FINANCIAL LITERACY OF YOUTH: A CASE STUDY OF ISLAMIC BANKING AND FINANCE STUDENTS IN KOLEJ UNIVERSITI ISLAM ANTARABANGSA SELANGOR

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ABSTRACT

This paper investigates the influence of various factors on different dimensions of financial literacy among Islamic Banking and Finance students in Kolej Universiti Islam Antarabangsa Selangor (KUIS). This paper utilized questionnaire based surveys to obtain information about financial literacy. The sample comprised of 201 students in the programmed of Islamic Banking and Finance, Faculty of Management and Muamalah KUIS. The study provides an in-depth analysis of respondents' financial knowledge (*FK*), financial education (*FE*) and financial attitude (*FA*) was measured with a 5-point Likert scale. The study also investigates the relationship between the dimensions of financial literacy. The findings indicate that financial knowledge, financial education and financial attitude significantly influence financial literacy. Nevertheless, *FK* has the strongest relationship with *FL* (r = 0.645), followed by the *FE* (r = 0.631) and *FA* (r = 0.546). The results also indicate that this group of students need for further intervention strategy by the authorities in order to enhance financial literacy among them.

Keywords: *Financial literacy, financial knowledge, financial behavior, financial attitude*

1. INTRODUCTION

In a world of improved individual financial responsibility, where market is full with multifarious financial products, financial literacy is essential. The ability to understand basic concepts in finance and deal with day to day financial transaction is very important. Thus, individual should be equipped with good financial knowledge, financial education and attitudes to make a wise financial decision. In fact, financial literacy has a greater impact on the economic development for a particular nation.

Financial literacy is knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life (Lusardi, 2015). Financial illiterate person will absolutely create financial problem and tend to constantly make a wrong financial decision.

Visa's International Financial Literacy BAROMETER 2012 conducted a survey from February and April of 2012 with 25,500 participants in 28 countries. This survey revealed that Brazil was the most financially literate with 50.4% out of 100. Other countries which categorized as top five are Mexico, Australia, the United States and Canada. Malaysia ranked at ninth scoring 41.7% in terms of financial literacy but surprisingly, only 39.6% of Malaysia citizen has three-month worth of saving set aside for an emergency. According to the survey, only people in China, Taiwan, Hong Kong, Japan and Canada had more than three months of savings. Having all these fact and figures, there is an increasing need for financial knowledge and financial skills.

In fact, Central Bank of Malaysia has included the need for enhanced financial education at national level by collaborating with Ministry of Education (MOE) to integrate financial education into school curriculums. The aim of the programmed is to improve and cultivates financial education, financial knowledge and attitudes at a very young age. These concerted efforts were taken by the Malaysian government to nurture and educate people to be a better person in making wise financial decisions.

The market for Malaysia students is actually huge and lucrative since the gross enrollment ratio in tertiary level represents 30% of relevant age group in 2014. http://wdi.worldbank.org/table/2.11. In relation to that, Malaysia currently has 18 public universities and 47 private universities and colleges. This growth is consistent with the greater number of enrollment in higher education and increasing in cost of college. Thus, indicates an increasing number of students making loan debt to finance high education expenses. In this situation, financial knowledge, financial education and financial attitudes plays a vital role in supporting student to properly manage their fund. Indeed, the attitude of particular individual towards money will eventually affect their financial literacy and behavior. As explained by Albeerdy & Gharleghi, 2015, individual who observed money as just a tool to obtain their wants will not have a proper financial planning for the future. Unfortunately, this view has become the main problem in this modern era.

For more than a decade, we can see the significant improvement in term of Malaysia standard of living. This situation also stimulates the changing in student's lifestyles as they are granted greater freedom from their guardians to make own shopping and consumption decisions. The recent financial environment also can entice youth to borrow money even though it is not inevitably for them to do so, due to the dynamic, innovative and flexible credit policy (Kamaruddin & Mokhlis, 2003).

Apart from that, parental norms play a significant role on money management (Devi, Sabbir, Othman, & Danaraj, 2016). They found that the role of parents from an infantry stage of an individual is imperative, so as to ensure that they are taught at every stage of their life on the importance of wealth optimization. This will mold individuals to be financially savvy and attain financial freedom in the later part of their lives.

The greatest concern should be emphasized on the financial literacy among students as it will finally affect their later lifecycle. Major previous research has shown that people with high financial literacy has the ability to plan, implement and make better decision in life. Based on the facts, there is a pressing need for students to have an adequate financial knowledge, education and attitudes in order for them to make the finest decision. There is a concern to educate youth to prepare for their future and ultimately has a sufficient retirement fund. Otherwise students tend to misuse the money and will further lead to poor financial management as most of them are live separately from their parents. Past study shows that poor financial management can affect student's academic performance, mental and physical well-being, and even the ability to find employment after graduation (Albeerdy & Gharleghi, 2015).

In this regards, this paper has three objectives to be achieved. First, to identify whether there is any influence from financial knowledge towards financial literacy among students; second, to identify whether there is any influence from financial education towards financial literacy among students; and third, to identify whether there are any consequences from financial attitudes towards financial literacy among students.

2. LITERATURE REVIEW

2.1 Financial Literacy

At the macro level, financial literacy is an essential component to the nation economic health as it will influence the country development. Financial literacy means peoples' ability to process economic information and make informed decisions about financial planning, wealth accumulation, pensions, and debt. In what follows, we outline recent theoretical research showing how financial knowledge can be cast as a type of investment in human capital (Lusardi & Mitchell, 2013).

According to Fraczek and Klimontowicz 2015, financial literacy is usually understood as a combination of awareness, knowledge, skill, attitude and behaviour, necessary to sound financial decision-making and ultimately achieving individual financial well-being. Therefore, all students must be equipped with the knowledge on how to retain a good spending habit since financial literacy has many implications on future life. Additionally, individuals with low level of financial literacy will suffer from that lack of knowledge at every stage of their lives.

Previous research has found that financial literacy can have important implications for financial behavior. People with low financial literacy are more likely to have problems with debt, less likely to participate in the stock market, less likely to choose mutual funds with lower fees, less likely to accumulate wealth and manage wealth effectively and less likely to plan for retirement (Lusardi, Mitchell, & Curto, 2010).

We must realize the importance of having high level of literacy specifically among students. Consumer and Financial Literacy [CFL] Treasury Taskforce (2004) reported that financial literacy level among university students and young adults were poor and lead to various financial situations which include more students working part-time job, increase cost of financing higher education and other (Ibrahim, Harun, & Isa, 2009).

2.2 Financial Knowledge

Financial knowledge and financial literacy are always use interchangeably. But, financial literacy consists of both knowledge and application of human capital specific to personal finance. The level of overall endowed and attained human capital influences a person's financial literacy (Huston, 2010). Financial knowledge can be defined as the stock of knowledge acquired through education and/or experience specifically related to essential personal finance concepts and products. Hence, an Islamic financial knowledge would be the stock of knowledge that one acquire specifically related to Islamic finance concepts and products (Azmi & Chong, 2014). This acquired financial knowledge will be a prerequisite for a positive financial literacy and shapes future habits.

On the other hand, person who lack of financial knowledge will face negative consequences in financial management. According to Lusardi and Mitchell 2013, low levels of financial knowledge are pervasive, suggesting that it will be quite challenging to provide the tools to help people function more effectively in complex financial and credit markets requiring sophisticated financial decision-making.

Some of the early studies found inadequate levels of knowledge among high school and university students, as well as working employees, about personal finance knowledge and methods (Ibrahim & Alqaydi, 2013). Recent media report on the increasing bankruptcy case among youth due to credit cards usage indicates the lacking of financial knowledge. This spending habit needs to be changed and definitely must be further improved the financial knowledge among students.

Major institutions such as schools, families, governments, and financial institutions must all collaborate in stimulating financial knowledge among students at a very young age. This is consistent with Shaari et al., 2013 stated that financial decisions are highly influenced by financial knowledge. In fact, student with higher levels of financial literacy made good spending decision in a hypothetical circumstance.

2.3 Financial Education towards Financial Literacy

Financial education is an input intended to increase a person's human capital, specifically financial knowledge and/or application (i.e. financial literacy) (Huston, 2010). A well-designed financial literacy instrument that adequately captures personal finance knowledge and application can provide insight into how well financial education improves the human capital needed to behave appropriately to enhance financial well-being. Some relevant studies shown that financial education programmed seem to contribute in individual financial literacy. On the other side, financial education should be considered as a concept and proxy that upholds financial literacy. Major purpose of financial education programmed is to accommodate all participants with a basic knowledge of financial management skills.

Various themes have been explained to define financial education including being knowledgeable on numerous issues of managing money and assets such as banking issues, investment, insurance and taxes. On the other hand, it is barely important to understand the basic concept in managing money and asset such as time value of money and risk management techniques. Having all this information will actually assist individual in planning, implementing and evaluating financial decisions (Hogarth, 2006).

Financial education is one of the critical importance components in financial literacy. In fact, policymakers have design an effective education programs targeted at young people. Realizing an important of financial education and financial literacy, Malaysian government through Central bank of Malaysia came out with an excellent programme to nurture and educates people to be a better person in making wise financial decisions. For instance, Pocket

Money Book programme has been introduced in 1998 by distributing 7.9 million copies for students throughout Malaysia, financial education website for students, and workshop for teachers and students. These programme inculcated students at an early age in managing and controlling their personal finance.

US Federal Government established Office of Financial Education in the US Treasury Department and the National Financial Literacy and Education Commission (Mian, 2014). This was their national level strategy to promote financial education and financial literacy. Mian also revealed the research findings on the impact of financial education on American household savings. It showed that adults who possess low financial literacy will definitely made poor financial decisions. This finding indicates that, financial education is a crucial tool for an individual to attain an effective financial literacy.

For more than a decade, any efforts towards upholding financial education will eventually increase participation in savings plan (Bayer et al., 1996). Supported by recent research, explained that financial education is the process to improve financial literacy. In fact, financial education will influence people's financial awareness, yet individual must continuously enhancing knowledge on various types of financial products and features (Fraczek & Klimontowicz, 2015).

However, there are arguments in recent findings as the evidence shown that financial education has only a minimal impact on financial literacy. No significant linked between these two variables due to influence of any other factors. The cost of conducting financial education programmed is high as compared to its impact on participants. Hathaway and Khatiwada (2008) in their Federal Reserve Bank of Cleveland working paper found that the best program design advice is to target specific audiences and areas of financial activity (such as credit or retirement planning), and to offer training on a just-in-time or "teachable moments" approach. In terms of program outcomes, they concluded: "Unfortunately, we do not find conclusive evidence that, in general, financial education programs do lead to greater financial knowledge, and, ultimately, to better financial behavior.

2.4 Financial Attitude towards Financial Literacy

Current studies defined financial attitudes as someone beliefs, value and psychological tendency when making a financial decision. Belief and values are both related with personal financial concepts for instance, one belief that it is important for them to have an appropriate level of savings. While psychological tendency will influence on how to evaluate financial management practices with some degree of agreement and disagreement (Parrotta & Johnson, 1998; Chowa et al., 2012)

Major previous studies explained that parents and guardian are the main sources for youth to acquire knowledge on money. Parent's behavior and attitudes will somehow shape the children's financial attitudes and behavior development. Supported by Chowa et al., 2012, stated that parents and other family members had a strong impact on students' financial knowledge, attitudes, and behavior. On another matter, parents are among of the prime socialization proxies that will influence the financial attitudes of youth and adolescent.

Recently, it is argued that parental norms play significant roles on child development. Youth actually learned about money matters and management from their parents. Indeed, youth who acquire knowledge on managing money from their mothers will tend to have higher level of literacy. In fact, past study shows that a parental norm has a significant and positive relationship on money management of the young adults (Ibrahim et al., 2009; Devi et al., 2016). The above findings show that family, especially guardians have a huge impact and roles on financial literacy of an individual. Definitely children learn on financial matters from their parent through observations and participation in any family discussion. In this situation, parents are responsible enough to nurture and inculcate the value of financial knowledge towards children as their roles are so imperative.

3. DATA AND METHODOLOGY

3.1 Conceptual Framework

Following frameworks shows how financial knowledge, financial education and attitudes influence financial literacy.

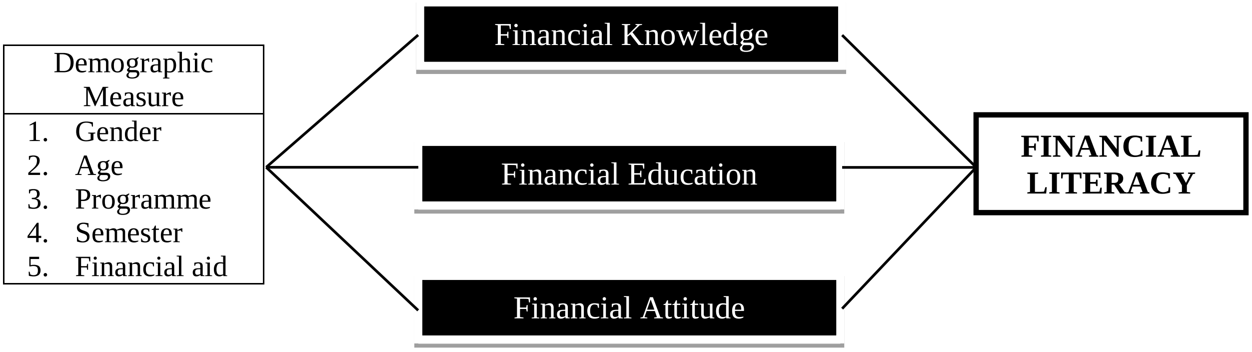

Figure 1: Research Framework

3.2 Research Design Sampling Population

This paper can be considered as quantitative and explanatory study, the respondents of this study comprised of all students enrolled in the Islamic Banking and Finance programme, Department of Accounting and Finance, Faculty of Management and Muamalah (FPM). The sample will analyze the level of student's financial literacy.

3.3 Data Collection Method

This paper employed questionnaire- based surveys to obtain information about financial knowledge, financial education and financial attitude among students. The questionnaire consists of 5 parts. Part A, demography survey to find out the background of the respondents. While Part B tends to seek out information on respondent's financial knowledge. Part C tries to examine the financial education of the respondent and Part D to evaluate the financial attitude among respondent.

They were required to answer using five-point Likert scale ranging from 1=strongly disagree to 5=strongly agree. Before the actual data collection was conducted, a pretest was done involving 30 respondents to check for the reliability of the questionnaires.

3.4 Data Analysis and Interpretation

The collected data was coded and analyzed using IBM SPSS Statistic 22. Descriptive statistics such as frequency, percentage, and mean were used to interpret the data. Pearson correlation was conducted to identify the relationship between variables.

4. RESULTS AND DISCUSSION

The results are presented in Table 1, Table 2, Table 3 and Table 4. Table 1 provides the informative descriptive statistics on financial literacy of youth. There are three variables being estimated, including gender, age, and semester. Basically, descriptive statistics is important to verify the statistical characteristics of individual variables included in the models under consideration.

Four statistical items are examined, namely, min, max, mean, and standard deviation in which each item reflects specific characteristics of the variables. For instance, the mean reflects the average behaviour of the corresponding variable in the sample; whereas the standard deviation reveals its distribution. Gender equals one if male. Age is one of four groups: 18-20, 21-23, 24-26, and 27-29 years old. Semester is one of seven groups: 1, 2, 3, 4, 5, 6, and 7.

Table 1: Summary of Descriptive Statistics

Variable	*N*	Min	Max	Mean	Std. Deviation
Gender	201	1	2	1.68	.469
Age	201	1	3	1.64	.626
Semester	201	1	7	4.07	1.637
Valid *N* (listwise)	201				

Table 2 reports the demographic measures. Of the 201 students analyzed in the survey, 32.3% were male and 67.7% were female. Majority of the respondents were 21-23 years old (47.8%) and 18-20 years old (44.3%).

Greatest of the respondents enroll as BIFB students (60.7%). We find about 49.8% and 21.9% of the respondents from fifth and second semester, respectively. Overall, most of the respondents having PTPTN (66.2%) as a financial aid.

Table 3 shows the summary of reliability statistics. The research instrument was tested for reliability using the Cronbach's coefficient. The Cronbach's alpha for all dimensions are exceeding the minimum alpha value of 0.6 (Hair et al., 1998), thus the construct measures deemed reliable and all items in the construct measures are retained. Some professionals insist on a reliability score of 0.70 or higher in order to use a psychometric instrument.

Table 4 displays the summary of Pearson correlation analysis. All the independent variables have positive association with the dependent variables. FK has the strongest relationship with FL (r = 0.645), followed by the FE (r = 0.631) and FA (r = 0.546). All hypotheses of this study are accepted as the p-values are less than 0.05 (Malhotra, 2010). It indicates that all these 3 independent variables significantly influence financial literacy. Furthermore, financial knowledge practice is the major influential of financial literacy due to the strongest relationship with financial literacy.

Table 2: Descriptive Statistics: Demographic Measures

Variable	Frequency	Percent (%)
Gender		
Male	65	32.3
Female	136	67.7
Age		
18-20 years old	89	44.3
21-23 years old	96	47.8
24-26 years old	16	8.0
27-29 years old	0	0
Programmes		
DIB	73	36.3
BIFB	122	60.7
BIFC	6	3.0
BIFT	0	0
Semester		
1	14	7.0
2	44	21.9
3	9	4.5
4	10	5.0
5	100	49.8
6	18	9.0
7	6	3.0
Financial aid		
PTPTN	133	66.2
MARA	17	8.5
Zakat	14	7.0
Selangor state	1	0.5
Scholarship	3	1.5
Others	7	3.5
Did not apply	26	12.9

Table 3: Summary of Reliability Statistics

Construct	Cronbach's Alpha	Number of Items
Financial Literacy (*DV*)	0.641	5
Financial Knowledge (*IV*1)	0.699	5
Financial Education (*IV*2)	0.717	5
Financial Attitude (*IV*3)	0.721	5

Note: *DV* = dependent variable; *IV* = independent variable.

Table 4: Summary of Pearson Correlation Analysis

Variable		Financial Literacy (FL)
Financial Literacy (FL)	Pearson Correlation Sig. (2-tailed)	1
Financial Knowledge (FK)	Pearson Correlation Sig. (2-tailed)	.645** .000
Financial Education (FE)	Pearson Correlation Sig. (2-tailed)	.631** .000
Financial Attitude (FA)	Pearson Correlation Sig. (2-tailed)	.546** .000

Note: **. Correlation is significant at the 0.01 level (2-tailed).

5. CONCLUSION

This study discovered the influence of various factors on the level financial literacy. Pearson correlation was used to measure the dependence between two variables. The results of this study indicate several important decisions. It is proven that financial knowledge, financial education and financial attitudes have a direct influence of financial literacy among Islamic Banking and Finance students in KUIS. However, financial knowledge was demonstrated to have the major influential of financial literacy due to the strongest relationship.

Major recent studies emphasized on the important of providing basic knowledge on managing money to young generation. In fact, this knowledge will act as an effective approach to educate young people to be more financial literacy as low level of financial literacy will lead to poor financial decision making. In the world of financial literacy challenges, people must be equipped with some basic knowledge to face unexpected macroeconomics and income shocks (Sabri & Zakaria, 2015; Lusardi et al., 2009). A greater financial literacy can assist individual to make a better decision.

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