CHAPTER I
INTRODUCTION

1.1   Object Overview

Based on the 2020 population census, Generation Z is the generation with the largest proportion of the population, which is 27.94% or 74.93 million of the total population of Indonesia. Individuals classified as Generation Z are those born between 1997 and 2012 or aged 10-25 years (Badan Pusat Statistik, 2021). Generation Z, which is part of the productive age and grows together with the development of digital technology, is considered an opportunity to bring change and accelerate economic growth for Indonesia in the future (pmb.brin.go.id, 2022).

Table 1. 1

Population Census Results 2020

No	Name	Score (%)
1	Gen Z (1997-2012)	27,94
2	Millennial (1981-1996)	25,87
3	Gen X (1965-1980)	21,88
4	Baby Boomer (1946-1964)	11,56
5	Post Gen Z (After2013)	10,88
6	Pre-Boomer (Before 1946)	1,87

Source: Badan Pusat Statistik (2020)

Based on information provided by the Ministry of Home Affairs (Kemendagri, 2021), the total population of Generation Z aged 10-24 years is 68,662,815 as of December 31, 2022, with West Java having the largest Generation Z population in Indonesia, with 11,886,058 inhabitants (dataindonesia.id, 2022). Also, the findings of the 2020 population census suggest that Generation Z has the biggest percentage of the West Java population in the generation category, namely 27.88% (faktabandungraya.com, 2021)
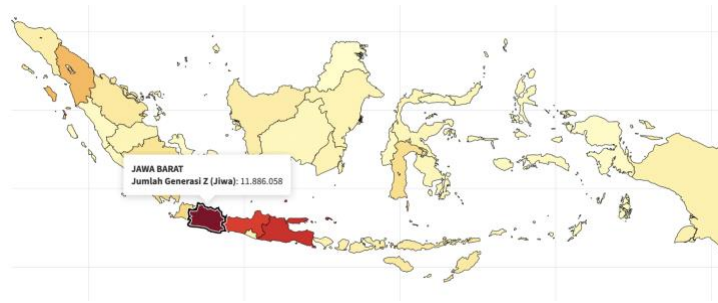
Figure 1. 1 Indonesian Generation Z Population Distribution Map

Source: dataIndonesia.id (2020)

Bandung Raya is a metropolitan area in West Java Province, Indonesia that includes Bandung, Cimahi, Bandung Regency, West Bandung Regency, and some Sumedang Regency sub-districts (perkotaan.bpiw.pu.go.id, 2022). According to the Central Statistics Agency, Bandung Raya area had a total population of 9.7 million people in 2020, with details for each region as follows (jabar.bps.go.id, 2021).

Table 1. 2 Population Data for Bandung Raya

Name of Regency/City	Number of Population (Person)
	In 2020
Bandung	2,510,103
Cimahi	620,393
Bandung Regency	3,775,279
West Bandung Regency	1,714,982
Sumedang Regency	1,154,428
Total Number	**9,775,185**

Source: Badan Pusat Statistik Jawa Barat (2020), the data has been processed

According to the 2020 census statistics, out of a total of 2.44 million residents in the city of Bandung, 26.66% are Generation Z, indicating that the makeup of the city of Bandung's population is dominated by Generation Z compared to other generations (*BPS Kota Bandung*, 2021). Since that Bandung is included in the area of Bandung Raya with the second biggest population, it is clear that Generation Z dominates the population of Bandung Raya. As a result, Generation Z residents of the Bandung Raya area were chosen as the subject of this study.

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Seeing the significant number of Generation Z who are increasingly controlling this generation, it forms a market share from both consumptive and productive segments (FinantierID, 2022). Gen Z's daily life which is very close to various digital applications can be seen from their level of activity in social media, where 52.20% of Gen Z in Indonesia use social media multiple times a day.

The dominance of Generation Z in the Bandung Raya population is also supported by the role of digital media consumption patterns that are quite large, reaching more than 8 hours per day (Asmarantika et al., 2022) meaning that it has an impact on its unique potential as a creative and innovative generation (Harris Poll, 2020) which will have a significant impact on the future growth of Bandung Raya by highlighting the role of Generation Z for the future of Bandung Raya.

Based on the facts shown above, the writer is encouraged to focus on Generation Z as the subject of the research, as this is the most significant sector of the population in terms of giving a demographic benefit to Indonesia.

1.2   Research Background

Indonesia is entering an era of globalization. It influences the financial behaviour of the Indonesian people in meeting their needs. Individuals cannot be separated from unlimited needs and desires so they will impact the Indonesian people's financial behaviour (Sari & Santoso, 2021). For this reason, financial management is needed by every individual in order to make the right and wise decisions.

Based on the outcomes of the 2020 population census evaluation, Indonesia's majority population is Generation Z. This generation was born between 1997 and 2012. In Indonesia, Generation Z represents 27.94% of the overall population. As a result, 74.93 million Indonesians are representatives of Generation Z (Badan Pusat Statistik, 2021). Based on these statistics and profiles, Generation Z will contribute significantly to the economic prosperity and development of Indonesia, as well as in accelerating national economic recovery from the impacts of the Covid-19 pandemic (cnnindonesia.com, 2022). However, the size of the Generation Z group is not matched by an awareness of basic financial knowledge

and ability, one of which is saving behaviour, particularly, allocating a specific portion of their assets for future necessities (OJK, 2022).

As a result of the accelerated growth and evolution of the digital world, the conventional financial sector has established a number of partnerships with financial technology firms. One of the reasons for the development of the financial technology (Fintech) start-up business is the ease and quickness that the public can access financial products. Fintech is a phenomenon that continues to expand due to its usability (fintech.id,2020). In reference to this, a report published by Dailysocial.id in 2020 collected from the online public survey with a total of 661 respondents discussed the use of fintech products, with survey results indicating that 70.7% of all respondents used digital wallets as fintech products (DSResearch, 2020). On the other hand, according to Fintech (2021), digital payments have the highest maturity level compared to other fintech products. This is due to the cashless trend, which continues to rise and is supported by numerous digital payment applications that offer various service conveniences to the general public monetary planning (Marlina et al., 2020). Therefore, it is not surprising that 40% of Fintech companies in Indonesia are engaged in payment services, while only 7% of companies are engaged in financial planning (katadata.co.id, 2017). Based on these data, it is clear that the primary application of fintech products in the community is as a payment method.

Through the various conveniences felt by the public when using fintech products, there is a close relationship with technologies of information and communication study which perform an essential role in the development of fintech in providing easy access to these various financial services. According to Krisnawati (2020), efforts to increase financial inclusion can be carried out through programs that enhance financial literacy and directly involve financial institutions. Increasing financial inclusion in Indonesia can be attributed to the presence of fintech innovation in the form of digital payments, loans, financing, insurance, and other products and services (FinantierID, 2022). On the other hand, fintech's function can also be linked to financial education in order to help people improve their financial management skills. Moreover, information and communication

technology studies can aid in the management and analysis of data to evaluate saving behaviour. Given all of this urgency, it can be concluded that there is a close relationship between studies and research where fintech is related to financial literacy in the digital realm, one of which is an initiative aimed at enhancing financial literacy and saving behaviour, particularly among Generation Z in Bandung Raya. Therefore, technology improves Gen Z's access to fundamental financial services (Thunes.com, 2022).

As indicated by the Financial Services Authority's analysis (2019), saving behaviour in Indonesia is relatively low compared to some neighbouring countries where based on World Bank data, the ratio of bank account ownership in people aged over 15 years is relatively low, namely in 2016 it only reached 48.9%. The evidence provided by a financial behaviour survey, carried out by the Katadata Insight Center, 2021) on 5,204 respondents in Indonesia from September 6 to September 12, 2021. The survey seeks to investigate Generation Z and Generation Y's financial conditions, financial behaviour, and investment perceptions. One of this survey's outcomes is the determination of financial management behaviour of Generation Z through the habit of saving by presenting 1,692 respondents with seven statements and requesting them to choose the option that most accurately defines them. According to the first statement, 46.2% of respondents only bought the goods needed. Then, 24.8% of all respondents were able to allocate specifically for fixed or required expenses such as rent or utilities. However, it is extremely regrettable that only 21.0% of Generation Z respondents initially set aside funds for savings, while 40.4% of respondents rarely set aside funds for savings. Only 19.1% of Generation Z maintain separate savings accounts from accounts for daily needs, and 17.7% of respondents always divide their income into small items such as consumption, bills, and entertainment, among others. The results of the following statement indicate that only 16.5% of respondents always maintain detailed expenditure records, while the remaining 33.1% rarely do so. The final statement reveals that 6.4% of all respondents always purchase the desired but unnecessary item. Consequently, regarding the allocation of special savings funds, it was discovered that a greater proportion of Generation Z did not allocate savings

specifically and only saved leftover funds. According to the survey results, 56.6% of the respondents stated that they rarely or never allocate savings from the start. Additionally, Generation Z purchases products before the fixed expenditure allocation.
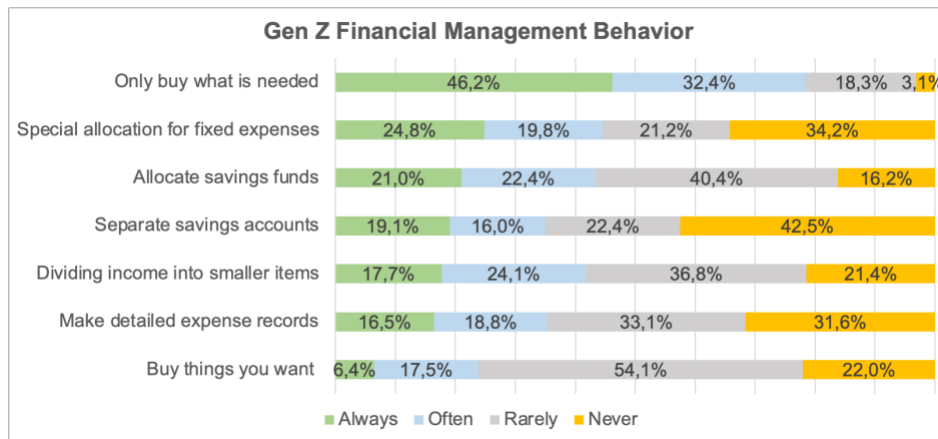

Figure 1. 2 Gen Z Financial Management Behaviour

Source: Katadata Insight Center (2021), the data has been processed

Related to this phenomenon, it can be seen that the allocation of funds spent by Generation Z is not focused on saving, but is spent on consumptive activities. This aligns with the research carried out by Pamikatsih et al. (2022) which indicates both personal income and financial literacy exert a substantial impact on the financial behaviour of Generation Z with a sample of 100 respondents. In this case, financial behaviour determines how a person makes the right decisions in managing their finances (Pamikatsih et al., 2022). In addition, the following data shows per capita expenditure in each area of Bandung Raya in 2022:

Table 1. 3 Expenditure per Capita in Bandung Raya

Name of Regency/City	Expenditure per Capita (in thousand rupiah)
Bandung	17639
Cimahi	12500
Bandung Regency	10588
West Bandung Regency	9044
Sumedang Regency	10776

Source: Badan Pusat Statistik (2022), the data has been processed

The data provided reveals the per capita expenditure in different areas of Bandung Raya in 2022. Notably, the city of Bandung stands out with the highest per capita expenditure of 10.588. This indicates a higher tendency among the population in Bandung Raya to allocate a significant portion of their income towards the consumption of goods and services. Such a high level of consumptiveness has a profound impact on the saving behaviour of the residents in the Bandung Raya region. Individuals with higher expenditure levels may prioritize immediate consumption and lifestyle needs over saving, resulting in a lack of awareness and consistency in saving behaviour. Consequently, the saving behaviour in the Bandung Raya area is negatively affected, leading to relatively low savings rates compared to expenditure levels (dkjn.kemenkeu.go.id,22). This pattern of behaviour can pose long-term financial challenges for the Bandung Raya residents.

The financial literacy index chart published by the financial services authority in 2022 indicates that Indonesian society's financial literacy index (ILK) only reached 49.68%. This means that only 49 people out of 100 Indonesians possess information and perceptions regarding a financial service institution and the financial products it produces. On the other hand, West Java's financial literacy is still considered low because it only has a percentage of 37.43% (OJK, 2022).
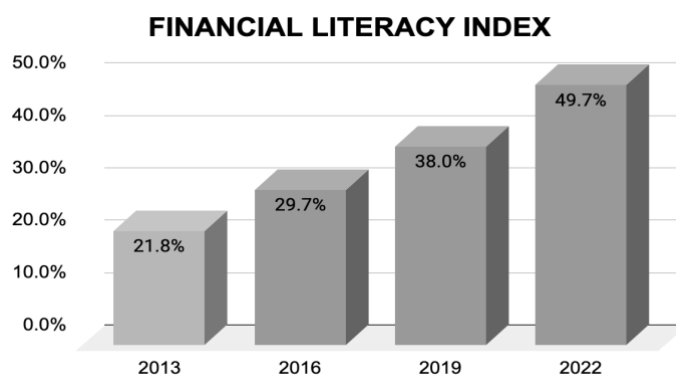

Figure 1. 3 Financial Literacy Index

Source: Otoritas Jasa Keuangan (2022)

The graph above shows that the average financial literacy index of Indonesians has increased each year, and reached 49.7% in 2022. Sadly, the percentage of West Java's financial literacy index is considerably below the national index, with only 37.43%, which is even lower than Indonesia's financial literacy index for 2019. This number indicates that, out of 100 West Java residents, only 37 people are familiar with and understand financial products and services, while 63 others have no knowledge about financial products or financial service institutions. In addition, there exists a sizeable gap between the financial literacy index (37.43%) and the financial inclusion index (88.48%) in West Java, indicating that for every 100 people, 88 are financially able to access a variety of financial products and services, while only 37 are financially literate (OJK, 2021). Therefore, West Java citizens clearly have a limited understanding of finance.

On the one hand, the low financial literacy rate of 44.04% among Generation Z highlights a concerning lack of understanding regarding financial products, services, and personal financial management. This indicates that a significant portion of this generation may struggle to make informed decisions about their finances in the future, leading to potential financial challenges and obstacles. The implications of this low financial literacy rate are significant. With limited knowledge about financial products and services, Generation Z may face difficulties in achieving financial stability and realizing their long-term financial goals (OJK, 2022)

Financial literacy as encompassing knowledge, practical abilities, and positive outlook that shape individuals' attitudes and behaviours, ultimately leading to improved decision-making and financial management for the purpose of achieving prosperity (OJK, 2016). This aligns with the findings of a research study conducted by Susanti (2018), which highlights self-control, financial literacy, and access to financial services are factors that influence a person's saving behaviour. Similar results were also stated by Krisdayanti (2020) that demonstrates a significant link between financial literacy and students' interest in saving. The findings of additional research by Hendra et al. (2020) indicate that Financial literacy influences saving behaviour positively. Similarly, Firli & Dalilah (2021)

discovered comparable results in their research, affirming that personal financial management behaviour was impacted by one's level of financial literacy. However, Siboro and Rochmawati (2021) stated that financial literacy negatively influences saving behaviour.

Another element that is believed to play a role in shaping the financial behaviour of individuals is the extent of one's pocket money, which includes money obtained from parents, scholarships, or results from work (Sari et al., 2020). Pocket money is considered to impact Generation Z's ability to save, with the amount of pocket money received influencing Generation Z's saving behaviour. Concerning some of the issues that frequently arise as a result of a lack of financial management knowledge, generation Z manages pocket money by purchasing unnecessary items, which is one of the factors that prevents generation Z from developing a habit of saving. In contrast, there is no money left if the funds are insufficient to cover daily expenses. Some of these issues are illustrated by a Thunes report indicating that 18.07% of the money owned by Generation Z in Indonesia is spent on shopping, and this activity becomes the favourite of Generation Z through a variety of payment methods. In addition, the data indicates that in all emerging markets surveyed for this study, nearly two-thirds of Generation Z, or 62%, reported not having a bank account, whether it was a personal bank account or one opened by their parents (Thunes.com, 2022). On the various other hand, according to research conducted by the IDN Research Institute in 2022, Gen Z spends the most money on food, snacks, and entertainment (18.69% to 70.59%) respectively. Furthermore, only half of Gen Z stated that they routinely saved or invested their income every month, while the other two said they only did so when they received additional income, and the rest stated that they carried out saving and investing activities when they remembered.

This issue is consistent with Aziz's (2019) research, which found that pocket money is one factor that influences non-food consumption, and one of them can be allocated by saving. This study demonstrates that pocket money plays a crucial role in the consumption patterns of non-food students, such that an increase in pocket money received will also have a significant impact on non-food consumption, in

this case through the allocation of pocket money used for saving. A similar research was also conducted by Fajarwati (2020) in which students of the Islamic Faculty of Economics and Business at IAIN Kendari were the objects of this study. The findings of this study highlight a significant relationship between the variables related to pocket money and an interest in saving. Krisdayanti (2020) conducted the same study on active students at the Sutaatmadja College of Economics and found that personal money is associated with a student's interest in saving. However, different results are stated by Assah and Nurlailah (2022) that pocket money partially has no tangible effect on the saving interest of high school students. Based on the explanation and phenomenon described above, the researcher intends to conduct further study with the title **"THE EFFECT OF FINANCIAL LITERACY AND POCKET MONEY ON SAVING BEHAVIOR OF GENERATION Z IN BANDUNG RAYA".**

1.3   Problem Formulation

The current magnitude of the role of Generation Z is not balanced with the awareness and knowledge of the Indonesian people regarding their financial planning, indicating a persistently low level of financial literacy, which contributes to financial and welfare issues. There are several financial service products, one of which is savings. This saving behaviour will help individuals, especially Generation Z, in their financial planning if they are supported by financial literacy factors and pocket money.

Seeing that the theoretical explanation is supported by previous research regarding generation Z's high financial literacy and the quantity of pocket money they receive will have an effect on their high saving behaviour. But the fact is, the tendency of Generation Z to spend their pocket money on consumptive activities such as shopping, snacks and entertainment is greater than the desire to save. In light of the preceding context, the problem formulation in this study in this study involves:

1. Does financial literacy significantly influence the saving behaviour of Generation Z in Bandung Raya?
2. Does pocket money significantly influence the saving behaviour of Generation Z in Bandung Raya?
3. Do financial literacy and pocket money have a simultaneously significant influence on the saving behaviour of Generation Z in Bandung Raya?

1.4   Research Objectives

Based on the problem formulation outlined, this study aims to address the following objectives:

1. To find out whether there is a significant influence of financial literacy on the saving behaviour of Generation Z in Bandung Raya
2. To find out whether there is a significant influence of pocket money on the saving behaviour of Generation Z in Bandung Raya
3. To find out whether there is a significant influence of financial literacy and pocket money simultaneously on Generation Z in Bandung Raya

1.5   Research Benefits

The expected outcomes of this research include the following benefits:

1.5.1   Theoretical Benefits

The expected contribution of this study lies in enriching the knowledge of financial literacy, particularly emphasizing the importance of saving behaviour. Furthermore, this research is poised to serve as a valuable resource and reference point for future studies in the financial sector and related areas.

1.5.2   Practical Benefits

This research aims to offer valuable information and perspectives regarding the significance of financial literacy and saving behaviour. Additionally, the study findings are expected to serve as inputs and considerations for the government, specifically the Financial Services Authority (OJK), in optimizing financial programs to enhance financial literacy among Generation Z in Indonesia.

1.6   The Systematics of Mini-Thesis Writing

This writing section gives a comprehensive overview of how the mini thesis will be structured. The systematic preparation of the mini thesis writing consists of Chapters 1 through 5, with a description of the structure as follows:

a. **CHAPTER 1: INTRODUCTION**

This chapter provides a general, precise, and concise explanation of the research's contents. In this chapter, various aspects are covered including an overview of the research object, the background of the research, problem formulation, research objectives, research benefits, and the structure of the mini thesis writing.

b. **CHAPTER 2: LITERATURE REVIEW**

This chapter describes the theoretical foundation from general to specific, covering the fundamental research with previous research and continuing with a research framework that concludes with a research hypothesis.

c. **CHAPTER 3: RESEARCH METHODOLOGY**

In this chapter, the focus is on exploring the approaches, methods, and techniques employed to collect and analyze data that can effectively address the research problems at hand.

d. **CHAPTER 4: RESULTS AND DISCUSSION**

This chapter presents a comprehensive and structured account of the research, including the discussion of findings that align with the formulated problem and research objectives. This chapter contains research findings, as well as discussions and analyses.

e. **CHAPTER 5: CONCLUSION**

This chapter contains the overall research conclusions, which are the answers to the research problems and then become suggestions about the research's benefits.