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# Practical Evaluation of Rural Community Behavior in Managing Personal Finance

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***ABSTRACT****: This study aims to evaluate the behavior of household financial management in rural areas. Also, researchers correlate the factors of age, type of work, education and income to financial behavior. Data was collected by interviewing 60 random respondents directly in a village, using a standard questionnaire set by the Indonesian financial services authority (OJK). The analytical method used is descriptive statistics, one-way analysis of variance and Kruskal Wallis. Overall financial behavior is divided into 4 categories, namely good behavior, sufficient, bad and very bad. As many as 5.2% of respondents stated that they had good financial behavior, 34% were quite good, 28.3% were bad and 32.1% were very bad. Based on the results of the one-way analysis, the income also has a significant influence on the financial behavior of the community with a value of F = 3,348 (p = 0,000). This is different from the age factor which does not affect the financial requirements with a value of F = 1,284 (p = 0.289). Other factors influencing financial behavior are type of Work,* $\chi^2$ *= 18,954 (p = 0,000) and education factor* $\chi^2$ *= 30,042 (p = 0,000). This research has practical implications for the public regarding good financial behavior in financial management.*

***Keywords****: financial behavior, rural communities*

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## I. INTRODUCTION

Indonesia has not been separated from the problem of poverty. Poverty occurs most often in rural areas. Many factors cause poverty including minimum family income and improper financial management. Financial management is related to how an individual can allocate funds appropriately and efficiently. This is very closely related to the community's literacy factor about how to manage money. Financial literacy is a basic requirement for everyone to avoid financial problems. Financial literacy is important to produce the right decision, where individuals who have insufficient knowledge experience various kinds of mistakes in their financial decisions (Lusardi & Mithcell, 2014).Financial difficulties are not only caused by the amount of income, but financial difficulties can also arise if there are mistakes in financial management such as mistakes in spending money only for consumption. OJK survey shows the low literacy of Indonesian people. The survey results showed that 21.84% of respondents were well literate and 75.69% were quite literate, and only 2.06% of respondents were less literate and 0.41% were not literate.

Bad financial behavior will have an impact on poor financial condition. Some of the bad financial decisions that have been made by many studies include saving too little for retirement (Lusardi, 1999), spending more on consumption (Sotiropoulos and d'Astous, 2013), and debt with large interest (Abendroth and Diehl, 2006). Also, other studies link a person's demographic factors with his financial behavior. Based on this background the researcher wants to measure the financial behavior of the village community and the factors that influence it. This research is expected to be useful to find out the financial behavior of rural communities in Indonesia, thereby changing the behavior patterns of people in managing money.

## II. LITERATURE REVIEW

Financial literacy has an important role in maintaining the stability of current and future financial conditions. Financial literacy was first developed to study the relationship between financial literacy and retirement planning (Ameriks et al., 2003, Lusardi and Mitchell, 2007, Bucher-Koenen and Lusardi, 2015, Van Rooij et al., 2011b). However, today, financial management is not only used for retirement planning but a variety of fund allocations. A financially literate person will be more likely to use his money to invest (Christiansen et al., 2008; Van Rooij et al., 2011a). Likewise, with the number of their loans, financially literate people have lower debt than people who are not financially literate (Lusardi and Tufano, 2015; Stango and Zinman, 2009).

Financial literacy is related to financial behavior because it is very closely related to a person's ability to make efficient financial decisions (Hilgert et al., 2003; Singh, 2014). This financial literacy theory, as a basis for someone to form efficient financial knowledge (Lusardi & Mitchell, 2014). Many studies show that well-developed financial skills are needed for effective money management (Carswell, 2009; Collins, 2007; Haynes-Bordas, Kiss, & Yilmazer, 2009; Scott, 2010).

According to Kim (2001), financial literacy is fundamental for modern society to survive. This is related to a person's basic knowledge in understanding ways to spend, save and invest money. A similar thing was revealed in Lusardi & Mitchell's (2007) study that financial literacy is the knowledge one has about financial instruments, including, one's knowledge of insurance savings, investments, and others. This financial literacy aims to achieve prosperity with good financial management based on basic knowledge of managing money.

When individuals understand financial concepts better, decision making and financial behavior improve. Financial knowledge includes not only the ability to understand financial concepts but also the awareness to seek advice related to financial problems. Dwiastanti (2015) proposes that financial knowledge can be broken down into financial skills and knowledge that is felt by applying those skills and knowledge into financial behavior. In essence, financial knowledge equips individuals with an awareness of what they do not understand and the ability to make informed decisions related to financial products.

Financial behavior is financial behavior related to financial planning such as the basics of personal finance, loans, savings and investment, and asset protection (Hilgert et al., 2003). The best practice of financial behavior is to have an emergency fund, an education fund, and a pension fund (Xiao et al., 2014). Other research also mentions that the provision of inheritance for the provision of children and his wife is also one of the financial practices that must be prepared in addition to emergency funds and retirement planning (Turner & Yang, 2006). The social security system and health insurance affect people's life expectancy after retirement (Hsu, 2013). Protection of the risk of a certain disaster, especially on the risk of health, is something that needs to be considered in the practice of financial behavior (Fisher et al., 2007).

Hilgert, Holgart, and Baverly (2003), state that someone will have good financial behavior if they can manage their savings and expenses. Savings and savings are carried out routinely and have an emergency fund as a form of funds that must be prepared for unexpected situations. Other expenses referred to here can buy houses, vehicles, and others under the purpose of life. Nababan (2012) states that financial behavior indicators are a) paying bills on time, b) making expenditure and expenditure budgets, c) recording expenses and expenses (daily, monthly, etc.), d) Providing funds for unexpected expenses, e) Saving periodically and e) comparing prices between stores or supermarkets or supermarkets before deciding to make a purchase.The study of financial behavior becomes important to determine the consumption patterns of a society. This research will discuss the financial behavior of a community, especially in rural community groups, besides, researchers will link this financial behavior with other supporting factors.

## III. RESEARCH METHODS

The data used in this study are based on interviews with respondents who were randomly chosen to represent a village. Respondents will be given counseling about good financial management. 60 respondents attended counseling. Before counseling about financial management, measurements are made on the habits of managing money.The measuring instrument used uses a standard questionnaire that has been linked by the financial services authority. This measurement tool consists of 10 question items, the answer to the question is yes or no. Table 1. Describes the questions used to measure the custom of managing money in rural communities.

Table 1 The 10-dimensional instrument measuring

| | |
|---|---|
| 1 | My income is enough to pay for all the costs and needs in my life and my family every month. |
| 2 | I always set aside a minimum of 10% of monthly income, for future preparation. |
| 3 | I already have an Emergency Fund in a Bank account, cash or Precious Metals, worth at least 3 times the monthly living expenses. |
| 4 | I have planned and invested the Children's Education Fund up to university level |
| 5 | My total loan installments are not greater than 30% of my monthly income |
| 6 | I already have life insurance |
| 7 | I already have health insurance for my family |
| 8 | I have planned and built my Pension Fund, |
| 9 | All my debts will be paid off immediately when I die |
| 10 | I already have a legacy (provision) so that my wife/husband and children are not miserable after I die |

The analytical method used is descriptive statistical analysis, analysis of variance/analysis of variance (ANOVA) and the K-independent Wallis (H) k-independent test. Descriptive statistics are used to present data so that it is more interesting, and easy to interpret. The statistical analysis of variance and Kruskal Wallis tests is used to answer hypotheses in equation 1. This hypothesis measures the difference in the average value of financial behavior between levels of income, age, occupation, and education.

$H_0 : \mu_1 = \mu_2 = \ldots = \mu_2$ [1]

$H_1$ : There is at least one $\mu_i \neq 0, \; i = 1,2,..n$ [2]

## IV. RESULTS AND DISCUSSION

**Financial behavior**

Conditions of financial behaviorare measured by how wisely a person manages the money he has. Financial management is not only focused on current needs but also sets aside some of its money for the future. 10 indicators serve as a reference for the condition of public financial behavior (table 1). Financial behavior is said to be very bad if it only meets <3 indicators, bad if it meets 4 to 5 indicators, it is good enough if it meets 6 to 7 indicators and is good if it meets> 8 indicators (OJK, 2017). Based on the results of the study in Figure 1, the community groups in this village, for the very bad category of 30% respondents, 30% bad, 32% good enough and only 8% good.

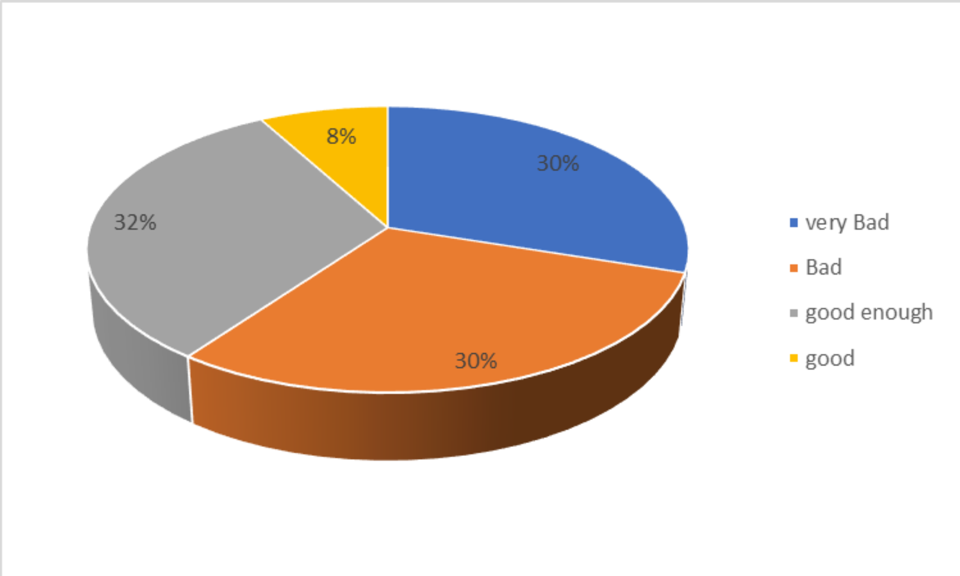


**Figure 1.** Pie Chart of financial behavior

Table 1, In general, only 40% of middle-class rural people in Indonesia set aside a minimum of 10% of their money as savings. The good thing based on this research is that most 71.7% always use enough money for their needs every month.

**Table 1**. Saving attitude component (responses in percent)

| X | Indicator | Yes |
|---|---|---|
| x1 | My income is enough to pay for all the costs and needs in my life and my family every month. | 71,7% |
| x2 | I always set aside a minimum of 10% of monthly income, for future preparation. | 40,0% |

The best practice of money management is to set aside savings for future preparation. This is still very uncommon for rural communities in Indonesia. Only a few people save a portion of their money for emergency funds of 26.7%. In fact, according to the research said by Turner & Yang (2006), emergency funding is one of the financial practices that must be prepared. Plans for funds for saving children's education are also still a few people who prepare it (38.3%).

**Table 2.** Investing attitude component (responses in percent)

| X | Indicator | Yes |
|---|---|---|
| x4 | I have planned and invested the Children's Education Fund up to university level | 38,3% |
| x3 | I already have an Emergency Fund in a Bank account, cash or Precious Metals, worth at least 3 times the monthly living expenses. | 26,7% |

Insurance purchase is a financial management practice that is no less important. Insurance-related to self-protection against risks that occur at any time such as the risk of death and the risk of health problems, and pensions. Only a few rural communities have around 10% life insurance. This is caused by the lack of correct information about the importance of insurance. Indonesian people, in general, are still few who believe in insurance, except insurance that is required by the government. Health insurance is required by the government to be owned by every family member, in this study as many as 75% of people studied already have health insurance. This, in line with the study of Hsu (2013) about the importance of the social security system and health insurance in influencing a person's life expectancy. Even pension funds have not become common for rural communities, in general, they do not prepare funds for retirement later. Only about 26.7% of the people already have funds to retire.

**Table 3.** Insurance attitude component (responses in percent)

| X | Indicator | Yes |
|---|---|---|
| x6 | I already have life insurance | 10,0% |
| x7 | I already have health insurance for my family | 75,0% |
| x8 | I have planned and built my Pension Fund, | 26,7% |

Most of the rural communities, more than 60% have good habits, they are not able to exceed their abilities. This debt is a personal transaction both loans from friends, members of the family and the use of credit cards. Each respondent was asked to answer whether they have personal debt in all three forms or not.

**Table 4.** Debt attitude component (responses in percent)

| X | Indicator | Yes |
|---|---|---|
| x5 | My total loan installments are not greater than 30% of my monthly income | 60,0% |
| x9 | All my debts will be paid off immediately when I die | 78,3% |
| x10 | I already have a legacy (provision) so that my wife/husband and children are not miserable after I die | 63,3% |

**Influence of internal factors**

Apart from behavioral habits in managing finances, other factors influence the use of money, namely the amount of income, type of work, level of education, and age. According to research conducted by Rosa (2018) states that the level of income is closely related to money management behavior. A similar thing happened in this community, based on the analysis of the various Table 5, p-value (0.000) was obtained, so it can be concluded that there is a difference between income and the financial behavior of the local community.

**Table 5**. Results of one-way analysis of variance

| Factor | F | Sig |
|---|---|---|
| Income | 13.574 | 0.000*** |
| Age | 1.284 | 0.289ns |

Very poor financial behavior tends to have the lowest average income of around Rp. 2,000,000.00. The average income for the bad behavior category is Rp. 3,200,000.00. While the financial requirement is quite good, the community is with an average income of Rp. 3,800,000.00. In this study, the average income for the good behavior category was Rp 8,700,000.00. The following figure explains the graph of average income for the category of financial behavior. Based on the picture, it can be seen that each level of financial behavior is in line with the amount of income earned. This can be interpreted that the higher the income of a person, the better his financial behavior.

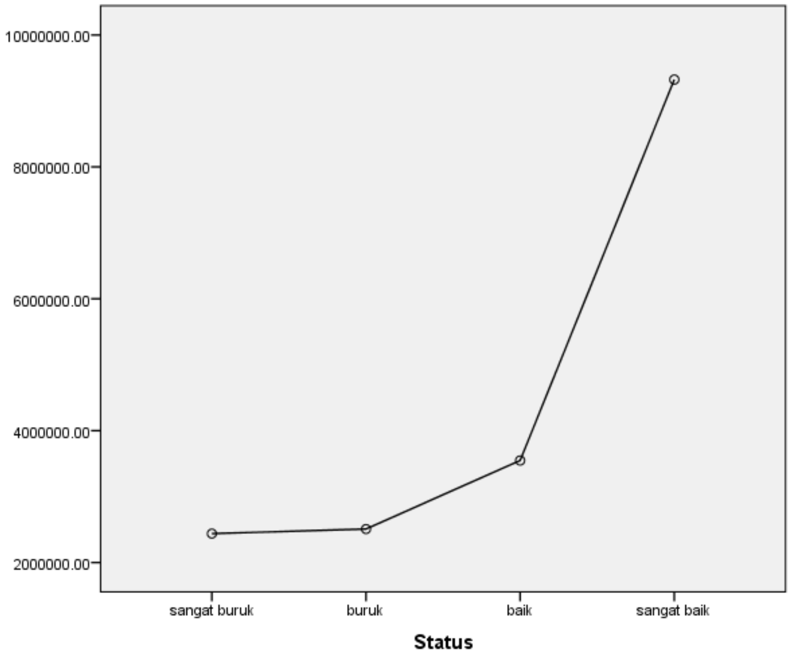


**Figure 2.** Average income towards the condition of financial behavior.

In addition to income factors, the age factor is hypothesized to influence the way a person manages his money. Different results are shown by this researcher. Based on the results of various analyses (Table 5), it shows that age has no effect on financial behavior with a 95% confidence level. In other words, an easy age to old age does not have a certain tendency towards financial behavior.Occupational factors are categorized as working and not working. Based on the results of the analysis with the Kruskal Wallis test it can be concluded that employment status has a significant influence on the condition of financial behavior. People who work tend to have good finances compared to people who don't work. Something similar is the result of the analysis for the Educational field. This community education in junior high, high school and university graduates (S1), overall education is very influential on financial behavior. People who graduate from S1 tend to be better at managing finances compared to other levels of education. The same thing was stated by Lusardi (2006) who stated that someone's financial behavior was related to financial literacy.

**Table 6.** Chi-Square test results

| Factor | F | Sig |
|---|---|---|
| Works | 18.954 | 0.000*** |
| Education | 30.042 | 0.000*** |

## V. CONCLUSION

This research contributes to financial literacy in rural communities. In general, rural communities have good habits in terms of not being in debt. Most of the money is not used to pay debts, installment loans, etc. It is different from self-protection from the risk of death and permanent disability. The thing that is not commonly done is life insurance ownership. Public awareness of the importance of insurance for risk management is still very low. Only around 10% of the people who care will buy life insurance for protection. This becomes good behavior for the community if they refract themselves to save for future planning. Internal factors that influence financial behavior are income, employment, and education. While the age factor does not affect financial behavior, meaning that there is no relationship between a person's age with his financial behavior. Someone who has a high income, higher education and work will manage their money well both at the young and old age levels. This research is faced with being able to open people's perspectives to prepare for their future from now on by designing the allocation of funds they get every month.

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