

# Understanding the Determinants of Financial Literacy:

## A quantitative study on students

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**Abstract**—Financial literacy has proven to be more and more important for everyone, because it is affecting towards their lifestyle and financial well-being. This study aims to find out the relationship between Financial wellness, Financial Satisfaction, and Financial Behavior on Financial Literacy among students in the faculty of economics of private universities in Bandung, Indonesia. Recently, the importance of financial literacy in a complex financial landscape is indeed crucial, but the relationship between Financial wellness, Financial Satisfaction, and Financial Behavior on Financial Literacy among students has not been empirically tested. This research is a quantitative survey using a sample of 316 students from five private universities in Bandung, Indonesia. Data were analyzed using multiple regression. The results showed that Financial wellness, Financial Satisfaction, and Financial Behavior had a positive impact on financial literacy among students. The findings support the results of several previous studies and also brought up some new ideas such as the importance of Financial wellness, Financial Satisfaction, and Financial Behavior. This finding significantly contributes to the advancement of knowledge in student financial literacy. The findings will be useful for practitioners and educational institutions to improve their curriculum and assistance in order for the students to improve their capabilities and skills in managing their finances.

**Keywords**—*financial wellness; financial satisfaction; financial behavior; financial literacy; students; faculty of economics; universities*

### I. INTRODUCTION

Financial literacy has proven to be more and more important for everyone, because it is affecting towards their lifestyle and financial well-being. Individuals must be satisfied with the balance between short-term needs and desires, and urgency and long-term plans. Despite the importance of financial literacy, studies continue to report on inadequate personal financial capabilities.

There are numbers of previous studies that have shown that the level of financial literacy is low, especially among the young population and students. In particular, research has examined financial literacy at universities and alarms for lack of financial capacity among students [1-12]. They failed to

make sound financial decisions because they were lacking in knowledge on healthy personal financial education [13].

Cude et al. show that financial decisions made by students at universities have an important influence on their financial situation afterwards [5]. Furthermore, the financial situation of students at the university can affect their academic performance. Students need to make financial decisions whether to save, spend or invest based on their financial knowledge. By assessing the financial literacy level of students, researchers can better understand the habits and financial behavior of students. Seven years later, Shaari et al. conducted financial literacy research and the results could prevent students from being involved in extensive debt, especially credit card debt [14]. Agalliu revealed students were known to know most of the financial concepts, but they could not explain more deeply [15]. Furthermore, men and economic students were found to have better financial knowledge.

Although student financial literacy has been widely studied in other countries, only a little research has been conducted on this topic in Indonesia. Test results from Margaretha and Pambudhi show that students must improve their understanding of personal finance, especially in the area of investment [11]. In addition the university can provide education about personal finance to students. Unfortunately the research by Gunardi et al. showed that students do not have an adequate level of literacy [12].

This study investigates the determinants of financial literacy, and also to find out the importance of financial literacy among students. The relationship between financial wellness, financial satisfaction, and financial behavior towards Financial Literacy among students of Faculty of Economics at private universities in Bandung, Indonesia is still unclear. There is a theoretical gap in the relationship between financial wellness, financial satisfaction, and financial behavior towards Financial Literacy among students. This research is expected to provide theoretical contributions related to the development of science to add insight into factors that influence financial literacy such as Financial wellness, Financial Satisfaction, and Financial Behavior. In practical terms, the results of this study can provide useful information for educational institutions and practitioners to apply related curriculum policies in order to

develop healthy financial habits. Without adequate knowledge, students are more likely to make mistakes in the real world.

**II. METHOD**

This study involved 316 active students of economic faculties from five private universities located in the city of Bandung who were in their sixth and eighth semester, and live apart from their homes (boarding). In order to fulfil the criteria needed, the primary data is being sampled by probability sampling techniques using the proportionate stratified random sampling method. Based on the type of primary data source needed in this study, the authors conducted data collection through questionnaire techniques both directly (face to face) and online. With the scale as the interval of the research instrument namely the Likert scale and the Guttman scale. The data then being analyzed by using multiple regression technique. The validity of the instrument used is content validity with item analysis, which is done by calculating the correlation between the score of the instrument items and the total score. The formula for testing the validity is using Pearson correlation. Based on the calculation results, all questionnaire items were declared valid because all r-results were greater than the r-critical value of 0.3. Whereas to test reliability, all variables have a Cronbach alpha value that is greater than the recommended critical value of 0.6 and declared reliable.

**III. RESULTS AND DISCUSSION**

The results of the data analysis showed that the level of financial wellness had a positive effect on financial literacy with a significance level of 0.000 (see Table 1). This means that budgeting behavior and healthy personal financial management will have a positive effect or in other words can improve students' financial literacy. By learning through the practice of personal financial management, students get more financial knowledge on a day-to-day basis. Therefore, a healthy financial wellness condition can produce good financial literacy. This is in line with the results from the study conducted by Xiao et al. which stated that students who are able to manage their finances well tend to have high subjective financial knowledge which then causes them to have low risk paying behavior [16]. A good level of personal financial wellness can automatically reflect the level of financial knowledge. Then the better individuals manage their finances indicates the better their financial knowledge. If a person's financial knowledge is in a good category, he will be able to do the planning, as well as his financial budgeting properly, this will automatically increase the overall level of welfare of his life, including his financial welfare.

TABLE I. HYPOTHESIS TEST RESULTS

| Hypothesis | Variable               | Coefficient | Sig.  | Conclusion  |
|------------|------------------------|-------------|-------|-------------|
| H1         | Financial wellness     | 0.178       | 0.000 | Significant |
| H2         | Financial Satisfaction | 0.115       | 0.001 | Significant |
| H3         | Financial Behaviour    | 0.085       | 0.005 | Significant |
| F          | 21.922                 |             | 0.000 | Significant |
| R-Square   | 0.772                  |             |       |             |

Dependent variable: Financial Literacy

The results of data analysis showed that the level of financial satisfaction has a positive effect on financial literacy

with a significance level of 0.001 (see Table 1). This means that the condition of individual satisfaction on income earned, satisfaction with the management and use of financial resources, and satisfaction with the overall personal financial condition will have a positive effect or in other words can improve the financial literacy of the student. By having a sense of satisfaction with their financial condition, individuals can improve their financial literacy, financial satisfaction is not only related to the amount of money an individual has, more than that, satisfaction with individual finances will affect his well-being [17]. The results of this analysis reinforce the results of the previous study conducted by Joo and Grable which found that a high level of financial satisfaction will lead to higher levels of financial knowledge and skills [18].

The results of data analysis showed that the level of financial behavior has a positive effect on financial literacy with a significance level of 0.005 (see Table 1). This means that good organizational behavior, spending behavior, saving behavior, and wasteful behavior will have a positive effect or in other words can improve the financial literacy of the student. Good financial behavior will have a good impact on the individual's financial literacy. The analysis results above reinforce the results of research conducted by Delafrooz and Paim which stated that financial behavior is related to education, home ownership, income, marriage, and financial literacy [19]. Education, income, and financial literacy have proven to have a positive relationship with individual financial behavior. A person's financial behavior has a positive effect on financial literacy, indicating that those who show good financial behavior will have a better knowledge about their investment and financial problems.

Simultaneously Financial wellness, Financial Satisfaction, and Financial Behavior have a significant effect on Financial Literacy. Thus, when a person has a good financial wellness condition, satisfied conditions of financial satisfaction, and good financial behavior simultaneously will affect the level of financial literacy well as well. Individuals who can manage their finances well, have satisfaction with their financial condition, and have good financial behavior affect their financial literacy which is getting better as well. The R square value in this model is 77.2% (see Table 1). This shows that there are still other variables that affect financial literacy outside of this model.

**IV. CONCLUSION**

Based on the results of the analysis, it can be concluded that Financial wellness, Financial Satisfaction, and Financial Behavior affect the financial literacy of the students. The evidence from this study contains implications for academics, parents and education authorities in the Faculty of Economics of private universities in improving students' financial literacy. Therefore, the authorities must consider determinants such as financial wellness, financial satisfaction, and financial behavior to improve Financial Literacy. The findings indicate that there are benefits in having a good financial literacy. There are a number of limitations and problems discussed in this study. The sample size is small, and another aspect is the fact that there are other variables that were not included in this study, such as environmental influences, education and religious

influences that must be taken into account in the future studies. Data for this study were collected through self-reported questionnaires that could be susceptible to bias.

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