

Closing the Gap between Financial Literacy and Financial Inclusion

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Abstract

Nowadays many people still trapped into some financial fraud because of lack of financial literacy. On the other hand, the Indonesian government are trying to increase public financial literacy level in order to reach the financial inclusion level through Strategi Nasional Literasi Keuangan Indonesia (SNLKI). Thus, this systematic literature review was done to discuss factors influence financial literacy so that it can be increased and cope with the financial inclusion rate. Several journal articles and related sources were selected and analyzed. The results found that financial literacy does affect financial inclusion and for the former rate be increased to close the gap with the latter, there are five factors need to consider, namely: formal education, socialization, family, government regulation, and use of financial technology. There are some recommendations of strategy for each factor that are discussed in hoping to help increase public financial literacy and support the government program through SNLKI.

Keywords: Financial Literacy, Financial Inclusion, Financial Technology, Socialization, Indonesia.

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1. Introduction

Currently, many people are fell into in various frauds and embezzlement committed by irresponsible parties. Some are deceived by fraudulent investments, embezzlement of funds, and even some are victims of online loans with very high interest rates. For example, in 2022 alone, the value of losses from victims of fraudulent or illegal investments in Indonesia is estimated to reach Rp. 112.2 trillion, a very significant increase compared to previous years [1]. This is because there are still many people who are tempted by the lure of large profits, but they do not have a good understanding of finance. In fact, a strong foundation of financial understanding will be very useful in dealing with the rise of fraud cases that harm the community. Thus, education related to financial literacy to the public is very necessary and urgent. For this reason, the government is currently aggressively socializing financial literacy programs to every level of society.

Basically, financial literacy is an understanding of finance by the public that can help them make the right financial decisions. Good financial literacy of the community will provide benefits that are not only enjoyed now, but also in the future. Conversely, poor financial literacy will have a negative impact. Studies show that low financial literacy leads to poor investment decisions [2]. They will be vulnerable to the risk of failed investments, fraud from people who seek their own benefits, and their financial goals cannot be achieved. Moreover, financial literacy is now considered a very important skill in life to achieve financial security and good welfare for families and economic growth for a country [3]. Therefore, good financial literacy is very useful in life and it is expected

that if people have a high level of financial literacy, they can be wiser in managing their personal finances, able to make the right investment decisions, and not easily trapped in various financial scams.

In general, people who have well understanding of financial management or have good financial literacy will seek credible financial products or services. The efforts made are related to another term called financial inclusion. Financial inclusion is a financial concept to open access for financial systems or services and products widely so that they are easily accessible to the public [4]. To be accessible, the financial services in question need to be offered at an affordable cost, especially by people with low incomes [5]. In other words, if financial literacy relates to the level of financial understanding, then financial inclusion refers to the level of accessibility of a person to reliable, quality, and affordable financial services in terms of cost and location. A high level of financial inclusion means that people have access to reliable and affordable financial services such as banking, capital markets, pension funds, or payment systems so that they can utilize these services for investment, transactions, and other financial purposes.

In a national survey conducted by the Otoritas Jasa Keuangan (OJK) in 2019, it was found that the financial inclusion rate in Indonesia was 76.19% while the financial literacy rate was only 38.03% [6]. Then, in 2021 the same survey was conducted with improved results where the financial inclusion rate rose to 85.10% but the financial literacy rate was still below it despite an increase to 49.68%. This means that out of 100 Indonesians, about 85 have access to financial services, but only 49 are well educated on finance. In other words, while people have open access to financial

products and services, their level of financial literacy is low. This fact seems to be the antithesis of some previous research results that imply that the level of financial literacy affects financial inclusion [7] [8] [9] [10]. This means that the level of financial literacy should be at least equal to the level of financial inclusion, however, this is not the case. This has resulted in many people being trapped by fraudulent investments, scams, and increased online loans.

Indeed, the efforts made by the government through OJK and other parties to increase the level of public financial literacy through several programs are in line with the 2021-2025 Strategi Nasional Literasi Keuangan Indonesia (SNLKI) or Indonesian National Financial Literacy Strategy are starting to produce good results. However, it is necessary to conduct further studies to find out factors that contribute to the improvement of public financial literacy to obtain the right strategy so that the gap with the level of financial inclusion can be minimized and even better to be at the same level. This study is also expected to contribute to the vision of SNLKI 2021-2025, namely Realizing an Indonesian Society that has a High Financial Literacy Index (Well Literate) so that it can Utilize Appropriate Financial Services Products and Services to Achieve Sustainable Financial Prosperity [6].

2. Research Method

The methodology used in this research uses a descriptive approach that requires comprehensive qualitative analysis to find facts and theories related to the research topic [11]. Furthermore, a systematic literature review was conducted on a number of research journals that discuss the topic of factors that play a role in improving financial literacy as well as several studies related to financial literacy and its effects on financial inclusion. This was done in order to obtain a number of related studies that will be selected in this study.

The data collection process was conducted over several weeks by utilizing Google Scholar and Sinta search engines by typing in a number of keywords such as financial literacy, financial understanding, financial training, and financial inclusion. From the results of the article search, several journal articles and data relevant to the research topic from both national and international sources were obtained. These articles were then analyzed by reading the title, abstract, research objectives, methods used, as well as results and implications obtained to sort out a number of articles that are truly relevant and in accordance with the objectives of this study. Subsequently, key information from each of the selected articles was summarized and interpreted to come up at the results and implications that will be used in the discussion of this study. Figure 1 summarizes the stages of the systematic literature review.

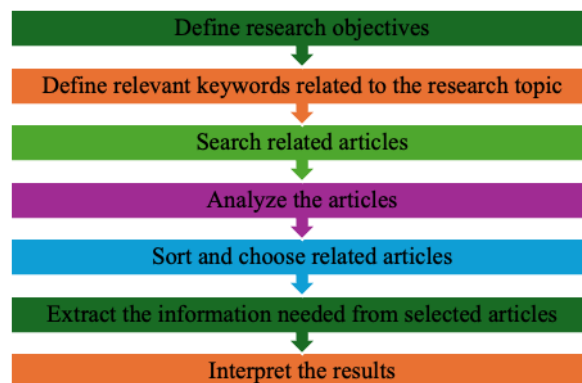


Figure 1. Process of systematic literature review

3. Result and Discussion

The link between financial literacy and financial inclusion is found in many studies which generally conclude that financial literacy affects financial inclusion. A study found a causal relationship between financial literacy and financial inclusion, where financial literacy training leads to increased access to financial services by the public [7]. Furthermore, a follow-up study with a wider scope also found how financial literacy has a positive impact on financial inclusion in communities in around 143 countries [12]. In addition, it was also found that financial literacy impacts financial inclusion for poor households in Uganda [8]. Through good financial literacy, families with small incomes can make better financial inclusion decisions. Then, other studies found how financial literacy along with several other variables such as age and education level have a significant influence on financial inclusion [9] [3]. However, according one study, financial literacy is the most influential factor in increasing financial inclusion [10].

From some of these studies, it can be said that someone who has knowledge about finance then he also knows or has access to financial services such as banking. Not only that, but a high level of financial literacy also makes a person able to make decisions on choosing the right financial services or products, able to assess the risks and benefits of financial products, as well as identify the advantages and disadvantages of financial products or services offered [9] [13]. Therefore, it can be concluded that there is a relationship between financial literacy and financial inclusion where financial literacy positively affects financial inclusion.

There is evidence of a positive effect of financial literacy on financial inclusion, so it is necessary to explore what are the determinants in improving people's financial literacy. This needs to be done so that the right strategies can be made to improve people's financial literacy so that it can support the government program in reducing the gap between financial literacy and financial inclusion. From the results of the search and literature review conducted, five determining factors were obtained that can contribute to the increase of financial literacy level to cope with the level of financial inclusion, as shown in Figure 2.

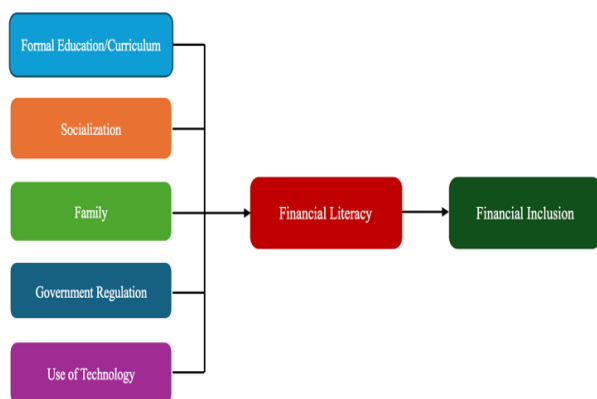


Figure 2 Factors Contributed To Financial Literacy To Close The Gap With Financial Inclusion

Financial literacy can be improved through formal education in schools and colleges. A study found this fact and suggested formal financial education in educational institutions [14]. This can be started by making a regulation to include financial education material as one of the compulsory sciences that should be in the curriculum guidebook, start from the elementary school level to higher education. Surely, financial materials need to adjust to the level of education, where simple financial knowledge in the form of daily life stories is more accepted by elementary school students, while more complete financial literacy materials at the higher education level. Some learning media can be utilized in learning financial literacy such as the use of educational videos on Youtube [15]. In addition, the utilization of media such as investment galleries in schools can be done because it has a positive impact on increasing student financial literacy [16].

It should also be noted that to be effective, the financial education system offered must be of high quality [3]. This can be achieved by involving stakeholders such as teachers, financial experts, and community members who, together with the government, design a roadmap and curriculum guidelines so that financial literacy programs through formal education become measurable and achieve the desired goals [17]. Furthermore, the teaching staff at each level of education should be qualified to teach about finance [18]. In addition to obtaining a linear academic degree, they also need to attend training or workshops and even better to obtain certification so that they can provide teaching with appropriate and quality strategies to meet the desired learning outcomes [19].

Socialization is one of the ways that can be done to increase the level of financial literacy of the community [20]. Unlike formal education, socialization through financial education such as workshops and financial socialization can be done outside the educational environment by going directly to the community to provide training and socialization to educate the public about the importance of financial literacy or other related materials. This kind of education and socialization has been proven to improve people's financial literacy. It can also keep people away

from illegal investment and financial fraud. It was also found that financial literacy training for families can improve their financial understanding. Furthermore, the same study found how financial literacy training increased interest in bank account ownership for women, while interest in saving and receiving financial management assistance increased for male respondents. However, more effective results will be obtained if the training is provided to young people or young families due to their higher utilization of technology compared to older people. In addition, young people are quicker to adapt to technology, especially in the financial sector, so they are more likely to absorb the financial training provided.

In addition, financial education and socialization to the public can be carried out through a variety of printed and electronic media including leaflets, books, posters, social media, and chat applications. Educators from the government, groups and individuals can utilize this variety of media. Topics around financial literacy need to be made interactive, informative, and educative by utilizing existing media so that they can be easily understood by the public.

To improve financial literacy, the role of the family is also very important and is one of the factors that need to be considered. It is not wrong that the family is the first place in society to get education. Children certainly learn from their parents and education in the family especially in relation to finance is very important. In one study, it was explained that family, in this case parents, is one of the factors that play an important role in fostering and increasing the level of financial literacy of young people. The form of education provided by parents can be in the form of children's involvement in making family budgets, making financial decisions, and teaching financial matters in a simple way that is easy to understand. Basically, parents who have a good understanding of finance will certainly teach or pass on their knowledge to their children so that their children will gain a good basic knowledge of managing their finances which will be useful in the future.

The government is the party that makes regulations or also known as regulators. In Indonesia, the parties that act as regulators related to finance are the OJK and Bank Indonesia (BI). These two regulators are given special authority by the government to make regulations related to finance so that all interested parties get clear legal guarantees. This clear regulation or rule becomes a guarantee that various programs can be implemented to educate the public while at the same time protect people from any financial fraud.

In some previous studies, regulations have contributed to improving people's financial literacy. A study stated that government support through clear regulations has an impact on improving financial literacy. For example, regulations governing financial literacy training and education programs for the community can be implemented throughout Indonesia. Therefore, government support through well-planned regulations

and programs can help in providing financial education to all levels of society.

Another factor that is considered to influence people's financial literacy is the utilization or use of financial technology (fintech). Fintech is a technological innovation that helps access to financial services. This technological development in the financial sector not only makes it easier for people to access financial services but also helps them with financial education. Through fintech, people can get the latest understanding and information related to savings and investment, loans, and risk management that can help them make wise financial decisions. Indeed, using of fintech can make a person understand the purpose and benefits of it so that it will ultimately improve their financial literacy. The same source also suggested that it cannot be denied that the accessibility of technology in some regions in Indonesia has not been maximized due to lack of supporting infrastructures. However, should this opportunity be well utilized by various parties, especially the government, in developing the existing infrastructures, access to financial technology will be easier so that people can utilize it and more will be educated.

4. Conclusion

From the literature review, there are at least five factors that can influence the level of financial literacy, namely: formal education, education and socialization, family, government regulation, and technology utilization. Financial education both formally to students and informally to the public needs to be done consistently and well-planned. Furthermore, as families also play an important role in financial education, parents need to be given financial education so that they can set a good example for their children. Meanwhile, government regulations should support socialization and training programs while providing protection guarantees to the public. In doing so, people can obtain correct information and not be trapped in illegal investments or burdensome online loans. In this case, financial education with a focus on needs rather than wants must be emphasized so that people would be wiser in making financial decisions. Furthermore, the utilization of technology through fintech products and services needs to be supported because those also play a role in providing financial education for the community. Finally, government programs to improve the financial literacy of the community must be fully supported by various parties. Collaboration and synergy between the government, financial and educational institutions, related private parties, and the community are needed in planning and implementing appropriate programs. That way, the government's hope for a financially educated society that can take benefits of financial services can be realized for a prosperous society in a sustainable manner.

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