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The Impact of Social Factors on Financial Literacy

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Abstract: ***Governments in many countries realized that lack of financial literacy is a huge challenge that has implications for the sustainability of a country's economy. Financial literacy provides a process in stimulating economic development to grow more rapidly in which the role of financial literacy is to increase people financial capabilities so that it will enhance the growth of savings and investment society through capital formation. The purpose of this study is to analyze the impact of social factors on the level of financial literacy. Social factors used in this study include age, marital status, education, jobs and income level. A total of 118 respondents who have attended financial literacy training were used in this study. The research method used in this research is multiple linear regressions. The results of the study showed that there are two factors that affect the level of financial literacy namely the level of income and marital status.***

Keywords: financial literacy, social characteristics, multiple linear regressions

1. Introduction

Financial literacy is one of the biggest concerns in the world of banking, government, low-end consumer and community groups (Braunstein and Welch, 2002). Lack of understanding in the concept of financial literacy is one the greatest challenges facing by many countries which has a major implication for the sustainability of their economies. The positive macro-economic impact on the process of increasing the level of public financial literacy improves the community's ability to use financial products and services to improve the people's welfare (Hogarth, 2006). High level of public financial literacy will have an impact on in increasing level of financial inclusion that subsequently will reduce the gap and low rigidity income trap to improve the people's welfare that will lead to a decrease in poverty rates (Park and Recardo,2015). Furthermore, high levels of financial literacy also affect the level of financial inclusion which will contribute positively to sustainable local and national economic growth and support the stability of the financial system (Ehrbeck, 2014). According to Lagarde (2014), an increasing level of financial inclusion will contribute positively to sustainable local and national economic growth and support the stability of the financial system.

Financial Literacy on a macroeconomic level is known as people having good savings awareness in a bank in which it will subsequently increase the level of bank liquidity ratio. Bank liquidity levels are vulnerable and have systemic risks. The banking crisis is caused by the bank liquidity crisis that causes the bank to default on its obligations (Wuryandani et al 2014). High levels of community savings also provide benefits for a country at a macroeconomic level. Saving have a positive influence on the economy of the country whereby the savings of the community are invested in financial assets and are used to fund firms (Mahdzan and Tabiani 2013). Furthermore, firms can utilize the fund obtained to increase the productivity of their assets and therefore saving in this case can be viewed as one way to improve the country's economy. Financial education, financial literacy in particular, can provide awareness to the people of the importance of future planning, pension preparation and other financial goals (Mahdzan and Tabiani 2013).

Financial literacy itself is a lengthy process undertaken by individual economic of financial planning in order to improve welfare. Mandell and Klein (2009) concluded that the best way to improve behavior in adulthood is to teach good behavior at an early age, including financial behavior. Shockey (2002), in his research mentioned that there was a basic measurement pattern on financial management behavior, money management and financial knowledge to develop the financial literacy program at middle-low economic level. Mandell (1998) found five categories for respondents' characteristics to predict the level of individual knowledge related to income, money management, savings and investment management and loan management. These categories include: 1) the background of respondents such as age, race, gender and parental income; 2) aspiration includes educational plan, work plan and desired income; 3) education on money management and perceived knowledge; 4) education; 5) money management experience.

This paper analyzes the influence of social factors on the level of financial literacy in the members of Yayasan Cinta Anak Bangsa cooperative (henceforth refers to YCAB) who attended financial literacy training. Following the results of national survey of literacy and financial inclusion of the Financial Services Authority (OJK) in 2016, we used five critical factors in this study namely age, education, income level, occupation and marital status that serve as proxy for social factors.

2. Definition and Research Framework

2.1 Financial Literacy Definition

Redmund (2010) stated that a person, who understands, applies financial literacy and able to manage his finances in daily life can change the environment of financial literacy understanding and well known of the impact on financial decision both the individual economic and environment.

The Financial Services Authority (OJK) defines financial literacy as a series of processes or activities to increase the knowledge, competence and skill of consumers and the wider community can manage finances well.

Anthes (2004) defined financial literacy as the ability to read, analyze, manage and communicate about personal financial conditions that affect material well-being, the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future and respond competently to life events that affect financial decision every day.

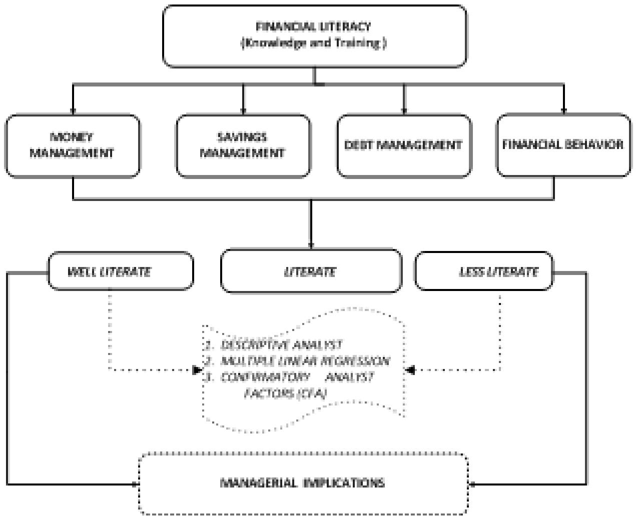
2.2 Research Framework

According to financial literatures, a new economic behavior of people is reflected in their behavior of the main financial management of the economic decision-making process, especially their decision in using loan products and savings products. Financial literacy training is expected to change the behavior and attitude of households' financial management in which the changing behavior is probable to have an effect not only on the financial management of households but also the financial management of small and medium enterprises. In long term, the existence of good financial management may have an impact on business continuity.

Taft et al. (2013) stated that financial literacy is the ability and knowledge of balances on bank accounts, household budgets, savings for the future and understanding strategies in debt management. Based on the results of the Indonesian National Financial Literacy Survey in 2014, the OJK classified consumers into four categories of financial literacy as follows:

1) "Well Literate" is consumer or society group having knowledge and belief about financial service institution and financial products and services including features, benefits and risks, rights and obligations related to financial products and services and have skills in using financial products and services.
2) "Sufficient Literate" is a consumer or community group that has knowledge and confidence about financial services institutions as well as financial products and services including features, benefits and risks, rights and obligations related to financial products and services.
3) "Less Literate" is a consumer or community group that has only knowledge of financial institutions and services, financial products and services.
4) "Not Literate" is a consumer or community group that lacks knowledge and beliefs about financial services institutions and financial products and services and has no skills in using financial products and services.

Mandell (1998) found respondent characteristic category to predict the level of individual knowledge related to income, money management, savings and investment management and loan management. Based on the above explanations, the framework of this research is described in Graph 1.



Graph 1: Research Framework

3. Research Result

We used primary data in this study. Data were obtained by asking 118 respondents who attended financial literacy training of micro credit institution, to fill in the questionnaires. The Likert scale 1-5 (1 = strongly disagree; 2 = disagree; 3 = undecided; 4 = agree; 5 = strongly agree) are used in this study. Various tests were conducted in this research including:

3.1 Validity Test

Validity test used in this research is Pearson product moment correlation whereby the degree of relationship ranges from -1.00 to +1.00. The value of +1.00 implies a perfect positive correlation whereas the value of - 1.00 indicates a perfect negative correlation. The value of r = 0.00 means that there is no relation between the two variables (Morissan 2012).

Validity test has been conducted for 30 samples. Based on the result of the test, the questionnaires are valid to measure the effect of social factors on financial literacy because the null hypothesis is rejected.

3.2 Reability Test

Reliability test is to measure the consistency of the instrument. The result of reliability test showed that the Cronbach Alpha coefficient is equal to 0.883 for all 24 indicators which means that the instrument is acceptable and reliable.

3.3 Multicolinearity Test

The multicollinearity test is assessed by using VIF's indicator. If the VIF value is below 10 (VIF <10) then the model is not asymptomatic multicollinearity (Gani and Amalia, 2012). The results of multicollinearity test are shown in the Table 1.

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Table 1: Multicolinearity Test

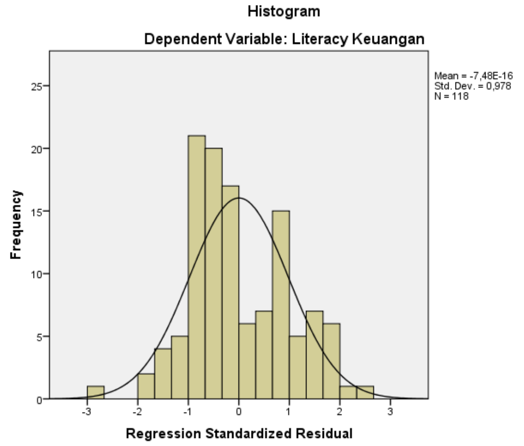
Independent Variable	Unstandardized Coefficients		Collinearity Statistics	
	B	Std. Error	Tolerance	VIF
(Constant)	83.569	2.807		
Age	-0.867	1.489	0.945	1.058
Marriage	4,485	2.28	0.985	1.015
Education	-0.664	.824	.954	1.048
Jobs	3.371	1.877	.914	1.094
Income	2.17	1.035	.923	1.084

Dependent Variable: Financial Literacy

Based on Table 1, it can be concluded that there is no multicollinearity because the values of VIF are all below 10.

3.4 Normality Test

Normality test was carried out using the histogram method. The result is shown in graph 2.

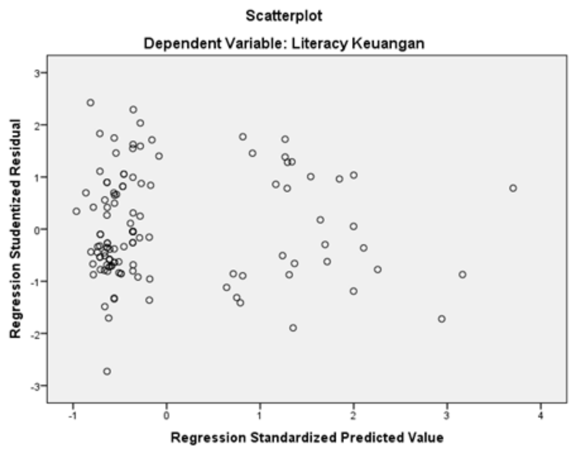


Graph 2: Normality Test

Based on Graph 2, it can be concluded that residual distribution followed the normal bell-shaped distribution with means approaches zero and standard deviation equals one.

3.5 Heteroscedasticity Test

The heteroscedasticity occurs when there is a significant influence of each dependent variable on its residual absolute (Gani and Amalia, 2012). Heteroscedasticity test was conducted using graph method and is shown in graph 3.



Graph 3: Heteroscedasticity result

It can be seen from Graph 3 that there is no systematic pattern of residuals or in other words residuals followed random patterns. This indicates that there is no evidence of heteroscedasticity.

3.6 Hypothesis Result

Multiple linear regressions

Multiple linear regression equation as follows:

$$FL_i = a_0 + a_1\,AG + a_2\,MrD + a_3\,EDUC + a_4\,JBS + a_5\,INC + U$$

$$FL_i = -0.053\,AG + 0.176\,MrD - 0.073^{**}\,EDUC + 0.0167\,JBS + 0.194\,INC + U$$

** Significance at 5% of level

R square = 11.9%

The Regression model shows that there are only two variables that has significant effect on financial literacy namely income level and marital status, whereas effect of the other variables are insignificant. The interpretations of the coefficient values of the two variables are described below.

a_1 = Coefficient of marital status of 0.176 indicates the married respondents significant positively. This means if marital status increase into one respondent impacted to financial literacy increase 0.176 units.

a_5 = Coefficient of income variable of 0,194 implies that if there is an increase in income amounted of one million IDR then financial literacy will increase 0.194 units, ceteris paribus. This means that the higher the level of income, the better the knowledge of financial products and financial management.

4. Managerial Implications, Conclusions and Suggestion

4.1 Managerial Implications

The strategy that can be considered by financial institution which conducted financial training is to provide the training at different levels which encompasses basic level financial training, mid-level training and expert level training. The contents of the expert training consists of credit risks and money management for entrepreneur so the training members can distinguish the management of household finances and business finances. Other topics include the importance of insurance programs and adequate investment products. Financial institution may collaborate with the OJK because the OJK has already conducted various programs to increase capacity and empowerment of micro, small and medium enterprises (UMKM) through financial literacy program and financial inclusion training. Micro financial institution members can access various programs offered by the OJK: (1) the application "Yuk Sikapi" which is basically an application for pioneering businesses or start-up businesses, (2) "Laku Pandai" is a program which aims to broaden banking service network and to provide simple financial products based on the need of communities with no access to financial services industry. There are three types of financial products or services that has been offered under "Laku Pandai" program namely: a) Micro Laku: loans for micro scale enterprises, b) "Asuransi Mikro": insurance for micro scale enterprises and c) Basic Saving account which has different characteristics from normal saving account inter alia is that there is no minimum balance. These programs can be applied in the long run and it is expected to increase the level of financial literacy.

4.2 Conclusions

The demographic factors that have significant influence on the level of financial literacy are marital status and income level positive sign respectively.

4.3 Suggestions

The value of R-Square which impacted of demographic factor around 11.9% indicates that there are other variables that have not been seen in the research, it is suggested to add external locus factor and the difference of level of literacy as per region in the next research. Further research is also required by examining more deeply the level of financial literacy financial literacy training members before and after becoming active users of Smart Laku program or other OJK financial literacy programs.

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