



# Financial Literacy's Importance in Household Finance Decision-Making

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## ABSTRACT

Understanding financial operations originates with the household. Prior to actually accessing and participating in the market and financial system, critical decisions are made using this source. Finance is still a very specialized field in its existing iteration. Households' function in the financial system, which is a source of household financial complexity, has not gotten the attention it deserves. We will explore how the relevance of financial literacy is related to the knowledge, skills, and beliefs of husband and wife and their consensus in making decisions about life insurance participation. Separate in-depth interviews are conducted by married couples, wives separately, and husbands collectively. The main topic we discuss is how to perform cognitive mapping of data derived from interviews with members of various ethnicities and cultures. There are married couples who, despite having low levels of financial literacy (financial knowledge and skills), play a more decisive role in household financial decision-making because their partners do not want to take financial responsibility because they are doubtful of their own abilities, so they accept their partners' decisions more out of necessity. This research project has implications for how financial knowledge is regarded, and how income and consumption are allocated. Financial knowledge and skills provide individuals and couples confidence in household financial matters, financial decision-making, and asset allocation, according to findings. Keywords: Write 3-6 keywords separated by semicolon.

**Keywords:** *Household Finance; Financial Literacy; Life Insurance; Financial Decision-Making; Consumer Finance*

## 1. INTRODUCTION

The household is the hub of knowledge and financial activity. sources of critical decisions made prior to joining the financial market, involvement in saving decisions, placement of investment assets in financial markets, and lastly placement of households as end owners of productive firms in the economy. Up to this point, the presence of the area of finance implies that one can only study about financial markets, non-financial enterprises, and other financial institutions and intermediaries. The importance of households in the financial system, which is the practical background of financial complexity, is frequently overlooked or undervalued. Similarly, the support of concepts and theories in textbooks that dissect the issue of household finance is still limited and has not been a concern to economists or financial practitioners. The larger attention and study of finance in the field of home economics has

theoretically focused solely on their desire for items, or merely confined their savings behaviours to one specific asset [1]. Many of the difficult-to-overcome and-solve home economic and social variables, ranging from low incomes and inadequate financial knowledge to fraud and investment fraud, contribute directly to the terrible financial situations that several families experience. Taking immediate action to address this issue is difficult and expensive.

The existing literature, which serves as the theoretical foundation for household financial behaviour as a result of this complicated process, is still poorly understood [2]. The disparity in financial understanding between men and women is the root reason [3]. Decision-making theory in family [4] emphasizes that marital dynamics add to the complexity of financial decision-making in the household. Empirical evidence from developed countries shows that financial market participation is influenced by

a variety of factors, including household financial wealth (which supports the thesis of entry initiation fees; see [5], [6] age, and education, [7] risk aversion [8], trust in financial institutions [9], social interaction [10], homeownership [11], and social capital [12].

For a number of reasons, the topic of financial literacy in making household financial decisions has become significant. Social security reform in industrialized nations and many European countries placed an increasing burden on individuals to ensure their financial security in old life. Workers must determine how much to save for retirement and how to invest their retirement funds. At the same time, the complexity of financial instruments is expanding, and families must cope with new and more complicated financial products.

Empirical research has found that financial literacy is a predictor of a wide range of good financial habits. Some recent researches, however, have reached quite different results about the impacts of financial literacy and financial education. There has been an increase in study on assessing financial literacy and its impact on household behaviors and pension planning in recent years [13], [14], savings and portfolio decisions [15], [16] both in investment literature and pension planning, along with the increasing complexity of financial products and the need for saving, insurance, and planning for retirement. Many studies have found that individuals generally have limited and lack basic financial information and financial principles. A household's most important asset is its human capital, as its revenue and income are derived from the supply of working family members. The estimate is based on the fact that we can understand why households should have life insurance because it protects the family from the possibility of premature death, which causes a loss of economic value (potential loss) to the family, especially in high-income families, with the goal of maintaining a standard of living and the stability of consumption patterns. The findings of a 2020 survey performed by payment platform OVO with 367 respondents in Jabodetabek indicated the poor level of financial literacy among Indonesian housewives. Only three out of every ten housewives deploy insurance funds, and only eight percent prioritize investing in household financial management. The majority of study on married couples' financial decision-making focuses on investing, saving, and retirement decisions, showing that couples play an important role in financial decision-making [17], [18]. However, little is known about what happens in married couples' decision-making that may influence asset placement or the purchase of financial goods. The couple's decision-making process, particularly consensus, is critical in the couple's behaviours of acquiring long-term care insurance [19]. The subject of who is the best financial decision maker among men and women in one family is still quite sensitive and requires extensive study on the source of information while taking the respondent's gender into

consideration [20]. Despite the fact that the majority of the literature focuses on individual financial decision-making at the household level, people do not make their own decisions; their decisions are impacted by family members, at least by couples in the family. However, research on the financial decision-making processes of households is still quite limited.

There is limited knowledge, skills, and trust in both Alpha and Beta couples related to financial decisions, so they do not dare take initiative and take responsibility for household financial decision-making. The impact is that couples usually do not like managing their household finances, but they recognize the importance of budgeting their expenses from household income earned. This research aims to understand and describe the complexity of perspectives, defining qualities, and roles of husband and wife on life insurance planning in a household motivated by demographic factors by conducting in-depth interviews of married couples in the household of six household couples who live and live in South Sulawesi, Indonesia, related to financial skills and skills of individuals in making decisions to enter and participate in the market and financial system, particularly life insurance products. Explore how households make decisions about life insurance more generally, including uncovering any possible typologies of decision making; examine the extent to which life insurance planning is independent or collaborative, and how far partners in a relationship discuss their separate and/or joint plans.

## 2. METHOD

The purposive sampling approach is used to collect data. The project team conducted face-to-face interviews with six couples. Interviews were held in couples' homes since participants were more likely to feel at ease and comfortable addressing potentially sensitive financial issues in this setting. The interviews lasted approximately 90 minutes and were divided into three separate 30-minute sections: an interview with each partner individually, followed by a "paired" interview with both partners together as a unit. This allowed us to understand each partner's views on their role in household financial decision-making and attitudes towards life insurance individually, as well as their joint outlook and perceptions. Using this approach, we gained a detailed perspective on the decision-making process. The project team conducted interviews over a four-week period between October 23 and November 13, 2021.

Criteria for recruitment are utilized. Household income was a crucial element since the sorts of financial decisions couples make are influenced by their income and wealth. We expected age, or life stage, to have an impact on couples' financial decisions and retirement planning, so we made sure to cover a wide range of ages.

Because this was a qualitative study, the findings should not be generalized or applied to a larger population. Individual couples are addressed when their experiences or decision-making qualities show trends common by all six couples, or when their experiences or decision-making traits are particularly enlightening or intriguing for another reason.

### 3. RESULT AND DISCUSSION

#### 3.1. Defining qualities

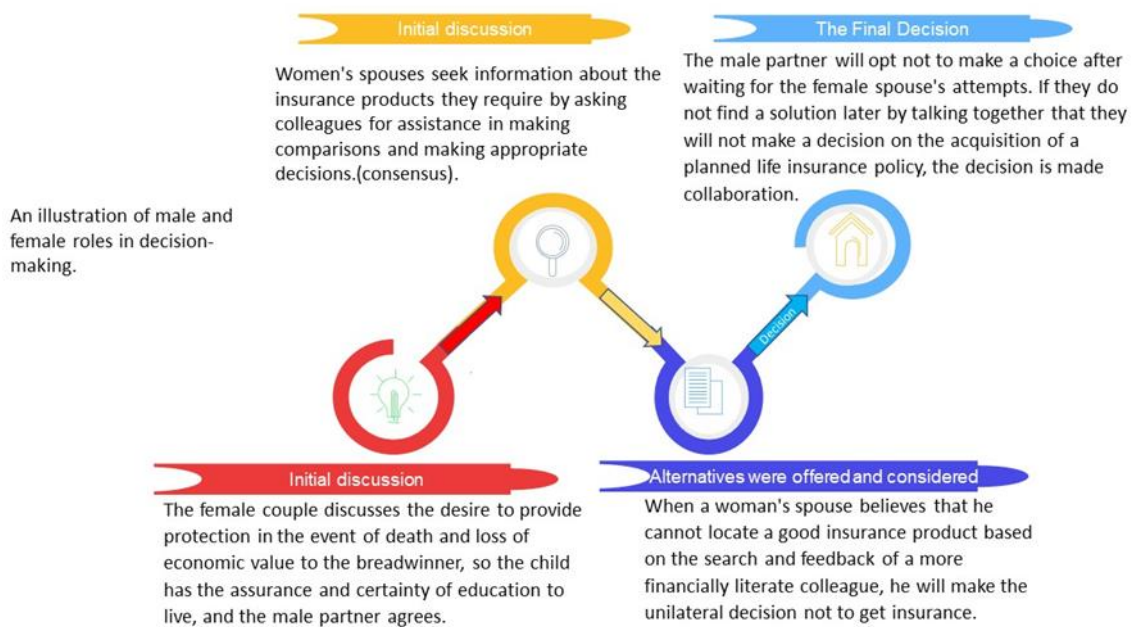
The alpha role is played by one spouse, while the beta role is played by the other, although the two persons are more comparable in their approach to finances.

Women are more likely to be alpha partners. From the standpoint of life insurance planning, more active couples have features that indicate a motivation that if something unfortunate occurs to the husband, he would

file a claim and hope to be able to continue the quality of consumption and lifestyle under normal conditions.

Beta partners are usually unconcerned with money, but they may step into alpha positions if required. This beta couple has a fairly high level of financial literacy, so they are very flexible and tend to be able to manage household financial decisions on allocating assets and household financial decision-making towards planning life insurance membership for their families.

The decision-making process is generally led by the alpha partner. They are, however, frequently involved in the last phases and have a say in the ultimate choice. There are couples who are quite cooperative and democratic towards household financial planning and household financial decision-making. Husband and wife couples each have a role as initiators and good decision-makers. An example of the role of husband and wife in the decision-making process is shown in Figure 1.



**Figure 1** Example of husband-and-wife couples' roles in the decision-making process

#### 3.2. Roles in the decision-making process

Most relationships have one spouse who is more active in decision-making and the other who is more reactive, or passive. We refer to these two sorts by the role names "alpha" and "beta." In most partnerships, one spouse is more active in decision-making while the other is more reactive, or passive. We utilize the role designations "alpha" and "beta" to differentiate these two categories.

In general, these people were less confident in their financial abilities than their alpha mates. Several test partners mentioned particular financial obligations, such as auto insurance or minor property purchases, indicating a well-defined comfort zone. Beta spouses were

frequently more likely to spend money than save it, were often short-termism in their financial thinking, and were relatively easygoing about household finances when compared to alpha partners. If they sought financial advice, it was frequently from informal sources such as friends, family, and coworkers.

#### 3.3. Perspectives on life insurance planning

The alpha spouse, who was in charge of tracking the couple's household income and outgoings, was typically in charge of making day-to-day financial choices. These individuals were more concerned about household finances than the beta partner. When it came to home economics, Alpha partners tended to be self-assured, but

frugal with their money. The majority of alpha partners wanted to save rather than spend their money.

When these couples make major financial decisions, similar tendencies arise. Typically, the alpha partner will actively drive the decision-making process by generating ideas and making decisions. The pair will next deliberate on shared choices before making a final decision together. When a final choice is reached, it is generally the alpha partner who is in charge of putting that decision into action. In other circumstances, alpha partners reported beginning the research phase before bringing the issue to their partner's attention and incorporating them in the process.

Similar to beta partners in the Unbalanced Responsibility group, beta partners in the Organized Aspirational group describe hurdles to participating in decision-making processes. They tend to let their alpha spouses lead the process, indicate apathy, "laziness," or believe they chose "to tend to follow" since they know the more financially literate mate has the knowledge, skills, and confidence in deciding on household money. They will see to it that the situation is fixed.

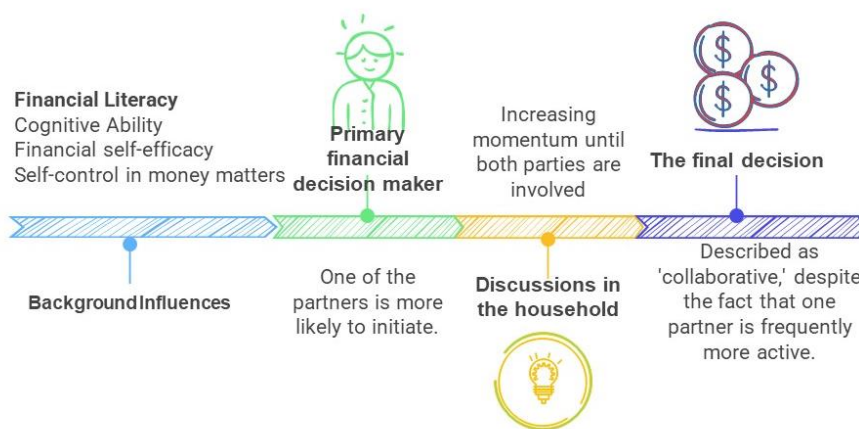
Couples in the imbalanced responsibility category often have little, if any, arrangements for life insurance. Alpha couples are more likely than beta partners to initiate, or at least consider, life insurance holdings. While alpha partners who contribute to life insurance schemes may frequently communicate essential data,

such as the rates they recommend, beta partners are unfamiliar with how their life insurance works.

*"Sometimes I get confused since the money I made in a month is roughly Rp. 6,000,000. When I don't do much shopping or purchase of products, my pay check seems similar. With my costs, I don't feel that horrible."* (Halim, 34s, Luwu)

One or two couples who want their partner to be quite concerned and proactive in making decisions to participate in household finances by allocating the salary earned to create a life insurance program, but the couple also appears to have less financial knowledge, particularly on life insurance benefits that can provide benefits when something bad happens that results in the cessation of family income to continue living well.

*"I'm lucky enough that my spouse can be relied on enough to make financial decisions related to spending on household consumption needs and couples can set aside the rest of the spending money to be kept secretly even if it's not kept in a bank account, but I also hope my wife also provides support when I plan to have a life insurance policy, as I'm actually always worried about my health and safety. I am disturbed when I have difficulty meeting the needs of life, like when I am healthy."* (Simon, 48s, Toraja). A typical type of dialogue during the decision-making process is shown in figure 2.



**Figure 2** A typical type of dialogue throughout the decision-making process

### 3.4. Life Insurance Decision-Making

For some couples, planning to obtain and participate in life insurance is still not considered strong enough to be a commitment of most married couples. Some couples with tribal ancestry have a stronger view of life insurance planning. This is demonstrated by the fear of childbirth and the desire for children to have a higher education in the future. So, the couple plans insurance for their child's education, with the benefit of knowing that if the insured becomes incompetent or dies, the child's education will be secured. The spouse will get a portion of the benefit

reimbursement. This product was chosen since there is a requirement for alpha pairings to view the advantages provided. This couple's demographic appears to be fairly familiar with life insurance products. Participants we examined were more likely to be familiar with the term education insurance than life insurance, despite the fact that the two are the same thing.

## 4. CONCLUSION

The majority of alpha partners preferred to conserve money rather than spend it. Similar trends emerge when

these couples make important financial decisions. The alpha partner, in most cases, will actively drive the decision-making process by developing ideas and making decisions. Couples with unequal responsibilities frequently have minimal, if any, life insurance coverage. Alpha spouses are more likely than beta partners to establish, or at least contemplate, life insurance holdings. While alpha partners who contribute to life insurance schemes may often share critical facts, such as the rates they suggest, beta partners are confused with how their life insurance operates.

In terms of life insurance planning, more active couples have characteristics that show a motivation that if something tragic happens to the husband, he would submit a claim and expect to continue the quality of consumption and lifestyle under normal conditions.

This beta couple has a reasonably high degree of financial literacy, so they are quite adaptable and can handle household financial decisions on asset allocation and household financial decision-making toward preparing life insurance membership for their families.

There are some couples that are quite cooperative and democratic when it comes to home financial planning and decision-making. Both husband and wife couples play the roles of initiators and good decision-makers.

In general, these folks were less confident in their financial abilities than their alpha counterparts. Several test participants indicated specific financial requirements, such as vehicle insurance or modest property purchases, indicating a well-defined comfort zone.

Some couples with ethnic origin have a more positive attitude toward life insurance preparation. This is exemplified by the fear of childbirth and the desire for children to have a better education in the future. So, the couple prepares education insurance for their child, knowing that if the insured becomes incompetent or dies, the child's education will be safe. The spouse will be reimbursed for a portion of the benefit.

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