



The Influence of Financial Literacy, Overconfidence, and Digital Literacy on Investment Decisions of Generation Z (Study of the FoSSEI Organization in Jabodetabek)

Dini Fauziah, Siti Nurjanah, Siti Fatimah Zahra

DiniFauziah_1701621002@mhs.unj.ac.id

State University of Jakarta

Abstract:

This study aims to examine the influence of financial literacy, overconfidence, and digital literacy on investment decisions among Generation Z members of FoSSEI Jabodetabek. Financial literacy plays an important role in enabling individuals to make informed investment decisions. Overconfidence, as a psychological factor, can lead to excessive self-assurance and suboptimal investment choices. Meanwhile, digital literacy allows individuals to effectively utilize digital platforms for investment activities. This research uses a quantitative approach, with data collected through questionnaires and analyzed using SmartPLS 4 software. The findings reveal that financial literacy, overconfidence, and digital literacy significantly influence investment decisions. This study highlights the importance of enhancing financial and digital literacy while managing overconfidence to encourage rational and well-informed investment behavior among Generation Z.

Keywords: *Financial Literacy, Overconfidence, Digital Literacy, Decision Investment*

BACKGROUND

Generation Z, born between 1997 and 2012, has grown up in an era of rapid technological advancements, making them digital natives. This generation is known for its tech-savviness, using devices such as smartphones, PCs, and gaming consoles, and is characterized by their ambition, open-mindedness, and independent financial mindset (Khairiyati & Krisnawati, 2019). However, despite their decisiveness, particularly in financial matters, they tend to approach investments with caution due to past economic recessions and global crises. As highlighted by Saraswati & Nugroho (2021), this generation must navigate financial challenges by leveraging knowledge, skills, and effective planning. Moreover, research by Adil et al. (2022) suggests that Generation Z shows promise in the capital market, with particular interest in technology-based and sustainable investments (Ratnawati et al., 2022).

This research focuses on members of the Islamic Economics Study Forum (FoSSEI) in Greater Jakarta, who are part of Generation Z with a background in Islamic economics and active involvement in scholarly discussions. As a strategic student organization, FoSSEI plays a crucial role in shaping a younger generation capable of managing finances in accordance with Sharia principles and utilizing technology wisely. Given these characteristics, FoSSEI Jabodetabek members are relevant subjects for examining how financial literacy, overconfidence, and digital literacy influence investment decision-making.

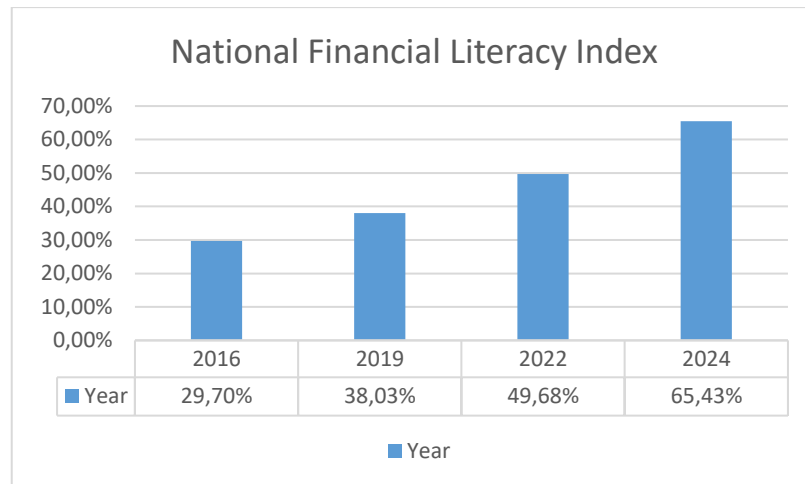


Figure 1. National Financial Literacy Index

Financial literacy, a key element in making informed investment decisions, remains an essential consideration. Despite the improvement in Indonesia's financial literacy index to 65.43% in 2024, there are still challenges, including low investment literacy, which has contributed to the rise of illegal investment practices (Susanto et al., 2024). Overconfidence, a psychological factor, can also lead to excessive risk-taking without adequately considering potential outcomes (Mahmood et al., 2024). Furthermore, digital literacy, as an enabler for accessing financial information online, is an important factor in shaping investment decisions. Research indicates a strong correlation between high digital literacy and better investment decision-making (Furinto et al., 2023).

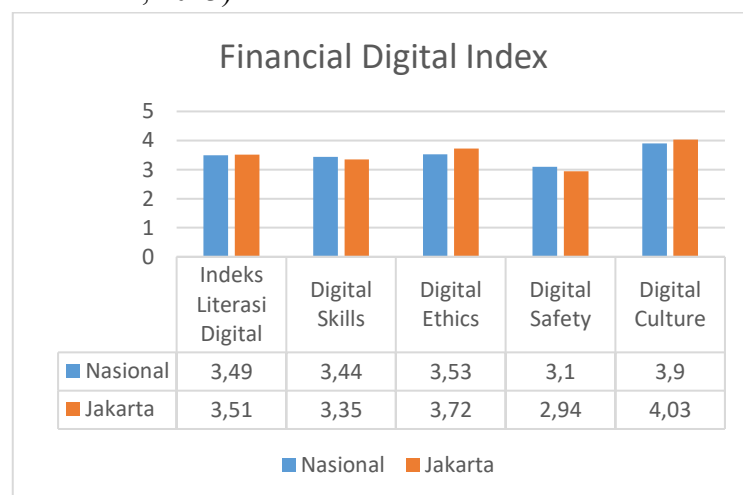


Figure 2. Financial Digital Index

In addition, Generation Z's engagement with digital investment platforms such as Bibit, Ajaib, and Stockbit, where 85% of them are active users (Sihotang et al., 2023), further underscores the importance of both financial and digital literacy in their investment choices. With Jakarta's digital literacy index slightly surpassing the national average, it becomes crucial



to examine how these factors intertwine to influence the financial behaviors of Generation Z in East Jakarta (Mishra et al., 2024).

Based on this background, this study aims to examine the influence of these three factors on Generation Z's investment decisions. The results are expected to contribute to strengthening financial and digital literacy and managing the psychological aspects of investment decision-making, particularly among the younger generation, the driving force behind Indonesia's digital economy.

THEORETICAL FRAMEWORK

Financial Literacy Theory

Financial literacy refers to an individual's ability to understand, analyze, and effectively manage various financial aspects, including financial planning, asset management, and understanding investment instruments such as risk diversification, return calculations, and appropriate investment selection (Susanto et al., 2024). Additionally, understanding risk involves the investor's ability to identify potential losses and take steps to mitigate their impact. Financially literate investors are more confident in managing their investment portfolios, considering potential risks, and making informed decisions. They are also less likely to make common investment mistakes, such as making decisions without careful consideration. Previous research by Ariana et al. (2023) confirms that financial literacy positively and significantly impacts investment decisions. Furthermore, Pratiwi et al. (2025) found that a combination of financial literacy and understanding of risk encourages individuals to make more thoughtful and planned investment decisions. Investors with good financial literacy tend to evaluate risks more carefully before making investment choices, considering long-term prospects and market volatility.

H1: Financial literacy positively and significantly influences investment decisions.

Overconfidence Theory

Overconfidence refers to an excessive belief in one's ability to predict outcomes, including investment returns. Individuals with overconfidence often exhibit an optimistic view of their investments (Bouteska et al., 2023). This overestimation of one's abilities may lead investors to ignore the possibility of losses and fail to assess their expertise accurately, leading to irrational decisions. Overconfidence is considered an irrational behavior that can have negative consequences on investment decision outcomes (Ahmad & Shah, 2022). Investors with overconfidence tend to focus more on potential gains and overlook the risks involved. According to I Gede Adiputra et al. (2024), risk-takers believe their investments will yield greater returns, often disregarding potential losses. This demonstrates the influence of overconfidence on investment decisions.

H2: Overconfidence significantly influences investment decisions.



Digital Literacy Theory

Digital literacy refers to the ability of individuals to understand and effectively use digital information, particularly in the context of financial and investment decision-making. In the current digital era, advancements in financial technology (fintech) and the transformation of capital markets have expanded access to investments through various digital platforms. High digital literacy enables investors to quickly and accurately access investment information, understand market trends, and use financial applications to analyze investment opportunities, thus allowing them to make more rational investment decisions (Adielyani & Mawardi, 2020). Research by Ariana et al. (2023) found that digital literacy positively influences investment decisions, as individuals familiar with technology can more easily access online investment platforms, understand market data, and use financial applications to analyze investment opportunities. Additionally, a study by Hidayat et al. (2023) discovered that digital literacy helps investors understand financial information available online, reducing the risk of investment errors caused by misinformation and improving decision-making efficiency.

H3: Digital literacy positively and significantly influences investment decisions.

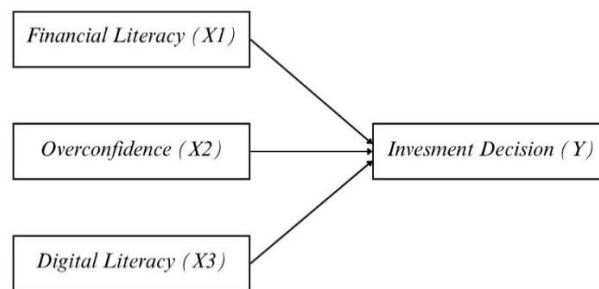


Figure 3. Conceptual Framework

METHOD

This research uses primary data collected through questionnaires filled out by respondents, both directly and online via WhatsApp, Telegram, Instagram, and Google Forms. The study adopts a quantitative approach using a survey design to analyze the relationship between financial literacy, overconfidence, digital literacy, and investment decisions among Generation from members FoSSEI Jabodetabek. The Likert scale is used for measurement, where respondents rate statements on a 1 to 5 scale, indicating their level of agreement.

Data analysis is conducted using SmartPLS software with the Partial Least Squares (PLS) method, including two key models: Outer Model and Inner Model. The Outer Model involves validity testing (convergent and discriminant) and reliability testing using Cronbach's Alpha, with a minimum threshold of 0.6 for reliability. The Inner Model tests the relationships between latent variables using R Square for the coefficient of determination and F Square for effect size. Hypothesis testing is performed using the Bootstrap method and t-tests to examine the significance of the relationships.

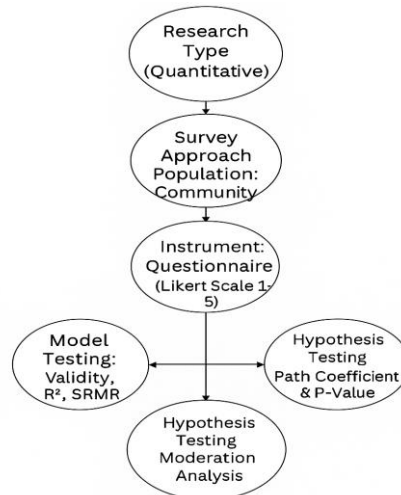


Figure 4. Flowchat Methode Research

RESULT

Outer Model Testing

Convergent validity was tested by calculating the outer loading for each indicator. According to Hair et al. (2022), an indicator is considered valid if its loading value is greater than 0.7, although for new items, a minimum loading value of 0.5 is acceptable. The results showed that the Average Variance Extracted (AVE) values for all variables exceeded the threshold of 0.5, indicating that convergent validity was achieved. Table 1 presents the outer loading results, while Table 2 shows the AVE values for each variable.

Table 1. Outer Loading Results

Indikator	Invesment Decisions (Y)	Digital Literacy (X3)	Financial Literacy (X1)	Overconfidence (X2)
KI.1	0,787			
KI.2	0,775			
KI.3	0,807			
KI.4	0,805			
KI.5	0,753			
KI.6	0,783			
KI.7	0,810			
LD.1		0.822		



LD.2	0.746
LD.3	0.778
LD.4	0.762
LD.5	0.824
LD.6	0.844
LK.1	0.727
LK.2	0.783
LK.3	0.808
LK.4	0.785
LK.5	0.797
LK.6	0.777
LK.7	0.797
OC.1	0.820
OC.2	0.778
OC.3	0.824
OC.4	0.813
OC.5	0.807
OC.6	0.809

Table 2. Average Variance Extracted Result

Variable	<i>Average Variance Extracted (AVE)</i>
Investment Decisions	0.622
Financial Literacy (X1)	0.635
Overconfidence (X2)	0.612
Digital Literacy (X3)	0.654



Reliability was measured using Composite Reliability and Cronbach's Alpha, with values greater than 0.7 indicating good reliability. All variables in this study showed Composite Reliability and Cronbach's Alpha values greater than 0.7, indicating that the data obtained had high consistency. Table 3 presents the reliability and construct validity results.

Table 3. Construct Reliability and Validity Result

Variable	<i>Cronbach's alpha</i>	<i>Composite reliability</i>	<i>Average variance extracted (AVE)</i>
Investment Decisions(Y)	0.899	0.900	0.622
Financial Literacy (X1)	0.884	0.886	0.635
<i>Overconfidence</i> (X2)	0.894	0.895	0.612
Digital Literacy (X3)	0.894	0.895	0.654

To identify multicollinearity among independent variables, the Variance Inflation Factor (VIF) was calculated. The VIF values for all indicators were below 10, indicating no significant multicollinearity issues in the model. The VIF results can be seen in Table 4.

Table 4. VIF Result

Y	VIF	X3	VIF	X1	VIF	X2	VIF
KI.1	2,101	LD.1	2,363	LK.1	1,715	OC.1	2,238
KI.2	1,988	LD.2	1,818	LK.2	2,002	OC.2	1,950
KI.3	2,187	LD.3	1,867	LK.3	2,183	OC.3	2,144
KI.4	2,242	LD.4	1,794	LK.4	2,048	OC.4	2,139
KI.5	1,800	LD.5	2,220	LK.5	2,059	OC.5	2,118
KI.6	2,013	LD.6	2,478	LK.6	1,937	OC.6	2,128
KI.7	2,254			LK.7	2,122		

Inner Model Testing

The R-square test was used to determine how well the independent variables explain the variation in the dependent variable. The analysis showed an R-square value of 0.760, meaning that 76% of the variation in investment decisions can be explained by the variables in the model. This indicates that the model has a significant effect on investment decisions. The adjusted R-square value of 0.757 further supports these findings.



Table 5. R-Square Result

Variable	<i>R-square</i>	<i>R-square adjusted</i>
Investment Decisions (Y)	0.760	0.757

The f-Square test was used to measure the impact of the exogenous variables on the endogenous variable. The analysis revealed that Financial Literacy (X1) had a moderate effect with an f^2 value of 0.239, while Digital Literacy (X2) had a moderate effect with an f^2 value of 0.234. Overconfidence (X2) had a weaker impact, with an f^2 value of 0.064.

Table 6. F-Square Result

Variable	f^2	Information
Investment Decisions(Y)		
Financial Literacy (X1)	0.239	Moderate Effect
Digital Literacy (X3)	0.234	Moderate Effect
Overconfidence (X2)	0.064	Small Effect

Hypothesis Testing

Hypothesis testing was conducted using the Bootstrap method to assess whether the relationships between the variables were statistically significant. The hypothesis test results showed that all hypotheses in this study were accepted, with p-values for each hypothesis being less than 0.05, indicating that all relationships between the variables were significant:

H1: Financial Literacy (X1) has a significant effect on Investment Decisions (Y), with a **p-value** of 0.045.

H2: Overconfidence (X2) has a significant effect on Investment Decisions (Y), with a **p-value** of 0.000.

H3: Digital Literacy (X3) has a significant effect on Investment Decisions (Y), with a **p-value** of 0.001.

Table 7. Hypothesis Result

	Hipotesis	Nilai P	Keterangan
H1	X1 → Y	0,045	Accepted
H2	X2 → Y	0,000	Accepted
H3	X3 → Y	0,000	Accepted



DISCUSSION

The Impact of Financial Literacy on Investment Decisions

This study demonstrates that financial literacy significantly impacts investment decisions. Respondents with higher financial literacy tend to make more informed and prudent investment decisions. This highlights the importance of understanding personal financial management and investment strategies to help individuals choose investment products that align with their goals and risk profiles.

The Impact of Overconfidence on Investment Decisions

The study also shows that overconfidence influences investment decisions. Respondents who have more confidence in their ability to predict investment outcomes are more likely to take higher risks, even though their decisions may not always be based on realistic analysis.

The Impact of Digital Literacy on Investment Decisions

Digital literacy has a significant impact on investment decisions. Respondents with strong digital literacy skills are better able to access online investment platforms, understand market trends, and make more secure investments. High digital literacy also helps individuals avoid digital fraud, which is a common risk in online investments.

These findings contribute to the understanding of factors influencing investment decisions among Generation Z, particularly members FoSSEI Jabodetabek, and provide a foundation for developing more effective financial and digital education strategies.

CONCLUSION

This study, conducted with 258 Generation Z respondents from members FoSSEI Jabodetabek using SEM-PLS and SmartPLS4, found that financial literacy, overconfidence, and digital literacy all play significant roles in investment decisions. Individuals with high financial literacy tend to make informed, less risky investment choices, while overconfidence leads to riskier decisions as individuals overestimate their abilities. Additionally, high digital literacy helps individuals access reliable information and make secure investment decisions.

The findings have several implications. Theoretically, the study contributes to attribution theory and behavioral finance by demonstrating how these factors interact in shaping investment behavior. Practically, investors and platforms should provide educational features to help users make more informed decisions, while digital literacy programs can enhance rational investment choices. Policymakers are encouraged to develop digital-based financial literacy programs and promote digital literacy to ensure young people make safer, more informed investment decisions.

ADVANCED RESEARCH

This study has a few limitations that should be considered. First, the sample was limited to Generation Z individuals from members FoSSEI Jabodetabek, aged 18 to 28, with the majority earning less than 5 million IDR per month. Second, the research relied solely on the



responses and understanding of the participants, which were based on their personal experiences. This means other research methods were not incorporated into the study. Lastly, the R-square value of 0.760 indicates that financial literacy, overconfidence, and digital literacy together explain 76% of the variation in investment decisions, while the remaining 24% could be influenced by other factors not explored in this study. These limitations present opportunities for improvement and further development in future research.

For future studies, it is recommended to expand the scope by using mixed methods that combine both quantitative and qualitative approaches, such as surveys and interviews, to provide a more comprehensive understanding of individual investment decisions. Additionally, follow-up research could explore the effectiveness of interventions or educational programs aimed at improving financial literacy and influencing investment decision-making within Generation Z. It would also be beneficial to consider other relevant variables, such as income level, financial behavior, risk tolerance, and perceived behavioral control, as these factors could play a significant role in shaping investment decisions. Finally, utilizing more advanced software tools can improve the accuracy of data analysis and the reliability of the research findings. By addressing these suggestions, future research could offer deeper insights into the factors that influence investment decisions and their broader implications.

BIBLIOGRAPHY

- Adielyani, D., & Mawardi, W. (2020). The Influence of Overconfidence, Herding Behavior, and Risk Tolerance on Stock Investment Decisions: The Empirical Study of Millennial Investors in Semarang City. *Jurnal Maksipreneur: Manajemen, Koperasi, Dan Entrepreneurship*, 10(1), 89. <https://doi.org/10.30588/jmp.v10i1.691>
- Adil, M., Singh, Y., & Ansari, M. S. (2022). How financial literacy moderate the association between behaviour biases and investment decision? *Asian Journal of Accounting Research*, 7(1), 17–30. <https://doi.org/10.1108/AJAR-09-2020-0086>
- Ahmad, M., & Shah, S. Z. A. (2022). Overconfidence heuristic-driven bias in investment decision-making and performance: mediating effects of risk perception and moderating effects of financial literacy. *Journal of Economic and Administrative Sciences*, 38(1), 60–90. <https://doi.org/10.1108/JEAS-07-2020-0116>
- Ariana, I. M., Wiksuana, I. G. B., Candraningrat, I. R., & Baskara, I. G. K. (2023). The Effects of Financial Literacy and Digital Literacy on Financial Resilience: Serial Mediation Roles of Financial Inclusion and Financial Decisions. *Uncertain Supply Chain Management*, 12(2), 999–1014. <https://doi.org/10.5267/j.uscm.2023.12.008>
- Bouteska, A., Harasheh, M., & Abedin, M. Z. (2023). Revisiting overconfidence in investment decision-making: Further evidence from the U.S. market. *Research in International Business and Finance*, 66, 102028. <https://doi.org/10.1016/j.ribaf.2023.102028>
- Furinto, A., Tamara, D., Yenni, & Rahman, N. J. (2023). Financial and digital literacy effects on digital investment decision mediated by perceived socio-economic status. *E3S Web of Conferences*, 426. <https://doi.org/10.1051/e3sconf/202342602076>
- Hidayat, F., Siregar, S. R., & Nugroho, A. W. (2023). Efek Financial Management Behavior,



- Self Efficacy, Herding Terhadap Keputusan Investasi Generasi Z (Effects of Financial Management Behavior, Self-Efficacy, Herding on Generation Z Investment Decisions). *Akuntansi Bisnis & Manajemen (ABM)*, 30(1). <https://doi.org/10.35606/jabm.v30i1.1192>
- I Gede Adiputra, Nur Ainun Bangun, & Bella Graceilla. (2024). The Influence Of Financial Socialization, Overconfidence And Mental Accounting On Investment Decisions. *Jurnal Manajemen*, 28(1), 200–221. <https://doi.org/10.24912/jm.v28i1.1792>
- Khairiyati, C., & Krisnawati, A. (2019). Analisis Pengaruh Literasi Keuangan Terhadap Keputusan Investasi Pada Masyarakat Kota Bandung. *Jurnal Manajemen Dan Bisnis*, 3(2), 301–312.
- Mahmood, F., Arshad, R., Khan, S., Afzal, A., & Bashir, M. (2024). Impact of behavioral biases on investment decisions and the moderation effect of financial literacy; an evidence of Pakistan. *Acta Psychologica*, 247(April), 104303. <https://doi.org/10.1016/j.actpsy.2024.104303>
- Mishra, D., Agarwal, N., Sharahiley, S., & Kandpal, V. (2024). Digital Financial Literacy and Its Impact on Financial Decision-Making of Women: Evidence from India. *Journal of Risk and Financial Management*, 17(10). <https://doi.org/10.3390/jrfm17100468>
- Pratiwi, Y., Studi, P., Syariah, A., Ekonomi, F., Bisnis, D., Negeri, I., Intan, R., Sisdiyanto, E., Studi, P., Syariah, A., Ekonomi, F., Bisnis, D., Negeri, I., & Intan, R. (2025). Eksplorasi Tantangan Keberlanjutan Finansial Di Perusahaan Teknologi Start-Up : Studi Kasus Pendekatan Rasio Leverage. *Jurnal Ilmiah Ekonomi Manajemen Bisnis Dan Akuntansi*, 2(1), 144–155.
- Ratnawati, Sudarmiatin, Soetjipto, B. E., & Restuningdiah, N. (2022). The Role of Financial Behavior As a Mediator of The Influence of Financial Literacy and Financial Attitudes on Msmes Investment Decisions in Indonesia. *Journal of Social Economics Research*, 9(4), 193–203. <https://doi.org/10.18488/35.v9i4.3231>
- Saraswati, A. M., & Nugroho, A. W. (2021). Perencanaan Keuangan dan Pengelolaan Keuangan Generasi Z di Masa Pandemi Covid 19 melalui Penguatan Literasi Keuangan. *Warta LPM*, 24(2), 309–318. <https://doi.org/10.23917/warta.v24i2.13481>
- Sihotang, R. B., Sudjiman, L. S., Siagian, V., & Ferinia, R. (2023). Exploring How IOT And Motivation Affect Invesment Choices Through Digital Literacy. *Journal of Multinational Financial Management*, 72, 1–14.
- Susanto, K. P., Mandagie, W. C., Endri, E., & Wiwaha, A. (2024). Financial literacy, technological progress, financial attitudes and investment decisions of Gen Z Indonesian investors. *Investment Management and Financial Innovations*, 22(1), 25–34. [https://doi.org/10.21511/imfi.22\(1\).2025.03](https://doi.org/10.21511/imfi.22(1).2025.03)