hard for it. My parents also constantly demonstrated how important it is to save, plan and work for it. My family started at the bottom and moved up gradually and I personally never want to go back to those circumstances and this thinking has motivated me to take charge of my personal finances.”

The experiences we encounter as children shape how we connect to other people later in life. What was surprising was that early experiences and memories of money contributed to shaping the interviewed women’s interest in their personal finance. The term ‘Money Scripts’ was coined and published by Brad Klontz and Ted Klontz in 2005[4]. Money scripts are subconsciously self-written money beliefs that are formed in our childhood. They are formed by watching our close ones deal with money. These episodes become part of our mental programming if there is strong emotion associated with them. These scripts have the power to drive our financial actions. When asked to recite their childhood money memories, most responses followed a common pattern, relating experiences of money scarcity, parents facing bankruptcy, or watching their parents struggle with finances. The interview responses suggest that childhood experiences of financial distress can be a blessing in disguise for becoming more financially savvy and securing one’s future. One such experience was:

“In my early childhood I have seen surplus money, but when we faced financial crisis, my parents could no longer afford the earlier lifestyle. It made me feel that I don’t want to be in this situation and in future if I again face such a situation, I would want to reduce the risk of it. It was embarrassing to see my parents ask for help and being turned down by friends and family. I believe people want to be with you when you have money and avoid you when you don’t. I don’t want to be in a situation where I have to ask someone for financial help. I get panicked if I don’t see my savings growing.”

Early money scarcity experiences did have a significant impact on her financial decision-making later in life. She and a few other interviewees explained the downfall taught them to be more resourceful and to take control of their financial future. Experiencing financial downfall was a wake-up call, highlighting the importance of financial planning and investment diversification. The women highlighted they are more interested in learning about financial management and investing strategies to avoid similar financial crises in the future. They felt a sense of responsibility to protect themselves and their families from financial instability, leading them to take a more proactive role in managing their savings. Another interviewee talked about how her experience of not having sufficient funds in her youth has motivated her to be more active with her personal finances:

“Due to unforeseen circumstances we had to move from a luxurious place to a very small one room condo. It was a big change and maybe one of the foremost reasons why I care about money a lot. Those were depressing times. Today, I can’t see money lying idle in my account and want to earn a higher return on it.”

The women who were interviewed reported being influenced by the experiences of their families. Their motivation to handle their own personal finance appears to be driven by their childhood belief of what they have been missing. As cited by one of the interviewees:

“My memory about money is lack of it! My parents were doctors who decided to serve the underprivileged in suburbs. Though they worked hard and fulfilled our needs, I still could draw comparisons with my friends and felt we were not well off. This is my first memory and hence I have a fear of not being able to provide enough to my children.”

Contrary to the common belief that experiences of financial distress negatively impact people’s attitude towards investing, the interviews showcased a positive correlation. Financial crisis motivated the subjects to seek out investment opportunities to build wealth and secure their financial independence; however, 33% of the interviewees also stated that the financial downfall has led to a sense of risk aversion. The experiences of stress and instability of financial hardship have made them cautious when it comes to investing, but at the same time has led to a stronger ownership and desire for financial independence and attitude towards active financial management. One woman shared how she is aware of her tendency to avoid risk:

“My father believed that the stock market could get us rich. He often invested all his saving in equity and bought stocks in our name. His investment approach was not right and when

the stock bubble burst, we went bankrupt. Though I have taken over my father's belief that investment is the way to manage wealth, the financial downfall has also made me risk averse. Till date I fear losing money. But I am also aggressive as I don't want a situation where I don't have money."

It is important for women to reflect on their subconscious money beliefs. Self-awareness can empower one to rewrite money scripts that can influence one's financial success.

3

Women want to understand the meaning and stories behind the numbers

To understand the additional factors that contribute to investment decision-making, I probed about the motivating factors that drive the interviewees to say yes to a particular investment. Many of the interviewees indicated having a bigger picture behind the investment performance numbers. A few of them emphasised that along with financial facts and performance, connecting investment numbers to a meaningful narrative can further reinforce trust for them. They said they would like to know the stories behind a successful company and how that investment can create impact. One of the respondents shared her experience with a financial advisor:

"When I spoke to a financial advisor he kept repeating about the fund performance. I got information at a surface well and the conversation was held in circles. I told him that I understand the fund is performing well, but I want to know more like why the fund was created, what is driving the performance, what are investor thoughts behind investing in this fund and moreover, is there anyone I can connect to who has made investment in the product. But the discussion was so frustrating, and I landed up not choosing that product because I was not convinced."

One survey has stated that women align investing with values and want to know more about the impact it creates on society[5]. Other research conducted by Simple found that women, especially between the ages 30 and 40, handpick their investment based on social and environmental impact[6]. Looking for narratives behind the performance numbers does not indicate that women are less financially literate than men. In fact, another study conducted by University of Berkeley states that women are savvy wealth builders with excellent investing skills that may be better than those of men[7]. Another woman emphasised on the importance of knowing more beyond the numbers of the investment.

"Why should I buy fluff when I have a fair understanding of financial product. Maybe men can go with the vibe, but women need to know about how the investment connects to what is happening in the world, what is the bigger picture. In my cultural experience men of the house were decision makers, they have an inherent tendency to take decisions whether right or wrong. But women are not the same, so one needs to go deep and get real with us."

Additionally, a few of the interviewed women mentioned how they feel that financial advisors fail to understand their needs and priorities and rather are focused on earning product commission. One woman stated that focus on her financial issues and how the investment will add value to her life is another powerful motivating factor for her to invest her money. Another woman reiterated the importance of success narratives along with financial facts:

"Due to social responsibility, men are more eager to lean on different sources that can generate more wealth. Men and women do not have genetic investing behaviour differences, but success narratives can be a motivating factor."

One of the interviewees explained the importance of a precedent, using the example of Bitcoin:

"It is important for me to watch someone succeed in a particular investment before I get into it. For example, Bitcoin, everyone talks about it, but I personally will not invest in it because I don't know anyone in my circle who has successfully invested in Bitcoin. I want to hear about someone's experience on Bitcoin and don't want to be the first one to dip my toe to check whether the water is hot or not."

A study posted in Finance Research Letters stated that even financially educated women often say "Don't know" when they self-report their skills or accomplishments[8]. Women tend to downplay their knowledge or confidence in financial matters, which has led to a perception that they are less financially literate. This may be due to a variety of factors, including cultural and social norms that discourage women from speaking up or taking leadership roles in financial matters. The conducted interviews included women of equal financial literacy as men, who stated that they like to discuss money matters in a more realistic and grounded way and carefully consider the impact of the investment on their lifestyle or family situation. Ninety-three percent of the respondents were aware of their risk appetite and make decisions once they are satisfied with the information. The interviews indicated that women tend to prefer more collaborative and personalized advice. Lastly, one of the interviewed women emphasised that if financial advisors took the time to understand their clients' communication preferences, they could provide a better service and build stronger relationships.

Taking time to understand financial priorities and sharing the narrative behind a soaring number can be a value-add for women.

4

Connecting with colleagues and allies in the workplace can embolden women to become investors

When asked “when did you make your first investment? Why and how?”, 93% of the interviewees stated that their first investment was during their first job, and 80% were encouraged to invest after having conversations and gathering information from their colleagues. One of the women shared how her supportive workplace culture that valued financial literacy and encouraged employees to plan for their future played a role in her investing journey.

“I always knew it is important to put aside a part of your earning in investments, but my first job provided me a platform for it. The company I worked for held an investment training program for their new joiners and had partnership with a local bank. My manager convinced me to take an appointment and then there was no looking back.”

Knowledge spillover can play an important role in investing and the interviews suggest it is one piece of the puzzle. The interviewed women shared a commonality on the importance of networks where they can share their experiences, learn, and receive support and guidance on personal finance. In this context, a few interviewees pointed out that colleagues who are successful investors served as important role models and mentors for them when they were just starting to take charge of their personal finance. By sharing their experiences, offering advice and guidance, and serving as advocates, colleagues (men and women) helped these women to succeed with their investments. One such experience of a positive peer interaction is as follows:

“After my undergrad I started working in a growth equity company. My company had two divisions and I started to get friendly with people from the equity research team. They always laughed and spoke about how much money they could make in the markets. I asked them for more information and made my first investment in the ETFs. I still remember those interactions as my source of information.”

Investing in financial markets is a complex and dynamic activity that is influenced by a wide range of factors. It is an ongoing process that requires continuous learning and engagement; by staying informed and connected, the interviewed women have taken an active role in their personal finance management.

“My job and my colleagues contributed a lot to my financial knowledge. In my first job I got well versed with basic knowledge, like a fixed deposit does not make sense in a high

inflationary environment. I would say conversations with my colleagues, who did not judge me, have helped to convert my intention of investing into the action of opening that account."

One interviewee pointed out the importance of a safe workplace culture that encourages open communication, collaboration, and mutual respect, where one feels safe to express their opinions, ideas, and concerns without fear of negative consequences or judgement. She shared that in her investment journey, this safe work environment played an important role as she felt empowered to ask questions and engage in conversations about investing. A report based on presentations and discussions held during a symposium on Women and the Workplace has stated the importance of workplace allyship in making women feel included[9]. The interviewee shared one such experience of reactive allyship:

"I remember having a meeting with a financial advisor at work. He just looked at my male colleague and did not make any eye contact with me. The conversation seemed very one sided and made me feel incapable. At the same time my colleague tried his best to intervene and include me in the discussions. He made sure all my questions were answered."

In addition, one interviewee stated that her friends feel more comfortable and confident in their investment decisions when they can connect with other women who have similar goals and support one another in their financial journeys. And another respondent pointed out her disappointment of not being able to have as many investment conversations with women as she wished for:

"Men discuss stocks amongst themselves all the time, why haven't we seen the same equation between women? I don't know why we hesitate? Often we hear they are part of the 'fin bro' group, but I am yet to hear about 'fin chic' groups."

An open work culture that includes open communication, inclusivity and peer support plays an important role in motivating women to take a step towards personal investments.

Conclusion

Though the gender gap in personal finance investing has narrowed in recent years, there is still work to be done to achieve greater gender equality in this area. There has been a growing recognition among financial institutions that women represent a significant and underserved market with unique needs and preferences[10]. However, there are still various challenges that need to be addressed to ensure that women are not underserved. Addressing these challenges requires a concerted effort from financial institutions, policymakers, and society. The below recommendations are a collation of remarks made by the interviewed women and three industry professionals to whom we reached out to understand what more could be done to bridge the gender gap in personal finance management.

- Parents should hold frequent positive money conversation with their daughters as they would with their sons and provide their daughters with a mindset of investing. Healthy engagements on the importance of personal finance planning and exposing daughters to financial concepts and investments at a young age can go a long way in setting them up for financial success.
- Investing should be incorporated in the high school curriculum. Introducing the history and math of investments in high school will build a strong foundation and will enable young women to take charge of their personal finances when they set foot in the real world.
- Building trust is essential for any financial advisor-client relationship. For women, trust is often built through communication and a collaborative approach to financial planning. Understanding and communicating the narratives behind performance and implications of investment products can help advisors to customize investment strategies that align with their female clients' values and goals.
- Financial service institutions need to build strategies to connect to younger women as they are entering the workforce. According to a study conducted by Goldman Sachs, due to childcare responsibilities, women on average work nine years less than men, and two four-year periods out of workforce can lower retirement corpus by 35%[12]. Reaching out to young women early on will help to ease pressure of lower retirement savings.

- A change in wealth management business models is required. The industry should consider shifting to innovative fee-based advisory models that can align the interests of advisors with those of their clients. Most of the interviewed women criticized financial advisors for focusing on Assets Under Management (AUM) accumulation. AUM-based models create conflicts of interest, as they incentivize advisors to prioritize accumulation of assets rather than providing high-quality advice and personalized service[11]. Fee-based models are based on the value of services provided, and advisors are incentivized to provide high-quality advice and service. It shifts the focus from asset accumulation to advisory services. This can lead to more comprehensive financial planning and a stronger focus on achieving clients' financial goals.
- There is a change needed in the landscape of current investment professionals. Along with demonstrating the ability to work with technology, professionals should demonstrate the zeal to service millennials taking charge of family wealth and personal finances. Moreover, it is important to create a diverse workforce and hire more women financial advisors. However, just having female advisors will not help; it is important for financial advisors to recognize their inherent gender biases. Efforts should be taken to provide additional training to help advisors recognize and overcome unconscious biases such as the idea that women are less financially literate or know less than men about investing or are inherently more risk averse than men. Financial advisors should treat female investors as individuals and not as a homogeneous group to ensure that they receive tailored financial advice and investment strategies that align with their unique circumstances and goals.
- Financial institutions should be wary of introducing campaigns that treat women as a monolithic group. For example, there are a few campaigns where advisors reach out to women between 10am to 4pm. Moreover, discussing the basics of budgeting and financial planning while not recognizing that women have done this for households can be condescending. They rather need to discuss the depth of investment opportunities.

Methodology

This report analyses the conversations conducted through interviews with financially independent women working in different industries. The selection criteria were not scientific or random but were based on networks and introductions. Fifteen interviews were conducted with women who participate in personal finance investments and included people in the age group of 25 to 35 years, from different cultural backgrounds and different geographic locations. Additionally, three professionals from the investment management industry were also interviewed to understand what further efforts can be taken by the industry to include women in the investment world. The qualitative interviews involved an average of 40 mins discussion of experiences, thoughts, and ideas around a few posed questions. The research findings are based on these interview conversations.

Interview Guide

Women who take active role in personal finance investing:

i) What has your experience been in investing?

ii) What do you find interesting about investing?

iii) What was your source of interest for your first investment?

iv) What is your early childhood memory relating to money management?

v) What role has your family played in shaping your life at work and home? The question was followed up to ask for some more details personal experiences, and to dig more on family held biases if any.

vi) Were there frequent conversations on money/savings in your environment or have you been an initiator?

vii) Has been any other social factor that has contributed to your interest in this subject?

viii) Do women you know also invest? If yes, what according to you is their motivating factor? If no, what according to you is holding them back?

Industry Professionals:

i) Many industry professionals argue that women still lag men in investing. Do you agree?

ii) What do you think the industry or any players in the industry are doing to bridge this gender gap in investing? What is working and why? What is not working and why?

iii) One hypothesis is that financial institutions need to connect to younger women as they are entering the workforce. What do you think of that idea? Are there any financial institutions doing that?

End Notes:

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