

## THE ROLE OF FINANCIAL LITERACY IN HOUSEHOLD FINANCE DECISION-MAKING

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### Abstract

The purpose of this study is to investigate how the importance of financial literacy is connected to a husband and wife's knowledge, abilities, and views, as well as their agreement in making decisions concerning life insurance participation. Married couples do separate in-depth interviews, with wives conducting separate interviews and husbands conducting joint interviews. The major topic we cover is how to do cognitive mapping on data received from interviews with people of different nationalities and cultures. Despite having low levels of financial literacy (financial knowledge and abilities), certain married couples play a more important role in household financial decision-making. This study project will have an impact on how financial information is perceived and how money and consumption are distributed.

## I. INTRODUCTION

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. The significant impact of household financial decisions on the entire financial system and the economy empirically is increasingly receiving attention (Tao & Xiao, 2016). Theoretically, the allocation of household assets only has a very limited participation in the financial market, which indicates a large deviation between actual household behavior and theoretical expectations. With the increase in household income and investment awareness, the behavior of household asset allocation has become an important variable that affects economic operations. The available literature, which is the theoretical basis of household financial behavior within this complex process, is still not well understood (Białowolski & Chávez-Juárez, 2019).

There is empirical evidence regarding the differences in household financial decisions involving gender. The disparity in financial understanding between men and women is the root reason. (Lusardi & Mitchell, 2014). The theory of decision-making in the family (Rettig, 1993) demonstrates that the dynamics of the couple add to the complexity of making financial decisions in the household.

Empirical evidence from industrialized countries documents that financial market participation depends on a variety of factors, such as household financial wealth (which supports the thesis of incoming initiation costs; see (Guiso *et al.*, 2003; Alan, 2006), age and education (Bertaut, 1998), risk aversion (Campbell & Cochrane, 2000), social interaction (Hong *et al.*, 2004), financial institutions' trust (Georgarakos & Pasini, 2011), and social capital (Guiso *et al.*, 2004) homeownership (Vestman, 2010). For several reasons, the role of financial literacy in making household financial decisions has become relevant. Social security reforms in developed countries and in many European countries place an increasingly large responsibility on individuals for their financial security in old age. The main idea of the study is that households that have acquired and have strong financial literacy can increase the utility of their household consumption with the inclusion of risk guarantors such as life insurance that acts as a substitute for income. As a result, researchers are curious about the role of financial literacy in households in South Sulawesi with diverse demographic and cultural backgrounds in household financial decision-making in allocating income to have a certain amount of insurance value purchased and allocated independently of household wealth. Indeed, when a breadwinner dies, the wealth of the household remains, but the income of the breadwinner is lost. Life insurance can replace that lost income. Although life insurance is often paid to the beneficiary as a single benefit payment, the beneficiary can plan and utilize the money to purchase an annuity, giving the beneficiary the certainty to keep the consumption as before, which more effectively replaces the lost income.

The operationalization and measurement of financial literacy has proven to be a moot effort, given that there is no consensus on a legitimate definition of the idea. Huston (2010) lists 71 different definitions of financial literacy currently in use, while (Remund, 2010) lists more than 100. In its original version, the Lusardi and Mitchell exam consisted of three questions that measured an individual's understanding of compound interest, inflation, and risk diversification. The simplicity of this test belies its popularity, since it has subsequently been expanded with more questions (Rooij *et al.*, 2011) and currently serves as the basis for many different literacy tests for different demographic groups. Financial literacy is most often seen as a special type of individual expertise related to the management of personal financial affairs. Existing measures of financial literacy refer to skills, and existing measures are dominated by objective

measures of knowledge. Empirical research has concluded that financial literacy is an antecedent of a variety of sound financial behaviors. However, several recent studies have come to very different conclusions regarding the effects of financial literacy and financial education.

This research is focused on understanding and describing the complexity of attitudes, characteristics, roles, and motives of husband and wife in a household motivated by demographic factors that live and live in South Sulawesi, related to the financial knowledge and skills of individuals in making decisions to enter and participate in the market and financial system, especially life insurance products. In-depth interviews of married couples with different demographic backgrounds were conducted with 12 households that had fixed incomes. The purpose of the study has two basic components. The first is to focus on financial literacy in order to understand and assess how well individual households are equipped to make complex financial decisions. Second, assess the relevance of financial literacy to behavior, especially the making of conjugal economic decisions separately or by agreement (together).

## II. RESEARCH METHODS

### Study design and data collection

To explore the role of financial literacy in household finance decision-making in purchasing life insurance products in South Sulawesi, interviews of 12 couples were conducted behind closed doors for 90 minutes, with a break of 30 minutes each. The interview is divided into two sessions, the first of which is conducted separately with the husband and or wife, followed by a joint interview with the couple to determine the characteristics of household financial decision-making.

Participants are adults who meet the following criteria: (1) married couples living in South Sulawesi, (2) have lived in South Sulawesi for at least 5 years prior to the research informant, (3) agree to participate in the interview by giving consent from both the husband and wife, (4) have an income of at least twice the regional minimum wage, and (5) have a life insurance policy or have at least been a life insurance participant, and (6) can communicate well and can answer interview questions studies on the relevance of financial literacy in household finance decision-making in South Sulawesi. This study was followed by 15 couples, but as many as 3 couples were excluded due to their invalidity, so since then only 12 pairs have been used, representing 5 different tribes/cultures of large tribes in Indonesia.

### Measuring Financial literacy.

To assess participants' financial literacy, the updated Financial Management Behavior Scale (FMBS) developed in a publication of (Dew & Xiao, 2011) was employed. There are four subscales on the scale: cash management, credit card management, savings and investment, and insurance. It is vital to note that each



subscale has at least three items, with the credit card management subscale having three items and the insurance subscale having three items. There are four and five items on the cash management and savings and investment subscales, respectively. Each item featured five response options: 1 1/4 never, 2 1/4 seldom, 3 1/4 sometimes, 4 1/4 frequently, and 5 1/4 always. The overall score and the scores for each subscale were determined by adding all included items and dividing them by the number of items. The score was assigned on a scale of 1 to 5, with a higher score indicating greater literacy in the subscale.

#### Depth interviews and measurement segment

The interviews are divided into two sections: 1) demographic data and 2) financial management behavior scale (FMBS) and cultural variables. All participants were interviewed and asked to provide socioeconomic information, such as gender, type of life insurance, number of people living at home, age, education level, field of work, place of residence, and personal income. In addition, mobile device usage, network usage, online shopping applications, and bank usage times are all recorded.

### III. RESULTS AND DISCUSSION

Couples in South Sulawesi are aware that one certainty about uncertainty is that households will face adverse income and cost shocks in the future (for example, due to unemployment, lower bonus payments, or unexpected medical expenses in case of illness). Economists have focused on the issue of customer choice in an uncertain environment. A common source of consumer uncertainty, according to Campbell (1980; Goldsmith (1983; Merton (1975), incorporates uncertainty about future capital income, future labor income (human capital), death age, investment possibilities, and consumer goods relative prices. Every household is anxious about the potential for sudden death and the impending loss of income. As a result, an insurance market is emerging that allows households to forgo current premiums in order to obtain insurance dollars in case of premature death.

The low level of financial literacy of married couples in the South Sulawesi region is explained by the responses from interviews, which usually show that neither alpha couples nor beta couples are confident enough in planning and choosing the basic life insurance protection needs that families desperately need. Some married couples have proposed alternative solutions. Alternatively, households may rely on an informal network of relatives and friends to share the risk of these negative shocks and the smoothness of consumption. That is, once the income shock has manifested itself and households are in financial difficulties, they may seek informal credit from their network of relatives and friends (misalnya, (Ortigueira & Siassi, 2013))

Studies have been conducted to investigate the factors affecting financial literacy. These variables include demographics, socioeconomic considerations, internet banking, and cultural influences. Gender, age, and educational level are the three main demographic characteristics. In terms of gender, men have more financial expertise than women (Lusardi & Mitchell, 2017; Bucher-Koenen et al., 2017; Cupák et al., 2019). Women struggle with financial computations, limiting their ability to make sound financial decisions. (Potrich et al., 2015) Furthermore, when asked about financial literacy, they often choose "don't know" (Hasler & Lusardi, 2017). It is critical to recognize that there are disparities between developing and developed countries. (Hasler & Lusardi, 2017).

Defining quality.

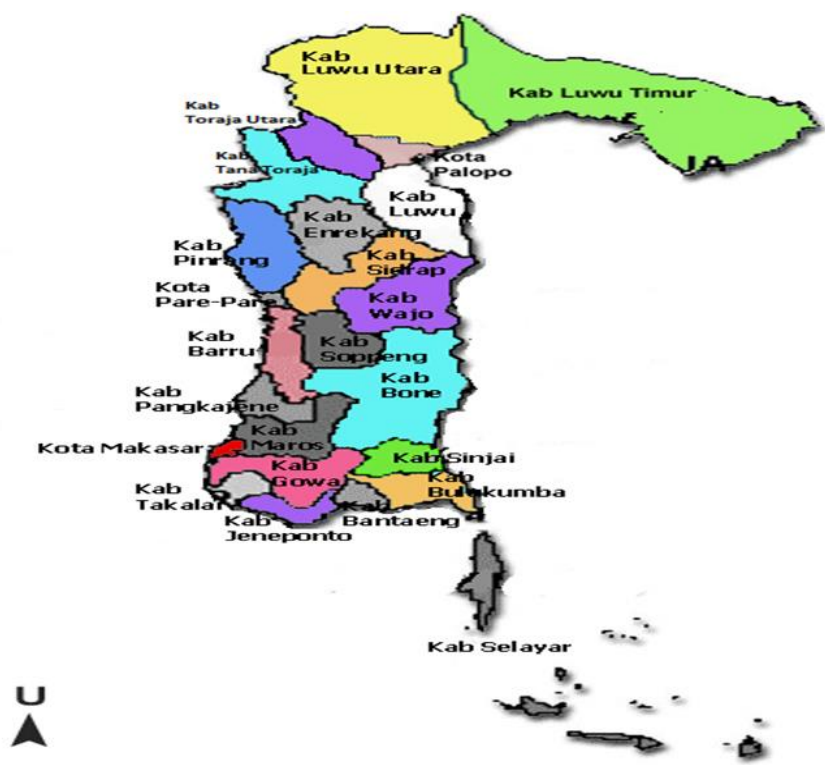
The alpha role is played by one partner, while the beta role is played by the other, although the two people are more comparable in their approach to finances. Women are more likely to be in alpha couples. From the point of view of life insurance planning, a more active spouse has a feature that indicates motivation that if something unfavorable happens to the husband, he will make a claim and hope to continue the quality of consumption and lifestyle under normal conditions. Beta partners usually don't care about money, but they can step into alpha positions if needed. 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 in allocating assets and making household financial decisions for life insurance membership planning for their families.

The decision-making process is generally led by alpha partners. They, however, are often involved in the last phase and have a say in the main choice. There are couples who are quite cooperative and democratic towards household financial planning and household financial decision-making. Married couples each have the role of initiators and good decision makers.

Role in the decision-making process

Most relationships have one partner who is more active in decision-making and the other who is more reactive, or passive. We refer to these two types by the role names "alpha" and "beta." In most partnerships, one partner is more active in decision-making while the other is more reactive, or passive. We use the role designations "alpha" and "beta" to distinguish these two categories. In general, these people lack confidence in their financial capabilities more than their alpha couples. Certain financial obligations, such as car insurance or small property purchases, are mentioned by some test partners, indicating a well-defined comfort zone. Beta couples are often more likely to spend money than to save it. They are often short-term in their financial thinking and relatively relaxed about household finances when compared to alpha partners. They frequently seek financial advice from informal sources such as friends, family, and coworkers.

Figure 1. Administrative Map of South Sulawesi Province



From the perspective of the cultural background of the informant couple, they describe the uniformity that the level of financial literacy of married couples of different cultures does not have significant differences that are reflected significantly in the decision-making carried out by the husband and wife in one household, except that in the aspect of the distance of power, where in everyday life the relationship between the couples in the household is led by a head of the family in every household. It also explains why the fourth aspect of the Hofstede cultural dimension, from the literature review, may not be relevant to the concept of financial literacy, in which Financial literacy is described as an individual's knowledge and abilities in financial management.



**Table 1.** Participant characteristics

	South Sulawesi					N
	Mean	SD	Min.	Median	Max.	
<b>Panel A. Controls</b>						
Financial literacy	8.107	3.123	0	9	14	836
Cognitive ability	2.421	1.932	0	3	8	857
Confidence	6.551	2.113	0	8	10	836
Trust	3.143	1.037	1	4	5	829
Emotional stability	2.736	1.141	1	4	5	832
Risk attitude	4.758	2.309	0	6	10	798
Investment advice	0.204	0.400	0	0	1	857
Age	37.817	16.157	20	47	82	853
Female	0.517	0.489	0	1	1	857
Children	0.715	0.437	0	1	1	857
Married	0.550	0.486	0	1	1	857
Unemployed	0.046	0.220	0	0	1	857
Education	1.220	0.613	0	1	3	770
Self-employed	0.057	0.239	0	0	1	857
<b>Ethnicity</b>						
Bugis	0.749	0.417	0	1	1	847
Luwu	0.121	0.328	0	0	1	847
Toraja	0.017	0.152	0	0	1	847
Other	0.072	0.265	0	0	1	847
Household income	105,267	142,308	0	71,284	6,604,500	672
Household net wealth	309,245	1,413,759	-6,865,099	54,048	81,450,100	833
<b>Panel B. Financial well-being</b>						
Financial well-being	54.218	12.612	14	54	95	823

This table provides summary data on factors utilized in our online survey based on analysis.. The data is weighted and representative for the South Sulawesi population.

To strengthen the understanding of interview answers to household couples in this study, we also combined a complete set of socio-demographic data such as general public beliefs; marital status, age, gender, having children; ethnicity; labor market position; household income; and net worth from the results of an online survey of the topics discussed in this study of the community of 857 respondents to strengthen the views of the household income, labor market, and net worth from the results of an online survey of the topics discussed in this study of the community of 857 respondents to strengthen the views of the case study on 12 married couples in South Sulawesi. We also take into account people's risk attitudes, cognitive abilities, and emotional stability, which have been shown to be closely related to their financial situation. This is in line with the findings (Calvet & Sodini, 2014), which show a strong positive relationship between risk asset market participation and household well-being.

### Life insurance planning perspectives

The alpha couple, who are in charge of tracking the couple's household income and expenses, are usually in charge of making daily financial choices. These people care

more about household finances than beta partners. In terms of the household economy, alpha partners tend to be confident but save their money. The majority of alpha partners want to save instead of spending their money.

When the pair made major financial decisions, a similar tendency arose. Typically, alpha partners will actively drive the decision-making process by generating ideas and making decisions. The pair will further consider the choice together before making a final decision together. When the final choice is reached, it is generally the alpha partner in charge of implementing that decision. In other circumstances, alpha partners report starting a phase of research before bringing these issues to the attention of their partners and incorporating them into the process.

Similar to beta partners in the Unbalanced Responsibility group, beta partners in the Organized Aspirations group describe the obstacles to participating in the decision-making process. They tend to let their alpha partner lead the process, show apathy, "laziness," or believe that they choose "to tend to follow" because they know a more financially literate partner has the knowledge, skills, and confidence in deciding on household money. They will make sure that the situation is fixed.

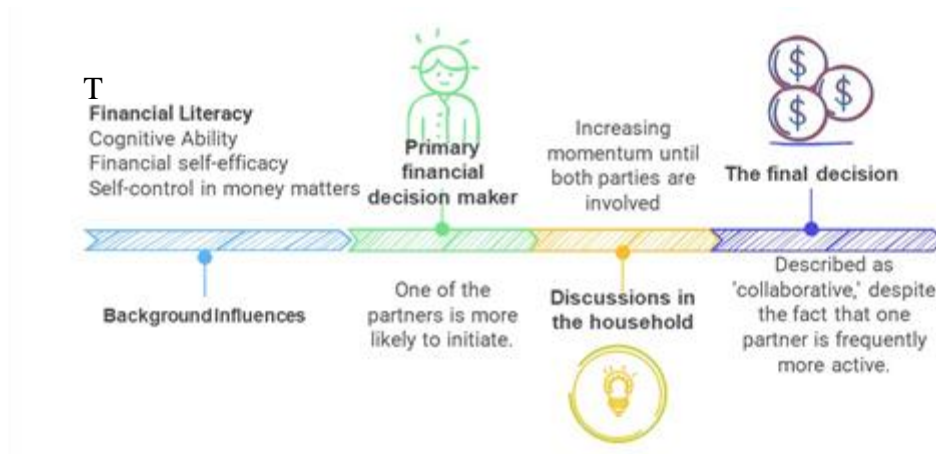
Spouses in the category of unbalanced liability often have little, if any, arrangements for life insurance. An alpha couple is more likely than a beta couple to start, or at least consider, life insurance ownership. While alpha partners who contribute to life insurance schemes may often communicate important data, such as the rates they recommend, beta partners are not familiar with how their life insurance works.

### Insurance decision making

For some couples, planning to get and participate in life insurance is still not considered strong enough to be a commitment for most married couples. Some couples with tribal ancestry have a stronger view of life insurance planning. This is indicated by the fear of childbirth and the desire for children to have a higher education in the future. So, spouses plan insurance for the education of their children, with the benefit of knowing that if the insured becomes incompetent or dies, the education of the child will be guaranteed. The spouse will get a portion of the benefit reimbursement. This product was chosen because there is a requirement for alpha pairs to see the advantages given. The couple's demographics seem to be quite familiar with life insurance products. The participants we studied were more likely to be familiar with the term "educational insurance" than with "life insurance," despite the fact that both are the same thing.



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



The type of dialogue between couples in establishing communication of the desire to plan and make household financial decisions in husbands and or wives in South Sulawesi is depicted in Figure 3. which is a household financial decision-making model as follows:

1. Financial literacy plays an important role in each participating household partner's cognitive ability, financial self-efficacy, and self-control when it comes to money problems.
2. When deciding on the main financial option, one of the spouses takes the initiative by first looking for information and then talking to the other partner using information collected from the network and peers. If the couple reacts, decision-making begins; if the spouse does not answer, further initiation is stopped.
3. When discussing a household financial plan, one of the spouses will look for the right encouragement to improve the plan together with the cooperation of each spouse.
4. Household financial decisions are made jointly or consensually, although one of them is always dominant enough to realize household financial decision-making and be involved in the final decision.

#### IV. CONCLUSIONS AND RECOMMENDATIONS

##### Conclusion

Household financial decision-making on the ownership of life insurance in household couples with a socio-economic background, cultural and demographic characteristics in the people of South Sulawesi is closely related and influenced by



knowledge, individual skills, and self-confidence in the financial management of the spouse and or husband. The literacy level of participants is also influenced by the background of formal education, household income, household wealth and points of view believed by couples who are still guided and uphold the value of traditions that are binding on the culture of married couples/participants, which has an impact on making household financial decisions that tend not to be uniform. Husbands tend to have slightly better financial literacy than their female partners, but in making household financial decisions are not automatically carried out by the husband. Cultural aspects related to the dimension of masculinity and femininity also affect who is more dominant in making household financial decisions, especially in planning and ownership of life insurance policies.

The expenditure characteristics of married couples who come from the indigenous tribes that inhabit South Sulawesi tend to be less patient in managing household income and tend to allocate little savings even if the income consumed today is still more until obtaining the next income. This is different from married couples who come from tribes outside South Sulawesi and tend to have prudence in allocating income and have a priority scale of saving for the future on fixed assets or investing in assets and businesses in the yard of married couples. In this couple, the dialogue about making household financial decisions is quite moderate and is often carried out jointly.

### Suggestion

The importance of mediation by local governments and stakeholders, in an effort to increase the financial literacy index of the people of South Sulawesi, was stated by several informants regarding issues of accessibility, inclusivity, and related to initiation costs. Individual financial skills and financial literacy in general are not taught in formal education, so it is important in this case that regulators formulate policies to formulate learning media to improve the financial literacy of the public in general. The results of this qualitative research are not recommended to be used as a barometer to generalize research findings and be applied to policy making with a socioeconomic, demographic, and cultural ethnic background that tends to differ in the extreme from the typical people of South Sulawesi.

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