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# Financial Education in 21st Century: An Effective Means to Improve Behaviour

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**Abstract**
This paper to seek discuss the importance and the roles of Financial Education (FE) in today present life. FE in today life has attracted the attention of stakeholders in many countries globally because FE programs are seen as a means to increased individual literacy level (FL) and improved individual financial behaviour. This paper seeks to discuss the function of FE in ensuring prudent financial decision and improved person financial behaviour. Further, this paper later expanded from concept and definitions of FE to the usefulness of FE. Significantly, FE aims at making individuals more financial literate, transform person to change for prudent financial decisions and provide them with the skills and competencies to take more responsibility in their personal financial management.
**Keywords:** Education, Literacy, Knowledge, Behaviour, Prudently

**Introduction**

The sign of financial illiteracy could be clearly seen during the global financial crisis in 2007 and 2008, followed by the great recession that has brought world citizens into financial difficulties in managing personal finance affairs effectively because they failed to manage the risk taken and they are incompetent to manage their money management prudently (Szymborska, 2019). The impact of the financial crisis such as higher unemployment rate, loan defaults, credit restraints have caused many individuals and households to be trapped in financial struggles; many of them have been diagnosed with depression and anxiety, which in the worst scenario can even lead to suicide (Kaplan, Huguet, Caetano, Giesbrecht, Kerr & McFarland, 2015). The assumptions are that all these financial constraints such as high personal debt, low saving, inability to understand interest cost, poor budgeting and poor credit behaviours may have been alleviated if people have sufficient financial knowledge and skills that form the basis of day-to-day financial decisions (Lusardi, 2015). As a result, the impacts of financial crisis have called policy experts, economists and government intervention in understanding and seeking the best solution in promoting prudent financial behaviour among citizens as platforms to create economic recoveries and physical financial stability of the country.

The arising on financial problems among citizen has triggered country stakeholders such as policymakers, economist, educators and financial institutions to initiate actions to improve individual's financial capability and increase their financial competencies. To close the gap between poor financial behaviour and financial illiteracy, FE has been introduced to reverse the trend and to ensure the individuals able to manage his or her own financial affairs with sufficient knowledge and skills gained (Fan & Chatterjee, 2019). Financial information, knowledge gained and skills learned from either formal or informal FE will benefit them in terms of their application of theoretical knowledge because the lessons contained in FE will enhance their FL and positively correlated with higher degrees of financial behaviour and prudent financial practices. In today's modern consumerism and digitalisation, FE is vital because it demonstrate knowledge, caution, self-discipline and skills needed before making any financial choice, which are the determining factors for each person current and future financial well-being.

**Literature Review**

FE is defined as any mode of FE that is delivered through any platform, such as in high schools, colleges, universities or workplaces (Xiao & Porto, 2017). Potrich, Viera and Mendes-Da-Silva (2016) defined FE as a development process that helps a person to make correct decisions and to manage his or her personal financial affairs effectively. It is considered as individual expertise in personal financial matters correlated with the application of knowledge**.** Organisation for Economic Co-operation and Development, [OECD] (2016) has used the standard definition of FE which says that it is the process by which financial consumers or investors improve their understanding on financial products, concepts and risks through information, develop skills to make informed choices and to take other effective actions to improve their financial well-being. Lusardi and Mitchell (2014) conceptualised FE as an improvement process for individuals to better understand financial concepts through information, education and advice. Hogarth and Duca (2006) discovered that FE carries various interpretations such as the knowledge and ability to manage money, to understand the concept of managing money and to apply the knowledge to plan, implement and evaluate financial decisions. Thus, FE can be defined as any mode of FE programmes, including courses, training, workshop or any education activities, delivered in various formal or informal platforms with the objectives to equip, enhance and educate individuals with financial knowledge, skills and tools in managing their own financial resources effectively.

The ultimate goal of FE is behaviour change associated with improvement in individual knowledge skills and financial management, to enhance capability to manage risks and develop long-term financial plan (OECD, 2016). It is about delivery of knowledge. Meanwhile FL is more complex because it is about the acquisition and the application of knowledge (Potrich et al., 2016). Atkinson and Messy (2013) indicates that FE is a predictor of individual FL level. Yoshino, Morgan and Wignaraja (2015) considered FE as a substantial building process, which consequently results in improved individual FL and money management affairs. However, confusion arises when some scholars have used the term FE interchangeably with FL and financial capabilities (Fernandes et al., 2014). Consequently, FE is expected to build up the foundation of financial knowledge regarding saving, credit, budgeting, investment, debt management, wealth accumulation that are synonymous with daily financial life. Knowledge and information acquisition gained from FE can assist individuals to understand financial concept better, make them more skilful in managing money, enhance individual literacy level associated with right financial decisions, preventive from wrong financial decisions and undesirable financial behaviours.

FE can be delivered in various platforms, depending on the target audience, contents and objectives of the programmes (Laverty, 2016). Each countries have their own initiatives and adopt different strategies in the development and in delivering FE to their citizens through voluntary basis, mandated courses or integrated into the education system. In determining the FE constructs, Asaad (2015) suggested that FE can be divided into two constructs, namely subjective knowledge and objective knowledge. Hadar, Sood and Fox (2013) noted that subjective knowledge refers to individuals' ability or expertise, while subjective knowledge refers to psychological traits or non-cognitive skills. Both are interrelated, they complement each other and play important roles in predicting individuals' financial behaviour. In determining the effectiveness of FE, numerous factors influencing the success of the programme have been identified. They include content-related factors, target and participant factors, context-related factors and quality of trainers or teachers assigned to teach the subject (Compen, Witteb & Schelfhout, 2019). Compen et al., (2019); Alzgool (2019); Muhammad, Saoula, Issa & Ahmed (2019) further stressed on the importance of teacher or trainer development programmes in ensuring the delivery of FE. This element is very crucial to ensure such impact of FE is fully maximised and participants get the information, knowledge, skills in financial context; it ensures them to act independently in managing their financial matters and react to events that could have implication on their financial well-being.

FE has been widely accepted as the best preventive intervention towards financial problems especially among the young age group and it is believed to be able to equip the groups with basic financial knowledge that will help develop their future financial behaviours (Walstad, Tharayil & Wagner, 2016). The requirements of the formal classroom education improved participants financial behaviour that could lead to behaviour change because it is more continuous; it embeds an influence in which literacy development takes place (Compen et al., 2019; Khalid, Islam & Ahmed, 2019). As youth are in their transitional period, those who are not equipped with sufficient financial skills or knowledge are more likely to manage their financial affairs based on trial and error, which could involve costly mistakes, which may leading to credit histories and high borrowing costs. Literatures studies have proven that FE is associated with reduction in non-student defaults and loan defaults (Brown, Grigsby, van der Klaauw, Wen & Zafar, 2016). Similarly, a study by Bernheim, Garrett and Maki (2001) found that state policies can enhanced saving habits. Consequently, by enrolling in FE programmes, it is believed that it could create more self-awareness, more knowledgeable, more cautious in making decisions, and creating a preventive platform for present and future financial problems.

Although several studies have found that the effectiveness of FE has shown mixed evidence and inconclusive (Fernandes et al., 2014 ; Hastings, Madrian & Skimmyhorn, 2013), however, FE is widely acknowledged and significant to individuals' financial knowledge and as a catalyst for financial inclusion, owing to their ability to empower citizens to make informed financial decisions that can dramatically affect the financial well-being of individuals and society (Farrell, Fry & Risse, 2016). Incorporating and mandating FE into the education system is considered as an effective mechanism to equip and enhance citizens's knowledge on various financial issues (OECD, 2016). The underlying theory is that FE will increase individuals' financial knowledge; financial knowledge will translate into right financial decisions and positive financial behaviour which later translated into better financial outcomes. The consensus is that the results expected from FE will benefit individuals to practise good money management, better financial planning, sound financial decision associated with positive behaviours. Mandated FE have been acknowledged as an important factor and the best platform to equip young people with new challenging financial environment.

**Innovative Provision of Fe**

The delivery of FE appears to have a great impact causing many behavioural changes. Evidence further shows that FE as an intervention for improving financial behaviour has been discussed in many studies (Giofré, 2017; Lopus, Amidjono & Grimes, 2019). Higher life expectancies, emergence of financial products, wide access to financial services, and low literacy has increased the importance of FE as a primary source for individuals to gain financial knowledge and make sound financial decisions (OECD, 2016). Empirical evidence has shown that FE is positively significant in many fields of financial behaviour such as increased individual FL, financial inclusion, financial satisfaction, consumer welfare, financial capability, wealth accumulation, retirement planning, higher saving, financial confidence, and decision to purchased insurance (Ambuehl, Bernheim & Lusardi, 2014; Mindra & Moya, 2017). All these cited literatures supported that FE is a strong predictor in many financial behavioural studies surrounding the individual's life and identified as a core life skills for everyone. It has become essential in today's financial environment and acknowledged as the best foundation that influence individual behaviour and further improve individual financial well-being.

In the wake of economic slowdown, knowledge information and skills learned from attended courses or programme ultimately assist individuals to the right choice on the abundance of products and services offered. Knowledge and reliable information gained help individuals to think prudently, make the right decision through the tools learned and input received after attending such programmes ((Xiao & Porto, 2017). Besides the acquisition of knowledge, FE can also boost their confidence and encourage them to take action based on the knowledge gained. Input information will assist individuals to manage their money effectively and ensure their money is spent according to a budget plan that is correlated with FL. It is more useful and important among those average or vulnerable persons because FE attempts to guide and equip vulnerable groups such poor people and those with low academic performance (Mouna & Anis, 2017). The intervention of FE may mitigate financial problems, combat and prevent people from indebtedness. The assumption is that FE increases financial knowledge and financial knowledge improves individual's management skills, which will result in people making prudent financial decisions (Tang & Baker, 2016). Thus, FE considered as the best strategies to educate citizens to manage their money effectively because any money management behaviour practised at university is likely carried forwards into career life.

Literatures reviewed have shown that FE influences individual literacy, leading to behaviour changes. It influences important financial decisions such as life skills (Ambuehl et al., 2014; Lusardi & Mitchell, 2014). FE may guide citizens to make informed decisions in managing money effectively because FE empowers individuals with the capability and ability to apply knowledge gained into making right decisions in real life situations (Albeerdy & Gharleghi, 2015; OECD, 2016). Early exposure to FE is important because it builds the foundation for future financial well-being and the knowledge persists into adulthood. Therefore, it is ideal to equip young people with sufficient knowledge and sound financial habits to deal with financial issues in the present and in the future. This is because FE does not only create awareness, improve knowledge, impart skills and helps them make financial decisions, but it inculcate significant positive early financial practices that can be applied throughout their lives (Loke, Choi & Libby, 2015). Since citizens are inexperienced in financial affairs, while they need to make financial decisions independently, early exposure to financial knowledge regarding money management and financial planning through FE programmes will enable them to understand and exercise money management according to their capability. Citizens with sufficient financial knowledge will have good practices, will ensure they spend their money wisely, while avoiding heavy accumulated debts, which could cause them the possibility of being declared bankrupt.

FE may assist, guide and facilitate people to understand the products and services that they encounter in their daily financial life (Giofré, 2017). In fact, the study found that those who attended the programmes showed more literate compared to their counterpart who not attended the programmes. Luhrmann, Serra-Garcia, and Winter (2018) found that German high school students make more time-consistent choices after receiving financial education lessons on shopping, planning and saving, at school. With various financial products, complex financial instruments and higher interest rates, individuals who are financially illiterate are highly exposed to making wrong financial decisions, face risk of being trapped with fraudulent manipulations because they do not understand the financial products and the risk they face (OECD, 2016). Financial skills, methods and techniques gained from FE will assist individuals to analyse available options for making better financial decisions and manage their life expenditure according to their means (Bruhn, Leão, Legovini, Marchetti & Zia, 2016). As reported in OECD (2016), individuals with financial knowledge will be able to manage their financial resources prudently and have self-control over their own financial matters compared with their counterparts. Domains in FE such as goal setting, budgeting, managing cash flow, debt management, saving and investment are positively significant to financial well-being. FE helps educate individuals to be more responsible when making decisions, they can understand product needs, they evaluate their own financial capabilities and manage it prudently without disrupting their families and their societies.

**Conclusion**

FE has been acknowledged as the effective tool for controlling debts, for diversifying investment, and for building and managing wealth. It helps citizens to manage their money effectively, to build up self-confidence and to live within their means. In present uncertain economic environment with the complex financial environment and the abundance of financial products and services, the situation requires individuals across age groups to acquire and possess sufficient financial skills with strong financial knowledge that associated with effective. FE has been gradually seen as crucial competencies and recognised as the best financial tools that must be acquired by each individuals as a guide and platform to achieve their financial goals and necessary to achieve present and future financial well-being. The initiatives to advocate sufficient financial knowledge and skills through FE has been recognized as meant to empower person to improve personal and household financial resource effectively. It considered as best platform to equip citizens with financial knowledge and life skills to assist them to make sound financial decisions by taking account the varying need of economic, financial status and risks. Consequently, FE will lead citizens to become more competent in managing their own financial resources prudently and essential life skill to improved individual financial behaviour.

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