

CHAPTER I INTRODUCTION

1.1 Background

The worldwide spread of COVID-19 beginning in early 2020 was an unforeseen external shock for global economies. Many people, particularly in Indonesia, have lost their jobs. Given the likelihood of working from home and the lockdown system, people became frustrated and sought out other activities that offered them to generate income from home. These circumstances brought investment and trading as the opportunities to generate income from home escalated among the citizens of Indonesia.

The investment itself is the activity of allocating capital into a particular business with the purpose of generating additional income or profit (Wulandari & Iramani, 2014). According to the data from KSEI (Kustodian Sentral Efek Indonesia) / ICSD (Indonesia Central Securities Depository), there were 9.78 million investors in the capital market as of September 2022. This figure increased by 251.9% compared to the number of investors in the same period in 2020, which was 3.88 million. KSEI also reported that generation Z constitutes the majority of investors in the Indonesian capital market. As of September 2022, approximately 59.08% of the 9.78 million Single Investor identification (SID) are under the age of 30. This significantly implies that generation Z, which consists of students plays a significant role in investment activities.

As investment activity continues to increase in the status quo, everyone is expected to determine the appropriate investment decision in order to maximize returns while minimizing risk. An investment decision is a policy or a decision taken to invest capital in one or more assets, or how a person must allocate funds into investment forms that will be able to bring benefits in the future (Wulandari & Iramani, 2014). According to Masassya (2006) in Arianti (2018), the majority of funds are allocated for numerous purposes, including investment, saving, and consumption, with investment being one of the most beneficial types of

allocation in the future. To plan for investment, people need to have a good understanding of finance and literacy so that every decision they make is in the right direction (Copur & Gutter, 2019).

Financial literacy is a prerequisite in an individual's life since it supports financial decision-making processes, particularly those involving investment. In this current digital era, every individual can easily acquire knowledge and skills that might enable them to make careful financial decisions and financial management. According to the research conducted by Robb and Woodyard (2011), adequate financial literacy has a positive influence on one's financial behavior, such as proper financial management or distribution. Financial behavior can be defined as any human behavior that is relevant to financial management (Xiao, 2008). Someone with great financial behaviors is more plausible to manage their assets appropriately, such as investing and recording expenses.



Figure 1.1
Level of Financial Literacy in Indonesia
 Source: Otoritas Jasa Keuangan (2019)

Based on figure 1.1, which is the result of the survey that was conducted by the Otoritas Jasa Keuangan (OJK) in 2019, the financial literacy index has increased

from 29.66% in 2016 to 38.03% in 2019. OJK also stated that the financial literacy rate for Generation Z itself is only 15.99%. Despite the fact that financial literacy is a necessary trait in the context of community empowerment, individual welfare, consumer protection, and enhancing financial inclusion, this indicates that Indonesia in general still lacks adequate financial understanding and attitude.

Generation Z was born between the end of the 1990s and the beginning of the 2010s. Their present age range (2022) is 11-25 years old, with social standing varying from junior high school students to young workers. The phenomenon in this research arises among generation Z due to low financial literacy and financial behavior, despite the fact that they can acquire a thorough understanding of financial matters with the help of gadgets and internet access. Generation Zs have difficulty managing their finances since they do not spontaneously record their income-expense and engage in excessive levels of consumption, such as impulsive spending on non-essential necessities. Furthermore, they must balance a variety of financial obligations, such as paying rent, repaying debts, fulfilling daily necessities, paying college fees, budgeting, and saving (Arianti, 2018). The use of good financial literacy and financial behavior is the first step toward excellent personal finance management. Most information used in personal finance involves accounting, and it is fundamental for all people to apply accounting basics in their personal lives since it can help individuals make better investments and other financial decisions (Hood, 2022). It will be impossible for someone who does not have healthy financial behavior to have a financial surplus as future savings, let alone investment capital (Kadoya & Khan, 2020). It is plausible for Generation Z to make the proper investment decisions in their investing activities if they have adequate financial literacy and financial behavior applied in their personal finance management.

The results of previous studies regarding the variables that will be formed in this study are by Aryadi (2022), who conducted research on the Impact of Financial Literacy on Investment Decisions by Generation Z in Bandung. The result of this research is financial literacy with the indicators of behavior, skills, knowledge, and attitudes affect generation Z's investment decisions. This is also in

line with the result of research that was conducted by Putri, et al (2021) and Utami & Sitanggang (2021) which shows financial literacy significantly influences the investment decisions of generation Z in Sumatera Utara and Jakarta respectively.

However, the researcher also found out that there are several research that revealed opposite results regarding the formation of relationships between variables of this study. Arianti (2018) who conducted research on the influence of financial literacy, financial behavior, and income on investment decisions concluded that financial literacy has no significant effect on investment decisions, while financial and income behavior have a significant effect on investment decisions. Nugraheni, et al (2021) also concluded that financial behavior and macroeconomics affect investment decisions positively and significantly, while financial literacy doesn't have a significant influence on investment decisions.

Previous studies provided inconsistent results due to different variables and the sociodemographic of the sample data acquired. As a result, the researcher intended to conduct additional research on the impact of financial literacy and financial behavior on investment decisions. The researcher will focus on financial literacy with the indicator of skill and knowledge, and financial behavior with the indicator of behavior and attitude. Hence, the researcher will try to obtain different data from previous studies. This research will concentrate on generation Z, specifically in Pontianak, in order to provide a different perspective over prior research that has concentrated on more developed regions in Indonesia.

1.2 Research Questions

Based on the research background given above, the following particular questions have come up in this research:

3. Does financial literacy affect generation Z's investment decisions?
4. Does financial behavior affect generation Z's investment decisions?

1.3 Research Objectives

The objective of this research is to examine the impact of financial literacy and financial behavior on generation Z's investment decisions in Pontianak,

Indonesia.

The objectives of this research are:

3. To study and analyze whether financial literacy has a significant effect on investment decisions.
4. To study and analyze whether financial behavior has a significant effect on investment decisions.

1.4 Research Contribution

1.4.1 Theoretical Contributions

This research is expected to provide theoretical contributions in three important aspects. First of all, to meliorate previous studies regarding generation Z's financial literacy and financial behavior towards their investment decisions. Second, to emphasize the importance and effect of financial literacy and financial behavior on investment decisions. Furthermore, this research will be beneficial in providing new information and perspectives for future researchers. Finally, it serves as a basis and guides for future researchers whose research is relevant to this issue.

1.4.2 Practical Contributions

The research is expected to provide practical contributions in two important aspects. First of all, this research is expected for enterprises or government institutions to consider providing financial services to convey information about financial literacy and financial behavior to the community, particularly generation Z. this will consequentially improve and strengthen Indonesia's financial inclusion. secondly, this research is expected to help generation Z to learn how to manage their personal finances carefully and thoroughly, allowing them to make better investment decisions with careful analysis beforehand.