THE IMPACT OF FINANCIAL LITERACY ON GEN Z'S FINANCIAL BEHAVIOR

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Abstract. Financial technology as a mediating variable, the purpose of this study is to find out how financial literacy affects financial behavior among Gen Z in Denpasar City, the research was carried out on students of the Faculty of Economics and Business, Ngurah Rai University, Denpasar. Data was collected using purposive random sampling. The results of the study show that: 1) Financial literacy and financial technology have a positive and significant influence on the financial behavior of Gen Z in Denpasar City; 2) Financial literacy has a positive and significant effect on financial technology among Gen Z in Denpasar City; and 3) Financial technology is able to mediate the influence of financial literacy on the financial behavior of Gen Z in Denpasar City.

Keywords: Financial Literacy, Financial Technology, Financial Behavior, Gen Z

1. Introduction

Financial behavior is an issue or topic that is widely discussed and debated today. Financial behavior refers to the behavior of individuals in making decisions about managing personal finances efficiently and productively for long-term needs (Dew & Xiao, 2011). Perry and Morris (2005) state that failure to manage personal finances can lead to serious long-term financial problems, negative social life, and other social problems. A person's lack of awareness of the importance of financial behavior in managing finances can be caused by various factors. Financial literacy is one of the factors that can affect it. Financial literacy is essential for good financial planning. Financial behavior will be influenced by the level of literacy, one of which is the choice or ownership of financial products (Hidajat, 2016). Atkinson and Messy (2012) define financial literacy as a combination of awareness, behaviors, attitudes, skills, and knowledge required to make informed financial decisions. A person's proficiency in managing his finances in daily life is closely related to his financial literacy (Sholeh, 2019). The higher a person's level of financial literacy, the wiser their financial behavior will be and the more effective their financial management will be (Marcolin & Abraham, 2006). Financial technology (FinTech) is the action and implementation of the use of technology that aims to improve banking and financial services, which is commonly done by startups using software, the internet, and computerized technology. The presence of FinTech can bring a more practical financial transaction process (Setiyono et al., 2021).
Gen-Z, also known as iGeneration, is the generation after Millennials and is usually a descendant of Generation X and Generation Y. Good financial behavior is essential for Generation Z to be wiser in managing their personal finances (Yanto et al., 2021). According to OJK statistics as of June 2023, young borrowers aged 19-34 years contributed loans of IDR 26.9 trillion, representing 57% of all loans disbursed by fintechs out of a total of IDR 47 trillion. In addition, the number of accounts reaches almost 11 million. More surprisingly, individuals of high school age or Gen Z (ages 8-23) under 19 years old have a loan balance of Rp 169

billion. From this data, many Gen Z and Millennials have entered the OJK's Financial Information Service System (SLIK) and entered the blacklist due to loan defaults. Based on the results of the 2022 National Survey on Financial Literacy and Financial Behavior (SNLIK) by the Financial Services Authority (OJK), the population's financial literacy index is 49.68%, and the financial behavior index is 85.10%. Meanwhile, the level of Islamic financial literacy is only 9.14%, with Islamic financial behavior of 12.12%. The low level of financial literacy has led to a surge in cases of people getting caught up in loan default issues or online loans in peer-to-peer lending (P2P Lending) (https://investor.id/finance/356498/minim-literasi-banyak-gen-z-masukblacklist-slik-ojk) Financial Technology. The lifestyle of Generation Z is very dynamic, focusing only on the present without thinking much about the future. They believe life is short, so whatever they have now should be spent immediately, and they are afraid of being left behind by trends. Financial literacy significantly affects the financial behavior of Generation Z, as they are not yet fully aware of the benefits and services of financial products. Financial literacy is the ability or intelligence of individuals to manage their finances (Laily, 2016). Emergence FinTech coinciding with the change in people's lifestyles, where technology makes everything faster. The shift from cash to non-cash transactions brings many advantages, such as efficiency in cash handling, greater convenience, wider access, transaction transparency, and more accurate identification of economic planning. Increasing financial literacy and ease of transactions through financial technology will ideally provide efficiency and flexibility in managing needs, thereby improving good financial behavior in managing their money in daily life.

2. Literature Review

Theory of Planned Behavior

The theoretical foundation used in this study is the Theory of Planned Behavior (TPB), which was introduced in 1991. This theory explains that attitudes toward behavior refer to the extent to which a person has a favorable or unfavorable evaluation or assessment of the behavior in question. Social factors, or subjective norms, refer to the perceived social pressure to perform or not perform the behavior. The perceived level of control of behavior refers to an individual's perception of their ability to carry out behavior and is assumed to reflect past experiences as well as anticipated obstacles and obstacles.

As a general rule, the better the subjective attitudes and norms regarding behavior, and the greater the perceived control of behavior, the stronger the individual's intention to perform the behavior under consideration. The relative importance of attitudes, subjective norms, and perceived behavioral controls in predicting intent is expected to vary across different behaviors and situations.

Financial Literacy

Literacy comes from the English word " literacy ", which refers to the ability to read and write. According to UNESCO's definition, literacy involves the ability to identify, understand, interpret, create, communicate, count, and use printed and written materials in a variety of contexts. In the Great Dictionary of the Indonesian Language (KBBI), financial literacy is defined as the ability to read and write, as well as the ability of individuals to process information. In a broader context, literacy can also involve critical, analytical, and reflective skills in understanding and using the information obtained. Financial Literacy Indicators To measure the level of financial literacy in the national survey, the same methods, parameters, and indicators used in 2016 and 2019 were also applied in the 2022 National

Survey on Financial Literacy and Inclusion (SNLIK). The financial literacy index consists of parameters such as knowledge, skills, confidence, attitudes, and behaviors, namely Knowledge, Skills, Trust, Attitudes, Behaviors.

Financial Technology

Financial Technology refers to the benefits expected by information system users in carrying out their duties, where measurement is based on the intensity of use, frequency of use, and the number of applications or software used. Rasyid (2017) stated that there are several indicators that can be used to measure financial technology, including Usability, Ease of Use, Website Design, System Availability, Privacy, and Security.

Based on the literature review, theoretical framework, and previous research, a conceptual framework can be developed. Based on several empirical studies, a conceptual framework has been built to examine the relationship between research variables, as illustrated in Figure 1.

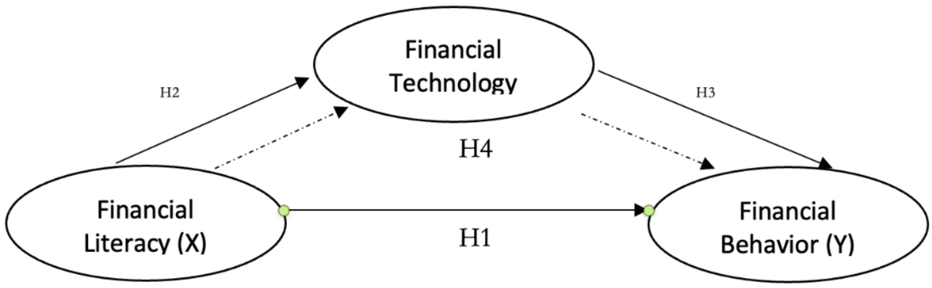

Figure 1. Conceptual Framework

Hipotesis

a) Financial Literacy has a positive and significant effect on Financial Behavior.
b) Financial Literacy has a positive and significant effect on Financial Technology.
c) Financial technology has a positive and significant effect on Financial Behavior.
d) Financial technology is able to mediate the influence of Financial Literacy on Financial Behavior.

3. Method

The design of this study uses a type of quantitative research because it aims to determine the impact of financial literacy on financial behavior through financial technology. The relationship between these variables is described using several statistical formulas, making it a quantitative study. Population refers to a generalized area consisting of objects/subjects with certain qualities and characteristics that are determined by the researcher to be studied and subsequent conclusions (Sugiyono, 2018:115). Based on this definition, the population in this study is all students of the Faculty of Economics and Business, Ngurah Rai University Denpasar in the fifth semester of 100 people, where the students have completed the financial technology course in the fourth semester so that they understand the items of statements in the questionnaire given.

The data analysis technique in this study uses a quantitative approach, which involves collecting data using research instruments and conducting quantitative or statistical analysis to test hypotheses. The statistical analysis used is inferential statistics to test the hypothesis of the influence of two or more variables on one dependent variable. The data analysis technique used in this study to test the hypothesis is the Partial Least Squares (PLS) method. Intervention variables are one of the reasons for using the PLS method. The model used in this study is the causal model (causal or relationship and influence modeling; also known as path analysis). To test the hypothesis proposed in this study, the fit model analysis technique used is Structural Equation Modeling (SEM) which is operated using Smart PLS. SEM is a method currently used to overcome the limitations of regression methods. Experts classify SEM into two approaches. The first approach is Covariance-Based SEM (CBSEM) or better known as Partial Least Squares (PLS). PLS is a powerful method of analysis that does not rely on many assumptions. The PLS approach is distribution-free (does not assume a specific data type; it can be nominal, categorical, ordinal, interval, or ratio) (Ghozali, 2016). PLS uses a bootstrapping or random duplication method, where the assumption of normality is not an issue for PLS (Hussein, 2015). In the PLS method, analysis includes three stages: outside model analysis, inner model analysis, and hypothesis testing.

4. Results and Discussion

Convergent Validity

The purpose of convergent validity is to evaluate the validity of the indicator as a construction measurement based on the external load in Smart PLS. The indicator is considered valid if its outer loading value is greater than 0.5. The outer loading value also shows the contribution of each indicator to its latent variable. The indicator with the highest outer loading value indicates that it is the strongest or most significant measure for its latent variable. By examining the results of the external model, we can determine the external load of each indicator on a given variable, as illustrated in Figure 2.

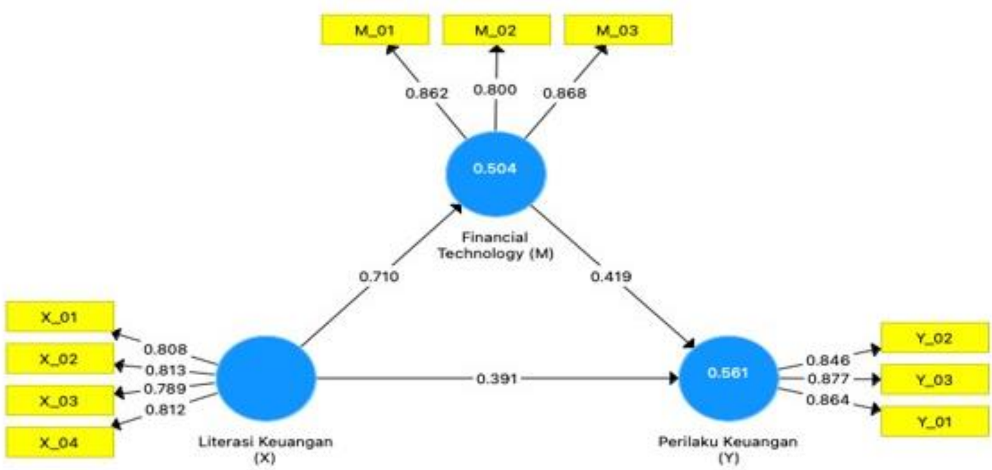

Figure 2. Outdoor Models
Source: Data processed by researchers (2024)

In Figure 2, the indicator that measures each variable has validity as a measurement of the variable because it has an external load value above 0.5. The square root of the Extracted Mean Variance (AVE) for each latent indicator in the model is compared to the correlation among other latent indicators. The recommended AVE value is higher than the AVE value shown in Table 1, which indicates the discrete validity and reliability of the composite.

Table 1. Discriminant Validity and Composite Reliability Values

Variabel	AVE	Composite Reliability
Financial Literacy (X)	**0.881**	**0.649**
Financial Technology (M)	**0.881**	**0.713**
Financial Behavior (Y)	**0.897**	**0.744**

Source: Data processed by researchers (2024)

According to the results of the convergent validity evaluation and the discriminant validity test of each latent variable, the test results for each path from Table 1 show that the model has been described below. The results show that the variables have good discriminant validity. The Extracted Mean Variance (AVE) for the three mediating variables and the direct partial effect of the latent variable was above 0.5, as shown in Table 2 below.

Table 2. Relationships between variables and Significancy

Relationships between variables	**Path coefficient**	**Sig**	**Description**
Financial Literacy (X) → Financial Behavior (Y)	0.391	0.004	Significant
Financial Literacy (X) → Financial Literacy (M)	0.710	0.000	Significant
Financial Tchnology (M) → Financial Behavior (Y)	0.419	0.001	Significant
Financial Literacy (X) → Financial Literacy (M) → Financial Behavior (Y)	0.504	0.001	Significant

Discussion

The Impact of Financial Literacy on Financial Behavior

The results of the study show that knowledge about finance is useful and crucial for financial behavior among Denpasar City residents. Financial literacy is defined as an individual's ability to manage their own finances. This includes knowledge of financial concepts, understanding the risks and benefits of investing, and the ability to make wise financial decisions. Individuals with a strong financial understanding are generally more cautious in utilizing financial services. Conversely, those who lack financial knowledge may struggle to make informed decisions when choosing financial services. A person with good financial knowledge is more likely to have a better perception of making and being wise responsible decisions based on their past experiences. Previous studies by Sari & Kautsar (2020) and Bire et al. (2019) found a strong link between financial knowledge and access to finance. This study shows that financial knowledge leads to significant changes in financial behavior and that lack of financial knowledge can hinder individuals from making informed choices when choosing financial services. In contrast, those who have a strong understanding of financial concepts tend to make more informed and responsible financial decisions based on their experience.

The Impact of Financial Literacy on Financial Literacy

The findings of the study show that financial knowledge has a positive and significant relationship with the use of financial technology among Denpasar City residents. Financial technology (fintech) is influenced by financial knowledge; Individuals with a good financial understanding are better prepared to utilize fintech effectively. Combining fintech with strong financial literacy is expected to increase the use of financial technology. Fintech aims to utilize technology to accelerate financial services by making financial transactions more efficient and practical (Azizah & Rachmansyah, 2021). Previous studies by Syahrani & Pradesa (2023) and Hijir (2022) show that interest in fintech advances can be influenced by financial literacy and its impact on financial behavior. This study shows that higher financial literacy positively influences the adoption and effective use of financial technology.(Syahrani & Pradesa, 2023 and Hijir, 2022).

Financial Technology as a Mediator in the Relationship between Financial Literacy and Financial Behavior

The findings of the study show that Financial Technology, also known as fintech, is a combination of financial systems and technology that allows the buying and selling of goods or services at any time. Fintech improves financial behavior among Denpasar City residents. According to Bank Indonesia (2020), the growth of fintech is driven by the need for fast technological solutions in modern life. The advent of fintech, making problems related to purchases, payment transactions, and the need to visit physical stores, banks, or ATMs can be reduced. It also addresses the dissatisfaction that some individuals may experience with face-to-face services in other words, fintech makes the payment process and purchase transactions easier, more efficient, and cost-effective without sacrificing effectiveness. The increasing use of financial technology is associated with improved financial behavior (Inayah, 2021). Previous studies by Mulasiwi & Julialevi (2020) and Marini et al. (2020) support this claim. Research shows that fintech services improve financial behavior by facilitating more efficient and effective financial transactions.

Financial Tchnology as a Mediator in the Impact of Financial Literacy on Financial Behavior

Studies show that Financial Technology (fintech) can mediate the impact of financial literacy on financial behavior in Denpasar City. According to Morgan & Trinh (2019), improving financial literacy is needed to select and evaluate various financial products and services. The presence of fintech is driving economic growth due to the increase in transaction volume and value. However, the habit of online shopping and cashless transactions can lead to consumerism, which can affect an individual's financial behavior, regardless of the advantages (Ulinnuha et al., 2020).

Anggraini (2020) suggested that increasing financial literacy in the community is accompanied by an increase in the use of financial technology. Previous research by Hijir (2022) and Kusuma (2020) shows that financial technology has the capacity to mediate the relationship between financial literacy and financial behavior. This mediation effect highlights how fintech can facilitate the positive impact of financial literacy on financial behavior by providing tools and platforms that make financial management more accessible and efficient.

5. Conclusion

This study aims to find out whether financial technology can mediate the impact of financial literacy on financial behavior among Denpasar City residents. Based on the above discussion, researchers have drawn the following conclusions:

1) Financial literacy has a positive and significant impact on financial behavior among Denpasar City residents.

2) Financial literacy has a positive and significant impact on the use of financial technology among Denpasar City residents.
3) Financial technology has a positive and significant impact on financial behavior among Denpasar City residents.
4) Financial technology effectively mediates the impact of financial literacy on financial behavior among Denpasar City residents.

This research was conducted to help financial service users. Given the important role of financial knowledge in managing funds, it is important for people to realize that this knowledge is a key factor in making informed decisions about the use of financial services. Individuals who understand financial technology are expected to seek information about financial products and services.

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