RISK TOLERANCE AND FINANCIAL INVESTMENT DECISION OF CUSTOMERS IN NEPLAESE COMMERCIAL BANKS

A Dissertation Submitted to the Office of the Dean, Faculty of Management in Partial Fulfillment of the Requirements for the Master of Business Studies (M.B.S.)

By

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **Risk Tolerance and Financial Investment Decision of Customers In Nepalese Commercial Banks**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Dipak Giri has defended research proposal entitled RISK TOLERANCE AND FINANCIAL INVESTMENT DECISION OF CUSTOMERS IN NEPLEASE COMMERCIAL BANKS. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Srijana Khadka submit the thesis for evaluation and vice-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled RISK TOLERANCE AND FINANCIAL INVESTMENT DECISION OF CUSTOMERS IN NEPLEASE COMMERCIAL BANKS presented by Dipak Giri a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva Voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

ANNOVA	:	Analysis of Variance
CRT	:	Capital Risk Tolerance
EI	:	Emotional Intelligence
ESG	:	Environmental, Social and Governance
FRB	:	Financial Risk-Taking Behavior
FRT	:	Financial Risk Tolerance
IRT	:	Investment Risk Tolerance
Max	:	Maximum
Md	:	Median
Min	:	Minimum
Mn	:	Mean
N	:	Number of Observations
NEPSE	:	Nepal Stock Exchange
P.E.	:	Probable Error
PCL	:	Proficiency Certificate Level
PLS	:	Partial Least Squares
r	:	Correlation Coefficient
S.D.	:	Standard Deviation
SDGs	:	Sustainable Development Goals
SEE	:	Secondary Education Examination
SEM	:	Structural Equation Modeling
SID	:	Single Investor Identification
SLC	:	School Leaving Certificate
SPSS	:	Statistical Package for Social Science
SRI	:	Socially Responsible Investing
SRT	:	Speculative Risk Tolerance
SVO	:	Social Value Orientation
ULIPs	:	Unit-Linked Insurance Plans

ABSTRACT

This study investigates the relationship between risk tolerance and financial investment decisions among customers of three Nepalese commercial banks: Nabil Bank, Everest Bank, and Rastriya Banijya Bank. The main objective of the study is to examine how different types of risk tolerance—namely financial, capital, and speculative risk tolerance—along with demographic factors such as age, gender, marital status, education, income, and profession, influence individual investment behavior. A quantitative research approach was employed, using structured questionnaires with a five-point Likert scale distributed to a sample of 400 bank customers. Data were analyzed using statistical techniques including correlation, regression, and ANOVA to assess the strength and significance of the relationships between variables. The findings reveal a significant positive relationship between financial risk tolerance and investment decisions, indicating that individuals with higher risk tolerance are more likely to make active and larger investments. Similarly, capital and speculative risk tolerance were also found to influence investment behavior positively.

Keywords:- Financial investment decisions, capital risk tolerance and speculative risk tolerance.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

Risk tolerance refers to an individual's or institution’s ability and willingness to endure uncertainty and potential financial loss when making investment or financial decisions. It reflects how much variability in returns an investor is willing to accept in pursuit of higher potential gains (Grable & Lyton, 1999).

Financial risk refers to the uncertainty surrounding the potential outcomes of financial decisions, which can lead to either gains or losses. Traditional finance models treat risk as a quantifiable variable, often using metrics like volatility and standard deviation. However, these models typically assume rational decision-making, where individuals make choices based solely on objective data. In reality, emotions play a critical role in how individuals perceive and respond to financial risk, leading to behavior that deviates from purely rational expectations (Brahmaiah, 2022).

Financial risk tolerance is the degree to which an individual is willing to accept risk in pursuit of financial returns. Emotions directly affect risk tolerance fear tends to decrease willingness to take risks, while overconfidence can push individuals to engage in riskier behavior. For example, during market downturns, heightened fear can lead to risk aversion and panic selling, while periods of market optimism may encourage overly optimistic investments, often with higher-than-justifiable risks (Piao & Xiao, 2022).

An investment decision refers to the process by which individuals or institutions allocate their available financial resources among different investment alternatives with the aim of maximizing returns and minimizing risk. It involves choosing where, how much, and for how long to invest in various financial instruments such as stock, bonds, mutual, funds, real estate, or fixed deposits (pandey,2015).

A financial investment decision refers to the process of allocating funds to various funds to various financial instruments or assets with the objective of earning a return

and managing risk. It involves evaluating investment alternatives –such as stocks, bonds, mutual funds, fixed deposit, or real estate –based on expected return, risk, time horizon, and liquidity (Brigham& Houston,2019).

In the evolving financial landscape of Nepal, individual investors –particularly customers of commercial banks –are playing an increasingly significant role in the country's economic activities. With the growing availability of diverse financial instruments such as saving products, fixed deposits, mutual funds, insurance plans, and stock market access, the need for sound financial decision making at the individual level has become more important than ever. Among the many behavioral and economic factors influencing such decisions, risk tolerance has emerged as a critical determinant of financial investment behavior (Grable &lyton,1999).

In recent years, Nepal's financial landscape has undergone a considerable shift with the liberalization of financial markets, increasing access to banking services, and the introduction of new financial products. Commercial banks now offer a wide array of investment opportunities, including fixed deposits, mutual funds, insurance-linked savings, and digital investment platforms. As the market matures, the complexity and range of investment options available to retail investors has grown, highlighting the need to better understand how these individuals make financial decisions (Nepal Rastra Bank, 2023).

One of the key factors shaping investment decisions is risk tolerance, which refers to the degree of variability in investment returns an investor is willing to withstand. Unlike institutional investors, individuals vary significantly in their ability and willingness to take on financial risks, depending on their financial goals, experience, and understanding of investment instruments (Nguyen et al., 2016). In a growing economy like Nepal, where personal savings are increasingly funneled into capital markets, identifying how retail investors' financial, capital, and speculative risk tolerances affect their investment decisions is crucial for both policymakers and financial institutions (Gautam, 2023).

Globally, the use of investor risk profiling has become standard practice in financial advisory services to guide appropriate product offerings. However, in Nepal, these

practices are not yet widely adopted in commercial banks. As a result, many investors may end up with investment products that do not align with their risk-taking capacity leading to dissatisfaction and under-participation in capital markets (Lucarelli et al., 2019). Understanding customer-level risk tolerance is therefore vital for designing products that align with investor preferences, particularly in emerging markets like Nepal where financial literacy remains uneven (Baruah & Parikh, 2018).

Moreover, investment decisions are not only influenced by the potential for return but also by the investor's perception and tolerance for risk associated with various financial products. The disconnect between perceived and actual risk tolerance can lead to inefficient capital allocation, especially in developing economies where investor protection frameworks are still evolving (Chavali & Mohanraj, 2016).

This study focuses on bridging that gap in the Nepalese context by analyzing how financial, capital, and speculative risk tolerances influence investment decisions among customers of commercial banks.In commercial banks, understanding how their customers make these decisions especially how willing they are to accept financial risk can help in designing better financial products, improving advisory services and encouraging more participation in capital market. Despite the importance of this topic, limited research has been done in the Nepalese context most studies have focused on institutional investor or microeconomic investment trends. This study addresses that gap by focusing on individual customers of 3 Nepalese commercial banks and exploring how their level of risk tolerance influences their financial investment decisions, based on data collection from 400 respondents.

1.2 Problem Statement

Financial decision-making is often assumed to be a rational process, based on logic, calculation, and objective risk assessment. Traditional financial theories, such as the efficient market hypothesis and rational choice theory, typically model individuals as logical agents who make decisions based on a comprehensive understanding of risk and reward. However, numerous studies in behavioral economics have demonstrated that individuals do not always act rationally when it comes to financial decisions, especially when it involves risk. Instead, emotions play a crucial and sometimes

overpowering role in shaping the way individuals' approach and respond to financial risks (Aisjah et al., 2024).

Risk tolerance on financial decision-making presents a critical gap in both financial theory and practice. Traditional financial planning tools and risk tolerance assessments often fail to account for emotional factors, assuming that individuals will act in a way that aligns with their long-term financial goals. However, emotions can cause individuals to deviate from these goals, leading to financial decisions that are inconsistent with their true risk tolerance and objectives. This mismatch can have significant implications, particularly in a world where financial markets are volatile, and economic conditions are uncertain (Hemrajani et al. 2024).

In recent years, Nepalese commercial banks have expanded their financial services beyond traditional saving and loans, offering various investment opportunities such as mutual funds, fixed income products, and share trading platform. However, despite this expansion, a significant number of individual customers still hesitate to invest risker financial instruments. Their decisions are often shaped by how much risk they aree willing or able to take (Grable& Lyton, 1999).

As highlighted in the problem statement, there is a critical gap in understanding how customer level risk tolerance affect investment behavior in the Nepalese banking sector. Customer with high risk tolerance are generally more inclined to invest in stocks, mutual funds, and other volatile assets, which offer greater long-term returns but come with higher uncertainty. conversely, customers with low risk tolerance prefer conservative investment options like saving, fixed deposits, and government bonds, often at the expense of potential higher returns (Baker& Nofsinger, 2010).

In the context of Nepal, the problem is exacerbated by low financial literacy, limited investment awareness, and emotional decision making. Many customers do not fully understand risk return trade offs and trend to follow herd behavior or rely on non export advice. As a result, their investment choices are more driven by aversion and emotional biases than rational financial planning (Shreestha & Manandhar,2018).

Nepalese commercial banks have introduced a variety of investment avenues in recent years. However, despite the increasing availability of financial products, many individual customers continue to limit their investments to low-risk options such as savings and fixed deposits. This behavior points to a deeper issue: a lack of alignment between financial products and customer risk profiles (Nguyen et al., 2016). While there is ample research on investment behavior in developed markets, there is limited understanding in Nepal of how various forms of risk tolerance specifically financial, capital, and speculative influence individual investment decisions in the banking sector.

This gap is particularly relevant because Nepal lacks widespread investor profiling mechanisms. Financial advisors and bankers often provide recommendations without considering the client's actual tolerance for risk, resulting in suboptimal investment strategies. For example, a customer with high speculative risk tolerance might be discouraged from investing in equities or mutual funds, simply due to the advisor’s bias or limited product knowledge. Conversely, a conservative investor may be exposed to unnecessarily risky instruments due to poor risk assessment. This mismatch leads to reduced investment satisfaction and lowers long-term market participation (Lucarelli et al., 2019).

Furthermore, the Nepalese commercial banks have introduced a variety of investment avenues in recent years. However, despite the increasing availability of financial products, many individual customers continue to limit their investments to low-risk options such as savings and fixed deposits. This behavior points to a deeper issue: a lack of alignment between financial products and customer risk profiles (Nguyen et al., 2016). While there is ample research on investment behavior in developed markets, there is limited understanding in Nepal of how various forms of risk tolerance specifically financial, capital, and speculative—influence individual investment decisions in the banking sector.

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Furthermore, the role of risk tolerance as a determinant of investment behavior has received limited empirical attention in Nepal**,** particularly in relation to customer-level data from commercial banks. Existing studies either focus on demographic or psychological factors, or on broader macroeconomic trends. There is a lack of granular data on how Nepalese retail investors make decisions when presented with various levels of investment risk (Gautam, 2023; Baruah & Parikh, 2018).

As a result, the core problem remains: financial institutions in Nepal do not adequately factor in client-level risk tolerance when promoting investment products**.** Without this alignment, investor engagement in capital markets remains low, hindering financial market development and economic growth. Addressing this issue requires research that specifically explores the relationship between different dimensions of risk tolerance and actual financial investment decisions in the context of Nepalese commercial banks.

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Most investment managers do not assess the risk tolerance level of the client so the investment plan which they develop fails to meet their requirements. As a result, the clients hesitate to make further investments. However, making investments is vital for economic growth so it is necessary to encourage people to make investments. This can be achieved if investment managers divide the clients into different risk tolerance levels based on various financial, behavioral, income, and help clients develop a suitable portfolio having optimal risk-return trade-off. Hence, after developing an optimal portfolio the clients can tolerate risks comfortably and make further investments in the future Especially the study is expected to reveal the following research questions:

- What is the current status of risk tolerance and financial investment decisions among customers of commercial banks in Nepal?
- Is there any relationship between risk tolerance, income, financial risk tolerance capital risk tolerance, speculative risk tolerance and financial investment decisions of customer Nepalese commercial banks?
- What is the impact of income, financial risk tolerance, capital risk tolerance and speculative risk tolerance on investment decisions of customer's commercial bank in Nepal?

1.3 Objectives of the Study

The main objectives of the study are as follows:

- To identify the current status of risk tolerance and financial investment decisions of customers of commercial banks in Nepal.
- To examine the relationship between risk tolerance, income, financial risk tolerance capital risk tolerance, speculative risk tolerance and financial investment decisions of customer Nepalese commercial banks.
- To analyze the impact of income, financial risk tolerance, capital risk tolerance and speculative risk tolerance on investment decisions of customer commercial bank in Nepal

1.4 Rationale of the Study

Investment decisions making is a crucial aspect of personal financial management and overall economic development. In recent years, the growing accessibility of financial

product and investment options in Nepal has increased the importance of understanding how individuals make financial decisions. one of the key psychological and behavioral factors influencing such decisions is risk tolerance an individual willingness and capacity to take financial risks in pursuit of potential gains. Financial investment decisions are crucial for individual financial security and national economic growth. Among the various psychological and economic factors influencing investment behavior, risk tolerance stands out as a significant determinant. Risk tolerance refers to an individual's ability and willingness to endure the potential loss in pursuit of higher returns. In Nepal, where the investment culture is still developing and financial literacy remains relatively low, understanding how risk tolerance influences financial investment decisions is both timely and essential. Nepalese commercial banks play a key role in mobilizing savings and offering diverse investment products. However, not all customers respond uniformly to investment opportunities, as their choices are shaped by different levels of risk acceptance. The mismatch between investors' risk tolerance and their actual investment choices can lead to poor financial outcomes, affecting both individual welfare and the broader financial system. Despite its importance, there is limited empirical research in Nepal that specifically explores the relationship between risk tolerance and financial investment decisions at the individual level. Most existing studies focus on macroeconomic variables or institutional perspectives. Therefore, this study aims to fill the research gap by examining how risk tolerance impacts investment decision-making among customers of Nepalese commercial banks. The findings of this study will contribute to a better understanding of behavioral finance in the Nepalese context, enabling financial institutions to design products that align more closely with the risk profiles of their clients. It will also help investors make more informed choices, leading to more efficient allocation of resources in the financial sector.

1.5 Limitations of the Study

The limitations of the study are as follows:

- The research is confined to respondents within certain regions or branches of commercial bank.
- Among 20 commercial banks only 3 commercial banks, i.e. Nabil Bank Limited, Everest Bank Limited and Rastriya Banijya Bank Limited are taken

for the study. Using convenience sampling method 400 customers from these three banks are taken as sample.

- This study is based on primary data taken from the banks customer.
- There's a possibility of researcher bias in interpreting subjective data.
- Economic and political factors influencing customer behavior are not considered.
- The study doesn't measure the long-term effects of emotional responses on financial outcomes.
- Only limited and financial tools are used, for the study.
- Customers of these banks are selected randomly.

CHAPTER II
REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For the review study the researcher uses different books, reports, journals, and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

2.1 Theoretical Review

The concept of risk tolerance refers to an individual's ability and willingness to take risks in the pursuit of financial rewards, often measured in the context of investment behavior or financial decisions. Traditionally, financial decision-making has been viewed through the lens of rational choice theory, where individuals are assumed to act in their best economic interest, making decisions based on objective analysis of risk and reward. However, recent research in behavioral finance has highlighted the significant role that income and different risk tolerance play in shaping financial decisions, challenging the assumption of rationality.

This theoretical review explores the interaction between income, financial risk tolerance, capital risk tolerance speculative risk tolerance and financial investment decisions by synthesizing key theories and empirical research findings. The review aims to critically assess the mechanisms through which income and different risk tolerances influence financial investment decision-making and risk preferences, providing a more nuanced understanding of how income and risk tolerance affect financial investment decisions.

2.1.1 Concept of Risk Tolerance

Risk tolerance is a critical factor influencing the financial investment decisions of individuals, especially in banking customers who often decide between various financial products with differing risk profiles. It is generally defined as the degree to which an investor is willing to accept uncertainty and potential financial loss in

exchange for expected returns (Grable & Lyton, 1999). In the context of Nepalese commercial bank customers, understanding risk tolerance is vital because it shapes how these customers select savings, fixed deposits, mutual funds, stocks, or other investment vehicles offered by banks. Risk tolerance is influenced by both objective factors such as income, age, and financial knowledge, and subjective factors including personal attitudes toward risk and previous investment experiences (Weber Blais, & Betz, 2002).

For example, younger customers or those with higher disposable income might display greater willingness to accept investment risks, whereas older or more risk-averse customers might prefer safer banking products with fixed returns (Hanna & Lindamood, 2004). This cautious approach influences the overall investment decisions customers make, leading them to favor low-risk products such as fixed deposits over potentially higher-return but riskier equity investments. These behavioral tendencies need to be accounted for when analyzing the investment behavior of Nepalese bank customers.

2.1.2 Concept of Financial Investment Decisions

Financial investment decisions refer to the process through which individuals or institutions allocate their available financial resources into different investment options with the expectation of generating returns in the future. These decisions are influenced by a wide range of factors, including personal goals, market conditions, risk tolerance, time horizon, and available information. Investment decisions typically involve choosing between alternatives such as fixed deposits, stocks, bonds, mutual funds, real estate, or other financial instruments (Gitman & Zutter, 2012).

Investment decisions are an essential component of financial management and directly affect the investor's wealth accumulation and financial security. These decisions require evaluating the risk-return trade-off, where investors must balance potential gains against the probability of losses (Brigham & Houston, 2011).

In the context of banking customers, especially in developing countries like Nepal, financial investment decisions are also shaped by accessibility to financial products, trust in financial institutions, and overall economic conditions. Nepalese commercial

bank customers often prefer secure investment options such as savings accounts and fixed deposits due to limited financial literacy and aversion to risk (Shrestha, 2018). Moreover, demographic variables such as age, gender, education level, income, and marital status also play a crucial role in determining investment preferences. For example, highly educated and financially literate individuals are more likely to invest in diverse and higher-risk financial assets compared to less-educated individuals who may avoid market-based instruments altogether (Bashir et al., 2013).

Understanding how individuals make financial investment decisions is essential for financial advisors, policymakers, and institutions. It helps in designing suitable investment products, providing customized advice, and improving participation in financial markets, particularly in emerging economies like Nepal.

2.1.3 Concept of Financial Risk

Financial risk refers to the uncertainty regarding the outcomes of financial decisions, which can lead to either gains or losses. It arises from various factors, such as fluctuations in market conditions, interest rates, creditworthiness, and economic events (Sharifi et al., 2019). There are different types of financial risks, including market risk, which involves changes in asset prices; credit risk, which arises from the possibility of a borrower defaulting; liquidity risk, which concerns the inability to sell an asset at a fair price; and interest rate risk, which impacts the value of investments due to changes in interest rates. Investors must assess these risks and determine their risk tolerance how much risk they are willing to take on in pursuit of potential returns. Understanding financial risk is crucial for making informed investment decisions, balancing the pursuit of returns with the ability to handle the uncertainties that come with investing (Kule et al., 2020).

2.1.4 Concept of Financial Risk Tolerances

Financial risk tolerance refers to the level of risk an individual is willing to accept when making investment decisions. It reflects how much uncertainty or potential loss an investor is comfortable with in pursuit of higher returns. This tolerance varies based on factors like personal financial goals, age, experience, and emotional capacity to handle market fluctuations (Edwin & Omagwa, 2018).

Investors with a low risk tolerance tend to prefer safer, more stable investments, such as bonds, while those with a high risk tolerance are more willing to take on volatile investments, such as stocks, with the potential for higher returns. Understanding one's risk tolerance is crucial for developing an investment strategy that aligns with personal circumstances and long-term financial objectives, ensuring that the investor does not take on more risk than they can comfortably manage (Aisjah et al., 2024).

2.1.5Theories, Principles of related to Risk Tolerances and Financial Investment Decision

The relationship between risk tolerance and financial investment decision-making has been widely studied under various economic, psychological, and behavioral frameworks. These theories explain how individuals assess risk, process information, and make financial choices. Understanding these theories is vital in the context of Nepalese commercial bank customers, where individual behavior often varies due to differing financial awareness, socio-cultural factors, and access to investment opportunities.

Individuals make rational financial decisions by selecting the option with the highest expected utility, rather than the highest expected monetary value. Risk tolerance is embedded in the investor’s utility function—those who are risk-averse prefer safer investments even if riskier alternatives offer higher expected returns. This model is often used as a base for understanding rational investment decisions in traditional economics (Neumann & Morgenstern,1944).

Investors can construct an optimal investment portfolio by diversifying across assets to minimize risk for a given level of expected return. It assumes that investors are risk-averse and will only take on additional risk if compensated with higher expected returns. It helps to explain how different levels of risk tolerance lead to different portfolio choices among investors (Markowitz,1952).

It suggests that people do not always act logically in the face of risk. Instead, they evaluate potential outcomes relative to a reference point and are more sensitive to losses than gains. This behavior—known as loss aversion—helps explain why some investors might avoid even moderately risky investments, despite potential returns. It

is particularly useful in understanding the inconsistent risk preferences among Nepalese investors (Kahneman & Tversky's,1979).

Behavioral Finance Theory

Behavioral finance integrates insights from psychology with financial theory to explain why people sometimes make irrational financial decisions. It identifies cognitive biases such as overconfidence, mental accounting, herding behavior, and anchoring, which affect investor perception and behavior. According to Thaler (2005), these biases influence risk tolerance and often lead individuals to deviate from optimal investment decisions. In Nepal, where financial education is limited, such biases play a significant role in investment choices among banking customers.

Risk-Return Trade-off Principle

A fundamental principle of finance is the Risk-Return Trade-off, which states that greater returns are typically associated with higher levels of risk. Investors must assess how much risk they are willing to tolerate to achieve their desired return. The level of risk an investor is comfortable accepting directly determines their financial investment decisions. In Nepalese banking, conservative customers may choose fixed deposits, while those with higher risk tolerance may prefer equity-based or mutual fund investments.

Risk Tolerance towards Investment Decision

Theoretically, this aligns with the Risk-Return Trade-Off theory, which posits that individuals with higher risk tolerance are more prepared to face market volatility and make higher-risk investment decisions. Kahneman and Tversky (2018) Prospect Theory also explains that individuals with greater risk tolerance are more attracted to opportunities involving higher risks, anticipating larger returns. Previous research supports this finding, such as the work by Grable (2000), which identified risk tolerance as a key factor in investment decision-making.

In the global financial environment, understanding the financial risk tolerance of investors is significant to be able to manage their investment wisely and therefore, as previously mentioned, financial risk tolerance and determinants of financial risk tolerance have been examined in a large number of studies still today (Moreschi,

2005). The most frequent tested variables to determine their relationship with financial risk tolerance are gender, age, and marital status, number of dependents, income, wealth, education, and financial literacy (Faff et al., 2009; Gibson et al., 2013; Grable and Lyton, 1999). Although there have been numerous studies in the field of financial risk tolerance and its determinants, different researches are not concluded with the same results, hence there is a lack of consensus on this issue (Mishra & Mishra, 2016). Some studies related to determinants of financial risk tolerance are as follows: To understand better the determinants of financial risk tolerance, Irwin (1993) suggested the bio psychosocial and environmental factors which can have an influence on risk tolerance. Bio psychosocial factors over which the person has little or no control, for instance age, gender, personality traits and ethnicity and also environmental factors which are the factors such as socioeconomic status and family status were tested in Grable and Joo's (2004) study, based on Irwin's risk taking behavioral model. According to their study's results, education level, marital status, financial knowledge and household income that are parts of environmental factors and self-esteem that is one of the bio psychosocial factors are prominent characteristics which determine financial risk tolerance of the person. The relationship between bio psychosocial factors and financial risk tolerance was less discovered area as compared to demographic factors (Kannadhasan et al., 2016), so because of this reason, this study has an important place in the literature. In another study which investigated effects of demographic characteristics of individual investors on financial risk tolerance, it was found that both marital status and education level were associated with financial risk tolerance and gender variable was independent from it. Moreover, while there was a low positive correlation between age and financial risk tolerance, correlation between annual income and financial risk tolerance of individual investors was observed significantly positive (Sulaiman, 2012). Wong (2011), compared three countries that comprise Australia United Kingdom and the United States in terms of financial risk tolerances and demographic factors. The study indicates that as education and income level increase, financial risk tolerance increases, as well. In contrast, risk tolerance diminishes with the age, being female and being married. Besides these, as a result of the comparison, countries whose citizens risk tolerance levels from the highest to the lowest are Australia, the United States and finally the United Kingdom. Sung and Hanna (1997) also, found that female-headed families are less risk tolerant than male-headed families or

married ones. In addition, they concluded that gender, marital status, education level and being in different ethnic group can differentiate people in risk perception.

In the context of Sweden, Irandoust (2017) presumed to shed light on financial risk tolerance determinants of Swedish people. The research's conclusion indicates that marital status, family size, age, income, gender, financial literacy, financial stability, portfolio structure and education variables have an effect on risk seeking behavior of the person. Apart from marital status, age and dependents, other demographic determinants are positively associated with the financial risk tolerance according to this study. Nguyen et al. (2017) also examined the relationship between some demographic variables and risk tolerance of investors. While gender and income variables are associated with risk tolerance positively; age, marital status and education variables did not have the relationship with risk tolerance. According to Chavali and Mohanraj (2016), there is a gap between individual's perceived return and actual return, and this gap leads to failure in obtaining higher returns. The study says that financial risk tolerance of individuals has an impact on their decision-making process. Especially gender variable and then occupation variable have influence on risk tolerance and perception of individuals.

2.2 Empirical Review

Aisjah et al. (2024) examined on the interaction of emotional intelligence and financial literacy on investment decisions: a mediation study of risk tolerance and risk perception. In recent years, discussions about investments in financial assets have gained traction among younger generations, particularly with the surge in individual investors. This shift is evident in the increasing number of Single Investor Identification (SID) holders. A significant focus of research has been to understand the factors influencing investment decisions, specifically how financial literacy and emotional intelligence play a role in shaping these decisions, both directly and indirectly. This study investigates the effects of these two factors, with particular emphasis on the mediating role of risk perception and risk tolerance in influencing investment choices. The study adopts a quantitative approach, targeting Generation Z individuals in East Java, which has a population of 11,933,122. A purposive sampling technique was used to select participants, ensuring the inclusion of individuals who meet the following criteria: they reside in East Java, are between 18 to 24 years old,

possess an SID, and have prior experience in capital market investments. The final sample size comprises 500 respondents, calculated using Slovin's formula. Data were gathered through online surveys, and the analysis was performed using Structural Equation Modeling (SEM) with Partial Least Squares (PLS) for data interpretation. Results indicate that financial literacy significantly influences investment decisions, risk perception, and risk tolerance. Notably, risk perception was found to have a direct and significant impact on investment decisions. However, neither risk perception nor risk tolerance mediated the relationship between financial literacy and investment decisions. In contrast, emotional intelligence was shown to positively and significantly affect both investment decisions and risk tolerance, with risk tolerance serving as a mediator between emotional intelligence and investment choices. Furthermore, risk perception was found to mediate the relationship between emotional intelligence and investment decisions. This research suggests that financial education programs should not only focus on enhancing financial literacy but also incorporate emotional intelligence development, especially for younger investors from Generation Z. Policymakers and financial institutions are encouraged to integrate emotional intelligence training alongside risk management strategies into their educational initiatives. The findings underline the importance of understanding the psychological dimensions of investment behavior, which can improve decision-making and foster more sustainable investment practices.

Hemrajani et al. (2024) explored on the influence of psychological traits specifically emotional intelligence and impulsiveness on financial risk tolerance (FRT) and financial risk-taking behavior (FRB) among individual investors. It also examines the mediating role of FRT in the relationship between these psychological characteristics and risk-taking actions. Data for the research were gathered using a structured questionnaire, yielding 303 valid responses. The proposed conceptual model was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results demonstrate that both emotional intelligence and impulsivity significantly impact investors' willingness to tolerate risk and their propensity to engage in risk-taking financial behaviors. Furthermore, the findings validate the mediating role of FRT, indicating that it serves as a bridge linking psychological factors to actual investment behaviors. These insights highlight the complex nature of FRT, which encompasses more than just psychological inputs. Given this complexity, the study

recommends future research to explore additional variables that may further clarify the variations in individual risk tolerance, which can be particularly useful for financial advisors in tailoring investment strategies.

Lamichhane and Simkhada (2024) explored how psychological factors, specifically risk tolerance and overconfidence, influence individual investment decisions in the stock market. The objective is to analyze how these behavioral traits affect financial choices in a dynamic market environment. The research employs both descriptive and causal (regression-based) research designs, grounded in behavioral finance theories. Primary data were collected through structured questionnaires administered to retail investors in Nepal. In the analytical framework, investment decision-making is treated as the dependent variable, while risk tolerance and overconfidence serve as the independent (explanatory) variables. The correlation analysis reveals a positive relationship between the explanatory variables and investment decisions. Furthermore, the regression results indicate that both risk tolerance and overconfidence significantly influence investor behavior in the Nepalese stock market. The findings underscore the importance of considering psychological traits when aiming to enhance investor outcomes. The study offers practical implications for regulators, policymakers, financial advisors, and market participants, suggesting that strengthening awareness around investor psychology can improve investment strategies and market stability.

Tsai et al. (2024) analyzed on psychological dynamics of unit-linked insurance product decision-making: A cognitive model. Investment and insurance have become essential topics in financial management, particularly in the context of inflationary pressures. Unit-Linked Insurance Plans (ULIPs), which combine market-linked investment opportunities with life insurance coverage, trigger unique psychological processes that have not been sufficiently explored. To fill this gap, this study develops a cognitive model to understand decision-making in purchasing ULIPs. Using structural equation modeling, the study manipulated information related to ULIP features, such as performance and dividends, and assessed how these factors influence participants' perceptions, cognitive evaluations, emotional states, and investment willingness through a bottom-up pathway. Additionally, the study examined the role of individual traits like risk tolerance in influencing decision-making through a top-

down pathway. The results reveal that positive perceptions of ULIP performance and dividends enhance cognitive assessments and positive emotions, thereby increasing investment willingness. In contrast, individuals with higher risk tolerance demonstrated more negative perceptions, evaluations, and emotions towards ULIPs, which hindered their investment intention. These findings highlight the importance of understanding the interplay between product characteristics and individual risk tolerance in shaping financial decisions. The study provides valuable insights into the psychological mechanisms behind ULIP investment decisions, offering implications for improving decision-making processes and financial product design. This research contributes to the understanding of financial decision-making by developing a cognitive model that elucidates the psychological factors influencing investment choices, particularly in the context of Unit-Linked Insurance Plans (ULIPs). The study reveals that perceptions of product performance and dividends positively impact cognitive evaluations and emotions, which, in turn, enhance the likelihood of investment. Conversely, individuals with higher risk tolerance tend to view ULIPs more critically, reducing their emotional engagement and investment intent. The findings offer actionable insights for insurance companies, providing them with evidence-based strategies to better understand investor behavior and tailor financial products and marketing approaches to align with investor psychology. This model ultimately supports the personalization of financial product development and enhances the efficiency of marketing strategies.

Verma and Khanna (2024) analyzed on the influence of emotions and social value orientation on risk tolerance and sustainable investment choices. Investment decision-making has grown increasingly complex due to the uncertainty inherent in financial markets. This study explores the influence of social value orientation (SVO), emotional instability (EI), and demographic variables on individuals' financial risk tolerance (FRT). It also examines how SVO and EI affect the adoption of socially responsible investment (SRI) products and the diversity of investment preferences among retail investors. Data were gathered from a sample of 355 Indian retail investors through a structured questionnaire using a convenience sampling approach. The responses were analyzed using binary logistic regression and chi-square tests, utilizing SPSS version 26. The findings indicate that SVO, emotional instability, age, gender, and marital status significantly predict financial risk tolerance. Importantly,

investors with a pro-social orientation were more inclined to invest in SRI funds compared to self-oriented individuals. This study contributes to the behavioral finance literature by introducing SVO as a novel variable influencing risk preferences. It provides meaningful insight into how investors' emotional traits and value systems shape their investment behavior. In addition, the study highlights the growing relevance of sustainable investing, aligning with the broader global emphasis on Sustainable Development Goals (SDGs) through ethical financial practices.

Gautam (2023) identified the key factors influencing investor risk tolerance within the context of Nepal. Utilizing both descriptive and causal-comparative research designs, the research gathered da.ta through the distribution of 100 questionnaires to investors active in the Nepal Stock Exchange (NEPSE) within the Kathmandu Valley, out of which 70 valid responses were analyzed. The results indicate that demographic factors such as age, gender, education level, and monthly income, along with cultural dimensions like uncertainty avoidance and power distance, significantly influence the level of risk investors are willing to take. The study highlights that younger investors exhibit greater risk tolerance, suggesting that targeted education and training could enhance their participation and contribute to overall market stability. Furthermore, it emphasizes that Nepal’s high levels of power distance and uncertainty avoidance shape investment decisions, as many investors rely on the advice of senior figures even when engaging in high-risk investments. This study offers valuable insights by combining demographic and cultural factors to explain investor behavior in Nepal, and it suggests that educational initiatives focused on responsible investing such as ESG (Environmental, Social, and Governance) principles could be beneficial in strengthening investor confidence and long-term market performance.

Sutejo et al. (2023) examined on the influence the investment decisions of generation Z Surabaya investors in the covid-19 pandemic era, financial risk tolerance play a moderating role. This research explores how emotional states both positive and negative influence the investment decisions of young investors during the COVID-19 pandemic, with a particular focus on the mediating role of financial risk tolerance. The study distinguishes between positive emotions (such as happiness and hope) and negative emotions (such as fear, sadness, and anger) as exogenous variables, while investment decision-making is treated as the endogenous variable. Financial risk

tolerance is evaluated as a potential mediator in these relationships. Data were gathered via a structured questionnaire distributed to 180 Generation Z investors based in Surabaya, Indonesia. Responses were measured using a 5-point Likert scale. The analytical method employed was Structural Equation Modeling (SEM) to assess the hypothesized relationships between the constructs. Findings reveal that positive emotions significantly influence investment behavior, with financial risk tolerance acting as a mediating variable in this relationship. Conversely, the influence of negative emotions on investment decisions was found to be statistically insignificant, and the mediating role of financial risk tolerance in this context remains ambiguous. From a practical standpoint, the research highlights the need for young investors to develop emotional regulation strategies, especially in times of crisis such as the COVID-19 pandemic, as emotional states can have a notable impact on financial decision-making. The study contributes uniquely to the literature by examining the emotional dynamics of investing during a global health crisis and supports theoretical frameworks such as Emotional Intelligence Theory and Dual-Process Theory.

Mubaraq et al. (2021) investigated the impact of financial knowledge and risk tolerance on investment decision-making among investors in Indonesia. Utilizing a survey-based approach, data were collected using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The study focused on investors who had participated in the Capital Market School organized by the Indonesian Stock Exchange's West Nusa Tenggara Representative Office and held a Single Investor Identification (SID). A total of 110 respondents were selected using the Slovin formula for sample size determination. The data were analyzed using multiple linear regressions to assess the relationships between financial knowledge, risk tolerance, and investment decision-making. The findings indicate that both financial knowledge and risk tolerance significantly influence investment decisions. These results suggest that enhancing investors' financial literacy and understanding of their risk tolerance profiles can lead to more informed and effective investment choices in the capital market.

Lucarelli et al. (2019) investigated how accurately individuals assess their own financial risk tolerance by comparing subjective self-assessments to behavior observed in experimental settings. Using a laboratory-based financial decision-

making simulation involving 445 participants, the research derives an ex-post experimental measure of actual risk tolerance. To evaluate the reliability of risk assessment tools, the study compares the predictive performance of two methods: a traditional psychometric questionnaire and a physiological approach that measures somatic responses. The results reveal substantial misclassification in the psychometric self-assessments many participants exhibit behaviors that contradict their self-identified risk profiles, such as acting risk-seeking while claiming to be risk-averse, or vice versa. In contrast, the physiological method significantly reduces misclassification, suggesting a closer alignment between emotional arousal and actual risk-taking behavior. These findings highlight the crucial role of emotional processes in financial decision-making and underscore the limitations of self-reported risk tolerance tools. Enhancing assessment methods with physiological indicators may lead to more accurate predictions of investor behavior and better risk profiling in financial advisory contexts.

Baruah and Parikh (2018) analyzed on the investor's risk tolerance is crucial in the field of personal financial planning, especially in the 21st century where investment decisions have become increasingly complex. The study highlights the importance of comprehending not only an investor's financial risk tolerance but also the role of demographic factors in shaping investment decisions. Financial advisors, fund managers, and investment firms must consider these variables to effectively tailor investment products and strategies. The research emphasizes that investment decisions are influenced by varying types of risk tolerance, including investment risk tolerance, capital risk tolerance, and speculative risk tolerance. For instance, an individual might exhibit a high tolerance for calculated, well-researched investments, but display low tolerance when it comes to high-risk, speculative ventures. In response to this complexity, the authors propose a comprehensive model that integrates these multiple dimensions of risk tolerance along with six key demographic variables to better predict investment behavior particularly the level of investment an individual is likely to commit. The study contributes valuable insights for financial institutions aiming to align their offerings with the unique profiles of investors. By jointly assessing risk tolerance and demographic characteristics, firms can design more effective marketing strategies and investment solutions tailored to diverse investor needs and preferences.

Huner (2016) examined on effects of anger and anxiety traits on financial risk tolerance of novices and experts. Anger and anxiety have long been focal points in the field of behavioral decision-making, particularly in the context of how these emotions influence risk-related choices. Prior research has consistently shown that these two emotional traits, whether experienced temporarily (state) or consistently over time (trait), tend to exert opposing effects on individuals' willingness to take risks. This study investigates how trait anger and trait anxiety impact financial risk tolerance, with attention given to differences between novice and experienced individuals. Using hierarchical linear regression analysis, the research found that higher levels of dispositional anger were significantly associated with greater financial risk tolerance. Conversely, dispositional anxiety exhibited a negative relationship with financial risk tolerance, but this effect was only significant within the student sample. In contrast, the second group, composed of bank employees, did not yield statistically significant results, limiting the generalizability of findings in professional contexts. These results suggest that stable emotional traits, particularly anger and anxiety, may play a substantial role in shaping financial risk preferences especially among those with less investment experience. The study highlights the importance of considering emotional dispositions in financial decision-making frameworks, particularly for educational and advisory interventions aimed at novice investors.

Chavali and Mohanraj (2016) examined on the demographic factors influence individual investment decisions and their level of financial risk tolerance. Utilizing the Financial Risk Tolerance Scale developed by Grable and Lytton, the study assesses various dimensions of risk behavior among investors. The analysis incorporates Kendall’s W test to identify preferred investment avenues and employs the Chi-square test to explore the relationship between demographic variables such as gender, age, and income and investment patterns. Findings indicate that gender significantly affects investment behavior and decision-making, suggesting that men and women may exhibit differing levels of risk tolerance and preferences for financial instruments. These insights contribute to a deeper understanding of personal finance behavior and support the development of tailored financial advisory services based on demographic profiles.

Nguyen et al. (2016) examined on financial advisory services, understanding a client's financial risk tolerance is essential for delivering suitable and effective investment recommendations. While existing literature has extensively explored risk tolerance and decision-making, limited research has focused specifically on how financial risk tolerance shapes investor behavior within the financial advice setting. It is examining the influence of financial risk tolerance on investment decisions, considering key determinants such as financial literacy, trust in financial advisors, and the length of the client-advisor relationship. Using a sample of 538 clients of financial advisory services in Australia, the researchers developed and tested a new theoretical model. The findings show a positive correlation between an investor's risk tolerance and their investment decision-making. Additionally, the results suggest that higher levels of trust in advisors and longer relationships are associated with increased financial literacyand risk tolerance. These insights contribute to a more nuanced understanding of investor behavior in advisory contexts and highlight the importance of fostering strong, informed, and trust-based client relationships. The study offers valuable implications for financial advisors aiming to tailor advice that aligns with clients' risk profiles and improves investment outcomes.

Table 1

Summary of Empirical Review

Authors & Date	Topics	Methodology	Findings
Aisjah et al. (2024)	Financial literacy, emotional intelligence, and their effects on investment	Survey conducted among 500 Gen Z investors in East Java; SEM-PLS used for analysis	Financial literacy and emotional intelligence directly influence investment decisions; risk tolerance and perception partially mediate these effects
Hemrajani, Rajni & Dhiman (2024)	Emotional and behavioral traits in financial decision-making	Survey with 303 investors; analyzed through PLS-SEM	Emotional intelligence and impulsiveness both significantly affect FRT and FRB; FRT mediates these relationships

Lamichhane & Simkhada (2024)	Risk Tolerance, Overconfidence, and Investment Decisions	Questionnaire-based survey; regression and correlation analysis	Both risk tolerance and overconfidence positively impact investment decisions
Tsai et al. (2024)	Psychological factors in ULIP investment decisions	Structural Equation Modeling (SEM); data collected based on manipulated ULIP product information (performance/dividends) and assessed emotional and cognitive responses among participants	Investment willingness increases when positive perceptions and emotions are influenced by product performance; risk tolerance moderates the evaluation negatively
Verma & Khanna (2024)	Emotional and social orientation's effect on risk tolerance and sustainable investing	Survey of 355 retail investors in India; data analyzed using binary logistic regression and chi-square tests	SVO and emotional instability significantly affect risk tolerance; pro-social investors prefer sustainable funds over self-oriented investors
Gautam (2023)	Factors Influencing Risk Tolerance in Nepal	Descriptive and causal-comparative design; 70 usable questionnaires from NEPSE investors	Age, gender, education, and cultural aspects significantly affect risk tolerance
Sutejo et al. (2023)	Emotional influences on investment behavior during the COVID-19 pandemic	Questionnaire-based survey of 180 respondents in Surabaya; SEM was used for analysis	Positive emotions, through risk tolerance, influence investment decisions; negative emotions do not significantly affect decision-making
Mubaraq, Anshori & Trihatmoko (2021)	Financial Knowledge, Risk Tolerance, and Investment	Survey of 110 investors; Likert scale and multiple regression analysis	Financial literacy and risk tolerance significantly affect investment

			choices
Lucarelli, Uberti & Brighetti (2019)	Misjudgment in self-assessed risk tolerance	Experimental study with 445 participants; psychometric questionnaires compared with physiological (somatic) responses	Self-assessment often misclassifies risk behavior; physiological indicators are more reliable in predicting actual risk-taking tendencies
Baruah & Parikh (2018)	Risk Tolerance and Demographics in Investment	Model-based study using extensive literature and empirical validation	Investment levels depend on types of risk tolerance and demographic factors
Chavali & Mohanraj (2016)	Demographics and Risk Tolerance on Investment Decisions	Used Grable & Lytton's scale; Kendall's W and Chi-square tests	Gender significantly influences investment decisions
Huner (2016)	Influence of anger and anxiety on financial risk behavior	Hierarchical regression analysis; data gathered from two groups—students and bank employees	Anger increases willingness to take financial risks; anxiety reduces risk tolerance among students, but has no significant effect in professionals
Nguyen, Gallery & Newton (2016)	Risk Tolerance in Financial Advice Context	Survey of 538 Australian clients; theoretical modeling and hypothesis testing	Financial literacy and trust enhance risk tolerance, which influences investment decisions

2.3 Research Gap

Although numerous studies have explored the relationship between risk tolerance and financial investment behavior in various international contexts, there remains a significant gap in understanding how these factors interact specifically within the Nepalese banking sector. Most of the existing literature has focused on developed markets, where investor behavior is shaped by well-established financial systems and high levels of financial literacy. In contrast, limited empirical research has been

conducted in developing countries like Nepal, where investment culture, risk perception, and access to financial instruments differ substantially. Moreover, studies conducted in Nepal have largely emphasized stock market participants or mutual fund investors, neglecting the broader population of commercial bank customers who constitute a significant portion of the country's financially active citizens. These customers frequently engage in investment decisions related to savings accounts, fixed deposits, insurance products, and other banking instruments, yet their risk preferences and decision-making processes remain underexplored. Furthermore, very few studies have utilized primary data collected directly from commercial bank customers in Nepal. This lack of first-hand evidence limits the applicability of findings and the development of practical strategies for financial institutions. Therefore, this study addresses a clear research gap by focusing on:

- Customers of Nepalese commercial banks,
- Analyzing how income, financial risk tolerance, capital risk tolerance and speculative risk tolerance influence financial investment decisions using primary data.

By addressing these gaps, the present research contributes to the growing body of behavioral finance literature and provides valuable implications for financial advisors, educators, and policymakers aiming to improve financial decision-making and risk management strategies.

CHAPTER III
RESEARCH METHODOLOGY

This chapter deals with the methodology that adopted in analysis of the data for the study. The population and sample, sources and data collection technique, data analysis tool, the hypothesis to be tested and various limitations which are associated with the study have been discussed in this chapter.

3.1 Research Design

This study employs a descriptive and causal-comparative research design to investigate the relationship between income, financial risk tolerance, capital risk tolerance, speculative risk tolerance and financial investment decisions. This study adopts a quantitative, descriptive, and analytical research design to examine the relationship between risk tolerance and financial investment decisions among customers of Nepalese commercial banks. The purpose of this design is to provide a structured and objective analysis of how individuals' risk tolerance influences their investment behavior in the context of Nepal's financial sector. A descriptive research design has been used to describe the characteristics of respondents in terms of demographic variables such as age, gender, marital status, qualification, occupation and investment experience. It helps in understanding the current status of risk tolerance and investment preferences among bank customers. An analytical or causal-comparative design is also applied to analyze the effect of independent variables (such income, financial risk tolerance, capital risk tolerance and speculative risk tolerance) on the dependent variable (financial investment decision). This design enables the researcher to conclusions about the influence of various factors on investment behavior. The study is based on primary data, which was gathered directly from 400 respondents who are customers of different commercial banks in Nepal. A structured questionnaire was used as the main data collection instrument, including Likert scale questions to measure levels of risk tolerance and investment behavior. For data analysis, statistical tools such as descriptive statistics, correlation analysis, and multiple regression analysis were used with the help of SPSS software. These tools helped to analyze patterns and interpret the results in line with the study's objectives.

3.2 Population, Sample and Sampling Design

The population for this study includes all twenty commercial banks currently operating in Nepal, as licensed by the central bank over the past decade. However, to ensure the study's feasibility and focus, a sample of customer of three commercial banks has been selected for detailed analysis. These banks are Everest Bank Limited, Nabil Bank Limited, and Rastriya Banijya Bank Limited. From these institutions, a total of 400 customers were chosen as the sample size for the study.

The research employed a convenience sampling method, which was selected due to practical considerations such as time limitations, accessibility to respondents, and the availability of financial information. These three banks were specifically chosen because they are among the most prominent in Nepal's banking sector and represent a balance between private and government-owned institutions. This sampling approach allows for efficient data collection while still generating meaningful insights into how emotional factors influence financial risk tolerance among bank customers.

3.3 Types and Sources of Data

In this study, primary data has been exclusively used to collect relevant information regarding the income, financial risk tolerance, capital risk tolerance and speculative risk tolerance influencing financial investment decisions among customers of selected commercial banks. The data was gathered directly from customers of Nabil Bank Limited, Everest Bank Limited, and Rastriya Banijya Bank Limited through the distribution of structured questionnaires. These questionnaires were designed to capture customer perceptions, and financial risk preferences. Since the data was collected firsthand specifically for this research purpose, it is original in nature and has not been previously published or processed. No secondary data sources were used in this study, ensuring that all insights are derived directly from the target population.

3.4 Data Presentation Tools and Techniques

The data collected from the respondents through questionnaire were tabulated and analyzed with the help of SPSS. Consistent and reliable research indicates that the research conducted by using appropriate data collection instruments which increases the credibility and value of research findings. Since the data are collected by

researcher himself or his agent, the validity and reliability of such report tends to be high.

3.5 Data Analysis Tools

Statistical tools such as Mean, standard deviation, correlation, regression, risk index and T-test model is applied to analyze the data collected from questionnaire. Based on risk index, T-test and regression outputs the research hypotheses were tested. In order to get concrete result from this study, data are analyzed by using different type of financial and statistical tools. As per topic requirement, data collected from asking participants through questionnaire is analyzed. The analysis of data is done according to the pattern of available data. The descriptions of statistical tools are as follows:

3.5.1 Statistical Tools

Statistical tools are the mathematical techniques used to analyze and interpret performance. It is used to describe the relationship between variables and interpret the result.

a) Descriptive Statistics

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes i.e. the largest and the smallest item. For this reason, an average is frequently referred to as a measure of central tendency. In this study it is used in data related to dividend of sample banks over ten years.

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. The standard deviation is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. It simple term high standard deviation means very less similarity in the values and low standard deviation means high similarity among the values. It is calculated for selected dependent and independent variable specified. It is the positive square root of mean squared deviation from the arithmetic mean.

Coefficient of Variation measures the relative dispersion and denoted by CV. It is used in such problems where we want to compare the variability of two or more series. The series for which the coefficient of variation is greater is said to be more variables and conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, that series for which the coefficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. It is obtained by dividing by the arithmetic mean to standard deviation.

Correlation coefficient is a statistical tool that can be used to describe the degree to which one variable is linearly related to another. Correlation coefficient measures the direction of relationship between two set of figures. Correlation can either be positive or it can be negative. If both variables are changing in the same direction, then correlation is said to be positive but when the variations in the two variables take place in the opposite direction the correlation is termed as negative. For the purpose of decision making, interpretation is based on following term:

Multiple regression analysis is a statistical method used to examine the relationship between a dependent variable and two or more independent variables. This technique is an extension of simple regression analysis, where only one independent variable is considered. By incorporating multiple predictors, the model can provide a more comprehensive understanding of how various factors contribute to changes in the dependent variable. This enables more precise predictions and insights into the interactions between the different variables. In this study, before using the multiple regression models, it is important to understand its structure. Therefore, the proposed model for the study is given below:

$ID = a + b_1I + b_2IRT + b_3CRT + b_4SRT + e$

Where,

a = intercept or constant

b_1, b_2, b_3, and b_4 = regression coefficient or slope

ID= Investment Decision

I= Income

IRT= Investment Risk Tolerance

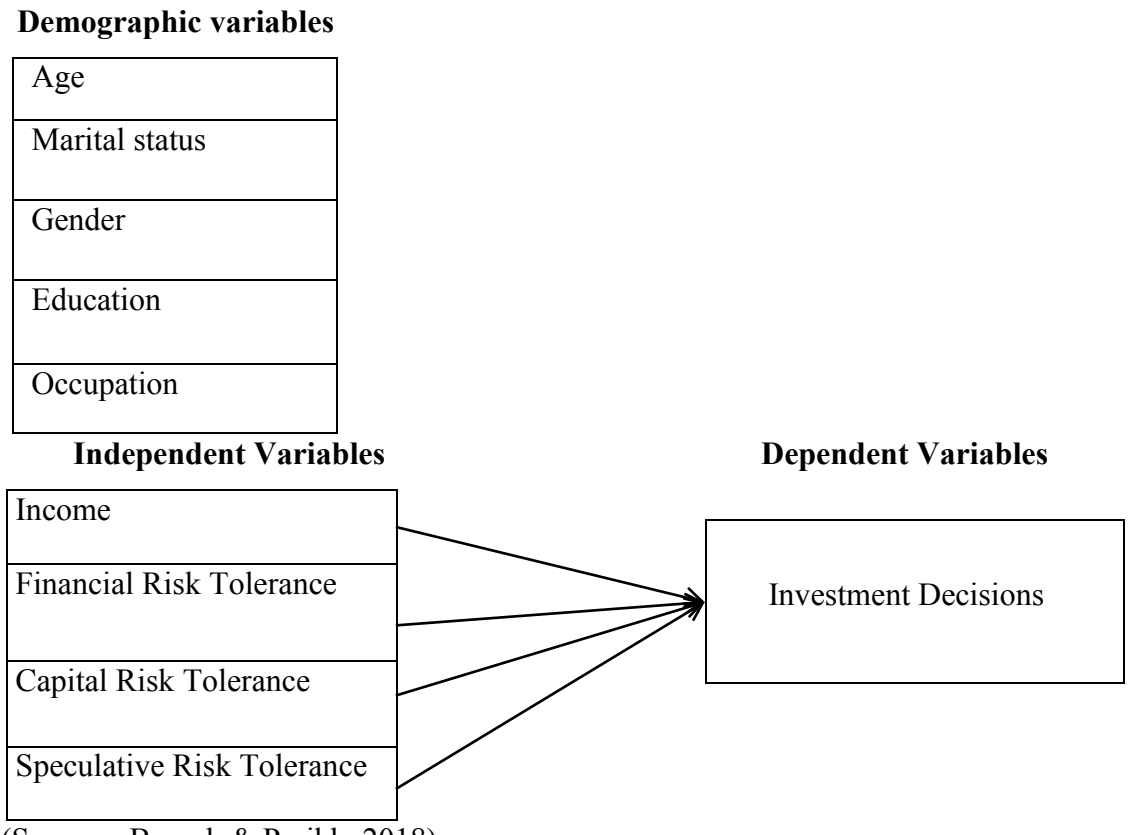
CRT= Capital Risk Tolerance

SRT= Speculative Risk Tolerance

Here, ID is a dependent variable and I, IRT, CRT and SRT are independent variable. In this research, the multiple regression models will be employed to assess how various indicators affect the level of investment (Investment decision) in the customer of Nepalese banks. The aim is to identify which of these factors have the most significant impact on investment decision, providing a better understanding of how they interact and contribute to changes in market.

3.6 Research Framework and Definition of Variables

The research framework is designed to understand the influence of emotions of financial risk tolerance of customers of commercial banks. In view of theories and major empirical evidence, it is expected that the risk tolerance of customers of commercial banks may be influenced by demographic factors, and financial risk tolerances. The research framework is developed to test the effects of these variables on the influences of emotions on financial risk tolerances of selected customers of commercial banks of Nepal.



(Sources: Baruah & Parikh, 2018)

Figure 1: Research Framework

Figure 1 provides the framework provides the foundation upon which the study is based. With respect to the conceptual framework as represented in the figure, the paper highlights the significance of demographic variables like age, gender, education, monthly income, as well as aspects related to cultural traits such as uncertainty avoidance and power distance. Hence, this research is focused on investigating how an investor's risk tolerance is affected by both demographic and cultural factors.

In the context of this study, demographic variables such as age, marital status, gender, education, profession, and income are considered independent variables. These factors are used to examine their potential influence on investment decisions, which is the dependent variable.

Interpretation of Variables

Demographic Variables

Age: Age often plays a critical role in shaping investment decisions. Younger individuals may prefer riskier investments with higher potential returns, while older individuals might prioritize more stable, lower-risk options as they near retirement (Baruah & Parikh, 2018).

Marital Status: A person's marital status can affect investment behavior, as married individuals may prioritize long-term financial security, while single individuals may take more speculative risks (Baruah & Parikh, 2018).

Gender: Gender differences might influence risk-taking behavior, with studies often suggesting that men may have higher levels of risk tolerance compared to women. However, this can vary depending on cultural and personal factors (Baruah & Parikh, 2018).

Education: A higher level of education is frequently associated with greater financial literacy, which could lead to more informed and potentially more aggressive investment decisions (Baruah & Parikh, 2018).

Occupation: Occupation is one of the key socioeconomic variables affecting and individual's investment preferences and risk appetite. People in high income or finance related occupations are often more inclined toward equity investment, while those in lower income or unstable jobs may prefer conservative options (Pompain, M.M.2006)

Independent variables

Income: Higher income levels may provide individuals with more disposable income to invest, potentially influencing the variety and risk profile of their investment choices (Baruah & Parikh, 2018).

Financial Risk Tolerance

Investment Risk Tolerance: This refers to an individual's willingness to accept potential financial losses in pursuit of higher returns. Those with a high investment risk tolerance may engage in more volatile or speculative investments (Baruah & Parikh, 2018).

Capital Risk Tolerance: This measures an individual's comfort level with the possibility of losing a portion or all of their capital in investment endeavors. Those with a high capital risk tolerance may be more likely to invest in high-risk assets like startups or emerging markets (Baruah & Parikh, 2018).

Speculative Risk Tolerance: This reflects the extent to which an individual is willing to take high-risk, high-reward investment opportunities, such as stocks, crypto currencies, or other speculative assets (Baruah & Parikh, 2018).

3. Investment Decision (Dependent Variable):

Investment Decisions: Investment decisions are the outcomes being analyzed in this study. These decisions are influenced by a combination of demographic characteristics and financial risk tolerance. Understanding how these independent variables (e.g., age, income, education) and risk tolerances (e.g., investment, capital, speculative) affect investment choices can provide valuable insights into consumer behavior and financial decision-making (Baruah & Parikh, 2018).

The study explores how demographic characteristics and various forms of financial risk tolerance interact to shape an individual's investment choices. By understanding these relationships, financial advisors and institutions can better tailor their services to meet the unique needs and preferences of different groups of investors.

CHAPTER IV
RESULT AND DISCUSSION

The chapter analysis the all data collected through the questionnaires at the end of the dissertations. And the results are discussed with previous scholars which findings are interpreted at empirical review and this study finding.

This section depicts the results of the analysis carried out to meet the study's objectives. The section shows the results of the model, descriptive statistics, distribution of the data, and the diagnostic statistics of the model. As mentioned in the methodology section, the level of financial risk tolerance is measured by the aggregate score of the 13-item risk tolerance instrument developed by Grable and Lytton (1999). Descriptive statistics depict the picture of the data. The descriptive statistics of the variables used in the model include mean, median, standard deviation, minimum value, maximum value, number of observations, and percentage. The descriptive statistics are provided in Table 3, which offers an overview of the demographic characteristics of respondents.

4.1 Results

The analysis done on the basis of information collected from questionnaire has following results:

4.1.1 Demographic Characteristics of the respondents

The demographic variables play important role in the study. Here the researcher explores the respondent qualification, age, profession, earning per month, marital status and gender. The total respondents of the study are 400 from among the customers of banking sector were surveyed for this research.

Table 2

Demographic Variables

S.N.	Demographic Variables	Statements	Frequency	Percentage
1	Age	25 and Below	23	5.75
		26-35 Years	42	10.5
		36-45 Years	193	48.25
		Above 45	142	35.5
		Total	400	100
2	Marital Status	Married	189	47.25
		Unmarried	211	52.75
		Total	400	100
3	Gender	Male	203	50.75
		Female	197	49.25
		Total	400	100
4	Education	Upto SLC/SEE	17	4.25
		PCL/+2	88	22
		Bachelor Degree	233	58.25
		Master Degree or higher	62	15.5
		Total	400	100
5	Occupation	Private Sector Employee	88	22
		Government Employee	47	11.75
		Business Owner	38	9.5
		Housewife	113	28.25
		Farmer	12	3
		Unemployed/ Others	102	25.5
		Total	400	100
6	Income (Monthly)	Below Rs 10000	17	4.25
		Rs 10001 – Rs 30000	172	43
		Rs 30001 – Rs 50000	118	29.5
		Above Rs 50000	93	23.25
		Total	400	100

Source: questionnaire survey,2025

Table 2 shows that the demographic analysis of the respondents provides valuable insights into the composition of customers of Nepal's banking sector who actively involved in making investment decisions. Out of the total 400 respondents, 189 respondents are married, and the remaining 211 are unmarried, indicating that 47.25% of respondents in our sample are married. Regarding gender, there are 203 male respondents and 197 female respondents; female respondents represent 49.25% of the sample.

Analyzing the age distribution, 5.75% are aged below 25 years, 10.5% are aged 26 to 35 years, 48.25% are aged 36 to 45 years, and 35.5% are aged above 45 years. This indicates that a relatively even distribution among the younger and middle-aged

groups, with a smaller representation of those aged below 25. As for educational level, 4.25% of the respondents are up to SLC/SEE, 22% have completed PCL/+2 graduates, 58.25% have bachelor degree and 15.5% have master's degree and above. This indicates that the majority of the respondents in the study is college graduates and educated. Regarding their profession, the largest group was housewives, making up 113 respondents (28.25%) of the total sample. This was followed by individuals who were unemployed or engaged in other unspecified occupations, totaling 102 respondents (25.5%). The private sector had 88 respondents (22%), making it the third largest group. There were 47 government employees (11.8%), 38 business owners (9.5%) and 12 farmers (3%) 4.25 % of respondents have earnings below Rs. 10,000.00, 43% have earnings between Rs. 10,000.00 to Rs. 30,000.00, 29.5% have earnings between Rs. 30,000.00 to Rs. 50,000.00 and 23.25% of respondents have earnings greater than Rs. 50,000.00.

4.1.2 Descriptive Statistics of Financial Risk Tolerance

Descriptive statistics of Financial Risk Tolerance provide a summary of the data collected on individuals' willingness to take financial risks. These statistics help to understand the general trend, average risk tolerance, and how varied the responses are among participants.

Table 3

Financial Risk Tolerance

Variables	Mean	Median	Std. Deviation	Minimum	Maximum
FRT 1	3.85	4.00	1.09	2.0	5.0
FRT 2	3.15	3.50	1.35	1.0	5.0
FRT 3	4.00	4.00	0.86	3.0	5.0
FRT 4	3.60	3.00	1.10	2.0	5.0
FRT5	3.20	4.00	1.51	1.0	5.0

Source: Calculation by using SPSS of sampled data

Table 3 shows the average responses of participants to five questions about financial risk tolerance. The average scores (means) range from 3.15 to 4.00, which means most participants somewhat agree or agree with the statements about taking financial risks. The middle values (medians) are mostly around 3 to 4, showing that at least half of the respondents gave similar answers. The standard deviation numbers show some

differences in answers, meaning that while many participants think similarly about financial risk, some feel more comfortable with risk than others. The lowest scores (minimum) show that a few participants were less comfortable with risk, but the highest scores (maximum) were all 5, meaning some participants fully agree with taking risks.

Overall, this table tells us that people generally have a moderate level of comfort with financial risk, but there are different opinions within the group.

4.1.3 Descriptive Statistics of Capital Risk Tolerance

Descriptive statistics of Capital Risk Tolerance provide insight into how comfortable individuals are with risking their invested capital. . These statistics help to understand the general trend, average risk tolerance, and how varied the responses are among participants.

Table 4

Capital Risk Tolerance

Variables	Mean	Median	Std.Deviation	Minimum	Maximum
CRT 1	2.90	3.00	1.33	1.0	5.0
CRT 2	3.40	4.00	1.47	1.0	5.0
CRT 3	3.35	3.00	1.42	1.0	5.0
CRT 4	3.90	4.00	0.97	2.0	5.0
CRT5	3.30	4.00	1.45	1.0	5.0

Source: Calculation by using SPSS of sampled data

Table 4 shows average responses to five questions about capital risk tolerance. The average scores (means) range from 2.90 to 3.90, which means that participants have a moderate level of comfort with risks related to capital investment. The median scores mostly fall between 3 and 4, indicating that at least half of the respondents tend to agree or somewhat agree with the statements. The standard deviations, ranging from about 0.97 to 1.47, show that there is some variation in how comfortable participants feel about capital risk—some are more cautious, while others are more willing to take risks.

The minimum values (mostly 1 or 2) indicate that a few respondents are quite risk-averse, while the maximum scores of 5 across all items show that some participants are very comfortable taking capital risks. Overall, this suggests that the respondents

generally have a moderate attitude toward capital risk, with different levels of comfort within the group.

4.1.4 Descriptive Statistics of Speculative Risk Tolerance

Descriptive statistics of Speculative Risk Tolerance reflect individuals' willingness to engage in high-risk, high-return financial activities. These statistics help to understand the general trend, average risk tolerance, and how varied the responses are among participants.

Table 5

Speculative Risk Tolerance

Variables	Mean	Median	Std.Deviation	Minimum	Maximum
SRT 1	3.70	4.00	0.98	2.0	5.0
SRT 2	3.00	3.00	1.41	1.0	5.0
SRT 3	3.40	3.00	1.27	2.0	5.0
SRT 4	3.40	4.00	1.43	1.0	5.0

Source: Calculation by using SPSS of sampled data

Table 5 presents average responses to four questions about speculative risk tolerance. The mean scores range from 3.00 to 3.70, showing that participants have a moderate comfort level with speculative risks, such as investments that are more uncertain or risky. Median scores mostly fall between 3 and 4, meaning at least half of the respondents generally agree or somewhat agree with the statements. Standard deviation values, ranging from about 0.98 to 1.43, indicate moderate variation in responses. This means some respondents are more willing to take speculative risks, while others are more cautious.

The minimum scores (between 1 and 2) suggest that some participants are less comfortable with speculative risks, but the maximum scores of 5 across all items show that others fully accept or embrace such risks. In summary, the respondents show a moderate and balanced attitude toward speculative risk, with some variation reflecting different risk preferences.

4.1.5 Descriptive Statistics of Investment Decisions

Descriptive statistics of Investment Decisions reveal how actively individuals make choices regarding financial investments. These statistics help to understand the general trend, average investment decisions, and how varied the responses are among participants.

Table 6

Investment Decisions

Variables	Mean	Median	Std.Deviation	Minimum	Maximum
ID 1	3.45	4.00	0.94	2.0	5.0
ID 2	2.95	3.00	1.05	1.0	5.0
ID 3	2.95	3.00	1.05	1.0	5.0
ID 4	3.85	4.00	1.14	2.0	5.0

Source: Calculation by using SPSS of sampled data

Table 6 presents average responses to four questions about investment decisions. The average scores range from 2.95 to 3.85, indicating that participants tend to have a moderate level of agreement with statements related to making investment choices. Median scores are mostly around 3 to 4, showing that at least half of the respondents somewhat agree with the items. Standard deviations range from about 0.94 to 1.14, reflecting some differences in how participants view their investment decisions—some are more confident, others more cautious. Minimum values between 1 and 2 indicate that a few respondents are less confident or more conservative in their investment decisions, while maximum values of 5 show that others are fully confident. Overall, the results suggest that respondents generally have a moderate approach to investment decisions, with varying degrees of confidence and risk tolerance.

4.1.6 Descriptive Statistics of Weighted of FRT, CRT, SRT &ID

The weighted averages of risk tolerance variables and investment decisions provide an overall view of financial behavior

Table 7

Weighted of Descriptive Statistics

Variables	Mean	Median	Std.Deviation	Minimum	Maximum
Weighted of FRT	3.56	3.70	1.18	1.80	5
Weighted of CRT	3.37	3.60	1.33	1.20	5
Weighted of SRT	3.38	3.50	1.27	1.50	5
Weighted of ID	3.30	3.50	1.05	1.50	5

Source: Calculation by using SPSS of sampled data

Table 7 presents the weighted average descriptive statistics for four key constructs measured in this study Financial Risk Tolerance, Capital Risk Tolerance, Speculative Risk Tolerance and Investment Decision. Financial Risk Tolerance shows the highest mean score of 3.56 and a median of 3.70, indicating that respondents generally have a moderate to moderately high comfort level with taking financial risks. The standard deviation of 1.18 suggests moderate variability in responses, while the minimum and maximum values (1.80 and 5.00) show a range from some participants being risk-averse to others being fully comfortable with financial risk

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Capital Risk Tolerance has a mean of 3.37 and median of 3.60, slightly lower than financial risk tolerance. This implies that participants are moderately comfortable with risks related to capital investment. The higher standard deviation of 1.33 points to greater differences among respondents in their attitudes toward capital risk. The minimum value of 1.20 indicates that some respondents are quite cautious, while the maximum of 5.00 reflects others who are very open to taking capital risks.

Speculative Risk Tolerance shows a mean of 3.38 and median of 3.50, which suggests moderate acceptance of speculative or high-risk investments among respondents. The standard deviation of 1.27 again highlights diversity in the participants' risk preferences, with minimum and maximum values of 1.50 and 5.00, respectively, showing a wide range of comfort levels.

Investment Decision has the lowest mean score of 3.30 and median of 3.50, indicating a generally moderate approach to making investment decisions. The lower standard deviation of 1.05 compared to other constructs suggests slightly less variation in how respondents view their investment behaviors. The minimum and maximum values

(1.50 and 5.00) illustrate that some respondents are more conservative while others are fully confident in their decisions.

Overall, these results indicate that respondents tend to have moderate risk tolerance across all constructs, with some variation reflecting different individual attitudes toward financial risk and investment decisions.

4.1.7 Correlation analysis

A brief correlation analysis reveals the relationships between individuals' confidence in their investment abilities and their overall speculative risk tolerance. Respondents who agree that they possess better skills than others in selecting investment assets tend to show slightly higher confidence in their past performance and outcomes. However, this confidence does not strongly correlate with a belief in full control over investment results, as many still express doubts about controlling outcomes and current performance. The weak to moderate associations between self-assessed expertise and investment confidence suggest that while some overconfidence exists, it is not dominant across the group. This point to a generally cautious approach to risk, where personal belief in skill does not always translate into perceived control or certainty in investment outcomes.

Table 8

Correlation Influence of risk tolerance on Financial investment decisions

Variable	1	2	3	4	5
Income	1.00				
Financial Risk Tolerance	0.35**	1.00			
Capital Risk Tolerance	0.30**	0.41**	1.00		
Speculative Risk Tolerance	0.38**	0.47**	0.52**	1.00	
Investment Decisions	0.40**	0.49**	0.36**	0.43**	1.00

Source: Calculation by using SPSS of sampled data

** represents the correlation in significant at the 0.01 level ($p < 0.01$)

* represents the correlation in significant at the 0.05level ($p < 0.05$)

Table 7 presents the correlation analysis revealed significant positive relationship between income, different types of risk tolerance, and investment decision. Specifically, income was moderately correlated with investment decision ($r = 0.40$, p

< 0.01), suggesting that individuals with higher income levels tend to engage more actively in investment activities and the relationship is significant at 1% level of significance. This finding aligns with the general understanding that greater financial resources enable people to participate more confidently in investments. Among the risk tolerance variables, financial risk tolerance showed the strongest positive correlation with investment decision ($r = 0.49$, $p < 0.01$) and the relationship is significant at 1% level of significance. This indicates that respondents who are more comfortable with financial risks are more likely to make investment decisions. Similarly, speculative risk tolerance ($r = 0.43$, $p < 0.01$) and capital risk tolerance ($r = 0.36$, $p < 0.01$) also the relationship is significant at 1% level of significance. highlighting that a greater willingness to accept speculative and capital-related risks corresponds with increased investment behavior. Overall, these findings support the hypothesis that both income and various forms of risk tolerance are important factors influencing investment decisions. The positive correlations indicate that as individuals' income and risk tolerance increase, their likelihood and confidence in making investment decisions also increase.

4.1.8 Regression Analysis

The regression analysis was conducted to determine the extent to which demographic and psychological factors influence financial risk tolerance. The results show that age, gender, education, profession, and income are significant predictors of financial risk-taking behavior. Among these, profession and education had the strongest positive impact, indicating that individuals with higher educational qualifications and professional experience are more likely to tolerate financial risk. Income also showed a positive relationship, suggesting that as income levels increase, so does the willingness to take financial risks. However, speculative risk and capital risk had weaker effects in the model, implying that while these factors are related to investment behavior, they are not strong predictors of overall financial risk tolerance when other variables are considered. This analysis highlights the importance of demographic and socioeconomic characteristics in shaping an individual's approach to financial decision-making.

Table 9

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.(p-value)
0.65	0.42	0.41	0.62	71.45	<.001

a Predictors: (Constant) Income, Financial Risk Tolerance, Capital Risk Tolerance, Speculative Risk Tolerance

Source: Calculation by using SPSS of sampled data

Table 9 presents the model summary for the regression analysis examining the influence of various predictors on financial risk tolerance. The R value is 0.65, which indicates a strong positive correlation between the observed and predicted values of the dependent variable (investment decision). This means the combination of the four independent variables is strongly associated with how investment decisions are made. The R-squared (R^2) value is 0.42, which implies that 42% of the variance in investment decision can be explained by the four predictors included in the model. In other words, income and the three types of risk tolerance together account for 42% of the differences in respondents' investment decisions. The Adjusted R^2 is 0.41, which adjusts the R^2 value based on the number of predictors and sample size. This value confirms that the model remains a good fit even when accounting for the complexity of the model. The Standard Error of the Estimate (0.62) shows the average distance that the observed values fall from the regression line. A lower value indicates better accuracy of the prediction.

Table 10

Coefficient of Variance

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	1.20	0.25		4.80	<0.001
	Income	0.28	0.06	0.26	4.67	<0.001
	Financial Risk Tolerance	0.34	0.07	0.33	4.86	<0.001
	Capital Risk Tolerance	0.21	0.06	0.19	3.50	0.001
	Speculative Risk Tolerance	0.26	0.08	0.24	3.25	0.001

Source: Calculation by using SPSS of sampled data

Dependent variable:-Investment Decision

Independent Variable:-Income Financial Risk Tolerance, Capital Risk Tolerance and Speculative Risk Tolerance

Income has a significant and positive impact on investment decision-making. The unstandardized coefficient (B = 0.28) implies that for every one-unit increase in income, the investment decision score increases by 0.28 units, assuming all other variables remain constant. This demonstrates a clear and direct relationship between an individual's income level and their likelihood to make investment decisions. Moreover, the standardized coefficient (Beta = 0.26) suggests that income is a moderately strong predictor in comparison to other variables in the model.

Financial risk tolerance has a significant and positive influence on investment decisions. The unstandardized coefficient (B = 0.34) indicates that a one-unit increase in financial risk tolerance leads to a 0.34-unit increase in the investment decision score, assuming other factors remain constant. Among all the predictors, financial risk tolerance has the highest standardized coefficient (Beta = 0.33), suggesting that it is the most influential factor in determining investment behavior. The associated p-value is less than 0.001, which confirms that the relationship is statistically significant at the 1% level.

Capital risk tolerance is also found to have a statistically significant and positive effect on investment decisions. The unstandardized coefficient (B = 0.21) suggests that a one-unit increase in capital risk tolerance results in a 0.21-unit increase in the investment decision score. The standardized coefficient (Beta = 0.19) indicates that although its effect is slightly lower than income and financial risk tolerance, capital risk tolerance still contributes meaningfully to explaining variations in investment behavior. The significance level (p = 0.001) confirms that this relationship is statistically significant at the 1% level.

Speculative risk tolerance also shows a significant positive impact on investment decision-making. According to the regression results, the unstandardized coefficient (B = 0.26) implies that for every one-unit increase in speculative risk tolerance, the investment decision score rises by 0.26 units, controlling for other variables. The standardized coefficient (Beta = 0.24) further supports that speculative risk tolerance

plays a considerable role in shaping investment behavior. The p-value of 0.001 indicates the relationship is statistically significant at the 1% level.

Table 11

Annova Tests

Annova	Sum of Squares	df	Mean Square	F	Sig.
Regression	67.85	4	16.96	71.45	<0.001
Residual	93.80	395	0.24		
Total	161.65	399			

a Dependent Variable: Investment Decision
b Predictors: (Constant) Income, Financial Risk Tolerance Capital Risk Tolerance, Speculative Risk Tolerance

Source: Calculation by using SPSS of sampled data

Table 11 shows the results of the ANOVA test used to evaluate the overall significance of the regression model. The F-value is 71.45, with a significance level (p-value) of <0.001, indicating that the model is statistically significant. This means that the independent variables income, financial risk tolerance, capital risk tolerance, and speculative risk tolerance together have a significant impact on the dependent variable, which is investment decision. The regression sum of squares is 67.85, while the residual sum of squares is 93.80. This suggests that a large portion of the total variance in investment decisions (total sum of squares = 161.65) is explained by the predictors included in the model. Therefore, the ANOVA results confirm that the model provides a good fit for the data and that the selected independent variables meaningfully influence investment behavior. The table shows that the regression model was statistically significant, $F(4, 395) = 71.45$, $p < .001$. This indicates that the risk tolerance variables significantly predict investment decision. The model explains a substantial portion of the variance in investment decisions among the participants.

4.2 Discussions

This study aimed to examine the influence of demographic characteristics (age, gender, marital status, education, income, and profession) and various dimensions of risk tolerance (financial, capital, and speculative) on investment decisions among customers of Nepalese commercial banks. The analysis was based on responses from 400 bank customers from Nabil Bank, Everest Bank, and Rastriya Banijya Bank. The

findings from the statistical analyses (correlation, regression, and ANOVA) provided substantial support for the hypothesized associations, consistent with prior research in behavioral finance and decision-making theories.

The findings confirmed a strong positive association between financial risk tolerance and investment decisions. Investors who demonstrated higher financial risk tolerance were more inclined to make bolder and diversified investment choices. This aligns with the behavioral perspective which suggests that individual investors, even if they are not fully financially literate or sophisticated, are influenced by their internal risk assessments when making financial decisions. As in previous studies (e.g., Grable & Joo, 2004; Hallahan et al., 2003), our findings reinforce that individuals with greater risk tolerance are more comfortable with potential financial loss and are, therefore, more likely to engage in higher-return investment opportunities.

Similarly, capital risk tolerance and speculative risk tolerance were also found to have significant positive relationships with investment decisions. Investors willing to bear risks related to long-term capital allocation or speculative market conditions were more proactive in making investment decisions. These results indicate that risk perception plays a central role in shaping financial behavior, consistent with the framework proposed by Roszkowski and Davey (2010), where risk tolerance is a mediating factor in the decision-making process.

Among demographic variables, age, gender, education, income, and profession were found to significantly affect levels of risk tolerance and, by extension, influence investment decisions. Younger respondents generally showed higher levels of financial and speculative risk tolerance, a finding that supports the age-risk tolerance hypothesis often found in literature (e.g., Hallahan et al., 2003). Male investors were generally more risk-tolerant than female investors, consistent with the widely observed gender-based differences in risk perception (Grable, 2000).

Moreover, higher levels of education and income were positively associated with risk tolerance. Educated individuals and those in higher income brackets were more confident in dealing with complex investment products, reflecting greater financial literacy and possibly more exposure to financial markets. Profession also played a

notable role; professionals working in financial or managerial positions were more likely to accept higher risk, compared to those in traditional or low-income occupations.

Interestingly, marital status did not show a statistically significant impact on investment decisions or risk tolerance, in line with the findings of Hallahan et al., (2003) and Grable and Roszkowski (2008). This may suggest that in the context of Nepalese banking customers, marital status does not substantially alter risk preferences.

CHAPTER V
SUMMARY AND CONCLUSION

5.1 Summary

This research, titled "Risk Tolerance and Financial Investment Decision of Customers in Nepalese Commercial Banks," was undertaken with the primary purpose of exploring how financial risk tolerance, capital risk tolerance, speculative risk tolerance, and income—influence the investment decisions of bank customers in Nepal. The study aimed to identify the strength and nature of the relationship between the above-stated financial factors and the investment decision-making patterns of individuals.

The objectives of this study were to analyze the influence of financial, capital, and speculative risk tolerance on investment decisions; to assess the effect of income on those decisions; and to determine which among these variables has the most significant impact on investor behavior. The empirical literature reviewed showed consistent support for the inclusion of risk tolerance and income as major factors influencing financial decision-making. International and local studies alike have found that investors with higher tolerance for financial risk are more likely to invest in diverse, growth-oriented instruments. Similarly, individuals with greater income capacity are more financially empowered to explore investment opportunities, although income alone does not dictate investment behavior.

The study utilized a sample of 400 customers selected from three major commercial banks in Nepal—Nabil Bank Limited, Everest Bank Limited, and Rastriya Banijya Bank Limited. These banks were chosen for their wide customer base, broad geographical presence, and active involvement in offering retail financial investment services. A structured questionnaire was used for primary data collection. The study adopted a quantitative, descriptive, and explanatory research design, and statistical analyses such as mean, correlation, and multiple regression were applied using SPSS software to interpret the findings. The major findings of the study are both statistically significant and practically meaningful. Firstly, financial risk tolerance was found to have the strongest positive influence on investment decision-making. Customers who

demonstrated higher comfort with financial uncertainty were more likely to make active, diverse, and confident investment decisions. Secondly, capital risk tolerance also showed a strong and significant relationship with investment decisions, indicating that customers willing to risk their principal capital tend to engage in higher-return and often longer-term investments. Thirdly, speculative risk tolerance was positively associated with investment decision-making, particularly among individuals open to high-risk, high-reward options such as stock trading or investing in volatile markets. Finally, income was found to have a significant but comparatively weaker effect on investment decisions. While higher income provides individuals with the financial means to invest, the actual decision to invest and the selection of financial products were more influenced by the level of risk the individual was willing to tolerate. The regression model used in this study confirmed that all four variables—financial risk tolerance, capital risk tolerance, speculative risk tolerance, and income—positively and significantly affect investment decisions. However, income alone was not a strong predictor. Instead, it worked as an enabling factor that complements risk tolerance. The correlation analysis also reinforced that the higher the risk tolerance in any of the three dimensions, the more likely the individual was to invest. These findings suggest that the investment behavior of Nepalese bank customers is more dependent on financial behavior than on personal or emotional attributes.

5.2 Conclusion

The conclusion derived from this study reinforces that risk tolerance is the most important factor determining whether and how an individual decides to invest. Risk tolerance, when broken down into its components, gives a comprehensive view of how willing and capable an investor is to handle different levels of uncertainty in the financial markets. The analysis shows that financial risk tolerance (FRT)—which reflects the general willingness to take financial risks—is the most influential predictor of investment behavior among the customers surveyed. Individuals with high FRT tend to be more proactive and dynamic in exploring different investment opportunities. They are more confident in dealing with financial uncertainty and are willing to assume a certain level of risk in the hope of better financial returns.

Capital risk tolerance (CRT) also plays a crucial role in influencing investment decisions. It specifically relates to how much principal capital an investor is ready to put at risk. Investors with a high CRT are comfortable taking risks that could result in short-term capital loss, especially if they believe the long-term gain will outweigh the potential downsides. This attitude is essential in building diversified portfolios that may include mutual funds, shares, or even fixed-income securities with moderate risk.

Speculative risk tolerance (SRT) is another meaningful determinant, especially for those investors who are inclined towards high-return, high-risk financial ventures. While not all customers may have a high appetite for speculative risks, those who do are more likely to participate in the stock market, invest in new or volatile financial instruments, or engage in more short-term trading activities. The findings confirm that higher SRT levels contribute positively to more aggressive investment decisions.

Alongside risk tolerance, income was also identified as a factor influencing investment decisions, although its effect was less powerful in comparison. Income plays a facilitating role, enabling individuals to participate in the financial market by giving them the monetary capacity to invest. However, the presence of high income alone does not guarantee investment activity unless accompanied by an adequate level of risk tolerance. This suggests that investment decisions are not only about how much one can afford to invest, but more importantly, how much risk one is willing to accept while doing so.

The multiple regression analysis confirmed that all four financial variables—FRT, CRT, SRT, and income—have a positive and statistically significant impact on the investment decisions of bank customers. Among them, FRT stands out as the most significant driver. This result is consistent with the theoretical expectations of behavioral finance, particularly modern portfolio theory and risk-return tradeoff principles, which suggest that investment outcomes are largely influenced by the investor’s ability and willingness to accept risk. The findings are also in alignment with the expected utility theory, which postulates that rational investors make decisions to maximize the expected utility of wealth rather than absolute returns.

5.3 Implications

The findings of this research carry several important implications for financial institutions, investment advisors, policy makers, and future researchers, particularly in the context of Nepal's commercial banking and investment environment.

Commercial banks and financial service providers can benefit from understanding how risk tolerance levels influence customer investment decisions. Since financial, capital, and speculative risk tolerance significantly impact investment behavior, banks should consider incorporating risk assessment tools during client on boarding or portfolio planning. By doing so, banks can offer customized investment products that align with each customer's risk profile.

Investment advisors must recognize that clients are not homogenous in their approach to financial risk. The results highlight the need for personalized advisory services based not only on financial capacity but also on risk tolerance levels and demographic profiles. Advisors should engage clients in conversations that explore their comfort with risk, goals, and investment horizons before making recommendations Regulators and government bodies, such as the Nepal Rastra Bank and Securities Board of Nepal (SEBON), may use these findings to promote financial literacy programs and encourage responsible investing behavior. Since higher education and income were associated with greater risk tolerance, improving public awareness through national financial education campaigns can empower individuals to make better investment decisions.

Furthermore, the study suggests that behavioral finance principles should be embedded in investor protection policies and disclosure documents, helping investors to understand risk in practical, human-centered terms rather than purely technical descriptions.

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APPENDIX I

QUESTIONNAIRE

Dear Sir/Madam,

Thanking you for agreeing to participate in this survey. This study is meant to understand the impact of financial risk Tolerance on investment decision in the Nepalese context. The information provided by you will be used only for academic purpose and kept strictly confidential. Your cooperation is solicited.

PART A: Basic Information

1. Age group: [ ] less than 25 [ ] 26 to 35 [ ] 36 to 45 [ ] above 45
2. Gender: [ ] Male [ ] Female
3. Marital status: [ ] Married [ ] Unmarried
4. Education (highest degree): [ ] Up to SLC/SEE [ ] PCL/+2 [ ] Bachelor degree [ ] Master degree and higher
5. Occupation: [ ] private sector employee [ ] Government employee [ ] Business owner [ ] housewife unemployed/Others[ ]
6. Monthly Income: [ ] less than 10,000 [ ] 10,001–30,000 [ ] 30,001–50,000 [ ] More than 50,000

PART B: Factors of Risk Tolerance

Please tick mark on either of the options ranging from 1 to 5. One stands for strongly agree, 2 stands for agree, 3 stands for neutral, 4 stands for disagree and 5 stands for strongly disagree.

S.N.	**Factor**	**Answer**				
		1	**2**	**3**	**4**	**5**
1	**Financial Risk Tolerance**					
FRT 1	I associate the word "risk" with the idea of "opportunity".					
FRT 2	Do not think the risk situation in investment should be avoided at all.					
FRT 3	There is risk involved; it is much more acceptable if risk is confined to my potential for gains from taking the risk.					
FRT 4	I am looking for investment opportunities that offer higher income.					
FRT 5	I would show my willingness to take risks in financial decisions.					
2	**Capital Risk Tolerance**					
CRT 1	I find investing is too difficult to understand.					
CRT2	I am more comfortable putting my money in a bank					

	account than in the stock market.					
CRT 3	When I think of the word “risk” the term “loss” comes to mind immediately.					
CRT 4	I believe that luck plays a significant role in earning returns from stocks.					
CRT 5	In terms of investing, safety of initial investment is more important than returns.					
3	**Speculative Risk tolerance**					
SRT 1	I am sure that my ability is better thanthat of others to choose investment assets.					
SRT 2	I am able to fully control the results of my investment decisions.					
SRT 3	The success of my investment in the pastwas due to the unique expertise I have.					
SRT 4	I am sure about the performance of my investments.					
4	**Investment decision**					
ID 1	I consider the overall stock market index when making my investment decisions.					
ID 2	I consider sect oral indices when deciding where to invest my money.					
ID 3	I believe that investments with high historical returns are likely to continue performing well, so I often buy shares with good past prices.					
ID 4	I usually buy shares that I believe their price is below its true price so that I can make a gain/profit when its price goes up.					

THANK YOU !

PAPER NAME

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