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Nexus between Childhood Financial Socialization and Financial Behaviour in Young Adults in Indian Perspective

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Abstract: *The paper aims to understand the childhood factors that affect the financial behaviour of young adults (age 26-45) by exploring their childhood socialization around financial matters. As a child we learn the most from our first family and that leaves a lasting and sometimes permanent impact on our psyche and that directs and guides our behaviour at a later stage. The qualitative research is done on 127 people (telephonic interview) who were asked specific questions to understand their financial socialization.*

Key Words: *Financial Socialization, Financial Behaviour, Young Adults, Money Management, Financial Habits, Indian Financial Socialization, Finance, Behaviour, Money Management*

1. INTRODUCTION:

Our previous encounters and the environment that we are raised in establish a framework of our convictions and by and large characterize our social conduct, the manner in which we think and finally the decisions we take. Children learn and assimilate whatever is taught to them in their developing period and begin acting in a specific and particular manner. Same idea goes with the monetary conduct or financial behaviour. What kind of financial environment a person comes from and what has conditioned the young minds decide to a great extent how, as an adult, the kid would behave in financial areas of his life. Although financial behaviour is learned and unlearned at various stages and phases of life, the childhood conditioning in financial matters, kind of interaction with parents and friends about money, consumption propensities, etc also decide how that person will handle money or what kinds of decisions he/she will make in different scenarios.

Financial well-being is a big concept that includes the study of how an individual handles money, how much an individual saves and how much he thinks is a proper proportion to invest. From childhood an individual observes his parents forming a choice of assets or discussing financial matters or acting in a particular manner during financial crisis or financial stability. A child may or may not be a part of discussion but he learns passively from them. A child may also learn from the spending habits of his/her friends. These things along with a lot of other forms of financial socialization moulds a child’s mind. How a child understands money matters in his direct environment affects how he will behave as an adult. Socialization and financial interactions begin in early childhood and stay with the child throughout the process of learning and unlearning of things at various stages of his life. The direct socialization agents are the parents who may or may not provide monthly allowance to their children or may or may not possibly discuss monetary issues before their kids. The way they communicate about saving, spending and managing money and the family members who offer cash to kids during celebrations or when they reward them with cash for their accomplishments. How a child prioritizes between need and wants is also a learned behaviour throughout. There are numerous agents of financial socialisation but the most impactful is the socialization by parents. What parents teach their children and how they behave in front of them impacts the psyche of kids while growing up and influences kids as they learn from observing their surroundings.

2. LITERATURE REVIEW:

Albert Caruana Rosella Vassallo, (2003), in "Children’s perception of their influence over purchases: the role of parental communication patterns studied parental communication styles and their influence on the children with the help of two questionnaires based on parent-child dyad and found out that children of concept-oriented parents have an influence on purchase decisions, while those with socio-orientation parents do not. Since concept-oriented parents encourage children to develop their own skills and competence as consumers it is likely to result in higher yielding to demands by children.

Ulrike Sirsch, a faculty of psychology in University of Vienna, in his paper, “Does Parental Financial Socialization for Emerging Adults Matter? The Case of Austrian and Slovene First-Year University Students” studies the students from 1st year in the university and their financial socialization agents and the outcome at that the time of the research and found out that parents who teach their children about financial matters had a positive impact on their children when it comes to financial matters and also attributed to more confidence I money management.

Dr ZL Antoni, Prof C Rootman, Prof FW Struwig in the journal named, "the influence of parental financial socialisation techniques on student financial behaviour" studied the financial socialization techniques used by parents in order to influence their kids and this study again proves that parental financial behaviour influences the financial behaviour of their children directly. Hence, parents should reinforce the financial behaviour in their children by improving their own financial behaviour.

A study done in for the paper named, "Foundations of Financial Well-Being: Insights into the Role of Executive Function, Financial Socialization, and Experience-Based Learning in Childhood and Youth" by Anita I. Drever, Elizabeth Odders-White, Charles W. Kalish, Nicole M. Else-Quest, Emily M. Hoagland, Emory N. Nelms, youth from the age of 3 to 21 were examined for how they develop attitudes. It was found that children from prudent households showed less negative financial behaviour. Parental monitoring of allowance to be given to the kids was found very effective in instilling budgeting qualities and savings behaviour.

The Impact of Psychological Trauma on Finance: Narrative The Impact of Psychological Trauma on Finance: Narrative Financial Therapy Considerations in Exploring Complex Trauma Financial Therapy Considerations in Exploring Complex Trauma and Impaired Financial Decision Making, Ross, D. B., & Coambs, E., suggests that Various traumas can leave people attempting to fulfil inward and external voids through going through spending money, hoarding money, or controlling through access to or restriction of cash.

The influence of parental financial socialisation techniques on student financial behaviour by Dr ZL Antoni, Prof C Rootman, Prof FW Struwig studies financial socialization techniques by parents which suggests that parents should also improve their own financial behaviour if they want to reinforce positive financial behaviour in their children.

3. METHODOLOGY:

A telephonic interview of 127 people from different parts of India and various educational, financial and social backgrounds was conducted and a set of open ended and some pre-defined questions were asked to understand the past financial socialization, their attributes and opinions and what the present financial behaviour looks like.

Basic Information: Age, gender, education, annual income, approximate savings (per annum in percentage %), if they have any alternate source of income, rating self on money management skills.

Questions about the present financial behaviour:
How would you describe your shopping pattern?
Where would you prefer to invest in and why?
Would you take a risk if you find a better investment opportunity?
Whom would they consult for any financial advice?
Can you sustain any medical emergency or job loss and to what an extent?
Do you have any retirement investment plan?

Questions about childhood financial socialization:
Did you receive pocket money? Did you keep the money provided as gift by relatives or gave that money to parents?
How would you describe your parents' spending behaviour?
How did your parents react to your demands?
How open were your parents with the idea of discussing financial matters with you?
A statement you can recall whenever your parents used to talk to you about your pocket-money?
Did you go through any financial strain in your childhood? Describe your observations or what you learned from that.
Did your parents involve themselves or provided guidance about pocket money or were uninvolved?
How open were your parents to new types of investments?
Where did your parents prefer to invest?

The people were asked to answer the questions in detail and were told to put forward their opinion of the things from their childhood that they feel are responsible for their present financial behaviour.

4. ANALYSIS:

The responses of respondents were analysed by asking them questions around one topic directly and indirectly and checking if there is any correlation between their past and present. As one respondent quoted, "had I not seen financial problems in my childhood, I would never have made saving a habit unlike my little brother who never saw any financial strain and thus he doesn't understand the value of money."

It was noticeable that the respondents who said that they make a budget before going for shopping also said that they have grown up observing their parents doing the same. When asked about their opinion, almost everyone believed that they have learned by watching their parents handle money and that it has influenced their financial decision making to a great extent. The participants were in favour of the hypothesis that getting their pocket money spending pattens monitored by parents helped them in reducing overspending and unnecessary spending.

The childhood financial socialization of most of the Indian Children suggests that:

Indian parents are usually willing to discuss rules with their kids and change them whenever necessary. A very less proportion of people said that their parents were uninvolved.

Individuals who rated their parents on a higher scale also rated themselves above average in their skills to understand financial products.

Most of the Indian children who were provided pocket money felt that they were appreciated when they showed positive financial behaviour like budgeting and calculating expenses.

Most Indian parents answer the financial doubts of their children and very less no. of individuals said that they were never told what was happening in the family in financial context even after they showed curiosity

Indian parents ask questions about the usefulness of the items their kids demand.

The present financial behaviour of Indian youth looks like:

Most of the respondents were in the age group of 26-30 and almost 75% of people earned below 10 lac per annum. Savings behaviour has been observed in people and 33.8% people saved more than 25% of their annual income and more than 68% saved more than 10% of their annual income.

Less than 25% had any alternate source of income.

58.3% people indulge in budgeting behaviour while shopping and 26% of the whole sample believes that they do not buy anything till it becomes really urgent.

Indian youth believes in consulting themselves and their family and relatives the most and they trust their friends the least when it comes to taking financial advice.

For medical emergency, almost 60% of people have insurance and almost 16% believed that they have saved enough money for any medical emergency. On the basis of the information collected the key findings were prepared.

5. FINDINGS:

On the basis of what the respondents said and what they believed, a list of independent and dependent variables was made and the relation between the dependent and independent variables was verified in each interview. The observed pattern and the key findings in the form of dependent variables and independent variables thus extracted and verified are as follows:

Dependent Variable (Present Financial Behaviour)	Independent Variable (Past Financial Socialization)
• Better saving, no overspending, budget making before spending	• Watching parents' responsible behaviour • prental warmth and appreciation for positive financial behaviour like saving for a long time for a toy a kid wanted to buy • spending of pocketmoney by children monitored by parents (how much and where they spend) • Parents who stick to a budget or stick to a shopping list. Self control while speding (children observe and learn the behaviour
• Confidence in money management skills as young adults and higher financial capabilities than others	• Facing/watching economic strain during childhood in the form of (problems including sold possessions or cashed in life insurance, postponed major purchases, • postponed medical care, borrowed money from friends or relatives, applied for government • assistance, filed for or taken bankruptcy, and fallen behind in paying bills.) • Mandated financial education • Spending monitored by parents • Parents were open to new types of investments and were educated risk takers
• May lead to racking up debt in adulthood due to feeling of entitlement	• Parents led a lavish life • Not questioning children's demands • Overspending on child

• Binge spending, overspending, undersaving	• Parents avoided discussing about financial matters, financial secrecy • Denied kids everything most of the times • Watching parents overspend

6. CONCLUSION:

It can be safely concluded that the relationship observed between the dependent and independent variables was strongly supported by the life experiences, narration and opinions of the respondents. For example: If you binge-spend/ over-spend, it can be because you watched your parents doing the same or maybe you were denied most of the things in your childhood and to compensate that void, you indulge in spending money and can't save it. This research can be used to educate parents about how to create better financial habits in the growing up children by changing their own habits and promoting and practising good financial habits in the house. The more a child is exposed to financial matters, the more he/she learns from observation. If parents do not question children's demands and spend lavishly on their children, it may lead to a feeling of entitlement in children and this may also mean borrowing money from friends and relatives to meet their wishes and demands if they have not saved enough. The study can be helpful for determining right investments plans for the people based on their financial behaviour.

Customised advisory services can be formed for individuals from different age groups based on their lifestyle at present.

Financial literacy programs for parents can be organised as the study shows positive correlation between parents' and children's financial behaviour as the study also focuses on the 'why' aspects of the present financial behaviour.

The research can also help an individual understand his/her own financial behaviour and reach the root cause of it and ponder upon what needs to change in their money management and financial skills.

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