The self-confidence effect on financial acumen

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The formation of a new government in Spain and the current composition of Congress, where no party has a clear majority, has left Spaniards wanting the political parties to reach a consensus on the important issues of the day. Three major areas of concern are education, the economy and pensions, which play a major role in the economic well-being of individuals and families. However, the financial acumen of the average citizen is rather weak. Recent episodes, such as the consequences stemming from the acquisition of financial products that were too complex for the average citizen, are an example of how important a financial education is when making decisions. Theoretical models show that fomenting financial education — even better if done within the system — increase economic well-being. The combination of knowledge and practice define the cognitive part of an individual's financial capabilities. Nevertheless, there are also non-cognitive factors such as the self-confidence that affects how individuals process information and make decisions.

At BBVA Research, we have conducted a study based on the PISA Financial Education tests given to 15 year olds in Spain. In this study, we show that the students with the most self-confidence are those who obtain the highest scores in tests on financial acumen. This knowledge, along with personal attitudes, partly determine the financial performance of agents. However, more self confidence among young people should be weighted based on the risk of being over confident when it comes to making decisions that affect our pocketbooks. Although a certain degree of self-esteem improves economic well-being, excess confidence can be counterproductive. This idea is also reflected in the results obtained when perseverance is factored into our analysis.

Another aspect to bear in mind is that individuals aren't actually aware of how much they know. That's why the level of motivation when taking an exam partly explains the scores. Along these lines, we should point out the link between motivation and self-confidence. Both non-cognitive factors interact to help shape the results on tests that measure financial acumen. The scores suggest that a person's self-confidence increases their motivation to act.

Apart from the inherent traits of each individual, there are other factors that also determine a person's financial acumen. On one hand, we have the evidence that points to attributes such as maturity and gender, which play an important role in financial acumen. Students who are born at the beginning of the year obtain better results than those born toward the end of the year. On the other hand, the higher the socio-cultural and economic status their family, the stronger a student's financial acumen.

One subject worth discussing by all the parties involved (especially the political parties, educators and social agents) is the degree to which the differences generated by the socio-economic factors and the environment can be offset by reinforcing personality traits. The fact these fluctuate over the course of a person's life could make them an instrument worth inserting into not only education policies, but also others like economic and pension policy. Implementing activities that reinforce personal attitudes life self-confidence, along with financial education programs and practical courses at an early age, would maximize the effects of interventions that aim to improve the financial acumen of future generations.