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THE RELEVANCE OF FINANCIAL LITERACY AND CULTURAL INHERITANCE IN HOUSEHOLD FINANCE DECISION-MAKING

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ABSTRACT

The role of households in the financial system, which is a source of household financial complexity, has received insufficient attention. We will investigate how the importance of financial literacy and culture is related to husband and wife's knowledge, skills, and beliefs, as well as their agreement in making decisions about life insurance participation. Married couples conduct separate in-depth interviews, with wives conducting separate interviews and husbands conducting joint interviews. The main topic we cover is how to perform cognitive mapping on data derived from interviews with people of different ethnicities and cultures. The findings of this study confirm that cases in households with a strong individual cultural background where household financial decisions are delegated to the spouse are prevalent. The opposite is true for household couples with a collectivist cultural background, who intends to allow household financial decisions and reach consensus, avoiding the risk of uncertainty with life insurance consumer decision-making. This research project has implications for how financial knowledge is perceived, as well as how income and consumption are allocated. Individuals and couples gain confidence in household financial matters; sources of important decisions made prior to entering the financial markets; placement of investment assets in financial markets; and, finally, the positioning of households as the final owners of productive enterprises in the economy.

Keywords: Consumer Finances, Financial Decision-Making, Financial Literacy Household Finance, Life Insurance Decision-Making

PROEM

The empirical significance of household financial decisions on the entire financial system and economy is gaining traction. The allocation of household assets has theoretically only a very limited participation in the financial market, indicating a significant deviation between actual household behavior and theoretical expectations. The available literature, which serves as the theoretical foundation for household financial behavior in this complex process, is still poorly understood (Białowolski & Chávez-Juárez, 2021). There is empirical evidence that gender differences in household financial

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decisions exist. The difference in financial knowledge between men and women is the root cause (Lusardi & Mitchell, 2014). According to the theory of decision-making in the family (Rettig, 1993), the dynamics of the couple increase the complexity of making financial decisions in the household.

The central idea of this study is that households with earned income and strong financial literacy can increase the utility of their household consumption by including risk guarantors such as life insurance, which acts as a substitute for income. As a result, researchers are interested in the role of financial literacy in South Sulawesi households with diverse demographic and cultural backgrounds in household financial decision-making in allocating income to purchase and allocate a certain amount of insurance value independently of household wealth. When a breadwinner dies, the household wealth remains, but the breadwinner's income is lost; life insurance can replace that lost income. Financial literacy has become important in making household financial decisions for a variety of reasons.

This case study is focused on understanding and describing the complexity of the characteristics, roles, and motives of a husband and wife in a household motivated by demographic and cultural factors living in South Sulawesi. They are related to the knowledge and financial skills of individuals in making decisions to enter and participate in markets and financial systems, especially on the ownership of life insurance products. The purpose of this study has two basic components. The first is to focus on financial literacy in order to understand and assess how well each household is equipped to make complex financial decisions. Second, assess the relevance of financial literacy to behavior, especially the making of conjugal economic decisions separately or by agreement (together), against the background of the couple's cultural tribe.

THEORETIC

Household Finance

Household finance is an important component of the financial system that has gained prominence in recent years. The study of how households use (or should use) financial instruments to achieve their economic goals is known as household finance. The field of household finance has expanded rapidly over the last few decades, with the primary goal of creating detailed and accurate portraits of household behavior in financial

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markets (Badarinza et al., 2019). The proliferation of high-quality administrative data sets on household behavior is a recent development that has aided the growth of household finances (Olafsson & Pagel, 2018). The Swedish House of Finance establishes a ceiling. Household finance is the study of how households use financial instruments and markets to achieve their goals. Normative household finance investigates how households should make financial decisions by developing optimal portfolio selection models and financing decisions across the life cycle. Positive household finances look at what people do with their money and how they borrow.

Financial Literacy

One striking feature of the growing literature on financial literacy is the lack of a clear, mutually agreed-upon definition of "consensus." Many sources and works of literature differ in their definitions, but the substance and meaning remain well understood. Financial literacy is defined as "the ability to use knowledge and skills to effectively manage financial resources for lifelong financial well-being" by the President's Advisory Council on Financial Literacy. According to Remund (2010), "financial literacy is a measure of a person's understanding of the main financial concepts and has the ability and confidence to manage personal finances through making appropriate and correct short-term decisions, planning long-term finances, while paying attention to life events and changing economic conditions." This definition implies that comprehending the nature and implications of financial literacy is difficult.

Current research on heterogeneity in financial literacy levels focuses primarily on socioeconomic determinants. Previous research indicates that age (Finke et al., 2017; Lusardi & Mitchell, 2014), education, employment (Lusardi & Mitchell, 2014), and gender differences (Bucher-Koenen et al., 2017; Cupak et al., 2021) are significant predictors.

Culture

Guiso et al. (2006) define culture as "those customary beliefs and values that ethnic, religious, and social groups transmit relatively unchanged from generation to generation." The influence of culture on economic outcomes has gotten a lot of attention in the literature. This cultural trait, passed down from generation to generation, is still prevalent in contemporary Italian society (Guiso et al., 2016). Individuals from countries with a high uncertainty avoidance culture, for example, are less likely to use credit, according to

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Petersen et al. (2015). Individualism, according to (Chui & Kwok, 2008), influences the decision to purchase life insurance products: individuals use life insurance more in countries where citizens are more self-oriented than group-oriented. Investment decisions are influenced by national culture as well.

The role of culture has recently received a lot of attention. Culture has an impact on more than just the effectiveness of institutions. It also has an impact on household financial behavior (Gorodnichenko & Roland, 2017). As an explanation, the cultural (Hofstede, 2011) dimension consisting of power distance, individualism–collectivism, masculinity–feminity, uncertainty avoidance, pragmatism, and indulgence is used as an example.

METHODS

Study design and data collection

This study is a case study of four households with diverse characteristics and cultural backgrounds. Interviews with four couples were conducted behind closed doors for 90 minutes, with 30-minute breaks, to investigate the role of financial literacy and cultural influences on household financial decision-making in purchasing life insurance products in South Sulawesi. The interview is divided into two sessions, the first with the husband and or wife separately, followed by a joint interview with the couple to determine the characteristics of household financial decision-making.

Considering that researchers intend to use a small number of households as case studies, background information makes it simple to identify locally significant disaggregation variables. Study divided households by using cultural ethnic settings attached to couples individually or together as the main variables: (1) Couples Households are made up of one cultural tribe: young married couples. (2) Monogamous household couples from various cultural tribal backgrounds—households with married couples, children, daughters-in-law, and grandchildren living with extended family. (3) Polygamous household couples with complex cultural tribes have two wives from different cultural tribes who live in the same house with their children. (4) Monogamous couples from various cultural tribes Four household pairs corresponding to the highlighted categories were identified as case studies to describe the main household set at the study site. Case studies are well suited to detailed qualitative investigations. Yin

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(2014), "a case study is an empirical investigation that investigates contemporary phenomena ('cases') deeply and in real-world contexts, especially when the boundaries between phenomena and contexts may not be obvious".

Context-specific research question framing: specifically, the question is designed according to context to refer to: how married couples make household financial decisions, especially on the involvement of life insurance policy ownership; and related to the way women and men strategize and bargain around these activities, whether financial and cultural literacy factors contribute to the difference. Questions continue to be developed through brain-storming sessions and are designed to draw out the underlying reasons behind strategizing and bargaining around household financial decision-making in life insurance ownership.

Measures

Financial literacy

To assess participants' financial literacy, the updated Financial Management Behavior Scale (FMBS) developed in a publication of (Dew & Xiao, 2011) was employed. There are four subscales on the scale: cash management, credit card management, savings and investment, and insurance.

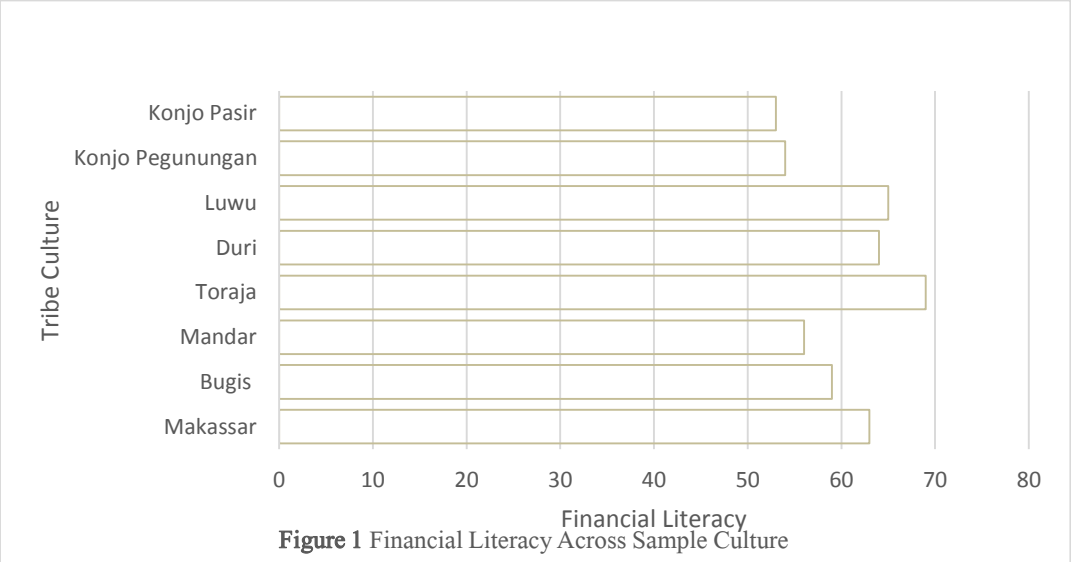


Figure 1 Financial Literacy Across Sample Culture

Culture

We capture culture through two of Hofstede's cultural dimensions: uncertainty avoidance and individualism, which is consistent with recent literature on national culture (Nadler & Breuer, 2019). Each of these dimensions is rated from 0 to 100.

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RESULTS

Household Characteristics

The characteristics of case studies of household couples with different cultural backgrounds conducted on the people of South Sulawesi reflect the findings of this study. Table 1 depicts the overall picture of household pairs represented and distinguished in various cases, revealing several typologies from key informants in each case.

Table 1. Case study households with socioeconomic characteristics

Characteristic	Case 1	Case 2	Case 3	Case 4
Household characteristics residential house description	Permanent house with two floors and a large plot of land > 150 M^2	Permanent residence, full air conditioning, and acreage >500M^2, iron and brick fences.	2-story house with a wooden wall on the second floor and a large yard >1000M^2	Permanent house, 3 main doors, spacious perimeter brick fence, large yard 300 M^2
Head of the household	Husband	Husband	Husband	Husband
Age of household head (years)	40	62	47	54
Number of wives	1	1	2	1
Dependents in total	2	5	3	2
Asset base	Two-Car, two motorcycle, washing machine, Laptop, Computer	Three-Car, four motorcycle, Hot water heater, Apartment	Two-Car, Truck, Scooter, Fan, Computer, electric oven	Two-Car, Hot water heater, bicycle, computer
Education of husband	Master	Bachelor	Bachelor	Doctorate
Wife's education	Bachelor	Bachelor	Associate degree	Master
Husband’s job	Architect	Businessman	Lawyer	Lecturer
Wife’s job	Civil servant	Housewife	1. Nurse 2. Housewife	Dentist
Household income	360.000.000/ p.a	1.500.000.000/ p.a	680.000.000/p.a	665.000.000/p.a
Net household wealth	975.000.000	3.763.000.000	1.980.000.000	1.475.000.000

Source: Research data, 2022

Perspectives on life insurance planning and financial literacy

Planning to obtain and participate in life insurance is still not considered strong enough for most married couples to be a commitment. Some couples with tribal ancestry have a more positive attitude toward life insurance planning. Some answers confirm that this was triggered by the birth of a child who could make the thought of the importance of life insurance coverage feel important. So, the couple plans education insurance for their child, knowing that if the insured becomes incompetent or dies, the child's education will be secure. The spouse will be reimbursed for a portion of the benefit. This product

was chosen because alpha pairings are required to view the benefits provided. The demographic of this couple appears to be fairly familiar with life insurance.

One or two couples who want their partner to be quite concerned and proactive in making decisions to participate in household finances by allocating the salary earned to create a life insurance program, but the couple also appears to have less financial knowledge, particularly on life insurance benefits that can provide benefits when something bad happens that results in the cessation of family income to continue living well.

The relevance of cultural inheritance in household finance decision-making

They describe the uniformity that the level of financial literacy of married couples of different cultures does not have significant differences that are reflected significantly in the decision-making carried out by the husband and wife in one household, except in the aspect of power distance, where in everyday life the relationship between the couples in the household is led by a head of household. It also explains why the fourth aspect of Hofstede's cultural dimension, based on a literature review, may be irrelevant to the concept of financial literacy, where financial literacy is defined as individual financial management knowledge and skills. Cases of household financial decisions being delegated to the spouse in households with a strong individual cultural background are common. Household couples with a collectivist cultural background, on the other hand, intend to allow household financial decisions to reach consensus, avoiding the risk of uncertainty with life insurance consumer decision-making.

Roles in the decision-making process

In most marriages, one spouse is more active in decision-making and the other is more reactive, or passive. These two types are referred to as "alpha" and "beta" roles. In most marriages, one spouse makes more decisions while the other is more reactive, or passive. To distinguish between these two categories, we use the role designations "alpha" and "beta." These individuals were generally less confident in their financial abilities than their alpha counterparts. Several test participants mentioned specific financial obligations, such as auto insurance or small home purchases, indicating a well-defined comfort zone. When compared to alpha partners, beta spouses were frequently more likely to spend money than save it, were frequently short-termist in their financial

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thinking, and were relatively relaxed about household finances. They frequently sought financial advice from unofficial sources such as friends, family, and coworkers.

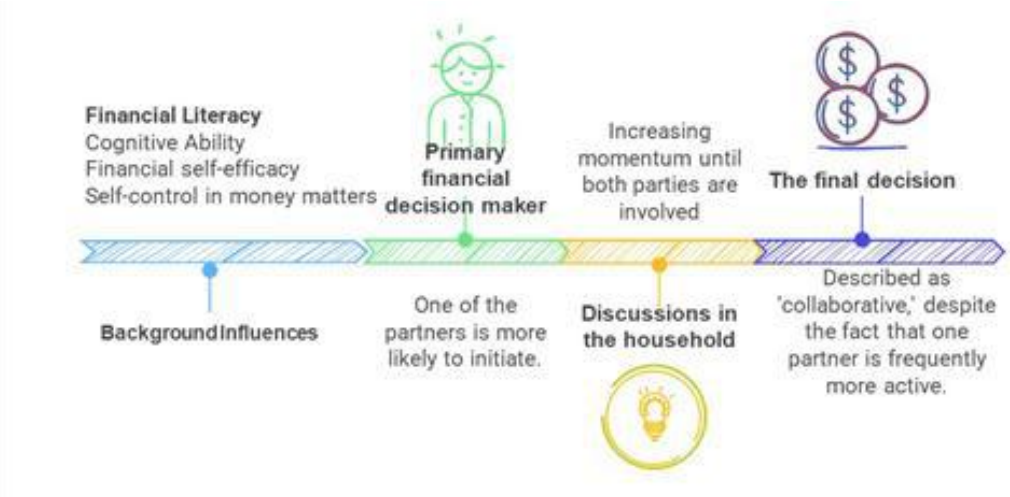


Figure 2. A typical type of dialogue throughout the decision-making process

The role of financial literacy and cultural inheritance is important and affects the cognitive ability, financial self-efficacy, and self-control in money matters of each participating household couple. When deciding on the primary financial choice, one of the spouses takes the initiative by first looking for information and then speaking with the other partner using information gathered from the network and peers. If the partner reacts, decision-making begins; if the partner does not answer, further initiation is halted. While discussing the household financial plan, one of the spouses will look for the proper impetus to elevate the plan along with the cooperation of each spouse. Household financial decisions are made jointly or consensually, although, one of them has always been more dominant to realize household financial decision making and be involved in the final decision.

CONCLUSIONS

The influence of knowledge, individual skills, and self-confidence in the financial management of the wife and or husband on household financial decision-making on life insurance ownership in household couples with a background in financial literacy, socioeconomic inheritance, and demographic characteristics in the people of South Sulawesi is very relevant. The literacy level of participants is also influenced by the background of formal education, household income, household wealth, and points of view believed by couples who are still guided and uphold the value of traditions that are binding

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on the culture of married couples/participants, which has an impact on making household financial decisions that tend not to be uniform. Husbands have slightly better financial literacy than their female partners, but financial decisions in the household are not always made by the husband. Cultural factors related to masculinity and femininity influence who is more dominant in making household financial decisions, particularly in the planning and ownership of life insurance policies.

The importance of mediation between local governments and stakeholders in an effort to increase the financial literacy index of the people of South Sulawesi was stated by several informants regarding the accessibility of issues, inclusivity, and related to initiation costs. Individual financial skills and financial literacy in general are not taught in formal education, so it is important in this case that regulators formulate policies to formulate learning media to improve the financial literacy of the public in general.

The results of this qualitative research are not recommended to be used as a barometer to generalize research findings and be applied to policy making with a socioeconomic, demographic, and cultural ethnic background that tends to differ in the extreme from the typical people of South Sulawesi.

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