Financial Behaviour and Decision-Making

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Abstract

India is a land of extremes, poverty at one end and huge financial scams on the other. However, the main concern is whether the common manexhibits fiscal prudence and has a sustainable livelihood with his future secured. It is alarming that majority of the population has limited or no knowledge on financial behaviour and decision-making. Investments are not being done based on proper advice and risks involved. Emphasis is seen on selective saving mechanisms with an increase in disproportionate spending. Retirement planning is still in its nascent stage in India and secured income for emergencies and contingencies is nor planned for in advance.
The current research throws light on the financial behaviour of the citizens based on aspects like savings, spending, borrowing and investments. It also analyses the associated decision-making behaviour. 378 working women serving in information technology services in Bengaluru were administered a structured questionnaire to ascertain their perception levels and habits. Structural equation modelling was employed to analyse the causal relations.

Keywords: Finance, Behaviour, Decision-Making.

I. Financial Behaviour

Financial behaviour can be seen as encompassing four broad areas, namely, saving, spending, borrowing and investment.Individuals differ in their habits and such behaviour is influenced by a multitude of factors including family advise, knowledge about finance, peer groups, advertisements, economic status, marital status, outlook towards the future, income levels, etc. The portfolio for investments is pretty huge these days but citizens tend to opt for certain time-tested tools. The various administrative bodies and the government is crusading for more awareness about the need for prudent financial behaviour and its associated decision-making. There are plenty of financial advisory companies and agents in the market inclusive of those with foreign collaborations.

II. Rational for Research

Indians are generally prone to certain financial habits which seems to have percolated over the decades (web A). Indians generally put all their eggs in a single entity which attracts either profits or heavy loss. The penchant for buying too much gold is witnessed in this country. Investment decisions are not reviewed periodically. Insurance companies are still struggling to convince citizens and citizens have a lethargic approach to retirement planning. People tend to focus more on savings on tax and also exhibit keen interest in inheritance. Hence research was warranted to check whether the same perceptions existed or whether change in financial behaviour as well as in taking decisions has changed in recent times.

III. Review of Literature

III.1 Savings Behaviour: Jisha et al. (2017) attempted to check the perception of investment pattern among urban working women. This study revealed that women employees have high preference towards investing their claims in various savings avenues. Women have an attitude to avoid unnecessary risksand they highly prefer less risky savings avenues. This study also revealed that women perception is highly dependent on the focus on high returns on investment, safety-oriented investment, and tax benefit offering investment. Moreover, they preferred to invest for child education, personal safety, and child marriage. Results of the study revealed that women mainly considered opinions of family members, friends, newspapers, brokers, and agents before going to invest. In conclusion, findings indicated that time focus is short and medium-term, and mainly intended to invest in financial investments like mutual funds, bank deposits, and insurance.

Poongodi and Gowri (2016) examined the financial literacy and saving/investment behaviour among Indian women with particular emphasis on Erode city. This study considered various savings oriented deposits, mutual funds, insurance, bonds, equities, derivatives, real estate, and gold and silver. These investment assets can be classified as short-term, medium-term, and long-term, and risky and risk-free assets. Results revealed that safety of capital, low risk, maturity corpus, and high returns are the most important consideration of women. Moreover, wealth creation, return earning, and tax savings are the main motivesfor women investors. Findings revealed that women have enough financial knowledge which fosters their behaviour and attitude towards selecting a savings or investment asset. It was concluded that working women are mainly interested to invest on high return offering savings avenues by assuming some amount of risk.

III.2 Spending Behaviour: Baluja (2016) attempted to analyse the financial literacy among women in India. Financial literacy is concerned with financial knowledge, attitude and behaviour on various saving, spending, and borrowing aspects. Financial literacy is usually measured with money. This study stressed that excess of income over expenditure is devoted for savings or investment. This study also emphasised that knowledge on expenditure or spending is considered to be of utmost importance to the investors. Results of the study showed that Indian women are facing various cultural, physical, psychological, and financial hindrances that are creating barriers to equip them to be financially literate. Women failed to recognise the importance of reducing spending which is not connected with their present needs. It was concluded that financial literacy of women is not found at a satisfactory level in India.

Perculeza et al. (2016) attempted to measure spending behaviour of teaching personnel. This study recognised that spending behaviour is associated with basic necessity, vacation activities and entertainment, and other spending activities of employees. It was found that spending literacy on basic necessity is mainly concerned with food, clothing, education, and housing. Leisure activities and entertainment are connected with travel to different locations, movies, and picnic/ family outing and so on. It was also found that utilities, taxes, gadgets, and jewellery are the other spending activities of the employees. Findings also revealed that misallocation of funds, over expenses, use of credit cards, and high inflation are the significant problems that erode spending resources of employees. Furthermore, deficient income earnings, financial stress, more dependents, and dissatisfaction in spending are significant problems to them. It was concluded that making a perfect budget will assist in making effective allocation of money in spending.

III.3 Borrowing Behaviour: Agarwal et al. (2017) assessed the future plan for increasing financial literacy among people. This study revealed that financial literacy of people is limited with money making, spending of money, and savings of excess income over expenditure. Moreover, financial literacy of people is concerned with borrowing money for urgent needs and making investment in risky investment occasionally. This study revealed that financial literacy is mainly connected with money, banking, financial planning, retirement and estate planning, insurance, income tax and so on. In addition to that need for borrowing, source of borrowing, merits and demerits of borrowing, rate of interest, and importance of on-time repayment are all essential things to learn through financial literacy. It was concluded that financial literacy increases people's understanding on savings, spending, borrowing, and investment knowledge and behaviour.

Yildirim et al. (2017) assessed the financial literacy of individuals and its relationship to demographic variables. Financial literacy is mostly concerned with earnings, savings, borrowing and spending of money. Borrowing is always considered as a leverage to boost one's life efficiently. This study revealed that borrowing of money is in the form of loans, which is used for financial emergency. Results of the study revealed that middle aged individuals have high level of financial literacy than youngsters and old aged. Monthly family income of individuals showed that middle and high income category people have high level of financial literacy than lower income group. Findings also indicated that their financial literacy is highly concerned with risk diversification, safety of principal, liquidity, growth, and so on. It was concluded that financial literacy of individuals was found to be high.

III.4 Investment Behaviour: Awais et al. (2016) assessed the impact of financial literacy and investment experience on risk tolerance and investment decisions. This study revealed that investment decision making is impacted by various factors. Investment decisions are influenced largely by financial literacy and investment literacy and experience through mediating variable of risk tolerance. Results revealed that both financial and investment literacy guides the investors towards selecting best investment avenues and assessing risk and return content of the investment. Investors show high preference on those investments which offer high returns.Expectations about high returns lead investors to tolerate some degree of risk. Findings indicated that risk tolerance is varied based on the age, experience, financial capacity, and time horizon of the investment. It was concluded that the investment decisions are largely rely on financial and investment literacy.

Shukla (2016) examined the investment preference of working women. This study revealed that investment preference of women is greatly influenced by their investment literacy on various investment avenues. It was found that women are mainly interested to invest in financial assets rather than physical assets. Financial assets consist of stock, bond, life insurance, mutual funds, and various deposits. Working women at present have more income earning potential and more impact over investment decisions than ever before. Results indicated that working women generally making investment in the form of bank deposits, life insurance, gold, and real estate among various investment alternatives. Moreover, a very few working women possess investment literacy on stock and derivatives market as well as making their investment in corporate securities. It was concluded that working women are reluctant to invest in high risky investments and focus on short-term and medium-term investments.

III.5 Financial Literacy: Gaisina and Kaidarova (2017) investigated the financial literacy of rural population as a determinant of saving behaviour. This study stressed that being well literate not all the time means to be financially educated but concerns making effective decisions about one's own financial affairs. It was found that people with low level of formal education have better financial experience and thorough knowledge on financial products. Furthermore, they also have greater knowledge on making financial decisions including those connected with savings. Results showed that rural investors have knowledge on financial service, formal loans, consumer loans, deposits, savings, and self-estimation. It was also found that television programs, internet sources, newspapers, consultancy and special trainings are the source of financial knowledge to them. Findings of the study concluded that rural investors have knowledge on interest rate, present and future value of money, inflation which direct them to make savings and investment decisions.

Parcia and Estimo (2017) intended to analyse employees' financial literacy, behaviour, stress and wellness. This study recognised that financial literacy, behaviour, and stress factors are formed by demographic characteristics of employees. Moreover, financial literacy, behaviour, and stress are the antecedents of financial wellness of the employees. Results revealed that financial literacy in concerned with budgeting, making financial analysis, financial protection, and knowledge of various investments and so on. Financial behaviour is concerned with bills and loan settlement, bank account management, preference on cash purchase, financial discussion with peers, and savings attitude rather than spending. Financial stress arises due to delay in bills settlement, sickness, financial shortage, and inability to save for the future. It was concluded that employees have a moderate level of financial wellness, highly satisfied level of financial behaviour, medium level of financial literacy, and low level of financial stress.

Vig (2017) aimed to assess the factors affecting financial literacy levels of Indian investors. This study revealed that financial literacy can be assessed by measuring various investment decisions in connection with personal and socio-economic factors. This study identified that gender, income level, educational qualification, nature of occupation and duty, marital status, region, and family size have an effect on financial literacy. Findings of the study revealed that the financial literacy level of Indian investor is comparatively low. The financial literacy is mainly influenced by various personal and socio-economic factors and also showed that most households have poor knowledge about the most essential economic conceptions required to formulate saving and investment decisions.

III.6 Decision-Making Behaviour: Rajalakshumi and Manivannan (2017) examined the influence of investors' demographic characteristics on investment patterns. This study emphasised that investment behaviour is concerned with investors' ability to forecast, judge, evaluate and review the formalities for financial decision making. Investors can be classified as short-term investors and long-term investors based on their preference on duration of investments. Financial decision making includes information collection, understanding financial affairs, and research and analysis of assets. Findings indicated that there is a significant difference between financial decision making and gender of the investors. Gender has significant influence on investors behaviour.Selection of investments by male investors showed that they preferred risky assets as compared with female investors. Findings also concluded that short-term investors prefer risky assets than long-term investors in order to make superior returns on investments.

Janor et al. (2016) carried out seminal work to assess financial literacy and investment decisions in Malaysia and United Kingdom. This study highlighted that demographic, psychological, social and economic factors are the significant influencers, and have consequences on financial literacy and financial decision making. Results revealed that the level of financial literacy in both nations is low amongst different segments of investors. This study also revealed that risk tolerance, types of investment, interest on financial investment, and source of financial knowledge is comparatively higher in Malaysia. Findings also indicated that risk involved in investment, inflation pressure, liquidity, and capital appreciation is found to be at a higher level among UK investors. It was concluded that investors should equip themselves with risk, return, safety and other features associated with the investments. The study suggested that the nation's economic authorities should take necessary measures to enhance financial awareness and literacy of its people.

Jawaheer and Vikneswaran (2016) examined gender difference in investment decision making among working population. This study elaborately considered three factors which have influence on financial and investment decision making, such as financial literacy, risk tolerance, and types of investment. Findings revealed that gender has an impact on influencing investment decision making process. It was found that women show hesitation to make investment decision; they consider it as a stressful process, whereas men show higher eagerness to make investment decisions. Risk tolerance is low among women and they preferred to make risk-free investments, whereas, men were interested in investing in risky investment avenues. Findings revealed that despite vast gender difference in investment decisions, both do not have effective financial literacy. It was concluded that Mauritius investors tend to select the same investments and follow herd mentality in selecting investments.

Singh and Yadav (2016) analysed the factors influencing investors' decision in investing equity shares. This study revealed that investors mainly act rationally in making investment decisions while making equity share investments. It was found that psychological, social, cultural and economic factors have an impact on investment decision of investors. Economic factors include economic performance, company financial performance, stock market volatility, and industrial growth. Social factors include ownership structure, company management, and industrial policy and so on. Cultural factors consist of family culture, and peer group recommendation on investments.Psychological factors consist of self-concept, motivation, financial security, and risk tolerance on investments.These have significant influence on financial and investment decisions. It was also concluded that tax planning, capital growth, future protection, safety, and easy marketability factors also influence investors decision making.

IV. Methodology

378 working women serving in Information Technology services at Bengaluru were surveyed about their financial behaviour and decision-making behaviour with the assistance of a structured questionnaire and by employing judgemental and random sampling.

V. Analysis and Results

Figure 1 and Tables (1 and 2) present the outcome of structural equation modelling wherein the independent variables were savings behaviour, spending behaviour, borrowing behaviour, and investment behaviour. The dependent variable was decision-making behaviour.

Figure 1
Structural Model Outcome

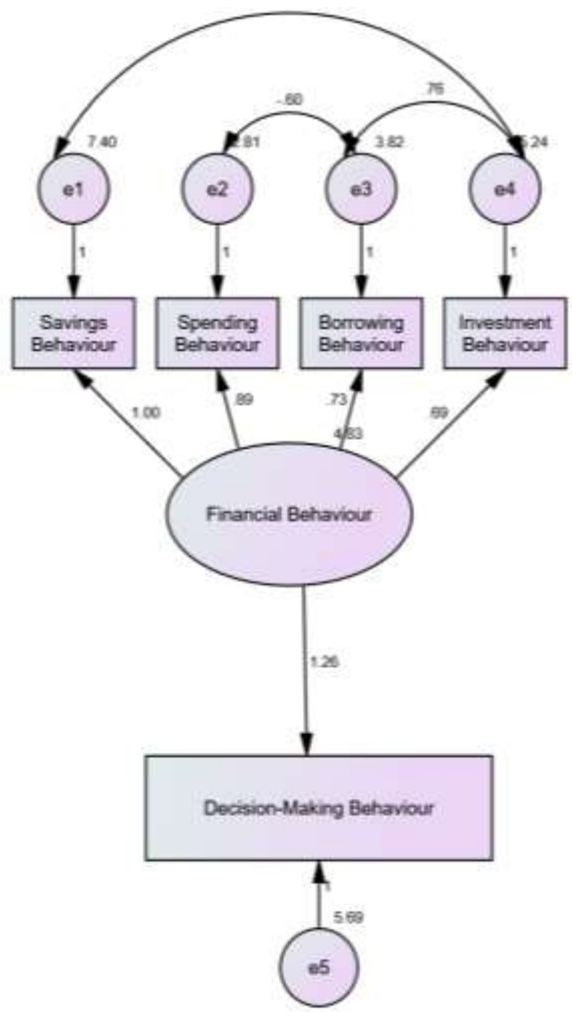

Table 1
Structural Model Path Analysis

Path			Unstandardised Coefficient	Standardised Coefficient	p
Savings Behaviour	<---	Financial Behaviour	1.000	0.628	***
Spending Behaviour	<---	Financial Behaviour	0.895	0.761	***

Path			Unstandardised Coefficient	Standardised Coefficient	p
Borrowing Behaviour	<---	Financial Behaviour	0.734	0.637	***
Investment Behaviour	<---	Financial Behaviour	0.687	0.551	***
Decision-Making Behaviour	<---	Financial Behaviour	1.257	0.757	***

*** Significant at $p < 0.001$

Table 2
Model Fit Indices

Fit Indices	Model Value	Preferred Value
CMIN/DF	0.068	<3
GFI	1.000	>0.9
AGFI	0.999	>0.9
NFI	1.000	>0.9
CFI	1.000	>0.9
RMSEA	0.000	<0.06

The structural model fit indices (Haier et al., 2009; Hooper et al., 2008; Steiger, 2007) indicate good fit (Table 2).

H_{01}: Savings behaviour has no effect on Financial Behaviour.

It can be seen from Table 1 that the coefficient of savings behaviourbeing 1.0 represents the effect of savings behaviouron financial behaviour, holding other variables as constant. The p value is significant at 0.1% level and therefore the null hypothesis is rejected. There will be 1-unit increase in financial behaviour, for every 1-unit increase in savings behaviour.

H_{02}: Spending behaviour has no effect on Financial Behaviour.

It can be seen from Table 1 that the coefficient of spending behaviour being 0.895 represents the effect of spending behaviour on financial behaviour, holding other variables as constant. The p value is significant at 0.1% level and therefore the null hypothesis is rejected. There will be 1-unit increase in financial behaviour, for every 0.895-unit increase in spending behaviour.

H_{03}: Borrowing behaviour has no effect on Financial Behaviour.

It can be seen from Table 1 that the coefficient of borrowing behaviour being 0.734 represents the effect of borrowing behaviour on financial behaviour, holding other variables as constant. The p value is significant at 0.1% level and therefore the null hypothesis is rejected. There will be 1-unit increase in financial behaviour, for every 0.734-unit increase in borrowing behaviour.

H_{04}: Investment behaviour has no effect on Financial Behaviour.

It can be seen from Table 1 that the coefficient of investment behaviour being 0.687 represents the effect of investment behaviour on financial behaviour, holding other variables as constant. The p value is significant at 0.1% level and therefore the null hypothesis is rejected. There will be 1-unit increase in financial behaviour, for every 0.687-unit increase in investment behaviour.

H_{05}: Financial Behaviour has no effect on Decision-making Behaviour.

It can be seen from Table 1 that the coefficient of financial behaviourbeing 1.257 represents the effect of financial behaviouron decision-making behaviour, holding other variables as constant. The p value is significant at 0.1% level and therefore the null hypothesis is rejected. There will be 1-unit increase indecision-making, for every 1.257-unit increase in financial behaviour.

VI. Conclusion

Savings, spending, borrowing and investment behaviour all have a positive impact on financial behaviour. Also, financial behaviour has a positive impact on decision-making behaviour. Financial literacy levels need to be enhanced in a country where a majority of the population live in sub-urban or rural areas. The percentage of the youth segment indicates a ray of hope for better dissemination of financial knowledge and cultivation of right habits regarding inflow and outflow of money. The focus all along has been of savings with little or no regard for investments. A higher disposable income has perhaps led to a splurge of money on lifestyle and materialistic possessions. It is high time the citizens of the country are alerted about financial disasters and are made aware of the significance of future financial security and economic well-being among other living concerns.

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