

JURNAL EKONOMI KUANTITATIF TERAPAN

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ABSTRACT

Insurance is needed to provide financial protection. However, Household trust in insurance financial products and services is lower than in banking, especially in Bali Province. Financial literacy is needed to increase trust in insurance financial services. This research aims to examine the condition of financial literacy at the household level in Bali Province and analyze the influence of financial literacy on household interest in utilizing insurance financial service products in Bali Province. This research used a quantitative associative approach with survey data collection techniques using questionnaires. The data analysis technique for this research uses the formation of index numbers to measure the financial literacy index at the household level in Bali Province and Binary Logistic Regression to determine the influence of the independent and dependent variables. The analysis results show that the financial literacy index in Bali province is in the high category, and financial literacy has a significant relationship with household interest in utilizing insurance financial services.

Key word: financial literacy, household finances, insurance

JEL classification: G53, G5, G52

INTRODUCTION

Insurance is a product of non-bank financial institutions that provides financial protection to avoid risks that may occur in the future. Penetration of insurance financial services into Indonesian society is still quite low. The insurance penetration rate 2021 only reached 3.18%. The penetration consists of 1.45% social insurance, 1.19% life insurance, 0.47% general insurance, and the remainder is compulsory insurance (Otoritas Jasa Keuangan, 2023).

Results of a survey by Otoritas Jasa Keuangan (OJK) in 2022 during the SNLIK stated that the insurance literacy

index in Indonesia was around 31.72%, still below the banking literacy index, which had reached 49.93% (Otoritas Jasa Keuangan, 2022). The results mean that the level of knowledge of the Indonesian people regarding insurance financial services still needs to be higher. This result is a serious problem considering the importance of strengthening the non-bank financial institution sector to achieve Indonesia's long-term development goals. It also encourages economic growth, which is a real illustration of the impact of implementing a development policy (Muhammad, Rochaida and Fitriadi,

2015). Economic growth is characterized by an increase in goods and services generated (Wellyanti, 2019). This problem can be overcome by increasing financial literacy.

Financial literacy is important to avoid financial problems in households. A preassumption regarding investment in household financial knowledge is a financially capable household will have greater opportunities to optimize its standard of living (Xu *et al.*, 2022). A preassumption regarding investment in household financial knowledge is a financially capable household will have greater opportunities to optimize its standard of living (Puelz and Puelz, 2022). Financial literacy is important to live a self-determined life. Thus, everyone should have solid knowledge (Blaschke, 2022).

A high level of financial literacy can overcome the problems of education, lack of employment opportunities and work experience (Dorkas Rambu Atahau *et al.*, 2023). Financial literacy in individuals stimulates a better emotional state of authorization and informed

judgment regarding finance choices (Noor *et al.*, 2020).

The degree of financial literacy can influence household financial behavior. In this way, households with high financial literacy can manage their finances well and avoid financial problems. Financial literacy benefits households, and Households are users of financial services. However, financial literacy is also needed to advance financial services.

Financial literacy is reviewed through three pillars. First, financial knowledge. A financially literate person will have some basic knowledge of key financial concepts. Second, financial behavior, how a person behaves, will significantly impact their financial well-being and lastly, financial attitude, if they prefer to prioritize short-term wants, then they are unlikely to provide themselves with emergency savings or to make longer-term financial plans (Atkinson and Messy, 2012).

To create a good financial system and avoid losses in the household, at least one member understands finances

(Sakyi-Nyarko, Ahmad and Green, 2022) Financial literacy has a knock-on effect on levels of use of financial products and services, increases profits, and fosters innovation in developing financial products and services for financial institutions. When households and financial services realize the importance of financial literacy, a mutually beneficial relationship will be established without anyone feeling disadvantaged because financial decision making is based on quality knowledge and beliefs to achieve prosperity. The possible risk of loss for financially literate customers tends to be smaller and more predictable than those who are less financially literate because they have a more definite plan for borrowing and repayment (Jin et al., 2021).

Results of the SLINK survey by OJK in 2022, Bali province has a fairly high gap between financial literacy and financial inclusion. The Bali Province public financial literacy index is 57.66%, and the financial inclusion index is 92.21% (Otoritas Jasa Keuangan, 2022). That index shows that the people in Bali

Province already have access to formal financial services but need to fully understand the information from these financial services so that the decisions taken in financial management are not of full quality to ensure prosperity.

In addition to financial literacy, several socioeconomics factors influence a household's interest in using financial insurance services: location of residence, age, gender, level of education completed, number of dependents, employment status, and total household income.

Based on the results of a previous study conducted by (Buchori *et al.*, 2022a) there is a positive impact between students' financial literacy and purchasing intentions. Likewise, a study (Wahono and Leng, 2022) shows that financial literacy significantly affects life insurance ownership. This study aims to examine the condition of financial literacy at the household level in the Province of Bali and analyze the effect of financial literacy on household interest in utilizing insurance financial services products in the Bali Province.

RESEARCH METHOD

This type of research is associative research which aims to determine the effect of financial literacy variables on household interest in utilizing insurance financial services in the Province of Bali. The sample size in this study was 100 household respondents in the Province of Bali, which was determined based on the Slovin formula. As for the respondents, the head of the household or their partner has perfect information about the household's financial condition and can make decisions related to it.

This study uses independent variables consisting of interest variables, namely financial literacy measured by 3 pillars and 15 indicators and control variables containing household characteristics. The financial literacy variable is measured using a linear scale of 1-10, where the higher the number chosen, the greater the value. The dependent variable in this study is the household's interest in using insurance financial services. The variable of household interest in utilizing insurance financial services is measured through insurance

ownership using the Guttman scale, which will provide a choice of "Yes" or "No" answers with a score of 1 = Yes and 0 = No.

The calculation of the financial literacy index refers to the calculation of the Index from Bada Pusat Statistik (BPS). Each financial literacy pillar, namely financial knowledge, financial behavior, and financial attitude, will be calculated to form their respective index numbers and then added together to get a financial literacy index number. The index number measurement uses the index calculation formula from the Baan Pusat Statistik as follows:

Financial Literacy Pillar Index :

$$\frac{\text{Average Total Score} - \text{Minimum Average Value}}{\text{Maximum Average Value} - \text{Minimum Average Value}} \dots\dots\dots(1)$$

Household Financial Literacy Index :

$$\frac{1}{3} \times \text{Total Literacy Pillar Index} \dots\dots\dots(2)$$

From the financial literacy index numbers, index numbers will be generated from a scale of 0 – 100, then grouped into 5 categories, namely (Solihin *et al.*, 2019):

1. index number 0 - 20.00 is very low category;
2. index number of 20.01 - 40.00 is a low category;
3. index number of 40.01 - 60.00 is in the moderate category;
4. index number 60.01 - 80.00 is high category; and
5. index number 80.01 - 100.00 is very high category

This study uses the Binary Logistic Regression model. The basis for using this model is because the endent variable or Y in this study is a dummy variable. The model formed in this study, namely:

$$Y = \beta_0 + \beta_1 FL_1 + \beta_k X_i^k + \varepsilon_i \dots \dots \dots (3)$$

Y : Household interest in utilizing insurance financial services

β_0 : Logistic regression parameter constants or coefficients

$\beta_1 FL_1$: Financial Literacy

$\beta_k X_i^k$: Household socio-economic characteristics

ε_i : Error term Contains how data is collected, data sources and ways of data analysis

RESULTS AND DISCUSSION

Respondent Characteristics

Based on a survey conducted on 100 household respondents in Bali Province, respondents who live in Denpasar City dominate more. Most of the household respondents are in the age range of 34 years and over. This age is mature in managing household finances. Female respondents are more dominant, meaning that women take more of a role in managing household finances. Respondents with a bachelor's degree are higher than other levels of education, followed by respondents with a high school education level. This shows that the household education level in Bali Province is generally reasonable. In terms of the number of dependents, most of the respondents had 1-5 dependents. Most of the respondents worked as laborers/employees. Total household income is in the range of 3 - 10 million rupiah.

Financial Literacy Index at the Household Level in Bali Province

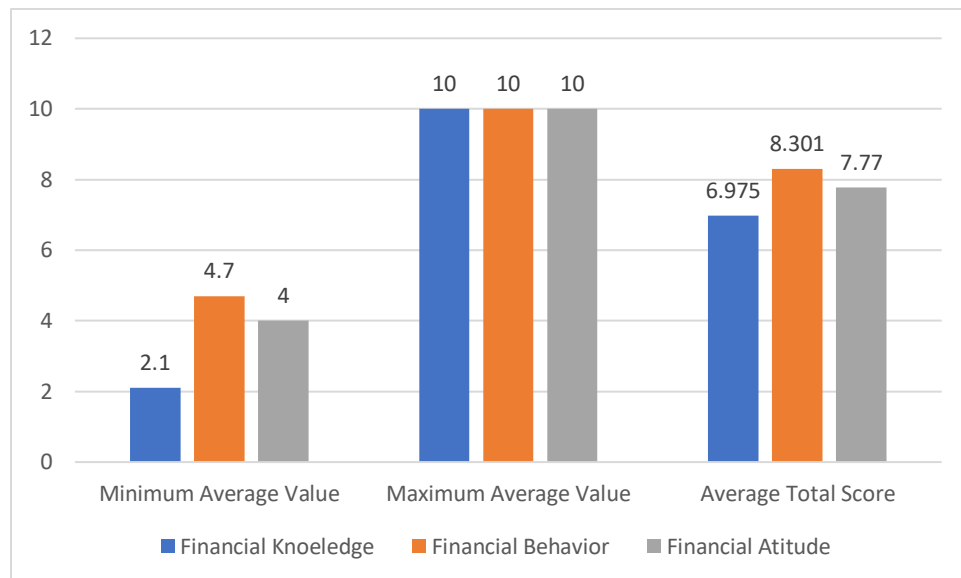
Based on the picture below, the analysis of financial knowledge seen from comparing the maximum and minimum values still has a considerable distance. This analysis means that the understanding of households in the Province of Bali regarding finance is unevenly distributed, where some understand finance and some do not. Furthermore, in an analysis of financial behavior, the minimum value is relatively high and almost reaches half of the total value. This analysis means that the behavior of household finances in the Province of Bali is good enough to make it easier to achieve financial prosperity. Analysis of financial attitude also shows results similar to financial behavior, This analysis indicates that the attitude in the household to manage finances is good enough, where households tend to prioritize long-term desires.

Based on the data in the picture above, the results obtained are a financial knowledge index of 0.65, a financial behavior index of 0.68, and a financial attitude index of 0.62. From these results, the financial literacy index number is 65.

The Effect of Financial Literacy on Household Interests in Utilizing Insurance Financial Services

The calculation results between the dependent variable, namely the household's interest in utilizing insurance financial services (Y) with the financial literacy interest variable (X_1), and the control variable consisting of residence (X_2), age (X_3), gender (X_4), education (X_5), number of dependents (X_6), employment status (X_7) and total household income (X_8) using the Binary Logistic Regression method which will be presented in the table below.

Figure 1: Descriptive Statistics of the Pillars of Financial Literacy



Source: Processed data, 2023

Table 1: Binary Logistic Regression Analysis Results

	Koefisien (β)	Std. Error	Wald	Sig
Financial Literacy (X_1)	0,021	0,008	7,732	0,005
Residence (X_2)	-0,133	0,087	2,345	0,126
Age (X_3)	-0,003	0,022	0,016	0,899
Gender (X_4)	-0,448	0,554	0,655	0,481
Education (X_5)	0,169	0,104	2,621	0,105
Number of Dependents (X_6)	-0,105	0,225	0,218	0,640
Employment Status (X_7)	0,361	0,212	2,231	0,135
Total Household Income (X_8)	0,025	0,044	0,321	0,571
Constant	-5,834	2,236	6,810	0,009

Source: Processed data, 2023

Based on the table above, the logistic regression estimation equation is obtained as follows:

$$Y = -5,834 + 0,021X_1 - 0,133X_2 - 0,003X_3 - 0,448X_4 + 0,169X_5 - 0,105X_6 + 0,361X_7 + 0,025X_8 + e$$

Discussion

Based on calculating the financial literacy index number, which is 65. The value of the index number 60.01 – 80.00 is a high category, so the financial literacy index at the household level in Bali Province is in the high category. The results of this calculation are supported by the 2022 National Financial Literacy and Inclusion Survey, which states the financial literacy index for the Province of Bali is 57.66%.

Table 1 presents the results of the logistic regression output where the financial literacy variable has a sig value of 0.005, which is smaller than 0.10, so the financial literacy variable significantly affects household interest in utilizing insurance financial services. The β value is 0.021, indicating that financial literacy has a positive relationship with the

public's interest in utilizing insurance financial services.

The results of testing the second hypothesis show that financial literacy has a significant positive effect on

household interest in using insurance financial services, which means that the better a person's financial literacy, the higher household interest in using insurance financial services will increase. The results of this study are supported by statements from research (Buchori et al., 2022) that there is a positive influence between financial literacy and buying interest among students. Likewise, research conducted by (Wahono and Leng, 2022) indicates that financial literacy significantly impacts life insurance purchases. The same thing (Parulian and Aminnudin, 2020) is that financial literacy and minimum investment capital positively affect investment interest.

Of the eight control variables used in this study, only one control variable significantly impacts household interest in utilizing insurance financial services,

namely education level. This finding is in line with (Lotto, 2020) education is positively related to financial literacy, suggests that financial literacy increases sharply along with the household's educational.

CONCLUSION

Based on the research results and discussions described, it is concluded that the household financial literacy index in Bali Province is in the high category. This research also shows that financial literacy significantly positively affects household interest in utilizing insurance financial services.

Furthermore, this research provides suggestions to the government and insurance financial services to support the insurance industry's growth, especially in Bali, by improving customer experience through embedded finance, increasing education and outreach programs to increase consumer literacy and trust and optimizing services to facilitate consumer transactions.

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