

The Power of a Financially Literate Woman in Intra-Household Financial Decision-Making

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Abstract

Using India's national benchmark survey for financial literacy and inclusion, we observe a step change in financially literate women, who possess higher levels of sole and joint responsibility with their spouse to manage their households' finances. Considering ownership information in eighteen different financial products, alternative investments (such as gold, property) and informal banking (such as savings at home, loans from moneylenders), we find that household product holdings are greatest where the husband and wife are jointly responsible for financial decision-making, and in particular where the wife is financially literate. Such households benefit from men's preference for higher risk-return products, whilst also holding security-focused products, such as savings and insurance products, favored by women. The findings emphasize the importance of financial literacy and spousal teamwork in intra-household financial decision-making.

1 Introduction

Historically, inequality in income and education meant that intra-household decision-making roles for men and women remained segmented. However, in recent times women are increasingly more active in the workforce and have become greater contributors to household income. For instance, women own 27 percent of global wealth, with the highest annual growth observed in Asia (excluding Japan), reaching nearly 30 percent in 2009 (Damisch et al., 2010). This means that there is a growing interest in understanding the financial outcomes of households when intra-household financial decision-making is shared between husband and wife, rather than one spouse.

However, recent worldwide evidence shows that it is men who tend to be responsible for important financial decisions within households. A recent survey conducted by UBS Global Wealth Management reveals that the majority of women worldwide leave investing and financial planning decisions to their spouse. Less than one in four women (23 percent) are involved in making long-term planning decisions within their households (UBS, 2019). This leaves women exposed to significant financial risks when faced with unexpected family crises, unless they respond with investing in financial knowledge (Hsu, 2016). There could be several reasons for women leaving financial decision-making responsibilities to their spouse. For example, recent studies document that women's influence in intra-household financial decision-making is constrained by the social contexts households operate in and implicit gender norms differentiating men's and women's roles within households (Ke, 2021; Guiso and Zaccaria, 2021). A skills-based explanation is that women possess

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lower levels of financial literacy than men (Lusardi and Mitchell, 2008; Bucher-Koenen et al., 2017; Hasler and Lusardi, 2017) and therefore may be unwilling to take on the responsibility of financial decision-making.

2 Our study

In this study, we use information on women and men’s financial decision-making levels (either sole or joint decision-making with spouse), financial literacy scores of these decision-makers, and granular ownership information on a large set of financial and alternative instruments, to investigate two unanswered questions. First, what is the role of financial literacy in empowering women to be involved in intra-household decision-making and in turn, leading their households to participate in different types of financial products and services? A priori, it is likely that the balance sheets of households led by financially literate female and male decision-makers will look different. For instance, since women tend to be more risk-averse, they may prefer holding a safer household financial portfolio, as compared to households led by men. This leads us to investigate the second important question: is there a material difference in portfolio holdings when a husband-and-wife team is jointly making financial decisions, over one spouse taking sole responsibility in managing household finances? The findings contribute to the understanding of financial (non-)participation rates of households with different financial management structures.

3 Data

We utilize India’s first nationally representative survey for financial literacy and inclusion fielded in 2015, with granular information on financial responsibility levels, and financial portfolio holdings information of around 60,000 Indian households. We observe three levels of decision-making responsibility among respondents: (i) solely responsible for making the household financial decisions; (ii) jointly responsible with spouse; or (iii) no responsibility for financial decision-making. For each household, the survey records whether they hold financial and alternative instruments from six different product categories, including savings schemes, investment products, stocks, insurance products, loans and credit cards, and alternative investment products. We take into account the ownership decisions of eighteen different financial products within the six different product categories, including recurring and fixed deposits, post office savings schemes, Kisan Vikas Patra, public provident fund, mutual funds, bonds, stocks, life insurance, health insurance, home insurance, cattle and crop insurance, personal loans, (subsidized) credit cards, loans from microfinance institutions, chit-funds, collective investment schemes, investment in gold/silver, and investment in property. We also consider participation in informal banking activities, including saving money at home, saving money informally, and holding loans from money lenders.

4 Empirical model

We assess the differentials in portfolio holdings of households solely or jointly run by financially literate men and women decision-makers, which is the main goal of the paper. For this, we estimate a structural model, jointly modeling the ordered responsibility levels and the probability of holding financial instruments as a system of equations. The estimation seeks to capture the influence of financial literacy on an individual’s financial responsibility levels within their household, and conditional on the responsibility levels, their probability of owning different types of financial products and services. The structural model estimation enables us to accommodate for any endogenous treatment effects arising from the fact that both financial responsibility levels and the decision to own financial products can be influenced by financial literacy and thereby confound our findings.

5 Summary of the findings

The results of the structural model reveal the following: First, we find that financially literate women have a greater probability of jointly leading household money matters with their husband. When we study participation in informal banking activities, such as saving money at home and borrowing money from moneylenders, we observe that both financially literate men and women tend to possess significantly lower levels of responsibility for money matters in such households.

Secondly, once we model the effects of individuals' financial literacy on responsibility levels in the first stage of the structural model, we find that greater levels of financial responsibility (either joint or sole responsibility) do not have any significant relationship for financial product ownership decisions. This means that possessing increased levels of responsibility in itself is not significantly related to increased financial product holdings, and what matters for participation in financial markets is the financial literacy levels of decision-makers.

Thirdly, a series of interesting findings emerge when evaluating the cross-marginal effects of the changes in financial literacy on the likelihood of holding financial products, for different responsibility levels among men and women. The key findings are summarized below:

- We firstly consider individuals taking sole responsibility. Financially literate male decision-makers display significantly greater holdings in the product areas with higher risk-return, such as investment products and stocks. In contrast, female decision-makers, who are known to be more risk-averse, show a greater focus on security by investing more in savings schemes, insurance products and alternative investments. Further, households solely led by financially literate women participate less in informal banking activities, including saving money at home, saving money informally and taking loans from moneylenders.
- When we consider households where financially literate women are jointly responsible with their spouse for financial decision-making, the addition of the husband in financial decision-making has significant effects on financial holdings across the board. The greatest effects among women are seen for investment products and stocks – a holdings increase of around 88% for women jointly making decisions with their husbands, as opposed to women acting alone. This shows that joint decision-making with spouse not only helps financially literate women to benefit from men's preference for higher risk-return products, but also it emboldens women to play to their strengths by investing even more in the security-focused products, such as savings and insurance products, favored by women.
- Among financially literate male decision-makers, the addition of their wives in financial decision-making likewise results in increased product holdings, albeit to a lesser extent. The greatest influence is seen on their holdings of insurance products and savings schemes, as well as a lower participation in informal banking activities. This indicates that the financially literate men also benefit from involving their wives, who naturally focus on security. Interestingly, the inclusion of women to jointly lead with male decision-makers does not reduce the product holdings that men prefer, such as investment products and stocks.

The above results suggest that financial literacy interventions targeting women can empower them to take on higher levels of financial responsibility within their households and help reduce the gender gap observed in financial market participation. Moreover, the household as a whole benefits from the addition of a financially literate woman in a husband-and-wife decision-making team, with such households displaying greatest holdings in financial products across the board, and least participation in informal banking practices. The results substantiate the important role of financial literacy in reducing the barriers to owning financial products, as also documented by previous studies (see, for example, Van Rooij et al., 2011; Balloch et al., 2015; Lusardi and Mitchell, 2017). Additionally, the results highlight the benefits accrued from holding a diversified portfolio for a financially literate household (Reinholtz et al., 2021).

When we consider marginal gains of financial literacy across the caste hierarchy, which captures the social norms in India, the General Caste (highest on the hierarchy) have higher participation gains in savings

products, investment products and the stock market, as compared to the other castes. The Scheduled Tribe (lowest on the hierarchy) is observed to have the lowest financial literacy marginal gains for participation in insurance products and alternative investments. These results show unequal participation in the different castes, an important aspect to consider by policy makers designing financial literacy interventions to increase the uptake of various financial products and services. When studying the different intra-household decision-making arrangements, across all castes, the highest marginal effects for the probability of holding financial products are observed when women are financially literate and jointly leading financial decisions with their husbands.

Overall, this study documents that empowering decision-makers with financial literacy has the potential for improving households' financial decision-making abilities and can also serve as an important intervention tool to increase gender equality and social parity. Our results are of particular relevance to the policy discussions concerning empowering women with financial literacy to reduce the gender gap in financial product holdings and increase household participation in financial product markets. The financial education treatment effects on behavior changes in the area of personal finance are confirmed by recent studies (Kaiser et al., 2020). Moreover, the growing longevity gap between males and females in India implies that India's older adult population is growing increasingly female (Agarwal et al., 2020). This means India faces an increasingly female and disproportionately financially vulnerable aging population, highlighting the need for policy makers to target financial education interventions for women.

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