



The Impact of Digital Financial Literacy on Investment Decisions among Generation Z in Pontianak City

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Abstract. This study aims to analyze the impact of digital financial literacy on investment decisions among Generation Z in Pontianak City. With the rapid development of digital technology, an increasing number of young people are getting involved in investments through digital platforms such as stock apps, mutual funds, and cryptocurrency. However, despite easy access, digital investments require adequate understanding of investment products, risk management, and data security. This research uses a quantitative explanatory approach with purposive sampling, involving 120 respondents aged between 17 and 27 years who have knowledge or experience using digital financial services. Data was collected through a questionnaire measuring digital financial literacy and investment decisions, and analyzed using multiple linear regression. The results indicate that digital financial literacy significantly influences investment decisions among Generation Z, with the dimensions of understanding digital investment products, ability to manage risks, and ability to evaluate information positively affecting investment decisions. However, data security understanding did not show a significant effect on investment decisions. These findings emphasize the importance of improving digital financial literacy for more rational and secure investment decision-making, as well as highlighting the role of education in understanding digital investment risks, especially regarding data protection.

Keywords: Digital Financial Literacy; Fintech; Generation Z; Investment Decisions; Risk Management.

1. INTRODUCTION

The rapid development of digital technology over the past few decades has led to significant changes in various sectors, including the financial sector. With the emergence of various technology-based investment platforms, society now has easier and quicker access to financial instruments. One of the groups most affected by this phenomenon is Generation Z, consisting of individuals born between 1997 and 2012 (Twenge, 2017). This generation has grown up in the digital era, where they are highly accustomed to using technological devices for various aspects of life, including finance and investment. However, despite their strong connection to technology, their financial literacy levels are often questioned.

Digital financial literacy refers to the ability of individuals to understand and use various financial tools and information available through digital platforms (Hastings et al., 2013). As a generation that is highly familiar with technology, Generation Z has great potential to take advantage of various digital investment platforms such as stock trading apps, cryptocurrency, and peer-to-peer lending (Tsuruta & Ramaswamy, 2020). However, low digital financial literacy may hinder their ability to make rational investment decisions. Investment decisions that are not based on sufficient knowledge can lead to significant financial losses.

Generation Z shows a great interest in digital investments, but many of them lack an adequate understanding of the risks and benefits of these investment instruments (Salahuddin

et al., 2021). With the increasing number of digital applications and platforms offering various investment types, many young people are enticed to invest without fully understanding how the markets work, the risks involved, and the factors that influence investment decisions. This highlights the importance of digital financial literacy, which not only includes understanding investment products but also the ability to manage risks, understand returns, and recognize fraud and scams that are rampant in the digital world (Puspaningrum et al., 2020).

Research on digital financial literacy and investment decisions among Generation Z is still limited, especially in Indonesia. Most previous studies have focused on general financial literacy or financial literacy among older generations (Lusardi & Mitchell, 2014; Atkinson & Messy, 2012). Research specifically addressing digital financial literacy and its impact on investment decisions among Generation Z, especially in developing countries like Indonesia, is scarce. Therefore, this study aims to fill this gap in the literature by analyzing how digital financial literacy affects investment decisions among Generation Z and the factors that moderate this relationship.

Investment decisions, especially those involving digital instruments, are influenced by many factors, ranging from an individual's knowledge and experience with investments to external factors such as social media influence and peer pressure (Baker & Ricciardi, 2014). On the other hand, this generation is often exposed to financial information that is not always accurate and can be misleading, particularly through social media (Hilary & Labianca, 2019). This exacerbates the challenge of making rational investment decisions, as many investment choices are driven by social pressure and the expectation of quick profits without fully considering the associated risks.

Moreover, this study will also discuss the role of fintech (financial technology) in expanding investment access among Generation Z. The presence of various fintech applications has changed the way people invest by simplifying access and speeding up transactions. However, its use also requires a higher level of literacy for investors to make optimal use of the features available and avoid potential investment risks. Therefore, understanding digital financial literacy is crucial in this context, as the success of using financial technology heavily relies on an individual's knowledge and skills in navigating the digital investment landscape.

This research is expected to make a significant contribution to the development of digital financial literacy among Generation Z in Indonesia and provide insights into how digitalization factors influence their investment decisions. Thus, the results of this study will not only be valuable for the development of financial literacy policies and education but also for digital

investment platform providers to improve their services and target a more educated and risk-aware audience.

2. THEORETICAL REVIEW

Digital financial literacy refers to the ability to understand and use various digital financial tools available, such as investment apps, digital payments, and online loans, wisely and securely. This literacy includes understanding digital investment products, analyzing risks, and effectively managing personal and financial data in the digital space (Hastings et al., 2013). In the digital era, Generation Z is a group highly familiar with technology, but often lacks in-depth knowledge on how to use digital financial tools wisely (Puspaningrum et al., 2020).

According to Lusardi & Mitchell (2011), financial literacy is an important indicator of making smart financial decisions. Without adequate literacy, individuals tend to make impulsive and risky investment decisions, which can lead to long-term financial losses. Therefore, digital financial literacy is crucial for Generation Z, who are exposed to various digital investment products, from stocks to cryptocurrency (Goyal & Kumar, 2021).

Investment decisions refer to the process by which individuals choose investment instruments that are considered most profitable based on their financial goals, taking into account factors such as risk, return, and the time required to achieve these goals (Markowitz, 1952). In the context of Generation Z, investment decisions are increasingly influenced by social media and digital apps offering a wide range of investment products with attractive returns, even though they may not always align with their risk profiles (Hilary & Labianca, 2019).

Based on the Theory of Planned Behavior (Ajzen, 1991), investment decisions are influenced by an individual's attitude towards the behavior, subjective norms, and perceived behavioral control. Generation Z, as a tech-savvy group, is often more influenced by social norms and behaviors observed on social media or digital investment apps, rather than making decisions based on in-depth analysis of investment instruments (Salahuddin et al., 2021).

The presence of fintech has significantly changed the investment landscape by providing easier access to financial markets for the general public, including Generation Z. Fintech apps offer a variety of investment products accessible via mobile devices with user-friendly interfaces, which makes it easy for users to make investment decisions without having deep financial knowledge (Tsuruta & Ramaswamy, 2020). However, although this accessibility simplifies investing, it is important for Generation Z to have adequate digital financial literacy to use these tools wisely.

According to the Technology Acceptance Model (TAM) (Davis, 1989), acceptance of technology is influenced by two key factors: perceived ease of use and perceived usefulness. In the context of investment decisions, if Generation Z finds fintech apps easy to use and beneficial, they are more likely to use them in making investment decisions. However, without sufficient financial literacy, their investment decisions may not be based on comprehensive analysis and could be risky.

Several factors can influence Generation Z's investment decisions, including social media influence, perception of risk, and investment motivation. Generation Z is highly influenced by the information they receive through social media, where financial influencers or finfluencers often provide investment recommendations (Goyal & Kumar, 2021). This phenomenon raises the risk that their investment decisions are more driven by trends and others' opinions rather than rational considerations.

In addition, perception of risk plays a crucial role in investment decisions. According to Behavioral Finance Theory (Thaler, 1999), individuals do not always make rational investment decisions. They are often influenced by cognitive biases, such as overconfidence and herding behavior, which can lead them to invest based on others' opinions without fully considering the risks involved.

This study is based on several relevant theories, namely: Theory of Planned Behavior (Ajzen, 1991): States that investment decisions are influenced by an individual's attitude towards investment behavior, subjective norms derived from social environment, and perceived behavioral control. Technology Acceptance Model (Davis, 1989): Explains that acceptance of technology, in this case, fintech apps, is influenced by ease of use and perceived usefulness. Behavioral Finance Theory (Thaler, 1999): Suggests that investment decisions are often influenced by psychological and emotional factors, leading individuals to make irrational investment choices.

3. METHODOLOGY

This research uses a quantitative explanatory approach to analyze the relationship between digital financial literacy and investment decisions among Generation Z in Pontianak City. The study aims to statistically test the impact of digital financial literacy on investment decisions by using primary data obtained through a questionnaire.

The population for this study is all Generation Z individuals living in Pontianak City who use digital financial services. The sample was selected using purposive sampling, which is a sampling technique that chooses respondents based on specific criteria, namely: Aged between 17 and 27 years old. Use digital financial services (such as investment apps, digital payments,

and online loans). Have knowledge or experience in investment. The sample size used in this study is 120 respondents.

The data used in this study is primary data, obtained through the distribution of a questionnaire that measures digital financial literacy and investment decisions. The instrument used in this research is a questionnaire that consists of two main parts: Part one: Measures digital financial literacy through 5 dimensions: understanding digital investment products, ability to manage investment risks, understanding data security, ability to evaluate investment information, and ability to manage digital finance. Part two: Measures investment decisions, including variables such as the type of investment chosen, investment frequency, and investment value. The questionnaire is structured using a 5-point Likert scale, with values ranging from 1 (strongly disagree) to 5 (strongly agree).

Data analysis is conducted using multiple linear regression to examine the relationship between digital financial literacy (independent variable) and investment decisions (dependent variable). Additionally, to test the effect of each dimension of digital financial literacy on investment decisions, regression analysis is used.

Below is the table of variable operationalization used in this study:

Table 1. Operationalization of Variables

Variable	Dimension	Indicator	Measurement Scale	
Digital Financial Literacy	Understanding investment products	of Knowledge of types of digital investment products (stocks, mutual funds, etc.)	5-point scale	Likert
	Risk management ability	Ability to identify and assess risks in digital investments	5-point scale	Likert
	Data security understanding	Understanding how to protect personal data in digital financial transactions	5-point scale	Likert
	Information evaluation ability	Ability to evaluate financial information available on digital platforms	5-point scale	Likert
	Digital finance management ability	Ability to manage personal finances using digital applications	5-point scale	Likert
Investment Decision	Type of investment	Investment choices made (e.g., stocks, mutual funds, cryptocurrency)	5-point scale	Likert
	Investment frequency	How often individuals make investments	5-point scale	Likert
	Investment value	The value or amount of money invested in each transaction	5-point scale	Likert

Validity and reliability tests are conducted to ensure that the questionnaire used in this research accurately measures the intended constructs and provides consistent results. Validity is tested using content validity, while reliability is tested using Cronbach's Alpha. A Cronbach's Alpha value of ≥ 0.7 is expected to indicate good instrument reliability.

4. RESULTS AND DISCUSSION

After data was collected from 120 respondents, the analysis was performed using multiple linear regression to test the impact of digital financial literacy on investment decisions. The following are the hypothesis testing results showing the relationship between digital financial literacy (independent variable) and investment decisions (dependent variable):

Table 2. Hypothesis Testing Results

Hypothesis	Path Coefficient	t-value	p-value	Decision
Digital Financial Literacy → Investment Decision	0.45	3.12	0.002	Significant Positive
Understanding Digital Investment Products → Investment Decision	0.38	2.85	0.004	Significant Positive
Ability to Manage Risk → Investment Decision	0.25	1.98	0.047	Significant Positive
Data Security Understanding → Investment Decision	0.21	1.67	0.095	Not Significant
Ability to Evaluate Information → Investment Decision	0.34	2.42	0.016	Significant Positive
Ability to Manage Digital Finance → Investment Decision	0.40	3.05	0.003	Significant Positive

Based on the table above, it can be seen that the digital financial literacy variable, overall, has a significant influence on investment decisions. The most influential dimensions of digital financial literacy are understanding digital investment products, ability to manage risk, and ability to evaluate information, with path coefficients of 0.38, 0.25, and 0.34, respectively. The dimension of data security understanding did not show a significant influence on investment decisions with a p-value greater than 0.05 (0.095).

The results of this study indicate that digital financial literacy plays a key role in influencing investment decisions among Generation Z. As expected, understanding digital investment products has a positive effect on investment decisions, aligning with findings from Lusardi and Mitchell (2011), who emphasized the importance of knowledge about financial products in making sound financial decisions. Ability to manage risk also showed a significant effect, indicating that Generation Z individuals who have a better understanding of investment risks are more likely to invest in a more rational manner.

However, data security understanding did not show a significant effect, which may be due to the fact that most respondents are more focused on the potential for quick profits rather than the security risks associated with digital investment. This suggests that while Generation Z is highly connected to technology, they may not fully appreciate the importance of personal data protection in digital finance, which remains a challenge in improving their digital financial literacy.

These findings support the Theory of Planned Behavior, which states that an individual's knowledge and attitude towards behavior (in this case, digital investment) strongly influence their intentions and decisions (Ajzen, 1991). Additionally, the Technology Acceptance Model (Davis, 1989) is relevant, where ease of use and perceived usefulness of digital investment technology influence the decision to invest. Based on these findings, it is essential for fintech platforms to simplify user interfaces while also educating users on important aspects of investing.

5. CONCLUSION

This study shows that digital financial literacy significantly influences investment decisions among Generation Z in Pontianak City. Dimensions of digital financial literacy, such as understanding digital investment products, risk management ability, and information evaluation ability, were found to positively affect investment decisions. These findings emphasize the importance of improving digital financial literacy, especially in the context of a younger generation increasingly exposed to digital investment platforms. However, the dimension of data security understanding did not show a significant effect, indicating a gap in Generation Z's understanding of the security risks associated with digital investments.

Based on these findings, it is recommended that fintech platform providers and financial education institutions enhance efforts to improve digital financial literacy among Generation Z. Education on the importance of risk management and evaluating financial information can help them make more rational and secure investment decisions. Additionally, it is crucial for digital platforms to simplify user interfaces and provide education on data protection to ensure that digital investments are conducted more wisely.

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