

Effect of Financial Literacy on Investment Interest (Case Study in Early Adult Age in Bandung City)

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Abstract

The COVID-19 outbreak has had a significant impact and made major changes to the joints of life. In addition, suppressing Indonesia's economic growth includes affecting the finances of every generation, especially millennials. In the midst of the widespread lockdown and the spread of the COVID-19 virus throughout 2020, many investment opportunities emerged. There is a relationship between financial literacy and investment interest. Financial literacy has a positive influence on interest in investing and it can be concluded that financial literacy is known to have a significant influence on investment decisions. This study aims to examine the effect of financial literacy on investment interest in early adult age in the city of Bandung. The dependent variable is investment interest, while the independent variable is financial literacy. This research uses simple linear regression analysis. The results showed that financial literacy had a significant effect on investment interest. From this financial literacy, individuals will be able to use financial services and products correctly according to the needs they want and not be easily deceived by criminals who often take advantage of someone's ignorance of finances for personal gain. The role of financial literacy appears to be to provide understanding to early adults regarding investment.

Keywords

financial literacy; investment interest; adult age



I. Introduction

Financial literacy or financial knowledge is a basic need for everyone to avoid financial problems that commonly occur in the early adult age group, especially in the city of Bandung. Financial difficulties can arise from the income function and financial management errors, such as the absence of financial planning in the early adult age group, most of whom still rely on income from their parents (Yushita, 2017). With good financial management and supported by good financial literacy, the standard of living can improve. This condition also happens where a person's income level certainly affects how a person achieves a high level of income without proper financial management (Gustika et al., 2020).

The COVID-19 outbreak has had a significant impact and changed life joints. In addition, the pandemic has hampered Indonesia's economic growth, including its financial impact on millennials. Amid the pandemic situation throughout 2020, a profitable investment opportunity emerged. However, fundamental analysis is necessary to avoid sector selection and diversification treatment mistakes when investing to minimise significant financial losses. Therefore, knowledge or literacy about financial instruments is needed for individuals to take advantage of these opportunities. The outbreak of this virus has an impact of a nation and Globally (Ningrum et al, 2020). The presence of Covid-19 as a pandemic certainly has an economic, social and psychological impact on society (Saleh

and Mujahiddin, 2020). Covid 19 pandemic caused all efforts not to be as maximal as expected (Sihombing and Nasib, 2020).

Fransisca Arnan, Head of Customers Propositions and Marketing at HSBC Indonesia, stated that new HSBC bank investors increased by 53.47 per cent in 2019-2020, with 70 per cent of them being early adults. According to Fransisca, the increase in investment among early adults cannot be separated from young people's concerns about their unstable financial situation due to the COVID-19 pandemic. Since the beginning of the pandemic, access to investment information has become increasingly sought after (Fundrika & Varwati, 2021). This implies that the early adult group's access to financial information or knowledge also attracts their investment interest.

According to the OJK regarding financial literacy, based on a survey conducted by the OJK in 2013 the implementation of education in order to increase financial knowledge covers all levels of society including adults in it is very necessary. Quoted from ojk.go.id (2021) the level of financial literacy of the Indonesian population is divided into four parts, namely:

1. Well literate (21.84%), namely having knowledge and trust in financial service institutions, products and financial services, including features, benefits and risks, rights and obligations related to financial products and services, as well as having skills in using financial products and services.
2. Adequate literacy (75.69 %), namely having knowledge and confidence about financial service institutions, financial products and services including features, benefits and risks, rights and obligations related to financial products and services.
3. Lack of literacy (2.06%), which only has knowledge of financial service institutions, financial products and services.
4. Not literate (0.41%), that is, do not have knowledge or trust in financial service institutions and financial products and services, nor have the skills to use financial products and services.

Financial literacy also brings significant benefits to the financial services sector. The higher the financial literacy, the more people will use financial products and services, so that financial institutions and the public need each other. Baihaqqy et al. (2020) said it is important to be financially literate because there are so many financial products on the market today and the public must be able to understand the risks and benefits of these financial products. This financial literacy allows individuals to better use financial services and products according to their needs and not be easily fooled by criminals who often use financial ignorance for their personal gain.

Investment planning is influenced by how well a person understands the basic concepts of finance. The results of Priscilia et al. (2020) states that financial literacy is one of the factors that influence one's investment decision making. Putri & Kartini (2017) found the same thing in their research, this leads to the conclusion that financial literacy is a factor that influences investment decisions. The same thing was expressed by Herawati & Dewi (2020) who found that a person's interest in investing is influenced by their financial literacy

Investment awareness can be influenced through education. The higher a person's education level, the more likely investment decisions will provide optimal benefits and satisfaction, where investment is an essential indicator for investors. Thus, three aspects of financial literacy are financial knowledge, attitudes, and behaviour (Santini et al., 2019). Among these, individuals' knowledge and behaviour regarding financial products are crucial in determining their level of financial literacy. Personal financial knowledge is

measured by asking questions about financial products and services like interest, loans, savings, taxes, and inflation (Ergün, 2018).

There is a relationship between financial literacy and investment interest, according to the results of research by Baihaqqy et al. (2020) that financial literacy has a positive influence on interest in investing, and it can be concluded that financial literacy is known to have a significant influence on investment decisions with a magnitude of 2.1%. The consistent pattern of influence both in Indonesia and in emerging markets shows that financial literacy influences investment decisions. The pattern of the influence of financial literacy on investment decisions is similar to the pattern of the influence of financial literacy on investment decisions of developed countries. A different pattern occurs in Indonesia, where there are inconsistencies in the influence of financial literacy on investment decisions

Another study related to these two variables was also investigated in Sri Lanka, where it was discovered that financial literacy had a significant positive impact on participation in the capital market (D.A.T. et al., 2020). This finding is reinforced by Parulian & Aminudin (2020) research that financial literacy affects an interest in investing in the capital market. In line with research conducted in Tamilnadu that financial literacy has a significant impact on risk attitudes and investment interest (Ramanathan & Bose, 2018).

To fill the research gap, this research aims to: re-examine the effect of financial literacy on investment interest. This research uses the object, namely the early adulthood age in Bandung, aged 20 to 29. Furthermore, this research aims to find out: First, to determine the level of financial literacy in the early adult age group in the city of Bandung. Second, knowing the investment interest in the early adult age group in the city of Bandung. Third, knowing the effect of financial literacy on investment interest in the early adult age group in Bandung.

1.1 Hypothesis Development

Financial literacy influences an investor's investment interest, either directly or indirectly. This is because the study or discussion of financial literacy includes several essential factors that must be considered when making investments, such as the risk of loss, estimated profits, etc. In addition, when an investor understands the activities of the investment process in depth through financial literacy, he or she can influence investment decisions.

Interest is an impulse that arises from within a person towards an activity that makes that person feel interested in something (Reski, 2021). Various previous studies have studied various factors that can influence investment interest, one of which is financial literacy and financial efficacy (W. Putri & Hamidi, 2019). Baihaqqy et al. (2020) mention that the characteristics of someone interested in investing can be identified by their efforts to find out about a type of investment. Starting from the advantages, disadvantages, investment performance and so on. These findings are also confirmed by a study conducted by (Marfuah (2021) on the early adult age group, where it was found that one of the factors that drive investment interest is education about understanding in the financial sector.

According to Baihaqqy et al. (2020), financial literacy is essential because there are so many financial products on the market today, and the public must understand the risks and benefits of these financial products. Furthermore, this financial literacy enables individuals to use financial services and products more effectively and to avoid being duped by criminals who frequently exploit financial ignorance for personal gain.

According to Arianti (2020), financial literacy is the essential knowledge people need to survive and desire to invest their income sources with various investments. This basic knowledge involves knowing and understanding the complex principles of spending, saving and investing. Therefore, financial literacy has a fundamental aspect that requires the ability and confidence to make financial decisions using financial literacy. This explanation shows that financial knowledge plays a vital role because financial literacy helps individuals avoid mistakes in overcoming financial problems, such as uncontrolled use of credit cards to excessive bills, low savings, and a high probability of bankruptcy. Based on the research framework, the following hypotheses can be formulated:

H1: Financial literacy has a significant effect on early adult age investment interest in the city of Bandung

II. Research Method

This research targets the early adult age group. The research sample was 400 people in early adulthood age who live in the city of Bandung. The source of research data comes from the results of structured research with a list of questions. This study uses simple regression analysis. The dependent variable in this research is investment interest, while the independent variable is financial literacy. This research's financial literacy and investment interest indicators are based on previous research (Baihaqqy et al., 2020). For financial literacy, the indicators are investment knowledge, type of investment instrument, level of profit, and investment risk. Meanwhile, for investment interest, the indicators are return, risk, and the time factor. Measurement using a Likert scale; when the answer strongly disagrees (SD) is given a score of 1, disagree (D) is given a score of 2, agree (A) is given a score of 3, strongly agree (SA) is given a score of 4.

III. Result and Discussion

Financial literacy has a direct or indirect positive impact on an investor's investment interest. This is because the study or discussion of financial literacy includes several main things that must be considered when making investments, such as risk of loss, estimated profits and so on. Of course, when an investor knows in detail about the activities of the investment process through financial literacy, it is very possible to influence investment decisions. This financial literacy enables individuals to better use financial services and products according to their needs and not be easily fooled by criminals who often use financial ignorance for their personal gain. This is where financial literacy comes into play.

That is, providing an understanding to early adulthood about investment. The investment interest taken indicates that the person has an interest or interest in investing. Investment interest is also based on several variables such as financial literacy and individual economic circumstances. In this all-digital millennial era, early adulthood has an important role in economic activities, one of which is investment activities. However, because most early adults are beginners in investing activities, it is very possible that early adults carry out financial literacy before investing.

The number of respondents used in this study was 400 people, of which 41.25% were male, and 58.75% were female, with the average age of respondents being 25 years and all respondents having a bachelor's degree. With an average income of IDR 2,000,000 to IDR 3,000,000. This study tested the validity and reliability tests for the questions used to measure financial experience and financial behaviour. The validity of the test showed valid results because the significance of the Pearson Correlation test was below 0.05. Reliability

testing also shows reliable results because the Cronbach Alpha value is greater than the r table value.

This study tested the classical assumptions for the regression model. Classical assumption test using normality test and heteroscedasticity test. The regression model in this study has passed the normality test and the heteroscedasticity test. The results of the R-squared test showed the number of 45.5%, and the T-test results of 1.962 were significant at the 5% level. The results of the regression test analysis from this study are presented in Table 1.

The regression analysis results showed that financial literacy had a significant effect on investment interest. The test results support the first hypothesis that financial literacy affects investment interest. This relationship refers to the research of (Baihaqqy et al. (2020), which states that it is crucial to be financially literate because currently, many financial products are starting to appear, and an individual is required to be able to understand the risks and benefits of financial products from their investments. From this financial literacy, individuals will be able to use financial services and products correctly according to the needs they want and are not easily deceived by criminals who often take advantage of someone's ignorance of finances to gain personal gain. This is where the role of financial literacy emerges, namely to provide understanding to early adults regarding investment.

Table 1. Regression Analysis

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8,965	,897		9,992	,000
	Financial Literacy	,510	,028	,675	18,240	,000

a. Dependent Variable: Minat_Investasi

IV. Conclusion

The results of this study can be summarised as follows: first, financial literacy has a significant effect on investment interest. Financial literacy has a direct or indirect positive impact on an investor's investment interest. This is because the study or discussion of financial literacy includes several main things that must be considered when making investments, such as the risk of loss, estimated profits, and more. Of course, when an investor knows in detail about the activities of the investment process through financial literacy, it is possible to influence investment decisions. Financial literacy enables individuals to be more selective in using financial services and products that match their needs and not be easily deceived by criminals who often use financial ignorance for their gain. This is where financial literacy plays a role. That is, providing an understanding to early adulthood age about investment.

For further research, it would be better if the object of research is more directed to groups who are vulnerable to being hampered in fulfilling their financial needs, such as community elements around the early adult age group, such as community organisations or specific communities that are not far from this scope. Thus, the generalizability of the research will be greater. In addition, further research is suggested to add other variables such as income and financial behaviour that can affect investment interest.

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