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The Influence of Financial Literacy Towards Financial Management and Its Impact on Family Welfare

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***Abstract*—Based on survey from Indonesian Financial Services Authority, the number of people considered well literate of financial literacy in Indonesia is 21.84%. Further data showed that financial literacy rate of housewives in Indonesia is 2.13%. This bring concerns considered that in managing the family money, housewives played significant role that will affect the family condition. This research is created using quantitative method to further study how financial literacy influences financial management of housewives and family welfare; and how financial management of housewives influences family welfare. The population were housewive of Islamic Community in Jakarta, ages between 18 – 60 years old. There were 200 respondents, selected by using purposive sampling. Data are gathered by using questionnaire which consists of 19 closed-ended statements, with 1-7 Likert scale. Structural Equation Modeling (SEM) is used to analyze each variable's relationship. The final result found that financial literacy has significant influence toward financial management and family welfare, and financial management has significant influence on family welfare.**

Keywords—Financial Literacy, Towards, Management, Impact

I. INTRODUCTION

Individuals could be categorized as successful in financial field if they have achieved financial freedom. To achieve this condition it is important to have the knowledge of how to manage personal finance [1]. One of the important goals for family worldwide is financial security [2]. This could be achieved if the family effectively manage money to meet present need and future goals. However, in Indonesia there are lack of knowledge regarding how to manage one's finance (Sumardiyani, 2015).

In global level, financial literacy is a common problem [1. In Indonesia, people tend to have high consumerism and lack of ability to manage their financial condition. It is combined with the lack of interest to save money and to invest [4]. These lack is affecting family welfare.

Indonesian financial literacy index is 21.84%, and the financial literacy rate among housewives is only 2.13% [4]. Furthermore, the rate of well literate in DKI Jakarta Province is only 14.36% [6]. It shows that financial literacy rate in Jakarta is smaller than the average rate in Indonesia. The other fact is, in Jakarta, 7% of divorce cases are caused by economic problem. This is the 4th place of causes after no harmony (20%), lack of responsibility (17%), and third party interference (14%) [7]. It shows the connection of how economic condition of the family could affect the family welfare. So, it is important for a family to manage their finance accordingly. Financial difficulties of family are influenced by low financial knowledge, which reduce the productivity in the workplace, affecting the family physically, economically and psychologically [8]. These problems will affect the family welfare.

In the sustenance of family welfare, housewives have a major rule even when they live with a husband [2]. They are also in charge of managing family finance. That it is important for women especially household mothers have a potential to increase the family welfare [9]. In most cases housewives have an important part of the family's financial decision.

Previous studies have been done about financial literacy on students [8, 10, 11, 12]. Others showed the relations between financial literacy and financial planning ([1, 4, 13]. But none of the studies discuss about the relation between financial literacy, financial management and family welfare. Also none of the studies take place in Jakarta, the capital city of Indonesia and include housewives Islamic community.

Based on the previous explanation, the objectives of this research are to identify how financial literacy influences financial management of housewives and family welfare, and how financial management by housewives influences the family welfare. That is why this research is conducted to contribute to the knowledge of financial literacy and its influence in financial management and family welfare in Jakarta. Another significant use of the study is it creates awareness of individuals towards the importance of financial literacy and it provides insight of how financial management can affect the family well being.

II. THEORETICAL BACKGROUND

A. Financial Literacy, Financial Management and Family Welfare

Financial literacy is a person ability to process economic information and create informed decisions about financial planning, debt, retirement and accumulating wealth [11]. Financial literacy also could be defined as a reference to knowledge about financial products, having mathematical skills of effective financial planning and knowledge of financial concept [10]. Meanwhile, financial literacy refers to the skills to read, understand, manage and also to discuss issues and problems that affecting a person financial condition [1]. Another definition of financial literacy is a person ability to get information, understand it, use and evaluate the information to create financial decision while being aware of the concequences [12]. So, it could be summarize financial literacy is the skill to communicate financial problems, analyze and understanding financial information and managing financial condition [13]. It is important to understand financial literacy quickly and to correctly apply it in making financial decision.

In day-to-day life, financial management of a family is defined as the activities necessary to manage income [2]. Financial management involves the ability to utilize savings and resources at hand to take decisions that increase wealth and followed by careful ways to protect that wealth from depreciation and loss. Financial management includes the credit and cash management, tax planning, insurance and risk management, investment as well as retirement planning [1]. Family uses management to organize their limited resources and manage it wisely so that individuals and family's goals could be achieved.

Housewives must be wise in spending the family budget, the first priority should be to fulfill the essential needs and to avoid over consumptions [14]. In Islamic view, a husband responsible to provide the family income and a wife responsible to manage and maintain the family assets. Husband responsibility is to provide and wife responsibility is to manage, administer and take care of household finances [15].

Family is defined as the smallest unit of organization in the community, which has the same ancestor, or a kin group united by blood [16]. Meanwhile, welfare is mainly connected to individual's perception and utility of the use of income. The indicators of welfare are happiness; well being; capabilities of attaining high level of education and working to earn income and being capable of managing income; and not living poorly. Welfare means well being, happiness, health and prosperity of a person or community [2].

Family welfare refers to the ability to provide and manage basic needs and to achieve happiness in family life [2]. Family welfare also refers to the ability to provide and manage basic needs adequately to satisfy every member of the family. Family welfare is a dynamic condition of the family, which met all the physical needs of the material, mental, spiritual, social and allowing families can live decently according to the environment and allows children's growth and obtain the necessary protection for forming mental attitude and mature personality as a human resources quality [17].

B. The Relationship between Financial Literacy, Financial Management and Family Welfare

Financial literacy becomes inseparable in the life of a person because in order to make financial decision. Low financial literacy will lead to incorrect financial management and create financial problem [4]. Financial literacy is an integral part on facing the economic challenges, it could be used when creating a financial plan to gain a return [1]. Having a good financial literacy is as important as having the ability to manage personal finances [10]. Financial literacy could improve ability to create daily financial decision effectively. Financial literacy would show better skill in managing finance, including the ability to decrease unnecessary losses [4].

Planning and making concrete plans as part of financial management, it will grant the individuals sense of security and financial freedom, which allowed them family welfare [1]. In finance area, individuals or family is said to be successful or achieve welfare when they achieve financial freedom.

There is strong relationship between financial literacy and household welfare. Household with less financial knowledge or literacy, tend not to plan for their retirement, receive lower assets and borrow

at higher interest rate [18].

C. Hypotheses

Based on the previous explanation, there is three hypotheses as follow:

1. Financial literacy influences financial management
2. Financial management influences family welfare
3. Financial literacy influences family welfare

III. RESEARCH METHOD

This is a quantitative research, that can be used to determine the relationship between variables and to test the hypothesis [19]. This research uses primary data, gathered by using questionnaire. The questionnaire consists of 19 close-ended statements, with 1-7 Likert scale, which means the (1) as strongly disagree and the (7) as strongly agree. The collected data were analyzed by using Structural Equation Modeling (SEM).

The population were housewives of Islamic community in Jakarta. They were targeted because they have a major responsibility for the sustenance and welfare of household members even when they live with a husband [2]. Jakarta is chosen because there is a big number of divorce cases caused by financial problem.

The suggested sample size for using SEM is in between 100-400 samples or the minimum samples are five times number of variables, and much better if using 10:1 ratio between sample and the variable used in the questionnaire [20]. Therefore, the sample size of this research is 200; which are more than 190 (10 x 19 statements). The samples are choosen by using non probability sampling, which is purposive sampling. Validity and reliability test were done before analyzing the data.

IV. RESULT AND DISCUSSION

The respondent's profile could be figured out as 76% are Bachelor, 57% in the range of age 26-35 years, 75% are housewives wihout any other job, and 41% got income in the range of IDR 5-7 million, and 58% outcome below than IDR 5 million.

A. Result

The criterias to be valid are Kaiser-Meyer-Olkin of Sampling Adequacy is higher than 0.5, the significant is lower than 0.05, and the cumulative is more than 60% [20]. The result of validity test of 3 variables are shown on table I. It shows that the all variables are valid because passed the criterias.

The criteria to be reliable is Cronbach's Alpha more than 0.6 [20]. The result of reliability test of 3 variables are shown on table II. It can be seen that all the number are passed the criterias. So, all the data are reliable. Table III shows the 5 out of 7 results fill up the criterias for model's goodness of fit test. These indicate that the model fit status from X2, TLI, NFI, CFI and IFI are good-fit; meaning that this model is fit and the structural model can be considered as acceptable-fit for further analysis.

According to figure 1, there are three variables being tested, one of them is independent/exogenous in which affecting the other variables (FL/ Financial Literacy), another one dependent variable/endogenous (FW/ Family Welfare) and one variable act as mediating variabel (FM/Financial Management). Mediating variable could act as independent variable that affecting FW or as dependent variable that is affected by FL.

TABLE I. KMO, BARTLETT'S TEST, CUMULATIVE OF TOTAL VARIANCE EXPLAINED

Criterias		Financial Literacy	Financial Management	Family Welfare
Kaiser-Meyer-Olkin Measure of		.719	.577	.824
Sampling Adequacy				
Bartlett's Approx. Chi-		369.309	485.119	539.003
Test of	Square			
Sphericity	Df	6	21	10
	Sig	.000	.000	.000
Cumulative		67.655%	61.805%	67.728%

TABLE II. RELIABILITY

Variables	Cronbach's Alpha	N of Items
Financial Literacy	.828	6
Financial Management	.730	7
Family Welfare	.879	6

TABLE III. MODEL FIT OF STRUCTURAL MODEL

Indicator	Criteria	Result	Status
X^2 (Chi-Square)	$p < 0.05$	.000	Good-Fit
CMIN/DF	≤ 5.00	6.767	Poor-Fit
RMSEA	$0.05 \leq x \leq 0.08$	.170	Poor-Fit
TLI	$0 \leq x \leq 1.00$	.619	Good-Fit
NFI	$0 \leq x \leq 1.00$	.657	Good-Fit
CFI	$0 \leq x \leq 1.00$	.689	Good-Fit
IFI	$0 \leq x \leq 1.00$	.692	Good-Fit

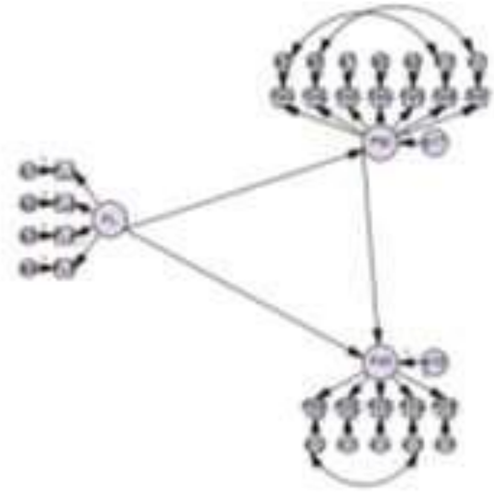

Fig. 1. Path Diagram of Model

Table IV shows the summary result of hypothesis testing. The criteria for accepting the null hypothesis are the critical ratio (CR) is more than 1.96 and the probability (P) is below than 0.05 [20]. It can be seen that all the results full fill the criterias. It means that all of the three hypotheses are accepted.

TABLE IV. REGRESSION WEIGHT

	Estimate	S. E.	C. R.	P	Label
Financial Management <--- Financial Literacy	0.189	0.060	3.319	.002	par_15
Family Welfare <--- Financial Literacy	0.191	0.048	3.981	***	par_14
Family Welfare <--- Financial Management	0.376	0.071	5.287	***	par_16

B. Discussion

The first hypothesis proven shows that financial literacy becomes one of the foundation in financial management. It proves the theory that stated financial literacy is affect how people save, borrow, invest and manage their money [4]. The second hypothesis proven shows that action in form of financial management will effect the family welfare. The last hypothesis proven shows that financial literacy of housewives could impact the family welfare. Thus it shows the importance of understanding financial literacy because it brings effect to family's every day life.

About financial literacy, most respondents agree with the statement given. The repondents are well informed about knowledge in managing money. With the biggest percentage of educational background from bachelor degree, means that most respondents have high awareness of financial literacy.

About financial management, they agree with the importance of cash, credit and tax management. It also shows that they have high awareness of managing their finance. In the other hand, most respondents disagree with the statement related with invesment activity. It shows that even though housewives in Islamic community have good understanding in financial management, but they still don't have a high tendency to invest their money in stocks or bonds.

Another finding in financial management (investment) is that almost half of the respondents (92 respondents) stated that they don't invest in financial instrument such as share, unit trust or bonds. Due to the economic condition in Indonesia, most family don't invest rather they use their money for their daily needs and save the rest. Indonesian family have little tendency to invest their money.

About the family welfare, the housewives in Islamic community consent with their family condition. For example, about family's quality of life, around 80% of the respondents answered positively that they are satisfied with their family's quality of life. It is matched with the fact that 90% of the respondents answered that they are satisfied with their health. Most of the statements of family welfare are answered positively meaning that the housewives feel that their family condition is well enough.

In Islamic view, housewives' main role is to take care and manage the household. From hypothesis testing, can be seen that housewives financial literacy level gave a significant impact on family financial management. It prove the statement that a wife is responsible to manage the household finances in Islamic view, because the wife financial management will gave impact towards the family welfare.

V. CONCLUSION

There is an influence of financial literacy towards financial management on the case of housewives in Islamic community in Jakarta. There is an influence of financial management towards family welfare. Financial literacy has an impact towards family welfare mediating by financial management.

Therefore, in order to improve family welfare of Islamic families in Jakarta, it is important to be aware of financial literacy.

This research proven that wife has a significant role in managing the household finances and in creating family welfare. It is important to keep increasing the awareness of financial literacy level in Jakarta, Indonesia. The awareness of financial literacy should be voiced in society. Society and the government could create programs to increase financial literacy and to educate people about household financial management.

VI. REFERENCES

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