What are the factors that influence saving behavior of university students?

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Abstract

This study surveys university students in Kathmandu valley to examine the impact of peer influence, parental influence and financial literacy on their saving behavior. The study was conducted among undergraduate and post graduate students in Kathmandu valley. Data obtained were analyzed using regression analysis and descriptive analysis such as percentage and frequency. It was discovered that saving behavior of students is significantly influenced by their peers, parents and financial literacy. The analysis further showed that income, age, gender and education level (undergrad and post grad) had no impact on their saving behavior. Hence, financial literacy, peer influence and parental influence were found to be most influential predictors of saving behaviors of university students in Kathmandu.

Keywords : **university students, peer influence, parental influence, financial literacy**

1.1 Introduction

Saving can be defined as the excess of income over all the expenditures, as per Denton et al. (2011). The subject of savings as an engine of economic growth and development has received an immense attention from different authors, researcher and schools of thought. Like most economists, Smith (1776) for instance, regarded capital accumulation through savings as a necessary condition for economic development. Saving has been and continues to be of paramount importance for both nation and individual for propelling to the path of the sustained development and independence. As per Tang & Chuna (2009), higher levels of saving indicate an economy that is in good condition. Much as the macro level benefits and individual benefits accruing from savings are varied so are factors that have an impact upon the saving behavior. According to Youniss & Haynie (1992), adolescents engage in many economic activities to be independent but due to having a relatively high levels of leisure time disposable at hands of youths and exposure to an abundance of information and influence because of advent technology, the youths have numerous choices to spend their money on which hampers their saving behaviors and leads to financial difficulties. Financial difficulties reduce the productivity in work place, affect the health physically and psychologically. Dowling et al. (2019) state that the absence of financial worries, which could be helped through saving, is associated with subjective well-being. As per Jamal & Ramlan (2015), financial literacy, parental & peer influence have an effect upon the saving behavior.

Multiple researches also show that peer and parental influence have a high level of impact upon the saving behaviors of youth. According to Youniss & Haynie (1992), both peers and parents act as strong agents that determine the behavior of adolescence in future including saving behavior. Bucciol & Veronesi (2014) suggested that parental teaching is more effective than formal education at school to enhance the ability to meet financial issues in future.

Similarly, according to Zaihan (2016), exchanging ideas about financial management matters among peers and their spending inclination during their social time influences their saving behavior. Likewise, Shin (2010) indicated that the financial literacy positively affected saving practices, while Garg and Singh (2018) indicated that financial literacy is a cause for concern since it is still low among most young people worldwide. In the same context, OECD (2011) notified that awareness of importance of financial education is gaining momentum across the world and that younger generations are more likely to bear more financial risks in adulthood than their parents in terms of saving, planning for retirement and covering their healthcare. As mentioned by Younis & Haynie (1992), the fact that peers and parents act as strong agents that determine the behavior of adolescents in future means that youths imitate their parents and often

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look to peers for discussion of finance related situations. Right decision leads in personal development and growth, which leads to promote positive saving behaviors and to predict financial problems. The research also stated that saving behavior is one of the important characteristics that determines the social well-being and is a solution to the financial circumstances in the future.

2. Methodology

Parental influence, peer influence and saving behavior were measured as per Otto (2009). The scale proposed by Lusardi and Mitchell (2011) was taken to be acceptable, given that it consists of only three items by Rieger (2020). Rieger (2020) also suggested that the scales proposed by Lusardi and Mitchell (2011) might be the most representative for the various financial literacy scales, which has also been used by Mahdzan & Tabiani (2013) to measure basic financial literacy.

3. Theoretical Framework

Katona (1974) defined saving as the part of income which is reserved for future use and may serve to create enduring wealth. Browning & Lursadi (1996) implied that saving took place when money was in excess of income over consumption over a period of time. Saving behavior implied the perception of future needs, a saving decision and a saving action. In other words, saving behavior is the combination of perception of future needs, a saving decision and a saving action. Nepal Rastra Bank defines financial literacy as ‘a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing’ in order to design a financial literacy framework. One of the models of financial literacy is conceptualized into three dimensions, namely, financial knowledge, financial attitude, and financial behavior (Atkinson and Messy, 2011). Younis & Haynie (1992) mentioned that the influence of peers and parents is a strong socializing agent throughout the young adult phase.

4. Literature Review

Dangol & Maharjan (2018) tested the parental and peer influence on saving behavior of youth. The study used judgmental and convenience sampling techniques to collect the data of 390 respondents from Kathmandu valley. Linear regression analysis was used by taking peer influence and parental influence as independent variables and saving behavior as a dependent variable. Moderating variables such as income, gender and marital status were taken. The study revealed that there is a significant relationship between peer influence and saving behavior. Similarly, there is a significant relationship between parental financial teaching and saving behavior.

Oseifuah et al. (2018) studied the financial literacy among undergraduate students from Ghana. The study used stratified random sampling for data collection from 342 undergraduate students. Logistic regression and Chi-square statistical procedures were used to analyze the data. The study found that students’ experience in handling money (through managing incomes from working) positively influenced their financial literacy as such experience in handling monies would require them to be knowledgeable about financial management matters such as budgeting, investments, interest rates, among others. Saving out-of-pocket incomes of the students was found to be a very significant consideration in the management of their personal finances; whereas, being financially literate appeared not to have a significant influence on savings’ propensity of the students. It was also found that as student’s monthly pocket money increased, their propensity to save also increased in accordance with the theory of savings behavior, which posits that saving is a positive function of disposable income.

Jamal & Ramlan (2015) studied the effects of social influence and financial literacy on savings behavior. Total 1124 samples were tested using multiple regression analysis. The study showed that there is impact of parental and peer influence and financial literacy on savings behavior. Kadir & Jamaluddin (2020) studied the saving behavior in emerging countries and the role of financial knowledge, parent socialization and peer influence. The study was carried out in 126 students in emerging countries to examine the factors that affected their saving behavior. T-test and ANOVA analysis were done in order to analyze the differences in saving behavior based on demographic characteristics. The study revealed that parent socialization, financial knowledge and peer influence have a significant effect on students’ saving behavior.

5. Results and Discussion

5.1 Descriptive analysis

Male and female respondents were nearly the same i.e. 53% and 47% respectively. 60% of the respondents fall under the 20-25 years of age category. It showed that most of the respondents have income range of Rs. 10,000 - Rs. 20,000 (32.6%) while the least of them have income range of above Rs. 30,000 (12.6%). Similarly, most of the respondents were pursuing bachelor’s degrees (68.7%).

5.2 Correlation analysis

Table 1 shows the correlation analysis of the variables under study, which is conducted for the whole sample. As shown in the table saving behavior is positively correlated with other variables. This showed that there is positive and significant correlation between saving behavior and financial literacy, parental influence and peer influence. Similarly, there is a positive and significant correlation among the peer influence and parental influence samples.

Table 1: Correlation Analysis

		Peers Influence	Parental Influence	Financial Literacy	Saving Behavior
Peers Influence	Pearson Correlation	1			
Parental Influence	Pearson Correlation	.392**	1		
	Sig. (2-tailed)	.000			
Financial Literacy	Pearson Correlation	.192**	-.073	1	
	Sig. (2-tailed)	.003	.268		
Saving Behavior	Pearson Correlation	.437**	.476**	.140*	1
	Sig. (2-tailed)	.000	.000	.034	

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

**. Correlation is significant at the 0.05 level (2-tailed).*

5.3 Regression analysis

Regression analysis is a statistical measure that has been chosen to determine the relationship between one dependent variable, saving behavior and other independent variables which are financial literacy, parental influence and peer influence. Regression is calculated for the responses provided in Likert scale and point system questions. The ANOVA analysis showed that the predictors are able to account for significant amount of variance in saving behavior since the p value is less than 0.05. The result of regression analysis is given in the Table 2.

Table 2: Regression Analysis

Model	Beta	Sig.	
1	(Constant)	3.917	.000
	Peers Influence Total	.247	.000
	Parental Influence Total	.398	.000
	Financial Literacy Total	.280	.042

Independent Variables: Financial Literacy, Parental Influence & Peers Influence

Dependent Variable= Saving Behavior

The p value is less than 5% for all independent variables in Table 2 which means that all the variables are statistically significant. The study examined the impact of financial literacy, peer's influence and parental influence on the saving behavior of university students of Kathmandu valley. The study found that the financial literacy, peer's influence and parental influence has significant and positive impact on saving behavior of university students in Kathmandu valley. Among them, parental influence was found to have the most impact on the saving behavior. Similarly, the moderating variables like age, gender, level of study and income range were found to have no significant impact on the saving behavior.

5.4 Hypothesis testing

The result of hypothesis testing is shown in Table 3.

Table 3: Summary of result

No.	Hypothesis	Accepted/Rejected
H1	Financial literacy has positive impact upon saving behavior of the university students.	Accepted
H2	Parental influence has positive impact upon saving behavior of the university students.	Accepted
H3	Peer influence has positive impact upon saving behavior of the university students.	Accepted

6. Conclusion

The study analyzed the university student's financial literacy, peer influence and parental influence and their impact upon saving behavior. 230 students were selected and a questionnaire was distributed among them. The collected data were described by frequency and percentage. Three hypotheses were tested using linear regression analysis. The study found that financial literacy, peer influence and parental influence had significant and positive impact on the saving behavior of university students of Kathmandu valley. The study corroborates with Dangol & Maharjan (2018), Kadir & Jamaluddin (2020), Jamal & Ramlan (2015) and Mahdzan & Tabiani (2013) who also found a significant impact of peer influence, parental influence and financial literacy on saving behavior. Demographic variables such as age, gender, current education level (Bachelor/Masters) and income range had no effect on the saving behavior of the students. This study contradicted a few findings of Dangol & Maharjan (2018), who found significant impact of gender on saving behavior. On the other hand, the study was in line with Dangol & Maharjan (2018) who found no significant impact of income and gender on saving behavior. However, it contradicted all findings of Delafrooz & Paim (2011) who found significant impacts of age, education and income on saving behavior.

7. Recommendation

In order to understand the determinants of saving behavior it is necessary to understand the components that are used to measure it. For instance, having a basic understanding of interest rate, inflation and stock market resulted in increment in saving behavior. Similarly, involving in financial matters with peers and encouragement of parents to save also led to increment in saving behavior. Based on this study it can be concluded that parents have to guide their children to save and make sound financial decisions. Likewise, peers also have a large influence in saving behaviors of students. Additionally, financial literacy is also required to make good financial decisions. Majority of students show good saving behavior because they believe saving is a good thing, they reduce expenses in order to save and they set aside money on a regular basis. Hence, these components relating to peer influence, parent influence and financial literacy have to be well understood by parents, teachers and students themselves in order to promote and influence savings by students. This leads to an increase in contribution to both the country and the individual as individual saving leads to an increase in overall investment as well as the country's growth. Actual savings may take different forms like cash, bank account, stock market, golds and other precious metals etc. Due to not applying the skills and knowledge related to financial management in their daily lives, undergraduate students have no saving behavior as per Sam (2012). Hence, policy makers and guardians should have some kind of reward system for showing regular saving behavior which requires students to apply their skills and knowledge.

Oseifuah et al. (2018) confirmed that student's monthly pocket money increases their propensity to save and it is not financial literacy that increases their propensity to save. Hence, in order to actually save, it is necessary to have a paying job, substantial pocket money or reduce expenses. If students have no source of income, then having financial literacy and good influence alone is not enough. Students actually have to have employment. Research should be conducted to understand the employment scenario of students and how employment can be generated. Likewise, most of these researches relating to financial literacy are focused on students, perhaps because of easy data collection procedures, resulting in other group of population not being studied. Hence more researches should be conducted in this area focusing on employment, the relationship with parental income and the saving methods preferred by students and those studies should be more inclusive, that is, focused on other strata of population.

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