

THE EFFECT OF SAVING BEHAVIOR AND FINANCIAL LITERACY ON INVESTMENT DECISIONS IN THE GENERATION Z CAPITAL MARKET IN SURABAYA

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ABSTRACT

Investment among young people shows rapid growth rates due to financial benefits. Saving activities are replaced by investing activities. This study explores the effect of saving behavior and financial literacy on investment decisions in the capital market by Generation Z in Surabaya. Data collection using a questionnaire distributed online to Generation Z aged 17-23 years who live in Surabaya and have invested in the capital market obtained as many as 100 respondents. The primary data was processed using SEM-PLS 3.0. The study results show that saving behavior and financial literacy significantly influence the investment decisions of Generation Z in the capital market. This research proves that there is a behavioral transition in Generation Z from a saving society to investing society. The implications of research for the government and capital market players through education are active investments to drive the economy, especially in the capital market and contribute to developing the State of Indonesia. However, Generation Z needs to be directed to seek information before investing to make the right decisions.

Keywords: Saving Behavior; Financial Literacy; Investment Decision; Z Generation

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BACKGROUND

Investment in Indonesia shows an increasing trend. Previously the public preferred banking instruments to the capital market. The campaign carried out by the Indonesia Stock Exchange (IDX) (2015), "Yuk Nabung Saham," by inviting the public to transfer their savings into investment funds in the capital market, is showing results. The number of active investors grew to 16.26% at the end of 2017. Saving and investing have one thing in common: setting aside money for the future, but the two activities are different. Saving is saving money while investing is investing money to make a profit. Savings or savings funds that have yet to be managed can be used as capital for investment. According to data, Generation Z allocates more of their savings by 6.3% while investment is 0.5% (Alvara, 2020; Cheema et al., 2018). Investing benefits are more significant than saving because investors can get a return on investment (Adnyana, 2020), so Generation Z needs to transfer funds from savings to investment products.

According to Sudakova (2017), financial literacy is knowledge and beliefs that can influence a person's decision-making and financial planning. However, financial literacy in people aged 18-25 is considered not suitable, namely only 32.1% (Siringoringo, 2020). Financial literacy or understanding is essential for investors to make sound decisions (Putri & Rahyuda, 2017). Financial literacy will help individuals understand investments and have prudent behavior to avoid harmful investments (Baihaqqy et al., 2020). Financial literacy helps encourage someone to choose the right investment instrument and understand the benefits and risks of investing.

Generation Z was born from 1997-2012 (Central Bureau of Statistics, 2020). The growth of new investors in the capital market is dominated by Generation Z (Pratama, 2021). At a relatively young age, Generation Z can take advantage of the compounding effect in investments as early as possible. This research was conducted on people in Surabaya, the second metropolitan city after Jakarta, where people have high needs, lifestyles, and consumptive behavior. The purpose of this study is to show how investors with high spending can set aside their money to invest and make the right investment decisions. Furthermore, this research is expected to provide benefits related to Generation Z to have motivation in saving behavior and financial literacy to influence investment decisions. The benefits felt by the government and capital market players are the creation of knowledge about investment in Generation Z and the behavioral transition from saving to investing will help improve the Indonesian economy.

THEORETICAL STUDY

Investment is a form of placement of money currently owned to obtain future profits (Adnyana, 2020). Investment is an investment in various alternative assets consisting of tangible assets such as land and property and financial assets such as deposits, stocks, bonds, mutual funds, and many more. (Adnyana, 2020). In addition, there are other investment products, such as cryptocurrencies in the form of digital currency investments and P2P lending, which are investment vehicles for parties with a surplus of funds (Amira & Siregar, 2019; Ilham & Sinurat, 2021). This research focuses on capital market investment. The capital market is an intermediary institution for parties who need funds and excess funds by trading securities consisting of stocks, mutual funds, and bonds (Adnyana, 2020). Shares are proof of one's ownership of company assets by providing compensation in the form of capital gains and dividends. Bonds are debt securities issued by companies or the government by paying compensation through interest coupons and investment principal. Mutual funds are a place to collect managed community funds and provide rewards in the form of capital gains and dividends (Sunaryo, 2019).

Investment decisions are the last step for investors to invest their funds in investment instruments (Ariani et al., 2016). Wulandari & Irani (2014) also define investment decisions as a step chosen by individuals to allocate their capital to investment instruments.

The theory of financial behavior or behavioral finance explains human behavior in the context of financial management (Andarsari & Ningtyas, 2019; Wiryaningtyas, 2016). In making investment decisions, a person can be influenced by rational and irrational attitudes. A rational attitude is a person's logical and accurate thinking, reflected in financial literacy. In addition, individual financial behavior can be seen through saving behavior (Naidu, 2018). Therefore, individuals with good financial behavior will be wise in managing their finances and making decisions related to their financial condition.

Achar (2012) defines saving behavior as an individual act of setting aside money currently owned and used for consumption in the future. Saving behavior is an individual's ability and willingness to set aside a portion of their money for savings (Fitri et al., 2014; Rahayu, 2020). Individuals with good saving behavior will use these savings to invest or become investment capital rather than being left in savings (Cheema et al., 2018). Anju & Anuradha (2017) show that when individuals act to save regularly, they have control over their finances which can then be used for investment planning. Asmara et al. (2020) concluded that saving behavior is included in the financial management behavior group that significantly influences investment decisions. Magdalena (2015) also shows that saving can help boost the economy through investment.

H₁: Saving behavior has a significant effect on investment decisions in the capital market by Generation Z in Surabaya

Financial literacy is defined as individuals' competency regarding their understanding of financial principles and foundations (Akmal & Saputra, 2016; Sudakova, 2017). Financial literacy is also knowledge and beliefs that can influence decision-making by carrying out financial planning to achieve prosperity (Akmal & Saputra, 2016). Individuals with good financial literacy will be greatly assisted in making investment decisions because they understand the basic principles of finance and investment, available investment instruments, returns, and risks they will bear when investing (Fachrudin & Fachrudin, 2016; Rasyid, 2012). Baihaqqy et al. (2020) show that financial literacy influences investment decisions in Indonesia. Before making an investment decision, the individual will first digest and consider financial information related to his chosen investment.

H₂: Financial literacy has a significant effect on investment decisions in the capital market by Generation Z in Surabaya.

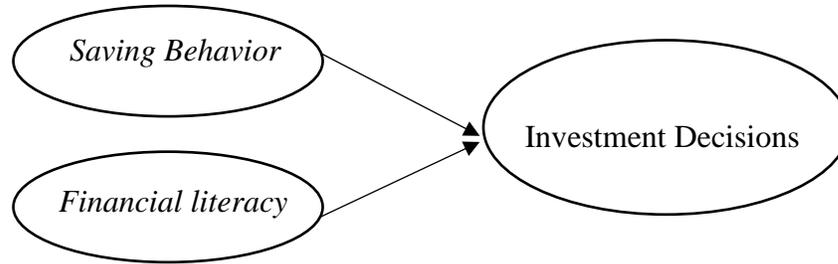


Figure 1. Conceptual Framework

METHOD

Population and Sample

This research is a type of quantitative research with an associative explanatory method. The processed data is primary data in questionnaires distributed online to respondents, namely Generation Z in Surabaya. The questionnaire is presented in the form of questions and is measured using a Likert scale. The population in this study is Generation Z, who live in Surabaya. The sample was taken using a purposive sampling method with criteria that must be met: domiciled in Surabaya, aged 17-23 years, have savings, and are currently investing in the capital market.

Data Measurement Methods

This study uses two exogenous variables, saving behavior and financial literacy, and one endogenous variable, investment decisions. All variables are measured using a Likert scale of 1-5, with a value of 5 if the respondent strongly agrees/very well understands and one if the respondent strongly disagrees/does not understand. The endogenous variable of investment decisions looks at Generation Z's decision to invest their funds in capital market investment products as measured through rational decision-making with returns and risks in investing (Rasheed et al., 2018). The exogenous variable of saving behavior looks at the actions of Generation Z in setting aside their money for savings as measured through statements of saving action and saving decisions (Thung et al., 2012). The exogenous variable of financial literacy looks at Generation Z's insights regarding the financial sector as measured through literacy in basic financial and investment knowledge (Ariani et al., 2016).

Data Analysis Techniques

Data obtained from online questionnaire results were processed using Partial Least Square (PLS) through the SmartPLS application. PLS is a technique for predicting the relationship between endogenous and exogenous variables in the form of variables that cannot be measured directly (latent variables). In processing quantitative data, the conditions that must be met before processing data are valid and reliable data. A validity test serves to see the accuracy of a measurement. The Reliability Test is used to see the consistency of the measuring instrument and whether the measuring instrument used is reliable and consistent when repeated

measurements are made. The validity and reliability analysis used in the PLS model was carried out by analyzing the outer model, which consisted of convergent validity, discriminant validity, and reliability tests. The convergent validity test requires that the outer loading and average variance extracted (AVE) values are more significant than 0.5. The discriminant validity test is seen by comparing the cross-loading value with other constructs. The cross-loading indicator value for the measured variable must be greater than the other variables. Cronbach's alpha and composite reliability measure the reliability test. Acceptable composite reliability and Cronbach's alpha values are more significant than 0.7. In addition, an internal model analysis and hypothesis testing were also carried out. The internal model analysis is carried out by looking at the R-Squared value, which ranges from 0-1. The higher the value indicates, the more significant the influence between exogenous latent variables on endogenous latent variables. Hypothesis testing is done by comparing t-count with t-table 1.96 and will be declared to have a significant effect (reject H0) if t-count \geq 1.96.

RESULT

Based on the sample criteria that were met, namely, aged 17-23 years, domiciled in Surabaya, savings, and investing in the capital market, 100 respondents have been collected. The choice of investment products from 100 respondents is divided into five types of investment products presented in Figure 2.

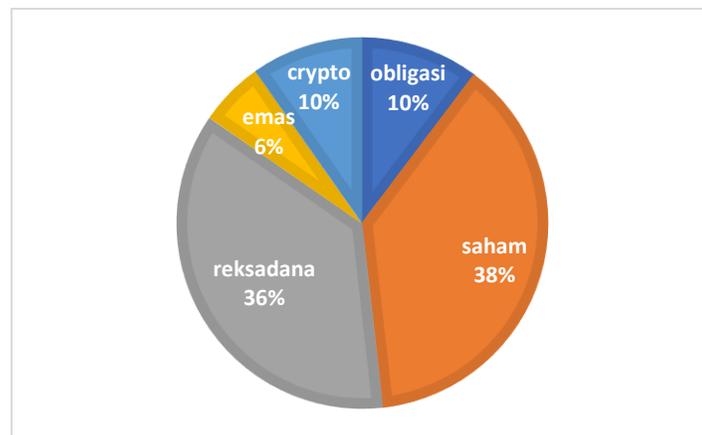


Figure 2. The choice of investment products

In the questionnaire, respondents are free to fill in more than one investment product which is the choice to invest. As seen in Figure 2, 38% of respondents chose stocks, 36% chose mutual funds, and the rest chose bonds, cryptocurrencies, and gold. Stocks remain the product of investment choice that Generation Z is most interested in. Table 1 shows the average respondents' answers to the variables studied: saving behavior, financial literacy, and investment decisions.

Table 1. Measurement

Code	Statement	Mean
Saving Behavior		
SB1	Feeling that you have saved is a must	4,75
SB2	Set aside money for savings	4,59
SB3	It is important to save regularly	4,08
SB4	Any amount of money at the end of the month will be put into savings	4,05
SB5	For the sake of saving, willing to reduce expenses	4,10
SB6	As income increases, savings increase	4,51
SB7	When interest rates on savings fall, they will continue to save	3,96
Financial Literacy		
FL1	I understand that expenses cannot be greater than income	4,77
FL2	I understand there is inflation	4,60
FL3	I understand the interest rate given by the government is lower	4,33
FL4	I understand the value of money in the future will be less and less	4,40
FL5	I understand the calculation of savings interest	4,07
FL6	I understand that investing is investing money	4,51
FL7	I understand investment products in Indonesia	4,09
FL8	I understand bonds have maturity	4,13
FL9	I understand cryptocurrency investing	3,12
FL10	I understand mutual fund investing	4,19
FL11	I understand investing in P2P lending	3,17
FL12	I understand that investment has a return and risk	4,63
FL13	I understand stock returns are greater than bonds	4,50
Investment Decision		
KI1	I invest because I have excess funds	3,98
KI2	I am willing to use some of my funds to invest	4,28
KI3	Regular investment is a must	4,09
KI4	I invest because I have financial goals that I want to achieve	4,48
KI5	I know the benefits of investing, so I decided to invest	4,60
KI6	Investment is a means to grow money	4,59
KI7	I am aware of the risks involved in investing and am willing to assume those risks.	4,67
KI8	In investing, I choose products that match my risk profile.	4,60

Source: Processed by researchers

The convergent validity test was carried out by looking at the outer loading value for each indicator, the indicators SB4, SB5, SB7, F11, FL2, FL3, FL9, FL11, and KI1 did not meet the value of 0.5, so they eliminated. Then the model is tested again until the outer loading value meets 0.5, as shown in Figure 3.

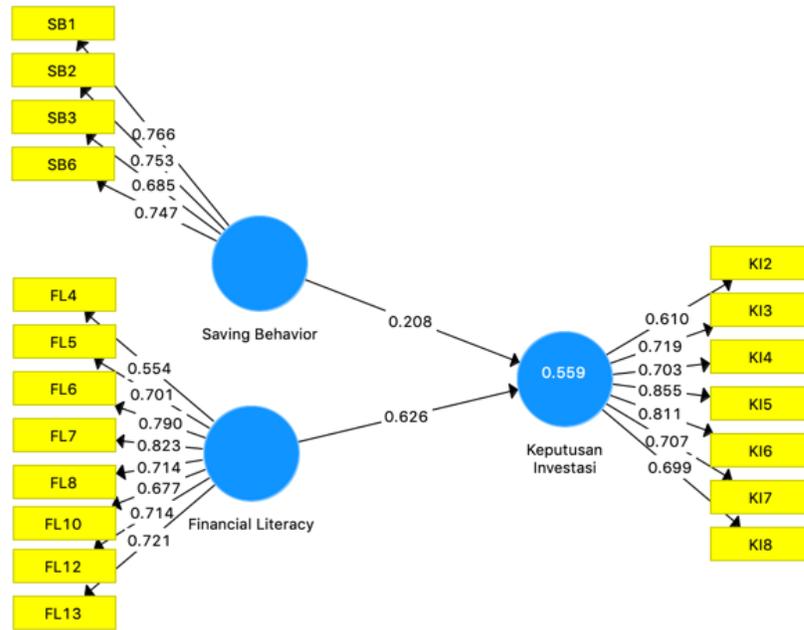


Figure 3. Outer Loading Convergent Validity Test Results

Table 2 shows the discriminant validity test by comparing the cross-loading value of an indicator of a variable to the variable itself, which must be higher than the cross-loading value of other variables. The value of each indicator has fulfilled the validity test.

Table 2. Discriminant Validity Test Results

	Saving Behavior	Financial Literacy	Investment Decision
SB1	0,766	0,321	0,344
SB2	0,753	0,233	0,296
SB3	0,685	0,263	0,328
SB6	0,747	0,517	0,479
FL4	0,170	0,554	0,170
FL5	0,294	0,701	0,294
FL6	0,392	0,790	0,392
FL7	0,357	0,823	0,357
FL8	0,357	0,714	0,357
FL10	0,293	0,677	0,533
FL12	0,293	0,714	0,443
FL13	0,499	0,721	0,611
KI2	0,325	0,434	0,610
KI3	0,356	0,392	0,719
KI4	0,292	0,535	0,703
KI5	0,387	0,586	0,855
KI6	0,381	0,507	0,811
KI7	0,411	0,571	0,707
KI8	0,426	0,624	0,699

Source: Processed by researchers

Table 3. Reliability Test Results, Average Variance Extracted and R-square

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Saving Behavior	0,729	0,827	0,545
Financial Literacy	0,863	0,893	0,512
Investment Decision	0,854	0,889	0,537
R-square	0,559		

Source: Processed by researchers

Table 3 shows the reliability test on Cronbach's Alpha and Composite Reliability values above 0.7, so the data is reliable. The AVE value is a convergent validity test, and all variables have a value above 0.5, meaning that they meet the validity test requirements. The R-square value is 0.559, which means that 55.9% of exogenous variables, namely saving behavior and financial literacy, affect endogenous variables, namely investment decisions. In comparison, 44.1% are influenced by other variables outside the study. Table 4 shows saving behavior and financial literacy having a t-count > 1.96, so saving behavior and financial literacy affect investment decisions.

Table 4. Hypothesis Test Results

The Effect	Original sample	t-stat	t-tabel	Finding
SB->KI	0,626	8,441	1,96	Tolak H ₀
FL->KI	0,208	2,298	1,96	Tolak H ₀

Source: Processed by researchers

DISCUSSION

The Effect of Saving Behavior on Investment Decisions

The study results show that saving behavior significantly affects the investment decisions of the Generation Z capital market in Surabaya. Saving behavior can be seen in a person's actions and decisions to save the money they have. By having saving behavior, a person will be more disciplined in managing his finances and influencing the investment decisions he chooses. It is because saving behavior will make someone think about using the funds settled in the bank for investment. In addition, saving behavior is a culture that has been instilled since childhood and is applied until it reaches maturity so that Generation Z, who is still young, can also save with their pocket money and additional income.

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chooses. It is because saving behavior will make someone think about using the funds settled in the bank for investment. In addition, saving behavior is a culture that. This result is in line with the research of Cheema et al. (2018), where one's savings can be used as investment capital. Research by Anju & Anuradha (2017) shows that by having good saving behavior, a person can manage his finances for future planning through investment activities. The same results were also shown by Asmara et al. (2020) that saving behavior is included in the financial management behavior group and has a significant influence on investment decisions has been instilled since childhood. It is applied until it reaches maturity so that Generation Z, who is still young, can also save with their pocket money and additional income.

The Effect of Financial Literacy on Investment Decisions

The study results show that financial literacy significantly affects the investment decisions of the Generation Z capital market in Surabaya. Financial literacy can be seen through basic knowledge of finance and investment. An understanding of financial literacy can be a driving force for Generation Z to carry out investment activities. Having financial literacy makes Generation Z understand the benefits and risks of investing and helps them to consider financial information related to the investments they choose to avoid making bad investments. Financial literacy can also help individuals find the right investment strategy so that their investment decisions are also improving.

This result is in line with the research by Baihaqqy et al. (2020) that in Indonesia, financial literacy helps make investment decisions. The same result was shown by Viantara et al. (2019) that financial literacy significantly affects investment decisions and can be used to support investment activities. Research by Fachrudin & Fachrudin (2016) also shows that financial literacy is an intervening variable that strengthens investment decision-making.

CONCLUSION

Research proves that saving behavior and financial literacy significantly affect the investment decisions of the Generation Z capital market in Surabaya. There are two implications of this research. First, the government and financial institutions (e.g., the Financial Services Authority, Bank Indonesia) should increase Surabaya Generation Z literacy, especially in finance and investment, to encourage the Indonesian economy to improve. Second, the banking sector has a role in educating Generation Z so that they change from a saving society to an investing society and continue to improve financial literacy to become equipped with knowledge in financial management.

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