



# FINANCIAL LITERACY OF YOUNG PROFESSIONALS IN THE PHILIPPINES

**Neschelle R.de Castro**

Polytechnic University of the Philippines, Mabini Campus, Anonas Street, Sta. Mesa, Manila, Philippines 1016

**Lia Andrea S. Salamat**

Polytechnic University of the Philippines, Mabini Campus, Anonas Street, Sta. Mesa, Manila, Philippines 1016

**Malou T. Tabor**

Polytechnic University of the Philippines, Mabini Campus, Anonas Street, Sta. Mesa, Manila, Philippines 1016

## ABSTRACT

*Financial literacy is an important element in financial decision making and well-being, which may affect all areas of our lives. Poor knowledge on financial literacy, particularly among young adults, is a global problem. This study examines financial literacy of young professionals in the Philippines. The findings suggest that young professionals should be guided not only by the financial experts and advisors of financial institutions but this should be observed with the parents and be introduced in schools and universities to gain adequate knowledge on financial education. Also, results indicated financial education positively affects financial knowledge which in turn influence both financial attitude and behavior. Study shown that in terms of financial attitude the future and non-impulsiveness was important while in financial behavior expenditure monitoring and saving was critical. On any connections, no gender difference was noted. Creating financial education accessible as well as continuous change of attitude are recommended for immediate actions.*

## INTRODUCTION

Financial literacy has been essentially important to individuals and enterprises to foster fiscal growth and development. It comes with the understanding of financial features and aspects that can directly affect their day-to-day activities. For individuals, issues on budgeting usually builds up during the time when they are already able to generate income and manage their own expenses, specifically speaking, the time they become young professionals. Through this stage, a reasonable level of financial literacy is necessary.

Young professionals take interest on investments such as stocks, life and health insurance, and other type of financial in depending on their short and long term goals and preferences. In the Philippine setting, financial companies are becoming way creative on how they acquire individual clients. Most offer good deals such as inclusions of investment and other personal assistances. There are also several factors that influence financial awareness of these young professionals. Some of which can be classified as social influences such as technology, social media, advertisements and peer influences. It is a known fact



that most activities of young people nowadays are becoming socially inclined. This denotes that access to financial products is becoming more easy day by day as social platforms are being used to provide encouragement on how to be financially literate and equipped to face future finance challenges. Another factor can be classified as economic influence. To be financially literate also means to be knowledgeable of what roles these finance products play in the economic stability of the country.

However, despite these financial assistance being widely available, challenge still befalls with the fact that there are still a number of young professionals who are not literate enough to cope up with their finances. This study aims to help these young individuals to obtain the interest to become financially literate and be able to manage their finances in a more efficient way.

### **STATEMENT OF THE PROBLEM**

As years go by and prices shoot up, personal finance pushes to utmost relevance and significance. This also means that importance of financial literacy is becoming critical. In the Filipino culture, many adults would say that it would be best to save money at the earliest age possible, thus, concerning young professionals. A topic related to this matter has been the focus of an article published by Rappler.com, talking about how 20-somethings should get ready for retirement. A financial planner was interviewed and mentioned that it will be harder for young professionals to save up if they don't start investing early. Tips on getting a good retirement investment were provided.

Some other considerations in doing this study are the observed attitudes of young professionals when it comes to personal finance, external factors that affects their level of awareness to the aforementioned and the availability of financial instruments in the Philippines and. With the booming of technology in place, access to finance in the country is slowly becoming smooth. Esquire Magazine rolled out in one of their articles a list of Personal Finance applications that would help wealth management be better. Examples of which are related to stocks, foreign exchange, cryptocurrency and others. This study also has similar objectives, to identify the points that matter to young professional's thinking towards finance and prove how important being financially literate is. Furthermore, it commits to be an avenue of young professionals to identify their financial needs and guide them through financial accessibility and literacy.

The Philippine government takes place to this concern through the Bangko Sentral ng Pilipinas (BSP). In 2018, they have organized the first Financial Education Stakeholders Expo which was attended by finance experts, practitioners and advocates. They have envisioned this venue to understand challenges and find opportunities in terms of finance and the stock market. During the speech of the BSP Governor, he mentioned that they focus on financial education not just due to the laws Youth Entrepreneurship Act (RA No. 10679) and Economic and Financial Literacy Act (RA No. 10922) but because they want every Filipino to be financially healthy.

### **MATERIALS AND METHODS**

The population of this study are young professionals residing in the Philippines. The sample was randomly selected from young working adults in Quezon City. The study defined young professionals as individuals between ages of 20 and 35. They are individuals currently carrying out their jobs at high standards or one who does a specific type of job for a living. The respondents were composed of male and female professionals of different statuses, educational background, position level, and source/s of income. They were also classified according to their type of work - those who are working in a finance-related company and those who are affiliated to companies related to other fields. Personal interviews were used to collect data and information. A set of questions was prepared before conducting the interviews.

Financial education measures were adapted from Australia and New Zealand Banking Group Limited (ANZ) (2015). It has two perspectives: individuals' "financial background" and "exposure/experience to financial education programs, sessions and opportunities." The financial background was assessed in terms of influence of friends and families and exposure to financial education was assessed in terms of attending seminars, workshops and consulting financial planners or advisors. Respondents were asked to answer questions to measure their actual financial literacy. This included questions on their knowledge on inflation and impact of inflation, interest rate, interest on loan, compound interest, financial risk, and investment diversification. Also, financial behavior has been focused through questions related to budgeting, over spending, expense monitoring and saving, planning for the future and unforeseen expenses. Specifically, questions such as how do they handle their finances, what types of financial products do they know and what factors do they think affect their



decision to consider personal finance a priority were asked. Results were obtained after summing up all the answers to assess financial literacy related to proper financial management practices and decisions.

## RESULTS AND DISCUSSIONS

This study examined the financial literacy, attitude, and behavior of young professionals in the Philippines. Financial education had an important and helpful influence on financial knowledge. This study analyzed financial education in terms of “financial background” and “exposure/experience to financial education programs, sessions and opportunities”. Based on results of the interviews, out of the two aspects, “exposure and experience to financial education programs” had the highest factor on the financial education. This places interest on the need to make financial education more accessible and available. Although educational background is less important compared to with exposure aspect, it cannot be ignored in financial education. Also, good childhood and proper family guidance for young professionals confer benefits to result in higher financial knowledge. Thus, this shows that parents are responsible to make sure young professionals are exposed to good parental role models.

Eight six percent of the respondents revealed that financial knowledge significantly and positively linked to financial behavior. It means that financial knowledge promotes a higher financial behavior. However only 2 out of 10 (14%) said that is the indirect connection between financial knowledge and behavior that is significant. In other words, attitude plays an important role in translating knowledge to behavior which leads to a fruitful outcome.

Since the plurality of the respondents (86%) finds the financial attitude having a strong connection with behavior, to agree with the theory of planned behavior (TPB), behavioral intentions are influenced by the attitude about the likelihood that the behavior will have the expected outcome and the subjective evaluation of the risks and benefits of that outcome. To prove the pact, 75% percent of young professionals strongly agree that youth professionals must be well communicated about healthier outcomes of possessing better financial knowledge and proper personal finance management. Since they also believed that they should not live beyond their means and they should not have appropriate financial planning. Thus, a well-organized effort is needed to change their attitude. A significant negative relationship was found between financial behavior and financial literacy among majority of the respondents.

Results also finds that almost all (98%) of the young professionals agrees that Financial attitude’s factor analysis should have detailed understanding. Attitude is mostly associated with the perspective towards the future. This advises that young professionals must be educated on the importance of setting long term financial goals and the means to achieve them. When they are asked about special topics about loans some youths face challenges related to personal loans (28%) and credit card borrowings (46%) and financial distress as they live beyond their means due to their lack of self-discipline (53%).

The study aimed to examine financial literacy from a behavioral perspective of the young professionals in the Philippines. This study has revealed lack of financial literacy, since only 35% of the respondent are well aware of financial wellness that results to poor financial management practices that strongly affects them and thus, financial education is important to guide their financial behavior. Further, it was found financial attitude reconciles the effect of financial knowledge on behavior and hence, young professional need to have proper attitude to benefit from financial knowledge. Financial behavior was perceived to be lower among the young working adults though gender had no effect in any of the relationships.

Findings also suggests that financial education must be introduced in schools, colleges, and universities as part of their curriculum. Also, parents have a responsibility of being good role models which would nurture their children’s financial behavior at early stages of their lives. Further, authorities must ensure the availability and ease of access to financial experts and advisors for young professionals for them to receive proper advice on financial planning.

Further, young professionals must be mindful on the significance of having the right financial behavior through budgeting, control on spending, living within means, continuous monitoring of expenses, saving and planning for the future and unforeseen expenses. Families and educational institutions must encourage the youth to save, train them not to be impulsive with unnecessary and unplanned buying. With this purpose, they must be guided to consider financial products, policies and companies before making any decision on financial matters. Further, they must be knowledgeable on the importance of expenditure monitoring and saving behavior.

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