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Abstract

Since the continuous development of Financial technology (or FinTech), the households are increasingly faced with making highly sophisticated financial decisions. In this article, we investigate the effects of financial capability on household financial participation. We find that financial capability can promote households' participation in financial market. Households with high financial capability can make good use of financial services and make proper financial decisions, and reduce the probability of households' financial exclusion. We also find that people with rich financial knowledge are more likely to participate in the risky asset holdings because this will help increase their likelihood of profitability. In addition, improvements in economic and financial environment will increase people's income and property, the high level of financial education will exert an positive influence on household financial market participation and financial risk management. Our findings suggest that enhancing the households' financial capability is an important means to promote making more informed financial choices and securing the financial well-being of households. The policy implication is that strengthening financial capability will help stabilize finance, enhance financial inclusiveness, and facilitate the effective operation of financial markets.

Keywords: Financial capability, Household financial decision-making, Financial inclusion

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1. Introduction

Today, our life is becoming more complicated especially as the FinTech applies technology to run financial business. Engaging in the financial system in their daily lives, people are required to make extremely sophisticated decisions which may have irreversible consequences throughout their life cycle. Unfortunately, many of them are lack of financial capability even in high income economies. According to “Australian Financial Attitudes and Behavior Tracker, Wave 6, 2018[1]”,only 59% of people are able to pay their credit bills in time each month, 40% of people can understand the concept of diversification, 35% of people know the exact value of their super and 53% of people pay more than the minimum amount due on their mortgage. A British surveyby Money Advice Service found that: “four out of ten of people can’t manage their money; around three in five of people, around 16 million working age people, have less than £300 in savings; and in the UK nearly8 million people live in the shadow of serious debt [2]”. The U.S. President’s Advisory Council on Financial Literacy pointed out that: “far too many Americans do not have the basic financial skills necessary to develop and maintain a budget, tounderst and credit, to understand investment vehicles, or to take advantage of our banking system. It is essential to provide basic financial education that allows people to better navigate an economic crisis such as this one. [3]”

Although financial innovation and technological progress do offer new financial instruments and opportunities for households than before, these can also make those with low financial capability more costly because their poor decision-making could cause disaster. The global financial crisis in 2008 showed that, poor financial decision-making or serious financial error could cause huge losses to households, institutions, and even society as a whole [4]. According to the White House, financial capability can enable households to make correct choices and avoid pit falls, when they are facing difficulties, they know they should seek for counseling, and they have awareness to increase their financial welfare not only at present but also in the future. So financial capability should become a priority for policymakers because financial capability can help the country stabilize financial markets, reduce financial exclusion, and improve the efficiency of financial system.

2. Overview of financialcapability2.1 Institutional setting

According to the World Bank’s point of view, financial capability refers to people’s internal ability to take action to maximize personal financial interest, under the given conditions of social environment or economic situation. It includes financial knowledge or literacy, financial attitudes, financial skills and behaviors of households about how to choose and administer their resources, effective utilization of financial services which meet their needs [5]. We can say that financial capability is a broader definition, it encompasses households’ behavior, their interaction of financial literacy, ability and behavioral manner. The World Bank described financial knowledge as these items: “elementary knowledge of financial concepts; knowing the meaning of different financial products and services; comprehending the risk concerned with those products or services and how to make full use of financial services or to make personal financial planning. Skills include basic numeracy and literacy skills, such as the simple power of calculation and basic financial concepts. With sufficient financial skills, households can get full benefits from financial services and make appropriate choices concerned with financial management. Financial attitudes refer to personal opinion, faith, or psychological trace which influences households making a financial decision, and finally creates some kinds of internal financial capability. Financial behaviors includes saving regularly, keeping track of their finances, working towards longer-term goals, or how they use credit. Financial behaviors are results of the interaction of internal capacities and external environments. Researchers found that cognitive ability and psychological characteristics, or attitudes and motivations were important factors that influencing financial outcomes [6].

3. The impact of financial capability on households financial decision-making

3.1 Impact of financial knowledge and skills on households financial inclusion

Financial capability means people's ability of understanding, assessing, and conducting from the perspective of maximizing financial interest. People not only need financial literacy, but also require availability of suitable financial service or product [7]. When people's financial literacy is low, they are more vulnerable to economic hardship. Among other obstacles, lack of financial common sense restricts people's access to financial products and services. Just like the U.S. President's Council in Financial Capability points out "Without sufficient knowledge, many American people don't know the conditions of borrowing and have no idea about the terms of their mortgages and how much interest they should pay for their loans. More than this condition, some of Americans are poorly informed about the situations they are faced, sometimes financial agency agents are likely to mislead them as they are short of basic computing power and understanding basic theory of Economics such as monetary policy tool, inflation formation mechanism and risk diversified portfolio[8].

Even if people are financially literate, the institutional barriers called financial exclusion, which also hinder people especially low-income households from accessing to financial services. Financial exclusion often occurs among specific groups of people, such as low- income population, people with low educational level, minority nationality and woman. For this reason, to develop the financial capability, we should enhance the capacity for action from promotion of personal ability and attitude. At the same time, the society should offer the opportunity to act, through provision of appropriate financial products and services for consumers to choose. Both capabilities and opportunities to act are helpful to human's well-being and opportunities of their personal life [9]. Governments and financial institutions must offer appropriate financial products and services for people in order to develop financial capacity . According to the World Bank report, making better financial decisions and interacting more effectively with financial practitioners can increase people's ability to achieve financial goals, improve family welfare, hedge financial risks, avoid negative shock sand promote economic growth.

3.2 Impact of financial attitudes and behavior on the households financial decision-making

In classical economics, consumers are assumed as rational people, while Daniel Kahneman argues that the classic economic laws advocating rationality is not the core of people decision-making[10]. Knowing how to maximize profits but people don't always follow, and sometimes make objectively adverse decisions. Consumers will alter their behavior when environmental changes. Consumer' s traditional behavior will be changed through the lens of changing minds. Financial education interventions aims to change people' s way of thinking, including beliefs, attitudes goals and then change their behaviors. Financial knowledge and skills are know-how, while financial attitudes and behaviors are observed in daily life and long-term financial management. The accumulation and understanding of financial knowledge affects financial capability, and financial attitudes will influence financial behaviors such as people's attitude towards money will affect people's behavior of saving and consuming[11].

The Financial components of financial behavior designed by the UK Financial Services Authority in 2006 covered five items: "keeping track of one's finance, making ends meet, planning ahead, choosing financial products and staying informed about financial matters." Keeping track of one's finance refers to the habits of financial management, including checking bank statement receipts, checking current account balances, and making cash budgets to ensure sufficient funds to tackle uneven expenditures. Making ends meet examine how people handle daily financial matters, balance monthly income and expenses without overspending. Planning ahead means plan for the future, such as retirement and children's education, to ensure that families could buffer themselves against shocks. Choosing financial services includes consulting professional investment advisor, comparing various financial products from multiple sources, but not just relying on product disclosure. People should be staying informed about their financial matters means they monitor financial indicators and check them frequently. Researchers find financial capability is driven by a hierarchy of behaviors. Individuals could not achieve financial capability unless "keeping track" of their finances. For low-income people, "making ends meet" accounts for a large proportion of financial capability, while for the high-income, "planning ahead" becomes important[12]. Most people believe dealing with daily finances is a piece of cake for them, however they are actually engaged in financial behaviors that incur expenses and fees, such as overdraft checking accounts or delayed payment of credit card bills.

4. Practices in enhancing financial capability

4.1 Financial Capability Strategy for the UK

British scholars and practitioners are the first to use the expression "financial capability" to describe the financial knowledge that people have and their confidence and motivation to use their financial knowledge to manage their personal finances [14]. The UK's first financial capability strategy, developed and published by the financial services authority (FSA) in 2006, has caused a stir in the industry. The Financial Capabilities Strategy aims to raise financial awareness and capabilities throughout the United Kingdom. This means consciously improving people's ability to manage money, both in everyday life and in some major events, even in difficult period. It focuses on developing people's financial skills and knowledge and straightening out their attitudes and motivations towards finance. Combining with today's inclusive financial system, people with high financial capability will achieve as much financial well-being as possible.

In the Financial Services Act of 2010, the council gave the Consumer Finance Education Body (CFEB) clear statutory obligations and responsibilities to raise the level of financial knowledge and competence of the public. CFEB provided people with financial information and advisory services at critical moments in their lives together with some financial institutions and other organizations. Rigorous evaluation of their work showed that their intervention program had a good effect on residents' financial ability.

As the representative of all organizations which focus on promoting financial capability, the Money Advice Service has led the development of this Strategy. In September 2014, the Money Advice Service released the Draft Strategy which clarified strategic issues and identified strategic directions. Based on the financial work of the FSA, the draft defines the concept of financial capabilities and the direction of priority actions. In March 2015, the Money Advice Service published the

Consultation Response and Next Steps, which described Strategy progress based on feedback and key initiatives.

4.2 National Financial Capability Strategy in Australia

As described by the Australian government: "The National Financial Capability Strategy supports the government's priority for a stronger economy by ensuring that all Australians have the financial capabilities they need to live their best lives", when more and more Australians could take control of their financial lives, all Australians will benefit.

The National Financial Capability Strategy recognizes that the formation of a long-term behavior habit cannot be achieved through a simplex intervention. Australia must strengthen the financial capacity of Australians by working together with governments, businesses, communities, education and research centers. The national strategy determines that Australians are able to conduct daily financial management, make reasonable financial decisions and prepare for the future. In order to achieve these goals, efforts need to be made in three areas: the first one is education, through continuous and modern learning, it helps Australians to develop and optimize their financial and investment ability; the second one is informed, this will provide Australians with access to information and tools to help them make better informed financial decisions under different circumstances; and the third one is support, this will help people identify their financial status clearly, evaluate their financial choices, avoid falling into financial traps and causing greater losses [15].

5. Conclusion

Financial capability is the ability based on financial knowledge, skill, attitude and behavior to operate households' property efficiently. It is both crucial to households in personal respect and to the long-term economic health as a whole. Efforts to strengthen financial capability including vital financial education and partial financial intervention which can improve people's knowledge and skills. However, consumers need the chance of getting qualified financial services and products. The policy implication is that strengthening financial capability not only rely on financial knowledge education but also on promoting financial inclusion.

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