Financial Foundations: Role of Family Financial Socialization and Literacy in Enhancing Financial Well-Being of Gen Z

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Abstract

Purpose – This study explores the family financial socialization among Nepali Gen Z and examines its influence on their financial well-being. Specifically, it investigates how various financial socialization factors relate to financial well-being while also exploring the mediating role of financial literacy in navigating the financial future of youths.

Design/methodology/approach – This study adopted a quantitative research design with a cross-sectional approach. It surveyed a purposive sample of 294 Gen-Z students (aged 18-28) from five colleges affiliated with Tribhuvan University's Faculty of Management in Kathmandu Valley, Nepal. A structured survey gathered data on family financial socialization, financial literacy, and financial well-being. The study utilized descriptive statistics, correlation analysis, and mediation analysis to examine the relationships between variables and test the hypotheses.

Findings – The findings indicate that financial socialization positively impacts financial well-being. Financial literacy, instruction on money management, expected financial independence, and openness to family finances positively affected financial well-being ($p<0.001$). Mediation analysis revealed that financial literacy partially mediated all relationships.

Conclusion – Financial literacy is crucial in enhancing financial well-being through family financial socialization factors. The study highlights the importance of improving financial literacy and fostering supportive family financial behaviors to strengthen financial well-being.

Implications: This paper has two implications. Theoretically, it provides a foundation for an in-depth study of financial socialization in the Nepalese context. Economy-wise, emerging adults need to pay attention to their financial well-being through various social agents shaping their financial environment and learning.

Keywords – Emerging adults, Financial literacy, Financial socialization, Financial well-being, Family financial socialization

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1. Introduction

In recent years, educators, policymakers, and individuals have become more interested in improving people's finances because of worldwide economic challenges. Researchers have studied financial literacy for decades, focusing mainly on the results. Financial literacy has been the subject of several studies, a vital life skill that exposes its complexity and the variables that affect it. Gender, age, income, and education are sociodemographic characteristics significantly impacting financial literacy levels, and the findings suggest that financial literacy is typically lower among women, younger adults, and those with less education (Garg & Singh, 2018; Jayaraman & Jambunathan, 2018; Bannier & Schwarz, 2018; Lusardi et al., 2010; Karakurum-Ozdemir et al., 2018). However, these factors alone cannot explain the differences in financial literacy (Riitsalu & Põder, 2016; Garg & Singh, 2018). Crucial factors are the character attributes and the capacity to postpone gratification (Siegfried & Wuttke, 2021).

Past studies have looked at how socio-demographic aspects affect financial knowledge, behavior, and well-being, but they have not looked much into why these differences exist. Specifically, they have not paid much attention to the family and social context and how these processes affect financial well-being over time (Gudmunson & Dane, 2011). Financial socialization is the process by which people acquire information, abilities, attitudes, and behaviors about handling their finances through interactions with friends, family, coworkers, social media, and other financial education resources (Lusardi & Mitchell, 2014). Subjective financial knowledge exhibits stronger relationships than objective knowledge, and financial literacy is positively correlated with desirable financial behavior and financial well-being (Hwang & Park, 2023).

Following family financial socialization theory by Gudmunson and Dane (2011), parents or family are the primary socialization agents in the process of young adults aged 20-30 learning how to function in the marketplace as consumers and money managers (Danes & Yang, 2014). In the past ten years, various research studies have focused on college students to explore how they learn about handling finances. Pinto et al. (2005) surveyed 1,170 students to investigate their understanding and usage of credit cards. They discovered that students viewed parents as more influential in teaching them about using credit cards than the influence of media, schools, and peers. Similarly, Clarke et al. (2005) observed that college students often credited their fathers with financial management responsibilities. However, they felt that their mothers' efforts in financial education made them feel competent in handling money. Such prominent examples shed light on the importance of financial socialization in a young person's life.

Furthermore, research has shown that financial literacy acts as a mediating factor in the relationship between financial socialization and financial well-being. By enhancing financial literacy, individuals are better equipped to apply the lessons and information learned through financial socialization in their everyday financial decisions. This can ultimately lead to improved financial well-being, including increased savings, reduced debt, and better overall financial management (Fernandez et al, 2014; Chaudhary et al, 2024). Financial socialization, which encompasses the process of acquiring financial knowledge, skills, attitudes, and behaviors through various socialization agents such as family, friends, educational institutions, and online sources, can significantly impact an individual's financial well-being. The financial literacy score of people aged 18-30 is 63.2 percent, according to the NRB Baseline Survey on Financial Literacy of Nepal Report of 2022 (Nepal Rastra Bank, 2022). The younger generation has better financial knowledge, behavior, savings, and literacy than the adult generation of Nepal. However, the reality is that even the youth are still in the 60th percentile regarding financial matters. It is important to understand how the financial socialization factors can contribute to the financial learning of the young generation in Nepal.

This study aims to investigate how family financial socialization affects the financial literacy and financial well-being of Gen-Z in Nepal. This study intends to fill the knowledge gap regarding the fundamental elements influencing young adults' financial behaviors and knowledge. Based on the theory of family financial socialization, this research aims to investigate how social contexts, individual psychological characteristics, and families influence financial literacy and, in turn, financial well-being in Nepalese youth. Examining these aspects aims to offer information that could help financial institutions, educators, and policymakers develop sensible financial practices for the next generation.

2. Review of Literature and Hypotheses Development

Theoretical Review

A modified version of Gudmunson and Danes's (2011) Family Financial Socialization Theory (FFST) has been used to examine how family financial socialization affects people's economic outcomes. Processes and outcomes of financial socialization comprise the two components of FFST (Rea et al., 2019). Family financial socialization can take two forms: implicit socialization through interactions and relationships within the family and explicit socialization through intentional financial education (Lanz et al., 2020). Personal and family characteristics influence both types of socialization. Family financial socialization influences financial behavior and well-being, as evidenced by intermediary outcomes such as financial attitudes, knowledge, and capacities (Vosylis & Erentaitė, 2020). For emerging adults' psychological and financial well-being, sufficient financial socialization is necessary for financial self-sufficiency during adolescence and emerging adulthood.

Parents are the primary agents in the family, which continues to be an essential institution for financial socialization, even though educational programs have been introduced in several countries to improve financial behaviors and capabilities (Drever et al., 2015; Gudmunson et al., 2016). The importance of social learning theory in improving financial education has been emphasized in several research (Drever et al., 2015; Shim et al., 2010; Van Campenhout, 2015). This theory holds that children learn in a social setting through direct instruction (explicit teaching) and by watching modeled behaviors (implicit teaching) (Bandura, 1986). Research has demonstrated the significant effects of several financial education resources, such as parents, peers, the media, and schools, on the process of financial socialization by influencing financial attitude, literacy, behavior, and satisfaction (Jorgensen & Savla, 2010; Sohn et al., 2012; Xiao & Porto, 2017).

Family interactions encompass communication among family members and their roles within the family structure. These interactions, which include spending time together and building trust, shape family relationships and ultimately influence financial socialization within the family unit. While the deliberate imparting of financial knowledge and behaviors, known as purposive financial socialization, is significant, everyday financial activities such as bill payments and grocery shopping also serve as implicit forms of financial socialization. These implicit interactions may not always be fully understood by family members but contribute to shaping their attitudes, knowledge, and financial capabilities, thereby influencing their overall financial well-being (Rea et al., 2019). Parental teaching, like when parents directly teach their children about money, helps young adults understand finances better, motivating them to make smarter choices (Violato et al., 2011). Research shows that when parents teach their kids about money, those kids tend to save more than they spend, even after paying bills (Webley & Nyhus, 2006). Also, when young adults see their parents as good examples of money management, they are more likely to have positive attitudes toward saving (Shim et al., 2010). Learning these skills gives young adults confidence in managing money and improves their chances of doing well financially as they grow up (Drever et al., 2015). Financial well-being is one of the main results of financial socialization (Danes & Yang, 2014).

Stressing on Saving and Financial Well-Being

The emphasis on the savings component directly resulted from parental efforts to instill a positive attitude toward emergency savings in their children. Earlier qualitative research documented comparable parental practices and clarified the connection between young people's financial well-being and their emphasis on saving (Ghafoor & Akhtar, 2024). Children frequently mirror their parents' saving patterns and motivations, and there are strong correlations between adolescent saving activities and parental financial socialization techniques (Lep et al., 2022). Learning to save and stressing it out helps kids make wise financial choices later in life (Jorgensen, 2008). Thus, based on the above studies, the following hypothesis has been proposed.

Hypothesis (H1): There is a significant relationship between stressing savings and financial well-being.

Openness on Family Finances and Financial Well-Being

The openness to family finances represented parental transparency regarding their income and spending patterns and the state of the family's finances, including any challenges. This component was comparable to the parental practices documented in earlier research (LeBaron et al., 2018; Norvilitis & MacLean, 2010). According to research, people's financial outcomes are significantly shaped by their family's financial socialization. Positive financial behaviors and decreased financial anxiety are linked to openness about family finances and direct parental instruction on money management (Vosylis & Erentaitė, 2020). Compared to men, women are typically more forthcoming with their parents regarding financial matters (Edwards et al., 2007). Financial literacy, behavior, and well-being are all improved by parental financial socialization (Zhao & Zhang, 2020). By adopting parents as financial role models, family communication quality indirectly improves subjective financial well-being. On the other hand, family economic involvement negatively impacts personal income not derived from parents (Lanz et al., 2020). In light of the study above, the following hypothesis has been put forth.

Hypothesis (H2): There is a significant relation between openness on family finances and financial well-being.

Instruction on Money Management and Financial Well-Being

The money management instruction reflected parental guidance on several activities, such as budgeting, investing, using debit and credit cards, saving, and so forth (Solheim et al., 2011). Research on young adults' financial well-being emphasizes the significance of several factors affecting their wellness and financial independence. Financial socialization positively impacts young adults' financial well-being, especially in early conversations with parents (Kim & Chatterjee, 2013). Money attitudes are a strong predictor of financial well-being, even though the direct impact of financial literacy is up for debate (Utkarsh et al., 2020). Personal and contextual factors, such as socio-demographics, personality traits, financial practices, and macroeconomic shifts are important (She et al., 2023). Thus, the following hypothesis has been proposed in light of the research.

Hypothesis (H3): There is a significant relationship between instruction on money management and financial well-being.

Expected Financial Independence and Financial Well-Being

Parental expectations for financial independence were intended to instill the value of financial autonomy as a societal expectation and to mold their children's unfavorable views of borrowing

(Serdio et al., 2013). The "promotion of financial independence" idea put forth by Sorgente and Lanz (2017) is similar to this element. However, the emphasis on parental expectations in the language reveals their preference for following social conventions over developing the skills and knowledge required to become financially independent. The following hypothesis has been proposed in light of the earlier research.

Hypothesis (H4): There is significance relation between expected financial independence and financial well- being.

Family Financial Distress and Financial Well-Being

Parental concerns and disputes about debt and excessive spending define financial distress in the family. This factor was unique because it focused on how parents respond to economic difficulties rather than describing their methods to teach their kids about money or revealing family financial difficulties (Vosylis & Erentaitė, 2020). The association between psychological distress and family financial hardship may be mediated by maternal disclosure of economic concerns to teenage daughters (Lehman & Koerner, 2002). Fathers' parenting is more affected than mothers', and financial stress influences teenage problem behavior through interparental conflict, parental depression symptoms, and positive parenting (Ponnet et al., 2016). Therefore, the following hypothesis has been proposed in light of the studies above.

Hypothesis (H5): There is a significant relation between family financial distress and financial well-being.

Financial Literacy and financial well-being

Studies consistently demonstrate that financial well-being and financial literacy are positively correlated, especially for younger generations such as Gen Z (Shankar et al., 2022; Zhang & Chatterjee, 2023). More financial literacy is linked to less financial anxiety and better financial behavior (Taft et al., 2013; Adhikari et al, 2024). According to Hwang and Park (2023), subjective financial knowledge significantly influences financial well-being more than objective knowledge. Therefore, the following hypothesis has been proposed in light of the studies above.

Hypothesis (H6): There is a significant relation between financial literacy and financial well-being.

Family Financial Socialization, Financial Literacy and Financial Well-being

Family financial socialization plays a significant role in shaping financial literacy and subsequent financial behaviors. It has a significant positive impact on financial literacy. Parental financial socialization, including discussions about money and financial behaviors, enhances financial literacy in children (Zhao & Zhang, 2020; Sharif & Naghavi, 2020; Ali et al., 2022). This process involves transmitting financial knowledge, attitudes, and behaviors from parents to children, which can impact an individual's economic outcomes. The impact of family financial socialization may vary by gender. Financial literacy and family financial socialization are essential for males, while for females, family financial socialization plays a more crucial role (Bucciol et al., 2022). Parents can directly teach, monitor, and model their children's saving behaviors (Kim & Chatterjee, 2013; Lep et al., 2022). Early financial experiences greatly influence young adults' financial knowledge, attitudes, and behaviors. Examples include getting pocket money, opening savings accounts, and having financial conversations with parents (Agnew, 2018). Parental transparency regarding family finances, including income, expenses, and financial challenges, is linked to positive outcomes like reduced financial anxiety and increased self-control over spending (Kelley et al., 2021). Parent-child financial conversations, whether initiated by the child or the parent, are essential for financial socialization (LeBaron et al., 2020).

For young people to become financially literate, socialization is crucial (Sohn et al., 2012), with parents serving as important financial education sources (Lyons et al., 2006). The connection between financial well-being and financial socialization is mediated by financial literacy. In particular, financial socialization improves self-efficacy, objective financial knowledge, and skills, all of which contribute to improved financial behaviors. It might appear that improving financial literacy is not enough to change young people's financial behavior if one only looks at the short-term consequences (Kaiser et al., 2022). Research shows that family financial socialization greatly influences financial well-being in adulthood. Family financial socialization and financial well-being are positively correlated, mainly due to observing parental financial behavior. This relationship is demonstrated by the fact that young adults who receive personal finance education from their parents have better financial well-being (Pak et al., 2024). Parental financial socialization significantly impacts financial behavior, well-being, and financial literacy (Zhao & Zhang, 2020). Subjective financial well-being is indirectly affected by the quality of family communication when adopting parents as financial role models (Lanz et al., 2020). Financial behavior and well-being are improved by parental financial socialization, leading to increased financial literacy (Khawar & Sarwar, 2021; Bucciol et al., 2022). Based on these arguments, the following hypothesis can be formulated;

Hypothesis (H7): The relationship between stress on saving and financial well-being is significantly mediated by financial literacy.

Hypothesis (H8): The relationship between openness on family finances and financial well-being is significantly mediated by financial literacy.

Hypothesis (H9): The relationship between instruction on money management and financial well-being is significantly mediated by financial literacy.

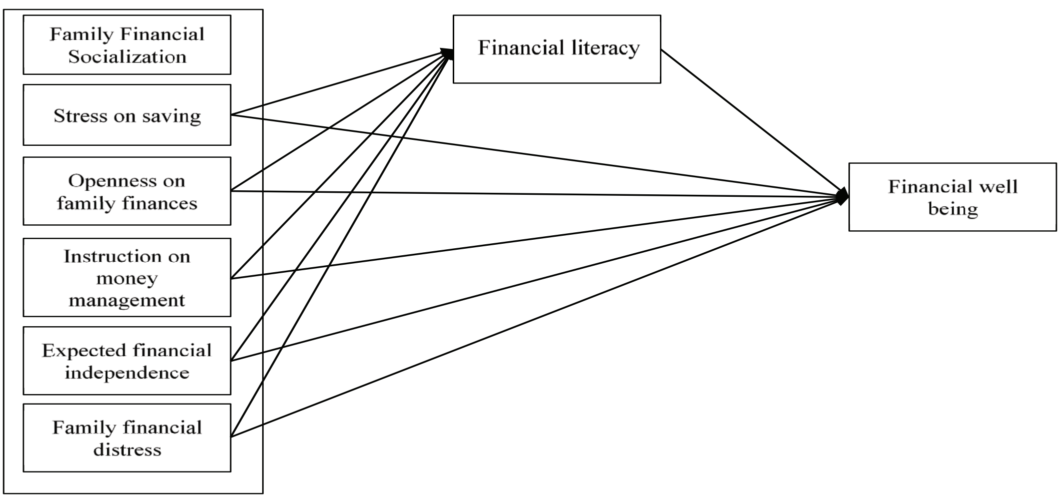
Hypothesis (H10): The relationship between expected financial independence and financial well-being is significantly mediated by financial literacy.

Hypothesis (H11): The relationship between family financial distress and financial well-being is significantly mediated by financial literacy.

Research Framework

Figure 1

Research Framework



(Source: Goyal et al., 2023; Vosylis & Erentaitė, 2020; Zhao & Zhang, 2020)

The link between financial socialization and financial well-being is depicted in the study framework in Figure 1. One of the mediating variables is financial literacy. Five constructs are used in this framework to conceptualize financial socialization as the independent variable: emphasis on saving, transparency regarding family finances, money management training, expected financial independence, and family financial distress. Financial well-being acts as an outcome variable. The framework examines the degree to which financial socialization directly affects financial well-being, utilizing the mediating function of financial literacy.

3. Research Methods

Research Design

This study investigates the impact of family financial socialization and financial literacy on the financial well-being of Gen Z students in Nepal using a quantitative, cross-sectional research approach. 294 students pursuing bachelor's and master's degrees from five Kathmandu management institutions were selected using a purposive sample technique. The inclusion criteria were set as Participants had to be Gen Z (those between 18 to 28) and enrolled in management programs, guaranteeing knowledge of financial concepts and principles. The sample size of 294 respondents was judged sufficient to perform multiple regression and mediation analysis using the Hayes PROCESS macro. According to Green (1991), it is often accepted that each predictor variable in multiple regression should include a minimum of 10 to 15 participants. A sample size of 294 surpasses this criterion and offers more statistical power because the model's five predictors would require a minimum of 75 respondents.

Since both direct and indirect effects can be estimated using larger samples, they are instrumental in mediation analysis, mainly when confidence intervals are generated using bootstrapping techniques. According to MacKinnon et al. (2002), depending on effect sizes, sample sizes up to 200 are typically adequate to identify mediation effects with a respectable level of power. Fritz and MacKinnon (2007) also suggest that bias-corrected bootstrap methods should include at least 200 to 250 participants when predicting small-to-medium indirect effects. The number of predictor and mediator variables is more suitable for assessing sample adequacy in regression-based mediation models, even though the sample-to-item ratio is more frequently linked to factor analysis or scale development. The results' reliability and generalizability are thus strengthened by the sample size of 294, which is also statistically sound.

By combining these methodological approaches, the research design aims to provide a robust framework for exploring the complex relationships between family financial socialization, financial literacy, and financial well-being in the context of Nepalese higher education students. This design not only ensures statistical validity but also allows for meaningful insights into the financial experiences and behaviors of the target population.

Measurement

Primary data were gathered using a structured, self-administered questionnaire. The survey was made available online (through Google Forms) and in physical form, ensuring greater accessibility. Strict adherence to ethical principles was maintained; participants were made aware of the anonymity, confidentiality, and voluntary nature of their involvement. A total of 52 items (questions) were used for the study. The questionnaire consisted of respondents' experience with the five factors of financial socialization. Each factor had seven to eight items and was measured using a five-point Likert scale ranging from "strongly agree" with a value of 1, to "strongly disagree" with a value of 5. The seven items for stressing saving, eight items for openness on financial finances, seven items on expected financial independence, six items on instruction on money management, and eight items on family financial distress were adapted from (Vosylis & Erentaitė, 2020). The following section measured the financial literacy of respondents with financial skills and financial self-efficacy as its constructs. Both constructs totaled to 8 items adapted from Zhao & Zhang (2020). Next to be measured was the financial well-being of respondents, with eight items, the first three items of the dependent variable were adapted from (Zhao & Zhang, 2020), and the remaining five were adapted from (Goyal et al., 2023).

4. Results

Table 1

Demographic profile of the respondents

S. No	Particulars	Characteristics	Frequency	Percentage
1	Gender	Male	135	45.9 %
		Female	159	54.1 %
2	Age	18-20	41	13.9 %
		21-23	181	61.6 %
		24-27	72	24.5 %
3	Educational attainment	Bachelor	220	74.8 %
		Master	74	25.2 %
4	Employment Status	Unemployed	151	51.4 %
		Employed (Part-time)	85	28.9 %
		Employed (Full time)	58	19.7 %

A total of 294 responses are included in the demographic profile in the study. Most respondents are female (54.1%), and the remaining are male. Most of them fall under the age group of 21-23 years old (61.6%), followed by the age group 24-27 years (24.5 %), and then the age group 18-20 years (13.9%). Most of the respondents have an educational qualification of Undergraduate Level (74.8 %), and 25.2 % are at the Master's Level. The majority of respondents are unemployed (51.4%), followed by respondents who work part-time (28.9%) and work full-time (19.7%).

Table 2

Reliability analysis

Variables	Number of items	Item deleted	Cronbach's Alpha
Stress on Saving (SS)	7	2	0.860
Openness on Family Finances (OFF)	8	-	0.794
Instruction on Money Management (IMM)	6	1	0.828
Expected Financial Independence (EFI)	7	1	0.798
Family Financial Distress (FFD)	8	-	0.810
Financial Literacy (FL)	8	1	0.888
Financial Well Being (FWB)	8	2	0.880

The Cronbach's Alpha values in Table 2, ranging from 0.794 to 0.888, indicate strong internal consistency for all the constructs. All values exceed the acceptable threshold of 0.70 (Nunnaly, 1978), indicating reliable measurement scales.

Correlation Analysis

Table 3

Descriptive statistics and Correlation matrix

	MEAN	SD	SS	OFF	IMM	EFI	FFD	FL	FWB
SS	2.053	0.635	1						
OFF	2.306	0.852	.253**	1					
IMM	2.440	0.800	.412**	.506**	1				
EFI	2.136	0.658	.502**	.198**	.466**	1			
FFD	3.030	0.843	.128*	0.104	.198**	.191**	1		
FL	2.492	0.546	.231**	.279**	.355**	.239**	.136*	1	
FWB	2.476	0.702	.346**	.415**	.564**	.438**	.206**	.547**	1

** Significant at the 0.01 level (2-tailed)

* Significant at the 0.05 level (2-tailed)

The descriptive statistics and correlation analysis are shown in Table 3. The average values fall between 2.053 and 3.030, showing a medium to high level of agreement in the statements measuring different study variables, showing the presence of family financial socialization and financial literacy as well as financial well-being among the youths in the Nepalese context. SS, OFF, IMM, EFI, FFD and FL all correlate positively and significantly with FWB, highlighting their combined impact on financial well-being. FFD has a weaker correlation with other variables but is significantly correlated with FWB. The two variables with the strongest correlations with FWB are IMM ($r = .564$) and FL ($r = .547$), underscoring their vital functions in improving financial well-being.

Stressing on saving exhibits a positive correlation with FWB ($r = .346$, $p = .000$), indicating that individuals whose family stresses on saving have a positive relationship with financial well-being. Openness on family finances shows a positive correlation with FWB ($r = .415$, $p = .000$), suggesting that having open discussions on family finances tends to have higher levels of financial well-being among Gen-Z. Family Financial Distress (FFD) also shows the lowest positive correlation with FP ($r = .206$, $p = .000$). Overall, these findings highlight the importance of stressing on saving, openness on family finances, instruction on money management, expected financial independence, and family financial distress to improve the financial well-being.

Direct effect

Table 4

Hypothesis confirmation: direct effect

Hypothesis	Regression Path	B	t	Sig	VIF	Decision
H1	SS->FWB	0.052	0.856	0.393	1.423	Reject
H2	OFF->FWB	0.149	3.371	0.001	1.357	Accept
H3	IMM->FWB	0.302	5.691	0.000	1.720	Accept
H4	EFI->FWB	0.218	3.590	0.000	1.525	Accept
H5	FFD->FWB	0.062	1.566	0.118	1.055	Reject
H6	FL->FWB	0.702	11.153	0.000	1.000	Accept
F (6, 288) = 47.681, P Value (0.000), R2 = 0.499						

Table 4 shows the findings of a regression analysis that looked at how six predictors: Expected Financial Independence (EFI), Family Financial Distress (FFD), Financial Literacy (FL), Openness on Family Finances (OFF), Instruction on Money Management (IMM), and Stress on Savings (SS) affect financial well-being (FWB). The model exhibits a strong fit, accounting for roughly 49.9 percent of the variance in financial well-being (R2 = 0.499) which means 49.9% variation in financial well-being of Gen-Z is explained by independent variable i.e., stressing on saving, openness on family finances, instruction on money management, expected financial independence, family financial distress and financial literacy. The remaining 61% is explained by the other outside variables not taken in the study, and is statistically significant (F (6, 288) = 47.681, p<0.001).

The most significant positive relationships with financial well-being were found for FL (B = 0.70, β = 0.55, p<0.001), IMM (B = 0.30, β = 0.34, p<0.001), EFI (B = 0.22, β = 0.20, p<0.001), and Openness to Family Finances (B = 0.15, β = 0.18, p<0.001). However, little direct influence was indicated by the lack of statistical significance for SS (B = 0.05, p = 0.39) and FFD (B = 0.06, p = 0.12). There were no multicollinearity problems, as indicated by the (VIF) values for all variables, which ranged from 1.00 to 1.72.

Table 5

Mediation analysis

Path	Total Effect	Direct Effect	Indirect Effect	95% CI for Indirect Effect		t value	Result
				LL	UL		
H7: SS>FL>FWB	0.383 (<.001)	0.257 (<.001)	0.126	0.055	0.205	4.78	Partial mediation
H8: OFF>FL>FWB	0.341 (<.001)	0.234 (<.001)	0.107	0.056	0.160	5.88	Partial mediation
H9: IMM>FL>FWB	0.495 (<.001)	0.372 (<.001)	0.123	0.070	0.184	9.15	Partial mediation
H10: EFI>FL>FWB	0.467 (<.001)	0.348 (<.001)	0.119	0.057	0.189	6.97	Partial mediation
H11: FFD>FL>FWB	0.175 (<.005)	0.115 (<.005)	0.060	0.007	0.116	2.73	Partial mediation

The mediation analysis results in Table 5 indicate that the relationship between each independent variable and financial well-being (FWB) is partially mediated by financial literacy (FL), accepting hypotheses H7, H8, H9, H10, and H11. With a direct effect of 0.257 and an indirect effect of 0.126 (95 percent CI: 0.055 to 0.205), the overall effect of Stress on Saving (SS) on FWB is 0.383 ($p<.001$). There is a direct effect of 0.234, an indirect effect of 0.107 (95 percent CI: 0.056 to 0.160), and a total effect of 0.341 ($p < .001$) for Openness in Family Finances (OFF). With a direct effect of 0.372 and an indirect effect of 0.123 (95 percent CI: 0.070 to 0.184), the Instruction on Money Management (IMM) exhibits the most significant overall effect of 0.495 ($p < .001$). Comparably, the total effect of Expected Financial Independence (EFI) is 0.467 ($p<.001$), followed by the direct effect of 0.348 and the indirect effect of 0.119 (95 percent CI: 0.057 to 0.189). With a direct effect of 0.115 and an indirect effect of 0.060 (95 percent CI: 0.007 to 0.116), Family Financial Distress (FFD) exhibits a smaller but still significant total effect of 0.1749 ($p< .005$). These results imply that financial literacy significantly mediates the relationship between financial well-being and family financial socialization. However, a sizable amount of the effect is still direct, indicating that all paths have partial mediation.

5. Discussion

This study investigated the direct effects of financial literacy (FL) and a variety of family financial socialization (FFS) factors on young adults' financial well-being (FWB), as well as the mediating function of financial literacy in the relationship between FFS factors and FWB. Financial literacy (FL) had the most considerable positive and significant impact on financial well-being, according to the regression analysis ($B=0.702$, $p<.001$), consistent with the findings of Shim et al. (2010) and Xiao and O'Neill (2016), who highlighted how better financial decisions increase well-being when people possess greater financial literacy. Promoting financial literacy can be crucial for enhancing financial outcomes and reaffirming the importance of financial education. The findings align with previous research by Gutter and Copur (2011), Akben-Selcuk and AltiokYilmaz (2014), and Drever et al. (2015), emphasizing the crucial role of financial socialization in shaping financial well-being, particularly among young adults. Three family socialization factors were found to be significant predictors of financial well-being: openness on family finances (OFF) (B=0.149, p=.001), expected financial independence (EFI) (B=0.218, p<.001), and instruction on money management (IMM) (B=0.302, p<.001). These findings align with those of Jorgensen and Savla (2010), who discovered that informal and formal parental education positively impacted young adults' financial attitudes and behaviors. Likewise, Gudmunson and Danes (2011) highlighted the value of financial conversations in families, which foster the development of sound financial habits at an early age.

These results reinforce the central tenets of FFST, advocating for increased parental engagement in financial discussions at home and providing valuable cross-cultural validation of the theory in the Nepalese context. The study resonates with the conclusions drawn by Gutter and Copur (2011), who emphasized the pivotal role of financial socialization in shaping the financial well-being of college students. Similarly, the study by Drever et al. (2015) emphasized the indispensable role of financial socialization in fostering positive financial decision-making habits among young adults. It is noteworthy that, according to the current model, financial well-being was not significantly impacted by stress on saving (SS) or family financial distress (FFD), with p-values of .393 and .118, respectively. These non-significant findings differ from those of earlier research by LeBaron et al. (2020) and Serido et al. (2013), who discovered that family financial stress could influence financial behavior and well-being either directly or indirectly. One explanation for this disparity could be that pressure to save money or financial stress alone, without good financial literacy or constructive communication, may not result in true financial well-being. On the other hand, the effects of these pressures may be internalized differently or counterbalanced by different social and personal resources in the context of the current sample, which is probably young adults.

The findings of this study highlight the significant mediating role of financial literacy (FL) in the relationship between various family financial socialization (FFS) factors and financial well-being (FWB). In H7 (SS → FL → FWB), the results indicated that stress on saving significantly contributes to FWB via improved FL, supporting earlier research by Shim et al. (2010) and Jorgensen and Savla (2010), who emphasized the long-term benefits of early saving habits. H8 (OFF → FL → FWB) demonstrated that openness in discussing family finances enhances FL, thereby improving FWB, echoing Gudmunson and Danes (2011) and Drever et al. (2015), who noted that open financial communication fosters both knowledge and confidence. The most substantial mediating effect was observed in H9 (IMM → FL → FWB), where active parental instruction on money management significantly boosted FL and, in turn, FWB, aligning with findings by Kim and Chatterjee (2013). H10 (EFI → FL → FWB) further revealed that expected financial independence encourages financial learning, which promotes well-being, consistent with Shim et al. (2010) and Danes and Haberman (2007). Lastly, H11 (FFD→ FL → FWB) showed a smaller but notable mediating effect, suggesting that even financial distress can foster FL and positively impact FWB if accompanied by adequate support, partially aligning with Pak et al. (2024) while also reflecting the cautionary perspective of Lusardi et al. (2017).

The findings suggest that while improving financial literacy is crucial, other aspects of family financial socialization, such as role modeling and direct guidance, also play significant roles in shaping financial well-being. The results extend previous research on FFST by providing a more comprehensive model of how family financial socialization impacts financial outcomes, offering a more holistic view of the socialization process than studies like Rea et al. (2019), which identified only indirect effects. These results highlight the critical role of financial socialization and financial literacy within the family dynamic and advocate for parents to engage in discussions about financial matters with their children at home.

6. Conclusion

This study is among the first to apply Family Financial Socialization Theory (FFST) in the Nepalese context to empirically investigate the influence of family financial socialization on individuals' economic outcomes. Utilizing primary data collected through a questionnaire survey, the study provides strong evidence that financial socialization significantly shapes the financial well-being of youths. Notably, instruction on money management emerged as the most influential factor, demonstrating the strongest positive impact on financial well-being, along with expected financial independence showing similarly strong correlations. These results highlight how family dynamics and parental financial socialization influence young people's financial attitudes and behaviors. Additionally, regression analysis showed that about 39% of the variation in financial well-being among Generation Z respondents can be attributed to financial socialization factors. It also found that experiences of family financial distress and stressing the value of saving did not significantly correlate with financial well-being.

Additionally, this study emphasizes the critical mediating role of financial literacy (FL) and reaffirms the direct correlation between financial well-being (FWB) and family financial socialization (FFS). The study found a partial mediation effect, indicating that financial literacy significantly facilitates the relationship between financial well-being and family financial socialization, emphasizing how intricate and multidimensional financial socialization processes are. The study provides insightful information about the dynamic interactions among Generation Z members' financial well-being, financial literacy, and family financial socialization. The findings support the creation of comprehensive financial literacy programs and support systems that promote favorable financial outcomes for young adults in Nepal by highlighting the critical role that family influence and financial education play.

7. Limitations, Implications, and Directions for Future Research

It is critical to acknowledge the limitations of this study, which included a small sample size centered on Gen-Z students in the Kathmandu Valley due to time and budget constraints. This limits the generalization of findings to broader populations or other geographical areas. Future research can explore additional mediating or moderating variables and investigate how cultural factors specific to Nepal might influence the effectiveness of financial socialization and literacy programs. This could provide more comprehensive insights into financial socialization processes and their outcomes among young adults in Nepal and beyond.

Considering the results of this investigation, several actionable implications emerge for researchers, academics, and policymakers. Primarily, there is a need to encourage open family discussions about finances and promote parental modeling of positive financial behaviors. This should be complemented by developing comprehensive financial education programs for Gen-Z, focusing on money management, savings habits, and understanding financial distress. These programs should acknowledge the mediating role of financial literacy in translating family socialization into financial well-being, as revealed by our study. Additionally, enhancing media literacy among young adults is crucial to help them critically evaluate financial information and resist peer pressure in financial decision-making. Financial educators and policymakers should design programs that improve financial literacy and strengthen family financial socialization practices, acknowledging their combined impact on financial well-being. Furthermore, providing career support services and financial planning resources for young adults transitioning from education to the workforce can contribute to their financial well-being. The study's intriguing findings indicate areas for future research, particularly in understanding the complex relationships between young adults' saving behaviors, financial goals, and financial satisfaction.

Conflict of Interest

Authors declare no conflict of interest while preparing this article.

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