

The Impact of Risk Perception and Financial Literacy on Gen Z Investors' Investment Decision-Making in Jabodetabek Region

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ABSTRACT

This study investigates how Gen Z investors in the Jabodetabek region make investment decisions based on their perceptions of risk and financial literacy. A survey design was used to gather information from 150 Gen Z investors. To evaluate the proposed correlations, The study used partial least squares structural equation modeling, or PLS-SEM. The findings show that while risk perception has a negative impact on investing decisions, financial literacy has a favorable impact. The study also reveals that the association between risk perception and Financial literacy moderates investment decision-making. These results imply that even when young investors confront significant perceived risks, improving their financial literacy can help them make better investing decisions. The report provides insightful information for lawmakers and financial institutions looking to promote ethical investing practices in young adults.

Keywords: Financial Literacy, Risk Perception, Investment Decision-Making, Gen Z Investor, Financial Education

ABSTRAK

Penelitian ini menganalisis bagaimana investor Gen Z di wilayah Jabodetabek mengambil keputusan investasi berdasarkan persepsi mereka terhadap risiko dan literasi keuangan. Desain survei digunakan untuk mengumpulkan informasi dari 150 investor Gen Z. Untuk mengevaluasi korelasi yang diusulkan, Penelitian ini menggunakan pemodelan persamaan struktural kuadrat terkecil parsial, atau PLS-SEM. Temuan menunjukkan bahwa persepsi risiko mempunyai dampak negatif terhadap keputusan investasi, sedangkan literasi keuangan mempunyai dampak positif. Studi ini juga mengungkapkan bahwa hubungan antara persepsi risiko dan literasi keuangan memoderasi pengambilan keputusan investasi. Hasil ini menyiratkan bahwa meskipun investor muda menghadapi risiko yang signifikan, meningkatkan literasi keuangan mereka dapat membantu mereka mengambil keputusan investasi yang lebih baik. Laporan ini memberikan informasi mendalam bagi para pembuat undang-undang dan lembaga keuangan yang ingin mempromosikan praktik investasi etis pada generasi muda.

Kata Kunci: Literasi Keuangan, Persepsi Risiko, Pengambilan Keputusan Investasi, Investor Gen Z, Edukasi Keuangan

INTRODUCTION

The rapid economic development and advancements in digital technology have significantly transformed the global financial landscape, making financial

markets more accessible than ever before. This transformation has particularly affected younger generations, including Generation Z (Gen Z), who are entering the world of investing at a younger age. Gen Z is characterized as those born around the mid-1990s and the start of the 2010s, and they stand out for being tech-savvy, use of social media, and need for immediate access to information (Schroth, 2019). With the growing popularity of digital investment platforms and financial technologies (FinTech), this generation is now more empowered to make investment decisions independently. However, their financial literacy levels and risk perception play crucial roles in shaping these decisions (Li & Xu, 2021; Purnomo, 2024). The purpose of this study is to investigate the impact of financial literacy and risk perception on investment decision-making among Gen Z investors in the Jabodetabek (Jakarta, Bogor, Depok, Tangerang, and Bekasi) region, a metropolitan area that represents a diverse and dynamic demographic in Indonesia.

Investing is a critical component of personal financial management that allows individuals to grow their wealth and achieve financial goals. The financial markets have seen a surge in retail investors, particularly among younger demographics, due to the accessibility of online trading platforms and financial education available through social media channels. The increasing interest in investments among Gen Z is a notable trend, as this generation is expected to comprise over a third of the global workforce by 2030 and will play a significant role in the future economic landscape (Deloitte, 2022). However, despite their active engagement with digital platforms, there is a concern regarding their preparedness for making informed investment decisions.

Investment behaviors are significantly influenced by financial literacy, which is the capacity to comprehend and use a variety of financial skills, including as budgeting, investing, and personal finance management. According to research, those who possess more financially literate individuals are more likely to invest in a diverse portfolio and are more adept at evaluating the risks involved in various financial products. (Lusardi & Mitchell, 2014). In contrast, those with lower financial literacy levels tend to avoid investing or may engage in speculative behavior without fully understanding the potential consequences (Hassan Al-Tamimi & Anood Bin Kalli, 2009). Given that Gen Z investors are relatively new to the world of investing, their financial literacy levels may significantly impact their decision-making processes.

Perception of risk is another crucial element that affects investment choices. It is characterized as a person's evaluation of the risk and possible drawbacks of making particular investing decisions (Sitkin & Pablo, 1992). Investors' risk tolerance levels can significantly affect their asset allocation decisions, portfolio diversification, and overall investment strategy. For Gen Z, who may not have experienced significant market downturns such as the 2008 financial crisis, their perception of risk may be influenced by other factors, including their access to information, social media influences, and peer groups (Gomber et al., 2018). The integration of financial literacy and risk perception in understanding investment decision-making is crucial for developing strategies that can enhance Gen Z's investment outcomes and promote sustainable financial behaviors.

The Jabodetabek region, being the most populous metropolitan area in Indonesia, represents a unique demographic landscape where traditional financial behaviors are rapidly evolving due to technological advancements. Despite the growing interest in investments among Gen Z in this region, there is a noticeable gap in understanding how their financial literacy and risk perception influence their investment decision-making. According to a report by the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan, OJK), only 38% of the Indonesian population is financially literate, with a lower percentage among the younger demographic (OJK, 2021). This raises concerns about the readiness of Gen Z investors in navigating the complexities of financial markets, especially in a volatile economic environment.

Existing literature has extensively explored the relationship between financial literacy and investment behaviors in various age groups, but there is limited research focusing specifically on Gen Z, particularly within the context of emerging markets like Indonesia. Moreover, while studies have shown that risk perception significantly affects investment decisions, the unique characteristics of Gen Z—such as their higher reliance on digital information sources and social media—necessitate a deeper examination of how these factors influence their risk assessments (Hauff et al., 2020). Addressing this research gap is crucial for financial educators, policymakers, and investment platforms looking to tailor their strategies to better serve the needs of young investors.

The following are the study's objectives: (1) to evaluate Gen Z investors' financial literacy in Jabodetabek, (2) to analyze the impact of financial literacy on the investment decision-making process, (3) to evaluate the risk perception of Gen Z investors and its influence on their investment choices, (4) to explore the combined effect of financial literacy and risk perception on investment behavior, and (5) to provide recommendations for improving Gen Z-specific investment techniques and financial literacy initiatives.

LITERATURE REVIEW

Theoretical Framework

This research is grounded in the Theory of Planned Behavior (TPB) developed by Ajzen (1991), which asserts that a person's views, subjective norms, and sense of behavioral control influence their conduct. Financial literacy can be linked to perceived behavioral control, as it equips individuals with the knowledge and confidence to make informed financial decisions. Meanwhile, risk perception relates to attitudes toward investment, influencing whether an individual perceives investing as a beneficial or risky endeavor. By applying the TPB, this study aims to uncover how financial literacy and risk perception influence the intention and actual investment behavior of Gen Z.

Financial Literacy and Investment Decision-Making

A common definition of financial literacy is the capacity to comprehend and use various financial concepts, is a crucial determinant of sound financial decision-

making. Lusardi & Mitchell (2014) emphasized that those who are more financially literate typically make better-informed financial decisions, including those related to investments. Financial literacy encompasses a broad set of skills, such as budgeting, understanding interest rates, knowledge of financial products, and risk diversification, which collectively empower individuals to optimize their financial outcomes. Previous studies have shown that financial literacy positively influences investment behaviors, because people who are financially savvy are more inclined to invest in a variety of assets and trade stocks (Lusardi & Mitchell, 2014).

In the context of Gen Z, financial literacy plays a critical role given their early exposure to digital financial platforms. Unlike previous generations, Gen Z is more reliant on mobile applications and online platforms for managing their finances, which necessitates a certain level of financial knowledge to navigate complex financial products and services (Istan, 2023). However, despite their technological fluency, there is evidence suggesting that many young investors lack a comprehensive understanding of financial concepts, which may expose them to higher risks (Aren & Zengin, 2016). The Financial Services Authority of Indonesia (OJK) reports that only 28% of Indonesian youths are classified as financially literate, indicating a significant gap in financial education among the younger demographic (OJK, 2021). This gap in financial literacy is a critical issue, as it can influence not only the willingness to invest but also the quality of investment decisions made by Gen Z.

The Role of Risk Perception in Investment Decisions

Risk perception is another fundamental factor affecting investment behaviors. It describes people's subjective assessments of the likelihood and seriousness of a risk. According to Sitkin & Pablo (1992), risk perception plays a significant role in decision-making processes, particularly in uncertain financial environments. Investors' attitudes towards risk are shaped by various factors, including personal experiences, market trends, and external information sources. For Gen Z, whose financial experiences are primarily shaped by social media and online communities, risk perception may be more influenced by external, rather than personal, factors (Gomber et al., 2018).

The amount of literature is increasing indicating that younger investors, such as those in Gen Z, tend to have a higher risk tolerance compared to older generations (Grable & Lytton, 1999). This can be attributed to their longer investment horizons and willingness to explore high-risk, high-reward opportunities. However, their lack of experience and potential overconfidence may lead to suboptimal investment decisions, especially in volatile markets (Nobre & Grable, 2015). Research by Ricciardi (2008) found that individuals with low financial literacy often misjudge investment risks, leading to either overly cautious behavior or excessive risk-taking. This misalignment between perceived and actual risk can result in financial losses or missed opportunities for young investors.

Interaction between Financial Literacy and Risk Perception

The interaction between financial literacy and risk perception is critical in shaping investment decision-making. Studies have shown that higher financial

literacy levels can mitigate risk aversion, enabling individuals to take calculated risks that align with their financial goals (Hassan Al-Tamimi & Anood Bin Kalli, 2009). For example, Guiso et al. (2004) found that financially literate individuals are better equipped to understand risk-return trade-offs, thus making more informed decisions regarding their investment portfolios. Conversely, a lack of financial knowledge can exacerbate risk aversion or lead to irrational financial behaviors, such as herd investing or following market trends without thorough analysis (Hoffmann & Shefrin, 2014).

The Theory of Planned Behavior (TPB), introduced by Ajzen (1991), provides a useful framework for understanding how financial literacy and risk perception influence investment decisions. According to TPB, attitudes, perceived behavioral control, and subjective norms all affect behavior. Financial literacy contributes to perceived behavioral control by increasing an individual's confidence in managing investments, while risk perception shapes attitudes toward investment options. Applying this theory, Joo & Grable (2004) highlighted that financial knowledge enhances an individual's ability to evaluate investment risks, leading to more positive attitudes towards investing.

Gen Z's Investment Behavior in the Digital Age

The advent of digital financial technologies has revolutionized the way Gen Z approaches investing. Unlike previous generations that relied on traditional financial advisors or brick-and-mortar banks, Gen Z investors are more likely to use mobile apps, robo-advisors, and social media for financial advice (Alwi et al., 2021). This digital-first approach has democratized access to financial markets, allowing young investors to participate with lower entry barriers. However, additionally, there are issues with information overload and the possibility of false information. Social media platforms like TikTok, Instagram, and YouTube have become popular sources of financial advice, but the quality and reliability of such advice can vary widely. Research by Ahn et al. (2024) found that digital platforms can enhance financial literacy by providing accessible educational content, but they can also contribute to the spread of speculative behaviors driven by viral trends and peer influence. The FOMO (fear of missing out) effect is particularly pronounced among Gen Z investors, leading them to chase short-term gains without fully understanding the underlying risks. This aligns with findings by Barber & Odean (2001), which indicated that younger, less experienced investors tend to trade more frequently, often to their detriment.

Investment Decision-Making in Emerging Markets

In emerging markets like Indonesia, the dynamics of investment decision-making are further influenced by economic volatility, regulatory environments, and cultural factors. Emerging markets are characterized by higher levels of market uncertainty, which can amplify the effects of financial literacy and risk perception on investment behaviors (Bekaert & Harvey, 2003). For Gen Z investors in Indonesia, factors such as economic instability, inflation, and fluctuating exchange rates may impact their risk tolerance and investment choices. While there is extensive research

on financial literacy and risk perception in developed markets, there is a relative scarcity of studies focusing on emerging economies, where financial markets are still maturing (Mahdzan et al., 2020). This study aims to fill this gap by examining the specific context of Gen Z investors in the Jabodetabek region, providing insights into how financial literacy and risk perception interplay in shaping investment behaviors within an emerging market context.

The current study intends to investigate how Gen Z investors in the Jabodetabek region make investment decisions in relation to their perceptions of risk and financial literacy. A thorough analysis of the literature and theoretical frameworks, with a special emphasis on the Theory of Planned Behavior (TPB), which describes how attitudes, subjective standards, and perceived behavioral control affect decision-making processes, forms the basis of the following hypotheses (Ajzen, 1991).

1. Hypothesis 1 (H1): Financial literacy has a positive influence on the investment decision-making of Gen Z investors in the Jabodetabek region.

Financial literacy is crucial for making sound investment decisions. It involves understanding financial concepts like budgeting, saving, and investing. Studies show that people with higher financial literacy tend to make better financial decisions, such as diversifying their investments and participating in stock markets (Lusardi & Mitchell, 2014; Van Rooij et al., 2011). For Gen Z, who are digital natives, financial literacy is essential due to their heavy use of online financial tools and apps. However, despite their tech-savviness, many young investors lack a strong foundation in financial concepts, which can lead to risky investment behaviors driven by social media trends (Aren & Zengin, 2016). Therefore, it's expected that Gen Z investors with better financial literacy will make more informed and effective investment decisions.

2. Hypothesis 2 (H2): Risk perception negatively influences the investment decision-making of Gen Z investors in the Jabodetabek region.

Risk perception refers to how individuals view the potential dangers or uncertainties in investment decisions. It shapes whether they are risk-averse or willing to take risks. Higher risk perception usually leads to conservative investing, while lower risk perception can encourage riskier investments (Ricciardi, 2008). Younger investors, like those in Gen Z, generally have higher risk tolerance because of their longer time to recover from financial losses. However, their decisions can be heavily influenced by social media and online communities, which may skew their risk perception (Gomber et al., 2017). It is crucial to study how this generation's risk perception impacts their investment choices.

3. Hypothesis 3 (H3): Financial literacy moderates the relationship between risk perception and investment decision-making, weakening the negative impact of risk perception for financially literate Gen Z investors.

Financial literacy may also play a role in moderating how risk perception affects investment decisions. Investors who are financially literate

can better understand the risks involved, making them more confident in their decisions. Research shows that financial literacy helps individuals manage risk more effectively, leading to more balanced investment choices (Guiso et al., 2004; Hassan Al-Tamimi & Anood Bin Kalli, 2009). Thus, it is possible that financial literacy can reduce the negative impact of high-risk perception, allowing Gen Z investors to make more calculated investment choices. For example, even if they perceive high risk, their financial knowledge can help them approach investments strategically rather than emotionally.

4. Hypothesis 4 (H4): The combined effect of financial literacy and risk perception significantly influences the investment decision-making of Gen Z investors in the Jabodetabek region.

Both financial literacy and risk perception are known to individually affect investment decisions. However, their combined impact can give a clearer picture of how these factors shape investment behaviors. For instance, a Gen Z investor with high financial literacy and low-risk perception may be more proactive in investing, while those with less financial knowledge may either avoid investing or make impulsive decisions (Hoffmann & Shefrin, 2014). By studying these combined effects, especially in an emerging market like Indonesia, we can gain insights into how to support young investors better through financial education and risk management strategies.

METHODS RESEARCH

This study employs a quantitative research approach and a cross-sectional survey design. To measure the relationship between risk perception, investment decision-making, and financial literacy objectively, the quantitative approach is used. Data can be collected at a single point in time using a cross-sectional approach, giving an overview of the attitudes and actions of Gen Z investors in the Jabodetabek area. In order to find patterns and connections among the variables of interest, the study uses structured questionnaires to gather primary data from respondents.

Population and Sample

This study's target population consists of members of Generation Z (born between 1997 and 2012) who are currently investing or have shown interest in investments within the Jabodetabek region (Jakarta, Bogor, Depok, Tangerang, and Bekasi). The region was selected due to its economic significance and the high concentration of young investors. A non-probability purposive sampling technique was employed to select respondents. This method was chosen because it focuses on individuals who meet specific criteria relevant to the research objectives, such as age group and investment activity. The sample size was determined based on recommendations for PLS-SEM analysis, which suggest a minimum of 10 times the number of indicators used for the most complex construct in the model (F. Hair Jr et al., 2014). Given the study's model complexity, a sample size of at least 150 respondents was targeted to ensure adequate statistical power.

Data Collection

Primary data is collected through an online survey using platforms like Google Forms, which is effective in reaching a digitally active Gen Z demographic. The questionnaire is distributed via social media channels, such as Instagram and LinkedIn, to maximize response rates. The survey period spans four weeks to ensure an adequate number of responses. The questionnaire consists of four sections such as demographic information, financial literacy, risk perception, and investment decision-making. The first section includes questions on age, gender, education level, and employment status. Financial Literacy assessed using a set of questions adapted from the financial literacy scales developed by (Lusardi & Mitchell, 2014). These inquiries address fundamental financial ideas like risk diversification, inflation, and interest rates. A Likert scale, based on measures used in previous studies, was used to examine respondents' views about investing risks. 1 = Strongly Disagree to 5 = Strongly Agree (Ricciardi, 2008). Lastly, investment decision-making evaluated through questions regarding investment preferences, strategies, and behaviors, using a Likert scale to capture the frequency and rationale behind investment decisions. A small sample of 30 respondents is used for pre-testing the survey instrument to make sure it is valid, dependable, and clear. Before being distributed widely, the questionnaire is improved based on feedback from the pilot test.

Measurement Model

The study employs PLS-SEM for data analysis due to its ability to handle complex models with multiple constructs, even with small sample sizes. PLS-SEM is particularly suitable for exploratory research where the objective is to predict key target constructs and assess the relationships among latent variables (J. F. Hair et al., 2019). Cronbach's alpha and composite reliability (CR) scores were used to evaluate each construct's reliability; a threshold of 0.7 denotes satisfactory reliability (J. Hair et al., 2017). Average Variance Extracted (AVE) was used to assess convergent validity; a value of 0.5 or higher indicates adequate convergent validity. To ensure that each construct is unique from the others, discriminant validity was confirmed using the Fornell-Larcker criterion and cross-loadings (Fornell & Larcker, 1981).

Structural Model

To test the suggested hypotheses, the structural model was assessed by examining path coefficients, t-values, and p-values. The statistical significance of the path coefficients was evaluated using a bootstrapping approach with 5,000 resamples. The R² score shows how much of the variance in the dependent variable (investment decision-making) can be accounted for by the independent variables (risk perception and financial literacy). An R² value above 0.25 is considered substantial in social sciences research (Chin, 1998). To determine how each independent variable affected the dependent variable, the effect size was calculated; small, medium, and large effects were represented by values of 0.02, 0.15, and 0.35, respectively (Cohen, 1988). The Stone-Geisser Q² value was used to assess the model's predictive relevance using the blindfolding technique, where values greater than zero indicate adequate predictive relevance.

To test Hypothesis 3, which examines the moderating effect of financial literacy on the relationship between risk perception and investment decision-making, an interaction term was created. The moderation analysis involved assessing whether financial literacy weakens the negative impact of risk perception on investment decisions.

RESULT AND DISCUSSION

Respondent Demographics

The survey targeted Gen Z investors within the Jabodetabek region. Table 1 summarizes the demographic characteristics of the respondents:

Table 1. Respondent Demographics

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	85	56,7
	Female	65	43,3
Age	18-22 years	60	40
	23-27 years	90	60
Education Level	High School	30	20
	Undergraduate	80	53,3
	Postgraduate	40	26,7
Investment Experience	Less than 1 year	70	46,7
	1-3 years	50	33,3
	More than 3 years	50	20

Source: Primary Data, 2024

The sample consisted of 150 respondents, with a majority being in the 23-27 age range (60%) and predominantly male (56.7%). Most respondents held an undergraduate degree (53.3%) and had less than one year of investment experience (46.7%).

Descriptive Statistics

An overview of the descriptive statistics for the important variables is given in Table 2: Perception of Risk, Financial Literacy, and Investment Decision-Making. The mean scores indicate that, on average, Gen Z investors in the Jabodetabek region rate themselves moderately on financial literacy and risk perception, with investment decision-making showing a slightly higher mean score.

Table 2. Descriptive Statistics

Variable	Mean	Standard Deviation	Min	Max
Financial Literacy	3,542	0,823	1	5
Risk Perception	3,215	0,768	1	5

Investment Decision-Making	3,734	0,812	1	5
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Source: Data Analysis, 2024

The mean values suggest that while the respondents have a moderate level of financial literacy (mean = 3.542), their investment decision-making scores are relatively higher (mean = 3.734), indicating a generally proactive approach to investing. However, the standard deviations indicate variability in responses, highlighting diverse levels of financial knowledge and attitudes towards risk.

Measurement Model Assessment

Average Variance Extracted (AVE), Composite Reliability (CR), and Cronbach's alpha were used to evaluate the measurement model's validity and reliability. The outcomes of these evaluations are displayed in Table 3.

Table 3. Measurement Model Assessment

Construct	Cronbach' Alpha	Composite Reliability	Average Variance Extracted (AVE)
Financial Literacy	0,812	0,868	0,579
Risk Perception	0,754	0,842	0,518
Investment Decision-Making	0,803	0,864	0,561

Source: Data Analysis, 2024

With Cronbach's alpha values over the 0.7 cutoff, all constructions demonstrated satisfactory levels of dependability. Strong internal consistency is indicated by the CR values for every construct exceeding the suggested value of 0.7. Convergent validity is confirmed by AVE values above 0.5, which indicate that each construct accounts for more than half of the variance of its indicators.

Discriminant Validity

Discriminant validity was evaluated using the Fornell-Larcker criterion, which compares the correlation coefficients between components with the square root of the AVE for each concept. The results of discriminant validity are displayed in Table 4.

Table 4. Discriminant Validity (Fornell-Larcker Criterion)

Construct	Financial Literacy	Risk Perception	Investment Decision-Making
Financial Literacy	0,761		
Risk Perception	0,532	0,719	
Investment Decision-Making	0,497	0,453	0,749

Source: Data Analysis, 2024

The diagonal values (square root of AVE) are higher than their corresponding rows' and columns' off-diagonal values, suggesting that each construct has a stronger correlation with its own indicators than with those of other constructs. This validates the measurement model's discriminant validity.

Structural Model Results

The structural model was assessed to examine the relationships relationship risk perception, investment decision-making, and financial knowledge. The path coefficients, t-values, and p-values are shown in Table 5 derived from the PLS-SEM analysis.

Table 5. Structural Model Results

Path	Path Coefficient (β)	t-value	p-value
Financial Literacy → Investment Decision-Making	0,452	6,784	0,000
Risk Perception → Investment Decision-Making	-0,326	4,931	0,000
Financial Literacy x Risk Perception → Investment Decision-Making	0,228	3,462	0,000

Source: Data Analysis, 2024

A positive path coefficient in the study's findings suggests that financial literacy significantly improves Gen Z investors' ability to make informed investment decisions ($\beta = 0.452$, $p < 0.001$), thereby supporting Hypothesis 1 (H1). Additionally, the analysis shows that a higher perception of risk negatively affects the likelihood of making investment decisions, reflected in a negative path coefficient ($\beta = -0.326$, $p < 0.001$), confirming Hypothesis 2 (H2). Furthermore, there is a significant positive interaction effect between financial literacy and risk perception ($\beta = 0.228$, $p < 0.01$), suggesting that financial literacy moderates the influence of risk perception on investment decisions, thereby supporting Hypothesis 3 (H3). These findings collectively highlight the crucial role of financial literacy in not only directly enhancing investment choices but also in mitigating the adverse effects of perceived risks among young investors. The model's explanatory power was assessed using the coefficient of determination (R²). The R² value for investment decision-making was determined to be 0.426, meaning that risk perception, financial literacy, and their interaction account for around 42.6% of the variance in investment decision-making. Furthermore, the predictive usefulness of the model was confirmed by the positive Stone-Geisser Q² value.

Discussion

Financial Literacy and Investment Decision-Making (H1)

Hypothesis 1 (H1) proposed that financial literacy would have a positive effect

on investment decision-making among Gen Z investors. The study's findings confirmed this hypothesis, with a path coefficient of $\beta = 0.452$ ($p < 0.001$), which strongly supports the notion that financial literacy significantly influences how young investors make decisions related to investments. This finding is consistent with a growing body of literature that suggests financial literacy is crucial for making informed, rational investment choices (Lusardi & Mitchell, 2014).

The beneficial relationship between financial literacy and investing decision-making can be attributed to several significant factors. First, financial literacy equips people with the information and comprehension of financial concepts that are necessary for making wise investment decisions, such as risk diversification, portfolio management, and the time value of money. More financially literate people are more likely to comprehend the nuances of various investing options, allowing customers to make decisions in line with their risk tolerance and financial objectives. Furthermore, financial literacy gives people the means to analyze economic statistics, gauge market trends, and determine the long-term feasibility of investment options, all of which help them make more educated and self-assured judgments.

For Gen Z, a generation that has grown up with the internet and digital platforms, the ability to access financial information is more readily available than ever. However, despite the increased accessibility of financial resources, the challenge lies in the ability to filter relevant, accurate, and trustworthy information from the vast amounts of content available online. In this context, financial literacy becomes even more critical, as it enables young investors to distinguish between reliable and misleading financial information. Furthermore, financial literacy may enhance their confidence in navigating complex financial products and services, which is especially important in an era of rapidly evolving financial markets and investment technologies. Moreover, the positive effect of financial literacy on investment decision-making may also be linked to the psychological aspect of financial decision-making. Investors those who possess greater financial awareness are probably a greater sense of control over their financial futures, which can reduce anxiety and increase their willingness to engage in investment activities. This sense of empowerment is crucial for Gen Z, a demographic that is known for its entrepreneurial mindset and desire for financial independence.

Risk Perception and Investment Decision-Making

Hypothesis 2 (H2) suggested that higher risk perception would negatively impact investment decision-making. The study's results, with a path coefficient of $\beta = -0.326$ ($p < 0.001$), confirm that risk perception indeed plays a significant role in shaping investment decisions, with a higher perception of risk reducing the likelihood of making investment choices. This finding aligns with previous research that highlights the role of risk aversion in investment behaviors (Alliende et al., 2024; Aren & Zengin, 2016).

Risk perception refers to an individual's subjective assessment of the potential risks associated with an investment. Individuals who perceive higher levels of risk are less likely to engage in investment activities because they fear potential losses, uncertainty, and the possibility of making poor financial decisions. This

aversion to risk is particularly prevalent among younger investors, who may have less experience in financial markets and may be more sensitive to perceived threats. The negative impact of risk perception on investment decision-making among Gen Z can also be attributed to several factors. First, Gen Z investors, despite their interest in technology and digital finance, may have limited experience in the actual performance of investments, leading to heightened fear of loss. This fear is compounded by the rapid fluctuations and volatility often associated with contemporary financial markets, particularly in the context of cryptocurrencies, stocks, and other high-risk investments. Consequently, the higher the perceived risk, the more likely it is that Gen Z investors will avoid taking action or delay making investment decisions.

Moreover, the influence of social media and digital platforms on investment perceptions can exacerbate risk aversion. Many Gen Z investors turn to online forums, social media influencers, and peer groups for investment advice. While these platforms can provide valuable insights, they also expose individuals to amplified stories of market crashes, losses, and financial crises, which can heighten the perception of risk. This reinforces the fear of making the wrong investment decisions and may contribute to a reluctance to participate in financial markets. Interestingly, the relationship between risk perception and investment decision-making is not necessarily linear. While a certain level of risk aversion may lead to cautious decision-making, excessive risk avoidance can result in missed opportunities for growth and wealth accumulation. Therefore, finding a balance between risk perception and investment participation is crucial for financial decision-making. The study's findings suggest that risk perception is a key barrier to investment participation among Gen Z, emphasizing the need for interventions that address these fears and promote a more balanced understanding of investment risks.

Moderating Role of Financial Literacy on Risk Perception

Hypothesis 3 (H3) posited that knowledge in finance would mitigate the connection between risk perception and investment decision-making. The findings support this hypothesis, with a positive and significant interaction effect ($\beta = 0.228$, $p < 0.01$), indicating that financial literacy helps mitigate the negative impact of risk perception on investment decisions. This suggests that while risk perception may still influence decision-making, financially literate individuals are better equipped to navigate their fears and make rational investment choices despite their concerns about risk.

This moderating effect can be explained by the way financial literacy provides individuals with the knowledge and tools to assess risks more effectively. For instance, individuals with higher financial literacy are better able to understand the nature of investment risks and evaluate them in the context of potential returns. Financially literate investors are more likely to adopt strategies that help manage risk, such as diversification, and they may be more aware of the long-term benefits of investing despite short-term fluctuations in the market. Furthermore, financial literacy can help individuals develop a more accurate understanding of the risk-reward trade-off inherent in investment decisions. With greater knowledge, investors are less likely to overestimate the risks of certain investments and more likely to

recognize opportunities that align with their financial goals. In this way, financial literacy can act as a buffer against the paralyzing effects of risk perception, enabling individuals to make more confident and informed investment decisions.

The relationship between risk and financial literacy perception also highlights the importance of education in empowering investors, particularly young ones. Educational programs focused on enhancing financial literacy can help demystify complex financial concepts and equip individuals with the skills necessary to assess and manage investment risks. This could ultimately lead to a more proactive approach to investing, where individuals are less deterred by perceived risks and more inclined to take calculated risks that are aligned with their financial goals.

Implications for Practice and Policy

The findings of this study have significant implications for both financial education and the design of investment products targeting Gen Z investors. Financial literacy programs should be a key component of financial policy, particularly in the context of youth and young adults, to foster a generation that is more knowledgeable and confident in managing their finances. By incorporating practical investment strategies, risk management techniques, and the psychological aspects of investing, these programs can help young investors overcome barriers to participation in financial markets. Moreover, financial institutions and platforms catering to Gen Z should consider designing products and services that address the unique needs of this demographic, offering educational resources, risk management tools, and accessible investment options. These efforts can help bridge the gap between financial literacy and actual investment behaviors, promoting greater engagement with financial markets.

CONCLUSION

The study provides valuable insights into the factors influencing investment decision-making among Gen Z investors. Financial literacy plays a critical role in enhancing investment decisions, while risk perception acts as a barrier to investment participation. However, the moderating effect of financial literacy on the relationship between risk perception and investment decisions suggests that education and financial empowerment can help mitigate the negative impact of risk aversion. These findings underscore the importance of integrating financial education into the broader financial ecosystem to promote informed, confident, and rational investment behaviors among younger generations.

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