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Behavioral Finance and Parental Decision-Making in Children's Investment

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Abstract: ***This study explores how parents in Coimbatore make financial decisions for their children's future, focusing on the influence of behavioral finance—such as emotions, habits, and personal experiences—along with financial literacy, income, risk tolerance, and use of digital tools. Based on responses from 250 parents through a structured questionnaire, the data was analyzed using percentage analysis, ANOVA, t-test, and correlation. The findings show that most parents prefer safe, traditional investments like post-office savings, fixed deposits, and real estate, while fewer choose mutual funds or stocks due to risk concerns. Parents with higher income and better financial knowledge were more likely to set clear goals, diversify their investments, and use financial apps. Younger parents especially showed greater comfort with digital tools in managing their finances. The study emphasizes the need for improved financial awareness and education to help parents make informed, future-focused investment decisions for their children's financial security.***

Keywords: Behavioral Finance, Parental Investment Decisions, Financial Literacy, Risk Tolerance, Children's Investment Plans, Investment Behavior, Financial Planning, Digital Financial Tools, Investment Preferences, Financial Education.

I. INTRODUCTION

Financial decision-making is a complex process influenced by psychological, social, and economic factors. Behavioral finance, which blends principles of psychology and finance, focuses on how cognitive biases, emotions, and mental shortcuts influence investment decisions.Unlike traditional economic theories that assume rational behavior, behavioral finance acknowledges that real-world financial choices are often shaped by personal experiences, emotional responses, and perceived risks. A key area where this is evident is in parental investment decision-making for their children's future. Parents are responsible for planning and securing the financial well-being of their children, particularly in areas such as education, healthcare, and long-term wealth accumulation. These decisions are influenced by various factors including financial literacy, income levels, risk tolerance, and long-term goals.

Parents with strong financial knowledge are more likely to assess risks effectively, diversify their investments, and utilize financial tools and technology to achieve better outcomes. In contrast, those with limited financial literacy may rely on conservative or less effective investment choices, potentially impacting their children's financial security. Child investment plans—such as PPF, Sukanya Samriddhi Yojana (SSY), mutual funds, ULIPs, and insurance-backed education plans—enable parents to systematically save and grow funds through compounding. These plans offer benefits like flexible premiums, scheduled payouts, and tax advantages. By starting early and making informed choices, parents can not only secure their children's futures but also develop responsible financial habits within the family. This study aims to explore how behavioral biases, financial awareness, income, technology use, and goal-setting shape parental investment behavior, offering insights that can support better planning and financial education for future generations.

II. STATEMENT OF THE PROBLEM

Parents play a crucial role in shaping their children's financial understanding and investment behaviors. However, the impact of parental financial literacy on children's investment choices remains unclear. Many parents lack financial knowledge, leading to suboptimal investment decisions that may affect their children's financial future. Differences in parental behaviors, risk preferences, and planning strategies further influence children's investment patterns. Despite the growing need for financial education, limited research explores this relationship. This study examines how parental financial literacy, investment behaviors, and goal-setting impact children's investment decisions, providing insights to enhance financial education for future generations.

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III. OBJECTIVE OF THE STUDY

1) To know about demographic details.
2) To assess the impact of parental financial literacy on children's investment choices.
3) To examine how parental financial goals shape children's investment choices.
4) To analyse the impact of technology on parental investment behavior and risk tolerance.

IV. SCOPE OF THE STUDY

This study focuses on parents as the primary decision-makers in their children's investments, examining their understanding of investment options, risk assessment, and financial planning. It explores how parents allocate funds for their children's future, considering factors such as education, long-term financial security, and wealth-building strategies. The study also investigates how financial knowledge, past experiences, and risk tolerance influence parental investment behavior. Additionally, it assesses the role of financial technology, including financial apps, digital platforms, and online resources, in shaping parental investment decisions. By analyzing these aspects, the research aims to provide insights into how parents navigate investment choices to secure their children's financial future.

V. LIMITATION OF THE STUDY

1) The study is limited only within the Coimbatore city.
2) The study was conducted with a sample size of 250 respondents selected from among investors.

VI. RESEARCH METHODOLOGY

1) Research Design: Descriptive research design is used to analyze and interpret the investment behavior of parents.
2) Source of Data:
   - Primary Data: Collected directly from respondents using a well-structured questionnaire.
   - Secondary Data: Sourced from books, journals, publications, and other research reports (both published and unpublished).
3) Sampling Technique: Convenience sampling method was adopted for selecting respondents who were easily accessible and willing to participate.

VII. TOOLS FOR ANALYSIS

The following statistical tools have been utilized for analyses of data:

1) Simple percentage
2) Rank analysis
3) T-Test
4) ANOVA
5) Correlation

VIII. REVIEW OF LITERATURE

1) Sharma and Kapoor (2023) discovered that children whose parents engage them in discussions about money management tend to develop better savings habits. However, the study also noted a lack of structured financial education programs in schools, indicating a gap in formal financial literacy education.
2) Malhotra and Verma (2023) found that 55% of parents prioritize immediate expenses, such as tutoring and extracurricular activities, over long-term investments, despite acknowledging the benefits of compounding. This suggests a behavioral gap between financial literacy and investment action.
3) Rao and Patil (2022) found that parents whose children participated in the Reserve Bank of India's (RBI) financial literacy programs were 31% more likely to invest in equities. This highlights the potential impact of early financial education on shaping parental investment decisions.
4) Iyengar and Shah (2021) found that Southern states exhibit a significantly higher enrollment in child equity funds (2.4 times more than Northern states). Karnataka leads with 3b 8% enrollment, while Uttar Pradesh lags at 16%, indicating regional differences in investment awareness and financial literacy.

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5) Khanna and Agarwal (2020) found that only 19% of parents took advantage of tax deductions for child investment plans. Furthermore, 63% were unaware that the Sukanya Samriddhi Yojana (SSY) offers an Exempt-Exempt-Exempt (EEE) tax status, reflecting a significant knowledge gap in tax-efficient savings.

IX. ANALYSIS AND INTERPRETATION

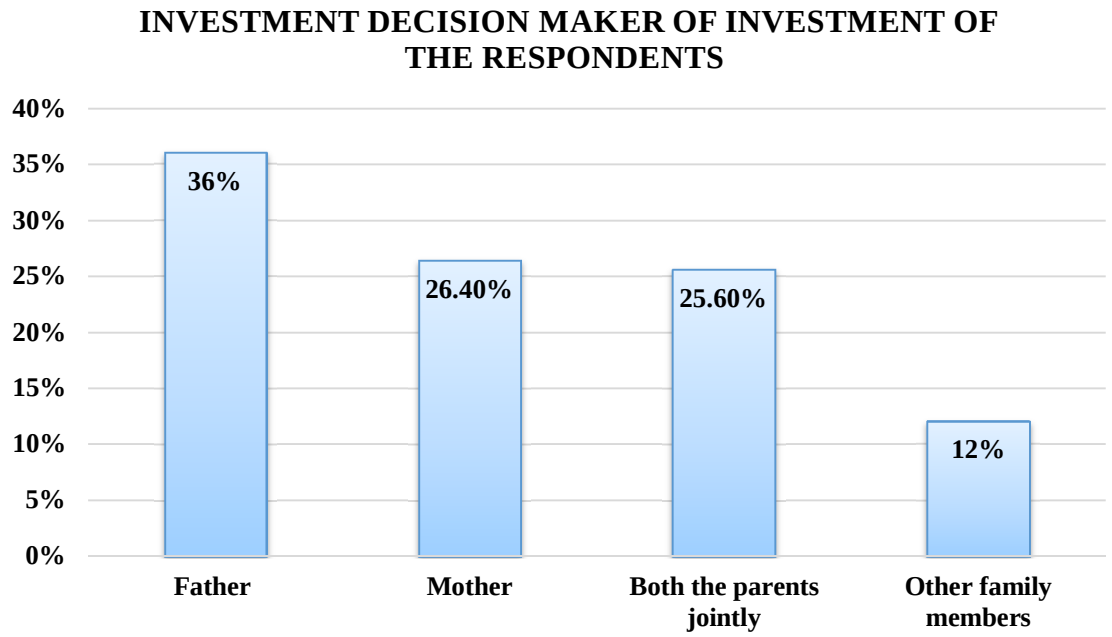
A. Simple Percentage Analysis

Table Showing Investment Decision Maker Of The Respondents

S.NO	PARTICULARS	NO. OF RESPONDENTS	PERCENTAGE (%)
1	Father	90	36%
2	Mother	66	26.4%
3	Both the parents jointly	64	25.6%
4	Other family members	30	12%
TOTAL		250	100

(Source: Primary Data)

- Interpretation: The table no.1 Describes that 36% of respondents investment decisions made by Father, 26.4% of respondents investment decision made by mother, 25.6% of the respondents investment decision made by both parents jointly, and 12% of the respondents investment decision made by other family members.
- Inference: Majority 36% of respondent's investment decision are made by father.



B. Rank Analysis

Table Showing Rank Of Factors Importance Choosing When Investment Or Savings

Factors	1	2	3	4	5	6	TOTAL	RANK
Risk level	42 (6)	47 (5)	46 (4)	37 (3)	39 (2)	39 (1)	899	II
Returns on investment	45 (6)	46 (5)	33 (4)	37 (3)	50 (2)	39 (1)	882	III
Liquidity	61 (6)	34 (5)	39 (4)	45 (3)	38 (2)	33 (1)	936	I
Tax benefits	33 (6)	46 (5)	43 (4)	49 (3)	32 (2)	47 (1)	858	IV
Security & stability	34 (6)	49 (5)	40 (4)	39 (3)	41 (2)	49 (1)	855	V
Financial goals	35 (6)	28 (5)	49 (4)	43 (3)	50 (2)	45 (1)	820	VI

(Source: Primary Data)

- Interpretation: In this table understood that liquidity are ranked as 1, risk level are ranked as 2, return on investment are ranked as 3, tax benefits are ranked as 4, security & stability are ranked as 5, financial goals are ranked as 6.
- Inference: The majority of respondents ranked liquidity as the most important factor when choosing an investment or savings option.

C. *ANNOVA AND T-TEST*

Demographic Details Vs Financial Literacy In Investment Planning

H_0: "There is no significant difference between respondent's demographic details and respondent's level of financial literacy in investment planning".

Demographic Factors Vs Financial Literacy

VARIABLES	GROUP	MEAN	SD	No.	T-Value	F-Value	Table value	Sig.
GENDER	Male	3.12	1.398	157	0.553	-	0.268	NS
	Female	3.02	1.335	93				
AGE	Below 30	2.86	1.414	50	-	0.628	0.643	NS
	31 – 40	3.22	1.530	60				
	41 – 50	3.22	1.272	55				
	51 – 60	3.04	1.285	47				
	Above 60	3.03	1.325	38				
LEVEL OF EDUCATION	School level	2.88	1.384	43	-	1.096	0.359	NS
	Diploma	3.43	1.309	42				
	UG	3.00	1.390	90				
	PG	3.05	1.419	59				
	Doctorate	3.31	1.195	16				
AREA OF RESIDENCE	Urban	3.00	1.346	139	-1.083	-	0.301	NS
	Rural	3.19	1.405	111				
OCCUPATION	Private	3.02	1.375	65	-	0.142	0.935	NS

	emp.							
	Govt. emp.	3.12	1.463	66				
	Business	3.05	1.300	63				
	Home-maker	3.16	1.372	56				
FAMILY INCOME	Below 40,000	3.21	1.310	63	-	0.679	0.566	NS
	40.000 - 50,000	3.19	1.392	75				
	50.000 – 60,000	2.95	1.407	56				
	Above 60,000	2.95	1.373	56				
HOUSEHOLD STRUCTURE	Single-parent	3.09	1.334	67	0.39	-	0.732	NS
	Dual-parent	3.08	1.390	183				

Source: Computed, (Ns – Not Significant, **- Significant at 1 per cent level, * - Significant at 5 per cent level).

- Interpretation

GENDER: The independent samples T-TEST comparing male and female respondents resulted in a t-value of 0.533 and a p-value of 0.268, which is greater than 0.05.This indicates that gender does not play a significant role in financial literacy when it comes to investment planning.

AGE: The ANOVA test for age groups resulted in an F-value of 0.628 and a p-value of 0.643, which is greater than 0.05. This indicates that there is no statistically significant difference in financial literacy across different age groups in investment planning.

LEVEL OF EDUCATION: The ANOVA test for level of education resulted in an F-value of 1.096 and a p-value of 0.359, which is greater than 0.05. This indicates that financial literacy in investment planning does not vary significantly across different education levels.

AREA OF RESIDENCE: The T-TEST comparing urban and rural respondents resulted in a t-value of -1.083 and a p-value of 0.301, which is greater than 0.05. This suggests that financial literacy in investment planning does not differ significantly based on area of residency.

OCCUPATION: The ANOVA test for occupation groups yielded an F-value of 0.142 and a p-value of 0.935, which is greater than 0.05.This indicates that occupation does not have a significant impact on financial literacy in investment planning.

FAMILY INCOME: The ANOVA test for different income groups resulted in an F-value of 0.679 and a p-value of 0.566, which is greater than 0.05. This suggests that family income does not significantly influence financial literacy in investment planning.

HOUSEHOLD STRUCTURE: The independent samples T-TEST comparing single and dual parent respondents resulted in a t-value of 0.39 and a p-value of 0.732, which is greater than 0.05. This suggests that household structure does not have a significant influence on financial literacy in investment planning.

- Inference: H0 is accepted there is no significant difference between demographic details and financial literacy in investment planning.

D. *Correlation*

H_1: “There is a positive correlation between parent’s income and the amount allocated to children’s investment”.

Descriptive statistics

	Mean	Std. Deviation	N
family income	2.42	1.096	250
Yearly Savings/Investment	2.42	1.100	250

Correlation

		family income	Yearly Savings/ Investment
family income	Pearson Correlation	1	.998**
	Sig. (2-tailed)		.000
	N	250	250
Yearly Savings/Investment	Pearson Correlation	.998**	1
	Sig. (2-tailed)	.000	
	N	250	250

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

Inference: H**1** is accepted there is a positive correlation between parents' income and yearly saving or investment allocated to children.

X. FINDINGS

1) Simple Percentage Analysis

Majority 36% of respondent's investment decision are made by father.

2) Rank Analysis

The majority of respondents ranked liquidity as the most important factor when choosing an investment or savings option.

3) T-Test

- This indicates that gender does not play a significant role in financial literacy when it comes to investment planning.
- This suggests that financial literacy in investment planning does not differ significantly based on area of residency.
- This suggests that household structure does not have a significant influence on financial literacy in investment planning.

4) Annova

- This indicates that there is no statistically significant difference in financial literacy across different age groups in investment planning.
- This indicates that financial literacy in investment planning does not vary significantly across different education levels.
- This indicates that occupation does not have a significant impact on financial literacy in investment planning.
- This suggests that family income does not significantly influence financial literacy in investment planning.

5) Correlation

There is a positive correlation between parents' income and yearly saving or investment allocated to children.

XI. SUGGESTIONS

To strengthen parental financial literacy and improve investment decisions for children's futures, a focused approach is essential. Introducing structured financial education programs in schools and communities can equip parents with practical knowledge on investment tools, risk management, and long-term planning. Financial institutions should launch targeted outreach, especially in rural and low-income areas, to promote awareness of diversified portfolios and schemes like the Sukanya Samriddhi Yojana (SSY). Incentives for equity-linked children's investment plans can make them more attractive and accessible. Leveraging technology—through secure apps and AI-based tools for planning education costs—can further boost adoption. Using behavioral finance techniques like nudges and scenario-based learning will help parents overcome common decision-making biases. Encouraging parent–child discussions about money can also build early financial awareness. Additionally, research into regional and cultural factors can offer deeper insights into improving family investment behavior.

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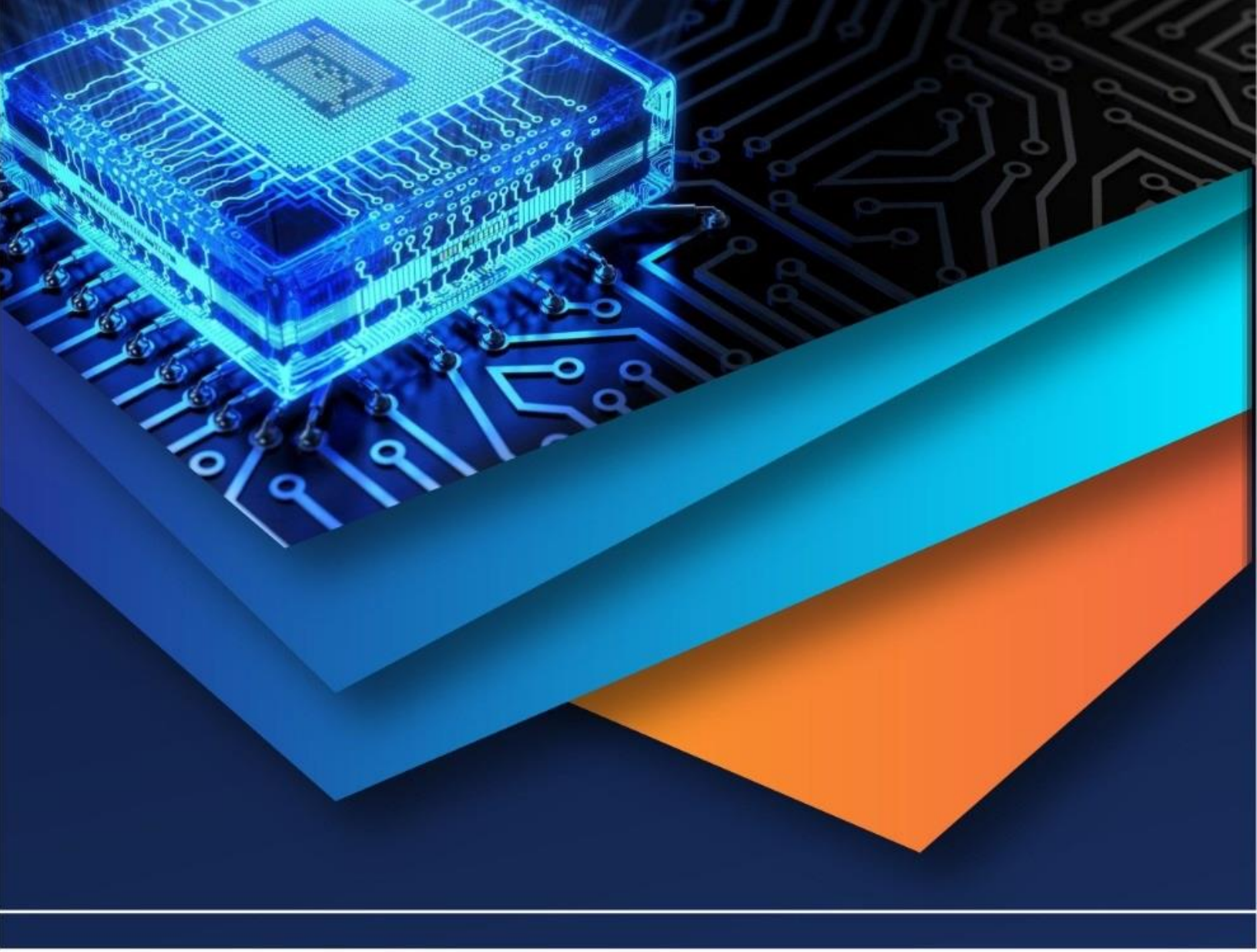
XII. CONCLUSION

This study explores parental investment behavior in Coimbatore, revealing a strong preference for traditional, low-risk options like post-office schemes and real estate, driven by cultural norms and behavioral biases. Despite access to financial advisors and social media, many parents lack comprehensive financial literacy, and their children have minimal financial awareness, highlighting a gap in intergenerational education. Investment decisions are more influenced by income levels than demographics, suggesting that economic capacity and systemic shortcomings in financial education shape behavior. The findings underscore the need for targeted financial literacy programs to address risk perception, promote diversification, and encourage informed, future-focused investment strategies.

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