



THE INFLUENCE OF FINANCIAL LITERACY ON INDIVIDUAL FINANCIAL MANAGEMENT PATTERNS

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Abstract:

Financial literacy has become an essential competency in modern society, particularly in an era characterized by rapid technological advancement and increasing access to financial services. Individuals are now exposed to various financial products such as digital banking, online investments, and instant credit facilities. While these developments provide convenience, they also require individuals to possess adequate financial knowledge and skills to manage their financial resources effectively. This study aims to analyze the influence of financial literacy on individual financial management behavior using a descriptive quantitative approach. The study utilizes secondary data derived from national surveys and relevant academic literature. The findings indicate that financial literacy plays a significant role in shaping financial behavior. Individuals with higher financial literacy tend to demonstrate better financial management practices, including budgeting, saving, and making informed financial decisions. Conversely, individuals with low financial literacy are more likely to engage in poor financial behaviors, such as excessive consumption, lack of financial planning, and inefficient use of financial services. The study concludes that improving financial literacy is crucial in enhancing financial well-being and promoting responsible financial behavior among individuals.

Keywords: financial literacy, financial behavior, personal finance, financial management

INTRODUCTION

The rapid development of financial technology and globalization has significantly transformed the financial landscape, reshaping how individuals access and utilize financial services in their daily lives. Individuals now have access to a wide range of financial services, including digital payment systems, investment platforms, and online lending services, which have increased the efficiency, speed, and accessibility of financial transactions. These technological advancements provide greater convenience and flexibility, enabling individuals to manage their financial activities more effectively and participate more actively in the financial system. However, despite these benefits, the rapid expansion of financial products and services has also introduced new challenges, particularly for individuals who lack sufficient financial knowledge



and skills to understand financial risks and make appropriate financial decisions.

In this context, financial literacy is widely recognized as a key factor influencing individual financial behavior and overall financial well-being. Financial literacy refers to the ability to understand financial concepts and apply that knowledge in making informed and responsible financial decisions (Huston, 2010). Individuals with adequate financial literacy are more likely to manage their finances effectively, avoid excessive debt, and plan for future financial needs in a structured and sustainable manner (Lusardi & Mitchell, 2014). Adequate financial literacy also supports individuals in developing long-term financial planning strategies, enhancing financial resilience, and achieving greater financial stability in an increasingly complex financial environment.

Despite the increasing availability of financial services, many individuals continue to experience difficulties in managing their personal finances effectively in an increasingly complex financial environment. This issue is reflected in the persistent gap between financial inclusion and financial literacy, where access to financial products and services has expanded more rapidly than individuals' ability to understand and utilize them responsibly. A large proportion of the population actively uses financial products such as savings accounts, digital payment systems, credit facilities, and online financial platforms; however, their comprehension of fundamental financial principles, including budgeting, financial planning, risk management, and responsible borrowing, often remains limited. This imbalance indicates that the expansion of financial services alone is not sufficient to ensure sound financial behavior. As a consequence, insufficient financial knowledge and skills may lead individuals to make suboptimal financial decisions, such as accumulating excessive debt, failing to save regularly, or making inappropriate investment choices. Over time, these behaviors can negatively affect financial stability, reduce financial resilience, and increase vulnerability to economic shocks. Therefore, strengthening financial literacy is essential to support individuals in making informed financial decisions and achieving sustainable financial well-being.

Previous studies have consistently demonstrated that financial literacy is closely associated with individual financial behavior and decision-making patterns in various socio-economic contexts. Financial literacy not only reflects an individual's level of financial knowledge but also influences attitudes, skills, and confidence in managing financial resources effectively. Empirical evidence suggests that individuals who possess higher levels of financial knowledge tend to exhibit more responsible and disciplined financial practices in their daily financial activities. For instance, Cliff A. Robb and Ann S. Woodyard (2011) found that individuals with greater financial knowledge are more likely to engage in responsible financial behaviors, such as monitoring expenses, controlling spending, and managing credit wisely. Similarly, Jing Jian Xiao and Jeffrey Dew (2011) emphasized that financial literacy plays a significant role in promoting positive financial management behaviors, including budgeting,

regular saving, and long-term financial planning. These findings indicate that strengthening financial literacy is an essential strategy for improving financial behavior, enhancing financial well-being, and supporting individuals in achieving sustainable financial stability in an increasingly complex financial environment.

In Indonesia, the issue of financial literacy remains highly relevant in the context of rapid financial sector development and the expansion of digital financial services. Although the level of financial inclusion has improved significantly over the past decade, the level of financial literacy among the population is still relatively moderate and uneven across demographic groups. According to reports from the Otoritas Jasa Keuangan, a substantial proportion of individuals have access to formal financial services, yet many still lack adequate knowledge and skills to understand financial products, manage personal finances, and make informed financial decisions. This condition indicates that increased access to financial services alone is not sufficient to ensure sound financial behavior and long-term financial well-being. Therefore, strengthening financial education and promoting financial awareness are essential strategies to enhance individuals' financial capabilities, encourage responsible financial practices, and support sustainable economic development at both the household and national levels.

Therefore, this study aims to examine the influence of financial literacy on individual financial management behavior. By understanding this relationship, it is expected that policymakers and educators can develop more effective strategies to improve financial literacy and promote better financial behavior.

Literature Review

Financial Literacy

Financial literacy is a multidimensional concept that encompasses knowledge, skills, attitudes, and behaviors related to financial decision-making. Financial literacy not only refers to the ability to understand basic financial concepts such as budgeting, saving, investing, and managing debt, but also includes the capacity to apply this knowledge effectively in daily life situations. Individuals with a high level of financial literacy tend to make more rational and responsible financial decisions, which in turn contribute to their financial well-being and long-term economic stability. Furthermore, financial literacy plays an important role in helping individuals avoid financial risks, such as excessive debt and poor investment choices. Therefore, improving financial literacy has become a global concern in order to enhance individuals' quality of life and economic resilience (Huston: 2010)

Financial literacy consists of several essential components that reflect both cognitive understanding and practical ability in financial management. Kimberly A. Remund (Remund: 2010) identified key components of financial literacy, including knowledge of financial concepts, the ability to communicate about financial issues, aptitude in managing personal finances, and confidence in making appropriate financial decisions. These components indicate that financial literacy is not limited to theoretical comprehension, but also involves

practical competence in handling real-life financial situations. Therefore, financial literacy can be seen as an integration of knowledge and skills that shape individuals in making effective and responsible financial decisions.

Furthermore, financial literacy plays a crucial role in shaping individuals' financial behavior and long-term financial outcomes. Annamaria Lusardi and Olivia S. Mitchell (Lusardi & Mitchell: 2014) emphasized that financial literacy is fundamental in achieving long-term financial stability. Their research shows that individuals with higher levels of financial literacy are more likely to engage in retirement planning, actively participate in financial markets, and avoid costly financial mistakes. Consequently, improving financial literacy is essential not only for individual welfare but also for broader economic stability.

Furthermore, financial literacy is increasingly important in the context of modern financial systems. With the proliferation of complex financial products, individuals are required to make more sophisticated financial decisions. Without adequate financial literacy, individuals may face difficulties in evaluating financial risks and opportunities.

Financial Management Behavior

Financial management behavior refers to the actions and decisions individuals take in managing their financial resources in order to achieve financial stability and well-being. This behavior encompasses how individuals plan, allocate, and control their financial resources in daily life. Marianne A. Hilgert et al. (Hilgert et al.: 2003) explained that financial management behavior includes several key activities, such as cash management, credit management, saving, and investing. These activities reflect how individuals handle income and expenses, manage debt responsibly, and prepare for future financial needs. Effective financial management behavior is often associated with better financial outcomes, including reduced financial stress and increased financial security. Therefore, strengthening financial management behavior is essential for improving individuals' overall financial well-being. Effective financial management behavior is essential for achieving financial stability and well-being. Individuals who exhibit good financial behavior are more likely to maintain a balanced budget, avoid unnecessary debt, and achieve their financial goals.

Financial management behavior can be measured through various indicators that reflect individuals' daily financial practices. Jing Jian Xiao and Jeffrey Dew (Xiao & Dew: 2011) developed a financial management behavior scale that includes key aspects such as spending, saving, and credit management. Their study highlights that financial behavior is not only influenced by financial knowledge but also shaped by psychological factors, including attitudes, self-control, and financial perceptions. This indicates that effective financial management requires both cognitive understanding and behavioral discipline. In addition, financial management behavior is closely related to individuals' financial satisfaction and overall well-being. So-hyun Joo and John E. Grable (Joo & Grable: 2004) found that individuals who manage their finances effectively tend to experience higher levels of financial satisfaction and lower

financial stress. This suggests that positive financial behavior not only improves objective financial conditions but also enhances subjective well-being. Therefore, promoting good financial management behavior is essential for achieving both financial stability and personal satisfaction.

Relationship Between Financial Literacy and Financial Behavior

The relationship between financial literacy and financial behavior has been widely examined in the literature, showing that knowledge plays an important role in shaping individuals' financial actions. Adele Atkinson and Flore-Anne Messy (Atkinson & Messy: 2012) found that financial literacy is positively associated with responsible financial behavior, such as saving, budgeting, and planning for future financial needs. This suggests that individuals who possess better financial knowledge are more likely to demonstrate prudent and disciplined financial practices in their daily lives.

However, the influence of financial literacy on financial behavior is not absolute and may interact with other important factors. Daniel Fernandes et al. (Fernandes et al: 2014) argued that although financial literacy has a significant impact on financial behavior, its effect tends to be relatively modest compared to psychological traits and social influences. Factors such as self-control, attitudes toward money, and environmental influences can also play a substantial role in determining financial decisions. Nevertheless, financial literacy remains a key determinant that supports individuals in making informed and effective financial choices.

Financial literacy has been shown to significantly influence individuals' participation in financial markets, reflecting their confidence and ability to understand complex financial concepts. Maarten C. J. van Rooij et al. (Van Rooij et al.: 2011) demonstrated that individuals with higher levels of financial literacy are more likely to participate in financial markets, such as investing in stocks and other financial instruments. This participation indicates not only a better understanding of financial products but also greater confidence in making investment decisions. Moreover, individuals with adequate financial literacy are better equipped to assess risks and returns, enabling them to make more informed and strategic financial choices. Therefore, improving financial literacy can encourage broader financial inclusion and enhance individuals' long-term financial outcomes.

Moreover, financial literacy plays a crucial role in reducing financial vulnerability. Individuals with low financial literacy are more likely to fall into debt traps and experience financial difficulties. Therefore, improving financial literacy can help individuals make better financial decisions and improve their overall financial well-being.

Conceptual Framework

This study proposes that financial literacy serves as an independent variable that influences financial management behavior as the dependent variable. Higher levels of financial literacy are expected to lead to better financial management practices.

Financial Literacy in the Digital Era

In the digital era, financial literacy has become increasingly important due to the rapid growth of financial technology (fintech). Individuals are now exposed to a wide range of digital financial services, including mobile banking, e-wallets, peer-to-peer lending platforms, and online investment applications. While these innovations provide convenience and accessibility, they also require users to possess a higher level of financial literacy to avoid potential risks.

Digital financial services often involve complex mechanisms, such as interest calculations, service fees, and investment risks. Without adequate knowledge, individuals may misuse these services or make poor financial decisions. For example, many users engage in online lending without fully understanding the associated interest rates and repayment obligations, which can lead to excessive debt.

Financial literacy in the digital era has expanded beyond traditional financial knowledge to include digital competencies that are essential for navigating modern financial systems. According to Organisation for Economic Co-operation and Development (OECD: 2020), financial literacy should encompass not only the understanding of basic financial concepts but also digital financial skills. These skills include the ability to evaluate online financial information critically, understand and utilize digital financial services and transactions, and protect personal financial data from potential risks such as fraud and cyber threats. In this context, digital financial literacy becomes increasingly important as financial activities are increasingly conducted through digital platforms. Therefore, enhancing both financial and digital literacy is crucial to ensure individuals can make informed, safe, and effective financial decisions in the digital economy.

Furthermore, the increasing use of digital platforms has also influenced consumer behavior. Individuals are more likely to make impulsive purchases due to the ease of online transactions. This highlights the importance of financial literacy in controlling spending behavior and maintaining financial discipline.

Factors Influencing Financial Management Behavior

Financial management behavior is influenced by various factors beyond financial literacy. While financial literacy plays a crucial role, other elements such as psychological factors, income level, education, and social environment also contribute to financial behavior.

Psychological factors, such as self-control and risk tolerance, significantly affect how individuals manage their finances. Individuals with strong self-control are more likely to save money and avoid unnecessary expenses. In contrast, individuals with low self-control tend to engage in impulsive spending.

Income level is another important factor. Individuals with higher income generally have more flexibility in managing their finances. However, without proper financial literacy, even high-income individuals can experience financial difficulties due to poor spending habits.

Education also plays a role in shaping financial behavior. Individuals with higher education levels tend to have better access to financial information and are more likely to understand financial concepts.

Social environment, including family and peer influence, can also impact financial behavior. Individuals often adopt financial habits from their surroundings, which can either support or hinder good financial management practices.

These factors indicate that financial literacy should be complemented by other aspects, such as financial education and behavioral interventions, to achieve optimal financial outcomes.

RESEARCH METHOD

This study employs a descriptive quantitative approach utilizing secondary data as the primary source of information. The data are derived from national surveys and previous academic research related to financial literacy and financial behavior, particularly studies that provide comprehensive and reliable statistical information on individuals' financial knowledge and financial management practices. The use of secondary data enables researchers to examine existing datasets systematically and efficiently while maintaining the credibility and relevance of the research findings.

The use of secondary data allows the researcher to analyze existing information without conducting primary data collection, thereby reducing the time, cost, and logistical complexity typically associated with field-based research. This approach is considered suitable for identifying general patterns, trends, and relationships between variables, especially in large-scale social and economic studies. In the context of financial literacy research, secondary data provide valuable insights into the financial conditions, behaviors, and decision-making patterns of individuals across different demographic groups.

The analysis technique used in this study is descriptive analysis, which involves organizing, summarizing, and interpreting data to generate meaningful conclusions about the phenomena under investigation. This method focuses on explaining observable patterns in financial behavior and linking statistical information to real-life financial management practices. Therefore, the primary objective of the analysis is to understand how financial literacy influences financial management behavior, such as budgeting, saving, and responsible financial decision-making, rather than testing complex statistical relationships or causal models.

RESULTS AND DISCUSSION

The findings of this study indicate that financial literacy plays a significant role in shaping individual financial management behavior. Individuals with higher financial literacy tend to exhibit better financial habits, such as budgeting, saving, and making informed financial decisions.

One of the key observations is the gap between financial inclusion and financial literacy. While many individuals have access to financial services, their

understanding of financial concepts remains limited. This gap can lead to inefficient use of financial products and increased financial risk.

In real-life situations, individuals with low financial literacy often struggle with financial planning. They may rely heavily on credit without understanding interest rates or fail to allocate their income effectively. This behavior can result in financial instability and long-term economic difficulties.

On the other hand, financially literate individuals are more likely to adopt proactive financial strategies. They tend to create budgets, track their expenses, and set financial goals. They are also more cautious in using credit and more willing to invest for future financial growth.

These findings are consistent with previous studies, which emphasize the importance of financial literacy in promoting responsible financial behavior (Lusardi & Mitchell, 2014). Financial education programs can therefore play a crucial role in improving financial literacy and enhancing financial well-being.

Additionally, the influence of financial literacy extends beyond individual behavior. It also has implications for the broader economy. Individuals who manage their finances effectively contribute to economic stability and growth. Conversely, poor financial behavior can lead to increased financial vulnerability and economic instability.

Extended Discussion on Real-Life Financial Behavior

In real-life contexts, the impact of financial literacy can be observed through daily financial decisions. For example, individuals with adequate financial literacy tend to allocate their income into several categories, such as basic needs, savings, and discretionary spending. This structured approach helps them maintain financial stability and avoid unnecessary financial stress.

On the contrary, individuals with low financial literacy often lack a clear financial plan. They may spend their income without prioritizing essential needs or saving for future purposes. This behavior can lead to financial instability, especially in unexpected situations such as emergencies or economic downturns.

Another important aspect is the use of credit. Financially literate individuals are more likely to use credit responsibly by considering interest rates, repayment capacity, and financial risks. They understand that excessive use of credit can lead to debt accumulation and financial difficulties.

In contrast, individuals with low financial literacy may use credit impulsively without understanding the long-term consequences. This behavior is commonly observed in the use of online loans and credit cards, where individuals focus on short-term benefits without considering future obligations.

Moreover, financial literacy also influences saving behavior. Individuals with higher financial literacy are more likely to develop saving habits and set financial goals. They understand the importance of financial security and are more prepared for future needs, such as education, healthcare, and retirement.

Comparison with Previous Studies

The findings of this study are consistent with previous research that emphasizes the importance of financial literacy in shaping financial behavior.

Annamaria Lusardi and Olivia S. Mitchell (Lusardi & Mitchell: 2014) highlighted that financial literacy is a key determinant of financial decision-making and long-term financial planning. Individuals with adequate financial knowledge are more capable of evaluating financial options, managing risks, and preparing for future financial needs. Similarly, Jing Jian Xiao and Jeffrey Dew (Xiao & Dew: 2011) found that financial literacy is positively associated with responsible financial behavior, including budgeting and saving. Their study further suggested that financial education plays a significant role in improving individuals' financial behavior.

However, the influence of financial literacy on financial behavior is not the sole determining factor. Daniel Fernandes et al. (Fernandes et al.: 2014) argued that although financial literacy has a significant impact, its effect tends to be relatively modest compared to other factors such as psychological traits and social influences. Variables such as self-control, attitudes toward money, and environmental conditions also contribute to shaping financial behavior. This perspective aligns with the findings of this study, which recognize that financial management behavior is influenced by multiple interconnected factors. Therefore, a comprehensive approach that integrates financial literacy with psychological and social aspects is necessary to effectively improve financial behavior.

Practical Implications The findings of this study have several practical implications. First, there is a need to improve financial education programs to enhance financial literacy among individuals. Educational institutions can integrate financial education into their curriculum to prepare students for real-life financial challenges.

Second, financial institutions should provide clear and transparent information about their products and services. This can help individuals make informed financial decisions and reduce the risk of financial mismanagement.

Third, policymakers should develop strategies to promote financial literacy at the national level. Public awareness campaigns and financial education initiatives can play a crucial role in improving financial literacy and financial behavior.

CONCLUSION

This study concludes that financial literacy has a significant influence on individual financial management behavior. Individuals with higher financial literacy are more capable of managing their finances effectively, while those with lower literacy levels tend to exhibit poor financial practices.

Improving financial literacy should be a priority for policymakers, educators, and financial institutions. By enhancing financial knowledge and awareness, individuals can achieve better financial outcomes and improve their overall well-being.

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