

CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Society Awareness

Society awareness is related to the field of sociology. According to Indonesian Big Dictionary (KBBI, 2016). Consciousness is a feeling; to know and understand, while awareness is the conviction; understand the circumstances. In elaboration, environmental awareness is a deep understanding of a person or group in ideas, attitudes, and behaviors that support the environmental development. Social awareness is the awareness of person's rights and obligations as a complete member of society.

Many experts present a theory of awareness, including the Carl G Jung and Freud Sigmund. According to Carl Gustav Jung (Ismail, 2009), awareness consists of three interconnected systems, there are consciousness or ego, personal unconsciousness and collective unconsciousness. Meanwhile, according to Freud (Clancy, 2008), awareness is composed of conscious mind and unconscious mind, both of these are driven by the motivation and encouragement from inside or outside of the individual.

Including the theories about society, many experts from the field of sociology describe the theory of society. One of them is Soerjono Soekanto. According to Soerjono Soekanto (Soekanto, 2003), in general, society has characteristics as follows:

- People who live together; consisting of at least two people.
- Mingling or commune in the long period of time.
- By gathering, human will generate new human being, as a result of living together, arising communications systems and regulating a relationship among humans.
- Being aware of their entity and unity.
- It is a system of living together. The system of living together raises a cultural because they feel they have a relation to each another.

Meanwhile, according to Paul B. Horton (Muin, 2013), definition of society is a collection of relatively independent human by living together in quite long time, inhabiting in certain area with a same culture, activities of the group are similar.

From several theories described by some experts above, it can be concluded that community is a group of individuals which are living in a same place with the culture of their own, and they have interconnection to each others. It also can be concluded that society awareness is an understanding of condition of the group of individuals who have interconnection and the same culture, and it is manifested in a form of thoughts and attitudes, as well as aware of their rights and obligations.

2. Financial Knowledge

According to Pudjawidjana (2015), knowledge as a humans reaction with all the stimuli that happen to sense a particular object. Knowledge is a process that occurs after stimulation of curiosity from the human senses, such as sight and hearing. The level of knowledge is divided into five; know, comprehension, application, analysis and evaluation (Notoatmodjo, 2013).

a. Know

Know is interpreted as consideration of a material that is studied previously, including knowledge. This level is the recall to something specific of all the materials studied or stimulated that have been received. Know is the lowest level of knowledge. The verb to measure are mentioning, describing, identifying, expressing and so on.

b. Comprehension

Understanding is defined as an ability to explain properly about the object known and can correctly interpreted. A person who has comprehended to the object or material must be able to explaining, citing examples, predicting, and so on.

c. Application

The application is defined as an ability to use material that has been studied in a real situation or condition.

d. Analysis

Analysis is the ability to describe the material or an object into components, but still within an organizational structure, and are still related to each others.

e. Evaluation

Evaluation relates to the ability on conducting the justification or a material or an object. This assessment is based on existing criteria.

Every person has a different knowledge, knowledge is not innate, but getting after a journey of age. Knowledge is related to education. According to Indonesian Big Dictionary (Department, 2016), word education or "*pendidikan*" comes from the word "*didik*" (educate) to get the suffix "*pe*" and the suffix "*an*", which means the way, the process or the act of educating.

According to Prof. H. Mahmud Yunus (Yunus, 1990), referred education is an effort that is deliberately chosen to influence and help children aimed to improving science, physical and morals, so they could deliver the children to reach their dreams in order to get a happiness in life and make a good impact to ourselves, society, state and religion.

According to Indonesian Big Dictionary (Department, 2016), education is a learning process for each individual to achieve knowledge and a higher understanding of the particular and specific objects. The knowledge acquired independently make an impact for each individual

to have the mindset, behavior, and morals in accordance with the education obtained.

Meanwhile, according to Ki Hajar Dewantara (Pamungkas, 2012). He said education is a growing demand in the lives of children. It means that education leads all forces of nature that exist in human beings and society can reach salvation and high joy of life.

From the description above, it can be concluded by the researcher that knowledge is a stage and process for every person, starting from know until evaluation where in the process of knowledge that can be assisted and accompanied by education. Education will increase knowledge of every person to achieve happiness in life and a better future.

Financial knowledge can improve the ability to manage and organize individual finances for well-being at that time and the future. Money is used mostly to solve the problems in which it is associated with primitive barter items, namely the aforementioned double coincidence of wants, indivisibility of goods and services and the lack of a unit of account. Accordingly, the most important functions of money are to serve as a unit of account and medium of exchange. However, Depending on what is being used as money, it could serve as a store of value and standard of deferred payment (ISRA, 2012).

Muhammad Syafi'i Antonio as an Islamic Economist said that money has close connection with the bank. In the financial knowledge, people can be identified understand about financial understanding when he/she

understands about financial instruments in a bank. Bank is an essential intermediary institutions between savers and investors. Savings will only be useful if it is invested, while savers can not be expected to do it by themselves with their skill. Customers want to save their money in the bank because they believed that the bank may choose an attractive alternative investment (Antonio, 2001).

From the description above about knowledge and finance, someone can be said has financial knowledge when he has the knowledge and confidence in financial services institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services, and has skills in using financial products and services.

3. Financial Literacy

Financial literacy means being able to read and understand financial products. Financial literacy is characterized by the ability to distinguish the financial statements that are owned by rich people and owned by poor and middle class. People who understand financial literacy should understand at least two forms of financial statements, cash flow and assets (property) (Wiharto, 2010).

Cash flow consists of income and expenditure, whereas wealth consist of assets and liabilities. Income includes salary, royalties, interest and any incomes. Expenditure covers all living expenses and family expenses, and all the installments of assets (moving or not moving). Asset is all tools that

lead to income of cash flow. These assets include people nearby who share the burden of the family, home/car rent, royalties from invention, stock dividends, bank interest, and so on. Liability is all obligations that still burden and cause a cash flow expenditure. Treasure liabilities include mortgages, car payments, payment of dues, the annual retirement fund, liability of family living expenses, and so on (Wiharto, 2010).

The implementation of education in order to improve the society financial literacy is necessary because according to a survey conducted by the FSA in 2013, that the level of financial literacy of Indonesia population is divided into four parts, namely:

1. Well literate (21,84%), who have the knowledge and confidence in financial services institutions and financial services products, including features, benefits and risks, rights and obligations which are related to financial products and services, and have skills in using financial products and services.
2. Sufficient literate (75,69%), have the knowledge and confidence in financial services institutions and financial products and services, including features, benefits and risks, rights and obligations which are related to financial products and services.
3. Less literate (2,06%), only have a knowledge about financial services institutions and financial product and services.

4. Not literate (0.41%), do not have a knowledge and confidence in the financial services institutions and financial products and services, and do not have skills in using financial products and services.

The financial inclusive goals have been drafted in the 2016 Regulation Financial Services Authority in 2016 on the chapter improving literacy and financial inclusion in the financial services sector to consumers and or community that created and published by Financial Authority Service. Chapter eleventh contains as follows: (1) Increasing public access to the institutions, products and services of formal financial services; (2) Increasing the supply of products and/or financial services in the formal financial institutions; and; (3) Increasing utilization of the product and or financial services according to the needs and capabilities.

Financial literacy has a long-term goal for all segments of society:

- Improving someone's literacy who is in previously less literate or not literate become well literate;
- Increase the number of users in products and financial services.

In order society are able to determine which products and financial services in accordance with the needs, the society should understand the benefits and risks, understand their rights and obligations and believes that the products and financial services are able to improve the society welfare. For the society, financial literacy provides great benefits, such as:

- Ability to select and utilize the products and financial services as needed; have the ability to make a better financial planning;

- Protected from investing activities in financial instruments that are not clear.

An understanding of the benefits and risks of financial products and services, financial literacy also provides great benefits for the financial services sector. Financial institutions and society need each other because the higher level of financial literacy is, the more people take advantage of the products and financial services (FSA, 2014).

As the McGraw Hill Financial report shows, teaching financial literacy in schools encourages students to think critically about financial needs versus wants, smart ways to save their money, and how to take charge of their future by becoming financially independent. While financial literacy is seen as a developed world problem, urbanization, the growing middle class, and expanding financial access means that individuals are more empowered to make financial choices and need to be better prepared for the consequences of those choices. (Runde, 2015)

Without an understanding of basic financial concepts, people are not well equipped to make decisions that related to financial management. People who are financially literate have the ability to make informed financial choices regarding saving, investing, borrowing, and more (Klapper, Lusardi, & Oudheusden, 2015).

Table 2.1
Financial Literacy: A Country-by-Country Breakdown

Economy around South-East Asia	Adults who are financially literate (%)
Malaysia	36
Indonesia	32
Singapore	59
Thailand	27
Vietnam	24

Source: (Klapper, Lusardi, & Oudheusden, 2015)

From the data above, we can draw the conclusion that financial literacy in Indonesia is still very low compared to developed countries, even in Malaysia. Though Indonesia and Malaysia are nearby neighbor geographically, but, Malaysia leads in financial literacy.

4. Remote Areas

The definition of what is "remote" varies substantially between regions of the world. A remote area is one that either is a long distance from highly populated settlements or lacks transportation links that are typical in more populated areas (Denkenberger, Way, & Pearce, 2015). Defining and identifying remote area is often done by governments in every countries so that special considerations can be made to provide services to these difficult-to-reach places.

Based on regulation of the Minister of Education and Culture of the Republic of Indonesia number 34 of 2012 on the criteria for remote areas, and allowance for teachers, Article two, paragraph one, states that "the criteria for remote or underdeveloped areas as referred to in Article 1 letter a are as follows:

- a) transportation access is difficult to reach and expensive due to the unavailability of the highway, depending on a specific schedule, depending on the weather, the only accessible is by foot, and it has great nature challenges;
- b) not available and or very limited services, public facilities, educational facilities, health facilities, electricity, information and communication facilities, and clean water; and
- c) higher prices and or the difficulty of the availability of foodstuffs clothing, and shelter or housing to meet the needs of life."

Based on the criteria already set by the government in the legislation about the criteria for remote areas above, we can conclude that remote area is an area with facilities are still limited and prices are high. It is caused by the location of remote area is far from big cities and the center of government.

B. Previous Research

The research conducted by Deerajen Ramasawm, Savila Thapermall, S. Anoop Dowlut and Mootooganaen Ramen (2013) entitled "A Study of the Level of Awareness of Financial Literacy among Management" indicates that most students have a medium level of knowledge and skills in financial literacy and in savings and borrowings. Based on the study, it was found that age, gender, language, race and income level do not have an impact on the level of financial literacy.

The research conducted by Noor Azizah Shaari, Nurfadhilah Abu Hasan, Ramesh Kumar Moona Haji Mohamed, Mior Ahmad Jafri Md Sabri (2013) entitled “Financial Literacy: A Study Among The University” indicates that the spending habit and year of study have a positive relationship with the financial literacy, whereby the age and gender are negatively associated with the financial literacy.

The research conducted by Bharat Singh Thapa and Raj Surendra Nepal (2015) entitled “Financial Literacy in Nepal: A Survey Analysis from College” indicates that most of the students have a basic level of financial knowledge but they lack in understanding of credit, taxes, share market, financial statement and insurance.

The research conducted by Hani and Velumani (2014) entitled “A Study on Financial Literacy Among Rural Women in Tamilnadu” indicates that financial literacy of marginalized rural women is very low. Development of financial literacy would help the women for better financial decision making and proper utilization of financial services and products. It would help them for wealth accumulation and financial well-being. It will lead to their personal development as well as social development. Their financial participation would help our country’s economic development.

The research conducted by Lusardi (2015) entitled “Financial Literacy Skills for the 21st Century: Evidence from PISA” indicates that large proportions of students in countries and economies at all levels of economic and financial development demonstrate only very basic financial literacy skills.

More than 15% of students in the participating OECD countries and economies perform below the baseline level of proficiency. These students can complete only the simplest financial tasks, such as recognizing the difference between needs and wants or comparing the value of goods based on a comparison of their price per unit. An improvement in financial literacy for these low-performing students is necessary to ensure their full participation in economic life.

The research conducted by Sekar M. and Gowri M. (2015) entitled “A Study on Financial Literacy and Its Determinants among Gen Y Employees in Coimbatore City” indicates that that level of financial literacy varies significantly among respondents based on various demographic and socioeconomic factors. It can be concluded that financial literacy level gets affected by gender, education, income, marital status and number of dependent whereas it does not get affected by age. Overall it can be concluded that financial literacy level is low among Gen Y employees in our Coimbatore city and necessary measures should be taken by government to increase awareness about financial related matters.

The research conducted by Huston (2010) entitled “Measuring Financial Literacy” indicates that that a successful measure of financial literacy will improve a researcher’s ability to distinguish when a deficiency in financial literacy may be responsible for welfare-reducing financial choices and will allow educators to identify education to achieve a desired outcome. Another important consequence of an instrument that effectively measures financial

literacy is that researchers are better able to identify what outcomes are most impacted by a lack of financial knowledge and skill. It is increasingly apparent that financial mistakes can impact individual welfare as well as create negative externalities that affect all economic participants. Tracking variation and change in financial literacy rates is of interest to educators, policymakers, employers and researchers. A more standard approach to measure financial literacy is needed to identify barriers to financial well-being and assist in solutions that enable effective financial choice.

The research conducted by Annamaria Lusardi and Olivia S. Mitchell (2013) entitled “The Economic Importance of Financial Literacy: Theory and Evidence” indicates that: first, theoretical models of saving and financial decision-making can be further enriched to incorporate the fact that financial knowledge is a form of human capital. Second, efforts to better measure financial education are likely to pay off, including gathering information on teachers, training programs, and material covered. Third, outcomes beyond what have been studied to date are likely to be of interest, including, for instance, borrowing for student loans, investment in health, reverse mortgage patterns, and when to claim social security benefits, decisions that all have far reaching economic consequences. Additional conclusion is also needed to learn more about the directions of causality between financial knowledge and economic wellbeing, though the early results offered here are promising. It also appears that more and careful field experiments and cross-national research might be useful in learning more about the financially illiterate and drawing out

the causal links between financial knowledge, costs, and benefits. While the costs of raising financial literacy are likely to be substantial, so too are the costs of being liquidity-constrained, over-indebted, and poor, in retirement.

The research conducted by Setyawati and Suroso (2016) entitled “Sharia Financial Literacy And Effect On Social Economic Factors (Survey On Lecturer In Indonesia)” indicates that socio-economic characteristics influence on financial knowledge, financial behaviors and financial attitudes. The level of financial knowledge, financial behaviors and attitudes of financial Indonesian lecturers determined by the interaction of socio-economic characteristics possessed lecturer, which consists of the interaction between the characteristics of age, gender, level of education, domicile, expenditure per month and marital status. Age, level of education, expenditure per month and marital status of lecturers in Indonesia are variables that affect the level of financial knowledge, financial behaviors and financial attitudes. The higher the person's level of education, the higher the person's level of knowledge about finances.

C. Hypothesis

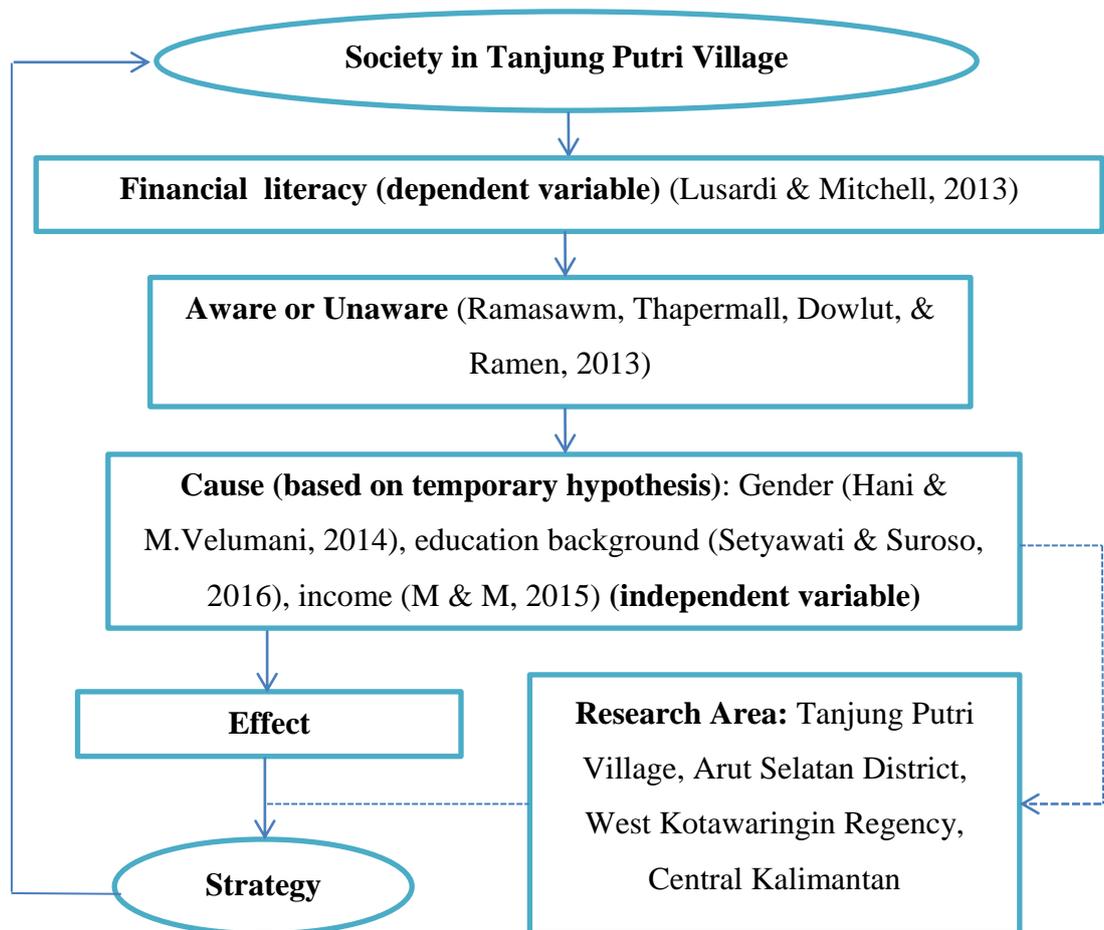
Based on the theory and the previous studies that have been outlined above, we can take the temporary hypothesis below:

1. Assumed gender has a significant influence to the awareness level of society in Tanjung Putri village on financial literacy.

2. Assumed education background has a significant influence to the awareness level of society in Tanjung Putri village on financial literacy.
3. Assumed income has a significant influence to the awareness level of society in Tanjung Putri village on financial literacy.

D. Research Framework

Figure 2.1
Theoretical Framework



Source: Developed by the researcher (2017).