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FACTORS AND MOTIVES DEFINING THE FINANCIAL BEHAVIOR OF HOUSEHOLDS

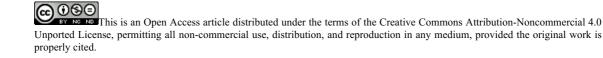E. S. Nedorezova (a)*, K. N. Ermolaev (b)
*Corresponding author

(a) Samara State University of Economics, 443090, Soviet Army Str., 141, Russia, Samara, nedlen63@yandex.ru
(b) Samara State University of Economics, 443090, Soviet Army Str., 141, Russia, Samara, ermolaevkn@yandex.ru

Abstract

A correctly organized and efficiently functioning financial system of the country makes a positive impact on the economic development and national welfare growth. The structure of the financial capital of the economic system is inhomogeneous and diverse. The status and development prospects of each financial source are of great importance for functioning of the financial system in general. Household finance occupies a special place among resources of the national financial market characterizing not only the standard of living related to consumption, incomes and expenses of households but also representing an important investment resource in the Russian economic conditions. The relevant character of the subject is evident, raises no doubts, is justified by realities of the modern research tendencies and economic interests of subjects of financial relationships. One requires a more detailed analysis of the bases for the theory of financial behavior of households, identification of the cause and effect link between the elements of savings and investment behavior. The practical part of the research should cover the issue of the impact from the influence of a specific factor on the financial relationships of the population and the expected development dynamics of this factor. Emphasis should be laid on singling out of the motives forming financial behavior of households, as these motives determine the applicable financial strategies.

1. Introduction

The process of the establishment and implementation of financial behavior of households, applicable financial strategies is rather complicated and contradictory and requires correct understanding of motivation of potential investors (Xu, Briley, Brown, & Roberts, 2017). In this regard, theoretical and empirical studies of financial behavior issues, aggravated in the conditions of the world financial and economic crisis, geopolitical contradictions, enter into the picture (Brounen, Koedijk, & Pownall, 2016). An all-round analysis of factors affecting financial behavior of households, types of monetary resource management strategies they apply seems extremely relevant and requires application of a comprehensive approach towards the study of the savings and investment motivation of the population.

2. Problem Statement

Incompleteness of the information on motives and factors forming financial behavior of households becomes a serious problem in the processes of implementation of such behavior (Białowolski, 2019). Many studies have been dedicated to the analysis of motives and factors of financial behavior of the Russian population, however, their authors usually review separate aspects affecting the savings, investment strategies of Russians giving no opportunity for a comprehensive view of their content and specifics. That is why many aspects of financial behavior of the population remain unclear. Profound knowledge of the decision-making mechanisms depending on the influence of a specific factor, evaluation of the impact of such factor will make it possible to analyze the current processes of financial behavior of households as well as forecast its future development peculiarities.

3. Research Questions

Addressing the issue of the research stipulates solution of the following tasks. The initial research stage requires a study of the theoretical and methodological bases of financial behavior of households, identification of the cause and effect link between the elements of savings and investment behavior. Special attention should be given to the review of issues of classification of financial behavior factors, potential impact of the factors and the expected dynamics (Marjanovic, Fiksenbaum, & Greenglass, 2018). The practical part of the research requires identification of the main factor affecting the adoption of financial decisions by the population and the motives defining the desire of households to save in this or that instrument (object of savings) forming the behavior strategy.

4. Purpose of the Study

The main purpose of the study is the development of theoretical and methodological provisions of the theory of financial behavior of households. We believe the issues related to the determination of financial behavior, factors affecting the same to be insufficiently studied in the modern scientific literature triggering a theoretical demand in deeper research of the set problem that can be solved only from the theoretical and practical standpoints. The developed recommendations for the improvement of

approaches towards the analysis of financial behavior, motive implementation allow determination of the investment behavior strategy in comparison with other strategy types.

5. Research Methods

The study has been conducted using the formal and dialectic logic methods, the systemic approach. The methods of analysis, classification and structural and functional comparison can be singled out among the widely applied methods. These methods ensure a comprehensive character of the research and reliability of conclusions.

6. Findings

The decision making process depending on the whole range of external and internal, subjective and objective factors and motives lays the basis of financial behavior of households (Fajardo & Dantas, 2018). It should be noted that there exist circumstances that bring together and at the same time put a distance between the fundamental elements of financial behavior: savings and investments. The logic of cause and effect links brings the elements together as savings are a basis for investments. The aspect that the level of savings and investments is not always defined by the same factors is a distancing one (Lo, Chou, & Tsui, 2019). However, it is worth mentioning that household investments will be impossible without savings.

In our opinion, the establishment and selection of this or that household financial strategy are affected by various factors (Table 01).

Table 01. Factors affecting financial behavior of the population

Factor	Factor impact	Expected factor dynamics
Average level of real incomes and inequality	Wealthier layers of the population have more savings opportunities (satisfaction of basic demands in goods and services using a smaller share of current income). The propensity to save can grow as a result of an increase in the average real incomes of the population and inequality growth (increase in the amount of incomes attributed to richer people) at the same average income level.	The average growth of real incomes of the population can amount to 0.8% per annum from 2017 to 2021. Inequality is likely to grow: persons having more savings receive higher current interest income in the periods of relatively high real rates. If the tax burden level stays practically the same and the flat personal income tax rate will remain, the tax system will make a negative influence on savings behavior due to potential changes after 2018.
Social consumption standards and the standard of living	The required current consumption costs (and the balance of current incomes that can be saved) depend on the standards of living. The average sufficiency of goods in the society forms a subjective perception of the purchasing power of incomes and the level of poverty by forming of a market basket. The growth of the real level of incomes does not always correspond to the consumption standard dynamics.	The 11% decrease in the real incomes of the population triggered by the recession of 2014-2015 leads to the reduction in the consumption basket quality compared with the basket of the previous years. The growth of real incomes in the two-three-year perspective can fully account for the achievement of formerly habitual consumption standards, not facilitating any growth of the savings motivation. The consumption standards will get a little lower in the long run (it is impossible to return to the former income level in two-three years) facilitating growth of the propensity to save.
Current value of	Creates a perception of protection against macroeconomic force-majeure and current	The market asset price dynamics will be the only real opportunity for a considerable change in the

earlier accumulated savings	income fluctuations. A significant increase in relation to current expenses lowers the importance of the caution motive in savings forming and reduces the savings volume.	savings value in the near future due to the moderate income dynamics. We are not expecting any serious leads or lags of real estate prices, securities or foreign currency value in the basic scenario.
Level of real and nominal interest rates	The growth of the average return on investments raises the savings motivation. Correlation between rates of various instruments changes the savings structure: the population selects savings offering higher rates.	The principles of the monetary policy of the Bank of Russia for the coming two-three years and demographic trends are likely to result in ruble deposit rates exceeding inflation and most foreign currency deposit rates.
Average age and distribution by age	People of working age show the greatest propensity to save: their savings are aimed at support of their children and themselves in old age. The average age growth reduces the average propensity to save because of the elderly on the one hand and on the other hand makes young people and people of working age save more for the senior years.	The coming life expectancy at birth will raise from 71.5 years to 72.9 years with a tendency to grow. The correlation between the number of people in unemployable age and the people of working age will increase from 54.1% to 62.8%.

We believe the current real income dynamics to be the key factor of financial behavior. According to the statistics of the Federal State Statistics Service, real incomes of Russian households were dropping for four years in a row, staring from 2014. However, the end of 2018 witnessed a small turning point towards growth: 0.3%.

Let us now analyze the share of savings in the household income strategy to single out the priority household strategy. The share of savings in the structure of expenses of citizens reached its minimum in 2008. A large part of incomes of Russians is spent on current consumption and obligatory payments. The share of saved monetary incomes of Russians in 2018 amounted to 5.6% and became minimal for the previous ten years. This ratio was lower only in 2008, when savings accounted for 5.4% of incomes. 8.1% of incomes were saved in 2017 and 11.1% in 2016. According to the Federal State Statistics Service, about 80% of incomes are referred to bank deposit growth in 2017. We consider reduction in the real incomes of the population to be the main reason for decrease in the share of savings in the structure of income use. 2018 became the fifth year of continuous drop in real incomes: following the results of the previous year, incomes decreased by 0.2%. In general, it may be concluded that households are largely implementing the consumer strategy rather than the savings and investment one: the share of investments in the total volume of incomes of the population has notably decreased for the last three years.

The annual study conducted by the Institute of Social Analysis and Forecasting entering the RANEPA structure Monitoring of the Socioeconomic Status and Wellbeing of the Population (Burdyak et al., 2019) presents the following data.

Table 02. Dynamics of implementation of savings and investment financial strategies of the population, implementing % among the surveyed

Type of adaptive behavior	2016	2017	2018	2019
Implementation of savings and investment financial strategies (foreign currency purchase/ securities purchase/ savings)	19.9	24.9	23.4	24.8

The given information serves as evidence that households have started to save and invest in 2019 more than in 2016; however, the situation has practically not changed in comparison with 2017, and there is even a little decline. In our opinion, a drop in the real income is the main factor of reduction in household savings.

Thus, a conclusion can be made that consumer strategies clearly prevail over savings and investment ones, the main factor is a drop in real incomes of the population.

Let us now move to the analysis of motives shaping savings and investment behavior of households. Motivation is the main link in forming of the savings strategy of the population as, on the one hand, it is the initial point defining the need for savings, and on the other hand, it is the final one (Anderloni, Bacchiocchi, & Vandone, 2012). From our point of view, there are three main motives defining the desire of households to save in this or that instrument (object of savings), i.e. forming their behavior and determining the financial strategy:

- a consumer savings motive – liquidity: the need to have cash on hand. The object of savings is the share of cash in disposable incomes

- a savings investment motive – value conservation (reliability): the desire to save the real living standard, save the purchasing capacity of money from inflation. The object of savings is the share of deposits in disposable incomes (ruble deposits, foreign currency deposits), the share of investments in movable property and real estate, cash in foreign currency, precious metals or opening of metal accounts

- an investment motive – value increase (rate of return): receipt of short-term benefits from purchase and sale of assets or acceptance of increased risk hoping to receive higher rate of return in respect of a financial instrument. The instrument of savings is the share of securities purchase.

The dominating motive out of the three listed is value conservation: as a rule, people tend to keep savings in less risky instruments even with a lower rate of return. We believe that in case of no negative shocks, the existing priority of motives will remain in the future, the liquidity preference motive will recede into the background thanks to the growth of trust in banks and the financial system in general, development of financial and information technology, increase in the financial literacy level of households.

7. Conclusion

The detailed analysis of the bases of the theory of financial behavior of the population, identification of challenging aspects, forming of motives and factors defining the savings and investment processes have presented an opportunity to propose a set of instruments to improve the approaches

towards the analysis of financial behavior. The proposed list of measures is able to determine the investment behavior strategy in comparison with other strategy types. Among the most important steps preconditioning the development of investment behavior, one may single out the following:

- creation of conditions where the return on ruble deposits will be higher than the observed inflation;

- decrease in the level of perception of the savings loss risk;

- increase in consumer financing availability;

- increase in the population structure dynamics allowing reduction in the propensity to save by raising the intensive role of insurance;

- prevention of the appearance of information risks in the crisis and post-crisis periods of functioning of the Russian economy raising the probability of the development of chaotic, not always justified savings behavior;

- diversification of savings of subjects prone to the implementation of a risky and aggressive personal financing strategy, having economic knowledge and information resources;

- change in preferences of subjects sticking to a conservative financial policy towards passive (disorganized) savings;

- change in the criteria of admissibility of the savings risk level towards their reduction, use of services of more reliable financial institutions taking part in the deposit insurance system and commercial banks with state participation rather than private banks;

- reduction in the savings investment maturity as a means of minimization of potential risks.

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