The Influence of Financial Socialization on Financial Literacy About Stock Investment in the Millennial Generation

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Abstract— Based on data from the Financial Services Authority (OJK), the number of investors investing in the capital market is still relatively low when compared to the total population of Indonesia. The low interest in investing in the capital market caused by a lack of financial literacy in investment instruments in the capital market. Financial literacy can be improved through Financial Socialization conducted by Socialization Agents consisting of family, peers, formal education, and the media. The object of this research is the millennial generation, because investing in stocks, has a relatively high risk, so it is estimated that the age that is resistant to anticipating high risk is the age of the millennial generation. The purpose of this research is to find out which socialization agent has the biggest role in the process of financial literacy. This research is a quantitative research using primary data whose data is obtained by conducting a survey. This research found that media is the most influential agent of financial socialization on financial literacy in the millennial generation. The logical explanation is that the accessibility of media and the familiarity of internet based media and social media for millennial generation.

Keywords— Agents of Financial Socialization, Financial Literacy, Financial Socialization.

I. INTRODUCTION

In 2018 the total population of Indonesia was 265,015,300 with a Gross Domestic Product (GDP) of more than USD 1 trillion. For investors, Indonesia has dynamic characteristics and of course this is an attraction for investors. According to data from the Central Bureau of Statistics in 2019, of the total population, 133,136,100 were male and 131,879,200 were female. It can be seen that the number of male and female population is balanced. The number of productive age (15-64 years) is 179,126,900 people or about 67.59 percent of the total population. However, not all of the productive age population is in working status, only 124,004,950 or 46.79% of the total population have jobs. The number of people who work is the basis to be taken into account in investment activities, because by working they will get the expected salary, apart from being used for daily consumption, they can also be saved or invested. There are several investment alternatives that an investor can choose from, ranging from low risk to high risk. Before making investment decision, investors will consider several aspects and conduct an analysis.

Most Indonesians still have a tendency to keep their money in savings. The comparison between savings and investment is 79:21, or it can be said that interest in investing is still low. Investing in stock market is in the fourth after deposit, gold, and property. Investing in stock market consider to have high risk compared to the other three alternatives (www.hsbc.co.id). Investments in stocks are still not well known or popular due to a lack of knowledge and financial literacy, especially those related to the return and risk of investment. This is indicated by the low number of investors in the capital market as measured by the Single Investor Identification (SID) indicator, as shown in the table below:

Table 1.1: *Single Investor Identification (SID) 2016-2019.*

Year	SID	% increase/decrease
2016	894.116	
2017	1.122.668	25,56%
2018	1.619.372	44,24%
2019	2.478.243	53,04%

Source: press release KSEI 2019

Based on the data from the Indonesian Central Securities Depository (KSEI) above, there was an increase in SID from 2016 to 2019. Although there was an increase of more of 50%, but this number is still relatively low when compared to the entire population of Indonesia, which is only 0.93% or below 1%.

The survey conducted by the Financial Services Authority (OJK) in 2013 and 2016, found that financial knowledge about the capital market is the lowest among other financial institutions (see figure 1.1 below). In 2013 there were only 6.2% per 100 people or only 6 out of 100 people who had knowledge of the capital market. This number increased in 2016 by 15.7% or 15 out of

100 people who know about the capital market. Even though there was an increase of more than 100%, the number was still lower compared to other financial institutions. It can be seen that knowledge about banks was the highest in 2013 and 2016 namely 99.5% and 99.8% which is close to 100%. This means that banking is the most popular because almost everyone knows banking and banks have become very popular among the Indonesian population, the majority of whom put their money in savings or time deposits.

The reason why banks are so well known is the wide network owned by banks, which is almost all regions in Indonesia and banks are able to provide various types of financial transactions. In another survey from the OJK, it was found that only 36.1% of the population knew about investment risks. This means that the number of people who are ready to accept investment risk is still relatively low and this is the cause of the low number of Indonesians willing to invest in Indonesian capital market instruments and bear relatively high investment risks.

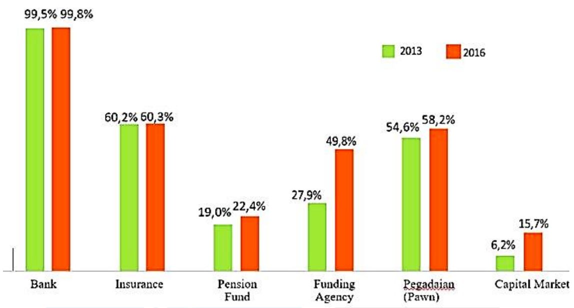

***Figure 1.1**: Financial Knowledge of Financial Service Institutions [source: data from OJK, 2017]*

Before making an investment decision, investors usually try to seek information from various sources, including advertisements on TV, advice from peers, TV or radio programs, financial services and advertisements in newspapers. Based on table 1.2. below the advertisements on TV are the most readily available information for investors to make their investment decisions.

The second source of information is the advice of peers which is also important and has an impact that can be considered in investment decisions. Advertisements on TV, TV and radio programs, advertisements in newspapers are examples of media as agents of socialization. Peer's advice can be classified as a peer in a socialization agent. According to Sohn et.al (2012), socialization agents can disseminate financial information so that they can improve financial literacy.

***Table 1.2:** Source of Information for Making Investment Decisions*

No	Source of Information	%
1.	Advertisement on TV	51.7
2.	Advice from peers	31.7
3.	TV and radio programs	26.4
4.	Brand office of financial service	23.4
5.	Advertisement on newspaper	18.2

Source: OJK, 2016

Regarding the description that has been mentioned above, the research problem can be formulated as follows:

1. Does financial socialization affect financial literacy regarding investment in the capital market among millennials?
2. Among the four financial socialization agents, namely family, peer, formal education, and the media, which one has the greatest influence in improving financial literacy?

The purpose of this research is to determine whether the financial socialization carried out by the four financial socialization agents (family, peers, formal education, and the media) had an influence on financial literacy with a focus on the millennial generation.

The contribution of this research is to provide insight for potential capital market investors, especially the millennial generation that by having financial literacy it is hoped that knowledge and interest in investing in the capital market will increase.

II. LITERATURE REVIEW

2.1 Previous Study

The effect of financial socialization on financial literacy was previously investigated by [22] who found that the higher the level of financial socialization, the higher the level of financial literacy. The results of this study are supported by research conducted by [2] which found that financial socialization has a positive effect on financial literacy. Another study from [19] found that financial socialization agents have a significant influence on financial literacy. The more financial socialization from parents, formal education, peers, and the media, the higher the level of financial literacy. On the other hand, the less financial socialization, the lower the level of financial literacy you have. Research conducted by [11] found that the media has a higher role than the family and has a positive influence on financial literacy with a value of t = 2.812 and p value 0.05. The results of another study conducted by [12] also showed that the media had a higher positive influence than other socialization agents. The implication is that welldesigned media content can be a major source of learning about money and personal finance. There are various kinds of media that can be used and the internet is the most important in providing financial information education.

2.2 Financial Socialization

Humans as social beings will always interact with each other in society. According to [6] financial socialization is the process of acquiring and developing values, attitudes, standards, norms, knowledge, and behaviors that contribute to financial sustainability and individual well-being. There is interaction and socialization between consumers and institutional actors to acquire knowledge, skills, and values in social and cultural class adjustment [11]. Previous research found that socialization actors are not only formal education, but also peers, family, and the media [12]. According to research conducted by the Organization for Economic Co-operation and Development (OECD) in 2006 [18] stated that the main source of financial socialization for adolescents is the media. Therefore, policy makers such as the government must ensure that the media present accurate and quality content about financial information.

2.2.1 Family

Parents have a major role in financial socialization agents to provide financial literacy that can affect financial knowledge, financial attitudes, and financial behavior ([11], [15]). The impact that parents make on their children's knowledge, behavior, attitudes, and financial abilities starts early [8]. In a family, financial socialization can occur implicitly when children observe parents' financial behavior and routine interactions, such as earning, spending, saving, borrowing, and sharing ([5], [6], [9]). The theory of financial socialization through the family states that the socialization carried out is in terms of spending and saving, when to spend or save, and whether spending takes precedence over saving [21]. Several studies have found that the role of parents is very important in increasing financial knowledge, capability, and behavior among adolescents [23]. In Ghana, a survey of 3,623 young respondents found that parents have a significant influence on the development of financial competence [4].

2.2.2 Peers

Peers are considered a source of financial socialization that has a significant influence. Information and skills acquired through peer groups vary, such as financial advice and information on financial planning and investment decisions [11], [15]). Financial information provided by financial socialization agents such as peers, parents, and schools is considered a passive form of information seeking, while an active form of socialization can be obtained through the media [22].

2.2.3 Formal Education

In formal education, students get financial literacy information regardless of their personal or ethnic circumstances [8]. Research by [21] even states that there is clear evidence that formal financial education during the secondary school years predicts students' financial knowledge. Research by [7] mentions that secondary school financial literacy courses have been shown to have a short-term effect on improving financial knowledge.

2.2.4. Media

Another financial socialization agent is the media which also plays an important role in influencing purchasing and investment decisions, including the choice of investment products. Consumers prefer to educate themselves independently through media sources, namely television, radio, magazines, internet, and newspapers. The reasonable explanation that the media is just in time (available on time), provides easy access, and directly provides information for decision making [11]. Increasing the use of social media is an important educational development because it can increase opportunities to access financial information that was previously inaccessible [13]. Advances in social media are found in the use of Facebook, Instagram, twitter, and LinkedIn [3]. Mass media such as the internet and television have an important role in increasing consumer knowledge among teenagers [1].

3. Financial Literacy

Understanding financial literacy is the ability of people to process economic information that is used in making appropriate decisions about financial planning, wealth accumulation, debt, and retirement [16]. The same thing was expressed by [22] who defined financial literacy as the ability and knowledge to face challenges and make financial decisions in everyday life. Remund (2010) categorizes financial literacy into five, namely: (a) understanding of financial concepts; (b) competence to discuss financial concepts; (c) ability to manage personal finances; (d) skilled in making sound financial decisions; and (e) assurance to develop effective plans for future financial needs. Research by [14] also confirms that the reason for the need for financial literacy is the complexity of the capital market that offers a variety of products. This is confirmed by [17] which states that financial literacy is the competence to assess and evaluate new and complex financial instruments and make the right decisions in terms of choosing instruments based on functions that are in their best long-term interests.

4. Research Framework

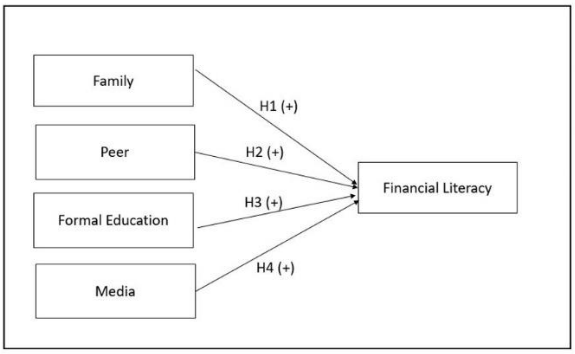

Figure 2: *Financial Literacy Diagram*

E. Research Hypotheses

Based on the discussion of the theories and concepts above, the research hypotheses can be formulated as follows:

H1: Family has a positive effect on Financial Literacy
H2: Peer has a positive effect on Financial Literacy
H3: Formal Education has a positive effect on Financial Literacy
H4: Media has a positive effect on Financial Literacy

III. RESEARCH METHODOLOGY

A. Research Design

This research uses a survey method in data collection. The survey used in this study was an online method, through the distribution of link via email to enter the questionnaire questions. This study uses sample data of investors in Indonesia Stock Exchange.

B. Sampling Techniques

The sample in this study was taken through a non-probability sampling technique. According to Hair et.al. (2018) states that the minimum ratio between sample and indicator is 5:1, but the more desirable ratio is 15:1 or 20:1. This means a minimum of 5 respondents for each indicator.

C. Questionnaire Design

The questionnaire will be divided into 2 parts, the first part contains the demographic conditions of the respondents, such as gender, age and occupation. The second part contains questions for each financial socialization agent, namely family, peers, formal education, media, and financial literacy.

IV. ANALYSIS AND DISCUSSION

A. Analysis

Several adjustments were made in the main-test as a follow-up to the results of the pre-test, including increasing the number of samples and increasing the number of indicators. There are 24 indicators used in the main-test, consisting of: Family with 4 indicators, Peers with 4 indicators, Formal Education with 5 indicators, Media with 5 indicators, and Financial Literacy with 6 indicators. When described in the form of path analysis using AMOS 24, it is as follows:

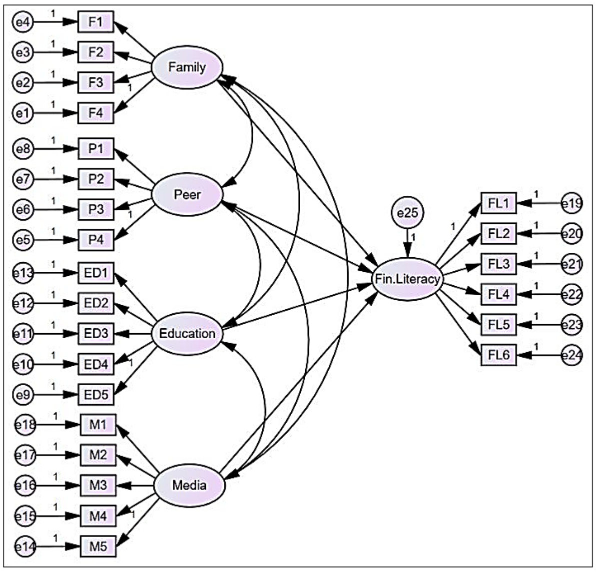

Figure 3: *Path analysis using AMOS 24*

The samples that were collected for the main-test were 1,017 which were obtained through the distribution of online questionnaires to investors who made stock trading transactions on the Indonesia Stock Exchange. The first step is to carry out initial screening as was done in the pre-test, namely (1) having RDN, (2) aged between 21-41 (born between 1980-2000), and (3) having a minimum education of D3. After going through the initial screening stage, there were 782 samples that matched these criteria. After searching for outliers by looking at the Mahalanobis distance values for p1 and p2 which must be above 0.05, the final result obtained is normal data for a total of 409. The result of validity test confirms that all indicators for all variables are valid, which have a significant p-value of 0.00 (below 0.05). It means that they can be used to measure construct variables. After the validity test, the reliability test is then carried out with the Composite Reliability value indicator. The reliability test results above show the composite reliability value for all variables are 0.7 and above. It means that there is internal consistency between indicators for each variable. After the reliability test is fulfilled, the goodness of fit test will then be carried out. The results are CMIN/DF = 1.864, RMSEA = 0.046, GFI = 0.92, AGFI = 0.894, and SRMR = 0.0625. It shows that the model meets the qualification and it can be concluded that the model is fit. Furthermore, it can be continued with structural model analysis. The regression coefficient shows the level of influence between independent variables and dependent variable. In this case, we want to know which financial socialization agent has the greatest influence on financial literacy. To find out whether family, peers, formal education, and the media statistically affect financial literacy, it can be seen based on the p-value shown in the table below:

			Estimate	S.E.	C.R.	P	Label
Fin.Literacy	<---	Family	0.071	0.027	2.614	0.009	
Fin.Literacy	<---	Peer	0.012	0.032	0.355	0.723	
Fin.Literacy	<---	Education	0.071	0.02	3.574	***	
Fin.Literacy	<---	Media	0.543	0.104	5.22	***	

Based on the results of the regression test, it can be seen that only peers have no effect on financial literacy. The other three variables: family, formal education, and the media statistically affect financial literacy, which is indicated by a p-value smaller than 0.05. The media has the largest positive influence on financial literacy, which is shown by regression coefficient of 0.543, followed by family which has a positive effect of 0.071, and finally peer which has a positive effect of 0.012.

B. Discussion

Regarding the result of analysis process, it is obtained that financial literacy is influenced by financial socialization carried out by financial socialization agents, including family, formal education, and the media. Among the three financial socialization agents, the media has the greatest positive influence. This means that the media has the biggest role compared to family and formal education in providing financial literacy to the millennial generation. The media is more on social media that is widely used and popular among the millennial generation. These findings are supported by the results of research conducted by Lyons et al. (2006) in Sohn et.al. (2012) which states that adolescents in Korea prefer the media to increase their level of financial literacy. It is also stated that high school students and university students use the media and the internet as sources to obtain financial information. Another study conducted by Ameliawati (2018) found that family has a positive influence on financial literacy. It is stated that the family has a major role in directing their children about managing expenses. Formal education also plays a role in providing financial knowledge to improve financial literacy. The results of this study indicate that the media plays a major role in increasing financial literacy among the millennial generation. Of course, this is very relevant to the fact that currently the millennial generation is very easy to assess the information via the internet (on-line), such as financial information website and social media. The information obtained is very fast, up to date and relatively inexpensive. This makes it easy for the millennial generation who are very affected to technological changes to get knowledge about finance from various on-line information sources.

V. CONCLUSION AND RECOMMENDATION

A. Conclusion

Based on the results of this study, it can be concluded that the financial socialization agents, such as the media, family and formal education can improve the financial literacy of the millennial generation. The greatest influence is given by the media, meaning that the more information available will be able to increase the financial literacy of the millennial generation. The ease of access is one of the logical reason why the millennials prefer to choose media as an agent to increase their financial literacy. In addition, of course, technological sophistication on devices allows the millennial generation to access financial information anytime and anywhere.

B. Recommendation

Suggestions that can be given to the next researcher is to take samples from different age groups, so that it can be compared which socialization agents have the most influence in different groups of age. It can be concluded that the media is the most attractive financial socialization agent for the millennial generation to obtain financial information. Suggestions for financial companies and the Indonesia Stock Exchange are to disseminate as much financial information as possible through the internet and social media that can be easily accessed by millennials to increase their financial literacy, hence their interest to invest in the stock market,

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