

# A CONCEPTUAL STUDY ON THE IMPACT OF PARENTAL INFLUENCE IN IMPROVING FINANCIAL LITERACY OF UNIVERSITY STUDENTS

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**Abstract:** *Financial independence usually begins when someone starts attending university because at that time parents usually give authority to their children to manage their own finances. Financial literacy is one of the competences which people really need in current times to make various financial decisions. Parents become very critical agents in the development of children's financial literacy level and it is proven that there is a relationship between financial literacy and parental financial socialization. According to this study the factors that influence the success of parental socialization in increasing children's financial literacy are parents' experience, role modeling, financial communication, money allowance, and financial monitoring.*

**Keywords:** *financial literacy, financial socialization, conceptual study, parents, university students*



## 1.0 INTRODUCTION

Industry 4.0 marked the advances in technology which required a tech-savvy society. Every aspect in our life impacted so much by that, such as the financial sector. Financial sectors including bank, insurance company, multi-finance, and so forth. To fulfil the high demand of society's financial needs in everyday life, the financial sectors offer many interesting financial products.

In the past five years, Indonesian have been hit by the trend of mobile payment to promote Cashless Society. Some names like Gopay, OVO, Dana, and Link Aja are digital payments which are very famous among locals and now their service is already widespread all over Indonesia. Reported by Indonesia CNBC (2020) in Ipsos Marketing Summit 2020: Indonesia The Next Cashless Society to 1000 respondents spread all over Indonesia, shown that around 25 % of Indonesian use digital payment, they perceived it as a pleasant experience and as much as 26% respondents feel safer, more comfortable and confident in using digital payment.

By the features provided by the platform, people who want to get loans also get so much easier in the procedure compared to the past time. However by this easiness and the variety of financial products offered, people might make wrong decisions instead they get lost financially. To prevent people with this kind of situation, people need to be equipped with some competences in finance which could be mirrored by how their financial literacy level is in facing this Cashless Society era.

Financial literacy is the skill to examine new and complex financial instruments and to make rational judgments for both the choice and extent of use of instruments that would be in their best long-term interest. (Mandell, 2007). Financial literacy is a crucial part of financial decision making (Lusardi *et al.*, 2010) and successful adult life (Jian & Joyce, 2010) because people already confront complicated financial decisions since young age and financial mistakes can be costly (Lusardi *et al.*, 2010)., that's how important financial literacy is.

In this research, the author specifically wants to study about university students. University students are an interesting subject to study because university students are in the age where they are given the authority to manage their own money for the first time. Some of them might be living away from their parents and living alone to pursue their studies. This period is often considered as the transitional stage of financial independence. But in reality, university students often experience numerous difficulties related with adjusting to living away from home especially the first-year university students (Tinto, 1998).

Most university students are not yet financially independent but are actively learning the skills needed to be financially independent. Furthermore, the key to achieving adult status is financial independence (Arnett, 2004). Bad personal money management is often found by university students because most of them are given the trust by their parents to manage their own finances for the first time in this stage. Thus it's crucial for the university student which is categorized in the age group of young adults to start learning about finance during adolescence in order to have successful transition to adulthood where their attitude starts from supportive social networks such as parents (Jian & Joyce, 2010).

The channel who are responsible for financial knowledge and awareness among young adults on financial planning and its impact on money management are parents, educational institutions, and the government (Sundarasan *et al.*, 2016). Specifically, parents are the primary socialization agent. Parents teach children how to act by relying on their values, beliefs, and knowledge (Bandura, 1986; Clarke *et al.*, 2005), thus shaping their children's attitude toward finances as well as their behavior (Jorgensen & Savla, 2010).

## 2.0 LITERATURE REVIEW

### 2.1 Financial Literacy

According to OECD (2013) financial literacy is a combination of skill, behaviour, awareness, attitude and knowledge of a person that is required to build a sound financial decision leading towards the accomplishment of becoming financial well-being. Individuals are acknowledged financially literate when they are proficient and practice financial inclusion along with knowledge they have learned. As people become more literate they develop into more financially sophisticated and it is expected that this may also imply that an individual can be more proficient (Moore, 2003). The Financial knowledge has relation with financial behaviour, attitude, and influence (Jorgensen, 2007). The worst fields of financial behavior appear to be related to budgeting, planning ahead, product selection and the use of professional advice (OECD, 2018)

This research focuses to find out how the influence of parent socialization with the financial literacy level of their children who are currently studying at a university located in Bandung, Indonesia. This research also wants to find out what factors are significant in this process and aimed to give the best recommendation.

### 2.2 Financial Socialization

Financial socialization is the process of teaching values, attitudes, standards, norms, knowledge, and behaviors that contribute to the financial survival and the success of individuals (Danes, 1994). The financial socialization perspective presuppose that “socialization takes place through interaction of the person and various agents in specific social settings” (McLeod & O’Keefe, 1972). Previous research has shown that people access financial knowledge not only from financial educational networks but also from interactions with socialization agents such as family, friends, media and schools (Curto, 2010).

### 2.3 University Students

Students in broad have a low level of financial literacy (Xiao *et al.*, 2014). Financial literacy of students affected by demographic variables such as social background, financial attitude, financial knowledge and family sophistication (Ibrahim *et al.*, 2009). Even though students living surrounded by financial activities, students are taught very little about how to practice the financial matters properly (Conci, 2008). A variety of teaching approaches might be used to increase students’ knowledge (Xiao *et al.*, 2014).

### 2.4 Parents as the Agent of Socialization

Parents have been found to shape the socialization of their children (Jorgensen & Savla, 2010). Even as they get in early adulthood, parental influence remains a potentially critical socialization agent (Tang and Peter, 2015). Soroukou and Weissbrod (2005) said, first-year university students (both males and females) consider their parents to be supportive, especially during more severe periods. Since most young people are dependent upon parents for financial support during the transitional period (Schoeni and Ross 2005). Parents can be both direct teachers and useful role models in the financial development of their children (Jian & Joyce, 2010).

### 2.5 Previous Studies

Researchers make summaries of article journals using tables with topics that correspond to the research topic of the researcher. Topics related to financial literacy, parents, and students. This literature will assist researchers in creating the conceptual frameworks from the previous studies.

Table 1 Previous Studies

Author (Year)	Description	Key Point	Methodology
Tang and Peter (2015)	Determine the current roles of financial education, financial experience, and parent’s financial experience as determinants of financial knowledge acquisition.	The roles of financial education, financial experience, and parents’ financial experience has significant impact on financial knowledge.	ANOVA and Poisson Regression, (main effect and interaction effect).

Jorgensen <i>et al.</i> (2016)	Analyze the financial behavior of emerging adults and their relationship with their parents in achieving financial independence from family financial socialization.	Learned through parents' example was associated with higher levels of financial knowledge.	Structural Equation Modeling (SEM).
Hanson & Olson (2018)	Determine the correlation between financial literacy of college students and family communication patterns	Young adults who grow up in a family with a strong conversation orientation possess greater financial knowledge.	Two-way ANOVA, correlation analysis, and multiple linear regression.
Nidar & Bestari (2012)	Identify the factors affecting financial literacy of University students.	The factors which influenced the personal financial literacy are knowledge of parents, pocket money / income, education level, faculty, parents income, and property insurance.	Logistic model regression.
Serido J. & Deenanath V. (2016)	Analyze the ways that financial parenting promotes the acquisition of financial knowledge and skill and to propose how financial parenting promotes or constrains financial self-reliance	Parental role-modeling and explicit teaching are powerful socializing processes.	Literature review.
Kim, J. & Chatterjee, S.(2013)	Which the family processes, such as parental warmth, parental financial monitoring and parental financial communication, and individual and parent factors affect their financial behaviors and financial attitudes.	Respondents who had their spending monitored by their parents were significantly more likely to report being good at managing their own money.	Logistic Model Regression

### 3.0 METHODOLOGY

The first stage in conducting this research is to identify and define the main problem. After that, it break-down into research questions and objectives that this research wants to answer and solve. Next, do a literature review with article sources, journals, published books, and so forth. Then collecting primary data by distributing questionnaires with guidance from previous literature.

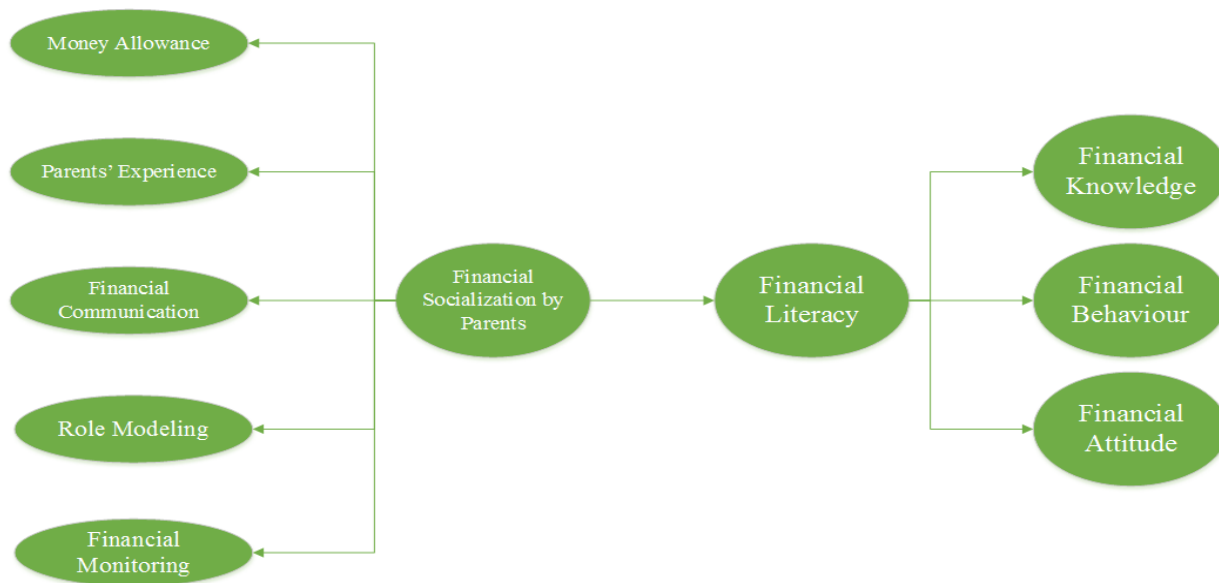
The questionnaires will be divided into three sections. The first section is demographic questions (full name, email, university, class year, type of living, source of money allowance, and source of financial knowledge). The second section is to measure

financial literacy by assess financial knowledge, financial behaviour, and financial attitude. There will be 6 questions of financial knowledge (using multiple choice), 3 statements Financial behaviour (using 6-scale likert scale), and 3 statements of financial attitude (using 6-scale likert scale). The second section aimed to know the ‘socialization method conducted by parents with (using 6-scale likert scale).

After all data has been collected, it will be checked with a statistical tool and transformed into information. The last stage of this research is providing conclusion and recommendation which will be used for financial literacy program conductors or used for further research.

**4.0 RESULTS AND DISCUSSIONS**

Financial literacy of university students is much influenced by parental financial socialization, based on literature that has been collected and reviewed. The role of parents is considered as critical, they are the first socialization agent to give and introduce financial issues since early adulthood. Parents can be both direct teachers and useful role models in the financial development of their children (Jian & Joyce, 2010). Following below is a conceptual framework based on the researcher's understanding.



**Fig.1 : Conceptual Framework for This Study from Author's Interpretation**

Financial literacy level predicted by financial knowledge, financial behaviour, and financial attitude. Then the factors that influence the success of parents' financial socialization to their children can be due to parents' parents' experience (whether parents are familiar and use financial products then share experiences with their children), financial communication (do parents communicate directly in directing their children about finances), money allowance (how much the amount of allowance parents give to their children and the method to distribute it), and financial monitoring (whether parents always monitor the child's income or expenditure). The level of financial literacy of a university student can be explored by how their parents socialize financial problems.

## 5.0 CONCLUSION

Based on the data that has been collected, financial literacy has a relationship with how parents view financial socialization and there are a variety of methods and ways for it. It can be direct or indirect. Direct for things that are directly communicated such as financial communication and indirect ones such as parents' experience and money allowance.

Next researcher will check this result by using both qualitative and quantitative approaches. Researchers will also find the relationships between each variable using linear regression. The outcome of this study can be used by many stakeholders such as for parents, children, government, researchers, organizers of financial socialization, and so forth.

## 6.0 FUTURE RESEARCH

By making this conceptual study, researchers will use this study to test and measure the financial literacy level of university students and its relationship with parental socialization located in Bandung, Indonesia. This study also could be used by other institutions such as government, event planner, and even parents as the part of evaluating the effectiveness of socialization in enhancing financial literacy level.

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