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Financial Cognition as an Antecedent towards Financial Planning of Indian Households[1]

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Abstract

The area of financial planning has been of research interest in India for a few years. Indian households have distinctive behaviors and attitudes towards money that can lead to suboptimal financial decisions. The present study explores the influence of financial cognition on the financial planning decisions of Indian households while considering financial cognition as a second-order component of financial attitude, risk attitude, and financial knowledge. This study explores the basic principles of subjective thinking toward financial decisions that form the financial information process. A total of 310 responses were collected and the partial least square structural equation model was to analyze and establish the model. The results of the analysis support a significant association of individuals financial cognition on their personal financial planning.

JEL Code : D1; D9
Keywords : Behavioral Finance; Financial Planning; Attitude; Cognition; Personal Finance, PLS-SEM; Household; India

I. Introduction

THE CONCEPT OF financial decision making and planning have been a research interest among the scholars of household finance (Cole, 2016). Literature on household finance support that individuals ability to take economic decisions based on assimilating financial informations depends on their cognitive ability (Delis, Galariotis and Monne, 2021; Haushofer and Fehr, 2014; Brooks and Schweitzer, 2011). Individuals' psychological, behavioral, and cognitive

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Annexure I

Financial Cognition	The process of formation of individuals' beliefs, attitudes, and actions towards financial thinking.
Financial Attitude	Mental disposition towards the application of financial principles to manage finances
Risk Attitude	Individuals' positive or negative state of mind towards probabilities of taking a risk in given financial situation.
Financial Knowledge	Individuals' awareness about various financial concepts, terms, and products and understanding about various financial risk and opportunities to make informed financial decisions
Personal Financial Planning	The process of planning finances for the current and future requirements and the behavior related to the implementation of the plan.
Cashflow Management	The process of managing inflow and outflow of money in calculated manner as per budgets allotted to each category.
Investment Planning	The process of employing the money in the different short term or long term investment avenues with a risk component and an expected rate of return. The investment avenue could include the stock market, bank/post office deposits, mutual funds, real estate, etc.
Insurance Planning	The process of preparing for future financial uncertainties as a cover against risks through investing in various insurance schemes/policies. Various insurance schemes could include term plan, Endowment plan, ULIP, Money back policy, health/ medical insurance, etc.
Tax Planning	The process of financial planning to reduce the tax burden by investing in tax saving plans and in those schemes that yield tax advantages. Tax savings schemes could include ELSS, NPS, PPF, ULIP, etc.
Retirement Planning	The process of preparing for financial security at old age through making an appropriate investment in pension plans & other financial products that give retirement solutions
Estate Planning	The process of planning for the distribution of wealth among future generations by writing a will

Source: Self Compliation

Annexure II

Variable	Construct	Measurement Parameters	References
Personal Financial Planning	Investment	Importance, Frequency, Monitoring, Adequacy, Behavioral Consequence, Investment choice	Altfest (2004)
	Insurance	Product ownership, Importance, Return purpose, Adequacy, Confidence, perceived burden	
	Taxation	Planning, benefits, Frequency, Adequacy Product awareness, measures	
	Retirement Planning	Awareness, return purpose, Adequacy, Uncertainty, importance,	
	Cashflow Management	Importance, Frequency, Adequacy, satisfaction, Regularity, Confidence	
	Estate planning	Confidence,	
Financial Cognition	Financial Attitude	Money attitude, saving attitude, Attitude towards credit and borrowing, power, wealth	Moore, 1939; Manis, 1977; Edelmen, 2006;
	Risk Attitude	Return expectations, Risk aversion, risk-seeking, risk-neutral, Safety of returns, Adequacy of returns.	Messick, 1976; Witkin, 1977; Greenwald & Banaji
	Financial Knowledge	Financial concepts, Financial products, Insurance Scheme, Investment options, Interest rates.	1995; Odena (2013); Berry and Williams 1987.

Source: Self Compliation

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