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Double Literacy, Double Protection?: Minimising Gen Z's Risky Digital Credit Behaviour In Surabaya Through Financial Literacy And Digital Financial Literacy

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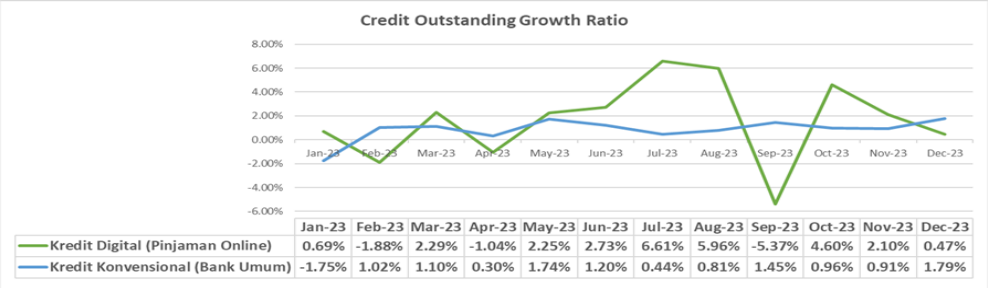
ABSTRACT

This study aims to investigate the credit risk issues that Generation Z is facing in Surabaya, particularly digital credit and loans. This research utilises a closed-ended questionnaire to explore Generation Z's knowledge and awareness of subjective financial literacy, digital financial literacy and risky credit behaviour, so that the results can reveal the influence of subjective financial literacy and digital financial literacy on risky credit behaviour controlled by gender and financial condition of Generation Z in Surabaya. To the best of the researchers' knowledge, no study has specifically highlighted the influence of subjective financial literacy and digital financial literacy on risky credit behaviour. Based on the results of the multiple linear regression approach, researchers found that subjective financial literacy and digital financial literacy have a significant positive effect on risky credit behaviour, which means that the higher the subjective financial literacy and digital financial literacy, the more risky credit behaviour is minimised. gender has no significant effect on risky credit behaviour, financial condition has a significant negative effect on risky credit behaviour.

INTRODUCTION

The behavioural change of people's consumption patterns towards digital encourages banks to accelerate the transformation process towards digital banking. This is in line with the development of digital credit in Indonesia, which is experiencing very rapid growth. Based on data from the Financial Services Authority in Figure 1, during 2023 there were significant fluctuations in the growth of digital credit products, especially online loans (pinjol) with an average growth of 1.82%, compared to the average growth of conventional banking credit (commercial banks) which was only 0.83% a year (OJK, 2023b, 2023a). This significant growth is signalled by the positive response of the public to the use of digital credit products. Based on the findings of Mukmin et al. (2021) Enthusiasm in using pinjol is closely related to a person's high financial literacy.

Figure 1 Credit Outstanding Growth Ratio through 2023

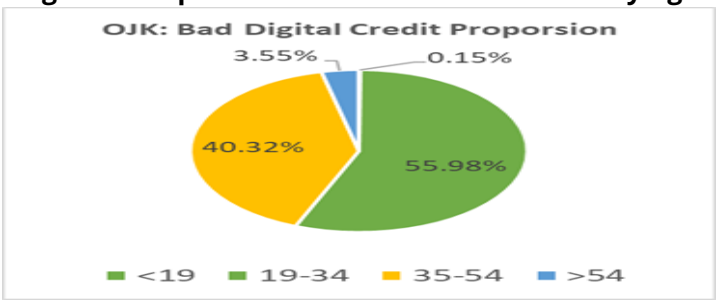


	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Kredit Digital (Pinjaman Online)	0.69%	-1.88%	2.29%	-1.04%	2.25%	2.73%	6.61%	5.96%	-5.37%	4.60%	2.10%	0.47%
Kredit Konvensional (Bank Umum)	-1.75%	1.02%	1.10%	0.30%	1.74%	1.20%	0.44%	0.81%	1.45%	0.96%	0.91%	1.79%

Source: (OJK, 2023a, 2023b)

The high level of financial literacy and the enthusiasm of the public in using digital credit has not been an indicator of success in improving people's welfare. This is evident based on OJK data that the value of bad debts from national online loans (pinjol) reached Rp1.30 trillion in December 2023 (OJK, 2023a). If traced further by age group in Figure 2, the largest contributor to bad debts is dominated by the Gen Z and Millennial groups (aged <19 - 34 years) at 55.98% with a value of IDR 730.03 billion of the total national online loan bad debts (OJK, 2023a).

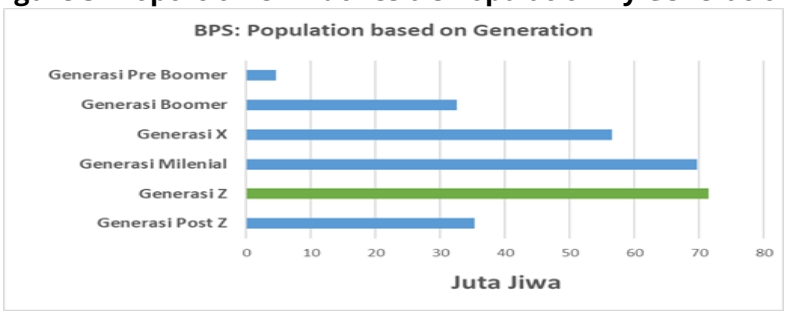
Figure 2 Proportion Of Online Loan Defaults By Age



Source: (OJK, 2023)

Generation Z is known as the generation that grew up in the era of rapid development of digital *technology. (Nabila et al., 2023). Therefore, researchers focused on examining Gen Z's risky* digital *credit behaviour. Based on data from the Central Statistics Agency in 2020 in Image 3, the population of the Gen Z group reached 71.5 million of the total population of 270.2 million people in Indonesia. (BPS, 2020). Ironically, Gen Z is the biggest contributor to* digital *credit problems in Indonesia. According to Nabila et al. (2023) Gen Z has characteristics that are dependent and open to advances in internet technology. With these characteristics, researchers believe that financial literacy is not enough to overcome risky behaviour in* digital *credit decisions.*

Figure 3 Proportion Of Indonesia's Population By Generation



source: BPS (2020)

This generation is seen as having expertise in using digital products, so this ability is closely related to financial understanding in a digital context. Therefore, we highlight Digital Financial

Literacy (DFL) as the second relevant variable in influencing Gen Z's risky digital credit behaviour. It should be emphasised that having good financial literacy does not necessarily mean having an equally good understanding of digital financial literacy (DFL). Thus, financial literacy should be added with Digital Financial Literacy to be able to address the risky behaviour of Gen Z. In addition, to the best of the researcher's knowledge, there has never been a study that explores risky credit behaviour in DFL.

Previous studies have explored the relationship between financial literacy and risky credit behaviour. Some studies concluded that subjective financial literacy does not have a significant impact on risky credit behaviour among millennials (Surya & Evelyn, 2023; Vikri Heriyantho & Leon, 2022). However, other studies show different results, namely Subjective financial understanding has a significant positive influence on risky credit behaviour among millennials (Liu & Zhang, 2021; Mukharomah et al., 2023). The presence of these inconsistencies opens the gap for the need for further research to verify and validate these findings, and explore further using different samples of gen Z.

Based on the background of the problems and phenomena that have been conveyed, this study aims to obtain empirical test results regarding the effect of financial literacy and digital financial literacy on risky digital credit behaviour in Gen Z. This research is expected to enrich the repertoire of knowledge about DFL in an effort to overcome risky digital credit behaviour among Gen Z. In addition, DFL will act as the “second protection” of Financial Literacy through the delivery of interactive digital education and socialization by the government, education, and the person in charge of the fintech application.

LITERATURE REVIEW

Theory Of Planned Behaviour

Theory of Planned Behavior (TPB) states that self-efficacy motivates a person in transforming knowledge into effective behaviour (Ajzen, 2002; Surya & Evelyn, 2023). In this context, literacy is a person's knowledge and ability to perform an activity (Ahman in Smith, 1997). Thus, this theory can be explained through the relationship between literacy and behaviour. This research highlights the concepts of financial literacy and digital financial literacy, that both concepts play an important role in a person's financial behaviour (Rahayu et al., 2022; Sugiyanto et al., 2019). It should be noted that problems in making risky digital credit decisions are closely related to a person's unwise financial behaviour. Thus, SDGs will comprehensively explain the importance of financial literacy and digital financial literacy, as a countermeasure to Gen Z's risky digital credit behaviour.

Subjective Financial Literacy (SFL)

Financial Literacy is a combination of a person's knowledge, skills, attitudes, and behaviour in managing and making financial decisions effectively and efficiently in achieving financial well-being (Lusardi & Mitchell, 2014; Sugiyanto et al., 2019; OECD in Surya & Evelyn, 2023). Meanwhile, Subjective is often defined as a view based on one's feelings and confidence. In the context of financial literacy, Subjective is defined as confidence in one's financial knowledge, awareness, and attitudes (Liu & Zhang, 2021; Alba & Hutchinson in Surya & Evelyn, 2023). Thus, it can be concluded that Subjective financial literacy is a knowledge related to a person's financial confidence and attitude.

Digital Financial Literacy (DFL)

Rahayu et al. (2022) Digital financial literacy is a new concept that refers to all aspects of financial literacy which are a comprehensive unit, and are closely related to digital technology. In addition, digital financial literacy relates to a person's ability and knowledge in using and utilising digital financial products effectively (Setiawan et al., 2022). Therefore, digital financial literacy is a

combination of financial literacy and digital literacy. According to Morgan et al. (2019) there are 4 key elements in digital financial literacy, namely having a comprehensive understanding of digital financial products and services, realising the risks associated with using digital finance, understanding risk management strategies in the context of digital finance, and knowing consumer rights and procedures that can be followed to get help. These four elements can be successful if one has basic knowledge of digital financial literacy. Someone who has a comprehensive understanding will certainly avoid risky decisions in the context of digital finance.

Risky Digital Credit Behaviour (RCB)

Xiao et al. (2011) describe risky credit behaviour as the use of credit without clear planning, which has the potential to damage future financial stability. Furthermore, this behaviour can be interpreted as the accumulation of debt at high interest rates leading to uncontrolled debt accumulation (Lyons in Surya & Evelyn, 2023). Examples of this behaviour include delaying credit payments, using the maximum credit limit, and underpaying credit bills. Based on previous research (Liu & Zhang, 2021; Xiao et al., 2011), risky credit behaviour can be divided into two dimensions, namely risky borrowing behaviour and risky repayment behaviour. In this study, risky credit behaviour is focused on the use of digital credit products due to the rapid digitalisation of financial products.

Subjective Financial Literacy And Risky Digital Credit Behaviour Of Generation Z

Theory of Planned Behaviour (TPB) explains the relationship of self-efficacy to knowledge, as well as a person's behaviour. In line with this theory, Surya & Evelyn (2023) argue that a person with high confidence in financial knowledge tends to have a calculated and planned attitude and behaviour in making decisions. Thus, financial attitudes will influence a person's financial behaviour (Mayangsari et al., 2024; Radianto, 2020).

In the context of digital credit, it can be seen that digital credit products have easy requirements and are fast to obtain. However, this convenience presents its own challenges for Gen Z in making decisions. Low financial confidence will result in a dilemma in making credit decisions. Thus, Gen Z needs to have high confidence in their knowledge, so that financial behaviour regarding credit decision-making can be clearly related to its goals and benefits.

There have been several studies that try to explore the effect of Subjective financial literacy on risky credit behaviour, but the findings are still overlapping and inconsistent (Liu & Zhang, 2021; Mukharomah et al., 2023; Surya & Evelyn, 2023; Vikri Heriyantho & Leon, 2022). Therefore, researchers see an opportunity in conducting further exploration to verify and validate the influence of Subjective financial literacy on Generation Z's digital credit behaviour. Therefore, we conclude an undirected causal hypothesis due to inconsistencies among previous studies.

H1: Subjective Financial Literacy influences Generation Z's Risky Digital Credit Behaviour

Digital Financial Literacy And Generation Z's Risky Digital Credit Behaviour

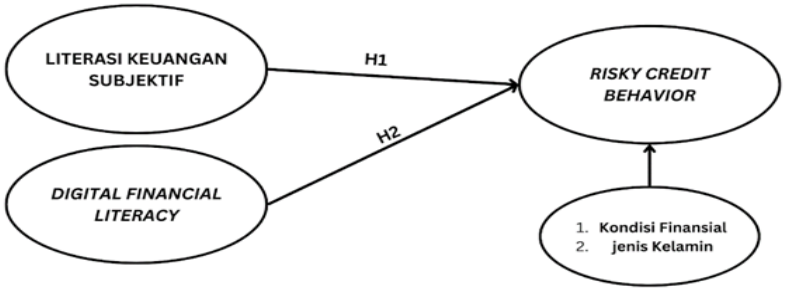
A wide variety of digital financial products have been registered and are in operation, making it important for Gen Z to understand and be literate on the development of digitalised financial products. Thus, digital financial literacy plays an important role in understanding these digital financial products. Based on Theory Planned Behavior (TPB), a good understanding and mastery of digital financial literacy is expected to result in planned and weighted behaviour related to digital credit products. However, to the best of the researchers' knowledge, no study has specifically explored the relationship between digital financial literacy and risky digital credit usage behaviour in Generation Z. Thus, this study will enrich the DFL repertoire from a new perspective.

Based on national bad credit data (OJK, 2023a), it can be concluded that Gen Z is less wise in using digital credit instruments. Therefore, Gen Z still does not fulfil the main elements of

digital financial literacy related to understanding the risks in using digital financial products (Morgan et al., 2019). Researchers are of the view that Gen Z's risky digital credit behaviour can be minimised by understanding digital financial literacy, because the credit product at issue is a digitalised form of credit. In line with the TPB theory, which explains that high knowledge increases the chances of a person having a weighted behaviour. Researchers formulate a clausal hypothesis that explains the effect of digital financial literacy knowledge on Generation Z's risky digital credit behaviour.

H2: Digital Financial Literacy affects Generation Z's Risky Digital Credit Behaviour

Figure 4 Research Model



Source: Processed By Researchers. 2024

METHODS

This research is a quantitative research with multiple linear regression approach using STATA software. In studying a specific population or sample, researchers used a closed questionnaire as a tool in collecting information. The population used in this study is generation Z (aged 18-25 years) who live in Surabaya. According to BPS data (2020b), there are 518,285 people of generation Z in Surabaya. The population is large enough to be processed, so researchers consider using a sample as a representative of the population. In determining the number of samples, this research uses the Slovin formula as the basis for calculation.

In this study, each variable is measured based on a Likert scale of 1 to 5. 1 means strongly disagree or never, while 5 means strongly agree or very often. To measure financial literacy, researchers used 4 indicators of Subjective financial attitude from previous research Stella et al. (2020). Subjective Financial attitude will explain a person's financial ability based on one's experience and psychology. To measure digital financial literacy, researchers used 11 digital financial literacy indicators from several previous studies Rahayu et al. (2022), Setiawan et al. (2022), and Morgan et al. (2019). (Setiawan et al., 2022) classifies digital financial literacy indicators into 4 main categories, namely knowledge, experience, ability, awareness. To measure risky credit behaviour, researchers used 7 indicators of risky credit behaviour from adaptations developed based on research by Lachance (2012) and Surya & Evelyn (2023).

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Table 1. Measurement Indicators

Item	Indicator	Code	References
Subjective Financial Literacy – Financial Attitude	Before buying something, I reconsider whether I have spent money on more urgent needs.	SFL1	Stella et al., 2020
	Before buying something, I consider costs in detail between alternatives	SFL2	
	I am careful to decide between expenses that are important and expenses that are not important.	SFL3	
	Before transacting with a large enough value, I have made sure that there are funds in case of sudden expenses.	SFL4	
Digital Financial Literacy	How much do you understand about digital payment products that are currently developing in Indonesia?	DFL1	Rahayu et al., 2022; Setiawan et al., 2020
	How much do you know about digital asset management products that are currently developing in Indonesia?	DFL2	
	How familiar are you with alternative digital lending products	DFL3	
	How much do you understand about digital insurance products	DFL4	
	How much do you understand about the rights and protections of customers of digital financial literacy products?	DFL5	
	How often do you use digital payment products and services	DFL6	
	How often do you use fintech products and services for financing (loans)	DFL7	
	How often do you use fintech products and services for investment?	DFL8	
	How often use fintech products and services for asset management.	DFL9	
	How reliable are you in managing financial activities/financial management through digital platforms	DFL10	
	How much control you have over your financial activities.	DFL11	
Risky Credit Behaviour	When I decided to use pay later/digital credit/loans. I felt confident that I would have the funds to pay my bills when they were due.	RCB1	Surya & Evelyn, 2023; Lachance, 2012
	At all times, I feel like I must have a good reason when I want to decide to use a digital credit product.	RCB2	
	I feel that using pay later/digital credit/digital lending has more negative risks than positive risks of using it.	RCB3	
	I have a mindset of not overusing pay later/digital credit/digital lending features.	RCB4	
	Price is a major consideration when I can pay for something with pay later/digital credit/digital lending.	RCB5	
	I feel that using the pay later/digital credit/digital lending feature will lead me to financial problems related to debt.	RCB6	
	I always pay my paylater/digital credit/digital loan product bills on time.	RCB7	

Source: processed by researchers. 2024

RESULTS

Validity And Reliability Test

Based on the validity and reliability test results listed in Table 2, the financial literacy, digital financial literacy, and risky credit behaviour questionnaire instruments used in this study are considered valid because rcount> rtable. In addition, in terms of reliability, the answers to the three variables are considered reliable and consistent because the Cronbach's alpha value >

0.60. Thus, this research instrument can be considered valid and reliable.

Table. 2 Validity and Reliability Test Results

Variables	Grain	rcount	rtable	Cronbach's alpha
Subjective Financial Literacy - Financial Attitude	SFL1	0.8231	0.3610	0.7187
	SFL2	0.6075		
	SFL3	0.8483		
	SFL4	0.7126		
Digital Financial Literacy	DFL1	0.6439		0.8803
	DFL2	0.7947		
	DFL3	0.7997		
	DFL4	0.7996		
	DFL5	0.6590		
	DFL6	0.4955		
	DFL7	0.5778		
	DFL8	0.7386		
	DFL9	0.7404		
	DFL10	0.6448		
	DFL11	0.5160		
Risky Credit Behaviour	RCB1	0.5943		0.6892
	RCB2	0.6044		
	RCB3	0.6309		
	RCB4	0.7372		
	RCB5	0.4635		
	RCB6	0.7501		
	RCB7	0.4480		

Source: STATA, processed by researchers 2024

Results of Respondent Data Analysis

In this study, 279 respondents fulfilled the research criteria. Of these, 153 respondents were male and 126 respondents were female with an age range of 15-25 years. The majority of respondents are students, so the majority of respondents have financial conditions that are still fully supported by parents.

Descriptive Statistical Analysis

Table 3 displays statistical data for each research variable. The highest mean is for DFL, reaching 33.03, while the lowest is for SFL, at 17.01. The largest standard deviation is for DFL, at 8.056, while the smallest is for SFL, at 0.4924. Based on the min to max percentage, DFL has the lowest percentage, while SFL has the highest percentage. It can be concluded that digital financial literacy is still low. Statistical analysis showed a normal distribution of the research scores, with mean and standard deviation values within the normal range, thus indicating the research can be conducted.

Table 3. Descriptive Statistics

Variabel	Mean	Std	Min	Max	Persentase (min)
RCB	28.30	3.796	17	35	48.57%
SFL	17.01	2.260	10	20	50%
DFL	33.03	8.056	11	55	20%
Gender	0.55	0.499	0	1	
Kondisi Finansial	0.41	0.492	0	1	

Source: STATA, processed by researchers 2024

Classical Assumption Test Results

Table 4 shows the results of the classical assumption test. The Skewness/Kurtosis normality test shows that prob> chi2 is 0.2439, which means that prob> chi2 is greater than the normality standard (normal level> 0.05), so the data from the questionnaire is said to be normal. The multicollinearity test shows that each variable does not show symptoms of multicollinearity because the VIF value is in the range of 1 (VIF < 10). The Breusch-Pagan/Cook-Weisberg heteroscedasticity test shows that the prob > chi2 is 0.3346, which means it is free from heteroscedasticity symptoms (prob > chi2 > 0.05). Thus, it can be concluded that this research model passes the classical assumption test.

Table 4. Classical Assumption Test Results

Keterangan	Indikator Uji
Normality Test	**Prob > Chi2**
Skewness/Kurtosis	0.2439
Multicollinearity Test	**VIF**
SFL	1.11
DFL	1.14
Jenis Kelamin	1.01
Kondisi Finansial	1.04
Mean VIF	1.07
Heteroscedasticity Test	**Prob > Chi2**
Breusch-Pagan / Cook Weisberg	0.3346

Source: STATA, processed by researchers 2024

Hypothesis Test

Table 5 contains the results of model feasibility, T test, and multiple linear regression in terms of independent variables on the dependent variable.

Table 5. Hypothesis Test Results

Prob > F	Variable	Koefisien	T-statistik	Prob > T	R-Squared
0.0000	SFL	0.3774197	3.77	0.000	0.129
	DFL	0.0981976	3.47	0.001	
	Gender	0.4345169	1.01	0.314	
	Financial Condition	-0.9840335	-2.22	0.027	
	_cons	18.803	11.18	0.000	

Source: STATA, processed by researchers 2024

F Test Results (Model Test)

Based on table 5, the calculated prob F is 0.0000. Thus, the significance value recorded meets the F test standard (significance level <0.05), so this research model is feasible to use. At least one independent variable has a significant influence on the dependent variable.

T Test Results

1. The t-test results show that SFL has a significant influence on risky credit behaviour, with a coefficient of 0.377, t-statistic of 3.77, and probability of 0.000 (significance level prob < 0.05). Thus, Hypothesis 1 is accepted.

2. The t-test results show that DFL has a significant effect on risky credit behaviour, with a coefficient of 0.098, t-statistic of 3.47, and probability of 0.001, so Hypothesis 2 is accepted.
3. The t-test results state that gender has no significant influence on risky credit behaviour, with a coefficient of 0.434, a t-statistic of 1.01, and a probability of 0.314.
4. The t-test results suggest that financial condition affects risky credit behaviour, with a coefficient of -0.98, t-statistic of -2.22, and probability of 0.027.

Multiple Linear Regression Analysis

Risky Credit Behaviour = 18.803 + 0.377 Subjective Financial Literacy + 0.098 *Digital Financial Literacy* + 0.434 Gender - 0.984 Financial Condition

From the results of the equation, it is concluded that:

1. the constant has a value of 18,803.
2. The coefficient for SFL is 0.377, indicating a **positive influence**.
3. The coefficient for DFL is 0.098, thus indicating a **positive influence**.
4. The coefficient for gender is 0.434, signalling a **positive influence.**
5. The coefficient for financial condition is -0.984, indicating a **negative effect.**

Coefficient of Determination Results

Table 6 shows the r-squared value of 0.129, so that the risky credit behaviour variable is influenced by the SFL, DFL, financial condition, and gender variables by 12.9%, while 81.1% is influenced by other variable factors outside this study**.**

DISCUSSION

Hypothesis 1 (H1) is accepted, there is a significant positive effect related to subjective financial literacy on Generation Z's risky digital credit behaviour in Surabaya. It can be interpreted that when Generation Z's subjective financial literacy increases, risky credit behaviour will be minimised. Based on previous research, Constansje et al. (2023) stated that high financial literacy suppresses Generation Z's risky credit behaviour. Based on the measurement, Liu & Zhang (2021) found that subjective financial literacy is considered to have a greater impact on risky credit behaviour than objective financial literacy. In line with these findings, Mukharomah et al. (2023) explained that the deeper the subjective financial literacy, the greater the financial confidence of students, thus inhibiting risky credit behaviour. These findings are considered relevant to this study because more than 90% of respondents are dominated by university students. The results of these findings can be explained through the TPB theory. TPB links one's knowledge through one's beliefs, attitudes, and perceptions to considerations for one's decision-making in behaviour (Ajzen, 2002). (Ajzen, 2002). Generation Z who are confident in their financial knowledge tend to make financial decisions wisely. This attitude encourages Gen Z to make careful considerations when making decisions related to digital credit, which of course aims to improve Gen Z's financial condition.

Hypothesis 2 (H2) is accepted, that digital financial literacy has a positive and significant effect on Gen Z's risky digital credit behaviour in Surabaya. The results can be interpreted that the increase in digital financial literacy, the more minimised the risky credit behaviour of Gen Z in Surabaya. This is in line with the TPB, that comprehensive knowledge and understanding will change a person's perception regarding more planned actions and behaviours. In the context of this study, Generation Z, which has been equipped with digital financial literacy, is encouraged to make more mature digital credit decisions due to an adequate understanding of the risks and impacts of the decisions taken. We did not find other studies that specifically discuss *risky credit behaviour from a* DFL perspective. Other findings that have similarities and are in line are the findings of Rahayu et al. (2022) and Setiawan et al. (2022) that there is a positive influence of *digital financial literacy* on buying and saving behaviour. From a purchasing perspective, the

research means that high *digital financial literacy means that a* person's purchases will be better and more controlled. Thus, from this perspective, it can be related to the results of this study. An adequate level of DFL will reduce Generation Z's risky digital credit behaviour. This finding can be explained through the TPB theory, which explains that one's understanding will affect attitudes and perceptions of actions taken. (Ajzen, 2002). With a high understanding of DFL, it encourages Generation Z to have perceptions, as well as mature and planned considerations in making digital credit decisions.

CONCLUSION

This study investigates the impact of SFL and DFL on risky credit behaviour, controlled by gender and financial condition of Generation Z in Surabaya. Based on the analysis and conclusion, it is concluded that SFL and DFL have a positive & significant effect on risky credit behaviour. In addition, gender has no effect on risky credit behaviour. Finally, financial condition has a negative & significant effect on risky credit behaviour.

The author's recommendation is to improve financial literacy & DFL, by encouraging collaboration between the government, educational institutions, and fintech app makers. The government can issue new regulations related to the education curriculum regarding SFL & DFL, while fintech application makers are expected to provide education to users and develop integrated credit calculation features. It is hoped that these recommendations can help improve financial literacy and DFL equally, especially for Generation Z.

For future research, based on the low r-squared results, future researchers can explore other variables such as debt literacy, consumptive level, financial distress, and so on in explaining risky credit behaviour variables. In addition, it is expected to cover a wider area of Indonesia, considering that each gen Z in the provinces in Indonesia has different behavioural characteristics that are influenced by the culture in each province.

SUGGESTION

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