

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Introduction**

As per ASIC data (2003), it has been recognized worldwide that financial literacy is an important element of economic and financial stability and growth. Finance is an important aspect that is very closely related to every individual. Financial knowledge possessed can help each individual in managing their finances in order to maximize what they have. Financial literacy is knowledge about financial management that is owned in order to develop for a more prosperous life in the future. Yushita (2017) also said that the importance of financial literacy can be useful for providing education in the financial sector to each individual so that they can manage finances intelligently and wisely. Gutter in Nyoman (2015) "financial literacy is the main predictor in shaping one's financial behavior". Financial literacy has a strong influence on financial well-being, and is a very important concept for everyone, especially for students who are starting to develop their financial habits.

Students knowledge of financial literacy has become a necessity in everyday life, so that it becomes a life skill that must be possessed by every individual. Financial knowledge possessed by a person is then developed into financial skills, where financial skills are defined as the ability to apply financial knowledge possessed in everyday life (Palameta et al., 2016). Having an effective level of financial literacy is important, given the increasing reach and accessibility of available financial products and services. Young people in particular must make more financial choices early and be more open to opportunities to borrow money and apply for credit (Roberts and Jones, 2001; Lusardi et al., 2010). OECD (2013) defines financial literacy as a combination of skills, behaviors, awareness, attitudes and individual knowledge needed to make sound financial decisions that lead to achieving financial well-being. Thus, this definition reveals that three important determinants for examining financial literacy are financial knowledge,

financial behavior and financial attitudes. Atkinson and Messy 2012 recommended only three dimensions to assess financial literacy as it is justified and widely used in the literature.

Financial attitudes can be thought of as psychological tendencies that can be expressed when evaluating finances. Hayhoe et al say "that there is a relationship between financial attitudes and the degree of financial problems". From several previous definitions, financial attitude is a attitude to dealing with finances seen from the way behave and make financial decisions. The individual's financial attitude will help the individual in his attitude towards finances, for example personal financial management, financial budgeting, or individual decision making for financial allocation.

Human behavior related to finance decision making and money management such as develop appropriate programs and budget controls Therefore, fast bill payments and regular saving properties are called financial behavior (Bhushan & Medury, 2014; Kalekye & Mem, 2015). According to the OECD (2013), finance behavior is very important and a fundamental component of financial literacy. Howlett et al. (2008) observed that individuals who have good financial knowledge are able to manage money efficiently. Dhar and Zhu (2006) found a relationship between investors' financial literacy and the trend effect.

Financial knowledge has a strong influence on financial attitudes and behavior whether it is objective or subjective. Studies include those that identify that financial knowledge is an important factor for determining financial literacy and financial decision making individual skills (Robb & Woodyard, 2011).

The purpose of this study is to investigate and measuring the level of financial literacy knowledge of students in Palembang. The next step is find out if there is an influence from financial attitude, financial behavior and financial knowledge towards financial behavior of students in Palembang. the urgency of this research is that students must have financial literacy behavior in order to be able to manage finances well for future use.

## **1.2 Background of Study**

Margaretha & Pambudhi (2015) define financial literacy as a decision-making ability in financial arrangements for individuals to avoid financial problems. Financial literacy affects almost all aspects related to financial planning, management, and control (Melani, et al., 2016). According to Yushita (2017), financial management must have a plan to achieve goals, both long-term goals short or long term.

The financial knowledge possessed by a person then develops into financial skills, where financial skills are defined as the ability to be able to apply their financial knowledge. In everyday life (OJK, 2017). OJK issued a program to improve financial literacy under the name of the National Strategy for Indonesian Financial Literacy (SNLKI). The SNLKI program aims to create Indonesian people who have a high financial literacy index (well literate) so that they can achieve sustainable financial well-being (OJK, 2017). SNLKI makes students or students one of the targets in increasing financial literacy knowledge.

Students are part of Indonesian society who also carry out economic activities including consumption (Herawati, 2015). The situation of students who are not close to their parents, urges students to manage finances wisely, independently and responsibly. Students who are currently experiencing a transition period, automatically shape themselves into better individuals in the future. Students are considered as a small part of Indonesian society who have more knowledge about finance and abilities than ordinary people (Chotimah & Rohayati, 2015). Students as the nation's next generation, are expected to be able to have high financial literacy. Good financial literacy will shape students' financial intelligence. With high financial intelligence, students are able to manage finances well in the midst of a hedonistic lifestyle. Financial intelligence in the long term will result in students having wise financial behavior.

## **1.3 Problem statements**

The level of financial literacy of the Indonesian state is still in the category

below the average so that it does not support increasing the country's economic welfare (Akmal & Saputra, 2016). Financial literacy itself includes the ability to distinguish financing options, discuss financial issues without worries, plan for the future and respond competently to life events that affect daily financial decisions, which include events in the economy in general (Vitt et al., 2000). The financial knowledge possessed by a person then developed into financial skills, where financial skills themselves are defined as the ability to apply their financial knowledge in everyday life (OJK, 2017). OJK issued a program to improve financial literacy under the name National Strategy for Indonesian Financial Literacy (SNLKI). The SNLKI program aims to create Indonesian people who have a high financial literacy index (well literate) so that they can achieve sustainable financial well-being (OJK, 2017). SNLKI makes students or students as one of the targets in increasing financial literacy knowledge. Students are part of Indonesian society who also carry out economic activities including consumption (Herawati, 2015). The situation of students who are not close to their parents urges students to manage their finances wisely, independently, and responsibly. Students who are currently experiencing the transition period, by itself to form a better person in the future. Students are considered as a small part of Indonesian society who have more knowledge about finance and abilities than ordinary people (Chotimah & Rohayati, 2015).

But students must be able to control which needs are needed or which needs are desired in order to be able to manage finances well, we can see that nowadays technology is increasingly developing which has an impact on the ease of accessing all information on the internet including buying and selling online. buying and selling online is a very significant influence on students in controlling their financial expenditures, the system is easy to reach and practical to make consumers can directly transact via the internet easily. The ease of buying and selling transactions makes people vulnerable to consumptive behavior. Therefore, this generation must have good financial management. If the level of knowledge of financial literacy in students is low, it can be caused by the lack of ability of students to control personal money, do not prepare financial plans and habits that are more concerned with

secondary needs. Most of this research was conducted to identify the factors that influence financial literacy among students.

#### **1.4 Research Objective**

The purpose of this study was to determine what factors influence Financial Literacy in Palembang, Indonesia. This study aims to determine whether Financial Attitude, Financial Behavior and Financial Knowledge have an effect on Financial Literacy in Palembang, Indonesia.

#### **1.5 Research Question**

The study conducted within this paper aims to solve the following research questions:

RQ1. Does financial Attitude have a more significant direct and indirect influence on the effect of financial literacy among students?

RQ2. Does financial Behavior have a more significant direct and indirect influence on the effect of financial literacy among students?

RQ3. Does financial Knowledge have a more significant direct and indirect influence on the effect of financial literacy among students?

#### **1.6 Significant of Study**

The purpose of this study was to find out what factors influence the Financial Literacy of students in Palembang, Indonesia. Financial literacy is defined as a person's ability to manage a fund in order to achieve future economic security, based on short-term and long-term decisions, to achieve better financial management (Gunn, 2016; OJK, 2016; Margaretha & Pambudhi, 2015; Isomidinova & Singh, 2017; Ulfatun, Udhma, & Dewi, 2016). Financial Literacy also affects the situation of students who are not close to their parents, and urges students to manage finances wisely, independently, and responsibly. Students who are currently experiencing a transition period, automatically shape themselves into

better individuals in the future. In this study, the main factors that affect Financial Literacy tested are Financial Attitude, Financial Behavior and Financial Knowledge.

## **1.7 Scope of Study**

The remainder of this paper is organised as follows: Section 2 presents the related theoretical and empirical literature toward continuance usage of mobile payment. Section 3 presents the study methodology.

## **1.8 Summary**

In this chapter there are 7 sub-topics, the first is an introduction. The introduction is mainly focused on explaining what the thesis topic is and what the focus is. Basically, it is to explain to the reader what this study is primarily about. The background of the research includes an overview of the thesis topic and by introducing the ideas that will be used in the research. This includes a review of the research area, studies of the problem and supporting research to support the thesis research. Moving on to a problem statement is a problem that needs to be solved and addressed. In this study, the research objective was to determine whether Financial Attitude, Financial Behavior and Financial Knowledge have an effect on Financial Literacy in Palembang, Indonesia. The research question is the main core of the research thesis project. It focuses on studies, methodologies and guides all stages of the investigation. The significance of the study presents the importance of the research. This aimsto clarify why this research is needed, in this study the importance of this research is to find out what factors affect the Financial Literacy of students in Palembang, Indonesia and By analyzing these factors, students will be able to maximize their attitudes in financial management, so that in the end they can manage their finances well and be useful for the future. Lastly is the scope of study. Scope of research refers to the elements that will be covered in a study. It defines the boundaries of research. The scope of this research was takenfrom a

simple questionnaire of 112 students in Palembang, Indonesia.

