Understanding the Influence of Demographic Variables on Financial Literacy

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Abstract: Financial literacy reflects individuals’ capability to make wise financial decisions, hence achieve financial prosperity. The massive marketing of financial products, easy access to the loan as well as the practice of using credit card imprudently requires an adequate knowledge on financial management hence increase the significance of financial literacy. Financial literacy level among Malaysian is considered as far from the needed level as proven by recent reports of the increase in bankruptcy cases, involvement in business scams and the level of household debts which is recorded as the highest among the developing countries in Asia. The Malaysian Credit Counselling and Debt Management Agency (AKPK) revealed that most people who have sought counselling are those with poor financial planning, ignorance and lack of financial discipline, as well as the result of the spiralling cost of living and they came from various backgrounds. Perhaps, not surprisingly that the level of financial literacy among educated is considered just as low to moderate. This issue has motivated this study to review available literatures on financial literacy among the educated, in this case, the school teachers. The objectives of this study are to examine if there are sufficient studies on financial literacy among the educated and to determine the factors that affect the financial literacy. As a result of the analysis, this paper presents recurrent themes that could be extended for future financial literacy research.

Key words: Financial literacy · Financial behaviour · Financial education · Household finance · Educated

INTRODUCTION

Being financially literate is essential to avoid or at least minimize any financial problems hence to have a prosperous, healthy and happy life. Literacy is acquired through practical experience and active integration of knowledge [1]. It means that people are financially literate not only by having such financial knowledge, but they implement and practice that knowledge appropriately in their personal life. This study of financial literacy among the educated is triggered by curiosity of the reasons for the involvement of educated people in fraudulent business trap like Multi-Level Marketing (MLM), besides the recent report revealed the increase in bankruptcy cases including those with high education. With high education level followed by a good job position and stable income, the educated group of people is offered with various loan and financing opportunities even before graduated or enter to the job market. It is not surprising that his Malaysia’s household debt-to-gross domestic product (GDP) ratio increased to 89.1% as of 2015 from 86.8%, which is one of the highest household debts in the region [2]. Meanwhile, the article in New Straits Times dated 26 February 2016 as stated by the Malaysian Department of Insolvency, the number of bankruptcy cases in 2015 alone is 18,457. Acquiring better knowledge pertaining to specific influence on financial literacy among the educated is importance to design more effective financial education program as early as primary school level, secondary school and then university level. Hence the objectives of this study are to examine if there are sufficient studies on financial literacy among the school teachers and to determine the factors that affect the financial literacy. As a result of the analysis, this paper presents recurrent themes that could be extended for future financial literacy research.

Bankruptcy cases are believed to be contributed by the factors of the steady growth, low inflation rate and low interest rate which have reduced the cost of borrowings thus, allowing more consumption of credit [3]. Without adequate financial knowledge, there is high tendency for people to be involved in the debt trap due to unlimited desire to satisfy personal needs. The failure to wisely managing credits definitely leads to bankruptcy. Inevitably, the need for bank’s loan and financing is always there and it is reported by Malaysian Department of Insolvency (MdI) that, until September 2016, Malaysians have taken RM316.3 billion in housing loans,
RM145 billion in car loans, RM55.8 billion in personal loans and RM32.3 billion in credit card loans (The Star, 2013). According to Malaysia Department of Insolvency (MdI) out of these loans, the ultimate contributor for bankruptcy comes from the car loans. Besides, the AKPK Chief Executive Officer declared that only about half of the credit cardholders in Malaysia paid above the minimum required amount of 5% of total owed to banks each month, ignoring the advantage of amount saved by paying slightly more than minimum amount probably due to their lack of knowledge. Generally, studies identify the factors contributed towards the increase in personal bankruptcy are the rise of non-performing loan (in case of Malaysia, the car loan), incapability in money management [4, 5] and lack of financial knowledge [6, 7].

Despite the increase of bankruptcy cases, the need for borrowing is almost impossible to be avoided. Therefore, one suggests that the rise in debt commitment must be in line with increasing level of individuals’ financial literacy to ensure people understand the costs and benefits offered by various financial products.

Financial literacy is directly related to bankruptcy because those who are financially literate facing difficulties in understanding the cost and benefits of various financial products offered by financier which in turn led them to wrong financial decision [7]. Without adequate financial knowledge, people are likely to make wrong financial decision, easy to be influenced by the surroundings including family, spouse and peers and tend to be involved in financial trap. People with high level of financial literacy are found to be able to manage their financial matters and exhibit good financial behavior [8]. Financially literate people are capable to exhibit positive financial outcome including savings, investments, financial protection (insurance) and among others. Financial literacy also proved to have positive impact on financial planning and management in which it helps individual to make better financial decisions through investment and savings [9].

In Malaysia, the school teachers are one of the largest groups of civil servants with the total number of 415,340 out of approximately 1.6 million government servants [10]. For the financiers, bankers or lenders, the civil servants are among the favorite groups to be financed as they are secured with the stable monthly income, in which they present low risk profile. Hence, the study of financial literacy among teachers is vital. The need to study the financial literacy among school teachers is also significant because teachers are among the earliest figures or role model who will to some extent influence the financial knowledge of young generation and guide them in management of their personal finances. Preparing financially literate teachers is not only importance for the benefit of the teachers themselves but also for the young generation. Teachers are able to influence the students’ ways of thinking and behavior including in their personal finance. It is because the previous studies on financial literacy among the youth find the level of financial literacy among the youth is low [11, 12].

Financial Literacy among the Educated: Huston [13] analyzed seventy-one studies pertaining to the subject of personal finance, financial literacy and financial knowledge finds 30% of the studies focused on the general young population, while 68% were focusing on specific target groups which mostly focused on the students. The subject of financial literacy among the educated group or especially the school teachers are still lacking. The school teachers show medium to high levels of financial literacy [14].

Education is a significant factor in shaping the financial knowledge and behaviour. Education level indicates different results in affecting financial literacy. Several studies find that higher education resulted in higher financial literacy [15-17]. A study conducted by Bateman, Eckert, Geweke, Louiviere, Thorp and Satchell [18] looked at the financial competence of participants in Australia find that both basic and sophisticated financial competence was increased with education level. Similarly, Lusardi and Mitchell [19, 20] reported that individuals with lower education levels including those who are not graduated from college or university exhibit lower financial literacy and/or lack the necessary numeracy skills. Investors with graduate degrees also find to be more knowledgeable than those with some high school or college education [21, 22]. Yoong, See and Baronovich [23] examined the relationship between financial literacy and retirement planning in Malaysia and whether retirees’ were able to achieve a better retirement financial planning through improved educational level. The results indicate significant relation between financial learning and financial literacy. It is concluded by Lusardi and Mitchell [24] and Klapper and Panos [25] that an educated, employed male living in an urban area to be more financially capable than his peers, especially if his parents were educated [26].
Few studies on the other hand revealed different findings regarding the influence of education level towards financial literacy. Shambare, R. and Rugimbana, R. [27] finds that the level of financial literacy among educated is only considered as moderate. The study of financial literacy among university professors finds that university professors have low level of financial literacy and have lack essential financial information for handling their daily financial issues [28]. Similarly, the study on well-educated women indicates low level of financial literacy [29]. These scenarios indicate the dire need of financial education in each and every level of education. By focusing the study on specific group such as the school teachers, it contributes in a way of providing beneficial insight into policy making. In that way, the responsible party would take appropriate actions to improve financial literacy level among them. For instance, the Ministry of Education or the employers will take necessary actions as illiteracy would affect the performance of school teacher. Hence, focus of the research on targeted groups may highlight some implications which could be central benchmarks for policy makers’ agenda.

Factors Influencing Financial Literacy

Gender: Gender is one of the factors affecting the financial literacy of individuals. Most of the studies find that male is more knowledgeable and literate in finance as compared to female [30, 15, 31, 32, 22, 33]. A study conducted by Goldsmith & Goldsmith [34] find that men are more confident about their knowledge of investing than women and they also appear to know more about investing. On the other hand, women are claimed to have low financial literacy, have less knowledge about financial management than men, are less likely to seek out financial education and have less confidence about managing money [34]. Among the youth, Danes and Haberman [31] studied differences in financial literacy of 5329 high school girls and boys. The primary objective of this study was to answer whether the level of financial knowledge has increased and whether the cost and savings behavior will vary based on gender and the results showed that male students got higher scores on both tests. Similarly, Loibl and Hira [35] found that males had significantly higher perceived financial well-being than females. Meanwhile the findings of the study by Ford and Kent [36] showed that women possessed lower levels of financial market awareness as compared to men. This gender gap is probably due to the different role in a household where men usually involve more on financial matters as compared to women. In Malaysia for instance, men dominate the number of workers [10] as they are more responsible for the family especially regarding financial matters. Understanding gap of financial literacy between male and female and the reasons behind it is essential to reduce the gender gap and ensure prudent financial behaviors among them.

Age: Another factor that affects financial literacy is age which reveals various findings in the previous studies. Most of the studies find that older people are more financially literate than the younger people [30, 26, 12, 33]. It is supported by Lusardi [32] that less than a third of young people have no sufficient information about important financial issues such as interest rates, inflation and risk diversification. Perhaps, these happen because older people have more experience and thus have more knowledge on financial matters. It is further highlighted by Capuano and Ramsay [37] that young adults and minorities were particularly prone to risky financial behavior due to low financial literacy, while the respondents over the age of 70 appeared to use credit cards more appropriately than younger respondents.

On the other hand, Lusardi [20] argued that the older population displays low level of financial literacy and this will affect their financial decision making pattern. While concentrating on financial literacy in Sweden, Almenberg and SäveSöderbergh [38] watch that the highest levels of literacy are exhibited by those of 35-50 and those more established than 65 were found to perform the most noticeably awful. Contrary to other studies, Lusardi and Mitchell [26] find that moderately aged is more financially proficient than youthful and old. Financial literacy scores decline by about 1% per year after age 60 [39] and decline in financial decision making whereby older individuals exhibit less investment skill and suboptimal credit behavior [40]. Decline in financial literacy as an increasing in age attributed to the ability to apply financial knowledge accurately to their financial decision-making [39].

A study conducted by Tamimi and Kalli [15] and Bushan, et al. [41] in contrast find that there is no significant difference in the level of financial literacy of UAE investors according to their age. In addition to these studies, Agarwal, Driscoll, Gabaix and Laibson [40] showed financial mistakes were more prevalent among the young and the elderly, which were those who had the lowest amount of financial knowledge.
**Marital Status:** Marital status is also one of the factors that influence financial literacy level. Married individuals are more financially literate as compared to unmarried [42, 21, 33]. It could be explained by the influence of a spouse in which the studies reveal that male are more financially literate as compared to female, hence they might shape the financial literacy attribute of their wife. Bashir et al. [43] suggest that men had more knowledge about financial markets and instruments; hence they would influence the financial knowledge of their wives. Therefore, married women exhibit better level of financial literacy than single women. Other researcher explains implications of low level of financial literacy towards marriage. Low level of financial literacy would impact towards the risk of making bad financial decisions, which in turn may result in debts and endanger the well-being of their relationship [44]. Furthermore, personal debt is a major threat to marital satisfaction; therefore married individuals exhibit higher level of financial literacy [45].

According to Research (2003) and Brown and Graf [42], single people have a significant propensity to lower financial literacy levels, when compared to married individuals. Unmarried, particularly divorced, women near retirement age have substantially lower wealth levels than married couples and unmarried men, partially explained by lower levels of permanent earnings and labor force attachment [46, 47]. In general, when people have a low financial literacy level, they run the risk of making bad financial decisions that, in the long term, may result in debts and the latter endanger the well-being of their relationships [45]. Ratifying such evidence, Dew [48] found that consumer debt is a major threat to marital satisfaction and, therefore, married individuals have higher financial literacy levels.

**Financial Education:** Ignorance is the greatest risk in the financial field, hence financial education is needed to enable people to make right financial decisions and understand the financial market products in terms of risks and rewards. According to Chen and Volpe [22], financial literacy is closely related to financial education and experience. However, having adequate financial knowledge is not the only requirement to be financially literate. It is because financial knowledge is an integral dimension of, but not equivalent to financial literacy [13]. Financial knowledge cannot be denied as one of the important attributes that influence financial literacy. Rooij [49] studied the factor of financial knowledge and implied that increasing financial education stimulated wise financial decisions including retirement and savings decisions. It is supported by Al-Tamimi and Bin Kalli [15] that higher education resulted in higher financial literacy. A study examined the relationship between financial literacy and retirement planning in Malaysia which found a significant relation between financial learning and financial literacy [23].

Meanwhile, financial education in some conditions fails to influence level of financial literacy. For instance, a study by Mandell and Klein [50], find that college students who seated financial education courses did not present themselves to be more savings-oriented and did not appear to have better financial behaviors than those who had not taken the courses. Similarly, the practitioners of finance including individual investors who participate in local financial markets indicate also only the average level of financial literacy which is 41% [15]. This result is somewhat worrying as 90 percent of the subjects used for the study were actual investors and more than 56 percent work in the field of finance and banking. The study of Islamic financial education, Bley and Kuehn [51] investigate the relationship between university student knowledge of relevant financial concepts and terms in conventional and Islamic banking, the impact of religion and language and other individual variables on preferences for financial services. Findings of the study suggested that students’ knowledge on conventional banking terms and concepts was higher than Islamic banking terminologies. Although the findings are mixed, it can be concluded from the literature that there is a need for financial education agendas as it does improve the behavior and outcomes of the consumers. The connection between financial education and financial behavior is clear, as an increase in financial knowledge offers a positive impact on personal finance behavior.

**CONCLUSION**

This paper aims to present the literature review on factors influencing financial literacy of individuals. It is understood that there are various factors affecting financial literacy but only five (5) have been discussed in this paper. It is found that gender, age, marital status, education level and financial education are among factors that contribute to it. These factors are presented and discussed in which each factor is associated with various characteristics and qualities that collectively influence financial literacy level. These factors enrich the scope of financial literacy but at same time bring vagueness and
diversity in financial literacy topic. This study is subjected to several limitations. The first limitation of this study is related to the research design where the discussion is based on past literature and not involves empirical study. Thus, future researcher may conduct empirical study by considering common factors as highlighted in this paper. Second limitation is due to the small numbers of factors discussed in this paper. There are several other factors that contribute to the financial literacy. It is essential to have better understanding on other factors that contribute to financial literacy. Future researcher may add more factors to the empirical study so that it may help to give accurate results.

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