Financial institutions, financial literacy and financial capability: Insights from interviews with managers of responsible banking & financial institutions

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Abstract

The rapid spread of financially complex products has imposed a much greater responsibility on individuals to make appropriate financial decisions throughout their lives (Lusardi and Mitchell, 2014; Sherraden and Ansong, 2016). How well-equipped householders are able to do so is very important for a sustainable society. Therefore, it is not surprising that increasing attention has been devoted to the understanding of the level of householders' financial literacy and the ways of improving them.

The recent financial literacy literature has highlighted the importance of financial literacy for a number of desirable facets of economic behaviour. The second phase of the relevant agenda attempts to shed lights on the aspects and specifics of financial literacy training that are likely to be conducive to the enhancement of financial capability. In practice, increased educational interventions have been created in order to promote better financial decision making across the world (Fernandes et al., 2014; Sherraden and Ansong, 2016). However, empirical evidence on the effectiveness of financial education for improving consumers' financial literacy and financial behaviors appears to be limited and mixed (Carpena et al., 2011; Fernandes et al., 2014; Lusardi and Mitchell, 2014).

Based on a meta-analysis of 168 papers that examine the relationships among financial education, financial literacy and financial behaviors, Fernandes et al. (2014) find that the effects of financial education interventions are weak in improving financial behaviors, especially for low-income samples. However, it is argued that the mixed evidence might partly due to the unclear definition and measures of financial literacy (e.g. Atkinson, 2008; Fernandes et al., 2014; Carpena et al., 2011), and there has been increasing call for research to address these limitations and to synthesize the definition of financial literacy (e.g., Remund,

2010; Bay et al., 2014). The concept of financial capability has been advocated in addition to financial literacy as the latter is "a helpful but not sufficient idea" (Johanson and Sherraden, 2007, p. 122).

This study contributes to this agenda by offering a novel qualitative inquiry into perceptions of the facets of financial literacy that financial managers find as more suitable to the enhancement of financial capability. Following previous works of Hoelzl and Kapteyn (2011), Johanson and Sherraden (2007) and Sherraden and Ansong (2016), among others, we distinguish the concepts of financial literacy and financial capability, with the former mainly focusing on the understanding of economic and financial concepts and knowledge about financial products, while the latter being considering a broader concepts that including not only individual behaviors but also the relevance of external institutions and regulations (Hoelzl and Kapteyn, 2011). Johnson and Sherraden (2007) argue that current approaches about financial education that only emphasize financial literacy but do not address external conditions may inhibit financial capability.

Our study is based on 19 interviews held with managers of 6 European cooperative financial institutions in 2016. Based on the interview data and inspired by institutional theory and capability approach, this paper develops a model of financial institutions and financial capability that reveals how financial institutions play a role in helping people become financially capable and how financially capable clients can contribute to financial institutions' performance and the wide society. It also shows how financial literacy and financial capability have been understood in the context of financial institutions.

Our study makes a novel contribution to the literature on financial literacy and financial capability. First, it situates the concept of financial literacy in the context of financial institutions and explores how financially literate customers mean to managers in financial institutions. As mentioned before, although considerable literature has been concerned with financial literacy, there is no compelling consensus on how it can be defined and measured. Bay et al. (2014) argue that "financial literacy is by no means a stable concept that is drawn upon in one particular setting for one particular purpose" (p. 42). Based upon New Literacy Studies, they suggest that financial literacy is mobilized in different situations and therefore should be understood and studied within the situated conditions. Our findings show that managers interviewed have different levels of understanding of the concepts related to

financial literacy. Interviewees have described different aspects of financial literacy according to clients' needs and types, showing that an individual's understanding of the concept of financial literacy is based on his/her social context (e.g., position) and the most important literacy dimensions for bank clients are dynamic, depending on the needs and types of them. Our findings therefore, provide evidence to support the arguments that financial literacy should be understood and defined within the context it is situated as the characteristics that constitute the concept vary with time and place. To the best of our knowledge, this is the first study investigating financial literacy from the perspectives of managers of financial institutions using qualitative method. It deepens our understanding of financial literacy and contributes to the conceptualization of it.

Second, we develop a model revealing the important role of financial institutions in improving financial capability. From the perspective of capability approach, an individual being financially literate does not mean he/she is financially capable. Johnson and Sherraden (2007) argue that financially capable people should be able to "understand, assess, and act in their best financial interest" (p. 124). In other words, to be financially capable, people should not only be financially literate, but also have the opportunity to act in their best financial interest (Sherraden, 2013). In this way, as noted by Sherraden (2013), financial capability captures "a relationship between individuals and their social reality" (p. 3). Institutions, as the principal conduits that link individuals and the reality, are expected to play an important role in shaping such a relationship. However, literature on this regard appears to be very limited. The model developed from our interview data shows that financial institutions contribute to the improvement of people's financial capability through improving their ability to act and providing better opportunity to act, and this is achieved by working with the community and other actors in the social context. The two channels are closely linked together and conditioned on each other. On the other hand, financial institutions and the wider society are likely to benefit from more financial capable individuals. A more financial inclusive and stable environment, therefore, is expected to be created.

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