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Demographical and Geographical Analysis of Financial Literacy

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ABSTRACT

In Sabah and the rest Malaysia, there are increasing signs of personal financial mismanagement and financial stress, especially among the young generation. Experts in the area of personal finance posit that financial illiteracy is one of the contributing factors to the inability of a person to properly manage his or her financial matters as well as long-term financial commitment. Sabah, being one of the biggest and one of the diverse states has many preconditions for financial literacy research. Analysis based on demographical factors suggests that males are better financial literacy than females. Financial literacy is also better among the higher age groups. Financial literacy gaps also exist in term of level of education and income group. This study also finds that geographical location is important factor. Perhaps the most interesting factor of the research of that a non-majority ethnic group has came up top in financial literacy, and the literacy gap compare to all other ethnic groups is statistically significant.

Keywords: Financial Literacy, Financial Knowledge, Personal Financial Planning

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Keywords: Financial Literacy, Financial Knowledge, Personal Financial Planning

1. Introduction

Financial literacy is basically concerned with individuals lack of financial knowledge and do not have the tools they need to make financial decisions that is most advantageous to their economic well-being. In other words, financially literate individuals will be able to make informed judgments and will be able to take effective decisions on the use and management of money. According to Lusardi and Mitchell (2006), financial literacy deficiencies can have adverse affects on individual's or household's day-to-day money management and the ability to engage in long-term commitments such as buying house, career advancement, retirement planning and other decisions. Stum (2006) argues that if ignored, financial illiteracy may put multiple generations at risk of financial insecurity. In short, this may create an antecedent for a vicious family-economic cycle.

Why issues related to financial literacy should be given focus? The symptoms related to financial illiteracy are very much in existence and widely reported. According to the Credit Counselling and Debt Management Agency (CCDMA), a unit under Bank Negara Malaysia (BNM) (CCDMA is also widely known as the Agensi Kaunseling dan Pengurusan Kredit, or AKPK), there are increasing signs of financial mismanagement and financial stress, especially among the young Malaysians (reported in Bernama, 2012). Survey conducted by survey house Synovate found that more than half of Malaysian workers have not prepared for retirement (Star, 2008). Financial mismanagement, financial stress, and failure to make financial planning are signs of financial illiteracy (Caskey, 2006; Lusardi & Mitchell 2007b; Linfield, 2007).

The landscape of financial industry is changing drastically and learning curves for financial products are getting steeper. The fact that risk for higher inflation is looming; upward projection of lending rate due normalisation of interest rate worldwide (interest rates have been kept artificially low for years to stimulate economies), government's intention to rationalised subsidies (meaning more subsidy reductions are expected), and the introduction of GST; are adding more financial stress among Malaysians, including the Sabahans. Being one of the poorest states in Malaysia, financial literacy research on Sabah is important. After all, it measures the ability of individuals to make financial decisions for the betterment of their livelihood that may eventually lift them from poverty. If the level of financial knowledge among Sabahans are not known, the answers to how well Sabahans can cope with the drastic change in the economy and financial products will remain unanswered.

Furthermore, many studies conducted in developed as well as developing have linked financial literacy to socio-economic factors. Being among the poorest in Malaysia, it would be interesting and beneficial to investigate how the Sabahans fared in financial literacy. Another interesting factor is its multi-ethnic background. Western researchers have offers theories and evidence for racial and ethnicity gap in financial literacy. Since many of the ethnic groups in Sabah are unique to this state, this research may offer new insights to existence theories. Couple with diverse culture background among its population and wide dispersion of its population across a vast geographical area, evidence from this research may also serve to enrich current existing literature involving the many demographic and psychographic variables.

Financial literacy based on Sabah would offer a new dimension in literature. Clear division of ethnicity in economic activities (for example: Bajau fishermen in the East Coast of Tawau, Lahad Datu and Semporna; Rungus and Murut farmers in Kudat and interior districts, Kadazan/Dusun in the West Coast, Chinese in the urban areas, etc) will also provide new dimension in how this would affect ones financial literacy. It will be interesting to see whether ethnicity gap continue to persist when it involves financial literacy study in a diverse multiethnic society such as Sabah.

Financial literacy is the ability to make informed judgments and effective decisions about the use and management of money. It is an essential skill for functioning in modern society and is becoming increasingly important to the long-term wellbeing of individuals and the community. Sabri, Jariah, Kah and Paim (2008) found financial literacy as a significant predictor for financial wellness. Financial literacy study normally involves testing the basic financial knowledge related to the understanding of interest compounding, the effects of inflation, investment diversification, and risk management.

Financial issues are an important part of everyday life for individuals and families. The recent downturn in the economy provides numerous examples of how the lack of financial capability can impact family life. Negative economic trends such as an increasing unemployment rate, as well as increasing consumer debt demonstrate the need for families to better understand the economy and have the knowledge and skills needed to make important financial decisions. Family financial difficulties can come from insufficient financial knowledge and relate to the health of the individual and their family physically (Norvilitis, Szablicki, & Wilson, 2003), economically (Alhabeeb, 1999), and psychologically (John, 1999). Increased consumer debt and bankruptcies (Lyons & Hunt, 2003), a loss of savings and investments for retirement (Grable & Joo, 1998), and unwise economic decisions (Allen, Edwards, Hayhoe, & Leach, 2007) contribute to the financial burden of families.

2. Literature Review

In the United States, it has been found that illiteracy is widespread and particularly serious among specific group of population, such as women, old people and those with low level of education (Bernheim, 1995 and 1998; Hilgert and Hogarth, 2002; Moore, 2003; Mandell, 2004; Agnew and Szykman, 2005; Lusardi and Mitchell, 2006). Evidence also shows that financial illiteracy is a common feature in other developed countries, including European Countries, Australia and Japan

(Lusardi and Mitchell, 2007) and (OECD, 2005). A similar finding was also found in the work of Christelis, Jappelli and Padula (2005), that most respondents in Europe score low on numeric scales.

Much of the literature posits that there is financial literacy gap in terms of some demographic variables. Lusardi and Mitchell (2006) suggest women and minorities are at risk of displaying low financial knowledge. Weir and Willis (2000) argue that women represent some of the most vulnerable individuals in the population and call for more focus on how women plan for retirement, what tools and sources of information they use, and what their level of financial literacy is. Lusardi (2007) provides evidence that women display much lower levels of financial literacy than the male. Zaiton Osman, Lim Thien Sang, Jainurin Justine (2008) and Lim Thien Sang, Zaiton Osman, Jainurin Justine @ Abd Aziz, Zatul Karamah A.B.U. (2008) also find gender gap in Malaysia. The lower level of financial literacy among the female compared male may partially explain the reason for higher bankruptcy cases involving female. In an article published in October 2001 in the American Bankruptcy Institute Journal, of over 1,900 debtors that filed Chapter 7 Bankruptcy in year 2000, 53% were female. The trend is repeated in 2006 when the Institute of Financial Literacy, Inc. reported 53.6% of their debtor clients that seek counselling were female (Source: Institute for Financial Literacy, 2007). The gender gap in financial literacy may also explain male is more willingness to take financial risk than the female (Lim Thien Sang, Zatul Karamah A.B.U. and Zaiton Osman, 2007).

Outside the United States, financial literacy has also been found to be strongly correlated with socio-economic status. According to OECD (2005), there was a positive correlation between financial literacy and family income and education, and students' performance in Korea. As reported under the Financial Terms of a survey conduct by the Australian and New Zealand Banking Group in 2005, in New Zealand involving respondents age 18 and above also provide positive correlation between financial literacy and variables of socio-economic status. Similar results can be observed in Europe. It was mentioned in Miles (2004) that the UK Financial Services Authority had documented that younger people, those in low social classes, and those with low incomes were the least sophisticated financial consumers.

Racial and ethnicity have also been associated with discrepancies in financial literacy. When dealing with money, interest rates, inflation, government and trade, personal finance questions, a report by National Council on Economic Education (2005) shows that White students tend to score higher than their Black and Hispanic peers. The same report also shows women scored lower than men. Abu Bakar, Masud and Md Jusoh (2006) found that the Malaysian Chinese demonstrated a higher mean score in a research to examine students' knowledge on student loan and loan repayment. Zaiton Osman, Lim Thien Sang, Jainurin Justine (2008) and Lim Thien Sang, Zaiton Osman, Jainurin Justine @ Abd Aziz, Zatul Karamah A.B.U. (2008) provide evidence that the Malaysian Chinese fared better than other Malaysians in financial literacy.

Oliver and Shapiro (1995) offers explanatory theories for racial and ethnicity gap in financial literacy. Their theories are based on four categories: (a) discrimination, (b) educational differences, (c) racial variation and behavioural differences, and (d) social influences. Schmitz, William and Gabriel (1994) supported the discrimination theory and suggested that invisible barrier exist among races that created systematic lags in net asset accumulation. In the United States, those with low level of financial literacy also had low education and income while those with a higher level of education tend to show good financial behaviour in wealth accumulation. In supporting the research done by Oliver and Shapiro (1995) on the fourth category of social influence, family is said to be the social structure that directed the experiences and meaning around gender and how gender relates to money (Baca Zinn, 1991; Bowen, 2002; Hibbert, Beutler, and Martin, 2004). In another study of family financial role, it was found that fathers lead financial tasks more frequently than mothers, however, when mothers were given the chance to lead financial task, they are said to performed better and children are said to feel more financially prepared (Clarke, Heaton, Israelsen and Eggett, 2005).

The study is to examine the level of financial literacy in Sabah. It is also aimed to investigate if there is financial literacy gap based on the geographical and demographical values. For that, the first pair of research hypothesis is:

H₀: There is no financial literacy gap in term of geographical and demographical values.

H_a: There is financial literacy gap in term of geographical and demographical values.

This research requires primary data. The ANZ Framework guides the designed of the questionnaire. It is divided into three parts. Part A focuses on items to capture attitudes toward financial planning and financial behaviour. Each of the variables is measured using ten items based on 4-points Likert-scale. The scale used are 1=strongly disagree, 2=disagree, 3=agree, and 4=strongly agree. Some negative worded items are included to detect outliers.

Part B consists of 24 financial literacy questions. The questions are of mixture between true/false and multiple choices. It covers various aspects important to knowledge of finance such as general finance knowledge, investment, financial planning, risk, interest rate, inflation and real estate. A total of 24 questions are deemed appropriate so that various aspects of finance are tested and at the same time it does take too much time to complete. If more questions are included, it could be too daunting for respondents to complete the questionnaire.

The last part of the questionnaire, Part C, is for demographic values. All are close-ended questions except for age, which is open-ended. Values to be recorded for demographic values include gender, annual income, level of education, ethnicity, job description, and marital status.

The sampling frame for the research is not available. For that, a non-probability purposive sampling method is to be employed. Since the financial knowledge questions are covering many aspects of personal financial management, as well as to measure financial behaviour, only working individuals are selected to respond to the questionnaire. Since the geographical value is also a value under consideration, only Sabahans are included in this study. Considering the large size of Sabah State, data collection will be concentrated at major city and towns in the State. Some areas would be skipped mainly due to budget constraint or less ideal road connections. Data collection will be administered by members of the research team and research enumerators.

3. Research Findings

The study has successfully gathered a total of 1,191 usable questionnaires from respondents. As tabulated in Table 1, 60.4 percent of the respondents are female. On average, the respondents are less than 35 years of age (mean age is 32.26) with the youngest respondent age 15 and oldest at 70 years old. The respondents are almost equally divided between those who are married and single. In term of education attained, the largest group have completed SPM/SPVM/STPM/STAM at 38.5 percent followed by university degree holder at 30.6 percent. Diploma holders come in third at 21.7 percent. The single largest ethnic group participated in the study is Chinese, which stands at 21.6 percent. This is followed by the Malays (18%) and KadazanDusun (17%). In term of income group, the largest group has an annual income of RM10,000 to RM20,000. This is followed by those who earn less than RM10,000 a year. These two group made up a total of 45.1 percent among the total respondents and therefore almost half of the respondents are earning less than RM2000 a month. As for occupation type, professionals are the majority at 27.1 percent and this not far behind at 26.7 percent are those who serve as clerical workers. Of the total respondents, only 96 individuals or 8.1 percent are self-employed. Table 1 provides complete profile of respondents participated in the study.

3.1 Results of Independent Sample t-tests

A total of two independent sample t-tests were conducted to examine if there is a financial literacy gap based on two of the demographic variables, namely, gender and marital status. The researchers have decided to use only two subgroups for marital status. After regrouping, the two newly created subgroups under marital status are single and ever married (consisting of married, divorced and those whose spouse is deceased). This decision was made because there are only 10 respondents whose spouse has passed away. Due to the very small number, it is causing the attempt to run ANOVA impossible. Findings of the t-tests are given in Table 2.

Table 1: Profile of Respondents

Variables	Proportions	Mean
Gender		
Male	39%	
Female	61%	
Ethnicity		
Malay	18.3%	
Chinese	22.0%	
KadazanDusun	17.4%	
Murut	1.20%	
Bajau	8.10%	
Brunei	6.30%	
Rungus	0.30%	
Bugis	10.4%	
Suluk	2.90%	
Sungai	3.30%	
Kadayan	1.40%	
Others	8.40%	
Marital Status		
Single	47.2%	
Married	46.7%	
Divorced	5.3%	
Spouse Deceased	0.80%	
Education Level		
Completed Primary School	3.5%	
SRP/PMR	4.4%	
SPM/SPVM/STPM/STAM	39.1%	
Diploma	22.0%	
University Degree or Equivalent	31.1%	

(Table 1: Continue from previous page)

Variables	Proportions	Mean
Age		32.3 years old
Income Group		
Not more than RM10,000	22.6%	
RM10,001 – RM20,000	24.1%	
RM20,001 – RM30,000	17.5%	
RM30,001 – RM40,000	14.2%	
RM40,001 – RM50,000	10.3%	
RM50,001 – RM60,000	4.2%	
RM60,001 – RM70,000	3.0%	
RM70,001 – RM80,000	1.6%	
RM80,001 – RM90,000	1.0%	
RM90,001 – RM100,000	0.3%	
More than RM100,000	1.3%	
Type of Occupation		
Legislators, Senior Officials, or Managers	5.5%	
Professionals	28.2%	
Technicians	3.1%	
Clerical workers	27.8%	
Service workers or Shop/Market Sales workers	21.7%	
Skilled agriculture and fishery workers	0.5%	
Craft and related trade workers	0.4%	
Plant and machine-operators and assemblers	0.1%	
Elementary Occupation	4.0%	
Self employed	8.4%	
Retired	0.4%	

Based on Table 2, the results of both t-tests are based on equal variance assume as provided by p-value of Levene's test of more than 0.05. The finding reveals that financial literacy of male is significantly higher than their female counter (t-value = 2.682 and p-value = 0.007). Marital status, on the other hand, does not seem to provide any significant gap in the level financial literacy (t-value = -1.091, p-value = 0.234). In other words, the result of this study does not support the argument that marriage institution will affect the level of financial literacy.

Table 2: Findings for Independent Sample t-tests

Variables	Mean of Literacy	Levene's Test		t-test	
		F	Sig.	t-value	df
Gender		0.432	0.511 ^a	2.682 ^{***}	1177
Male	10.04				
Female	9.36				
Marital Status		0.403	0.525 ^a	-1.191	1106
Single	9.42				
Ever Married	9.73				

Note: ^a p-value for Levene's tests above 0.05, t-test results are based on equal variances assumed.
^{***} Significant at 0.01 level, ^{**} Significant at 0.05 level, ^{*} Significant at 0.10 level

3.2 Findings of Analysis of Variance (ANOVA)

Analysis of variance is required to examine the gap in the level financial literacy because the geographical variable and three of the demographic variables (ethnicity, level of income, and level of education) are divided into more than two subgroups each. In order to investigate the gap of financial literacy based on these variables, four ANOVA analyses were conducted. Results are reported in Table 3 for the variable of Area of Survey; Table 4 for the variable of Ethnicity; Table 5 for the variable of Level of Education; and Table 6 for Level of Income.

The mean values of literacy provides an indication that respondents in the area of Kota Kinabalu / Penampang / Putatan / Tuaran has highest mean literacy points of 10.16. Those in the interior areas of Sabah (Papar / Keningau / Sipitang / Ranau / Kundasang) are the weakest in term of financial literacy with a mean value of 8.72. With a f-value of 5.255 and p-value of 0.001, the result of the ANOVA analysis provides a conclusion that statistically there is financial literacy gap in term of geographical area of study. Further analysis (please refer full report of SPSS output for post-hoc test) reveals that the significant financial gap exists between Kota Kinabalu/Penampang/Putatan/Tuaran area the interior areas of Papar/Keningau/Sipitang/Ranau/Kundasang (p-value = 0.004). Meanwhile, the financial literacy gaps between Kota Kinabalu/Penampang/Putatan/Tuaran and Tawau/ Lahad Datu/Semporna/Kunak is marginal with p-values of 0.075. Marginal gap is detected between the interior area and Sandakan /Kinabatangan/Sukau (p-value = 0.087).

Table 3: ANOVA Results for Financial Literacy and Area of Survey

Area of Survey	N	Mean (Financial Literacy)			
Tawau / Lahad Datu / Semporna / Kunak	320	9.31			
Kota Kinabalu / Tuaran / Penampang / Putatan	366	10.16			
Sandakan / Kinabatangan / Sukau	333	9.73			
Papar / Keningau / Sipitang / Ranau / Kundasang	172	8.72			
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.

Between Groups	281.194	3	93.731	5.255	0.001
Within Groups	21172.364	1187	17.837		
Total	21453.558	1190			

The ANOVA results to investigate the gap in financial literacy based on ethnicity are given in Table 4. With the value of F-statistic of 13.760 (p-value = 0.000), it confirms significant gap exist among the ethnic groups. Referring to the details in post-hoc test, the level of financial literacy among the Chinese (mean value = 12.26) are significantly higher (highest p-value = 0.047) than all the other ethnic groups (mean values of these groups are lower than the Chinese respondents) under investigation. Judging from other p-values in the post-hoc test, there seem to be non-significant financial literacy gap between and among the rest of the ethnic groups.

Refer to Table 5, the analysis of financial literacy gap based on level of education provides a very strong finding (F Statistic of 44.898 and p-value 0.000) that education can significantly affect level of financial literacy. University degree holders come out on top (mean value = 11.54 and all p-values in post-hoc are lower than 0.01) and this group is significantly more financial literate than all the others. Diploma holders, although performed significantly lower than the university degree holders, they too have level financial literacy significantly higher than those who have never attended any college studies. The full details can be observed from the SPSS result outputs provided in the Appendix. This finding has provided a strong confirmation on the importance of formal education in determining ones' financial knowledge.

Table 4: ANOVA Results for Financial Literacy and Ethnicity

Ethnicity	N	Mean (Financial Literacy)			
Malay	214	8.81			
Chinese	257	12.26			
Kadazan/Dusun	203	9.47			
Bajau	95	8.18			
Brunei	73	8.38			
Bugis	122	8.44			
Suluk	34	8.26			
Sungai	38	8.84			
Kadayan	16	7.50			
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2641.905	12	220.159	13.760	0.000
Within Groups	18479.626	1155	16.000		
Total	21121.531	1167			

Note: Values for Indian, Murut and Rungus are excluded due to extreme small number in size
 Values for Others group ethnicity are excluded due to non-specification

3.3 Results for Level of Financial Literacy and Age of Respondents

In order to examine the correlation between the level of financial literacy and age of respondents, the study has employed bivariate correlation analysis. The Pearson's coefficient and p-value involving both of the variables are 0.133 and 0.000 respectively. The result provides a significant support to conclude that there is positive correlation between both variables.

The researchers have decided to create four subcategories for level of annual income of respondents. As given in Table 6, ANOVA results provide support that there is significant gap in term of level of

financial literacy based on level of income (F Statistics = 40.775 and p-value = 0.000). As expected, level of financial literacy can be directly associated with level income. In other words, high income earners are generally more financial literate than low income earners, and the gaps between them are statistical significant (please refer the full details of post- hoc test).

Table 5: ANOVA Results for Financial Literacy and Level of Education

Level of Education	N	Mean (Financial Literacy)			
Completed Primary School	41	6.46			
SRP/PMR	51	6.94			
SPM/SPVM/STPM/STAM	458	8.44			
Diploma	258	10.11			
University Degree	364	11.54			
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2825.438	4	706.359	44.898	0.000
Within Groups	18359.719	1167	15.732		
Total	21185.157	1171			

Table 6: ANOVA Results for Financial Literacy and Level of Income

Level of Annual Income	N	Mean (Financial Literacy)			
Less than RM20,000	537	8.38			
RM20,001 to RM40,000	366	10.20			
RM40,001 to RM60,000	166	11.75			
More than RM60,000	82	11.51			
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1993.855	3	664.618	40.775	0.000
Within Groups	18695.700	1147	16.300		
Total	20689.555	1150			

4. Conclusion

The research has generated a profile of those who are at risk of financially illiterate. The research team therefore would call for a targeted effort, instead of blanket effort, in organising and implementation of financial education programs. This would not only ensure a more efficient in planning and allocation of resources, but the programs could be designed in such a way that could attract the interest of the targeted group. For example, experts in women finance could be invited to speak at event targeted to women. Topics and examples to be discussed should be designed that re close to hearts of majority of females. On the other hands, programs that are targeted to lower income group, those with lower education levels, or folks in the rural areas should avoid talks on sophisticated products such as shares trading and real estate investment. The research team believes that financial knowledge program that purposely catered for specific groups would yield better attitude transformation. Furthermore, learning environment would also be more conducive when there are many of the participants with similar background. Relevant and suitable program topics and contents would generate greater sense of belongings as it is easier for participants relate them to their daily livings.

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