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Effect of Psychological Factors on Positive Financial Behavior

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Abstract The overall financial behaviour of the individual is evaluated through their cash, credit, insurance, savings, and investment management. The study tries to identify the effect of three psychological factors: attitude towards money, time orientation and impulsive attitude on each component of financial behaviour. The components of financial behaviour taken for the study are cash management, credit management, savings and investment management, and insurance management behaviour of individuals. The findings of Structural Equation Modelling (SEM) revealed a significant positive effect of attitude towards money and time orientation on all the components of financial behaviour. Whereas impulsive attitude of the individual negatively influences all the components of financial behaviour. The combined effect of each psychological factors on the overall financial behaviour of individuals is also established in the study. The combined theoretical model explained 58 per cent variation in the overall financial behaviour of the individuals.

1. Introduction

The financial well-being of the individuals is influenced by their financial behaviour. A good financial behaviour leads to improved wellbeing and financial satisfaction followed by life satisfaction among people(Sehrawat et al., 2021). So, it is important to track the overall components of financial behaviour for improved financial well-being. Savings and investment management, cash management and credit indiscipline express a strong significant relation with financial wellbeing (Chavali et al., 2021).Perry & Morris (2005) defined personal financial behaviour as "an individual's self-assessed capacity to budget, save money and control expenses". Whereas Xiao (2008) broadens the definition of financial behaviour by including additional components such as credit management and cash management and thereby defined financial behaviour as "human behaviour related to money management which includes cash management, savings and credit behaviour". Further, the definition of financial behaviour is rightly modified by Dew & Jian Xiao (2011) as "the overall personal financial management behaviour of individuals are explained by their cash management, credit management, savings and investment management, and insurance management behaviour". So, it is evident that the management of cash, credit, savings and investments, and insurance management are the key components of personal financial behaviour.

Cash management refers to management of own cashflow, expenses and maintaining liquidity and includes prioritizing one's income and its management such that one is able to meet all recurring expenses and satisfy one's own need and wants(Boeschoten, 1998). Proper cash management includes budgeting for present needs along with planning for future. Credit management involves managing credit responsibly through paying off debts in time and adjusting the spendings before considering the saving (Xiao et al., 2006).Proper utilization of credit, Timely payment of credit card bills, EMIs and other financial obligations leads to healthy credit behaviour(Dew & Jian Xiao, 2011). Poor credit

management results in lowering the financial wellbeing of a person. Further poor credit behaviour also leads to increased stress and anxiety in a person (Hughes, 2021). So, healthy credit management is important component in achieving financial stability and thereby leads to positive financial behaviour. Studies have been conducted which explains that savings and investment management has a significant and positive association with financial wellbeing of individuals(Mandell & Klein, 2009). The savings and investment management can be explained as sacrificing the current consumption to accumulate funds which is further channelised into avenues that earns higher returns in future. Further savings and investment management is a crucial part of personal financial management as it has a direct impact on the economic development of the country(Owusu et al., 2022). So, the savings and investment are an important construct in effective financial behaviour. Though savings and investments are two concepts it should be studied together as the former and later go hand in hand. Insurance management of individuals involves the strategic planning and preparation to mitigate financial risks through the procurement of suitable insurance policies, ensuring coverage for potential contingencies (Vaughan & Vaughan, 2007). Taking adequate insurance frees a person from huge financial burden which may arise on the happening of the uncertain event. Therefore, there is high probability that a rational individual will always think about reducing his future contingencies by taking adequate insurance policies and thereby securing his future.

The modern behavioural finance literatures specifically explains that individuals take sub-optimal decisions due to the influence of various psychological factors on the their financial behaviour and decision making(Andreou, 2007; Bhandari G. and Deaves R., 2006; O'donoghue & Rabin, 2001; Pallier et al., 2002; Porter & Thomas Garman, 1993; Raymond S. Nickerson, 1998; Strack & Deutsch, 2004). The psychological factors like attitude towards money, future orientation and impulsive attitude plays a significant role in the decision making and financial behaviour of individuals(Percy & Elizabeth, 2011; Rabinovich et al., 2010; Rutledge & Deshpande, 2015; Reed & Naudé, 2020). Hence the study tries to establish individual as well as combined effect of the above psychological factors on the various components of financial behaviour.

Therefore, the paper tries to address the following research questions.

1. Whether the psychological factors- attitude towards money, time orientation and impulsive attitude have an impact on the cash management behaviour of individuals?
2. Whether attitude towards money, time orientation and impulsive attitude influence the credit management behaviour of individuals?
3. Does attitude towards money, time orientation and impulsive attitude have an impact on savings and investment management behaviour of individuals?
4. Does attitude towards money, time orientation and impulsive attitude have an impact on the insurance management behaviour of individuals?
5. To what extend does the three psychological factors influence the overall financial behaviour of individuals?

2. Review of Literature

Though the traditional theories of finance such as the Rational Choice Theory and Efficient Market Hypothesis (EMH) theory claims that human beings are fully rational while taking financial decisions (Scott, 2000; Uzonwanne, 2016),the modern financial theories explains that human beings are not fully rational(Kahneman, 2003). The modern theories states that financial decisions of individuals are subjected to various psychological factors and biased thoughts. The Theory of Bounded Rationality as explained by Simon (1972)states that human decisions rely on their personal experience, cognitive thoughts and personal biases. While financial behaviour requires a rational and logical thought process, numerous psychological factors significantly influence the decision-making process and behaviour of people (Dietrich, 2010)(Hashmi et al., 2021; Khresna Brahmana et al., 2012; Percy & Elizabeth, 2011;

Strömbäck et al., 2017; van Overveld et al., 2012).Therefore, understanding in detail about the complex relationship between the psychological factors and financial behaviour has become important in today's world. The psychological factors such as attitude of a person towards money, future orientation, self-control and impulsive behaviour are among those which have a significant impact of financial behaviour and wellbeing of individuals (Castro-González et al., 2020;Sehrawat et al., 2021; Gathergood, 2011; Ghazali et al., 2020; Hashmi et al., 2021; Maison, 2019; Percy & Elizabeth, 2011; Phau & Woo, 2008; Strömbäck et al., 2017; Utkarsh et al., 2020).

Extensive researches have delved into the relationships between these psychological factors and overall personal financial behaviour(Hashmi et al., 2021; Khresna Brahmana et al., 2012; Maison, 2019). Gaining a comprehensive understanding about the existing literature found to have explored only the impact of psychological factors on overall personal financial behaviour. There is no or limited studies that detailed into the individual and combined effect of psychological factors - attitude towards money, future orientation, and impulsive attitude on each individual aspect of the personal financial behaviour. Further, only limited studies have been conducted in India to understand the influence of these psychological factors on personal financial behaviour of people in India. Understanding the impact of these psychological factors is important as it empowers a person to evaluate his own financial behaviours and make necessary corrections to obtain better financial stability and hence the study.

3. Theoretical Model Development

3.1 Psychological factors

The various aspects of human psychology that shape or influence the decisions and actions of a person is referred to as the psychological factors. It includes the mindset, emotions, beliefs, attitude, or personal experience of a person.

3.2 Attitude towards Money and Financial Behaviour

The attitude towards money can be defined as a state of mind, beliefs, perception or a person's feeling and behavioural tendencies surrounding money (Sesini & Lozza, 2023)(Yogasnumurti et al., 2019) which varies from person to person. Money for saving and money for spending are the two dimensions of attitude towards money. While some individuals believe in saving money in order to improve financial security others perceive money in terms of their ability to fulfil their immediate needs and desire(Qamar & Nadeem Khemta, Muhammad Jamil, 2016). While some people feel positive about saving money for future others are likely to spend money for their immediate gratification as they focus on their short-term pleasure than their long-term financial objectives. Positive attitude towards money leads to improved financial behaviour and financial wellbeing of individuals(Castro-González et al., 2020),(Utkarsh et al., 2020),(Mariza Syafitri & Santi, 2017). A highly significant relationship also exists between money attitude and financial problem (Dowling et al., 2009).Positive money attitude helps individuals to be cautious towards spendings through proper planning and budgeting for future financial needs(Sabri et al., 2020). It also helps a person to manage his cash wisely(Sundarasen & Rahman, 2017). Since a person with positive attitude towards money plan and budget for a secure future (Sabri et al., 2020), the researcher also assumes that attitude towards money also influence the insurance management behaviour of a person. Based on the above theoretical support, the hypotheses formulated are:

H1: Attitude towards money positively influence the personal financial behaviour.

H1(a): Attitude positively influence the cash management behaviour.

H1(b): Attitude towards money positively influence the credit management behaviour.

H1(c): Attitude towards money positively influence the savings and investment management.

H1(d): Attitude towards money positively influence the insurance management.

3.3 Future Orientation and Financial Behaviour

"Future orientation refers to extend to which people focus on future rather than present or past"(Percy & Elizabeth, 2011). Future orientation of a person affects their goals, financial decisions, financial behaviour and overall financial wellbeing of individuals (Kempson & Poppe, 2018). People who are present oriented prioritize their immediate goals without considering their long-term impact. They will be interested in spending money rather than saving. While people who are long term or future oriented will prioritize savings over spendings(Rabinovich et al., 2010). Future oriented individuals considers the impact of each decision on their future which in turn motivates them to sacrifice their short-term spending and immediate enjoyment for their long-term financial security(Rabinovich et al., 2010).Low future orientation leads to increased personal debt(Rutledge & Deshpande, 2015). Further, long term oriented nature of people is also considered to be an important factor in purchase of life insurance policies (Park & Lemaire, 2011). Proper insurance management is essential for people who are long term oriented as they tend to plan for future and save for retirement(Hajam, 2020; Phau & Woo, 2008; Rutledge & Deshpande, 2015).

Hence the hypotheses formulated are:

H2: Future orientation is positively associated with financial behaviour.

H2(a): Future orientation is positively associated with positive cash management.

H2(b): Future orientation is positively associated with positive credit management.

H2(c): Future orientation is positively associated with savings and investment management.

H2(d): Future orientation positively influence the insurance management.

3.4 Impulsive Attitude and Financial Behaviour

Impulsive attitude refers to a person's sudden actions or behaviour without thinking about its potential consequences. Buying things on impulse and making financial decisions without much thinking are examples of impulsive behaviour. Impulsive financial decisions have consequences including impulsive spending, excessive borrowings, lack of savings, investing in risky ventures which further leads to poor financial behaviour, lack of financial security and increased financial anxiety. Impulsive behaviour leads to compulsive buying, excessive spendings and poor usage of credit cards (Omar et al., 2014). Non impulsive behaviour have a positive relationship with financial satisfaction and overall life satisfaction(Tahir et al., 2021). Impulsivity is also positively associated with risk behaviour of individuals (Chhabra & Assistant, 2018). Further impulsivity is negatively associated with possibility of holding health insurance because impulsive people are less concerned about the negative consequences of their choices (Brighetti et al., 2014). Therefore, there is high possibility that impulsive attitude can negatively influence the financial behaviour of an individual and hence the hypotheses formulated are:

H3: Impulsive attitude is negatively associated with financial behaviour.

H3(a): Impulsive attitude is negatively associated with positive cash management.

H3(b): Impulsive attitude is negatively associated with positive credit management.

H3(c): Impulsive attitude is negatively associated with savings and investment management.

H3(d): Impulsive attitude is negatively associated with insurance management.

4. Research Methodology

The study utilized Financial management behaviour scale drawn fromDew and Jian Xiao, (2011) to measure the financial behaviour. The scale contains 15 constructs which includes measurement of cash management using 4 constructs, credit management using 3 constructs,

savings and investment management using 5 constructs and insurance management using 3 constructs. Scales were developed by the researcher for measuring variables such as attitude towards money (4 questions), time orientation (3 questions) and impulsive behaviour (3 questions). These scales were developed based on (Kempson & Finney, 2017). The data was collected from 538 individuals from selected locations of Kerala, India using multistage non-probability sampling method. Any individual who earns and manages one's own income constituted the sample of the study.

4. Data Analysis

Table 1Construct Validity and Reliability

Variables	Constructs	Factor Loadings	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Cash Management	FB1	0.735	0.837	0.847	0.89	0.671
	FB2	0.773				
	FB3	0.704				
	FB4	0.720				
Credit Management	FB5	0.793	0.879	0.88	0.926	0.806
	FB6	0.787				
	FB7	0.757				
Savings and Investment Management	FB8	0.766	0.882	0.886	0.914	0.68
	FB9	0.765				
	FB10	0.771				
	FB11	0.710				
	FB12	0.817				
Insurance Management	FB13	0.749	0.862	0.866	0.916	0.784
	FB14	0.721				
	FB15	0.757				
Future Orientation	FO1	0.879	0.911	0.921	0.938	0.776
	FO2	0.882				
	FO3	0.882				
Impulsive Attitude	IMP1	0.807	0.772	0.778	0.868	0.687
	IMP2	0.863				
	IMP3	0.815				
Attitude towards Money	AM1	0.781	0.794	0.805	0.866	0.618
	AM2	0.852				
	AM3	0.773				
	AM4	0.734				

Source: Author's own Calculation

The validity of the data was tested using Cronbach's alpha and Composite reliability. The obtained values are well above the threshold for Cronbach's alpha of > 0.7 (J. Hair et al., 2010) and the composite reliability > 0.7(J. F. Hair et al., 2014).The Discriminant validity of the data was tested using Fronell-Larcker Criterion(Fornell, C., & Larcker, 2016)

Table 2: Discriminant Validity - Fronell-Larcker Criterion

	Cash Management	Credit management	Impulsive Attitude	Insurance Management	Attitude towards Money	Savings and Investment Management	Time Orientation
Cash Management	0.819						
Credit management	0.719	0.898					
Impulsive Attitude	-0.593	-0.613	0.829				
Insurance Management	0.679	0.62	-0.428	0.885			
Attitude towards Money	0.603	0.582	-0.607	0.493	0.81		
Savings and Investment Management	0.766	0.721	-0.55	0.756	0.567	0.825	
Time Orientation	0.584	0.702	-0.621	0.498	0.54	0.618	0.881

Source: Author's own Calculation

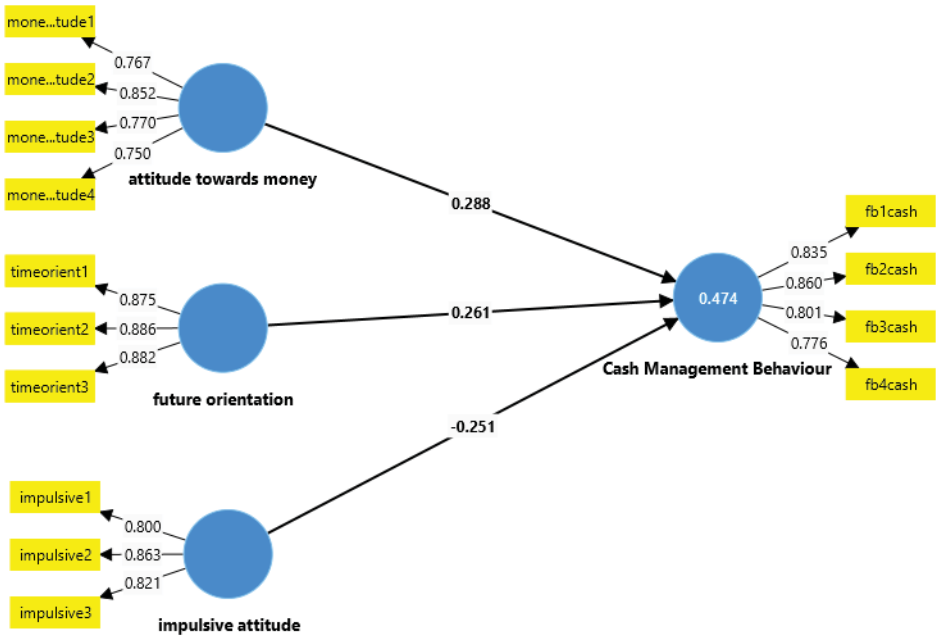
Table 3 Demographic Profile of the Samples

Demographic Profile		Number	Percentage (%)
Gender	Male	318	59
	female	220	41
Age	18-30	153	28
	31-45	176	33
	46-60	182	34
	Above 60	27	5
Marital status	Single	93	17
	Married	425	79
	Widow/er	14	3
	Divorced	6	1

Education	Up to 10th Grade	89	17
	12th Grade/ Diploma	99	18
	Graduate	185	34
	Postgraduate/Professional	165	31
Annual Income of Family	Less than 1 Lakh	102	19
	1 Lakh to 2.5 Lakhs	126	23
	2.5 Lakhs to 5 Lakhs	150	28
	5Lakhs to 10Lakhs	105	20
	Above 10Lakhs	55	10

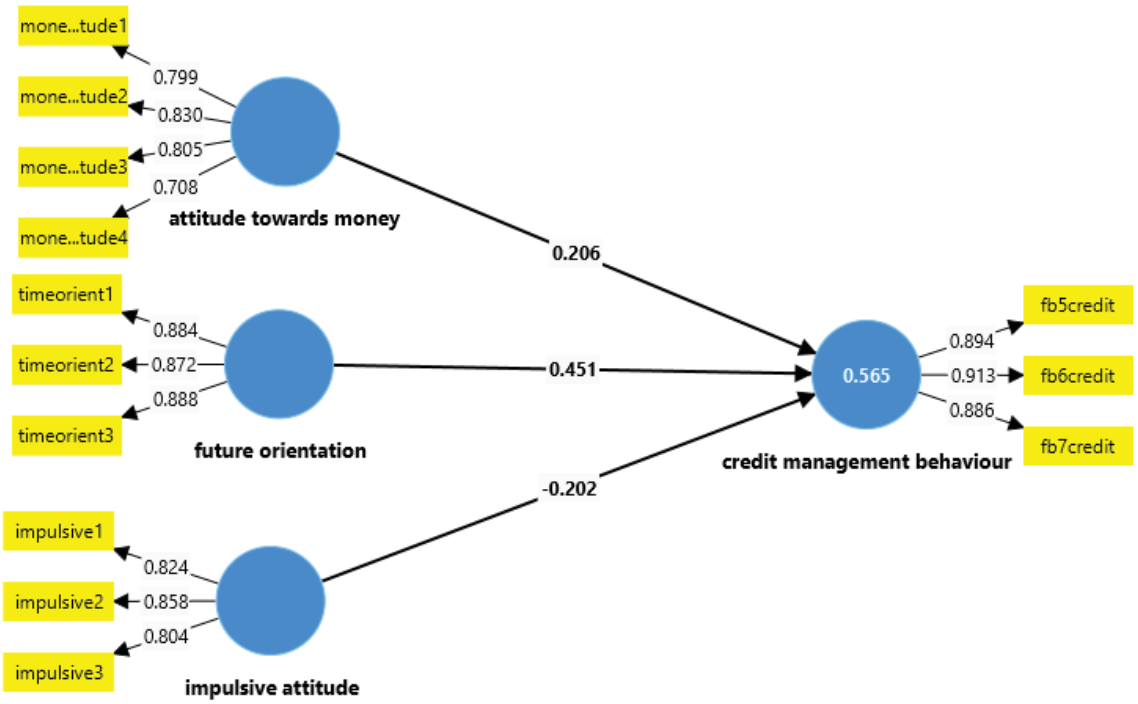
Source: Author's own Calculation

4. Results and Discussions

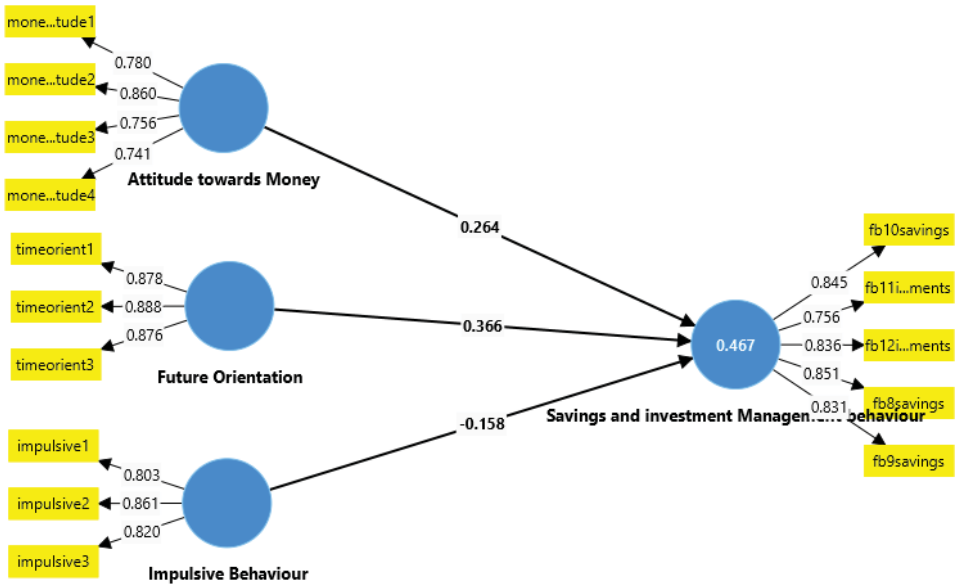


The Path coefficients explained a positive relationship between Attitude towards money, future orientation, and cash management while impulsive attitude had a negative association with Cash Management Behaviour. All relationships are significant, and we can accept the three hypotheses H1(a), H2(a), and H3(a). The three psychological factors together had an adjusted R^2 of 0.474.

Attitude towards money and time orientation had a significant positive association with credit management whereas a significant negative association was identified between impulsive attitude and credit management behaviour.We accept our hypothesis H1(b), H2(b), and H3(b). An ajusted r^2 of 0.565 of credit management was explained by the three psychological factors.

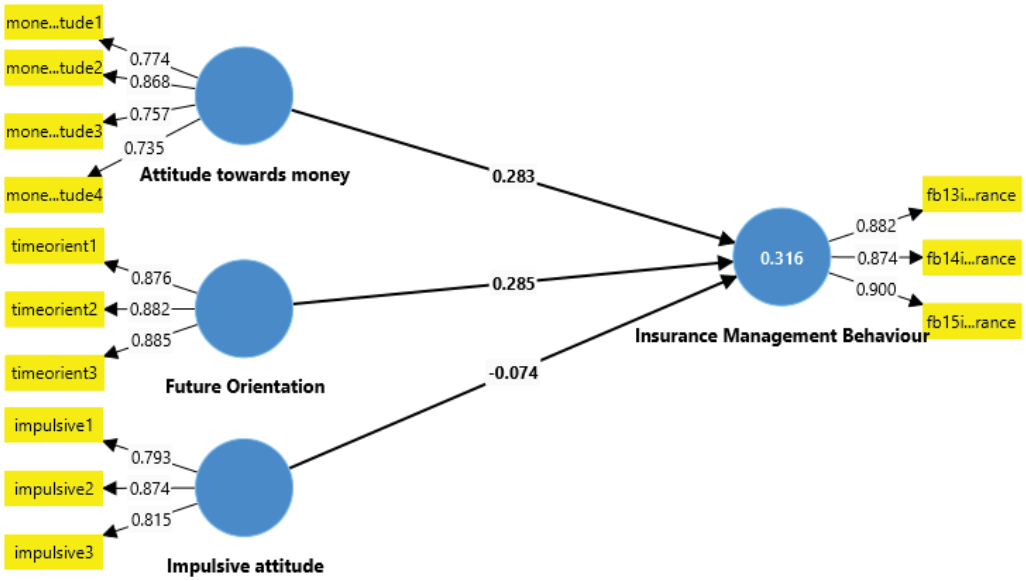


Attitude towards money and time orientation had a significant positive association with Savings and investment management whereas a significant negative association was identified between impulsive attitude and Savings and investment management behaviour. . All path coefficient were above 0.1 and we can accept the three hypotheses H1(c), H2(c), and H3(c). The adjusted r^2 obtained was 0.467.



Attitude towards money and time orientation had a significant positive association with insurance management. A negative association was identified between impulsive attitude and Savings and investment management behaviour but the relationship was not significant and the path coefficient

was only -0.074. . Therefore we can accept our hypothesis and we can accept the three hypotheses H1(d) and H2(d) but we fail to accept H3(d). The adjusted r^2 obtained was 0.316.



Furthermore, when considering overall financial behavior, it was observed that attitude towards money and time orientation had a significant positive association with the overall financial behaviour, while impulsive attitude displayed a significant negative association. The adjusted R-squared value for overall financial behavior was 0.576, suggesting that the combined effects of these psychological factors explained a substantial portion of the variance in individuals' financial management behavior. All the path coefficients were above 0.1 and we accept the three hypotheses H1,H2 and H3.

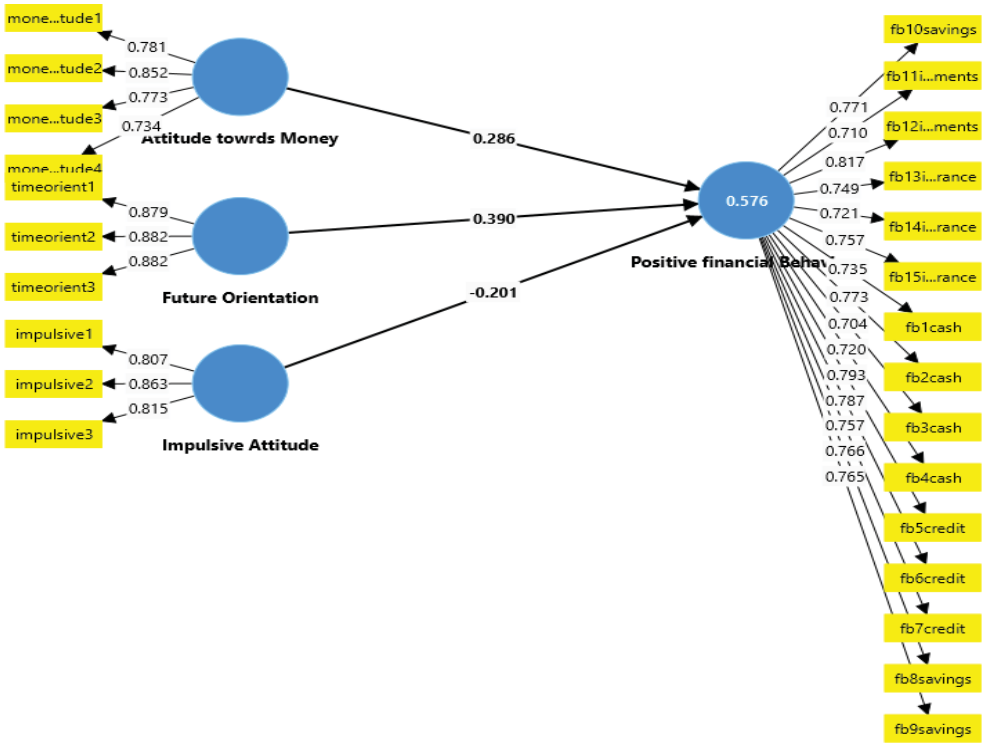


Table 4 Hypotheses test results

HYPOTHESIS		Original sample (O)	Sample mean (M)	T statistics	P values	Decision
H1(a)	Attitude towards Money -> Cash Management Behaviour	0.284	0.284	5.867	0.000	Supported
H1(b)	Attitude towards Money -> Credit Management Behaviour	0.206	0.208	4.597	0.000	Supported
H1(c)	Attitude towards Money -> Insurance management behaviour	0.275	0.274	4.952	0.000	Supported
H1(d)	Attitude towards Money -> Savings and investment management Behaviour	0.257	0.257	5.571	0.000	Supported
H1	Attitude towards Money -> positive financial behaviour	0.286	0.286	6.496	0.000	Supported
H2(a)	Future Orientation -> Cash Management Behaviour	0.258	0.258	5.573	0.000	Supported
H2(b)	Future Orientation -> Credit Management Behaviour	0.454	0.455	9.528	0.000	Supported
H2(c)	Future Orientation -> Insurance management behaviour	0.288	0.289	5.216	0.000	Supported
H2(d)	Future Orientation -> Savings and investment management Behaviour	0.365	0.366	7.543	0.000	Supported
H2	Future Orientation -> positive financial behaviour	0.390	0.390	8.655	0.000	Supported
H3(a)	Impulsive Attitude -> Cash Management Behaviour	-0.254	-0.254	5.082	0.000	Supported
H3(b)	Impulsive Attitude -> Credit Management Behaviour	-0.200	-0.200	4.028	0.000	Supported
H3(c)	Impulsive Attitude -> Insurance management behaviour	-0.075	-0.076	1.341	0.180	Not Supported
H3(d)	Impulsive Attitude -> Savings and investment management Behaviour	-0.162	-0.161	3.327	0.001	Supported
H3	Impulsive Attitude -> positive financial behaviour	-0.201	-0.201	4.263	0.000	Supported

Source: Author's own Calculation

5. Discussions and managerial implications

The study underscores the crucial significance of three key psychological factors, namely attitude towards money, future orientation, and impulsive attitude, in shaping various financial management behaviors. These psychological aspects influence how individuals approach and handle their finances, impacting cash management, credit management, savings and investment management, insurance management, and overall financial behavior. By analyzing the data, the researchers were able to quantify the impact of these psychological variables on the variability observed in each financial behavior, as indicated by the adjusted R-squared values.

The findings revealed that attitude towards money, future orientation, and impulsive attitude collectively accounted for a substantial 57.6% of the variation in individuals' financial behavior. This

highlights the pivotal role these psychological factors play in understanding and predicting how people manage their finances.

In the realm of cash management, the study indicated that individuals' attitudes toward money and future orientation had positive correlations with responsible cash management practices. Conversely, those displaying an impulsive attitude tended to exhibit less disciplined cash management behavior, potentially leading to financial challenges.

Likewise, in the context of credit management, the study observed positive associations between attitude towards money and future orientation, suggesting that individuals with a positive outlook and forward-thinking approach are more likely to handle credit responsibly. On the other hand, a negative relationship was found between credit management behavior and impulsive attitude, indicating that impulsive individuals may engage in riskier credit behaviors.

Moreover, the study highlighted the significance of attitude towards money and future orientation in influencing prudent savings and investment management practices. Those with positive attitudes towards money and future-oriented mindsets were more inclined to adopt sound savings and investment strategies. Conversely, an impulsive attitude showed a significant negative association with savings and investment management behavior.

Further, the study reveals that attitude towards money and time orientation influence insurance management behavior. Individuals with positive attitudes towards money and future-oriented mindsets tend to exhibit more responsible and thoughtful insurance management practices. On the other hand, the study did not find a statistically significant relationship between impulsive attitude and insurance management behavior. However, it is important to note that the combined effects of attitude towards money, time orientation, and impulsive attitude still accounted for a moderate level of explanatory power, as indicated by the adjusted R-squared value of 0.316. While further research may be needed to understand the influence of impulsive tendencies on insurance management fully, the findings highlight the meaningful impact of attitude and future orientation in shaping individuals' decisions and behaviors related to insurance.

Overall, the study's comprehensive examination of these psychological factors provides financial professionals, policymakers, and educators with valuable knowledge. By recognizing the impact of attitude towards money, future orientation, and impulsive tendencies on financial behaviors, targeted interventions can promote better financial decision-making and empower individuals to achieve their long-term financial objectives.

6. Conclusion

The research underscores the significant influence of psychological factors, namely attitude towards money, future orientation, and impulsive attitude, on financial management behaviour. The study reveals that these factors collectively account for a substantial 57.6% of the variation in individuals' financial behaviour. This highlights the pivotal role played by these psychological aspects in understanding and predicting financial management practices.

The study further elucidates the impact of these factors on specific financial behaviours such as cash management, credit management, savings and investment management, and insurance management. Positive attitudes towards money and future orientation were found to correlate with responsible financial practices, while impulsiveness was associated with less disciplined financial behaviour.

These findings provide valuable insights for financial professionals, policymakers, and educators. By understanding the profound influence of psychological factors on financial behaviors, targeted interventions can be developed to promote better financial decision-making and empower individuals to achieve their long-term financial objectives. This research, therefore, contributes significantly to the existing body of knowledge on financial self-efficacy and its role in shaping financial behaviors

and well-being. Future research could further explore these relationships across different demographic groups and economic conditions.

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