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Impact of Financial Literacy and Parental Socialization on the Saving Behavior of University Level Students

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ABSTRACT

This is an explanatory study on the impact of financial literacy and parental socialization on the saving behavior of university level students. Using primary data collection method, 400 questionnaires were distributed to the students of universities across Pakistan. Pearson correlation and multiple regression analysis are employed by using SPSS. Our results demonstrate that financial literacy and parental socialization positively influence the saving behavior of students. Our result revealed that the students who have financial literacy exhibit more saving behavior as compared to others who do not have financial knowledge. It is also concluded that the student willingness to save increased due to receiving financial education from their parents.

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1. Introduction

Over the few past decades, savings are playing a major role in the economic development of the countries. Saving is the portion of income which is not spent on current consumptions. The consumption pattern of individuals determines their savings decisions (Browning & Crossley, 2001; Baidoo, Boateng & Amponsah, 2018). Saving is considered as a major factor that affects the economic growth of developing countries (Jagadeesh, 2015). In developing countries, saving is an essential element of households' welfare. For people and family units, savings give security against future crises while for national savings it gives resources that are required for the development of the country (Gedela, 2012; Jagadeesh, 2015). Savings are essential for the economic growth of country because if the savings rate is low, then the investment will also be low leading to the low capital formation. According to Horrod (1939) and Domar (1946), the savings rate and the ability to save help out to determine the speed of economic growth because an increase in the saving rate will lead to an increase in the rate of investments in the countries and therefore it stimulates economic growth of countries.

National Savings are essential for accomplishing high economic growth (Jagadeesh, 2015; Auerbach, & Kotlikoff, 1983). An increase in the rate of saving can bring more investments (Cheema et al., 2018). It will finally lead to industrial growth, business era, change in the nature of items, stable costs, and higher growth (Ayadi, Ben Omrane, Lazrak, & Yang, 2018). The savings of household and individuals are the essential segment of national saving in both developed and developing nations (Ayadi et al., 2018). During the 1960s, the national savings rate of Pakistan was around 10 percent of GDP and it increased to 15% in 2000s but after that it continuously declined. The saving rate in Pakistan is unfavorable in comparison to neighboring countries. The average saving rate of last five year was 31.9% in India, in Sri Lanka 24.5% and in Bangladesh 29.7% (SBP, 2016). When people save their money in different financial institutions then they will have more reserves. Due to increase in reserves, these institutions will give loans on the low interest rate for investment purpose. This aspect will enhance investment level and the economic growth in the country (Ahmed, 2015).

The best way to increase the national saving rate is to encourage the individuals for savings. The financial literacy can be provided to individuals through different educational programs and seminars. This will increase their knowledge and encourage them for making future financial plans, and pick the most reasonable financial instrument to accomplish and achieve their financial objectives.

To assess the saving behavior, several studies have been conducted in Pakistan (Khan, Hasan, Malik, & Knerr, 1992; Mehmood & Qasim, 1992; Nasir, Khalid & Mehmood, 2004; Ahmed, 2015; Cheema, Saleem ur Rehman & Atif, 2018). Akhtar (1987) analyzed the impact of dependency, urbanization, education on household savings. Also, Iqbal (1993) analyzed the impact of income level, domestic interest rate, domestic credit, foreign interest rate, private capital outflow, terms of trade, inflation rate, dependency ratio, worker’s remittances, net foreign capital outflow, real wage rate, export earnings and debt service on saving behavior. Azhar (1995) worked on the determinants of savings in the rural area. Shaikh (2012) analyzed the impact of income, exports, debt, government expenditure and inflation on national saving.

In most of the studies, it is concluded that saving is an important component of an economy (Cheema et al., 2018). The higher level of savings can stimulate investment in the economy. Many factors can influence the savings behavior of university level students. The financial literacy and parental socialization are among such factors (Sarpong- Danquah, Gyimah, Poku, & Osei-Poku, 2018). The exact identification of such factors can facilitate in boosting savings and mobilize these for efficient utilization. How financial literacy and parental socialization can affect the saving behavior is a question of concern. The difference in the saving pattern of students is also another question so this study is an attempt to address these questions. This study will be helpful for different banks and other financial institutions, policy makers and parents in getting the most appropriate information about the university level students.

2. Literature Review Saving is the partition of the income which was not spent on current consumptions (Ahmed, 2015; Cheema et al., 2018). The people save their money for different purposes. Saving is beneficial not only for the individuals but also for the whole country and it helps in infrastructure development and long-run investments in the country likewise saving act as a hurdle for countries against financial crisis and economic downturns (Jagadeesh, 2015; Baidoo et al., 2018). Clark and Madeleine (2008) demonstrated that financial literacy and financial plans are extremely successful in defeating the reduction in saving. The association between financial illiteracy and miss management of different financial matters may be obvious. The Theory of Planned Behavior supports the idea that financial literacy and parents are playing an important role in shaping the financial habits of individuals. In Theory of Planned Behavior, Ajzen (1991) stated that the behavior of the individuals influenced by their intentions formed by attitude, subjective norm and perceived behavioral control.

Hogarth (2002) defined financial literacy as it is the way that how individuals managed their financial resources in the form of investment, insurance, budgeting, and saving. Financial literacy is an expertise or skill that can help individuals to make an effective financial decision. The individual's way of managing and saving behavior changed due to financial literacy. It describes in some studies that the financial literacy act as the awareness of different financial ideas and capability to deal their financial issues (Hogarth, 2002). Due to financial literacy, the individuals can get several benefits. Monticone (2012) argue that there are three main advantages of financial literacy. First, it enhances the attractiveness of different financial products and services, and also the capacity to utilize. Thus, this can increase the demand for these financial items. Second, due to financial literacy, the individuals can better manage their resources. Third, money related education can engage helpless people to effectively oversee and grow a small-scale business, enhancing their administrative abilities and the proper utilization of financial items for their organizations. Individuals who have financial information, aware about different financial threats and opportunities and the individuals who are conscious about their duties and rights in connection to monetary foundations can facilitate in developing the financial markets.

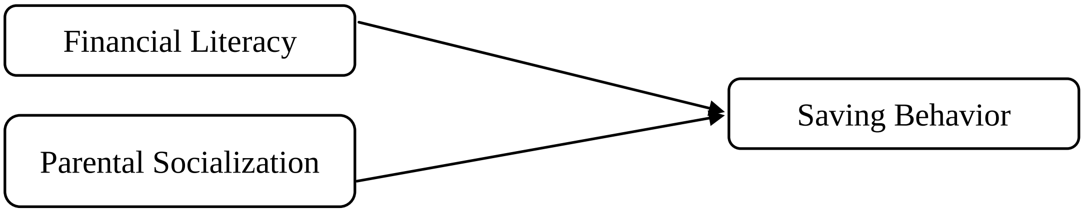
Beal and Delpachtra (2003) analyzed the financial knowledge of the university students in Australia and they found that financial literacy of business students is better as compared with others. They further argued that the Individuals who had higher financial literacy were better able to manage their money, make proper planning, decrease their spending and also invest more than others. Murphy (2005) documented that the majority of business student have more financial literacy than the non-business students and the students who belong to educated families are also more financially literate than the students who belong to a less educated family. Lusardi and Mitchell (2007) noted that an increase in the capabilities and financial knowledge help in promoting the effective decision-making in different financial matters, therefore, it enables the individuals to effectively manage their different life events such as schooling, illness, purchasing, and retirement.

There is practical evidence that parents can build up the skills of their kids that are imperative for savings. Furnham (1999) studied the habit of savings and spending of youngsters. He argued that saving behavior of young people is caused by parental requirements and requests. Parents can play a significant role in encouraging their kids toward savings (Lusardi& Mitchell, 2014). There are two types of parents. First, the parents who always try to protect their kids from different financial difficulties and responsibilities. Such types of parents do not involve their kids in different financial matter discussions. Second, there are some parents who try to educate their children about the different financial matters because they know that it is important for them to know about it to manage their budget and also to increase their savings (Leiser & Ganin, 1996; Ribeiro, Fonseca, & Soares, 2018).

Homan (2016) argued that the parental education and socialization can help out in boosting the saving of individuals and decrease their borrowing. The saving habits of individuals can be developed when parents teach their kids during childhood. The parent's discussion of financial matters and guidance affect the saving and borrowing habits of their kids. The bad habits of children already formed if the parents start financial teaching too late. Parents can control the spending of their children by monitoring their expenditure regularly (Fatoki, 2014; Batty, Collins & Odders-White, 2015). Wong (2013) stated that the individuals whose financial habits monitored by their parents during childhood had effectively managed their own money.

Based on the literature, we hypothesize that:
H_1: There is a positive relationship between parental socialization and saving behavior.
H_2: There is a positive relationship between financial literacy and saving behavior

Figure 1: Research Model



Source: Adapted from Thung et al. (2012)

3.Methodology

This is an explanatory study on the factors influencing the saving habits of university students in Pakistan.This is cross-sectional study in which the data was collected at one time from the university level students of Azad Jammu & Kashmir, Pakistan. The target population for this study was all the students who were enrolled in different universities of Azad Jammu & Kashmir. For this study, 400 students of Master of Business Administration were selected as samples from four universities of Azad Jammu & Kashmir. By using the quota sampling technique, 100 samples were selected from each university including the University of Poonch Rawlakot, University of Kotli Azad Jammu and Kashmir, Mirpur University of Science and Technology and the University of Azad Jammu and Kashmir, Muzaffarabad. In this study, primary data was collected using questionnaires. Pearson correlation and multiple regression analysis was applied using SPSS. The following regression model was applied for empirical analysis:

$$SB = \beta_i + \beta_1 FL + \beta_2 PS + €$$

3.1Results and Discussion

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Gender	391	1.00	2.00	1.3990	.49032
Age	391	1.00	5.00	3.5575	.98248
Monthly Allowance	391	1.00	5.00	2.5396	1.28615
Part-time Job	391	1.00	2.00	1.8849	.31954
FL	391	1.00	5.00	3.4848	1.03632
PS	391	1.00	5.00	3.7081	.88277
SB	391	1.00	5.00	3.6995	.74211

The above table shows that saving behavior has the highest mean score of 3.699; while gender has the lowest mean score of 1.399. For standard deviation, monthly allowance has the highest score of 1.286; whereas .3195 is the lowest value scored by part-time job.

Correlations

		FL	PS	SB
FL	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	391		
PS	Pearson Correlation	.657**	1	
	Sig. (2-tailed)	.000		
	N	391	391	
SB	Pearson Correlation	.498**	.567**	1
	Sig. (2-tailed)	.000	.000	

N	391	391	391

**. Correlation is significant at the 0.01 level (2-tailed).

The above table shows that the financial literacy and parental socialization both have a positive association with saving behavior of university level students. The parental socialization has strong (*r* = 0.567) relationship with the saving behavior of university level students while financial literacy has (*r* = *0*.498) association with saving behavior. The relationship between parental socialization with financial literacy is stronger in comparison with other because the financial literacy level of individuals not only increase due to getting financial education but also due to parent's guideline and encouragement.

Table 3: Multiple Regression Analysis

Saving Behavior				
Predictors	Beta	t	R^2	ΔR^2
Step 1				
Control Variable				
Age		4.359		
Monthly Allowance		4.489	.129**	.125
Step 2				
Direct Effect				
Financial Literacy	0.153**	4.163		
Parental Socialization	0.322**	7.412	.422	.416

Note. **p <.01

Table above indicates 0.422 value of R square which means that FL and PS explained 42.2% variation in the saving behavior of university-level students. In regression analysis, the F-value is 70.435 which shows the fitness of model in this study. The above results revealed that the parental socialization (β= 0.322) has a strong influence on SB this means that by holding other variables constant, an increase in the unit of PS will result in 0.322 units increase in the SB, therefore H1 is accepted. Similarly the FL (β= 0.153) has second strong influenced on SB and it is also show that if one unit of FL will increase then .153 units of SB will increase, thus, H2 is accepted also.

4.Conclusion

This study aimed to analyze the impact of FL and PS on the SB of university-level students in AJ&K, Pakistan. The results of this study demonstrate that the FL and PS both have positive impact on SB of university-level students. Our result revealed that the students who have financial literacy exhibit more saving behavior as compared to others who do not have financial knowledge. It is also concluded that the student willingness to save increased due to receiving financial education from their parents (Fatoki, 2014; Mahdzan & Tabiani, 2013). The parents are the best source who can control the spending of their kids and can encourage them for savings. So both FL and PS positively influence the savings of individuals which not only increase their financial resources but also beneficial for the whole economy because an increase in the savings will help in infrastructure development and long-run investments in the country and it will directly influenced on GDP and finally affect the economic growth of the countries (Cheema et al., 2018).

This study will provide direction to policy makers and other regulating authorities to make appropriate strategies to increase the saving of youngsters. They need to organize different financial training programs to increase the financial literacy of students. This study will help different banks to gain better understanding of saving behavior of university level students of AJ&K. Therefore they can develop financial products or services according to the needs and preferences of university students to convert these students as their valuable customers. In this study, parental socialization is a good predictor of their children's saving behavior. Parents always play the central role in facilitating and promoting their children's saving behavior. This study will enable the parents to get the information about the financial behavior of their children and so due to this they can be able to control their spending and can encourage them for savings.

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