# Build women's financial confidence to improve their financial wellness

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Significant improvement in women's financial and social status in recent decades has been accompanied by favorable increases in their confidence in many aspects of life—ranging from developing career paths to playing an active role in household decision making. Despite these gains, a gender gap in financial confidence still exists. Data from the 2018 National Financial Capacity Study, for example, shows that women in general are less confident than men in their financial knowledge, their ability to achieve financial goals, and in dealing with day-to-day financial matters (see Figure 1). In the effort to improve women's financial wellness, the role played by financial confidence should not be overlooked.

How can we help women build financial confidence?

Financial confidence is an essential element in financial management, whether it's a simple task like paying bills on time, making complicated decisions about investments, or saving for retirement. Lack of financial confidence could hinder people from investing in financial markets, seeking help from financial advisors, participating in household financial management, or even reading documents sent by financial institutions. In fact, an emerging literature highlights the role of noncognitive skills in explaining differences in individual financial behavior. The perception individuals hold about their abilities to manage their finances, in particular, has been shown to exert significant influence on various important financial decisions they make on matters such as budgeting, cash flow management, debt management, investments and portfolio management (e.g., Tang, 2021).

The question is, how can we help women build financial confidence?

## Encourage financial experience

The self-efficacy theory considers "enactive mastery experience" as the most influential source of self-efficacy: that is, successful experience with performance accomplishments helps build confidence in one's own ability to take actions to influence various aspects of life (Bandura, 1977). Thus, encouraging women to participate in various financial activities and, likewise, experience performance accomplishments can help boost their financial confidence, which in turn leads to more involvement in the financial decision-making process. In practice, this means that an effective financial education program should not only deliver financial concepts to its participants but also provide hands-on investment and management experience. Even basic financial activities such as opening a checking account will provide necessary exposure to financial products, help build financial confidence and prepare participants for more advanced financial tasks in the future.

## Acknowledge influence from the family of origin

While numerous financial literacy programs exist in schools and workplaces, learning from parents' financial behavior serves as the basis for individual financial behavior throughout life. Studies have shown evidence of intergenerational consistency in financial behavior between parents and their children. Children learn about finances through behaviors their parents model; what is more important, observing successful financial performance by their parents helps children generate financial confidence about money, as they learn that financial wellness can be achieved through responsible financial behavior (Tang, 2017).

It's also worth highlighting that mothers' attitudes toward money and their involvement in family financial decision making are a critical source of implicit learning for roles their daughters will assume as they gain financial independence.

## Tap the power of socialization

Individuals do not make financial decisions independently; instead, much information is received via social interactions. Coworkers communicate about their retirement savings in 401(k) plans during coffee breaks; neighbors and friends share information about investments in social gatherings; students talk to their peers about new financial resources. "Word of mouth" is an important source of influence on people's financial decision making. If we could cultivate a healthy financial culture, social interactions hold great potential for helping individuals build financial confidence and make better financial decisions. Knowing a coworker—especially one that shares similar characteristics such as gender—who actively participates in and confidently manages her retirement account would significantly improve confidence in one's own ability to accomplish the same.

## Improve noncognitive skills, especially financial confidence

In the national campaign to improve average investors' financial management, we have seen a variety of financial educational programs targeted at improving individual cognitive skills. However, it's not uncommon to see financially knowledgeable individuals, or clients given professional financial advice, fail to take actions to achieve financial wellness due to behavioral obstacles such as a lack of financial confidence—especially among women. Therefore, when working with female clients, professional financial advisors, for example, should be aware of the powerful role financial confidence plays rather than simply focusing on providing instructions and solutions. And when designing educational workshops, educators should consider the gender gap in financial confidence and recognize that a lack of financial confidence could be a deal-breaker no matter how much financial knowledge one possesses. For the best outcomes, both educational programs and professional advisory services should aim to build individuals' noncognitive skills, particularly financial confidence.

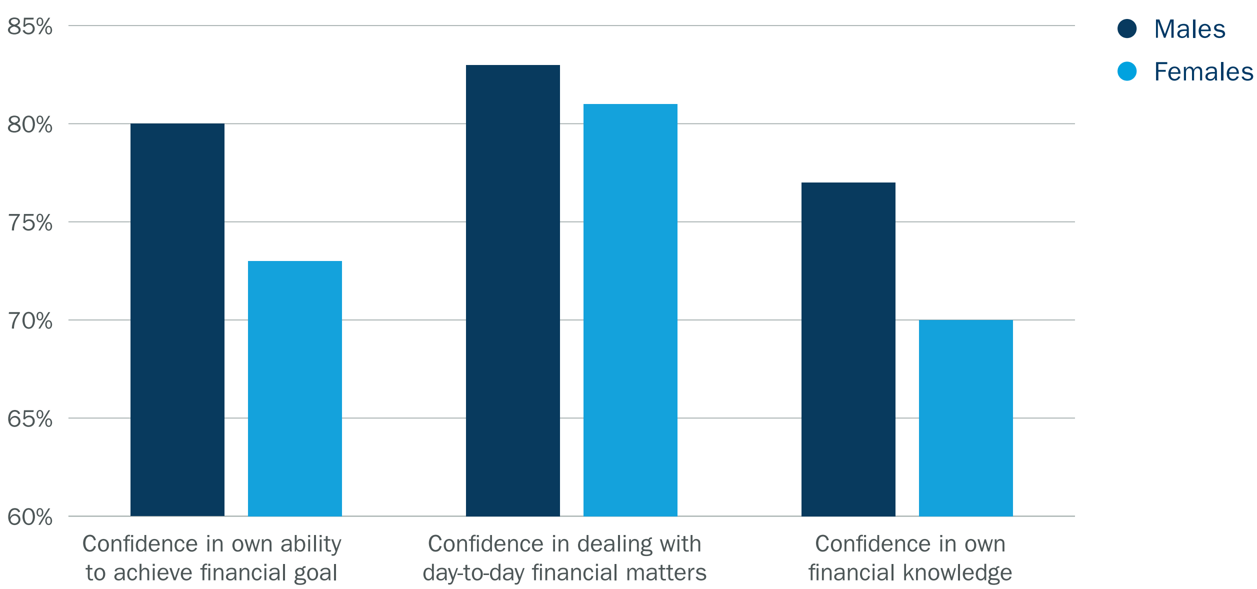
## Beyond financial confidence—improve awareness of one's strengths and weaknesses

Financial confidence fundamentally is based on the self-perception of one's ability to execute financial behavior to achieve financial wellness. The ideal situation is that the level of self-evaluated financial capability matches one's objective ability, that is, an individual is fully aware of her strengths and weaknesses in financial management. Unfortunately, that's not always the case in real life. For example, data from the 2020 *TIAA Institute-GFLEC Personal Finance Index* (*P-Fin*) report, *Financial literacy and wellness among U.S. women*, indicates that women's assessments of their own level of knowledge across various financial management areas often did not comport with how they performed on tests of that knowledge. They both did not know what they know, and did not know what they didn't know. On the one hand, underestimation of one's financial capability is associated with a lack of financial confidence as discussed above; on the other hand, lack of awareness of one's weakness in financial management could also cause negative financial outcomes and hinder people from seeking professional help. Thus, the ability to objectively self-evaluate strengths and weaknesses is critical in financial management. Professional financial advice or educational programs could benefit women, not only by providing financial guidance, but also by helping women to better understand their strengths and weaknesses, and coaching them in the decision-making process to overcome the influence of noncognitive factors.

## In closing

Multiple positive outcomes flow from improving girls' and women's financial confidence, financial knowledge and, ultimately, financial wellness. Not only is the path to a more secure retirement opened up for them, but they also gain more financial independence from others, have higher expectations for educational and career opportunities, exert more control over decision-making across social and economic aspects of their lives, and benefit from decreased health risks, as well (Minnis et al., 2013; Reed et al., 2016). For all these reasons and more, it's imperative that girls and women gain financial confidence.

**Figure 1. Gender difference in financial confidence**




Source: Author's calculation based on National Financial Capability Study 2018 State-by-State Survey.

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