CHAPTER 1

INTRODUCTION

1.1 Research Background

In this era of digitalization., technological developments have progressed very rapidly. Along with the rapid development of technology, people's standard of living have also changed. According to Ameliawati & Setiyani (2018), this change in standard of living ultimately has an impact on people's attitudes that are increasingly consumptive and extravagant, which will causing a variety of bad financial behavior, such as an inability of saving initiatives, managing the investment, and budget planning for the long term. People also tend to follow existing trends without considering their needs and desires.

According to Grohmann (2018), Personal financial management is very important in an effort to achieve prosperity. Success or failure in managing finance is based on the personal financial management behavior of each individual. Personal financial management is directly linked to everyday life. It can also help to set the short term and long term financial goals. Personal financial management in the short term can help in controlling the desire to consume less important products. While personal financial management in the long term play an essential role which is can help planning for the future.

Personal financial management must be conducted in a determined and planned manner in order to achieve the desired results. The stages that must be conducted in the personal financial management include recording assets owned, recording all income and expenses, identifying monthly and annual routine expenses, preparing expenditure plans (budgeting), saving on a regular basis, planning programs for the future, and saving on a regular basis (Bank Indonesia, 2013). Personal financial management is also a science that continuously integrates, especially for the younger generation which is university students who are planning for their future (Ricciardi & Simon, 2000). Because most university students do not have responsibility for their personal financial management, and they are also growing up in the midst of a debt culture that is facilitated by an expensive standard of living (Borden et al, 2008).

In personal financial management, good financial behavior is certainly something that must be implemented. Because personal financial management behavior describes how a person behaves, handles, and utilizes their financial resources (Nababan & Sadalia, 2013). An individual who takes responsibility for their financial behavior will spend money wisely by budgeting, saving money and controlling expenses, making investments, and paying debts on time. Because individuals who are capable of making financial decisions will not face crisis in the future, and they will be able to identify the prioritised scale for what their wants and requirements are (Chinen & Endo, 2012). It was also stated that the younger generation seldom used basic financial skills such as budgeting, creating a regular savings plan, or planning for long term needs (Birari & Patil, 2014). Personal financial management requires financial planning in order to achieve goals both short term and long term. Savings, investments, or allocating funds can all be used to achieve these objectives. Someone will not be trapped in unlimited desire behavior if they practice good personal financial management (Suryanto, 2017).

Table 1.1 Asia / Pacific - Youth: Financial Literacy Index

Ranking		Scores			
		Overall Financial Literacy Index	Components of Financial Literacy Index		
			Basic Money Management	Financial Planning	Investment
Asia/Pacific		64	61	74	53
1	Singapore	71	71	79	62
2	Taiwan	71	68	82	64
3	New Zealand	71	75	72	60
4	Hong Kong	69	69	70	66
5	Australia	68	72	66	60
6	Malaysia	67	62	80	60
7	China	67	62	76	67
8	Thailand	67	62	81	56
9	Sri Lanka	67	65	77	56
10	Indonesia	62	59	78	47
11	Philippines	62	59	72	53
12	South Korea	61	57	72	50
13	India	60	53	73	56
14	Myanmar	60	50	76	-
15	Bangladesh	60	55	72	54
16	Vietnam	58	55	69	49
17	Japan	56	58	63	43

Source: (MasterCard Press Releases, 2016)

Based on the data that was conducted by MasterCard Press Releases (2016), the Financial Literacy Index has been stagnant across 17 regions in Asia Pacific. It also contains three major components: Basic Money Management, which evaluates the participants' qualifications in financial planning, saving, and credit utilization responsibility; Financial Planning, which evaluates their knowledge of financial products, services, models, and abilities to create long term plans for financial needs; and Investment, which evaluates their basic knowledge of the various investment risks, different investment products, and if they have the useful skill. The Index Score is computed from the weighted sum of the three components, with 100 representing the highest possible score in financial literacy and zero representing the lowest possible score. It showed that most developing countries are in the top position while emerging countries such as Indonesia and Vietnam are in the bottom position. Because the Financial Literacy Index in Indonesia and Vietnam are still in the bottom position, people need to be aware of their personal financial management. Because a lack of education and bad financial communication can lead to financial problems, and the most common mistakes are bad personal financial management behavior, which might result in income loss, as well as impulsive purchases and a strong desire to spend money. If some people already have financial planning, then they can calculate their financial needs in the future. As a result, Indonesian and Vietnamese people can avoid the risk of spending swelling that is not accompanied by an increase in income.

Suryanto (2017) also stated that each person has different characteristics and tendencies of personal financial management behavior as an outcome of the factors that influence an individual both internal and external. Psychological can also become a factors that influences a person’s financial behavior, such as personality and characters of each individual. Furthermore, many environmental factors, such as financial knowledge, financial attitude, and locus of control, can influence a person's financial behavior.

An inability to differentiate between deposits, savings, investments, debt, expenditure, and a deviant standard of living are some of the factors that disrupt an individual's financial stability, putting their financial well-being at risk (Ghozie, 2016). According to Herabadi et al. (2009), the majority of Indonesians' spending was on clothes and shoes, beauty products, tickets, as well as dining at upscale restaurants to show off their wealth or status. This problem demonstrates that Indonesian university students lack the ability to budgeting and plan for their expenses in order to meet their daily financial responsibilities. Those kind of terrible financial decisions might have a negative, bad, and risky impact on human life.

Many people suffer losses because of the large number of people who do not understand finances, either as a result of a downturn in market situation and currency devaluation or the development of an inefficient economic system as people become more consumptive. Many people also take advantage of house loans and credit cards, but due to their lack of information, they lose their money. They do not also put some money or have full rights towards the money and capital markets because they have no basic understanding about it (Nababan & Sadalia, 2013). A good understanding of financial knowledge will encourage someone to manage their finances well in the long run. Because someone with a high level of *financial knowledge* is more likely to engage in good *financial* *behavior* (Andrew & Linawati, 2014). And financial knowledge is also a person's ability to obtain, comprehend, and evaluate relevant information in order to make decisions while understanding the consequences of those decisions (Mason & Wilson, 2000). As a result, someone with more financial knowledge will engage in more targeted financial behavior.

Based on their financial attitude, this individual's knowledge can be implemented. Financial attitude, according to Pankow (2003), is a state of mind, opinion, and judgment about finance. And their financial attitude will also assist them in determining their attitude and behavior in financial matters, both in terms of financial management, personal financial budgeting, or how the individual's decisions regarding the type of investment to be taken are made. Because every person who maintains a financial attitude in their life will find it easier to determine their attitude and behavior in financial matters.The differences that each person has demographically also create different ways or attitudes in making decisions, especially in managing finances.

According to Parrotta & Johnson (1998), financial attitudes have a psychological tendency that can be indicated while evaluating financial management practices that have been required through an established agreement. A person's financial attitude is also an important factor in determining their financial management behavior (Mien & Thao, 2015). As a result, the more positive a person's financial attitude, the better his or her financial management behavior.

This research used a university student in Indonesia and Vietnam as the research subject. And based on the description that has been explained above, this study aims to know ***the factors affecting personal financial management behaviors of university students in Indonesia and Vietnam.***

1.2 Literature Reviews

Personal Financial Management Behavior is also referred to as a person's ability to manage their finances, like planning, budgeting, checking, managing, and controlling daily financial funds (Kholilah & Iramani, 2013). The emergence of personal financial management behavior is the impact of a person's desire to fulfill their needs (Kholilah & Iramani, 2013). In Indonesia, the practice of personal financial management behavior of young people has received increasing attention from various societies such as government agencies, community organizations, colleges and university students. The Younger generation also grows up in a debt culture that is facilitated by an expensive standard of living (Dugas, 2001). However, the younger generation often start their university life without ever taking responsibility for their own personal finances (Borden et al., 2008). It also shows that the younger generation rarely practice basic financial skills, such as budgeting, developing regular savings plans or planning for long-term requirements (Birari & Patil, 2014). They may also not be prepared to effectively manage the psychological costs associated with high debt; for example, increased levels of stress and decreased levels of psychological well-being (Norvilitis & Maria, 2002). This Personal Financial Management is very important because individuals can identify, manage financial risks that might occur, determine financial priorities, evaluate and improve the personal financial budget regarding what expenses need to be reduced, what needs to be added, or even what expenses need to be removed. It can also maintain our expenses from being too consumptive, hedonistic, or overspending.

However, in reality, there are still many people in the world, including in Indonesia, who still have not succeeded in achieving good personal financial management behavior, this is evidenced by the financial literacy rate. Seen from the evidence shown by the Financial Services Authority (OJK), the financial literacy rate in Indonesia has not yet reached the expected target. In 2016 Indonesia's financial literacy only reached 29.7%, in 2019 Indonesia's financial literacy rate began to rise to 38.03%, and in 2020 it increased again to 40%. However, despite the increase, the financial literacy rate in Indonesia is still far away from other countries. Likewise, the results of the Financial Health Index (FHI) survey in 2019 regarding financial literacy, which showed that Indonesia's financial literacy rate reached 66%, this figure is slightly better than Vietnam which only reached 64%. However, this figure is quite low when compared to Hong Kong which reached 72%, and Singapore which reached 78%. By looking at those data, the financial literacy rate in Indonesia and Vietnam needs to be increased. And the better someone's personal financial management behavior, the better their financial knowledge, financial attitude and locus of control. Someone will also not be trapped in unlimited desire behavior (Suryanto, 2017).

1.3 Research Question

Based on the background above, the questions are formulated as follows:

1. Does Financial Knowledge Influence Personal Financial Management Behavior?
2. Does Financial Attitude Influence Personal Financial Management Behavior?
3. Does Locus of Control Influence Personal Financial Management Behavior?

1.4 Research Objectives

The objectives on this research are:

1. To determine the influence of Financial Knowledge on Personal Financial Management Behavior.
2. To determine the influence of Financial Attitude on Personal Financial Management Behavior.
3. To determine the influence of Locus of Control on Personal Financial Management Behavior.

1.5 Research Methodology

In this research, the type of research used is quantitative research with survey method. This quantitative research is a process of data collection and analysis that is carried out systematically and logically in order to achieve certain objectives. Quantitative research is also an analytical approach with mathematical or statistical calculations (Sugiyono, 2015). According to Sugiyono (2015), quantitative data is structured or patterned so that the variety of data obtained from the source (respondents who are questioned or objects observed) tend to have patterns that are easier to analyze by the researcher. This research also uses a descriptive approach, which provides a description about a phenomenon that occurs in the study. The data collection technique in this study is using questionnaire. The time horizon in this study is cross sectional where data is collected once in an annual period and this research is included in non-situational research because it is not included in certain situations or events.

1.6 Object and Scope of Research

The scope of the subjects in this study was all of the University Students in Institute of Informatics and Business Darmajaya and also University of Economics and Law (UEL). The scope of the object in this study is Financial Knowledge, Financial Attitude and Locus of Control of Personal Financial Management Behavior.

1.7 Contribution Of The Research Paper

This research is expected to provide the following benefits for several parties:

i. For Writers and Academics.

The findings of this study can be used to expand knowledge and provide relevant sources for future research on personal financial management behavior. Furthermore, it is hoped that it will contribute to the development of theories regarding the analysis of factors that influence the personal financial management behavior in university students.

ii. For Researchers.

The findings of this study are expected to provide new relevant data and become additional references as well as literature for further researchers

1.8 Structure Of The Study

This research consists of five chapters, which also included by several sub-chapters. The following below are the systematics of writing in this study.

CHAPTER I: INTRODUCTION

This chapter describes a brief description of the study including research background, literature reviews, research question, research objectives, research methodology, object and scope of research, contribution of the research paper, and structure of the study.

CHAPTER II: THEORETICAL FOUNDATION

This chapter describes the theoretical basis and other relevant research, and also provides a framework for the research, which includes theories of interest, research variables, previous research, conceptual frameworks and hypotheses.

CHAPTER III: RESEARCH METHODOLOGY

This chapter contains the research design, data sources, population and sample design, data collection techniques, research variables and operational definition, research instruments, data analysis methods, classical assumption test and hypothesis testing.

CHAPTER IV: DATA ANALYSIS

This chapter contains the analysis carried out to test the hypothesis and discuss the results of data processing.

CHAPTER V: CONCLUSION AND IMPLICATIONS

This chapter describes the conclusions of the research and some implications of the research results.

REFERENCES

This section contains scientific journals, a list of books, the results of other people's research, and materials that are used as references in thesis research.

APPENDIX