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Need For Primary Financial Socialization for Building Financially Capable Citizens

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Abstract

The challenging economic scenario demands all individuals to strengthen their financial abilities to deal with complex financial products and services. On the other hand, policymakers are trying to build a strong financial capability by providing ample financial literacy and education programs over the past few decades, neglecting the differences in socioeconomic status, the socialization process and other related factors. Learning is comparatively easier in the early stages of the human life cycle than re-learning the things taught differently or wrong in the earlier period of socialization (in the later stage of the life cycle). Emphasis should be equally shifted between building capabilities for present and future citizens (today's children). Ignoring either would be a reactive approach. Therefore policymakers should concentrate on simultaneously building an internally and externally capable environment for individuals rather than handing over a major part to be played by the public. This paper attempts to address Financial Capability from a proactive perspective assuring standard financial capability to all the citizens by laying its initial foundation through an effective financial socialization process.

Keywords: Financial Capability, human life cycle, Socialization, Financial socialization.

In this fast-moving scenario, everyone is self-competing to prove themselves and society. Moreover, a high demanding financial environment expects people irrespective of socioeconomic background, interests, similarities and differences. The complexities in the financial environment increase policymakers to opine that remedy for the financial indiscipline is a compulsory financial literacy education (Fernandes et al., 2014).Policymakers, including nation's governments, international agencies, researchers and academicians, have turned their heads towards building a financially capable environment in every nook & corner of the world (Miller, Reichelstein, Salas, & Zia, 2015). The majority of financial experts, researchers and governments of developed and developing countries found financial literacy education as the only solution to address all global personal financial ailments (Braunstein and Welch, 2002). The situation might worsen if financial education or literacy is the only tool to fight against saving households from economic ruin (Alsemgeest, L. 2015). However, an essential part is unintentionally ignored or not given due importance. A person life cycle starts from the mother's womb and ends with death (ignoring religious belief). Cognitive domain, psychological, social, situational, demographic and personality traits account for one's financial management (Lynch, 2011&Alsemgeest, L. 2015). Shim et al. (2009) conceptualized a model in a study by stating that an individual's life success is not solely dependent on financial knowledge, attitudes and behaviours, and these variables are influenced by demography, personal values and economic socialization. In personal finance research, earlier emphasis was given in the cognitive domain ignoring sociodemographic factors and their corresponding differences in the financial outcomes (Gudmunson& Danes, 2011). Gudmunson and Danes were the first to introduce the concept of the Family Financial Socialization model into personal financial management. For effectively converting acquired set of skills into responsible behavior in financial matters, opportunities are required to exercise socialization skills and to develop psychological characteristics of young adults.

Financial adversity leads to financial hardship and invites emotional and psychological issues, which affects the overall well-being of an individual (Alsemgeest, L. 2015). There exists a serious imbalance between the increasing interest and efforts to enhance financial education, financial literacy, thereby developing a financially capable environment and their results. Responsible financial behaviour is positively associated with parental influence and self-discipline (Tang, Baker, & Peter, 2015). Overemphasis is given to financial education, literacy and financial inclusion around the world has not elevated positive results tremendously. The Economic Intelligence Unit (2015) reported thatmost of the new bank accountsopened through PMJDY remain dormant this might be due to the lack of hands on experience.

Imbalanced Method: A Reactive Approach

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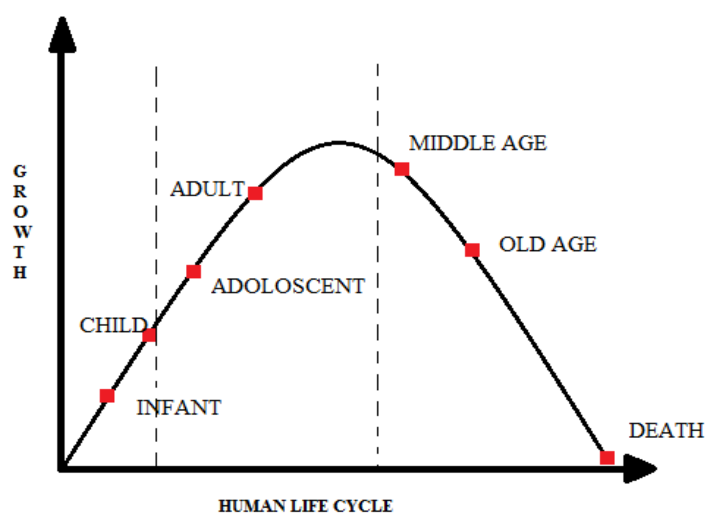
Capability is the combination of internal capabilities and external capabilities (Nassbaum, 2000). Enriching financial literacy and financial education is the means of increasing the internal capability of an individual. Likewise, a positive wave of change should occur in the external environment, enhancing the capability of an individual. Researchers and Policymakers should have a wider perspective in building Financial Capability as one size fit may not work optimally in a matter involving human psychology, as opined by Behavioural economists (Thaler and Sunstein, 2009).

One of the shortcomings of the above-stated method, when whole stress is driven on financial literacy programs, in reality, it is not easy to re-learn things that had have been acquired through several years of socialization and life experience in an early stage of the human life cycle. As Sigmund Freud, in his psychoanalytic theories, states that childhood events and experiences attribute to the well-being of a person. The sociologist theorist John Bowlby in social development of children theory,explains that a newborn's relationship with parents played a significant role in their development, and these relationships tend to influence their life social relationships throughout; as the family is the principal socializing agent. G. H Mead stated thatchildren develop as a social being by copying actions of those who around them.



Ozemte defined socialization as “the process whereby a person learns the value system, norms and required behaviour patterns of a given society in which he belongs”(Khurana & Dang, 2017). Socialization can be of primary, secondary, re-socialization and gender socialization. Family is considered the agents of primary socialization, whereas school, peers and media are secondary agents of socialization. Re-socialization is a process by which an individual re-learns things differently in the later stage of a human life cycle, which is difficult. Gender socialization is crucial for the development of one's financial behaviour. For instance, men and women later prefer to save in a much risk-free environment while their counterpart thinks differently if the return is worth it. Parents, peers, media, and culture are the most commonly researched agents of financial socialization of young people (Bakir et al., 2006; Mandrik et al., 2005). The financial education process takes economic socialization into its concern, which explains the way children build their concepts in economics and the developmental stages in which they are designed(Silva, Magroa, Gorlaa, & Nakamura, 2017).

Role of Family Financial Socialization

An individual life evolves through different stages of the life cycle. The roles and duties played and exercised by her or him vary with life stages - infancy, childhood, adolescence, adulthood, and old age. The most vital stage in people's lives for initial learning and primary socialization is infancy and childhood; this phase of the life cycle is understood as the building block of a child's cognitive, emotional and physiological development. Moreover, the process of socialization is sustained throughout the life cycle.

Family plays a key role through financial socialization in developing youth financial behaviour (Bowen, 2002). The young adult's financial behaviour is moulded in the early stages of socialization. Family's financial socialization plays a vital role in the formation of an adult's financial handling. Parents and family background are prominent variables in making up their future overall (financial) behaviours. Through financial socialization, young adults acquire the necessary skills, knowledge, attitudes, standards, values and norms to become financially literate and competent individuals (Lueng et al., 2006; Rettig and Mortenson, 1986).

Balance Method: A Proactive Approach

The former method addresses the debt crisis and financial incapability prevailing around the world in a reactive approach. Many research studies on income-poor individuals financial knowledge, skills, and financial inclusion show that this population lacks access to available financial opportunities around them. There is a need to address the above shortcomings effectively by adopting multiple method approaches. Parental socialization is one such method, and it means to start teaching basic finance and related matters from home. The way by which parents and close relatives help in develop their understanding in finance. Alike imparting moral values to their children, families should use explicit and implicit behaviours to communicate financial values (John, 1999; Moschis, 1985). In the words of Jorgensen&Savla, 2010, Implicit behaviours like observing or imitating behaviours, subtle cues from their parent's behaviour and unconscious communication of norms and expectations (Kagotho et al., 2017). In contrast, Explicit financial socialization occurs through direct communication about financial matters (Sherraden, Moore Mc Bride, & Beverly, 2010; Kagotho et al., 2017), behavioural modelling (Friedline, 2012), and consciously creating opportunities that allow children and youth to engage in financial practices (Chowa&Despard, 2014; Kagotho et al., 2017). Childhood financial socialization experience is positively associated with the promising financial practices and creating ownership in financial assets by respondents in their young adulthood (Kim & Chatterjee, 2013).

Other programs concentrating Child should be initiated, not only by including literacy programs in their curriculum but effectively implementing it through various interactive sessions with financial psychologists, clarifying their queries, inhibitions without hesitation and too with a smile, as these gestures have a lasting impression on their young minds. A child is a future citizen; teaching a child how to handle a family's finances is important to their lifeline. The philosophy of saving and spending is to be learnt in the early years of socialization(Silva et al., 2017). Bucciol (2014), in his studies, pointed that a combination of different strategies works together to provide a synergic effect. For instance, when a child was given pocket money, in control or with advice seems to be a more effective strategy than the adoption of only the pocket money method, which in turn resulted in yielding the highest propensity to save in the former strategy than latter. Financial outcomes tend to vary with the level of influence of parental socialization. Individuals who owned bank account and had their spending watched by parents in their childhood were more likely to exhibit better positive attitudes toward personal finance as young adults and own financial assets. The most effective and efficient strategy is teaching to handle money with utmost sense during childhood and adolescence than in adulthood.

Therefore policymakers should concentrate on building a double-sided plan by strengthening both internal capability and external environment for individuals rather than handing over a major part to be played by the public. Financial capability solved from proactive

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approach assures standard financial capability to all the citizens by laying its initial foundation through an effective financial socialization process in their childhood days.

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