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Religious activity, risk-taking preferences and financial behaviour: Empirical evidence from German survey data

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ABSTRACT

Individual preferences with respect to risk taking play an important role in financial economic behaviour and hence in financial markets. Using German microdata, we argue that individual religiosity accounts for differences in individual's risk preferences and private financial behaviour. First, we find that adherents of the two main Christian religions in Germany (Protestants and Catholics) are less willing to take risks in general than non-religious people. We further find that Muslims in Germany are less risk-taking in general than Catholics, Protestants and non-religious people. Moreover, in explicitly considering a context-specific risk attitude, namely the willingness to take risks in financial matters, our results indicate that it is necessary to control for underlying general risk-taking preferences due to the heterogeneous attitudes of Christians and Muslims regarding financial risk taking. Second, while controlling for individual financial risk-taking preferences, we provide empirical evidence of differences in household financial behaviour between religious and non-religious individuals in Germany. Our results furthermore support the view that religious participation helps to explain different individual investment behaviour.
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1. Introduction

According to Edmund Phelps, "values and attitudes are as much a part of the economy as institutions and policies are [...]" (Newsweek, 2007, p. 66). Thus, norms capturing how decision-makers should or should not behave ought to be incorporated in economic analyses instead of solely presuming the constrained maximization of profit and utility functions as Akerlof (2007) put it. He argues that "religious identity gives us a good example of such norms" (Akerlof, 2007, p. 8).

In the economics literature, two explanations of how individual religiosity is related to individual economic outcomes are discussed (e.g. Anderson, 1988; McCleary and Barro, 2006). First, the religious belief perspective focuses on the importance of religious beliefs, norms and values for economic attitudes and behaviour. Following the norms and prescriptions of one's religious group, individual religious identity as an aspect of self-image is formed (Cosgel and Minkler, 2004). Individuals will then adjust their behaviour to comply with the prescribed behavioural norms associated with their religious identity and to avoid discomfort through violating the prescriptions (Akerlof and Kranton, 2010; Benjamin et al., 2016). Second, the social capital perspective stresses the structural aspects of religions. Social networks associated with active participation or attendance in religious services is argued to have an effect on economic attitudes and behaviour. Alongside this anecdotal evidence, numerous empirical contributions to the literature have addressed the impact of religiosity on individual economic behaviour, such as entrepreneurial decisions (e.g. Etzioni, 1987), labour market participation (e.g. Heineck, 2004; Lehrer, 2008; Spenkuch, 2011), wage rates (e.g. Chiswick, 1983; Ewing, 2000) and investment decisions (e.g. Keister, 2003; Renneboog and Spaenjers, 2012). Furthermore, attention has also been paid to underlying economic attitudes, such as thrift (e.g. Guisoet al., 2006, 2003) and work ethic (e.g. Arruñada, 2010).

Our paper relates to this literature by studying the relationship between religiosity, measured in terms of religious affiliation and participation, and risk-taking attitudes, as well as investment behaviour, in Germany at the micro level. First, based on the finding that the decision context matters in electing risk preferences (Dohmen et al., 2011), this paper analyses whether – and if so, to what extent – individual religiosity plays a role in explaining individual differences in general risk attitudes as well as in risk attitudes regarding financial matters. Second, we aim to examine whether individual religiosity has an effect on actual investment

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decisions, i.e. the choice of certain financial products, while controlling for underlying individual financial risk-taking preferences.

For the microeconometric analysis, we use German survey data, namely the German Socio-Economic Panel (SOEP), for the years 2003 and 2004. We find empirical evidence for substantial differences in risk-taking attitudes and household financial behaviour between religious and non-religious individuals. First, religiously affiliated individuals are less willing to take risks in general than non-religious people. In particular, adherents to Christian religions in Germany are less risk averse in general than Muslims. Explicitly considering financial risk-taking preferences, the results further reveal differences regarding the willingness to take financial risks of individuals of different religions compared to non-religious people. However, the effect of religious affiliation on financial risk assessment strongly depends on individual general risk preferences. Controlling for individual financial risk preferences and socio-demographic characteristics, we find that religiously affiliated individuals show different investment behaviours compared to non-religious individuals. Catholics and Protestants in Germany are more likely than non-religious people to hold savings accounts, building contracts, life insurance, fixed-interest securities (e.g. federal savings bonds), securities of listed firms (e.g. stocks or bonds), or assets of non-listed companies. In contrast, Muslims are in general less likely than non-religious people and Catholics or Protestants to invest in financial products, especially in securities of listed firms and savings accounts. Finally, our results reveal weak empirical evidence for an impact of religious participation on risk attitudes. However, our econometric analysis shows significant effects of religious affiliation on investment choices is partially absorbed by religious participation. Specifically, church attendance has a positive impact on the probability of holding relatively secure financial assets.

This paper contributes empirical findings to two strands of literature. First, given the importance of individual risk perceptions in individual economic decisions, such as entrepreneurial choices (e.g. Grilo and Thurik, 2008) and stock holdings (e.g. Dorn and Huberman, 2010; Guisoet al., 2008), previous studies have extensively studied factors influencing individual general risk-taking preferences. In particular, demographic characteristics (e.g. gender, age, body height and education) as well as individual financial attributes (e.g. financial wealth and income), are found to be determinants of individual risk attitudes (e.g. Barsky et al., 1997; Dohmen et al., 2011; Halek and Eisenhauer, 2001; Hartog et al., 2002). These former contributions also point to religious affiliations as a determining factor. The empirical studies of Renneboog and Spaenjers (2012) and Bartke and Schwarze (2008) explicitly focus on religious affiliation as a factor that influences general risk attitudes. We contribute empirical findings concerning the importance of the practice aspects of religions for individual risk preferences choices. Considering the multidimensional character of religion, alongside the belonging aspect, we include the frequency of church attendance as a practice dimension of religiosity to gain a comprehensive view of the influence of religion on risk-taking attitudes and investment. Second, in analysing individual financial choices while controlling for individual religiosity and risk-taking attitudes, we complement the growing literature on the economic consequences of religion (e.g. Alesina et al., 2003; Becker and Woessmann, 2010; Guisoet al., 2003, 2006; McCleary and Barro, 2006; Tabellini, 2010). In particular, considering not only a general risk measure in the analysis of heterogeneity in private financial choices, but also a context-specific risk measure, namely risk-taking attitudes in financial matters, our work expands previous approaches on the importance of individual religiosity in explaining heterogeneity in household investment behaviour (e.g. Hilary and Hui, 2009; Keister, 2003; Kumar et al., 2011; Renneboog and Spaenjers, 2012). Furthermore, instead of studying mainly the economic consequences of Christian religions for risk-taking preferences and investment behaviour, we explicitly take Islam, as a non-Christian religion, into consideration, as Muslims comprise roughly 5% of the German population (BAMF, 2009).

The paper proceeds as follows. Section 2 reviews the empirical literature on religious beliefs, risk-raking attitudes and investment behaviour. In Section 3, the data used and the variables are explained. Section 4 presents the estimation results. The paper concludes with a discussion of our findings in Section 5.

2. Review of empirical literature

Some recent studies examine the impact of religion on individual attitudes, such as thrift, work ethic and trust toward others (Guisoet al., 2006, 2003; Arruñada, 2010). Several contributions specifically analyse the relationship between religion and measures of risk-taking attitudes. For example, based on answers to hypothetical questions about lifetime income gambles in the Health and Retirement Study, Barsky et al., (1997) find that Catholics in the USA are less risk averse than Protestants. Using the same dataset, Halek and Eisenhauer (2001) state that the effect of a respondent's religious faith depends on the situation. Compared to the average population, Catholics and Jews are more averse to pure risk than members of other faiths, yet at the same time, they are more tolerant of speculative risk taking. The authors trace this result to the distinct religious teachings regarding gambling. Specifying the likelihood of winning a prize within an imaginary lottery, Hartog et al. (2002) also state that people who belong to a religion cannot decide which price to pay for the lottery ticket without considering their religious convictions, as belonging to a religion promotes specific norms with respect to gambling and investing. Based on the 2004 wave of the SOEP, Bartke and Schwarze (2008) find for 22,019 individuals in Germany that the explanatory power of nationality significantly decreases when considering individual religious affiliation as an explanatory variable for heterogeneity in individual general risk preferences. Specifically, they state that Catholics, adherents to other Christian religions and non-Christian religions are in general more risk averse than Protestants. In contrast, non-religious people are more willing to take risks than Protestants. Drawing on the same dataset, Dohmen et al. (2011) confirm these findings in their Appendix. Furthermore, the authors show that non-religious people are more willing to take risks with respect to financial investments than Protestants. However, no statistically significant different financial risk-taking attitudes are found for individuals adhering to Catholicism, other Christian religions and other non-Christian religions compared to Protestants. Based on household data for the Netherlands, Noussair et al. (2013) present empirical evidence from an incentivized experiment that Protestants are more risk averse than non-members and Catholics in the real payoff treatment, which involves potentially real monetary stakes. Own church membership, frequency of church attendance and church membership of the parents during childhood are positively related to individual general risk aversion. However, the latter becomes statistically insignificant in the real payment treatment. While their measures of religious beliefs are not found to have an effect on risk aversion, the frequency of praying outside religious services is positively related to it. Benjamin et al. (2016) examine in an incentive-compatible experiment among university students whether there are religion-induced differences in financial risk taking. Using priming techniques, they find that religious identity salience makes Catholics become more risk taking, while it has no effect on Protestants' risk taking.

Next to individual economic attitudes, an extensive body of empirical literature has found religion to be strongly correlated with individual socio-economic outcomes (see, for exam-

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