



# Unlocking the Interplay among Financial Capability, Risk-taking Ability and Financial Well-being: Insights from Women in Sri Lanka

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## **Authors' contributions**

*This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.*

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## **ABSTRACT**

**Aims:** The present empirical study sought to investigate the interconnections among financial capability, risk-taking ability, and financial well-being for women from a Sri Lankan perspective.

**Methodology:** the study follows a quantitative deductive methodology. The study sample includes working women who belong to the formal sector in Sri Lanka and the respondents were selected using a purposive sampling method. Data were gathered from 198 participants through an online survey utilizing Google Forms. The study employed descriptive statistics, Pearson's correlation, and PROCESS Macro regression models to test the hypotheses.

**Results and Conclusion:** The study found significant relationships between women's financial capability, risk-taking ability, and financial well-being. Furthermore, it was also established that risk-taking ability partially mediates the relationship between financial capability and financial well-being.

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**Practical Implications:** The findings of a study highlight that, by fostering a balance between financial capability and responsible risk-taking, practitioners can better equip individuals to make informed financial decisions which in turn improves the long-term financial well-being of employed women.

**Originality:** This is one of the first studies in financial well-being literature, that investigates the mediating role of risk-taking ability on the financial well-being of women in the context of Sri Lanka where a majority of the studies focus on the respondents in general while ignoring the risk component.

*Keywords:* Financial capability; financial well-being; risk-taking ability; women.

## 1. INTRODUCTION

Financial well-being has become increasingly more important as an area of study for policymakers and researchers in developed and developing economies. The issue of financial well-being has gained momentum and coverage since the Global Financial Crisis (GFC) of 2008, which had its origins in the financial systems of North America and Europe. However, the issue of personal financial indebtedness is not only a Western issue but is commonplace in developing countries as well, especially in less industrialized economies where subsistence farming is prevalent.

The economic backdrop in which this study is conducted is somewhat unique as Sri Lanka is presently experiencing the worst economic crisis since independence. The Government of Sri Lanka (GoSL) defaulted on its sovereign debt in April 2022 causing exchange rate volatility, hyperinflation, and shortages of essentials including food, medicines, and fuel. Remedial action implemented including import restrictions and the floating of the Sri Lankan rupee resulted in an unstable business environment leading to a drastic contraction in economic activity levels and unemployment in certain segments of the labour force. GoSL is currently in the process of implementing the structural changes required to put Sri Lanka on a more sustainable debt and consequently, a growth path with the Extended Fund Facility (EFF), approved by the International Monetary Fund (IMF) Board in March 2023. The ultimate impact of the sovereign debt-led foreign exchange crisis on the Sri Lankan labour force and the wider socio-economic implications are still largely unknown. However, the rising cost of living, higher income taxes, and restricted access to capital and finances have resulted in significant financial stress on households and individuals, evident through observed social phenomena such as strikes both in public and private sector

organizations, increased levels of skilled and unskilled migration and higher employee turnover as workers seek higher salaries and alternative modes of employment.

In the prevailing conditions and context of Sri Lanka, where there are higher levels of poverty and a larger proportion of the population living in rural areas and access to financial resources is more through informal and community-based methods, but also more and more women seeking to leave traditional gender-based roles and occupations for work in the formal sector, isolating the context in which the financial wellbeing of women is studied is pivotal. Therefore, the focus of this study is on the financial well-being of women employed in the formal sector in Sri Lanka. A company operating in the formal sector would be any firm legally incorporated in Sri Lanka, contributing to income and other relevant taxes, and those that have access to finance and capital through the formal banking and financial services sector. Since the study hopes to understand the risk-taking behaviours of women and their financial capabilities, which would be different in the formal sector as compared to the informal sector, the latter was chosen as the preferred area of attention where the individual is placed on a risk spectrum ranging from risk-averse or low-risk tolerance to risk seeking or high-risk tolerance which would be their risk propensity or risk appetite.

For women engaged in Sri Lanka's formal economic sector, the possession of financial capability represents a fundamental element of empowerment and equity. The attainment of financial well-being not only facilitates individual stability but also supports broader societal objectives, including the promotion of gender equality, economic advancement, and the alleviation of gender-based financial inequalities. In a societal context like Sri Lanka where women have historically encountered obstacles to

financial independence, the enhancement of financial capability holds significant ethical implications; it fosters equity, economic stability, and self-reliance. By investigating the role of risk-taking ability as a mediating factor, this research shed light on the manner in which women's financial decisions and overall well-being are influenced by their proficiency in managing and undertaking calculated financial risk. The outcomes of this research have the potential to furnish essential insights for policymakers and organizations committed to fostering women's financial empowerment, thereby offering methodologies to mitigate gender disparities in financial literacy and decision-making authority. Consequently, this investigation transcends mere economic considerations; it resonates with ethical imperatives aimed at promoting equality, advocating for women's rights, and enabling women to construct secure financial futures for themselves and their families, thereby contributing to the establishment of a more equitable Sri Lankan society.

Therefore, this study attempts to shed light on the Sri Lankan context, specifically women working in the formal sector, to study the impact of financial capability on financial well-being with the mediator of risk-taking ability as in the search for an area of study relatively unexplored in the context of financial well-being, it is evident that the relationships have not been researched or documented in the context of developing economies, specifically women in Sri Lanka.

### **1.1 Research Gap**

“Although financial well-being is theoretically similar for both genders, research indicates gender differences affect its manifestation. Additionally, women globally earn about 20% less than men” (International Labour Organization, 2022). Conversely, women's financial capabilities are progressively improving in various regions, however still at a preliminary stage. Moreover, women's educational levels, labor force involvement, and entrepreneurial pursuits have markedly increased in recent decades. However, despite these advances, women's financial autonomy and decision-making power remain limited and challenges regarding women's financial capabilities still persist. They often encounter wage gaps, restricted access to credit and financial services, and societal norms that hinder financial independence. Such factors can adversely affect their wealth accumulation, investment, and prudent financial decision-making.

Furthermore, women are less financially literate than men (Al-Bahrani et al., 2020; Gerrans et al., 2014; Karakurum-Ozdemir et al., 2019; Kirbi et al., 2017), more risk-averse when it comes to financial decision making (Borghans et al., 2009; Grable, 2000), and financially socialize later compared to men (Falahati & Paim, 2011). A literature review done by Singh and Malik (2022) revealed that women seem to be more wary of risk and have less confidence in their investment decisions than men. Women's risk-taking ability is a significant predictor of financial capability and well-being concepts. It has the potential to influence women's decisions in a given socioeconomic setting.

“Despite these facts, when psychological factors are taken into account, it is found an increased amount of research studies whereby no significant distinctions between men and women were observed” (Furnham & Cheng, 2017). Borghans et al. (2009) state that “women appear to be more risk-averse and have less confidence in how they make investments than men, according to the studies reviewed”. Other studies on traits, values, and psychological factors (Norvilitis et al., 2006; Ponchio et al., 2019) have thrown light on “individual predecessors of financial well-being; however, certain studies have either not explored feasible gender disparities underlying the traits examined or have found no significant variations between men and women, indicating that the research field on psychological elements still has potential avenues for future research” (Gonçalves et al., 2021).

“Furthermore, women's risk-taking ability is a significant predictor of financial capability and well-being concepts. It has the potential to influence women's decisions in a given socioeconomic context. Because currently, available research fails to address the risk dimension, future research should include it while studying this relationship” (Parvathy & Kumar, 2022). Although there have been a few studies on the above-mentioned behavioural factors (Sorgente & Lanz, 2017), there is still a need to investigate the relationship between financial well-being and specific behaviours such as insurance and risk-taking (Singh & Malik, 2022).

In addition, the majority of studies on financial well-being have been carried out in developed countries (Ngamaba et al., 2020), and there is a significant gap in understanding the financial

well-being of individuals from developing and poor countries (Brüggen et al., 2017). "Because of differences in contextual factors such as culture, society, and family characteristics, financial well-being solutions proposed for developed countries may be difficult for non-developed countries. As a result, studies on financial well-being in developing countries are needed to figure out their state and problems" (Parvathy & Kumar, 2022).

However, the current state of knowledge does not cover the risk dimension and adequate literature about the relationships between financial capability, risk-taking ability, and financial well-being is not available, hence this is still an under-researched area. Further, most of the research on these constructs is conducted focusing on the respondents as general and there can be differences across the cultures of developing and developed countries. This indicates the presence of a clear knowledge gap in this area of study and there is a need to incorporate the risk element while studying the relationship between financial capability and financial well-being. Therefore, it is noteworthy to study the interconnections among financial capability, risk-taking ability, and financial well-being, especially for women in a developing country perspective, particularly Sri Lanka. The specific research objectives of the study are;

1. To identify the relationships between the financial capability, risk-taking ability, and financial well-being of women, in Sri Lanka.
2. To investigate the mediating role of the risk-taking ability between the financial capability and financial well-being of women in Sri Lanka.

The rest of the paper embodies the sections including literature review, conceptual framework, research methodology, analysis and results, and conclusion and implications.

## **2. LITERATURE REVIEW**

### **2.1 Financial Well-Being**

Financial well-being is defined by Porter and Garman (1990) as an individual's perception of the features of their financial state in relation to specific standards. Financial well-being is a state of mind produced by an operational financial process known as financial wellness; financial attitude and knowledge produce financial

behaviour, and healthy financial behaviour is responsible for producing a high degree of financial well-being (Shim et al., 2009).

"Financial well-being is defined as self-satisfaction with one's current financial situation, assurance of meeting conventional costs of living and emergency costs, having the ability to pursue one's interests, and confidence in one's future retirement" (Mahdzan et al., 2020). "Males and females have different levels of financial well-being, which can be attributed to the distinctive impacts of socialization agents and early years experiences for customers" (Falahati & Sabri, 2015).

Financial well-being is defined as having both present and future financial security and financial freedom of choice (Bureau, 2015). Many researchers (Mahdzan et al., 2020) in this area use the conceptual model developed by Bruggen et al. (2017, p.4), where financial well-being was defined as "the perception of being able to sustain current and anticipated desired living standards and financial freedom". This definition emphasizes Financial well-being's two components: current money management stress and expected future financial security.

Given that the definition provided by (Bureau, 2015) is more comprehensive than the others, this study uses it to define financial well-being. "Financial well-being is defined as the ability to meet one's current and future financial commitments, as well as an individual's assurance of his current financial standing and the autonomy to carry out one's daily life as well as future aspirations without financial impediments" (Parvathy & Kumar, 2022). However, "there is a lack of agreement and clarity in prior research about how financial well-being has been measured and defined" (Sorgente & Lanz, 2017). In this study, financial well-being is considered as the state of possessing both present and future financial security, along with the freedom to make financial choices according to one's preferences.

### **2.2 Financial Capability**

Financial capability is not precisely defined in the literature (Sherraden & Ansong, 2016). According to Bolaji-Adio et al. (2013), financial capability is the internal capacity to act in one's best financial interest provided social, economic, and environmental circumstances. Johnson and Sherraden (2007) define financial capability as

the combination of a person's "ability to act" and "opportunity to act," and Sherraden and Ansong (2016) operationalize this definition by identifying the earlier with financial literacy and the second with financial inclusion, though this approach is not lacking complexity, as both components are multidimensional concepts in and of themselves. Sherraden and Ansong (2016) recommend, from a theoretical standpoint, that the various measures of financial capability reflect both financial literacy (i.e. financial knowledge and skills) and financial inclusion (i.e. accessibility to and usage of financial services and products); and provide adaptability for context-specific operationalization, which means that the measures of financial capability could differ between and within nations or regions.

This study refers to financial capability as an individual's or entity's overall ability to manage their financial resources effectively, make informed decisions, and achieve financial well-being while having access to financial resources regardless of their socioeconomic position.

### 2.3 Risk-Taking Ability

According to a study conducted by Callan and Johnson (2002), individual risk attitudes have two components: an expressed element concerning the person's beliefs and an unstated element reflecting the person's feelings and emotions. They tried to convey an individual's risk tolerance explicitly and comprehensibly in order that they could identify acceptable trade-offs between risk and the financial reward needed for bearing risk.

Lampenius and Zickar (2005) defined the two dimensions of financial risk attitude as Risk Control and Speculative Risk in their study on financial risk attitude. The stimulating aspect of risk-taking is the individual's proclivity for risk-taking. It captures an individual's gambling behaviour and the appealing option that by accepting a higher level of risk, the expected return will increase (Zaleskiewicz, 2001; Lampenius & Zickar, 2005). Similarly, risk control is the individual's tendency towards the risk-averse side. It influences the decision-maker by reminding him/her that by accepting a higher level of risk, the potential for future losses will increase (Zaleskiewicz, 2001; Lampenius & Zickar, 2005). In this study, risk-taking ability is considered as an individual's inclination and capacity to engage in both risk-seeking behaviors and risk-avoidance strategies.

### 2.4 Financial Capability and Financial Well-being

Financial capability is defined as the combination of financial literacy and financial behaviour that leads to financial well-being. Higher financial capability is linked to greater financial well-being (Xiao, 2016). Empirical evidence suggests that financially capable individuals are less inclined to be financially exposed and that the "opportunity to act" (i.e. financial inclusion) serves a more significant part in improving household financial health than the "ability to act" (i.e. financial literacy) (Fernández-López et al., 2023). The study findings of Parvathy and Kumar (2022) revealed a significant relationship between financial capability and financial well-being. According to the findings of Fu's (2020) study, individual financial literacy and financial inclusion are highly predictive of an individual's financial well-being. The following hypothesis is formulated on the basis of the above literature evidence:

*H<sub>1</sub>: There is a positive relationship between Financial Capability and Financial Well-Being.*

### 2.5 Financial Capability and Risk-Taking Ability

Higher levels of attained education and income have been found to be correlated positively with a greater willingness to take financial risks, according to the financial knowledge literature (Bayar et al., 2020; Duasa & Yusof 2013; Nosita et al. 2020).

Significant evidence, however, suggests that financial knowledge can predict financial risk-taking behaviours (Tang & Baker, 2016). Financial literacy/financial knowledge level and financial risk tolerance have been found to be positively associated with studies in this field (Saurabh & Nandan, 2019). Other well-cited studies have confirmed the existence of positive associations between financial literacy and financial risk tolerance (Bayar et al., 2020; Bannier & Neubert, 2016; Chatterjee et al., 2017). On the contrary, Aydemir and Aren (2017) found an opposite relationship between financial literacy and financial risk tolerance. That is, financial experts prefer riskier alternatives to people with low-risk perceptions, thus inducing positive behavioural beliefs towards the behaviour. Based on this premise, since financial knowledge is considered one of the components

of financial capability, the following hypothesis is developed.

*H<sub>2</sub>: There is a positive relationship between Financial Capability and Risk-Taking Ability.*

## **2.6 Risk-Taking Ability and Financial Well-Being**

Individuals possess both elements of financial risk-taking, namely the tendency to be controlled or averse to risk in some circumstances and the tendency to take that risk in others. As a result, the Risk Control and Speculative Risk aspects of financial risk-taking attitudes were found to be present in individuals (Zaleskiewicz, 2001).

The driving force for the tendency towards risk control behaviour is that it allows the individual to constructively plan towards accomplishing a specific investment goal. Furthermore, risk-averse people always want to be certain of their future and thus be able to plan how they want to prioritize their goals. Those who tend to be more willing to take risks have higher levels of financial satisfaction (Sages & Grable, 2010). Individuals with high-risk tolerance behaviour were found to be far more satisfied with their financial situation, implying that risk tolerance behaviour plays a positive role in estimating financial satisfaction (Aboagye & Jung, 2018). Furthermore, there have been studies that show a negative relationship between risk tolerance and financial satisfaction (i.e. Joo & Grable, 2004). Hence the following hypothesis is formulated to test the relationships.

*H<sub>3</sub>: There is a positive relationship between Risk-Taking Ability and Financial Well-Being.*

## **2.7 Mediating Role of Risk-Taking Ability Between Financial Capability and Financial Well-Being**

The concept of risk has been investigated from risk aversion (Arrow, 1971) and risk tolerance (Gron & Winton, 2001; Grable, 2000) perspective. In the contexts of satisfaction with loyalty, assessment of products with preference (Gurhan Canli & Batra, 2004), and incongruity with evaluation (Campbell & Goldstein, 2001), risk has been considered a

moderator. Worthy et al. (2010) confirmed “the relationship between financial risk along with financial management behaviour in the setting of credit cards with financial debt issues”. This study argues that risk-taking ability can be a mediator between Financial Capability and Financial Well-Being and proposes the following hypothesis:

*H<sub>4</sub>: Risk-taking ability mediates the relationship between Financial Capability and Financial Well-Being.*

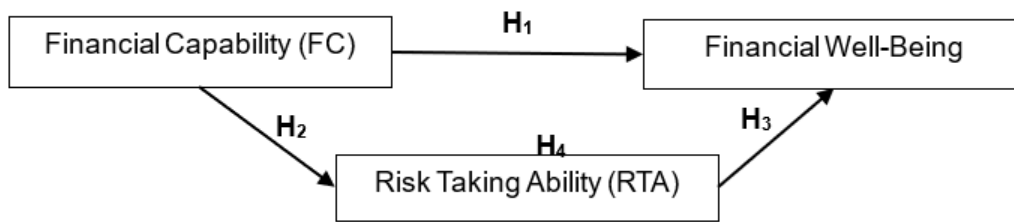
## **3. CONCEPTUALIZATION**

The following figure shows the conceptual model developed for this study. In this study, the independent variable is financial capability, financial well-being is considered dependent, and risk-taking ability is treated as a mediating variable.

### **3.1 Theoretical Support for Conceptualization**

The importance of psychological aspects is recognized in the theory of planned behavior (Ajzen, 1991), which examines the attitude-behavior relationship. According to the theory of planned behavior (TPB), among other factors, attitude shapes behavior intentions and behaviors. Shim et al. (2010) observed a positive relationship between attitude and financial management behavior.

Financial capability refers to an individual's knowledge, skills, and access to resources that enable them to manage their finances effectively. People with higher financial capability are more likely to have a better understanding of the risks associated with different financial decisions, such as investments or borrowing, and are better equipped to make informed choices. Risk-taking ability, in this context, relates to an individual's willingness to take financial risks. Financial well-being is considered the perception of being able to sustain current and anticipated desired living standards and financial freedom. According to TPB, financial capability affects the individual's intention to take risks, which is the risk-taking ability and both together account for the individual's financial behavioural aspects, the financial well-being.



**Fig. 1. Conceptual model**  
(Source: Developed for the study purpose)

## 4. METHODOLOGY

### 4.1 Research Design

#### 4.1.1 Research strategy

This study followed a positivistic philosophy in which the researcher believes that knowledge in the environment can be gained through observation, collects and analyses data objectively, findings are quantifiable, and hypotheses are formulated that can be tested and verified.

Further, this study employs a deductive methodology, whereby the researcher first develops a theory about the subject of interest, then refines that theory into more precise hypotheses and conducts the study in a non-contrived study setting. The quantitative method was the most appropriate methodological choice for this sort of study since it involves the collection of quantitative data using predetermined instruments and the researcher uses mathematical models as the methodology of data analysis.

#### 4.2 Sampling Procedure

The target population of this study constitutes of working women who belong to the formal sector in Sri Lanka. Formal employees are the workers whose employer contributes to the provident fund on behalf of them (Arunatilake & Ranasinghe, 2023).

Since the data regarding the study population is not available, according to Krejcie and Morgan (1970), 384 samples must be used, which is the maximum number of samples that need to be included with a confidence level of 95% and a margin of error of 5%. Having decided on the likely suitable sample size, this study employs the purposive sampling technique of the non-probability sampling method. Accordingly, the

study ended up collecting data from 198 respondents with a response rate of 51.58%.

#### 4.3 Data Collection

This study has used a survey strategy which enabled the researchers to collect a huge amount of data from a sizeable target population. The data collected was analyzed using descriptive and inferential analysis tools. To gather primary data, a self-reporting questionnaire was issued to all the women working in the formal sector in Sri Lanka. In addition, secondary data were collected based on various sources such as journal articles published papers, and websites of the relevant institutions.

#### 4.4 Data Analysis

To analyze the first objective, this study utilized bivariate correlation analysis. The direction, strength, and significance of the bivariate relationship between the variables were evaluated by the Pearson correlation coefficient. According to Gogtay & Thatte (2017), the correlation coefficient values (r) ranging from 0.10 to 0.29 are considered weak, from 0.30 to 0.49 are considered medium and from 0.50 to 1.0 are considered strong.

In order to achieve the mediational effect of risk-taking ability this study followed Heyes PROCESS Model 4. Process Macro constitutes a bootstrapping statistical computational tool developed by Andrew Hayes as an enhancement for both SPSS and SAS software platforms (Hayes, 2017). This program is employed to investigate the influence of one or more mediating or moderating variables on the correlation between independent and dependent variables. The software calculates the direct, indirect, and total effects of variable X on variable Y, in addition to providing unstandardized and standardized regression coefficients, standard

errors, and various statistical measures including t and p values as well as R<sup>2</sup> (Abu-Bader & Jones, 2021).

A test of statistical significance as proposed by Sobel (1982) will be used to test the statistical significance of the mediation. The Sobel test involves the multiplication of a and b coefficient estimates and determining the ratio of the resulting value to standard error. Sobel (1982) proposed the use of the following formula:

$$Z = \frac{ab}{\sqrt{b^2 S_a^2 + a^2 S_b^2}}$$

Where,

a - path between the independent variable and mediator variable

S<sub>a</sub> - standard error of a path (coefficient)

b - path between the mediator variable and the dependent variable

S<sub>b</sub> - standard error of path b

**Table 1. Reliability and validity analysis for overall variables**

Variable	Number of Question Items	Cronbach's Alpha Value
Financial Capability	13	0.924
Risk Taking Ability	10	0.859
Financial Wellbeing	10	0.821

(Source: Survey Data)

#### 4.5 Operationalization

The questionnaire for the study is divided into four parts. In the first part of the questionnaire, the demographic details of the respondents are included. The second part consists of questions related to the study variables which are adopted from the extant literature. To measure financial Well-Being, ten question items are adopted from a scale developed by the CFPB (2015). Similarly, the scale for risk-taking ability is adapted from a prior empirical study by Lampenius and Zickar (2005) which consists of ten questions where five relate to speculative risk and five relate to risk control. The financial capability was constructed by combining different measures of financial knowledge and financial inclusion where five items from Perry and Morris (2005) and eight

items from Mindra and Moya, (2017) were adopted respectively. The survey items were graded on a five-point Likert scale, with 1 referring to strongly disagree and referring to strongly agree. The reliability of the instrument was measured using Cronbach's Alpha Coefficient (CAC) analysis where values above 0.7 were considered in this study to be reliable.

## 5. RESULTS AND DISCUSSION

### 5.1 Test of Parametric Assumptions

Initially, the data were examined to confirm that they met the assumptions of linearity through a series of tests. First, variables were plotted on a scatter diagram to visually assess whether the relationships appeared linear. Normality was then checked using a histogram and a normality curve, while multicollinearity was assessed using Pearson's correlation.

To test for autocorrelation, the Durbin-Watson test was applied, and homoscedasticity was verified using a residual plot. The results indicated that all assumptions were satisfied. Specifically, the scatter plot suggested a linear relationship between the independent and dependent variables, the histogram confirmed normality, the Durbin-Watson statistic fell within the acceptable range of 1.5 to 2.5 (1.520), and the residuals were evenly distributed across the regression line.

### 5.2 Correlation Analysis

To analyze the first three hypotheses to test the associations between various study variables Pearson's correlation analysis was used in this study. Table 3 shows the results of correlation analysis between the study variables. The results reveal that the correlation coefficient (r) value between financial capability and financial well-being is 0.503 with a p-value of 0.000. This indicates there is a strong positive correlation between financial capability and financial well-being, indicating that higher financial capability is associated with greater financial well-being. Similarly, the correlation coefficient (r) value between financial capability and risk-taking ability is 0.636 with a statistically significant p-value of 0.000. This indicates there is a strong positive correlation between financial capability and risk-taking ability, suggesting that individuals with higher financial capability tend to have a greater willingness to take risks. Finally, the correlation coefficient (r) value between risk-taking ability



and financial well-being is 0.634 with a statistically significant p-value of 0.000 which means that individuals who are more willing to take risks also tend to have higher financial well-being.

### 5.3 Mediation Analysis

Mediation analysis was used to investigate the hypothesis that risk-taking ability mediates the relationship between financial capability and financial well-being. This approach is well-suited for examining indirect effects, as it allows for a more nuanced understanding of how financial capability impacts financial well-being through an intermediary variable of risk-taking ability. Mediation analysis was conducted using Model 4 of PROCESS Macro for SPSS. By employing Model 4 of the PROCESS Macro for SPSS, the analysis provided a structured and rigorous method for testing the hypothesized mediating effect. The analysis aimed to examine the relationship between financial capability (X), risk-taking ability (M), and financial well-being (Y) and

to determine if the effect of X on Y was mediated by M.

The results showed that financial capability positively predicted financial well-being (B = 0.150, p=0.018) which shows the direct effect of financial capability on financial well-being in the presence of the mediator. Risk-taking ability also had a positive effect on financial well-being (B= 0.548, p=0.000).

The results revealed, that financial capability (B=0.150, p=0.018) had a significant direct effect on financial well-being with the mediator in the model and a significant indirect effect of financial capability on financial well-being, which means that partial mediation was observed. The indirect effect of X on Y through risk-taking ability was significant as the confidence intervals based on 5,000 bootstrap samples did not contain zero (B=0.299, 95% confidence interval are 0.214, 0.456). The model accounted for a total of 41.9% of the variance of the dependent variable. The mediation analysis summary is presented in Table 5.

**Table 2. Correlation matrix**

Relationship	Pearson Correlation coefficient	Significant Value
Financial Capability and Financial Wellbeing	0.503	0.000
Financial Capability and Risk-Taking Ability	0.636	0.000
Risk-Taking Ability and Financial Wellbeing	0.634	0.000

(Source: Survey Data)

**Table 3. Total effect model**

Predictor	Coefficient	P-Value	LLCI	ULCI
Constant	1.478	0.000	1.050	1.906
Financial Capability	0.449	0.000	0.341	0.558

(Source: Survey Data)

**Table 4. Direct effect model**

Predictor	Coefficient	P-Value	LLCI	ULCI
Constant	0.658	0.003	0.222	1.095
Financial Capability	0.150	0.018	0.026	0.274
Risk-Taking Ability	0.548	0.000	0.403	0.693

(Source: Survey Data)

**Table 5. Mediation Analysis Summary**

Relationship	Total Effect	Direct Effect	Indirect Effect	Confidence Interval		R-Square	Conclusion
				Lower Bound	Upper Bound		
Financial Capability >>>Risk-Taking Ability >>>> Financial Well-Being	0.449**	0.150**	0.299**	0.197	0.405	0.419**	Partial Mediation

\*\*significant at the 0.05 level

(Source: Survey Data)

The statistical significance of the mediation has been tested using a statistical significance test proposed by Sobel (1982). Values of regression coefficients have been applied to the Sobel calculator and the results are as follows:

$$Z = \frac{ab}{\sqrt{b^2 S_a^2 + a^2 S_b^2}}$$

$$Z = \frac{0.299}{\sqrt{0.548^2 \times 0.074^2 + 0.546^2 \times 0.052^2}}$$

$$Z = 5.752$$

According to Mallinckrodt et al. (2006), since the z-score (5.752) is greater than 1.96, the mediation is statistically significant at a 5% significance level. That means the risk-taking ability of women significantly carries the influence of financial capability on financial well-being. Hence, risk-taking ability partially mediates the relationship between financial capability and financial well-being. These results suggest that improving financial capability can lead to an increase in risk-taking ability, which in turn may increase the financial well-being of women.

## 6. CONCLUSIONS AND IMPLICATIONS

### 6.1 Findings of the Study

The results of the H<sub>1</sub> analysis indicate that there is a strong positive correlation between financial capability and financial well-being, indicating that higher financial capability is associated with greater financial well-being. The finding empirically supports the findings of earlier studies. (Anthony & Sabri, 2019; Sabri & Zakaria, 2018; Parvathy & Kumar, 2022). Women exhibit improved financial task performance and outcomes when their financial competencies align with suitable attitudes and behaviours.

The results of the H<sub>2</sub> analysis suggest there is a strong positive correlation between financial capability and risk-taking ability, suggesting that individuals with higher financial capability tend to have a greater willingness to take risks. This is in line with the findings of previous studies (Tang & Baker, 2016; Nosita et al. 2020). Women possessing advanced financial knowledge can discern the intricacies of financial products and associated risks, enabling them to manage risks confidently while pursuing potential rewards.

Access to financial services equips individuals with resources to undertake riskier financial activities, whereas a lack of financial capability often results in risk aversion due to uncertainty.

The present study also revealed a strong positive relationship between risk-taking ability and financial well-being. This supports the findings of Sages and Grable (2010), that those who tend to be more willing to take risks have higher levels of financial satisfaction. Individuals who embrace risk are likely to invest in higher-return opportunities, enhancing long-term financial health; conversely, poor risk management can lead to financial detriment.

Grounded in the theory of planned behavior, this investigation reveals that both direct and indirect impacts of financial capability on financial well-being are statistically significant, suggesting that risk-taking propensity partially mediates this relationship. This research represents a foundational empirical study that clarifies the connection between financial capability and financial well-being, with risk-taking propensity as a mediating factor. It is essential to enhance the financial capability, risk-taking propensity, and overall financial well-being of women from middle and low-income backgrounds, as these elements can significantly foster familial and societal progress.

### 6.2 Implications of the Study

When women possess substantial financial capability, they exhibit increased confidence in risk-taking due to their comprehension of investment principles and access to varied financial products. Their enhanced understanding of potential returns enables informed investment decisions. Conversely, limited financial capability may lead to greater risk aversion among women.

The theoretical contributions of this study are multifaceted. First, while financial capability, risk-taking ability, and financial well-being have been examined separately, their combined impact remains unexplored. This study introduces a novel theoretical model to examine the mediating role of risk-taking ability in the nexus between financial capability and financial well-being, an aspect previously overlooked in the literature. Second, existing research primarily addresses financial capability and well-being without distinguishing gender differences. This study highlights the importance of considering such

disparities in understanding financial behaviours and outcomes. Further, by investigating constructs like financial capability, risk-taking ability, and financial well-being, the study enriches the literature, recognizing cultural variances in these constructs and addressing the scarcity of studies in the Sri Lankan context.

The empirical contributions of this research hold considerable significance for policymakers, financial institutions, and organizations dedicated to advancing the financial well-being of women. The results emphasize the necessity of customized financial education programs that not only enhance foundational financial literacy but also foster the confidence and competencies required for proficient risk management. Financial institutions, non-governmental organizations, and governmental entities may leverage these findings to formulate initiatives that specifically tackle the distinct challenges encountered by women in financial management and the execution of calculated financial risks.

This research advocates for the incorporation of financial capability and risk management education within broader empowerment frameworks tailored to women. By empowering women with a comprehensive understanding of financial principles along with risk-taking methodologies, such initiatives can facilitate more informed and assured financial decision-making, thereby improving their overall financial well-being. Furthermore, the findings accentuate the imperative for targeted interventions that consider gender disparities in financial decision-making processes and accessibility to financial products.

For practitioners, this study underscores the significance of developing instruments and resources that not only enhance financial literacy but also aid women in surmounting psychological impediments to risk-taking. Financial advisors, for instance, could gain from training that emphasizes gender-sensitive methodologies in risk evaluation, thereby offering counsel that promotes judicious risk-taking while ensuring enduring financial stability.

Ultimately, by prioritizing both financial capability and the nurturing of sound risk-taking practices, this research provides actionable insights that may lead to improved financial outcomes for women, thus fostering enhanced economic independence and resilience over time.

## CONSENT

During the data collection, voluntary participation of the respondents was obtained. The researcher provided sufficient information and assurances about participating in the survey to allow individuals to understand the implications of participation. The study subjects were told that the information they provided will be kept confidential and that their identities would not be revealed in association with the information they provided. Informed consent was secured from each participant. Also, questionnaires were prepared in an understandable manner by a normal person.

Furthermore, acknowledgment of works of other authors used in any part of the study were provided with the use of the American Psychological Association (APA) reference method and the full list of references was attached. The highest level of objectivity in discussions and analyses throughout the research was maintained.

## DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that generative AI technologies such as Large Language Models, etc. have been used during the writing or editing of manuscripts. This explanation will include the name, version, model, and source of the generative AI technology and as well as all input prompts provided to the generative AI technology.

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## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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