

CHAPTER 1

INTRODUCTION

1.1 Introduction

In general, financial literacy is knowledge possessed by every individual regarding the economy and is used as consideration in making decisions to manage their finances. Meanwhile, the definition of financial literacy according to the Otoritas Jasa Keuangan (OJK) is knowledge and understanding of the benefits and risks of financial products and services that can provide great benefits to the financial services sector as well as improve people's welfare.

Some experts have their own opinion regarding financial literacy. For example, Manurung (2009) defines it as a set of skills and knowledge of the community to make effective decisions by utilizing all available financial resources. Meanwhile, Mitchell (2012) defines it as a way of measuring a person's ability to process the economic information obtained. So that allows the person to make decisions to make financial planning, financial accumulation, retirement, and debt.

Financial literacy is a basic need for a person to avoid financial problems, this financial literacy gets a lot of attention which indirectly realizes how important it is to pay attention to finances. Financial literacy can be influenced by several factors, such as financial attitude and financial behavior. Financial literacy is defined as a person's intelligence or ability to manage his finances. Financial literacy is a must for each individual to avoid financial problems because individuals are often faced with *trade off*, namely a situation where someone has to sacrifice one interest for the sake of another.

1.2 Background of The Study

Students as the younger generation will not only face increasing complexity in financial products, services, and markets, but they are more likely to have to bear more financial risks in the future than their parents (Lusardi, 2010). Students

are faced with the problem of whether they are financially ready to live independently, and start a family. By having financial literacy students are able to make decisions for their lives and accept responsibility for their own actions.

Many studies have been conducted to determine the level of financial literacy in Indonesia. One of them, a survey conducted by the World Bank in 2014 stated that around 38% or about 2 billion adults aged over 15 years in the world are estimated to have no access to formal financial services and most of the people are low-income. Based on this research, 6% of these adults are in Indonesia, ranking the 3rd largest in the world after India with 21% and China with 12% in people who do not have access to formal financial services. And then, The Third National Financial Literacy Survey (SNLIK) conducted by the Otoritas Jasa Keuangan (OJK) in 2019 showed a financial literacy index of 38.03% and financial inclusion of 76.19%. This figure is an increase compared to the results of the 2016 OJK survey, namely the financial literacy index of 29.7% and the financial inclusion index of 67.8%. Thus in the last 3 years there has been an increase in public financial understanding (literacy) by 8.33%, as well as an increase in access to financial service products (financial inclusion) by 8.39% (Financial Services Authority, 2019). Even though it has increased in the last 3 years, this figure is still relatively low, which is below 60%. The low level of literacy in Indonesia is due to the large number of financial products that are increasingly developing in the modern era like today but are not accompanied by the public's desire to invest, and financial service institutions that have not been used properly by the Indonesian people.

During the college period, students will be given the trust to manage their own finances without parental supervision, even though the money earned is still from their parents. They must be responsible for their own financial decisions that they have taken. Financial problems that often arise in students are income that is still dependent on parents, extravagant attitudes that create an imbalance between income and expenses, and other financial problems. This problem requires students to have good financial literacy.

Several financial literacy studies conducted by students show that the knowledge or level of student financial literacy is still very low, such as research conducted by Herawati (2017), namely "The Level of Student Financial Literacy and Factors Affecting It", a study on students of the Accounting Study Program, Faculty of Economics, University of Education. Ganesha in Denpasar shows that the level of financial literacy of students is in the low category with a value of 48.67% for undergraduate students and 46.73% for D3 students, Margaretha and Pambudhi (2015) regarding "Financial Literacy Levels in Undergraduate Students of the Faculty of Economics, Trisakti University Jakarta" shows that the literacy rate of students is low at 48.91%. Likewise with the research conducted. This is certainly a concern for us considering that students are the next generation of the nation's youth. Students must have a good understanding of financial literacy in order to better plan and manage their finances personally in the future.

Given that financial literacy among university students is considered very important, the researchers are interested in conducting research with the title "Influencing Factors of Good Financial Literacy among University Students in Palembang, Indonesia"

1.3 Problem Statements

Many challenges in conducting financial literacy research among students. This is because there is no agreement on the definition of financial literacy even though it has received various meanings from different sources. Chen & Volpe (1998) suggest that financial literacy is the ability to make good financial decisions, but this definition does not define or describe the specific elements of the assessed financial literacy. Mason and Wilson (2000) define financial literacy as an individual's ability to obtain, understand and evaluate relevant information needed to make decisions with an awareness of the possible financial consequences. Education plays an important role in financial literacy. Master's students have already completed their undergraduate education and are therefore expected to be more financially literate than their undergraduate counterparts. Low levels of financial literacy lead to poor financial decisions. There is a large

gap between complex economic and financial information and decision-makers' knowledge of the situation. Lusardi & Mitchel (2007) suggest that people with low levels of financial literacy suffer from a lack of knowledge at every stage of their life as evidenced in the poor decisions they make regarding financial matters and financial products in financial markets. Several factors are the basis for students to make financial decisions regarding financial products. Some of the financial products available such as student loans, credit cards, retirement accounts have proven to be complex and difficult to master and understand, thus indicating that there is a great need in financial literacy to invest especially among young people.

1.4 Research Objective

The purpose of this study is to investigate factors that influence financial literacy among university student in Palembang, Indonesia. The Objectives of this study are to investigate the financial attitude and financial literacy that influence financial literacy.

Specifically, the objectives of this study are:

1. To identify the relationship between financial attitude and financial literacy
2. To identify the relationship between financial behavior and financial literacy

1.5 Research Question

In this study, there are several research questions required to be answered :

1. Does financial attitude affect financial literacy?
2. Does financial behavior affect financial literacy?

1.6 Significance of The Study

1. Writers

It is hoped that it will increase the author's knowledge and insight about financial literacy and the factors that influence it. And also in this study using analytical methods, so that they can train and increase knowledge to the authors about how to use these analytical methods.

2. Readers

It is hoped that it can become one of the learning reference materials in the field of regression analysis and its application in a study, so that it can increase knowledge for readers and can be a reference source for further research.

3. Educational Institutions

It is hoped that it will introduce what aspects affect the financial literacy of students in Palembang, Indonesia. So it is hoped that the completion of this research can be a benchmark in increasing the value of student financial literacy.

1.7 Scope of Study

The scope of this study consists of factors that influence financial literacy with two independent variables, namely financial attitudes and financial behavior, and one dependent variable, namely financial literacy. This study uses a survey method. The object studied in this study were university students in Palembang, Indonesia.

1.8 Summary of The Chapter

Chapter 1 is a brief initial explanation of the research topic carried out. Starting from the introduction of variable used in this research such as financial literacy, financial attitude and financial behavior, then background of the study why financial literacy is important, financial literacy level in Indonesia, next is problem statement that explain many challenges in conducting financial literacy research among students, then what the research objectives and question of this study, significance of the study for writers, readers and educational institution, scope of the study.