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The significance of financial self-efficacy in explaining women's personal finance behaviour

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ABSTRACT

Much policy attention has been placed on enhancing individuals' financial knowledge and literacy, chiefly through financial education programs. However, managing one's personal finances takes more than financial knowledge and literacy: an individual also needs a sense of self-assuredness, or 'self-belief', in their own capabilities. This personal attribute is known within the psychology literature as 'self-efficacy'. This paper examines the significance of an individual's financial self-efficacy in explaining their personal finance behaviour, through the application of a psychometric instrument. Using a 2013 survey of Australian women, financial self-efficacy emerges as one of the strongest predictors of the type and number of financial products that a woman holds. Specifically, our analysis reveals that women with higher financial self-efficacy – that is, with greater self-assuredness in their financial management capacities – are more likely to hold investment and savings products, and less likely to hold debt-related products. Even alongside other important factors – such as education, financial risk preferences, age and household income – the explanatory power of financial self-efficacy is found to be significant at the 1% critical level. Moreover, the significance of financial self-efficacy is independently identified from that of financial literacy factors, which bears important implications for the development of policies aiming to improve financial outcomes.

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1. Introduction and background

The past decade has seen governments in many countries establish national financial literacy strategies in an attempt to improve the financial wellbeing of their citizens. Chiefly, these strategies have sought to improve financial literacy through financial education programs (Asian Development Bank, 2013; Australian Securities and Investment Commission, 2013; Financial Literacy and Education Commission, 2011; Financial Services Authority, 2006; Hira, 2010; OECD, 2012, 2013b). In many instances, sub-groups of the population who are more vulnerable to financial disadvantage, such as women, have been afforded particular policy attention (OECD, 2013c, 2013d). Despite these heavy investments in financial education, most countries have experienced little observable improvements in financial literacy (OECD, 2013a). Furthermore, it appears that the effectiveness of many of these financial education programs has not been adequately evaluated (Fox & Bartholomae,

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2008; Fox, Bartholomae, & Lee, 2005; McCormick, 2009; Xiao et al., 2010) and indicators of financial stress and financial anxiety persist (Dowling, Corney, & Hoiles, 2009). Collectively, these observations suggest that the financial education policies pursued so far have had their shortcomings. In this light, a key motivation behind our study is the realisation that narrowly-focused efforts to improve financial literacy via financial education have meant that other factors potentially contributing to overall financial wellbeing appear to have been overlooked. While it is generally agreed that financial literacy entails equipping individuals with the knowledge and cognitive skills needed to understand the financial sector and handle their financial matters, other factors also play an important role (OECD, 2013c). Being able to successfully manage one's personal finances also entails psychological and attitudinal traits: an individual needs to have the motivation to seek out financial information, the ability to control emotions that can affect their decision-making, and assurance in their own decision-making and financial management capabilities (Atkinson & Messy, 2011; The Social Research Centre, 2011). Possessing these attributes means that an individual is more likely to have a positive sense of control over their financial future, and to have the impetus and capacity to take competent and rational action, thereby achieving more favourable outcomes (Guo et al., 2013). In analysing individuals' personal finance behaviour, there is scope for economic models to more fully incorporate psychometric instruments that capture an individual's sense of confidence in, and control over, their financial management capacities, so as to generate a more complete picture of the factors contributing to their financial outcomes. Indeed, it has been argued that research in the field of personal finance behaviour needs to more effectively encompass psychological theories that explain how personal behaviours are formed (Xiao, 2008). This paper pursues this objective by augmenting a standard economic model of personal finance behaviour with a psychometric scale that measures an individual's sense of their capacity to successfully manage their finances and accomplish their financial goals – their financial self-efficacy.

In behavioural psychology, the general concept of self-efficacy refers to an individual's sense of self-agency, borne out in a belief that they can accomplish a given task and, more broadly, cope with life's challenges (Bandura, 1994; Bandura, 2006a, 2006b; Gecas, 1989). Self-efficacy can be manifested through various elements of personal behaviour, such as how well a person perseveres in the face of adversity, whether they have an optimistic or pessimistic attitude about their future, and whether they think in self-enhancing or self-debilitating ways (Bandura, 2006b). If we are to apply the concept of self-efficacy to the context of personal finance management, it could be reasoned that individuals who have a greater sense of self-assuredness in their financial management capacities are more likely to approach any financial difficulties they encounter as 'challenges to be mastered, rather than as threats to be avoided' (Bandura, 1994, p. 71). Such an attitude is likely to result in accomplishment and, consequently, more favourable personal financial outcomes.

Methodologies to measure how well an individual manages challenges in their life in general – a 'generalised' model of self-efficacy – have been long established (Schwarzer & Jerusalem, 1995). While these methodologies have been tailored to apply to several specific realms of human behaviour, such as the pursuit of health, parenting, career, education and retirement goals, approaches to measuring financial self-efficacy are a relatively recent development. Our study applies the Financial Self-Efficacy Scale (FSES) developed and validated by Lown (2011). This scale was derived from the generalised scale of self-efficacy established by Schwarzer and Jerusalem (1995) and is consistent with the principles for constructing self-efficacy scales advised by Bandura (2006a). We demonstrate the econometric applicability of this financial self-efficacy instrument in a standard model of economic behaviour, employing it as an explanatory variable to assess its significance in predicting observed behavioural outcomes. While we are aware of a small number of previous studies that have assessed the explanatory power of the related concepts of 'investment self-efficacy' (Forbes & Kara, 2010), 'entrepreneurial self-efficacy' (Kickul, Wilson, Marlino, & Barbosa, 2008) and 'economic self-efficacy' (Grabowski, Call, & Mortimer, 2001), there appear to be even fewer studies that have similarly tested the explanatory power of the financial self-efficacy scale: Dietz, Carrozza, and Ritchey (2003) offer one example where the financial self-efficacy scale has been applied as an explanatory variable, to explore the use of retirement plans. Most previous studies in the field of personal finance have simply focused on validating the internal consistency of the financial self-efficacy scale or examining measures of correlation between the scale and personal characteristics or other psychological or behavioural outcomes of interest (for instance, Amatucci & Crawley, 2011; Danes & Haberman, 2007; Engelberg, 2007; Gutter, Copur, & Garrison, 2009; Sizoo, Jozkowskia, Malhotra, & Shapero, 2008). From another perspective, other studies have looked at the extent to which an individual's engagement with financial planning is affected by their level of self-esteem – a somewhat similar yet still distinct concept from financial self-efficacy (Neymotin, 2010).

In our study, we assess the direct explanatory power of the FSES instrument by examining the relationship between an individual's level of financial self-efficacy and observable aspects of their personal finance behaviour. Specifically, we look at the types of financial products that an individual holds, and draw an inference that their engagement with financial products reflects how well they are managing their personal finances and how financially responsible and forward-thinking they are. This inference is consistent with other studies that posit that certain actions – namely, budgeting, saving and demonstrating control over one's spending – are indicators of forward-thinking and responsible financial behaviour, which ultimately results in better financial outcomes for the individual (Perry & Morris, 2005). We hypothesise that the types of financial products that are likely to enhance an individual's financial security and financial outcomes in the future – namely, investments in shares and property, mortgages, savings and insurance – are indicative of an individual having greater capacity to manage their finances and to plan for the future, while the accumulation of liabilities such as loans and credit cards are indicative of an individual struggling in their capacity to plan ahead and manage their finances. We therefore hypothesise that the higher an individual's level of financial self-efficacy, the more likely they are to have acquired investments in shares

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