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Financial Literacy among University Students and its Implications towards Financial Scams

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Abstract: The acquisition of financial literacy is crucial in facilitating improved financial decision-making and promoting the long-term financial stability of individuals, families, and the nation as a whole. It is anticipated that increased levels of financial literacy, particularly among younger cohorts, will result in enhanced economic indicators, improved payment records, and more sustainable levels of debt for both people and the nation. The attainment of a high quality of life is of paramount importance for Malaysia's progression towards achieving the status of a developed nation. However, it is worth noting that a significant proportion of Malaysians, specifically one out of every three individuals, perceive their level of financial awareness to be relatively low. Moreover, a significant disparity exists in the level of financial literacy among 15-year-old pupils in OECD and partner countries, such as Malaysia. This study attempts to explore conceptually the relationship between financial literacy and its impacts on financial scams among university students. This study will increase the level of financial literacy among Malaysians before embarking on any financial investments.

Keywords: *Financial literacy, knowledge, financial scam, university students*.

1. Introduction and Background

The issue of financial literacy has emerged as a prominent concern within contemporary culture, particularly among the younger demographic. Financial literacy encompasses a comprehensive understanding of specific knowledge, behavioral patterns, and normative influences pertaining to matters related to financial literacy. Assisting the younger generation in making sound financial decisions will prove beneficial. According to Ibekwe (2020), students may encounter the potential hazard of engaging in illicit investment schemes. For example, in cases where students possess unattainable financial objectives, they may engage in fraudulent investment schemes as a means to rapidly and effortlessly accumulate wealth.

In recent decades, a more financialized world has increased the significance of consumers' financial literacy. Consumers must now make more difficult financial decisions than ever before due to the quick growth of financial products and services (Bannier & Schwarz, 2018). Researchers and policymakers are interested in enhancing people's financial literacy to help them break bad habits and develop good ones.

In recent decades, there has been a global trend among governments to promote a novel and conscientious approach to personal finance, to empower people to assume greater control over their financial well. Households must implement effective savings management strategies to achieve consumption stability throughout their lifetime (Financial Education Network, 2019). Based on the findings of the Financial Capability and Inclusion Demand Side Survey 2018 (FCI Survey 2018) conducted by Bank Negara Malaysia, it is shown that approximately one-third of Malaysians perceive their level of financial understanding to be low.

The lack of financial literacy among individuals is reflected in their inadequate saving habits, as evidenced by the fact that 20% of employed Malaysians did not engage in any savings activities over the course of the previous six months (Financial Education Network, 2019). The lack of savings among Malaysians is evident, as approximately 52 percent of individuals in Malaysia face challenges in accumulating emergency reserves totaling RM1,000 (Financial Education Network, 2019). In contrast, according to the Financial Education Network (2019), a significant proportion of active EPF members, approximately 68 percent, fail to attain a level of savings that may be considered basic. Conversely, it is evident that investors possess a limited understanding of financial matters, as seen by their unreasonable expectations of the potential annual return on investments (Financial Education Network, 2019). The lack of financial literacy among working individuals is evident, as indicated by the Financial Education Network (2019). In accordance with the findings of the Organization for Economic Co-Operation and Development (2020), there exists a notable disparity in financial literacy achievement among countries that participated in the PISA 2018 financial literacy testing. Specifically, the gap between the highest and lowest-performing nations was seen to be 60% bigger, equating to a difference of 159 points.

2. Literature Review

Financial Scams: Fenge and Lee (2018) argue that financial fraud has been characterized as a prominent criminal activity in the contemporary era. According to Reurink (2018), financial scams, cons, and swindles can be characterized as deceptive and entirely fraudulent schemes. These schemes involve fraudsters who frequently adopt false identities or project an unwarranted sense of reliability. Their objective is to persuade, mislead, or entice individuals into engaging with them and, ultimately, to willingly relinquish their funds or disclose sensitive personal financial information. Additionally, he stated that scammers employ tactics aimed at persuading prospective victims to disclose personal identifying information pertaining to their financial accounts to the orchestrator of the fraudulent operation. After successfully persuading the target to disclose sensitive information such as account numbers, credit card details, passwords and user IDs, the operator proceeds to exploit this information to execute illicit money transfers.

According to Gregory and Nikiforova (2012), it has been observed that individuals engaging in financial scams have increasingly adopted the practice of infiltrating the personal spaces of others, such as their homes or offices, through the utilization of online platforms such as websites or emails. There has been an annual increase in the number of complaints made to agencies, as well as in the cash amount lost by victims. The proliferation of direct emails, phishing techniques, and social networks has significantly expanded the reach of individuals specializing in fraudulent activities.

According to DeLiema et al. (2017), the predominant approach employed in soliciting fraudulent activities was over the Internet, accounting for 30% of reported cases. Additionally, the primary mode of payment utilized by perpetrators was credit card transactions, constituting 32% of the documented instances. In relation to the aforementioned matter, a study conducted by Kadoya et al. (2020) revealed that those experiencing a heightened sense of financial dissatisfaction are more susceptible to falling prey to financial scams. There is no discernible correlation between incidences of financial scams and any other demographic or socio-economic indicator. Additionally, it was discovered that individuals with lower levels of conscientiousness exhibit an elevated likelihood of falling prey to financial scams. In contrast, Ibekwe (2020) discovered that the younger demographic within society, particularly students, may face potential risks associated with engaging in illicit investment schemes. For example, if students establish financial goals that are not grounded in reality, it may prompt them to participate in fraudulent investment schemes, driven by the desire to attain wealth quickly and effortlessly.

Accordingly, the study conducted by Mohd Padil et al. (2022) revealed a substantial correlation between proficient budgeting skills and the level of knowledge among students regarding investment scams. This suggests that prioritizing disciplined budgeting habits in early financial management education might effectively cultivate financial literacy among students, hence mitigating their vulnerability to investment fraud. The researchers also concluded that students must receive appropriate guidance when establishing their financial ambitions, particularly in terms of avoiding false aspirations that may result in the pursuit of a lavish lifestyle through the acquisition of "quick and effortless" funds.

Financial Literacy: Financial literacy encompasses the comprehensive understanding and competencies necessary for individuals to make prudent and well-informed financial choices, thereby fostering a state of financial stability and overall welfare. The fundamental basis of financial literacy is in the understanding and application of key financial concepts such as saving, investing, spending, and borrowing. Furthermore, it is necessary to possess knowledge in credit administration, asset accumulation, debt reduction, and scam prevention to foster a sound and robust financial well-being. According to the United Way NCA (2023), financial literacy encompasses the distinguishing aptitude to comprehend financial concepts and analyze facts (Organization for Economic Co-Operation and Development, 2020). Wildayati (2018) asserts that there is a considerable correlation between financial literacy and students' behavior. Additionally, Faidah (2019) posits that financial literacy has a noteworthy effect on students' investing decisions. In contrast, Robb and Woodyard (2011) conducted a study wherein they found that possessing adequate financial literacy has the potential to exert a favorable impact on an individual's financial conduct, specifically in terms of effectively managing and allocating financial resources.

Savings Literacy: Cash budgeting is considered one of the crucial components within the realm of financial literacy. Cash budgeting is a strategic process that involves the allocation and utilization of funds to minimize unnecessary expenses. It plays a crucial role in effectively managing household finances. Cash budgeting is a process that emphasizes the significance of risk avoidance by means of meticulous preparation, thoughtful evaluation, and the efficient use of limited resources (Sieve Piper and Butt, 2017). According to Aung and Mon (2020), effective financial budgeting has the potential to foster improved spending behaviors. Individuals must exercise prudence in managing their resources to mitigate the risk of making ill-advised financial decisions. Having a strong foundation in financial education is crucial for individuals to make informed and prudent financial and budgetary choices, especially among students enrolled in institutions of higher education. Aung and Mon (2020) assert that a significant proportion of students enrolled at Yangon University of Economics exhibit deficiencies in financial management skills, mostly due to their failure to adhere to sound money management practices.

Household Debt Literacy: Risk mitigation through strategic financial planning is of utmost significance to circumvent any financial adversity. The experience of financial trouble has the potential to result in an individual's declaration of personal bankruptcy. Significantly, the Annual Report of Malaysia Insolvency Department in 2019 documented those persons between the age range of 25 to 34 accounted for 21.6% of the overall personal bankruptcy cases (Malaysia Department of Insolvency, 2019). The occurrence of personal bankruptcy in Malaysia can be attributed to several underlying factors. According to the 2019 Annual Report published by the Malaysia Department of Insolvency, a total of 12,051 instances of officially declared personal bankruptcy were recorded. According to data provided by the Malaysia Department of Insolvency in 2019, a breakdown of the cases reveals that there were 1,543 instances related to hiring purchase loans, 5,706 instances related to personal loans, 1,138 instances related to housing loans, 1,846 instances related to business loans, 880 instances of credit card defaulters, 15 instances of social guarantors, 221 instances of corporate guarantors, 425 instances of other debts, 261 instances of income tax defaulters, and 16 instances of education loans.

Diana-Rose and Zariyawati (2015) observed that for the younger generation, early exposure to financial management is crucial because they have many responsibilities and it may take years to learn how to save, budget, and invest. People under the age of 34 account for a sizeable fraction of bankruptcy cases in Malaysia (25.75%) according to data from 2015 to 2019 in Table 1 (Malaysian Department of Insolvency).

Investment Literacy: Investment is a contemporary practice characterized by the deliberate allocation of resources to attain future advantages. Based on research conducted by Ibekwe and Oli (2020), it has been observed that the younger demographic in society, namely students, may face potential exposure to fraudulent investment schemes. For example, in cases when students possess impractical financial aspirations, they may engage in fraudulent investment schemes to attain rapid and effortless wealth.

According to Nababan and Sadalia (2015), factors such as finance literacy, income level, and prior investment experience have been found to significantly influence individuals' investment decision-making processes. Individuals with higher income levels are more likely to exhibit superior financial management skills, as they possess the ability to effectively navigate potential hazards and demonstrate a higher tolerance for such risks while planning for their future financial well-being.

In contrast, Takemura and Kozu (2013) found a negative correlation between investors' level of investment literacy and their overconfidence bias. This implies that possessing a strong understanding of investment principles might serve as a safeguard against succumbing to overconfidence bias, hence mitigating the likelihood of making biased investment decisions that may render individuals susceptible to financial scams.

The financial literacy of individual investors in the United Arab Emirates (UAE) who participate in the financial markets of the UAE was evaluated by Al Tamimi and Kalli (2009). The researchers concluded that a notable correlation exists between financial literacy and investment choices.

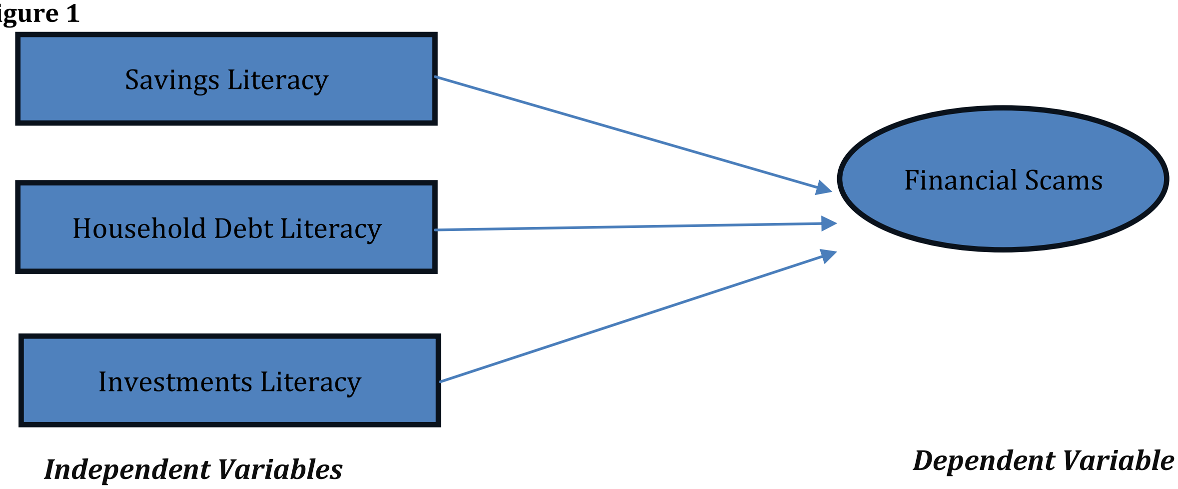
3. Research Methodology

This paper examines relevant literature, including journal articles, on the concepts of financial literacy and financial fraud. This investigation will utilize the quantitative research methodology. A combination of methods, including a questionnaire survey, will be utilized to collect data. This questionnaire was adapted from a previous study that examined the factors and constructs of financial literacy and financial scam. This study adopts the questionnaires from Rahim Khan and Kadoya (2020) that used financial fraud as the dependent variable and financial literacy as the independent variable with various demographics profiles as the independent variables too.

The research will collect information from university students in Malaysia and Indonesia. According to Krejcie and Morgan's (1970) sampling method table, the sample size for a population of 6,000 is 361. Therefore, 361 students will be sampled as the sample size. The selection of these students is based on techniques for random sampling. The questionnaire survey will be distributed to all first-semester through final-semester students in all programs at the selected universities in the two countries. The survey will be distributed over a period of six months to give students sufficient time to respond.

The analysis of survey data utilizes confirmatory factor analysis, which includes a measurement model and structural modelling. This study will employ version 16 of the AMOS software via structural equation modelling (SEM). Examining the relationships between independent and dependent constructs is an advantage of the SEM. According to Zainuddin (2012), SEM is capable of measuring the reliability and validity of constructs and analyzing the complexity of the model. The SEM is believed to be able to analyze complex models due to its ability to test the relationship between its multiple constructs. From the review of the literature, the variables were chosen to form the theoretical framework for the study. This is presented as follows:

Figure 1



4. Conclusion

This study advances our understanding of how financial literacy can be used to teach university students about the effects of financial scams. It is hoped that the three elements of financial literacy being proposed namely, saving literacy, household debt literacy and investment literacy will assist experts in the field in improving the curriculum. It is thought that without a strong financial foundation, our youth are more vulnerable to predatory financing and expensive mistakes in financial decisions that can result in financial imbalance for the rest of their lives. To help university students make sound financial decisions, it is imperative and timely that this study be conducted.

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