Barclays Wealth

Understanding the Female Economy: The Role of Gender in Financial Decision Making and Succession Planning for the Next Generation

In co-operation with Ledbury Research

BARCLAYS WEALTH

Foreword

In 2010, The Economist wrote that "Women's Economic Empowerment is arguably the biggest social change of our time." In the same year, the UK government and Lord Mervyn Davies revealed a focussed plan to address the lack of women in our company boardrooms and readdress the balance over the coming two years. Women across the globe account for up to 80 per cent of purchasing decisions and according to the World Bank, women will control a GDP that is bigger than that of India and China combined by 2014.

Against this backdrop of what are clearly changing social dynamics as more women rise to the top of professions, build businesses and, more broadly, take direct control of financial decision making, we have taken a conscious decision at Barclays Wealth to think more deeply about how we best meet the needs of this expanding market.

When we put the lens on our personal lives, we know men and women are different. At a number of recent client events held across the UK, my colleagues asked the audience the question of whether they believed there to be differences — the answer was almost a resounding 'yes'. We also have both male and female clients — as do many of the attendees at our events. Yet, in the main, we have failed to consider whether women have particular needs in the way we offer our products and services and we have failed to ask women directly, "Does it work for you?" As simple as this may seem, financial services have morphed and shaped over time, grown into large businesses and for the most part, with men in mind. If we recognise that men and women are different and that both are contributing in equal measure to the scale of economic growth then it seems logical that we stop and reflect.

At the same time, more women are expressing extreme dissatisfaction with the way certain industries engage with them. In a detailed global study by Boston Consulting Group in 2009, the motor and financial services industries have been cited as the largest culprits for their lack of awareness of some of the cultural differences needed to engage women, such as time spent and lack of clarity in product material.

In reflecting on these findings, questions such as — is the solution the same for women, what life choices affect women's approach to finance and how does our industry translate its products and services to engage women — have been front of house discussions at Barclays Wealth in recent months. Referring to women as a "market economy" is in itself a change agent conversation. Recognising that women — both in direct control of personal and family finances, as well as those who face these decisions as part of a legacy, a life changing circumstance or indeed as all important household decision makers — are key drivers in both the UK and global economy, is essential.

As we proceed on this journey we will raise the bar in speaking to this market about our products, services, and our tone of engagement and begin to share with our clients what we reveal along the way. This first paper, a synopsis from the 2011 Wealth Insights report papers, is an important part of that engagement.

I hope that this will prove to be interesting, thought-provoking reading to men and women alike and I look forward to continued dialogue with you on how we move to improve our focus on this key sector.

David

David Semaya
Head of UK & Ireland Private Bank
Barclays Wealth

Introduction

We know that the decisions we make today will shape the form of tomorrow, yet it is often difficult to pinpoint the motivations behind our decisions. Whilst the starting rule is always that we are all individuals and that individual differences account for and explain the reasons for many of our actions, we are increasingly aware that factors, such as gender, can play a role.

Through this research, we have observed the unique distinction in how men and women's emotions drive views on financial decision making and how each gender approaches the complex subject of inheritance. Studying these differences has provided a more in-depth insight into the role they play, at a time when recognising, understanding and engaging with these nuances has arguably never been more important for the financial services industry.

Globally, women control $20 trillion in annual consumer spending. For the first time in the UK, there are a greater number of female millionaires than male millionaires and experts expect this trend not only to continue, but to accelerate, in the coming years.

Across the globe, we are seeing greater numbers of women pass through higher education and go on to better paid, more prominent positions within their chosen industries. As they continue on this upward trajectory, both in terms of career success and increasing salaries, more women are acquiring wealth directly and women are also becoming more financially astute and independent.

With this growing affluence and awareness comes greater engagement by women in managing their personal finances — from securing and growing their wealth to leaving a legacy for their loved ones. Research has shown that nearly half of women feel that investment services should focus more on understanding and meeting women's needs.[1] Many are now hungry for change in terms of the advice they are given and how they engage with their finances.

Barclays Wealth is at the forefront of this advancement and, as part of its efforts to respond to female criticism of the financial services industry, has undertaken research to consider the role that gender plays in financial decision making. The aim is to understand the female perspective in order to build a service that caters to their needs.

This study was structured to enable us to explore:

- How aspects of women's financial personalities, such as risk tolerance, composure, and desire for financial discipline, compare to those of men, as well as examining how male and female investors overcome emotional aspects of investing through the use of rules and investment strategies
- How men and women across the world differ in their views on succession planning, and on the importance of leaving a financial legacy
- The reasons for these differences in personalities, strategies, views and plans, through interviews with investment, succession and behavioural finance experts

[1] Women Want More (In Financial Services)," BCG Opportunities for Action, October 2009

Executive Summary

The role of gender in financial decision making

Through our research, we have found the following important distinctions in how men and women approach financial decisions:

Risk taking — Women have a notably different attitude in relation to risk taking compared to men. Consistent with previous research, the women we surveyed are more risk averse than their male counterparts. As diversity of views is integral for good decision making, the female attitude to risk adds an essential counterbalance to male views on risk in both the household and business domain.

Desire for financial discipline — Women are more likely to want greater discipline when it comes to their finances than men. Financial discipline can apply to many goals — saving more, devoting more time to researching investments and pensions, or simply following through with well-laid financial plans. This finding is a call for wealth managers to help female clients develop strategies to meet their goals and diffuse the nagging desire to be more disciplined.

Strategies for success — One way that wealth managers can help clients achieve more discipline with their finances is through the use of self-control strategies. Women show more interest in testing out these strategies — they rate them as having more potential to be effective compared to men.

Delegating the decisions — There are different types of financial strategies male and female investors find appealing. Though women often express lower confidence about their financial expertise, they do not necessarily simply want to delegate decision making to an investment manager and are less likely than men to use other people to help them reach their financial goals.

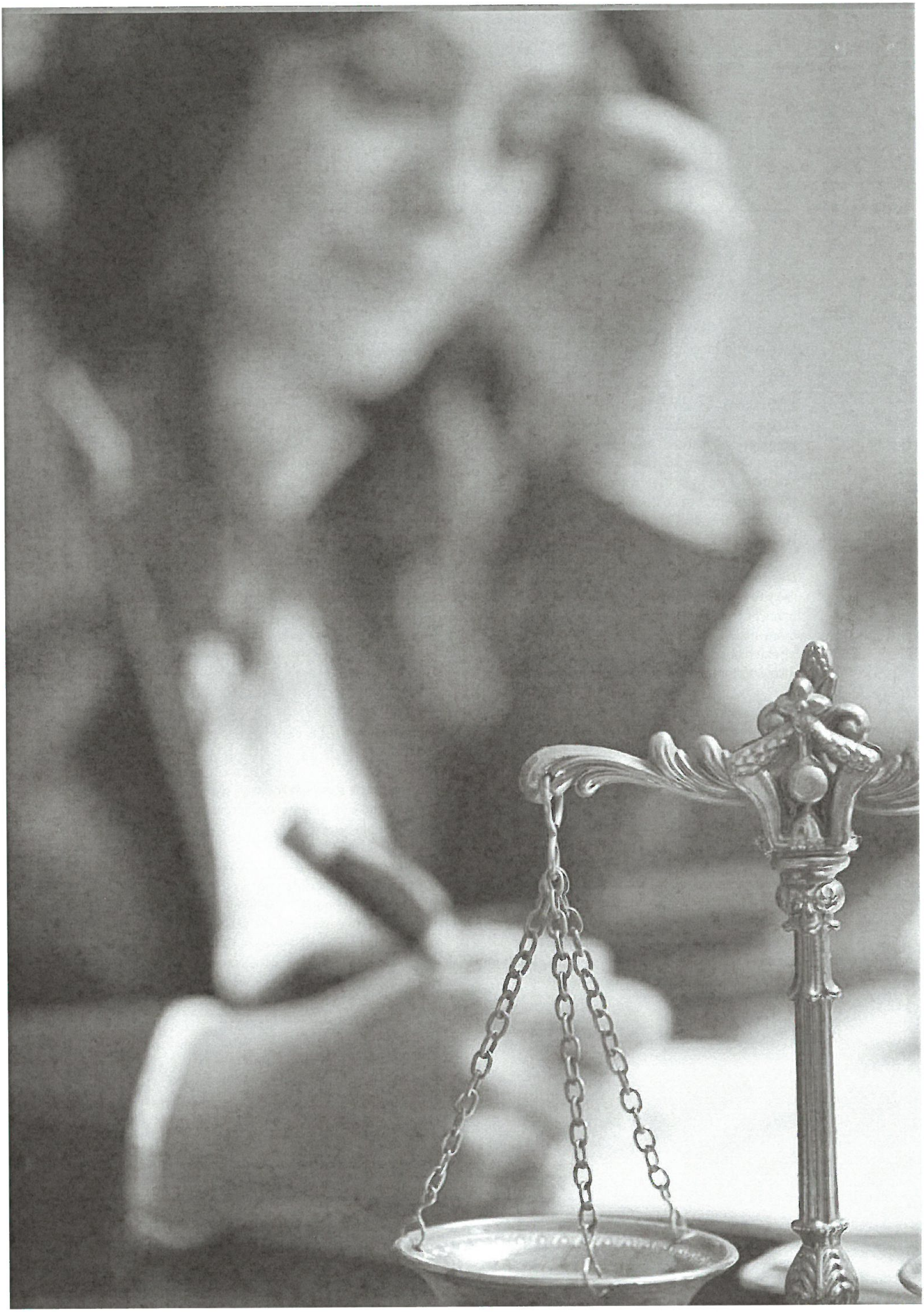
The role of gender in inheritance planning

Our study into the complex process of inheritance planning has shone a light on some significant differences in the way men and women approach succession plans:

Women often leave the inheritance planning to the men — Surprisingly, our research shows that women are more likely to leave inheritance planning to male family members. Women are less likely to label succession planning a priority or that it is important for them to leave a financial legacy when they die.

Will he, won't she — In line with women being less preoccupied with inheritance planning, fewer women than men have a will.

Wills across the world — There are some stark differences in how women across the world express their wishes for how their wealth is transferred. Whilst almost everyone has a will in the US and the European countries we surveyed, there are clear differences relating to gender in Latin America and Asia. Whilst a will is not the only option for succession planning and this may account for some of this shortfall, it remains an interesting trend.



The role of gender in financial decision making

Financial decision making can be challenging as we face numerous choices, complex tax considerations and overwhelming amounts of information. There are psychological challenges as well: stress, emotions and biases that we may not even be aware of.

Not only is it hard to construct the best financial plan for yourself, but once you have one, you need self-control to adhere to it. For many people, such control may be difficult to maintain. It requires self-control to save regularly, to enter the market in uncertain times, to curb excess trading, and to endure the vicissitudes of the market.

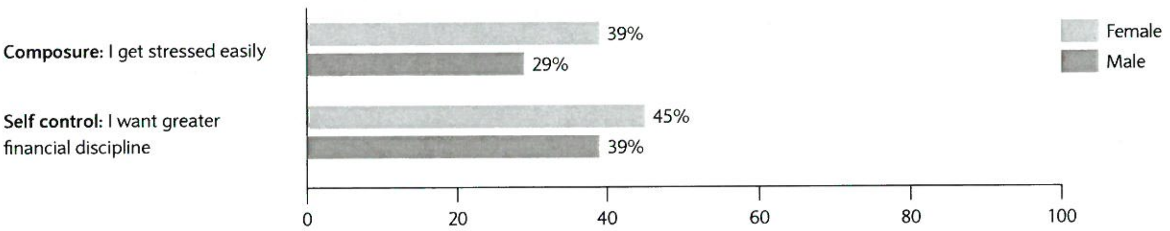
Financial self-control is a burgeoning research area in behavioural finance, which combines the disciplines of psychology and finance. A great number of studies exist on the topic, though research is just beginning to understand how rules and strategies can be used to anticipate and avert self-control slips. Equally, existing studies have not focused on examining and attempting to explain the differences in the way men and women approach financial decision making and how they define their investment personalities.

The difference between you and me is...

Some interesting gender differences in personality traits have been highlighted in our research. For instance, a propensity to become stressed is something more females admit to than males, with 39 per cent of females saying they have low composure, compared to 29 per cent of males.

This is related to a greater desire for discipline or self-control when it comes to their finances, something that women express more readily than men. Of our respondents, 45 per cent of women stated that they desired greater financial discipline, which fell to 39 per cent amongst male respondents.

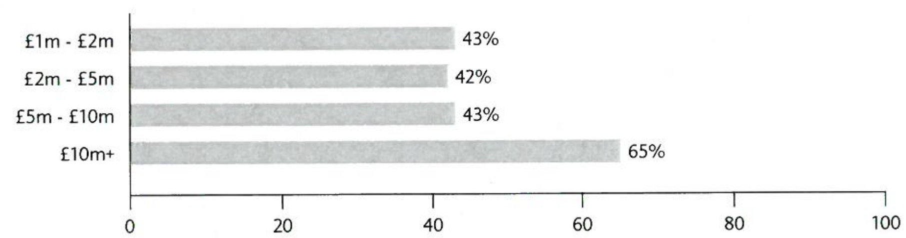
Chart 1 — Composure and self control in male and female respondents



Source: Ledbury Research

One might imagine that people who are struggling financially would wish for more discipline with their finances to increase their wealth. However, this is not the case. The desire for discipline was greatest in the highest wealth category that we surveyed (£10M+ in net worth), a pattern that is more pronounced in women than men.

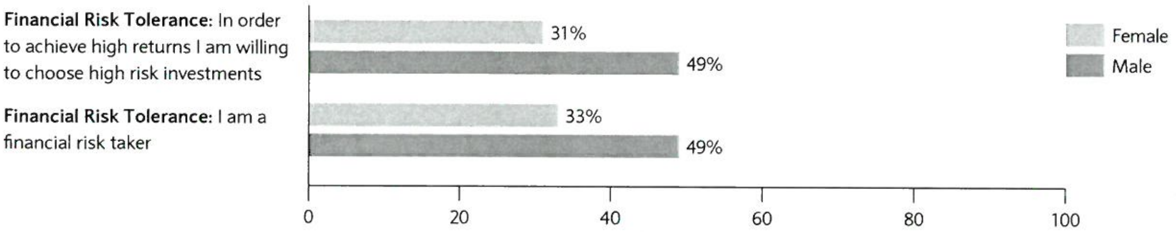
Chart 2 — Desire for discipline by net worth for female respondents



Source: Ledbury Research

Reflecting on the significance of these findings, Barbara-Ann King, Head of the Female Client Group at Barclays Wealth comments: "Low composure is associated with a greater desire for discipline with their finances and both were elevated in women. These findings are a call for wealth managers to probe with clients their sources of financial stress and ensure they make progress in alleviating them."

Chart 3 — Risk taking in male and female respondents



Source: Ledbury Research

The intuition that men are more willing to take risks than women is borne out by the economics literature on risk taking in experimental and actual investment settings.[2] We find further evidence of this among our survey respondents: female investors were found to be far less risk tolerant than men. In this research, the difference is stark, with just 31 per cent of women prepared to take higher risks for higher investment gains, a sharp decrease on the 49 per cent of males who agree with this tactic. In the same vein, only a third of women surveyed class themselves as risk takers (33 per cent), compared to nearly half of men (49 per cent).

Dr Emily Haisley, who is part of the Behavioural Finance team at Barclays Wealth, comments that there are many explanations proposed for this difference: "Biologically, several studies have linked financial risk taking to testosterone. Emotionally, women tend to experience emotions more strongly than men and are more prone to experience fear than anger, both of which can make the downside of risk more threatening. Cognitively, men are more likely to be confident, though not more accurate, in taking risky decisions in laboratory settings. Sociologically, women tend to value wealth as a source of security, not opportunity. Of course, these are just generalisations that explain the trends in the data. When working with clients, we focus on understanding the *individual's* financial goals, attitudes and personality. However, understanding the trends is absolutely essential to ensure that our services cater to the average woman, as well as the average man."

[2] See Croson, Rachel, and Uri Gneezy. 2009. "Gender Differences in Preferences." *Journal of Economic Literature*, 47(2): 448–74 for a review of the literature.

Trading success

It is well known that the portfolio performance of an investor is less than what he or she could have earned with a simple buy and hold strategy. One of the challenges for wealth managers is to curb the excess-trading and emotional trading of their clients that could compromise returns. Our research shows that female investors are less likely to try to strategically time the market and instead are more likely to adopt a buy and hold strategy — with 36 per cent of woman adopting this approach, whilst 41 per cent of men favour it.

In line with these trends, women are significantly less likely to think they buy and sell investments more than they should, only 7 per cent of woman confirm this, whilst 11 per cent of men do. These findings corroborate current thinking in academic research, which finds that women earn higher returns because they have less turnover, and hence lower transaction costs, in their portfolios.[3]

Strategy usage and effectiveness

Investors can be prone to irrational behaviour and often need help to fortify their willpower; however, there are steps that many employ to control future investment decisions and ensure they stick to the plans created for managing their portfolios. When we look across the many different types of strategies, men and women show some marked differences in how effective they think these strategies are for helping them exercise self-control.

On average, women do not use financial self-control strategies more than men. However, women do show a greater interest in them, as 62 per cent of women rate them as being effective, compared to 55 per cent of men.

Our survey asked about self-control strategies in general and in the financial domain. Establishing rules to guide behaviour is one example. An example of a rule in the financial domain is only spending out of income and never capital. A general example is only checking emails in the first 10 minutes of every hour in order to be more productive.

For strategies outside of the financial domain, 60 per cent of women use them, whilst this figure falls to 53 per cent for men. Moreover, 67 per cent of women think these general strategies are more effective, whilst 61 per cent of men believe the same.

Women's greater interest in these strategies could partly be explained by their higher desire for financial discipline and lower composure. Dr Haisley explains: "The use of self-control strategies is a productive coping strategy for these personality traits, and quite a lucrative one for that matter. If we just look at respondents who have a high desire for financial discipline, the use of self-control strategies is associated with greater financial satisfaction and even greater wealth."

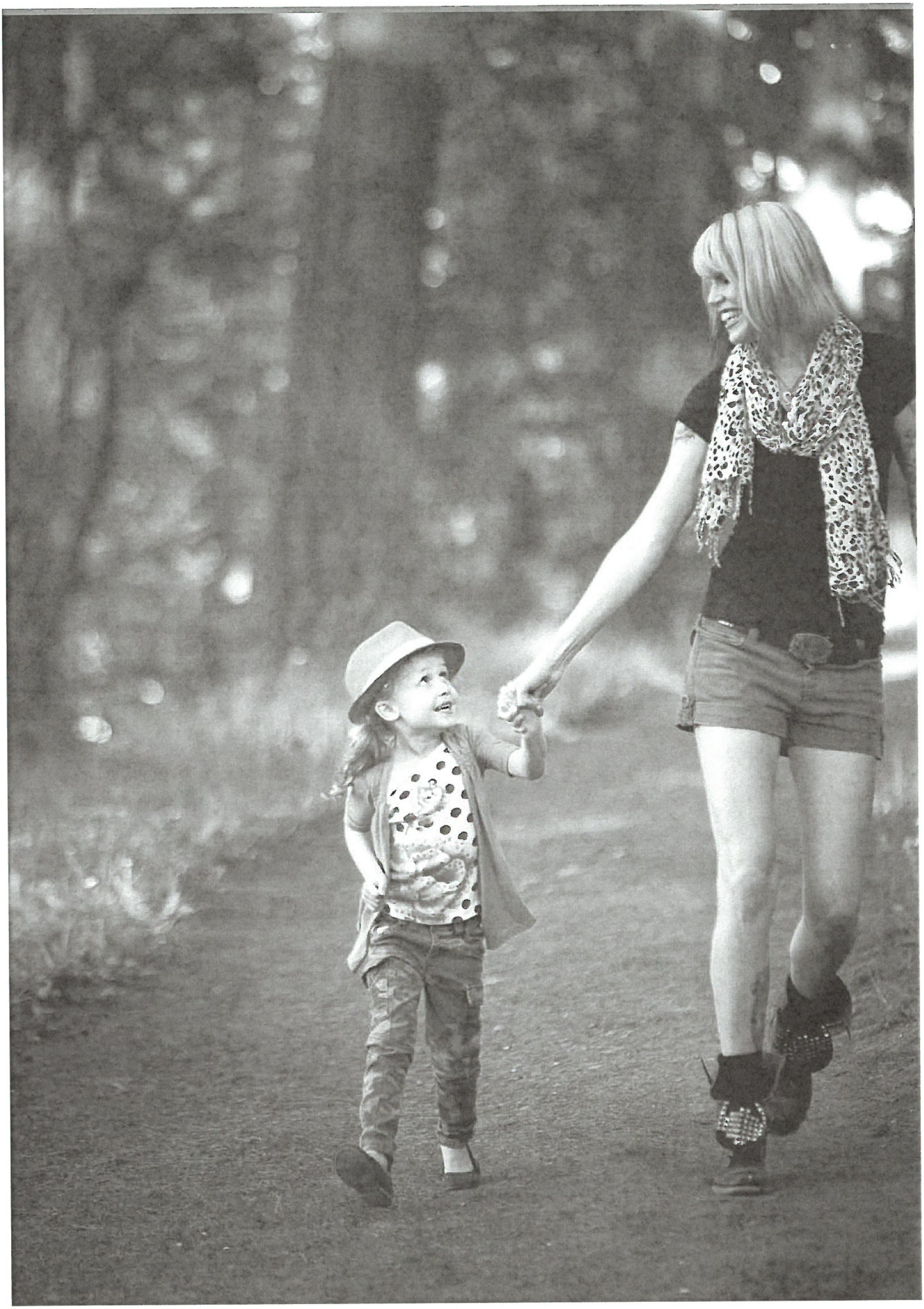
[3] Brad M. Barber and Terrance Odean. Boys will be Boys: Gender, Overconfidence, and Common Stock Investment The Quarterly Journal of Economics (2001) 116(1): 261-292

Strategies drilled down

When it comes to male and female investors rating the effectiveness of specific strategies, there are further identifiable differences between the sexes. More women than men agree that purchasing illiquid investments is an effective way to prevent emotional trading — 33 per cent compared to 29 per cent. Women are also more likely to believe in the effectiveness of rules, i.e. never spending out of capital, and cooling-off periods, i.e. waiting a few days after making a big financial decision before executing it.

Women also tend to use different self-control strategies compared to men. When it comes to investing, women are more likely to avoid information about the market that might lead them to deviate from their long term strategy — 53 per cent compared to 48 per cent of men. Here women tend to realise that sometimes less information is better than more. Women are also more likely to use cooling-off periods — 78 per cent vs. 73 per cent of male investors.

Psychological studies find that women are less overconfident, or irrationally confident, in most areas. Women also tend to be less confident in their financial expertise compared to men. Despite this lack of confidence or pronounced humility (depending on how you look at it), women do not simply want to delegate decisions to others. They are no more likely to delegate financial decisions to others, such as having an investment manager manage their portfolios for them, than men are. Similarly, women are less likely to use other people to help them reach their financial goals, such as by meeting with a financial advisor to force them to spend time planning for their financial future — 64 per cent vs. 69 per cent.



The role of gender in inheritance planning

Across all the areas of financial decision making, inheritance planning is perhaps the one area where you would reasonably expect women to have the greatest involvement and input – given its fundamental importance to family dynamics and the future welfare of the children.

However, we find that women place less importance on inheritance planning than men, and women are less likely to take action in this particular area. This is despite the fact that we also find women are more aware than men of the conflict that wealth can bring, and more likely to feel that wealth places a burden on the next generation.

Through this section of the report, we explore the complex area of inheritance planning and delve into how men and women globally diverge in their beliefs and approaches to preparing the next generation for the future.

Leaving the (inheritance) work to the men

Our research shows that the importance of succession planning is higher for men, with 61 per cent of men calling it a key priority, significantly higher than the 51 per cent of women who think this. Similarly, more men are concerned with leaving a legacy — 64 per cent of men, compared to 54 per cent of women.

These might perhaps be viewed as odd findings, given that stereotypically most would infer that women would be more concerned about caring for children; however it may be explained that these particular questions have a masculine frame — leaving a legacy vs. looking after children. Indeed women rate the importance of providing for their children's education as highly as men.

Another reason we might find this difference is because women tend to take a less active role in household financial decision making. Our research found that they are significantly less likely to have sole financial decision making responsibility for the household (36 per cent of women versus 66 per cent of men) and they are more likely to have no responsibility (2 per cent of women and 7 per cent of men).

Another possible explanation is that women may be more sensitive to the thorny issues around wealth and inheritance. Women are more likely to report that in their experience, wealth leads to conflict and that inheritance places a burden on the next generation. Family conflict is all too frequently associated with family wealth, particularly when it is inherited.

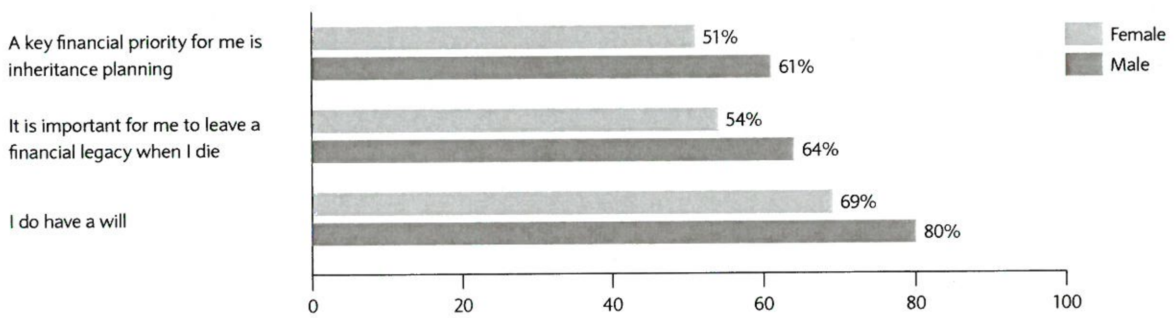
Catherine Grum, Director, Wealth Advisory at Barclays Wealth comments: "It is vitally important that women are involved in the inheritance planning process. Conflict often arises as a result of disappointed expectations and so communication is key — women can play a crucial role here. It is important to know that there are options available and working with experts is a good way to explore these."

Not only do women say inheritance planning is less important than men, they are less likely to take action (most of the time). Significantly, the amount of women without a will is much greater than men — nearly a third of women (31 per cent) do not have a will, compared to a fifth of men (20 per cent).

Whilst these findings in themselves are surprising, they drive the question of why this may be the case. It would appear to raise questions such as whether women feel that they have control of assets in the first place — therefore do they believe they have assets to give away? Another consideration is that it is possible women view 'legacy' and the giving of 'legacies' in an entirely different way. Whereas for some men, passing on a certain level of wealth to future generations would constitute a suitable legacy, for some women, the legacy they want to pass on may not be calculated in monetary terms but rather in the happiness and contentment of the lives of their children and grandchildren.

Both men and women often require a catalyst in order to start the inheritance planning process and lack of time is often perceived to be a barrier. This is perhaps more so in the case of women who often combine their role as a carer within the family and other activities. This is where seeking expert advice can help as it can cut down the time and ease the process.

Chart 4 — Importance of inheritance planning



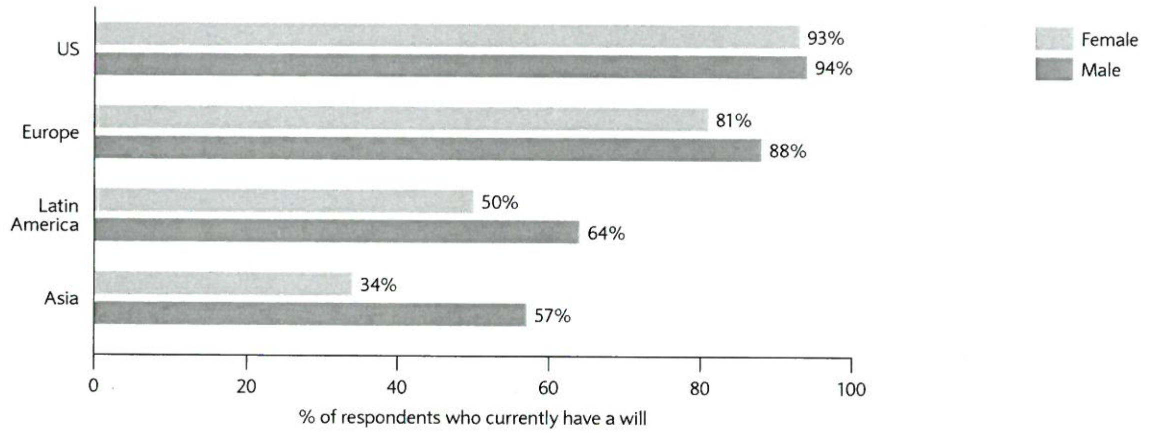
Source: Ledbury Research

International differences

In general, women are less likely to hold a will but it depends heavily on where you are in the world. In the US and Europe for instance, women and men are closely matched — 94 per cent of American men and 93 per cent of women hold wills; which decreases slightly to 88 per cent of males and 81 per cent of women in Europe.

In contrast, the uptake on wills is much lower for Asian and Latin American women — only half of Latin American women have wills, compared to 64 per cent of men, and just over a third of women in Asia (34 per cent) have a will in place, which rises to 57 per cent amongst men.

Chart 5 — Use of wills



Source: Ledbury Research

Leaving a business legacy

Those who want to leave a business legacy also view gender as more important for deciding how to divide wealth. Gender is even weighted more heavily in the decision of who to pass the business to than the child's *willingness* to take over a business. Birth order, financial need, or even shared values are not as important as gender. It is unclear whether this is a bias towards sons or if there is some other explanation.

Catherine Grum comments: "The decision in relation to passing on the family businesses can be particularly complex, as the issues of running a business and having a right to some of the value it produces are often confused. However, this does not explain the different attitudes and begs the question whether primogeniture is still there in the subconscious."

Conclusion

Whilst it was once considered potentially politically incorrect to suggest that gender plays a role in how we approach our finances, Barclays Wealth's in-depth research and expert analysis shines a light on this subject and shows where these gender differences are particularly notable.

Across the globe, societies and demographics have undergone huge social changes over the past few decades. This trend is now being reflected in a greater number of women earning wealth directly, and the rise in the number of female board members, business owners and entrepreneurs. Women are now more financially independent, yet still desire financial education and guidance. This desire for greater financial education to make highly informed decisions is borne out in our survey findings.

Overall, although men are content to take risks and delegate financial decisions to others, women take a decidedly more cautious approach, as indicated by a lower willingness to take risks and less (over)confidence in their financial decisions. However, they do not simply want to delegate; they are keen to have greater control of their financial decisions, through seeking the advice of others.

Women can also feel uncertainty when it comes to inheritance planning. Despite the prominence of women as the main carers to parents and children in a family unit, leaving a succession plan, financial legacy and preparing a will is more common amongst men.

This could be a sign that women are hungry for greater financial education and information across a diversity of financial matters. Experts have reported that unless women understand a financial product, they will not engage with it. Although it is important not to generalise — there are always going to be individuals for whom this doesn't ring true — it is apparent that this gap in engagement must be addressed in order to offer women advice and support in financial matters.

This report shows that the variations in how women and men think, behave and take action in their investment decisions and inheritance planning have far-reaching implications. As the rate of women's wealth rises exponentially across the world, it is becoming increasingly vital that financial institutions and wealth managers address and understand these differences in order to cater for female clients more effectively, based on personality and lifestyle, as well as gender.

This point is critical. Rather than separating male and female clients into two boxes, we must learn from each of them. We can see from the 900 women's networks currently active in London that women are adept at sharing information and opportunities, and in doing so, obtaining the biggest gain from this pool of knowledge. We are fostering this in our approach at Barclays Wealth.

Equipping both men and women with the information they require to enable informed conversations in a more tailored approach will not only help to drive the growth of the new female economy, but also enable us to support entire families and future generations in understanding important financial decisions.

Barbara-Ann King
Head of Female Client Group
Barclays Wealth

About Barclays Wealth

Barclays Wealth is a leading global wealth manager, and the UK's largest, with total client assets of £166bn, as at 31 March 2011. With offices in over 20 countries, Barclays Wealth focuses on private and intermediary clients worldwide, providing international and private banking, investment management, fiduciary services and brokerage.

Barclays Wealth is the wealth management division of Barclays.

Barclays is a major global financial services provider engaged in retail banking, credit cards, corporate and investment banking and wealth management with an extensive international presence in Europe, the Americas, Africa and Asia. With over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs 147,500 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

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About this report

Researched by Ledbury Research and written in conjunction with Barclays Wealth, this report investigates two themes: the first being the financial personalities of high net worth individuals globally and the strategies used by this group to manage behaviour when making investment decisions; and the second being the attitudes of wealthy individuals towards inheritance, succession and planning for the next generation. These are both themes that are addressed in the Barclays Wealth Insights series and in this report, the topics are considered with a lens on specific findings as they relate to gender.

Ledbury Research conducted a survey of more than 2,000 high net worth individuals, all of whom had over £1m (or equivalent) in investable assets and 200 with more than £10m. Respondents were drawn from 20 countries around the world, across Europe, North America, South America, the Middle East and Asia-Pacific. The interviews took place during January and February 2011.

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