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The Influence of Financial Knowledge, Financial Literacy, and Financial Technology on Financial Management Behavior Among Young Adults

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ABSTRACT

The purpose of this research is to analyze the effect of financial knowledge, financial literacy, and financial technology on financial management behavior of young adults in the city of Jakarta. The sample selection technique in this study was purposive sampling. The sample used in this study is 150 respondents, obtained through the distribution of online questionnaires. This research uses Smart PLS software version 3.2.9 to process the data. The result of the analysis shows that financial knowledge, financial literacy, and financial technology have a significant and positive effect on financial management behavior on young adults in the city of Jakarta.

Keywords: Financial Knowledge, Financial Literacy, Financial Technology, Financial Management Behavior

1. INTRODUCTION

1.1. Background

A survey conducted by IDN Times shows that only 10.7% of income is saved by young adults, while 51.1% of income is used for routine family needs. This figure can be seen from the survey graph in the 12 big cities in Indonesia below, which was carried out by IDN Times in 2018, namely Jabodetabek, Bandung, Surabaya, Medan, Denpasar, Palembang, Manado, Semarang, Balikpapan, Pontianak, Makassar, and Mataram [1].

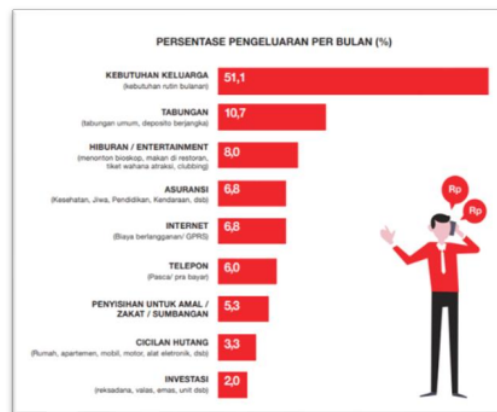


Figure 1 The Percentage of Spending per Month
Source: IDNTimes.com

This finding provides information that awareness among young adults in terms of saving and investing is still very low, on a par with entertainment. It can be judged that awareness among young adults regarding financial management behavior is still very minimal [1]. In the research that Mien & Thao (2015) conducted, for example, it was found that the younger generation now rarely practices the basics of finance, such as budgeting and short and long-term financial planning [2]. Most young adults buy things according to their wants, not needs. Most of the time, when they decide to buy something, it's because they follow the current trend and lifestyle.

Even the research of the Financial Health Index (FHI) found that the Indonesian people had not started preparing their financial plans at the age of 35 and only took the initiative to start preparing financial retirement plans when they were 41 years old [3]. The study states that only 37% of Indonesians have emergency savings to meet their needs for 6 months if they lose their source of income, the remaining 53% cannot necessarily survive [3]. From the results of this study, it can be said that the understanding of young adults in Indonesia regarding financial management behavior is still low.

In 2019, the Financial Literacy and Inclusion National Survey (SNLIK) by the Financial Services Authority (OJK) was conducted, which showed that the Indonesian people's financial literacy index was 38.03% and the Indonesian people's financial inclusion index was 76.19%. This figure has increased compared to the previous survey conducted in 2016 [4]. An increase in the financial literacy index by 8.33% and 8.39% in the Indonesian population's access to financial products and services, also known as financial inclusion [4]. However, the increase is still quite low, because it means that based on a survey conducted only 38.03% of 100% of the Indonesian population understands about financial literacy and 76.19% of 100% of the Indonesian population uses financial services [4]. This figure still makes Indonesia lagging behind several other ASEAN countries, such as Singapore, Thailand, and Malaysia [4]. According to a survey conducted by the Association of Indonesian Internet Service Providers (APJII) in 2019-2020, currently 73.7% of the population in Indonesia uses the internet [5]. Which means that more than half of Indonesian people understand and use technology, one of which is a financial technology digitally based.

In the city of Jakarta, research and interviews conducted by moneysmart.id show that the financial allocation for the lifestyle of young people in Jakarta can reach 80% of their income. Whereas in the study, it is also stated that extravagance has become a characteristic of young people in the city of Jakarta, because their lifestyle tends to be consumptive and extravagant. Their consumptive and extravagant nature can come from internal causes such as lifestyle in their family environment or externally, such as relationships, friendships, and technological advancement that make everything easy to access. So, in this study, the city of Jakarta was chosen as the research location.

Based on the description above, it can be seen that Indonesia's young adult population, one of which is Jakarta, is still low in financial knowledge and literacy, but has used fintech a lot. It is interesting to study whether these factors influence financial management behavior. Therefore, this study aims to determine the effect of financial knowledge, financial literacy, and financial technology on financial management behavior among young adults in the city of Jakarta.

1.2. Literature Review

1.2.1. Financial Knowledge

Chen and Volpe (1998) stated Financial knowledge was the understanding that a person has in terms of financial management in making financial decisions [6]. So that in managing their finances, one needs to have a good understanding of financial knowledge so that they can use their income/money wisely according to their needs. Swiecka *et al* (2019) argue that financial knowledge is an understanding of financial concepts and procedures and the use of that understanding to solve financial problems [7]. It is understood that knowledge and understanding of financial concepts can help individuals in solving financial problems. Meanwhile, Kholillah and Iramani (2013) say that financial knowledge is a form of individual expertise in understanding things about the financial world [8]. Then the financial knowledge possessed is considered good if someone has mastered various things related to finance.

1.2.2. Financial Literacy

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Nicolini (2019) states that financial literacy is defined as knowledge of financial issues and the ability to apply them to financial decision-making processes such as knowledge of available sources, functions of financial products and services, financial intermediaries, and financial markets [9]. It can be interpreted that financial literacy is closely related to financial knowledge, where if an individual has a good financial literacy, he will be able to apply the knowledge he has in his financial decision-making process. OECD (2017) argues that financial literacy is the knowledge and understanding of financial concepts, risks, and skills, as well as the confidence and motivation to apply this knowledge and understanding to make effective decisions in various financial situations [10]. Meanwhile, Herdinata and Pranatasari (2020) said that financial literacy was a person's ability to manage and control the money they have in order to develop and live a safer and more prosperous life in the future [11].

1.2.3. Financial Technology

Naifar (2020) stated that financial technology was a combination of innovative business models and technological solutions to facilitate financial services for everyday life. Financial technology is present because of the development of an increasingly advanced era, and one of them is presented through activities high technology that requires technology in it [12]. As we know, namely e-commerce, mobile banking and also other activities that require technology. Rumondang *et al* (2019) say that financial technology is a form of financial and banking services that uses software to provide financial services through the provision of computer programs or other technology [13]. Ginantra *et al* (2020) argues that financial technology (fintech) is a technology-based industry in financial services that creates innovations that provide financial service facilities outside of general/conventional financial institutions so as to provide convenience to the public in accessing financial products in transactions. So that along with the times, the existing industry utilizes technology to support the delivery of financial services that are more effective and efficient [14].

1.2.4. Financial Management Behavior

Baker *et al* (2017) states that financial management behavior explains how an individual in making financial decisions is followed by cognitive processes such as how the person's knowledge, understanding and application in financial decision behavior and is followed by affective processes such as using his feelings [15]. Kholilah and Iramani (2013) argue that financial management behavior was the influence of the desire of an individual with the aim of fulfilling his life needs in accordance with the level of income. In line with this opinion, Putri and Pamungkas (2019) stated that healthy financial behavior is how the individual does proper financial planning and can control expenses and income wisely [16].

4 1.2.5. The Relationship between Financial Knowledge and Financial Management Behavior

Perry and Morris (2005) state that someone will have more responsible financial behavior if they have good financial knowledge. This research shows that there is a positive and significant influence of financial knowledge on financial management behavior [17]. The same result is shown by Arifin (2017) research, which shows that there is a positive and significant effect of financial knowledge to financial management behavior [18]. The study states that the greater the knowledge a person has, the better his financial behavior will be [18].

1.2.6. The Relationship between Financial Literacy and Financial Management Behavior

Nguyen and Doan (2020) state that it is necessary to have a strategy in good financial education in order to improve people's financial literacy [19]. This research shows that there is a positive and significant effect of financial literacy on financial management behavior [19]. The same result is shown by the research of Prihartono and Asandimitra (2018) which shows that there is a significant

effect of financial literacy on financial management behavior [20]. This study states that an understanding of specific financial literacy in individual finance has an important role in financial management behavior [20]. Herawati *et al* (2018) also stated that increasing knowledge about financial literacy is one way to improve living standards [21].

4 1.2.7. The Relationship between Financial Technology and Financial Management Behavior

Farida *et al* (2020) states that the higher a person is utilizing financial technology the better the financial behavior [22]. This research shows that there is a significant influence of financial technology on financial management behavior [22]. The same results are shown in the research of Humaidi *et al* (2020) which shows that there is a positive and significant influence of financial technology on financial management behavior [23]. The research states that financial technology has an important role in financial management behavior. Because the relationship with the community is that financial technology can make every individual use financial technology well in everyday life and also become more effective as well [23].

1.2.8. Research Framework

Based on the description of the relationship between the variables above, the research model used in this study is as follow:

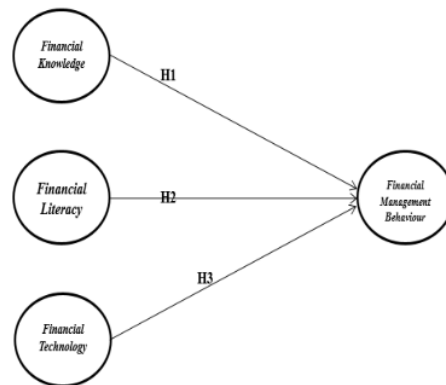


Figure 2 Research Framework

1.2.9. Research Hypothesis

- H1: There is an influence of financial knowledge on financial management behavior
- H2: There is an influence of financial literacy on financial management behavior
- H3: There is an influence of financial technology on financial management behavior

1.3. Research Contribution

The results of this study contribute to the goal of improving an individual's financial management behavior through financial knowledge, financial literacy, and financial technology. With the results of this study, it can provide an explanation of the importance of an individual having good financial knowledge and financial literacy, and also understanding the use of financial technology wisely so that good financial management behavior is formed. To improve financial knowledge and financial literacy in each individual, they need to understand the basics of finance, investing, saving, and others. In addition, to increase the understanding of financial technology for each individual, they

must use the available financial technology properly and wisely, so that the benefits of the presence of financial technology can be felt. In addition, this research can also be used as a reference for further research.

2. RESEARCH METHOD

2.1. Sampling Technique

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The sampling technique in this research is non probability sampling - purposive sampling. The number of samples in this study was 150 respondents who came from young adults aged 18-35 years in the city of Jakarta, which were obtained through the distribution of online questionnaires. Based on the data from the questionnaire, the majority of respondents are female (61.3%), with the majority of the last education being bachelor degree (52.7%), with the majority aged 18-23 years (44%), with the majority of respondents are students/college students (38.7%), and the majority live in West Jakarta (34.7%).

2.2. Data Analysis Technique

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In this study, data analysis was carried out by descriptive statistical analysis. The data obtained from the respondents will then be processed and then given an explanation and conclusion. This research uses software SmartPLS version 3.2.9. as a device for processing data.

2.3. The Characteristics of Research Subject

Table 1 Respondents' Characteristics

Description	Total	Percentage
Number of Samples	150	100%
Gender :		
Female	92	61.3%
Male ¹⁰	58	38.7%
Last Education :		
Elementary School	-	-
Junior High School	-	-
Senior High School	66	44%
Bachelor Degree	79	52.7%
Master Degree	5	3.3%
Doctoral Degree	-	-
Age :		
18 – 23 years old	66	44%
24 – 29 years old	61	40.7%
30 – 35 years old	23	15.3%
Profession :		
Student / College Student	58	38.7%
Employee	49	32.7%
Entrepreneur	21	14%
Housewife	4	2.7%
Government Employee	9	6%
Private Employee	8	5.3%
Doctor	1	0.6%
Domicile :		
West Jakarta	52	34.7%
South Jakarta	34	22.7%
East Jakarta	21	14%

North Jakarta	20	13.3%
Central Jakarta	23	15.3%

3. RESULT AND DISCUSSION

3.1. Validity Test Results

Based on the results of the validity test in this study, it showed that the indicators used in this study were valid to be used. The indicators for each research variable are considered valid due to the values of outer loadings and Average Variance Extracted (AVE), which results in all of these indicators the value is above 0.5.

3.2. Reliability Test Results

Based on the results of the reliability test in this study, it showed that the indicators used in this study were reliable to use. Each variable in this study has high reliability and consistent because the composite reliability and Cronbach's alpha values for each variable are above 0.7.

3.3. Path Coefficient

A Path Coefficient test was conducted to measure how much influence the independent variable on the dependent variable.

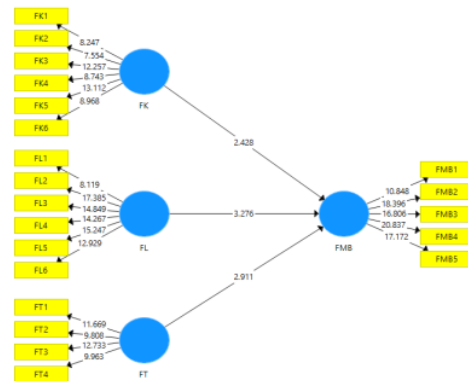


Figure 3 Bootstrapping Test Results

Based on the picture above, showing that all of the variables in this model have positive path coefficients. This shows that the greater value of the path coefficient, the stronger influence of the independent variable on the dependent variable.

3.4. Coefficient Determination (R-Square)

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 Based on the coefficient of determination test, it shows that the dependent variable in this study, namely financial management behavior is influenced by other variables in this research model by 0.241 or 24.1%. The remaining 75.9% is influenced by other factors outside the research model.

3.5. Predictive Relevance (Q-Square)

Based on the predictive relevance test, it shows that the level of model diversity shown by the independent variable to the dependent variable is 0.125 or 12.5%. This shows that the model in this study is included in the moderate category because the q-square value obtained is above 0.02.

3.6. Effect Size (F-Square)

Based on the effect size test, it shows that the f-square value of financial knowledge, financial literacy, and financial technology is 0.043, 0.071 and 0.064, which means that the three variables have a small positive effect because the value is greater than 0.02 and smaller than 0.15.

3.7. Hypothesis Tests

Table 2 The Results of Hypothesis Tests

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	t-Statistics	p-Values	Description
FK → FMB	0.196	0.208	0.083	2.357	0.019	Positive and Significant
FL → FMB	0.258	0.261	0.083	3.106	0.002	Positive and Significant
FT → FMB	0.229	0.236	0.075	3.044	0.002	Positive and Significant

Based on the table above, it shows that the three independent variables in this study have a significant influence on the dependent variable, because the p-values < 0.05 and t-statistics > 1.96. The independent variable in this study also has a positive influence because the value of the original samples shows a positive number. Based on the hypothesis testing that has been done, it can be concluded that financial knowledge has a significant and positive effect as indicated by p-values of 0.019, t-statistics of 2.357, and a positive original sample of 0.196. From the results of this study, it can be concluded that the results of the H1 test (there is an influence of financial knowledge on financial management behavior) are accepted. These results are in line with research conducted by Perry & Morris (2005) [17] and Arifin (2017) [18] which state that there is a positive and significant influence of financial knowledge on financial management behavior. It can be concluded that someone who has good financial management behavior is one of them because they have financial knowledge where they can be responsible for their finances.

Furthermore, it is known that financial literacy has a significant and positive effect as indicated by p-values of 0.002, t-statistics of 3.106, and a positive original sample of 0.229. From the results of these studies, it can be concluded that the results of the H2 test (there is an influence of financial literacy on financial management behavior) are accepted. These results are in line with research conducted by Nguyen & Doan (2020) [19], Prihartono & Asandimitra (2018) [20], and Herawati et al (2018) [21] which state that there is a positive and significant influence of financial literacy on financial management behavior. It can be concluded that someone who has good financial literacy will be wiser in making financial decisions by applying their financial knowledge.

In addition, financial technology has a significant and positive effect, which is indicated by p-values 0.002, t-statistics 3.044, and a positive original sample of 0.229. From the results of this study, it can be concluded that the results of the H3 test (there is an influence of financial technology on financial management behavior) are accepted. These results are in line with research conducted by Farida et al (2020) [22] and Humaidi et al (2020) [23] which states that there is a positive and significant influence of financial technology on financial management behavior. It can be concluded that the presence of financial technology can make it easier for someone because in the process of making transactions become more effective and efficient.

4. CONCLUSIONS

The conclusion based on the results of this study is that the variables of financial knowledge and financial literacy are considered effective in influencing financial management behavior among young adults in the city of Jakarta because these variables have a positive and significant influence. To improve financial knowledge and financial literacy for each individual, parties related to finance such as the Financial Services Authority (OJK) and Banks can provide education on matters related to the financial context such as basic finance, investment, savings, and others. Meanwhile, for universities and schools, in improving the financial knowledge and financial literacy, they can provide subjects related to the financial context. Besides that, it can also hold seminars on the importance of having good financial knowledge and literacy.

4 In addition, the financial technology variable is considered to have been effective in influencing financial management behavior among young adults in the city of Jakarta because this variable has a positive and significant influence. To increase understanding of financial technology for each individual, parties related to technology in finance such as financial service providers and financial investment service providers, where companies engaged in these fields can provide socialization on how to use financial technology properly and wisely, so that the benefits from the presence of financial technology can be felt.

Further research is suggested to examine other factors besides financial knowledge, financial literacy, and financial technology in influencing. 6 From this research, it can be seen that if someone has good knowledge and understanding of financial concepts, and can use existing financial technology wisely, it can affect the management behavior of the individual. If every individual understands the concept of finance from a young age, his long-term financial goals will be achieved and his life will be more prosperous because of good financial management.

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