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Financial Education Practices Adopted by Household Investors for Children: A Study of Mizoram

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Abstract:
Financial education is one of the most important determining factors of the investment behaviour of a person. Imparting financial education to other persons who are not familiar to savings and investments is now one of the main focus areas of financial institutions and regulatory bodies. For a household investor, teaching children about savings and investments could result in better financial decisions for the family as well as their children's future family. This study looks into the degree at which household investors are taking steps in educating their children about financial matters. Purposive sampling on household investors from the state of Mizoram was done so as to get better insight to the behaviour of household investors towards the strategies they adopted in teaching their children about savings and investment.

Keywords*: Children, teaching methods, financial education, Household investors*

1. Introduction

Financial literacy is the state of awareness which affects the ability of individuals to make appropriate decisions at the right time in managing their personal finances. Financial education is increasingly important, not just for investors, but for the average family trying to decide how to balance its monthly expenditure budget, save for special occasions, save for emergencies, buy durable goods, buy homes, save for children's education, and for retirement planning. The importance of financial education lies in the fact that financial literacy allows persons to make educated and informed decisions. According to the Organisation for Economic Cooperation and Development (OECD) 2006 Policy Brief, individuals will not be able to choose the right savings or investments for themselves, and may be at risk of fraud, if they are not financially literate. But if individuals do become financially educated, they will be more likely to save and to challenge financial service providers to develop products that truly respond to their needs, and that should have positive effects on both investment levels and economic growth. For emerging economies, financially educated consumers can help ensure that the financial sector makes an effective contribution to real economic growth and poverty reduction. The benefits of teaching children good money habits make it well worth the effort at various stages of life and children who are not taught these lessons pay the consequences for a lifetime. Some parents don't teach children about money because they think they shouldn't talk about money with children, don't have the time, or think they don't have enough money (Danes and Dunrud, 2014). This study presents the techniques used by parents in educating their children. Financial education helps people learn how to properly budget and manage their income, save and invest efficiently, and avoid becoming victims of fraud. And this helps everyone to become more financially secure. In India, the National Institute of Securities and Markets (NISM), established and funded by the Securities and Exchange Board of India (SEBI), has been conducting a programme called 'Pocket Money' which is used to educate children about savings and investment. The Reserve Bank of India (RBI), has an interactive website wholly dedicated to financial literacy for school children and has produced eight comic books with different topics on savings and investment.

2. Review of Literature

Webley (2005) found that children make great progress in economic understanding between the ages of 6 and 12 years, such that children's understanding of financial matters is "essentially adult" around age 12. A series of small studies using games showed that 6-year-olds may understand that it is good to save, but they may view the money saved as money lost. By age of 9 years, they may understand that they can save with a bank for the protection of their money. Much of the progress children make by the age of 12 may be credited to age-related cognitive development, such as acquiring the ability to understand multiple causation or arithmetic. Children are better able to use strategies to resist the temptation to spend, and are able to understand concepts such as interest when they reach the age of 12 years.

Children may acquire information from their friends/classmates and the media (advertising, films, etc) on financial topics (John, 1999; Sherraden et al., 2011). Very young children first learn about financial concepts through watching and modelling their parents (Otto, 2009). Webley and Nyhus (2006) noted that certain personal characteristics closely related to savings and that parents play a key role in shaping the mind of their children because the ability to delay gratification was found to be shaped early in childhood.

Grinstein-Weiss et al. (2009) found a significant correlation between reported parental teaching of money management and higher future credit scores. In general, allowances have been associated with better monetary knowledge, but the reason behind parents' decision to provide allowances to their children is poorly understood (Ashby et al., 2011; Otto, 2009).

Costa and Kallik (2008), in their book 'Learning and Leading with Habits of Mind' described that unconscious mental propensities or processes (habits of mind/thought) may be cultivated in children. They showed how children can be taught, at home and at school, how to 'habituate' effective problem-solving strategies and techniques into their mental repertoire so that they develop the penchant for the ability of solving problems in their daily life.

Sherraden (2010) found that if parents lack certain financial knowledge or skills, they cannot provide related instruction or model behaviours for their children. One qualitative British study (Loumidis & Middleton, 2000) found that children from lower-income families reported fewer experiences with financial services and were less likely to see their parents visit banks or to make payments other than with cash. This issue extends as children grows old enough to manage money more independently. While youth generally ask for financial advice from their parents before turning to any other source, low-income youth are less likely to have parents that are able to give advice about finances (ASEC, 1999; Sherraden, 2010). JumpStart surveys with high school students have found financial literacy levels to be correlated with personal factors including socioeconomic background (Sherraden et al., 2011; Mandell, 2009).

Amar Pandit (2009) observed that most parents do not take an initiative in teaching their children about money. They might touch on the concept of piggy bank and savings early on but are usually reluctant to discuss the topic of money and family finances with their children. He further stated that the key learning points for kids should be on having healthy values about money, setting goals and priorities, thinking and making prudent choices, delaying instant gratification, and understanding the virtues of hard work.

Gupta (2005), in the Indian Household Investors Survey -2004 suggested that at younger age, the potential investors can be encouraged to experiment for a while, taking small bets with share investment. The young people have a long future before them. They will learn from mistakes and by the time they become grown-ups and have substantial money to invest, they would be much better prepared for investing skillfully.

The Parent, Kids and Money Survey (2012) conducted by T.RowePrice, a global investment management firm, found that 32 per cent of the parents among the respondents claimed that they 'very often' have conversations about money and the importance of spending and savings on a regular basis while 44 per cent of the parents claimed that they 'somewhat often' have such conversation, 20 per cent of them does 'not very often' discuss such things and 4 per cent of the parents 'almost never' have such discussion with their children. The study further found that 54 per cent of the respondents' children go first to their mother with their questions about money while 40 per cent of the children go to their respective father for such query.

3. Sample Design

Financial education is one of the most important determining factors in the investment behaviour of a person. Imparting financial education to other persons who are not familiar to savings and investments is now one of the thrust areas of regulatory bodies in India. For a household investor, teaching children about savings and investments could result in better decisions regarding financial investment and future plannings of household expenditures and incomes. This study tries to find out the extent to which household investors took steps in educating their children on money matters – savings and investment.

The sample consists of 440 household heads in Mizoram by using purposive sampling method, identifying those who had invested a certain amount of their money. Care is being taken in such a way that not more than 20 respondents are selected from the same locality in order to keep at bay, the errors of cluster sampling.

4. Methodology

The sample is taken from 440 questionnaires personally distributed and collected by the researcher and research assistants. Purposive sampling is used so as to get data from actual investors i.e. only known investors are used in the sample. Care was taken to take maximum 20 respondents from the same locality so as to keep cluster sampling error as low as possible.

5. Habit of Teaching Children about Savings and Investments

Response	No. of respondents	Per cent
Yes	215	48.86
No	106	24.09
Can't say/Not applicable	96	21.82
No response	23	5.23
Total	440	100

Table 1: Do you have the habit of teaching children about savings and investment?
Source : Primary data

Table 2 shows that nearly half (48.86 per cent) of the respondents has the habit of teaching their children about saving and investment while 24.09 per cent of the respondents admitted that they did not possess such a habit. One fifth of the respondents could not give a definite response (can't say) or were not applicable for them; the main reason being that 89 (20.23 per cent) of the respondents were unmarried household heads.

Age (in years)	Yes	No	Can't say	NR	No. of respondents	Per cent from total respondents
Below 30	19(32.76)	15(25.86)	21(36.21)	3(5.17)	58 (100)	13.18
31-40	79(48.17)	45(27.44)	28(17.07)	12(7.32)	164(100)	37.27
41- 50	73(51.77)	28(19.86)	35(24.82)	5(3.55)	141(100)	32.05
51 - 60	35(54.69)	16(25)	10(15.63)	3(4.69)	64(100)	14.55
61 and above	9(69.23)	2(15.38)	2(15.38)		13(100)	2.27
Total	215	106	96	23	**440**	**100**
Gender	**Yes**	**No**	**Can't say**	**NR**	**No. of respondents**	**Per cent from total respondents**
Male	149(50.68)	56(19.05)	71(24.15)	18(6.12)	294(100)	66.82
Female	66(45.21)	50(34.25)	25(17.12)	5(3.42)	146(100)	33.18
Total	**215**	**106**	**96**	**23**	**440**	**100**
Monthly income (Rs)	**Yes**	**No**	**Can't say**	**NR**	**No. of respondents**	**Per cent from total respondents**
Up to 10,000	5(33.33)	5(33.33)	2(13.33)	3(20)	15(100)	3.41
10,001 – 20,000	23(37.10)	19(30.65)	17(27.42)	3(4.84)	62(100)	14.09
20,001 – 30,000	56(44.44)	33(26.19)	30(23.81)	7(5.56)	126(100)	28.64
30,001 – 40,000	49(55.68)	21(23.86)	15(17.05)	3(3.41)	88(100)	20.00
40,001 – 50,000	25(39.68)	13(20.63)	23(36.51)	2(3.17)	63(100)	14.32
50,001 and above	57(66.28)	15(17.44)	9(10.47)	5(5.81)	86(100)	19.55
Total	**215**	**106**	**96**	**23**	**440**	**100**

Table 2: Analysis of data in TABLE 1 with socio-economic factors
Source: Primary data, NR = No response, Figures in parenthesis are in percent

From Table 2 we can see that the percentage of parents imparting financial education keeps on increasing as age and income increases i.e. more and more parents teach their children on managing financial matters as their age and income increases. Further, we can see that the proportion between the 'yes' and 'no' response of males imparting financial education to their children is more than that of the female respondents. Hence, it implies that males are more active in teaching their children on matters relating to financial education. is being taught that the correlation between age and the teaching of children on financial

6. Preferred Methods in Teaching Children about Savings and Investments

Table 3 shows that the mean scores from all the methods used for teaching children about savings and investments did not cross 3, which indicate that the preferences for teaching methods were fairly dispersed among the respondents. Among the most preferred methods, 32.04 per cent of the respondents choose to discuss financial matters with their children while 19.9 per cent preferred to consult their children in their investment decision, 13.11 per cent wanted to involve them in family business activities, 10.19 per cent choose other methods (like playing monopoly games[4] with them, buying them a 'piggy bank'[5]/ money boxes or giving them allowances after they performed a certain task), 7.77 per cent prefer to encourage their children to read business magazines and relevant literatures and the rest, 11.66 per cent preferred to either encourage their children to opt for commerce education or encourage them to surf the internet for information or encouraged them to view business programmes on television. Taking the ranking from the weighted scores, the most preferred method was to discuss financial matters with their children, second most preferred was to consult their children in their investment decisions and the third most preferred method was to involve them in family business activities. The least preferred method was that of encouraging their children to view business programmes on television.

	Most preferred		Second most preferred		Third most preferred			
Methods	No. of respondents	Per cent	No. of respondents	Per cent	No. of respondents	Per cent	Weighted Score	Mean score
By discussing financial matters with them	141	32.04	100	22.64	96	21.74	719	2.13
By consulting them in investment decisions	88	19.9	83	18.87	19	4.35	449	2.36
By involving them in family business	58	13.11	100	22.64	57	13.04	431	2.00
By encouraging them to read business magazines and relevant literature	34	7.77	75	16.98	29	6.52	281	2.04
By encouraging them to opt for commerce education	26	5.83	8	1.89	115	26.09	209	1.40
Other methods*	45	10.19	17	3.77	29	6.52	198	2.18
By encouraging them to surf the internet for information	19	4.37	25	5.66	19	4.35	126	2.00
By encouraging them to view business programmes on television	6	1.46	8	1.89	48	10.87	82	1.32
No response	23	5.34	25	5.66	29	6.52	-	-
Total	440	100	440	100	440	100		

Table 3: Methods of teaching children about savings and investments
*Source : Primary data, * Other methods are playing monopoly/business board games, buying a 'piggy bank' or money box and giving allowances after performing a certain task*

7. Conclusion

Providing and fostering financial education to children is, now-a-days, an essential part of a modern family life. The financial soundness of a person does not lie in the amount of money earned but on the amount of money saved. Savings and investment education programmes should be integrated into the syllabus of secondary school children as it has been done in many developed as well as developing countries. The use of allowances, piggy banks and opening of savings account in the name of children has proved to be a valuable instrument in educating children about the value of money. Therefore, parents should take more effort to provide allowances to their children while making them take active part in maintaining a savings deposit account in a recognised bank. The ways in which a family spends its earnings has to be monitored and such techniques should be taught in the family in order to maintain a healthy financial position.

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