

# The Importance of Financial Educations against Financial Stability through Banking Sector and Higher Education in Indonesia

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**Keywords:** Financial education, curriculum development, banking.

**Abstract:** Lacking of institutions collaboration and coordination between their financial educations' stakeholders in Indonesia during past years has become the major deficiency factor of financial literacy. This condition is getting worse due to the insufficient higher education curriculum. The aim of this study is identifying how the financial education program overcome this gap to create the financial stability and economic welfare. By employing secondary data from Indonesian Statistical Bureau and Indonesian Central Bank, we analyzed with descriptive statistics. This study found that deeper understanding on financial education is very important to be improved especially for the national curriculum development that should be applied in higher education which is collaborating with banking sector.

## 1 INTRODUCTION

The effects of financial crisis which suffered by various nations in in the last decades has affected in economic sector and many other sectors, while to restore the economic condition would takes between 510 years' time. One of the critical factor which caused the financial crisis and the economic downturn is the ignorance of financial literacy from the start, starting from education sector. Furthermore, the lack of protection of consumer finances in banking industry has also triggered the crisis. The results of a survey in Hungary on students who studied finance in the faculty of economics shown that less than 50% of respondents who know the financial literacy well (Kovacs and Tertak, 2016). In Indonesia, banking industry is lacks of an adequate, comprehensive, integrated and properly planned education program to build public understanding of finance and banking in particular (Wibowo, 2013; Anonym, 2014; Tambunan, 2015; and Kovacs and Tertak, 2016). The relationships between banks and the universities much more on the business site rather than on education.

This study would like to identify how the financial education program to overcome this gap and create the financial stability and moreover for economic welfare. To restore economic conditions and growth requires an integrated strategy among various stakeholders. The ultimate goal of financial education

is financial wellbeing. To achieve the objectives of this study, we employ secondary data from Indonesian Statistical Bureau (BPS) and Indonesian Central Bank (BI).

Descriptive statistics method has been used to analyze the data. The result of this study showed the it is critical need to improve knowledge more on finance education which could be developed in the curriculum and implemented policy in the university or higher degree education sector by incorporating a collaboration between the commercial bank.

The following sections describe the literature reviews, methods, discussion, and conclusion.

## 2 LITERATURE REVIEW

### 2.1 Financial Education

The concept of financial education explains that a person's general knowledge of finance, for example, knowledge of financial products, the financial sector, and financial behavior can help to create the country's economic stability (Hasting, et.al., 2013) Lack of public knowledge about finance can be the cause of unnatural economic behavior, such as overproduction, excessive consumption, and unnatural currency movements abroad (Wibowo, 2013). This factors could trigger the economic conditions to fluctuate unpredictably.

Financial knowledge will develop financial behavior that is influenced by individual characters such as personality into financial ability, so that in the future will form a financial wellbeing. According to the Consumer Financial Protection Bureau (2015), financial wellbeing supported by financial ability encompasses how to make financial decision, how to process financial information to financial decision, and how to execute financial decision.

Five major social group that had been identified for education activities as stated by OECD (2013) are as follows: (1) school children, (2) students, (3) professional, (4) economic institution, and (5) other group (including housewives and informal sectors) There are several parties of National Strategy on Financial Education which are responsible to to organize and to create people's awareness of financial education. This strategy is an approach to (1) recognises the importance of financial education, (2) creating collaboration between stakeholders, (3) establishing roadmap of finance stability in the period of time, and (4) as a guidance for individual to apply financial education strategy (OECD, 2013). National Strategy on Financial Education describes as follows.

Financial education for public implies three indicators, (1) improve awareness, (2) behavioral changes, and (3) bank minded society. Banks as financial intermediaries serve to maintain financial stability and promote economic growth.

## 2.2 Financial Stability

Financial system stability is a condition in which economic mechanisms in pricing, allocation of funds and risk management function well and support economic growth (<http://www.bi.go.id/id/perbankan/ssk/ikhtisar/definisi/Contents/Default.aspx>). While the instability of the financial system is triggered by various causes and turmoil, the market failure, which can be sourced from external (international) and internal (domestic). The financial system itself is accompanied by other activities such as credit risk, liquidity risk, market risk and operational risk.

The financial system supposed to be stable if: (1) the monetary policy transmission is functioning normally, (2) the function of banks and other financial instruments as intermediary proceeds accordingly, (3) public confidence in the financial system, and (5) systemic crises can be addressed properly (<http://www.bi.go.id/id/perbankan/ssk/ikhtisar/pentingnya/Contents/Default.aspx>)

Central Bank plays an important role on implementing financial education program to five major social groups (OECD, 2013). For school children and students, central bank implemented through the curriculum. Content of curriculum should

be supported with the learning tools, as mini bank, student cards, and interactive games related with the products of the bank.

According to the Indonesian Banking Architecture, financial education increased through financial literacy and consumer protection to enhance financial stability. Increasing financial literacy should be able to manage financial better, protect from unfair practices of financial institutions, and self-reliance when involving in financial activities (<http://www.bi.go.id/id/perbankan/arsitektur/Contents/Default.aspx>).

## 3 METHODS

### 3.1 Data

This study used secondary data sourced from BPS and BI. In addition, data also obtained from university websites that been used to identified the curriculum containing financial education in the economics and business department. BPS data was included national income in various sectors, particularly financial and insurance activities. The BI was employed to identify data included the results of a consumer confidence survey of future financial developments and the position of public savings in commercial banks and rural banks by ownership structure.

### 3.2 Sample

Sample of data was defined by Gross Domestic Products (GDP), consumer confidence survey, number of banks, and the curriculum. GDP seen from the amount of contribution to GDP by industry. Industry is grouped into 11 groups, while the data collection period is 2011-2016. Survey data to the consumer confidence using April 2017 data, on society's expectation of the next economic condition. Moreover, this study was also incorporate banks' data development as financial intermediary number from year of 2012-2016.

The curriculum data drawn randomly which was representative of the University throughout Indonesia. The sample of the university included Gadjah Mada University (UGM), Indonesia University (UI), and Hassanudin University (UNHAS) with the range of courses included in finance education at Economic Science Program.

### 3.3 Data Analysis

Data analysis used statistic descriptive. The amount of contribution to GDP by industry drawn by percentage of each industry to the GDP. Outstanding of private deposits showed by trend in the last 7 years. While university curriculum showed by the table of distribution of subject related with finance education on undergraduate curriculum.

## 4 RESULTS AND DISCUSSION

In this section describes the data analysis supported the purpose of the study, analyses how much the contribution of the financial sector of industry to the GDP, then identify the predictions of public confidence in the development of financial condition for the future. The predictions of public confidence in the future would be supported by the ability of the public to preserve funds in the bank. Data on the number of banks and the number of colleges represents the many opportunities of cooperation between banks and universities to implement finance education well.

### 4.1 National Income

Description of contribution in each industry sector can be seen in the following table.

Table 1: Contribution of GDP by Industry (%)

Industry	2012	2013	2014	2015	2016
<i>Agriculture, Forestry and Fishing</i>	13.37	13.36	13.34	13.49	13.45
<i>Mining and Quarrying</i>	11.61	11.01	9.83	7.65	7.21
<i>Manufacturing</i>	21.45	21.03	21.08	20.97	20.51
<i>Electricity and Gas</i>	1.11	1.03	1.09	0.14	1.15
<i>Water supply, Sewage, Waste Management and Remediation Activities</i>	0.08	0.08	0.07	0.07	0.07
<i>Construction</i>	9.35	0.49	9.86	10.21	10.38
<i>Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles</i>	13.21	13.21	13.43	13.31	3.19

Table 1. Cont.

<i>Transportation and Storage</i>	3.63	3.93	4.42	5.02	5.22
<i>Accommodation and Food Service Activities</i>	2.93	3.03	3.04	2.96	2.92
<i>Information and Communication</i>	3.61	3.57	3.5	3.52	3.62
<i>Financial and Insurance Activities</i>	3.72	3.88	3.86	4.3	4.2
<i>Real Estate Activities</i>	2.76	2.77	2.79	2.84	2.81
<i>Business Activities</i>	1.48	1.51	1.57	1.65	1.71
<i>Public Administration and Defense; Compulsory Social Security</i>	3.95	3.9	3.83	3.9	3.86
<i>Education</i>	3.14	3.22	3.23	3.36	3.37
<i>Human Health and Social Work Activities</i>	1	1.01	1.03	1.07	1.07
<i>Other Services Activities</i>	1.42	1.47	1.55	1.65	1.71

Source: bps.go.id

From Table 1 above, the contribution of Financial and Insurance Activities is not stable, with the range from 3.72% to 4.2%. This contribution is much lower than industry of Agriculture, Forestry and Fishing, Mining and Quarrying, Manufacturing, and Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles. As an industry sector that serves to maintain monetary stability, its role has not been optimal.

### 4.2 Prediction of public confidence

The results of consumer surveys indicate that people remain optimistic about the financial condition of the next period, considering from income expectations, expectations of job availability, and expectations of business activities as mentioned at Bank Indonesia website: (<http://www.bi.go.id/id/publikasi/survei/konsumen/Documents/SK%20April%202017.pdf>)

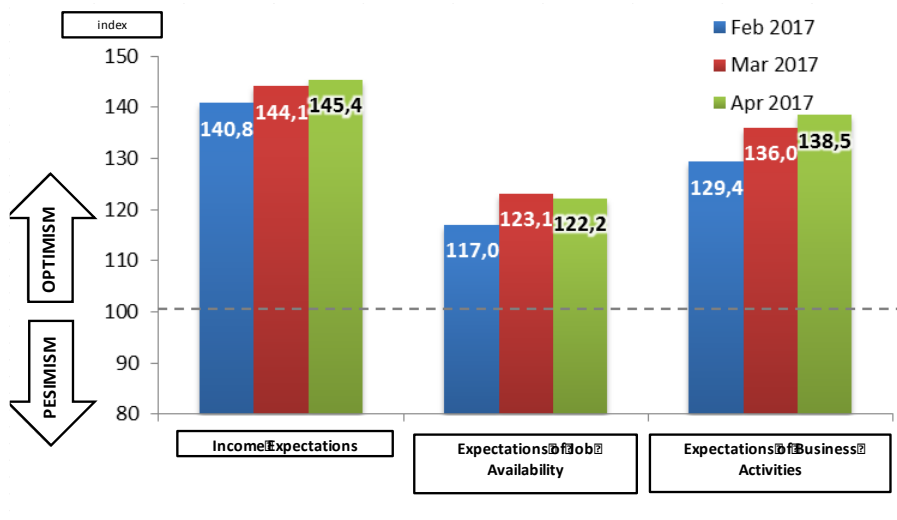


Figure 1: Developments in consumer expectations index (Source: www.bi.go.id, data processed)

From Figure 1, people tend to be optimistic about the upcoming financial condition, this indicate public confidence in the country's financial stability tends to increase.

The number of bank in Indonesia has reach 120 commercial banks and 1837 rural banks. Outstanding of private deposits of commercial and rural banks by ownership figured bellow.

### 4.3 Outstanding of Private Deposits

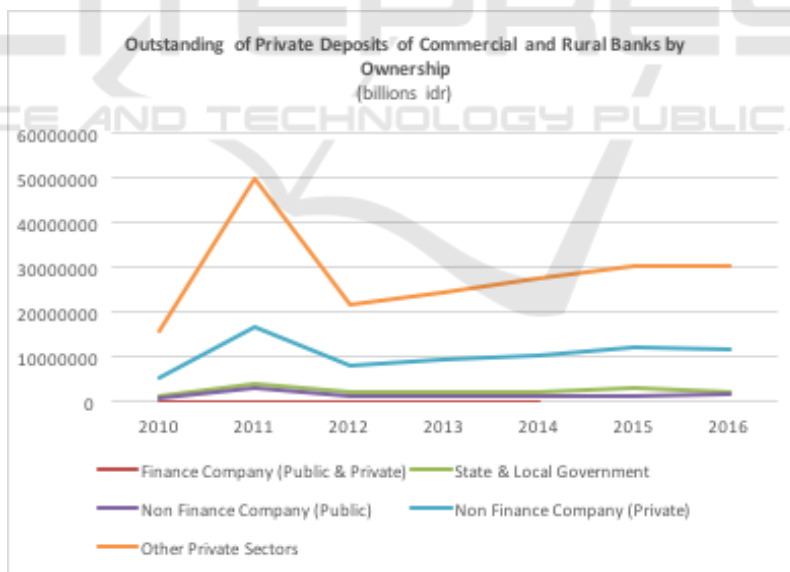


Figure 2: Outstanding of Private Deposits of Commercial and Rural Banks by Ownership (www. bi.go.id, data processed)

From figure 2, other private sector has a tendency to save more money to the bank than with the others sector Other private sector includes foundations, social institutions, civic organizations, cooperation, and individual, which is not for profit sector. There was still

many chance to enhance business sector to reap sustainable economic conditions.

### 4.4 University Curriculum

Indonesia has reach 78 state universities and hundreds private universities (snmptn.ac.id), and most of them has

economic department, which are studying economics to understand and develop finance education from the faculty's curriculum. Data of curriculums were employed from universities which had Economic and Business Faculty, state universities were represented by UGM, UI, and UNHAS. The subject of the study could be seen on the following table.

Table 2: Subjects Related with Finance Education

No	Subject
1	Accounting Introduction 1
2	Accounting Introduction 2
3	Monetary Economics 1
4	Monetary Economics 2
5	Workshop / Seminar on Monetary Economics
6	Financial Management 1
7	Financial Management 2
8	Portfolio Theory and Analysis
9	Public sector accounting
10	Banks and Financial Institutions
11	Centralized Bank
12	Economics of Finance
13	Sharia Economics
14	State and Local Finance
15	Monetary Policy in Development

Source: University website, processed

From Table 2 above, Gadjah Mada University has 63.2%, Indonesia University has 21%, and Hassanuddin University has 15.79% of the subjects related with Finance Education. On average, it is only 33.33% subjects related with Finance Education in Economic Science Department curriculum.

## 5 CONCLUSIONS

Education institution, especially higher degree institution such as university, take a vital position in enhancing the better financial literacy among Indonesian. Surprisingly, there are no specific regulation in how the curriculum should incorporate accordingly in higher education program. As this study aims to identify how the financial education program overcome the gap between deficiency factor of financial literacy and the financial stability and economic welfare in Indonesia. Lacking of public knowledge of financial literacy in the long run caused people not having good economic behavior, thus exacerbating the country's economic condition.

Furthermore, the finding also showed the lack of institutions collaboration and coordination between their financial educations' stakeholders. This condition is getting worse due to the insufficient

higher education curriculum. It is very important to improve deeper understanding on financial education especially for the national curriculum development and applying in higher education which is collaborating with banking sector to optimize the bonding between those parties

As there are 120 commercial banks and 1837 rural bank, there are many chances and opportunities to develop collaboration between the universities or higher degree institutions to increase finance education to a perceived level. Certainly from the applied curriculum in which runs in economic and business faculty or related department is easier to achieve rather than any other faculties. So it is important to create an initiating program between higher education institution and banking sector through financial education and counselling or the other interactive programs such as game based or event based program which will increase students' awareness and initiative to learn and knowing more about related issues. It also can be used to get proper and match inputs for curriculum development. Furthermore it will improve the financial managerial skills, attitude and behavior amongst the higher educations' members.

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