

Review of Financial Literacy Skills of Women across the World

Kapil Choudhary

Asstt. Professor, Department of Commerce, CDLU Sirsa

Samriti Kamboj

Asstt. Professor (Commerce), CMRJ Govt. College, Mithi Sureran, Ellenabad

Abstract

Financial literacy is considered as an important component for financial well being of an individual's well as for financial stability of a nation. The concept of financial literacy is gaining momentum due to increase in complexity of the financial market, financial innovations and resultant development of new products, growing access to credit and financial instruments and shifting of defined pension scheme to 'do it yourself' scheme. Global financial crisis has also highlighted the disastrous consequences of uninformed financial decisions. Resultantly, there is increase in the responsibility of consumers for managing their funds towards safe financial future. This necessitates the awareness and understanding of financial basics before entering into these transactions. Research regarding financial literacy documented low levels of financial literacy among women. This paper attempts to review the existing literature on women's financial literacy around the world.

Introduction

Financial literacy has become a priority issue across the globe. Complexity of financial markets and increased exposure to financial products has increased the risk of individuals in taking correct financial decisions. It requires the decision makers to have the understanding of basic financial concepts to navigate the complex marketplace for making informed decisions. In addition, demystifying financial concepts to the people of a country and improving their knowledge and behavior towards finance is also considered important for consumer protection as well as financial inclusion. Equipping individuals with all these skills and knowledge is financial literacy.

“Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being.”(Atkinson and Messy, 2012)

Lack of financial literacy is widespread among nations. But the situation of women is more vulnerable. Generally, they are less financially knowledgeable than men, have less confidence in their financial ability and are risk averters (Tahira Hira, 2006). Recognizing the growing need of financial education for women, an expert subgroup on Empowering Women through Financial Awareness and Education was created by Organisation for Economic Co-operation and Development International Network on Financial Education (INFE) in 2010 jointly chaired by Australia and India(Hung, Yoong and Brown, 2012).

This paper reviews various studies conducted around the world on women and financial literacy.

Specific needs of women for financial literacy

Research shows that financially literate people tend to save more, plan for their retirement and enter in low cost debt transactions (Lusardi and Mitchell, 2009). Besides maintaining their household stability, the well informed decisions contribute towards financial growth as well as economic stability of a nation. Thus, financial literacy has become an essential life skill for every individual. But there are some specific needs of women for financial literacy.

“Lower levels of financial literacy have the potential to reduce women’s active participation within the economy; economic power within the household; transmission of knowledge to the next generation and to worsen existing social disparities.” (Hung, Yoong and Brown, 2012)

The overall economic development of a country depends upon the optimum utilization of entire workforce. Women’s participation in the development process is essential for sustainable economic growth and prosperity of a country as well as for empowerment of women.

The Labour Force Participation Rate (LFPR) for women in India was found to be 23.7 percent at All India level, significantly lower than that for males (Govt. of India's Fifth Employment Unemployment Survey, 2015-16). The condition was same for rural as well as urban population. According to World Economic Forum's 'Global Gender Gap Report 2016', India got 135th rank in Female LFPR in 144 countries. Disparity among the wages of men and women for the same work is also a common feature across nations. These discriminations add to the financial vulnerability of women. Due to their weaker position in the labour market and considerable low wages, women are required to manage their hard earned income in an efficient way. A financial safety net is also essential to meet various adversities in the future.

The economic impact of life-events like divorce, death of spouse is more profound for women. After the death of spouse, the sufferings of women multiply. A US research by Hurd and Wise(1989)revealed that the probability of household poverty increases from less than 10 to more than 35 percent after death ofhusband. In case of single-parent families headed by women, women's responsibility is higher. Better financial literacy skills and awareness regarding daily used financial concepts for example, saving, spending, borrowing, budgeting are required to take responsible decisions for a prosperous future.

More generally, women's life-expectancy is longer.The longer life suggests the need of successful financial planning to fight the rising cost, to meet the healthcare needs and maintaining the same standard of living in future.

Research shows that mother's education has a significant effect on the financial knowledge of their children (Ansong & Gyensare, 2012). To inculcate financial habits among the children, adequate financial skills in mothers are required.

Gender differences in financial literacy

Much of the literature on financial literacy focuses on general issues without consideration of the importance of gender. The following studies demonstrate the financial literacy level of women around the world:

Lusardi and Mitchell (2011) carried out an international project to measure the financial literacy of eight countries and concluded that low financial literacy level prevailed in developing as well as developed countries. Also, women were found to be less financially literate than men. In an OECD INFE study on financial literacy in 14 countries, Atkinson and Messy (2012) focused on three aspects: financial knowledge, financial behaviour and attitudes to make an overall judgment of the financial literacy of the individuals. Lack of financial knowledge was found amongst a large proportion of the population in each

of the countries surveyed. More specifically, women possess less knowledge of finance than men in almost all of the countries.

A research by Ansong & Gyensare (2012) undertaken on a sample of 250 undergraduate and postgraduate students of a public university in Ghana focused on exploring the determinants of university working-students' financial literacy and establishing the relationship between financial literacy and certain demographic characteristics. The findings showed that male working-students had a better understanding of financial concepts and they possess higher level of financial literacy than female working-students. Similar findings were observed in another financial literacy study that was conducted by Lusardi and Mitchell (2009). They found that financial knowledge was lacking in Americans and the impact of financial illiteracy was more severe for vulnerable groups like women, low literates and minorities. A study conducted by Chen and Volpe (2002) on 924 US college students demonstrated less knowledge in women regarding personal finance topics than men. Women depicted less interest, less confidence and less enthusiasm while dealing with personal finance issues.

A sample of 3,000 Indian respondents was covered by Agarwalla, Barua, Jacob and Varma (2012) to conduct a financial literacy survey among students, young employees and the retired people. Financial literacy was measured on the basis of financial knowledge, financial behaviour and financial attitude. The results exhibited poor financial knowledge of Indians. Furthermore, male members showed better financial knowledge than women. The results of financial literacy survey conducted in UAE by Al-Tamimi and Al-Kali are in consensus with the earlier findings regarding women's financial literacy. The objective was to evaluate the financial literacy level of individual investors, the relationship between financial literacy and demographic factors and also to examine the factors that affect the investment decision. The results showed that the UAE investors had lower level of financial literacy. There existed significant difference in the financial literacy level of UAE investors according to their gender. The financial literacy level of women was found to be lower than that of men.

In addition, women possess lower level of literacy on investment matters as well. Volpe et al. (2002) surveyed 530 online investors and examined their investment literacy and the relationship between the literacy and online investor characteristics. The findings reported less investment literacy in women. In another survey on testing the Personal investment literacy level among the college students, Chen, Volpe and Pavlicko (2009) showed that college students had inadequate knowledge of personal

investment basics. Also the results found less knowledge of female students about investing than male students.

Lusardi and Tufano (2009) analyzed a national sample of Americans with respect to their debt literacy, financial experience, and judgment about the level of their indebtedness. The findings reported lack of debt literacy among a large proportion of population, but the level of illiteracy was higher among the women along with elder people, certain minorities, and people with lower incomes and wealth.

The outcomes resulting from lack of financial literacy are disastrous for the financial well being of the individual. Data from the FINRA Investor Education National Financial Capability Study carried on by Mottola (2012) revealed that low financially literate women were involved in costly credit card behaviors like incurring late fees. The findings highlighted the negative impact of low level of financial literacy on savings accumulation, retirement planning, and cost of mortgage and in turn, on households financial stability.

A research on Working Women's Financial Capability was conducted by Lusardi and Yakoboski (2014) using the data from the National Financial Capability Study (NFCS). They examined the financial capability and financial behaviour of working women across career stages and family status. The results found that women had lower level of financial literacy than men. Widespread presence of long term debt, use of high cost credit card borrowings and lack of financial planning among the working women were also revealed from the study. The findings also depicted positive effect of higher education, high income and living spouse on the financial behaviour of the respondents.

With the objective of examining the role of low literate women as a personal finance manager, Amy Schmitz and Katie Bova (2013) carried out a research on low literate women in America. The study revealed significant gaps in the financial knowledge of this segment of women. These women lacked basic financial knowledge and were less financially skilled comparative to men and women with higher literacy skills. Resultantly, the low literate women were more exposed to fraudulent financial practices and making uninformed financial decisions.

To explore the gender differences in investment behavior, Tahira Hira (2006) undertook a survey of U.S. households with annual household incomes of \$75,000 or higher. She found women to be more responsible than men in daily money management tasks but less interested in long term investment decisions. Women were risk averse with regard to financial matters. Their involvement in investing increased with the happening of critical life incident such as marriage, divorce, or the birth of a child.

Investment decisions seemed to be very stressful to them. They were more dependent on their partners for future financial security.

Hung, Yoong and Brown (2012) conducted a review of existing literature on gender differences around the world regarding financial literacy and found women's knowledge about financial concepts like interest calculation, risk diversification was worse than that of men and they had less confidence in their financial skills. Women did better management of daily household financial decisions but their performance regarding long term planning was found to be worse than men and needed improvement.

Conclusions

The existing research literature shows that financial literacy is important for financial well-being of the people. Generally, men outperform women on various parameters of financial literacy as is demonstrated in the above studies. The level of financial literacy, investment literacy and debt literacy was not found to be satisfactory among women.

On the basis of review of the above studies, various gaps have been discovered such as most of the studies have been conducted in developed economies. Furthermore, financial literacy studies generally target the entire population. Less literature is available on women's financial literacy. Moreover, the financial condition among certain specific sub groups of women like widow, single, less educated, financially excluded, women belonging to lower income group is more vulnerable and lack of financial knowledge and skills are worsening their financial condition. A few researches have been conducted covering specifically these sub populations.

World over, Governments and the other stakeholders have launched various financial literacy programmes targeting the weak sections of the society. But more efforts and investment is required in educational program for women to shape their confidence as well as to increase their knowledge and skills about monetary, financial and investment matters. It is also recommended that one-size-fits-all strategies are ineffective rather specific educational programmes according to the needs of the population sub groups will be more effective.

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