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Young people's financial capability

Taking care of your finances is taking care of yourself

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What are financial literacy and financial capability?

Amid global economic uncertainty and prolonged parental financial dependence, youth financial literacy has been an ongoing challenge worldwide. "Financial literacy" does not refer only to the adoption of certain financial knowledge and skills, but also to the support of adopting appropriate attitudes towards financial issues, self-confidence in taking care of one's finances, and responsible financial behaviour. Together, these all support financial decision making and financial well-being. While financial literacy can be examined within different theoretical perspectives, this paper highlights the broader, holistic and developmental perspective of "financial capability" (Johnson and Sherraden 2007; Serido et al. 2013).

Financial capability captures not only the financial knowledge and skills young adults need for everyday life, including staying informed and seeking financial information, but also how this knowledge relates to personal financial self-beliefs, financial behaviour, and financial well-being. Financial knowledge, such as the ability to make a budget, understanding what basic financial concepts mean and knowing how to use financial products and services such as online banking are concrete skills which support young people's everyday life. Furthermore, their self-beliefs, including self-confidence in their own financial management, empower coherent decision making, making financial plans for the future, and actualising these plans. In the end, this financial behaviour supports subjective and financial well-being. The development of financial capability is especially important for young people as they make the transition to financial independence and independent living, while often also making the transition to further education and career life.

The Covid-19 pandemic has increased personal concern over finances

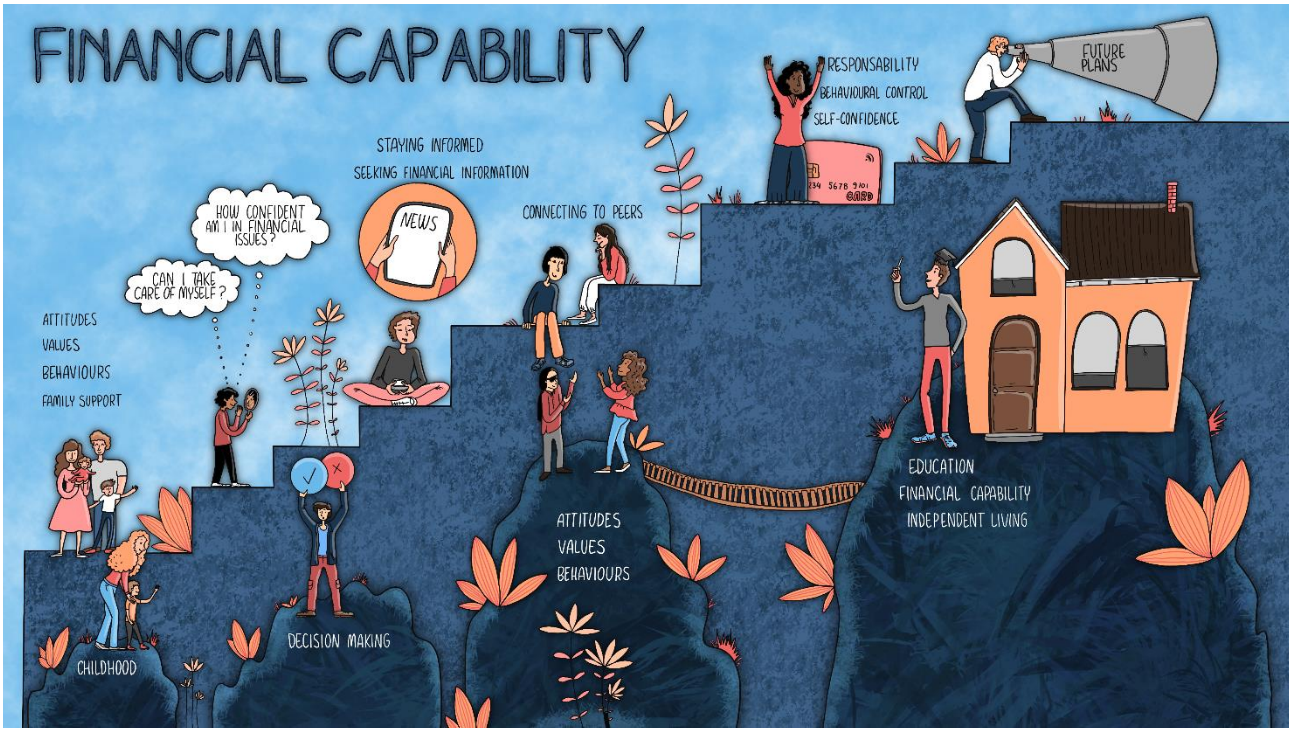
Amid the global Covid-19 pandemic, in 2021, the Organisation for Economic Co-operation and Development (OECD) Global Money Week campaign theme highlighted the slogan "Take care of yourself, take care of your money" (OECD 2021). Taking care of one's finances and securing one's own financial well-being has indeed been emphasised in times of uncertainty. Young people are often seen as a vulnerable population in times of societal crises. Learning from the past, we know that young adults are a major risk group and especially financially vulnerable to the effects of economic downturns. Financial stress due to financial circumstances with low income levels, loss of income, unstable employment, and high debt levels may cause financial pressure and hardship as well as uncertain future prospects.

The impact of the pandemic on young people worldwide has been both deep and disproportionate. According to a Eurofound report (2021), young people were hit hardest by job loss due to the pandemic, with almost half (43%) of these unemployed or inactive young people having difficulties making ends meet. Young people taking their first steps in their careers may face unemployment, lay-offs and insecure and temporary work contracts. The concurrent turbulence young adults experience in their transition to adulthood is especially critical with the financial insecurity posed by the current global pandemic already identified in the experiences of young adults – while the final effects are to be foreseen in the near and long-term future.

The current situation has broadened my scope of research interest in youth finances, and the most recent literature in the field contributes to the general knowledge and understanding on the unequal effects the pandemic has caused on different age groups. How the pandemic has impacted the lives of young people is inevitably a case for societal concern. Data collected during the peak of the societal crisis reflect the general vulnerability of young people in an already demanding life situation. Young people aged 18 to 29 have been found to be most concerned about the effects the pandemic will have on their financial situation and mental health when compared to the older population (Ranta 2021). Furthermore, financial situation, life satisfaction and trust in other people were at a lower level among young adults than among other age groups. The personal situation and individual resources have an impact on how personal concerns during the pandemic are experienced. A low financial situation to begin with, as well as a low level of life satisfaction, increased concern over the effects of the pandemic on one's future.

Financial confidence plays a key role in the attainment of financial independence, everyday life management and coping with daily stress (Serido et al. 2013). With the shift of responsibility from parents to individuals, young adults should be encouraged to increase their self-beliefs and feeling of capability in the financial domain. Financial difficulties, however, may challenge life management and deteriorate self-confidence (Cunnien et al. 2009).

In line with this, an economic stress model of emerging adults (ESM-EA) shows how financial stress relates to low life satisfaction and depressive symptoms but also how the concept of financial capability underlines that financial confidence supports well-being (Ranta et al. 2020). The model shows not only the long-term effects of financial distress on emerging adults' well-being, but also the protective role of financial capability, namely financial confidence, and financial behaviour on mental health. Otherwise, experiences of financial hardship and perceived economic pressure may impact emerging adults' well-being for the years ahead (Ranta et al. 2020). The significance of one's confidence in managing personal finances is critical in supporting subjective well-being, and ever more so in the transition to adulthood.



Financial literacy may differ significantly among youth

In times of global financial change and insecurity, young people must cope with their challenging personal financial management. In many European countries, financially vulnerable young people face rising rates of debt and risk of poverty and marginalisation. Despite the development of young people's financial capability during the transition to adulthood, financial socialisation research emphasises the impact of the family environment during childhood on financial management and youth financial literacy (LeBaron and Kellye 2021; Serido and Deenanath 2016). According to this line of theory, the childhood family plays a critical role in how attitudes and values towards financial issues are formed and how they are reflected into behaviour. In sociological consumption research, the family is also seen to have a significant role in the consumer socialisation of young people and their financial behaviour, for example in how materialistic values and attitudes are transmitted from the parents to the children; what value is given to money and what is the role of money in everyday life, to name a few (Hayta 2008; John 1999).

In general, individuals learn by being interested in a topic, connecting this interest with their past experiences, present life situation and related needs. Consensus that emphasising financial knowledge is insufficient for a comprehensive perspective on financial literacy leads to considering how emotional and personal factors affect, or empower, financial behaviour (Lusardi et al., 2010; Angulo-Ruiz and Pergelova, 2015). Young people's financial behaviour has an intrapersonal component including cognitive elements such as knowledge, but also an interactional component – how people relate to their environment– as well as a behavioural component – taking actions (Angulo-Ruiz and Pergelova 2015). Classical developmental theories also emphasise the importance of the social context for behavioural models and adoption of new information. Financial literacy is learned throughout the life span and in different contexts, with the childhood family and home having the most significant influence (LeBaron and Kelley 2021). Social learning, for instance, occurs in the family home, through modelling and learning from the consequences of behaviours and through active participation. The family has a critical role in teaching financial skills and offering a model for financial behaviour. The family plays this role well into young adulthood and adulthood, although gradually the role of friends, peers and partners, as well as education and the media, grow. Financial skills are constantly updated (Jorgensen and Savla 2010; Serido and Deenanath 2016). Building financial capability can be examined similarly as a dynamic and complex process, emphasising that it is not a stable, accumulated set of skills and knowledge but built gradually and influenced by one's life situation and other changes. It builds upon the gained knowledge, skills and self-beliefs, including financial attitudes, behavioural control and self-confidence, which are then reflected in financial behaviour and, eventually, financial well-being. It is a holistic, developing capability (Serido et al. 2013).

Therefore, among young people, comprehensive financial literacy is updated and should emphasise responsible financial behaviour and consumption habits from an age-specific perspective, but also from a young age. However, differences in adolescents' financial literacy are significant and family socio-economic status, for instance, is a significant contributing factor, as seen in the PISA 2018 study on financial literacy (OECD, 2020a). Financial problems experienced in the childhood family may also define children's social relationships and emphasise the social pressure young people have concerning consumption.

The transition to financial independence among youth is also often not an on/off transition from the childhood home to independent living and financial independence. Young people may be emotionally and financially tied to their parents for a long time. Parents can support their children financially in many ways and at many levels, including indirectly. This may often help young adults become financially independent and get off to a good start. Financial skills learned at a young age often remain for later life as well, and if the appropriate financial skills are incorporated into everyday financial behaviour, they become a routine and, as such, support healthy financial behaviour and financial well-being. However, increased financial assistance may also make the transition more demanding. There is also great variability in how families can support their children financially and teach the necessary financial skills. Parents may simply lack the necessary skills to teach their own children about financial management and therefore young adults may feel insecure in handling their own finances.

In addition to family factors, young people's developmental transitions are highly related to macro-level socio-economic and cultural factors, such as the aforementioned pandemic. Furthermore, the timing of life transitions, important social relationships, as well as individual agency also play a critical role for development (Elder 1998). Gradually, a young person takes on a new, independent, adult role in society which can be perceived as challenging, with multiple options and decision-making processes. Along with independence come uncertainty and stress.

At the individual level, the life situation of young adults plays a role for financial life management: whether one is in education, working or in a relationship for instance, certain situations support the transition to financial independence more strongly, while other situations may exacerbate obstacles. Young people's current financial situation and employment status define their possibilities to cope financially in life and hence ease out differences among young people. The importance of financial independence is also emphasised as the importance of parental financial support decreases. Improving one's situation does, however, require strengthening financial literacy and holistic support for young people's financial independence and engagement in work life, also during times of societal and personal change.

How to promote youth financial capability and resilience?

In these circumstances of past and current economic insecurity and the demanding life course transition to financial independence, it is crucial to identify factors that promote not only financial literacy, but most importantly, financial capability. The current pandemic differs from previous societal crises in that the present situation is particularly insecure and unexpected (Serido 2020). There is an alarming need for certain psychological resources, such as resilience, not only for general well-being but also for the financial life domain. In this sense, "resilience" refers to successful adaptation and competence despite significant risk or adversity which may affect achievement of young people's major developmental tasks (Masten and Powell 2003). In fact, resilience is not simply the avoidance of negative outcomes in challenging times, but the individual's ability to identify, optimise and analyse their strengths to overcome these challenges (Hussong et al. 2021). Young people experiencing low agency see the present situation in a negative manner and tend to see the crisis as uncontrollable from a pessimistic point of view. In our research, these young adults were especially concerned about the effects the pandemic will have on their well-being, career and personal financial situation (Ranta et al. 2020).

Towards a new era in terms of financial literacy – and financial capability

A rapidly changing context immersed in digital technologies, global information and social networks within global macro-economic turbulence and financial insecurity relates strongly to problems in future prospects and well-being at the individual level. Young people must manage changing economic circumstances, prepare for risks and tolerate insecurity, being at risk of becoming economically vulnerable. At the same time, new digitalised personal financial management and consumption patterns require dynamic financial skills from individuals, and above all, confidence in fulfilling financial responsibilities and making financial decisions. In the digitalised consumption environment, consumption habits have changed significantly as money has been transformed into an invisible, intangible means of exchange. Modern society also involves an increasing use of solutions based on artificial-intelligence (AI).

Along with these changes comes a requirement for an update in financial literacy. Financial knowledge and behaviours need to be updated for young people to behave and decide responsibly, practice financial life management and thrive in the present knowledge society. According to the OECD (2015, 2020b), in addition to financial knowledge and skills, capability in gaining and developing appropriate financial competencies and behaviours are needed to eventually foster financial and subjective well-being and avoid risky decision making – all of which support the need for a harmonised, international framework for financial literacy addressing the needs of young people in terms of key competencies and the relevance of different learning environments.

In response, more than 70 countries and economies worldwide have published a strategy for financial literacy at the national level (OECD 2022a; for a review, see OECD 2022b). These strategies emphasise responsible financial decision making and understanding and forecasting of one's personal financial situation. Individuals are at its core, with the overall aim to increase understanding on promoting the importance of financial literacy among the population of all ages. Furthermore, the Recommendation on Financial Literacy instrument adopted by the OECD Council, initially developed in the OECD International Network on Financial Education with over 280 public institutions from over 130 OECD member and non-member countries, guides governments, authorities and stakeholders to implement financial literacy policies (OECD 2020c). As opposed to a problem-based focus, it is vital that the core of national financial literacy strategies be in strengthening individuals' knowledge and skills, in collaboration with service providers and in profiting from knowledge gained from scientific research – all to support individuals' financial well-being in the short and long term. In the public discussion as well as in public services and research, promoting positive future perspectives for young people is especially important as we make our transition towards the aftermath of the Covid-19 pandemic. Becoming a successful citizen in today's complex and ever-changing financial landscape requires strong, efficacious financial responsibility, risk management, and grasping dynamic financial concepts.

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