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Brief report

## The role of family financial socialization and financial management skills on youth saving behavior



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In Kenya, youth struggle with poverty, characterized by low rates of income and asset generation. In response, Kenya has invested substantial resources in supporting youths' financial empowerment ([Government of Kenya, 2017](#)). However, the effectiveness of these efforts may be limited because little is known about how youth develop financial values and attitudes. It is these values that determine how individuals go on to build financial assets and work their way out of poverty.

### 1. Family financial socialization

Families play a key role in developing youths' financial behaviors through financial socialization, defined by [Bowen \(2002\)](#) as the intentional and unintentional transmission of financial concepts required to successfully function in society (p. 93). Families communicate financial values and behaviors both explicitly and implicitly ([John, 1999](#); [Moschis, 1985](#)). Implicit socialization occurs through the unconscious communication of norms and expectations, observation or imitation of behaviors, and subtle cues from parents' behaviors ([Jorgensen & Savla, 2010](#)). Explicit financial socialization occurs through direct communication about financial matters ([Sherraden, Moore Mc Bride, & Beverly, 2010](#)), behavioral modeling ([Friedline, 2012](#); [Ssewamala, Karimli, Han, & Ismayilova, 2010](#)), and consciously creating opportunities that allow children and youth engage in financial practices ([Chowa & Despard, 2014](#)).

[Gudmunson and Danes \(2011\)](#) posit that family financial socialization influences the financial behaviors of youth, such as saving by building financial skills. Early financial socialization is linked to good financial practices throughout the life course ([Chiteji & Stafford, 1999](#); [Kim & Chatterjee, 2013](#)). The process of financial socialization is influenced by household characteristics such as family interactions and financial resources, and also by individual level factors such as child's age and cognitive abilities ([Moschis, 1985](#)). When parents/caregivers convey financial concepts, they are informed, in part, by a child's

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cognitive development. Embedded in Piaget's theory of cognitive development, John (1999) proposes a socialization paradigm that categorizes children's financial awareness and behaviors in distinct development stages. Beginning around 11 years of age, youth develop higher order cognitive abilities that allow them to be more aware of financial nuances and behaviors and parents consider this to be an appropriate age to involve children in household financial decisions (Danes, 1994).

### 1.1. Present study

Using baseline data from a diverse group of Kenyan youth, this study investigates the relationship between family financial socialization and youth's financial skills and behaviors. Fig. 1 presents this study's conceptual model as informed by Gudmunson and Danes (2011) which tests the following hypotheses:

H<sub>1</sub>: Youth who report financial socialization are more likely to be savers.

H<sub>2</sub>: Financial management skills mediate the relationship between financial socialization and savings.

## 2. Methods

YouthSave-Impact Study Kenya is a three-arm cluster randomized control trial ( $N = 3965$ ), that tested the long-term developmental impacts of youth financial inclusion programs on. Table 1 presents a description of the sample. Participants were low-income youth drawn from five rural and urban regions in Kenya, who were enrolled in grades 5 through 7 at the time of collection. Data were collected through 90-min face-to-face assessment interviews (for more information on this dataset see Ssewamala, Kirkbride, Mwangi, & Meyer, 2016).

### 2.1. Variables

Savings (outcome variable) was collected as a dichotomous variable, where *youth who save* = 1. Financial management skills (mediator) was measured as a 5-level categorical variable—making plans on how to spend money all the time, usually, occasionally, seldom, or never. Due to small cell sizes, this measure was dichotomized where youth who *usually or always manage their spending* = 1 and *all others* = 0. Family financial socialization (predictor variable) is a latent variable that captured communication of financial matters. The observed dichotomous variables informing the latent construct were drawn from a series of questions on whether parents/caregivers discussed: the importance of savings; family spending and family saving plans; youth's spending; credit; family assets and resources; and finally a variable capturing whether children were aware of parents(s) saving behavior. The construct of financial socialization was predicted by a child's age, family cohesion (a continuous variable capturing family relationships and interactions), and household wealth (0 = *poorest*, 4 = *wealthiest*) with wealthiest households held as the comparison group. Child's gender (*female* = 0), age, and household wealth were also included in the model as controls for the outcome variable savings. Data cleaning, bivariate tests, and exploratory factor analysis (EFA) were conducted in STATA14 (StataCorp, 2015), while confirmatory factor analysis (CFA) and structural equation models (SEM) were constructed in Mplus 7 (Muthén & Muthén, 2015). To account for the categorical nature of the observed variables, weighted least squares estimation was used in the measurement models. Model fit was assessed using the chi-square test and because the chi-square is affected by large sample sizes, the root mean square error of approximation (RMSEA), Comparative fit index (CFI), and Tucker Lewis index (TLI; Bowen & Guo, 2011) were also considered.

## 3. Results

Fig. 2 is the illustrative representation of the latent variable family financial socialization. EFA suggested a one-factor family financial socialization construct. CFA methods recommended the deletion of two variables—*knowledge of parents(s) saving behavior* and *use of credit*—due to high correlation residuals. Although *importance of savings* had low loadings, it was retained in the model due to its importance in the measurement of this construct and its statistical significance. The final latent construct had adequate fit [ $\chi^2(5) = 13.66, p = 0.017, RMSEA = 0.02$  (90% CI [0.01, 0.03], CFI = 0.99, TLI = 0.99).

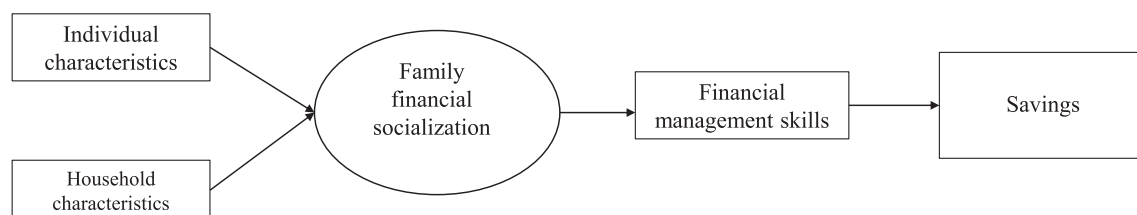


Fig. 1. Conceptual model of present study.

**Table 1**  
Univariate analysis of YouthSave-Impact Study Kenya  $N = 3965$ .

Variable	N (%)	
Parents speak about—Yes		
The importance of savings	2189 (55.3)	
Family spending plans	1172 (29.6)	
Family savings plans	1056 (26.7)	
Your own spending	2141 (54.0)	
Using credit	323 (8.1)	
Family assets and resources	816 (20.6)	
Youth is aware that guardian saves	3277 (82.6)	
Parents/caregiver saves		
Yes	3282 (82.8)	
No	683 (17.3)	
Financial management skills (plans on how to use money)		
Yes	2279 (57.7)	
No	1674 (42.3)	
Youth has savings		
Yes	1776 (44.8)	
No	2188 (55.2)	
Child's gender		
Female	1930 (48.7)	
Male	2035 (51.3)	
School grade		
Grade 5	207 (5.2)	
Grade 6	3709 (93.5)	
Grade 7	49 (1.2)	
Class repeating		
Never repeated a class	2359 (59.5)	
Repeated at least once	1605 (40.5)	
Living arrangements		
Bio parent present	3546 (89.5)	
No bio parent in home	418 (10.5)	
Household wealth quintiles		
Poorest	793 (20.0)	
Poor	791 (19.9)	
Mid	792 (19.9)	
Wealthy	797 (20.1)	
Wealthiest	792 (19.9)	
Variable	Mean (SD)	Range
Family cohesion scale	33.5 (4.8)	10–40
Child's age	12.2 (1.1)	9–18
Youth savings		
Kenya Shillings [US dollars]	697.2 (2224)	5- 40,200 [0.05–450]

Fig. 3 presents the mediation model's results [ $\chi^2(50) = 269.10, p \leq 0.001, RMSEA = 0.033$  (90% CI [0.029, 0.037]), CFI = 0.96, TLI = 0.95]. These data support hypothesis 1—youth in households where parents/caregivers engage them in financial decision making are more likely to exhibit saving behavior. Both direct and indirect effects were significant supporting hypothesis 2—engaging in financial management partially mediates the relationship between family financial socialization and saving behavior. Model estimates indicate that youth in households where parents actively engage them in financial matters are not only more likely to report planning their own financial resources [ $\beta = 0.56, p \leq 0.001$ ], but are also more likely to be savers themselves [ $\beta = 0.35, p \leq 0.001$ ].

As expected household wealth and family cohesion informed financial socialization. While youth's age was not a significant factor in youth savings, it yielded interesting results in determining financial socialization. The older the respondent, the less likely they were to reside in a household where they were presented with the opportunity to interact with financial information [ $\beta = -0.04, p = 0.04$ ].

#### 4. Discussion

This study offers a unique perspective on the role of family socialization on youth financial behaviors. To our knowledge, Kenyan national policies do not address the role of families in supporting economic development. Rather, economic development interventions tend to target populations in siloes including youth, women, and households providing care to vulnerable children. This makes it difficult to trace the trajectory of youths' financial development through the life course. Given, low financial literacy and participation rates in the general population (Central Bank of Kenya Kenya National Bureau of Statistics & FSD Kenya, 2016), a concerted intergenerational support system is needed to ensure financial information trickles down from caregivers to the children for whom they provide care.

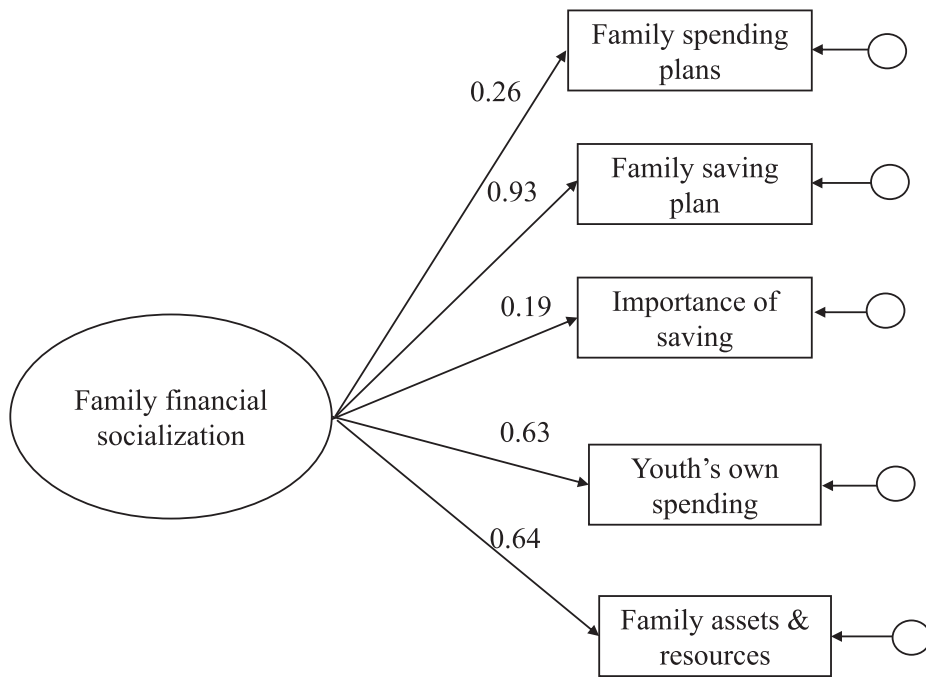


Fig. 2. Family financial socialization latent variable [ $\chi^2(5) = 13.66, p = 0.017, RMSEA = 0.02$  (90% CI [0.01, 0.03], CFI = 0.99, TLI = 0.99).

Older adolescents appear to fare worse than their counterparts. Youth in this present sample ( $M = 12.2, SD = 1.11$ , range 9–18 years) are slightly older than the expected age of children enrolled in grade 6, which is 12 years. Older youth in this sample are very likely to be at several intersecting points of vulnerabilities including tenuous living conditions, learning difficulties, and poverty—all of which are expected to predict family financial socialization. Further analysis of this sample

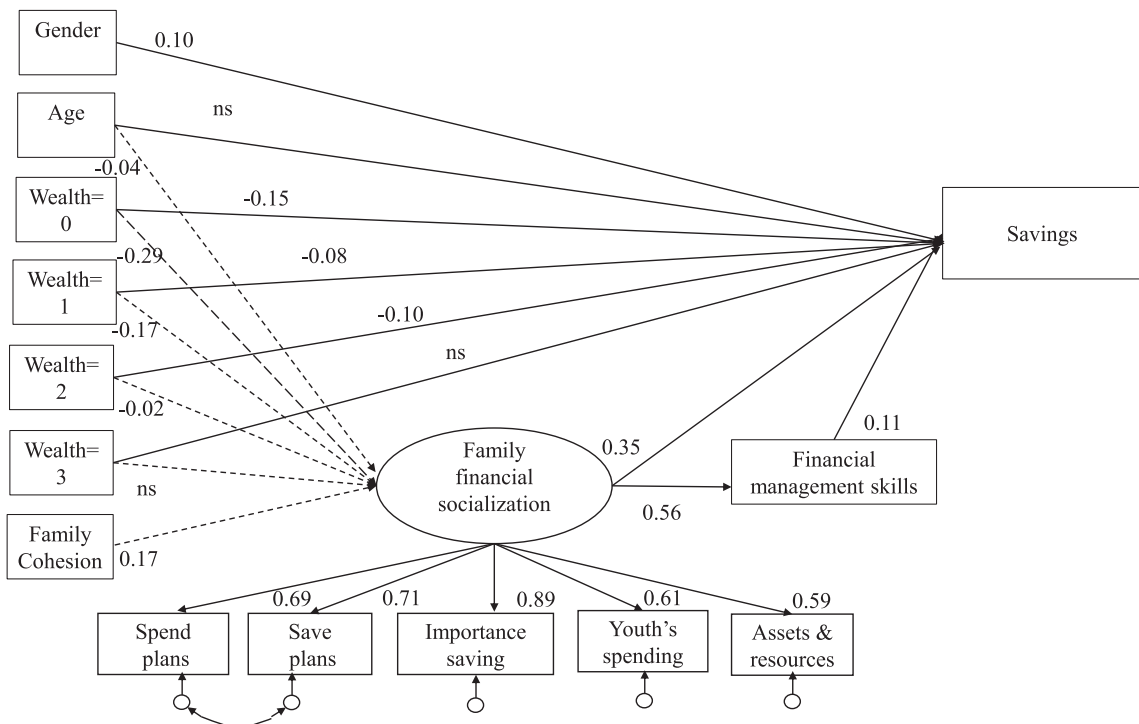


Fig. 3. Mediation model. [ $\chi^2(50) = 269.10, p \leq 0.001, RMSEA = 0.033$  (90% CI 0.029–0.037), CFI = 0.96, TLI = 0.95].

indicates that older respondents are not only more likely to have repeated a class (over 40% of the youth reported repeating at least one class), but are also more likely to be living in a household with no biological parent present. These older groups of vulnerable children seem to face more barriers in accessing the information and tools needed to develop competent money management skills.

#### 4.1. Limitations

Cross sectional data precludes our ability to establish the impact family financial socialization has on financial management and saving behavior over time. However, we may be able to address this limitation in future waves of data. Also, we know very little about parents' grasp of financial concepts. The inability to triangulate data on concepts including, but not limited to, financial socialization at the household-level dampens these findings. Finally, by targeting public schools only, YouthSave-Impact Study Kenya has predominately enrolled lower-income youth and thus findings may not be generalizable to youth from other social economic groups. However, it should be noted that this large sample of youth drawn from across Kenya not only provides information on a diverse cross section of the population, but also provides for stability in our modeling.

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