

# CHAPTER I

## INTRODUCTION

### 1.1 Object Overview

According to Barhate & Dirani (2022), Gen Z refers to individuals born after 1995, also commonly known as the post-millennial generation. In 2017, they became the youngest generation to enter the workforce. However, the Central Bureau of Statistics Badan Pusat Statistik (2023) classifies Gen Z as those born between 1997 and 2012, estimating their current age range to be 11-26 years old.

Referring to the previous paragraph, the Indonesian population can be categorized into generations. A generation consists of individuals born within the same social, historical and chronological period (Twenge et al., 2010; Barhate & Dirani, 2022). According to Table 1.1, the Indonesian generational cohorts are segmented into five categories: Baby Boomers, Generation X, Generation Y, Generation Z, and Post-Z Generation, as reported by Badan Pusat Statistik, (2023).

**Table 1.1**  
**Types of Generation**

No	Generations	Year of Birth
1	Pre-Boomer	$\leq 1945$
2	Baby Boomer	1946-1964
3	Gen X	1965-1980
4	Millennials	1981-1996
5	Gen-Z	1997-2012
6	Post Gen-Z	$\geq 2013$

*Source: Badan Pusat Statistik (2023), Processed by Author*

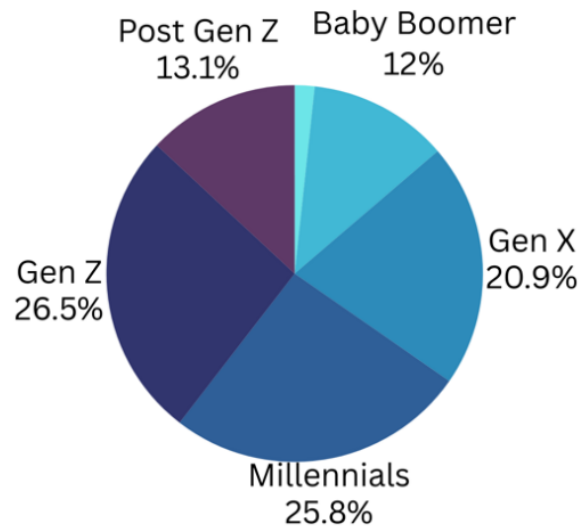


Figure 1.1  
2022 Population Census Results  
Source: *Badan Pusat Statistik (2022), Processed by Author*

Based on data from Badan Pusat Statistik (2022), as illustrated in figure 1.1, Generation Z constitutes the most significant demographic segment in Indonesia, comprising 26.5% of the nation's total population. This is closely followed by the Millennial generation, which accounts for 25.8%, while Generation X ranks third, representing 20.9% of the Indonesian population. From the previously mentioned facts, we can also see the significance of Gen Z among the total population of Indonesia.

**Table 1.2**  
**Top 10 Province with the most Generation Z population**

Province	Population
West Java	11,886,058
East Java	9,252,385
Central Java	8,511,476
North Sumatera	4,316,515
Banten	2,979,697
Jakarta	2,663,412
South Sulawesi	2,512,772
Lampung	2,249,587

South Sumatera	2,170,494
Riau	1,782,953

Source: *Badan Pusat Statistik (2022), Processed by Author*

Based on table 1.2 from Badan Pusat Statistik (2022) as of December 31, 2022, there are 71 millions people who are members of Generation Z. West Java emerges as the province with the preeminent population of Generation Z in Indonesia, outpacing both East Java and Central Java in this demographic ranking. Notably, Jakarta secures the sixth position, trailing directly behind Banten, thereby placing it within the top ten provinces in Indonesia with a substantial Generation Z populace.

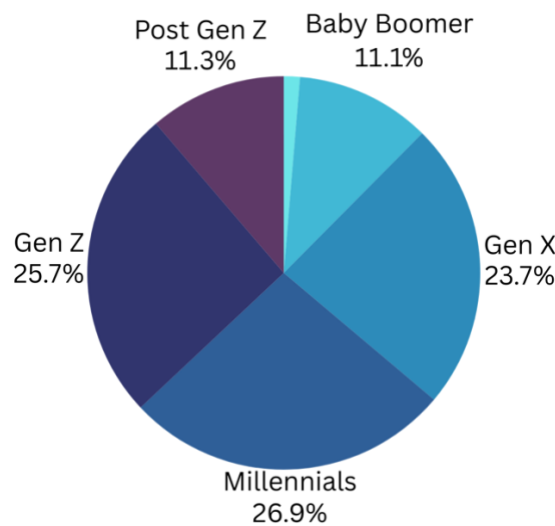


Figure 1.2  
Population of Gen Z in Jakarta  
Source: *Badan Pusat Statistik (2022), Processed by Author*

Based on figure 1.2 of the 2022 census statistics by Badan Pusat Statistik, (2022), out of a total of 10.5 million residents of Jakarta, 2.709.258 are Gen Z members. This shows that Gen Z is the second largest generation after millennials (Badan Pusat Statistik, 2022). From the facts stated previously it can be drawn a conclusion, the significance of Generation Z in Jakarta could represent the entire population of Jakarta.

## 1.2 Research Background

Currently, Indonesia is experiencing the impact of globalisation which is the huge keystone for economic expansion. This expansion, as noted by Sari (2021) has markedly influenced the financial management behaviors of Indonesians in meeting their needs. Saxey et al. (2024) articulate that financial management behavior includes the full range of human actions associated with money management. Understanding and researching an individual's Financial Management behavior is crucial for informed decision-making and achieving financial balance. Therefore, for individuals to make wise and prudent financial choices, a thorough understanding of Financial Management behaviors is essential.

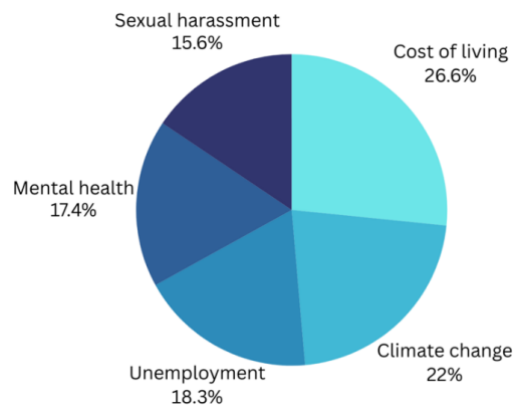


Figure 1.3  
Gen Z's Top Concerns  
Source: Deloitte (2022), *Processed by Author*

Deloitte's (2022), survey results illustrated in figure 1.3, reveals that 29% of Generation Z identifies the cost of living including housing, transportation, and bills as their primary concern. This demographic has consistently articulated a lack of personal financial security over the years. Notably, 46% of Generation Z individuals subsist from one pay check to the next, overwhelmed with anxiety over potential financial incapability. Furthermore, a significant 26% express doubts regarding their ability to achieve a comfortable retirement, while another 72% agreed with the widening economic gap between the richest and poorest segments

of their country. These findings underscore the prevalent problem of poor financial management behavior among Generation Z individuals.

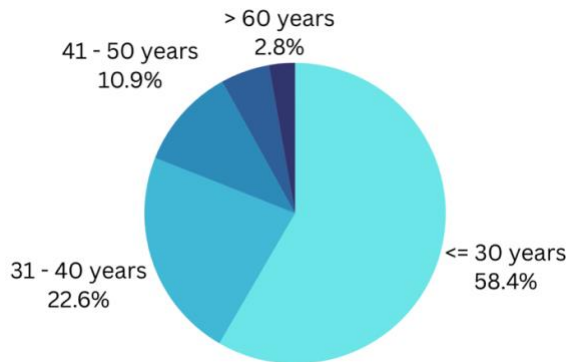


Figure 1.4  
Indonesia Capital Market Statistics  
Source: KSEI (2023), *Processed by Author*

Investment is one aspect of financial management behavior practices (Saxey et al., 2024). According to Figure 1.4 from PT Kustodian Sentral Efek Indonesia KSEI (2023), local investor in Indonesia capital market have reached 10 million. The data presented in the figure indicates that individuals below 30 years of age dominate the capital market investor demographic, representing over 58% and holding assets exceeding IDR 54 trillion KSEI (2023). From the provided data, it is inferable that within the Indonesian capital market, Millennials and Generation Z represent the predominant demographic groups.

According to OJK in Tirto.id (2023) investment losses from 2017-2022 reached IDR 139.03 trillion. OJK (2020) stated that two mistakes that are often made by individuals in investing in Indonesia are making decisions too quickly and not focusing on the plans that have been made, This is related to the low level of locus of control because investors cannot control themselves in making decisions and also the low level of financial attitudes because they cannot maintain the plans that have been made, this is a concern especially for Generation Z seeing that this generation dominates Indonesia capital market.

As the presence of Generation Z expands within Indonesia, they are increasingly influencing both consumptive and productive market sectors. This

observation is confirmed by the report from OJK (2024) which highlights that although Generation Z has the financial capability for retail and everyday spending. However, their proficiency in practical financial management behaviors is lacking, OJK data processed by CNBC Indonesia (2024) revealed that as of April 2024 the total outstanding loans originating from individuals aged 19 to 35, predominantly representing Generation Z, amounts to IDR 28.86 trillion. The comparison of debt between generations can be seen in figure 1.5 below.

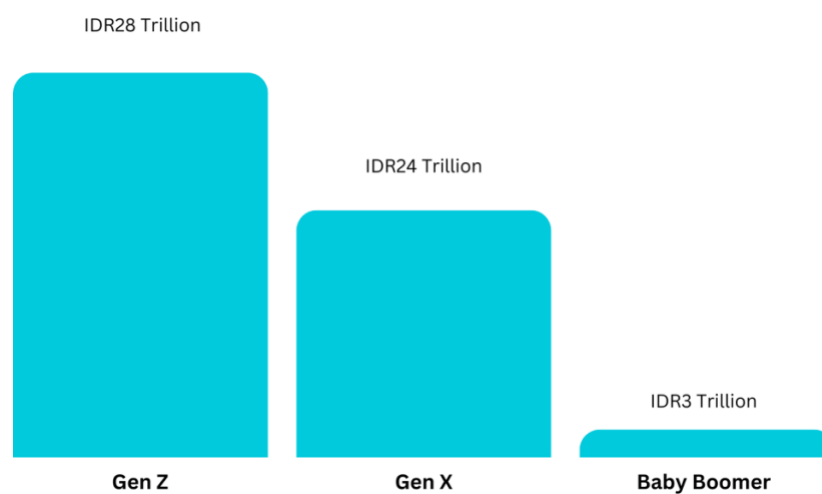


Figure 1.5  
Comparison of Debt Between Generations  
Source: (OJK, 2023), *Processed by Author*

As a metropolitan city, Jakarta has a very important role and function in the Indonesian economy as it is the largest economic centre in Indonesia. The Central Bureau of Statistics reveals that Jakarta is recognized as Indonesia's most economically significant province, as demonstrated by its Gross Regional Domestic Product (GRDP), a crucial indicator for measuring economic size.

Primarily due to its function the economic hub of Indonesia, the Gross Regional Domestic Product (GRDP) of Jakarta occupies the highest position (goodstats.id, 2023). GRDP, representing the cumulative value added from the production of goods and services within a domestic region over a specific period, serves as an indicator of the average income accruing to each inhabitant of that region from economic activities (BPS, 2023).

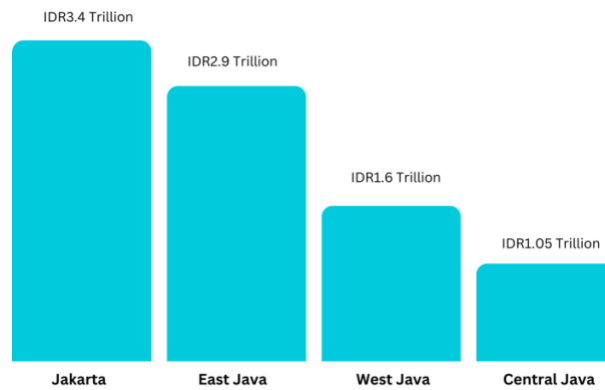


Figure 1.6  
Gross Regional Domestic Product in Indonesia  
Source: (bps.go.id, 2023), *Processed by Author*

Referring from the previous paragraph, according to data from BPS (2023) shown in figure 1.6, it can be seen that Jakarta has a total Gross Regional Domestic Product (GRDP) of IDR 3,4 trillion. In comparison, East Java came in second with a GRDP of IDR 2,9 trillion, while West Java came in third with a GRDP of IDR 1,6 trillion. Central Java, with a GRDP of IDR 1,05 trillion, completes the top four provinces (BPS, 2023). The high GRDP in Jakarta reflects the city’s relatively high average income, which, in turn, contributes to increased household consumption.

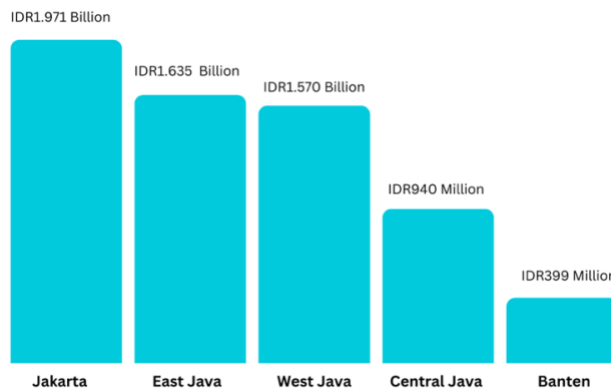


Figure 1.7  
Household Consumption in Indonesia  
Source: (bps.go.id, 2023), *Processed by Author*

According to BPS (2023), household consumption expenditure refers to the spending by households on goods and services for their final consumption. This expenditure represents the utilization of goods and services to meet domestic needs.

Figure 1.7 provided by BPS (2023) reveals that Jakarta leads in household consumption expenditure in Indonesia, with an amount of IDR 1.971 billion in 2022. East Java follows closely with an expenditure of IDR 1.635 billion in the same year.

Based on the explanation of the previous paragraphs regarding the relationship between GRDP and household consumption in Jakarta, it can be concluded that higher GRDP correlates with increased household consumption. Moreover, the emergence of financial technology (fintech) is also an additional determinant that affects household consumption patterns. Fintech innovations facilitate easier access to financial services, enabling households to fulfil their needs.

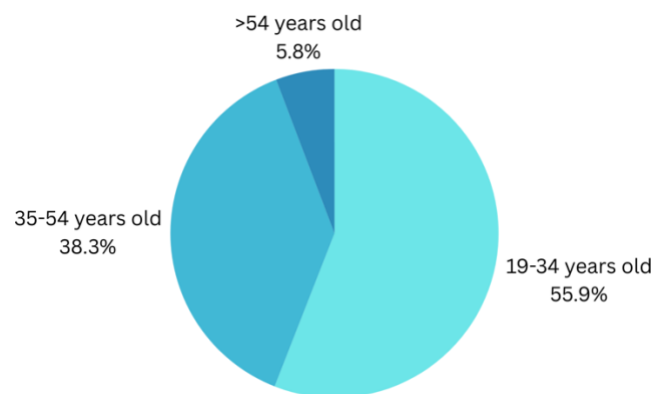


Figure 1.8  
P2P Fintech Lending Users by Age Group  
Source: OJK (2024), *Processed by Author*

The rapid growth and advancement of the digital world has significantly boosted the adoption of Peer to Peer (P2P) Fintech lending services, especially among middle-income people. According to OJK in CNBC (2023), P2P Fintech lending is an alternative for people who do not have bank accounts or are underbanked. Figure 1.8 shows that as of April 2024 the number of P2P fintech lending users is dominated by the 19-34 age group by 55.9% and followed by the 35-54 age group by 38.3% and finally P2P fintech lending users are occupied by the >54 year age group by 5.8%. from this data it can be concluded that the millennials and generation Z dominate the number of P2P fintech lending users in Indonesia.



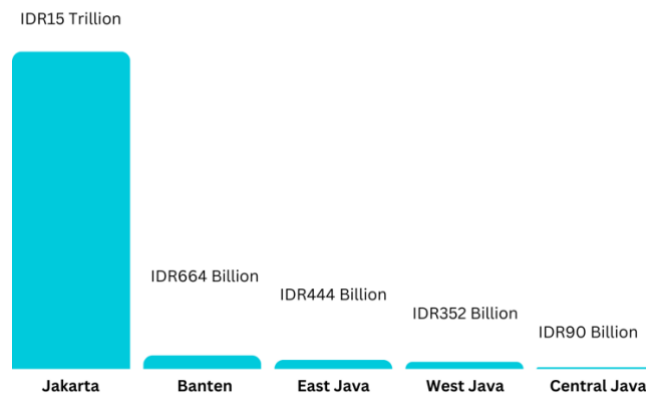


Figure 1.9  
 P2P Lending Funds Issued by Lenders based on Location  
 Source: : OJK (2024), *Processed by Author*

Based on data from OJK (2024) shown in Figure 1.9, which shows P2P lending funds disbursed by lenders based on location in April 2024, several observations can be made. Jakarta leads as the primary recipient of P2P loan funds in Indonesia, with a total of IDR 15 trillion. Banten City follows closely with IDR 664 million in P2P loan funds. East Java occupies the third position, receiving a total P2P loan fund of IDR 444 million. Finally, West Java and Central Java received Rp 352 million and Rp 90 million, respectively. This significant amount of P2P fintech loan funds allows Jakarta residents to access P2P loans more flexible.

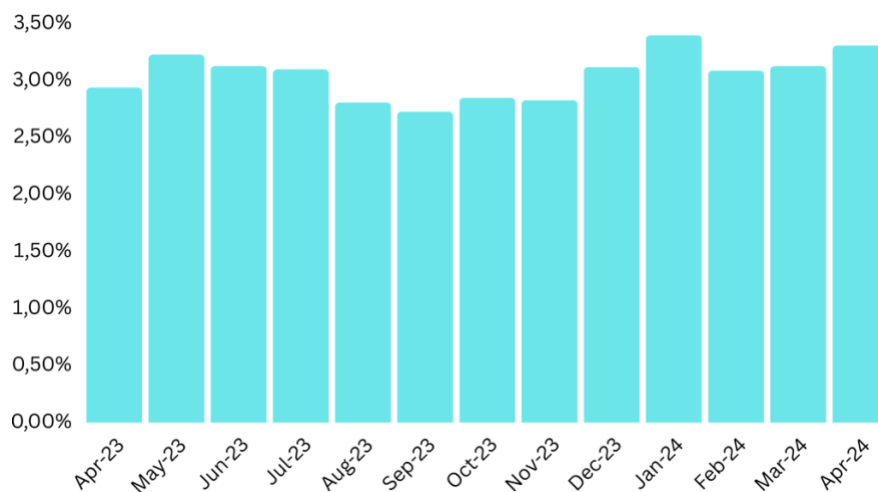


Figure 1.10  
 P2P Lending Default Rate Payment in Jakarta  
 Source: OJK (2024), *Processed by Author*

Referring to the previous paragraph on the flexibility of P2P lending in Jakarta based on data from OJK (2024), these P2P loans are also followed by an increase in default rates. Figure 1.10 highlights the fluctuation of 90-day default rates in Jakarta. According to OJK (2024) as of April 2024, Jakarta residents continued to have 90-day default rates on P2P fintech lending, totalling IDR10.91 trillion. Specifically, the default rate increased from 3.13% in March to 3.31% in April. These arrears relate to approximately 2.17 million online loan user accounts, which mostly belong to Millennials and Generation Z. This upward trend raises concerns about the financial self-efficacy of Jakarta residents, especially for Generation Z.

From the above phenomena, it shows that locus of control is one of the variables that influence financial management behavior. Research from (Chujan et al., 2022; Mutlu & Özer, 2022; Sari, 2021) collectively underscore the profound impact locus of control has on shaping financial management behaviors, reinforcing its critical role in their improvement. Conversely, research by (Rahmawati & Haryono, 2020; Yudha & Pradana, 2022) presents a divergent view, suggesting that locus of control has no significant effect on financial management behaviors.

To prevent the pitfalls of poor financial management behavior, it is necessary to have a good financial attitude. An analysis, consolidated from the findings of Pusparani & Krisnawati (2019); Firli & Hidayati (2021); Rani et al. (2022); Vijayalakshmi et al. (2022); Vaghela et al. (2023) a notable correlation is established between financial attitudes and financial management behaviors, asserting that a superior financial attitude invariably leads to enhanced financial management behavior, and conversely, diminished financial attitudes result in poorer financial management behaviors. Contrarily, Damayanti et al. (2024) provide a dissenting viewpoint, suggesting that Financial Attitude might not have a significant influence on Financial Management behavior.

Another important factor that affect financial management behavior is financial self-efficacy. Previous studies, as highlighted by Asandimitra & Kautsar (2019); Asebedo & Payne (2019); Palmer et al. (2021); Dare et al. (2022); Kim et al. (2022), emphasize the pivotal influence of financial self-efficacy on the

formulation of financial management behaviors. Conversely, Noor et al. (2020) present a divergent viewpoint, asserting that the association between financial self-efficacy and Financial Management behavior lacks statistical significance.

Radianto et al. (2021) discovered that the examined variables significantly influence financial management-related behaviors. Their research highlights that individuals possessing a positive financial attitude indicates increased proficiency in managing financial activities. Furthermore, the investigation highlights the significant relationship between a person's financial belief in their financial management behavior. Lastly, the research underscores the pivotal influence of locus of control in shaping behavior related to financial management behavior.

Given the challenges highlighted, the theoretical underpinnings, and the discrepancies observed in the empirical findings concerning various determinants of financial management behaviors, the researchers are compelled to delve deeper into this domain. Hence, they have embarked on a study titled **“The Effect of Locus of Control on Financial Management Behavior Mediated by Financial Attitude and Financial Self Efficacy Among Generation Z in Jakarta”**.

### **1.3 Formulation of Problem**

Jakarta, Indonesia's main economic center, plays a crucial role in the global economy, driving growth in the surrounding region. One significant demographic contributing to Jakarta's economy is Generation Z the productive age group. However, despite their financial maturity, Deloitte's (2022) data reveals that 26.6% of Gen Z individuals express doubts about their living expenses. Contrary to the earlier phenomenon, Generation Z encounters distinct challenges in attaining financial readiness amid shifts in the global economy and rapid technological advancements. Nevertheless, they exhibit flexibility, creativity, and adept financial management, enabling them to seize opportunities through investments, entrepreneurship, and digital technologies (www.kumparan.com, 2024).

Continuing from the previous phenomenon, the latest data from OJK (2024) as of April shows that there are 2.17 million P2P loan users in Jakarta where Gen Z and millennials dominate P2P loan users. Additionally, data from OJK (2024) also

revealed that the 90-day P2P loan default rate in Jakarta in April 2024 increased by 0.18% from 3.13% in March 2023 to 3.31% in April 2024. Interestingly, this contrasts with Goldman Sachs' (2024) findings, which suggest that Generation Z tends to approach spending with greater caution. Generation Z recognizes the impact of overspending and tries to avoid the potential negative consequences.

Achieving personal financial well-being is highly dependent on good Financial Management behavior. This behavior is characterized by a person's ability to meet financial commitments and manage their resources. Behavior in Financial Management is influenced by factors such as Locus of Control, Financial Attitude, and Financial Self-Efficacy.

From the above phenomena, it is also shown that theoretically the effect of locus of control, financial attitude and financial self-efficacy on financial management behavior is still under debate. Based on research by Radianto et al. (2021) shown that shows that all three variables affect financial management behavior. Meanwhile, research by Yudha & Pradana (2022); Damayanti et al. (2024); Noor et al. (2020) shows that the three variables do not affect financial management behavior.

Due to the inconsistency of phenomena in the research field, the research problem can be formulated as follows:

1. How does Locus of Control significantly impact Financial Attitude among Generation Z in Jakarta?
2. How does Locus of Control significantly impact Financial Self-Efficacy among Generation Z in Jakarta?
3. How does Locus of Control significantly impact Financial Management Behavior among Generation Z in Jakarta?
4. How does Financial Attitude significantly impact Financial Management Behavior among Generation Z in Jakarta?
5. How does Financial Self-Efficacy significantly impact Financial Management Behavior among Generation Z in Jakarta?

6. How does Financial Attitude mediates the relationship between Locus of Control and Financial Management Behavior among Generation Z in Jakarta?
7. How does Financial Self-Efficacy mediates the relationship between Locus of Control and Financial Management Behavior among Generation Z in Jakarta?

#### **1.4 Research Objective**

Given the issues outlined earlier, the objectives of this study are to:

1. To analyze the impact of Locus of Control on Financial Attitude among Generation Z in Jakarta
2. To analyze the impact of Locus of Control on Financial Self-Efficacy among Generation Z in Jakarta
3. To analyze the impact of Locus of Control on Financial Management Behavior among Generation Z in Jakarta
4. To analyze the impact of Locus of Control on Financial Management Behavior among Generation Z in Jakarta
5. To analyze the impact of Financial Self-Efficacy on Financial Management Behavior among Generation Z in Jakarta
6. To analyze the effect of Locus of Control on Financial Management Behavior mediated by Financial Attitude among Generation Z in Jakarta
7. To analyze the effect of Locus of Control on Financial Management Behavior mediated by Financial Self-Efficacy among Generation Z in Jakarta

#### **1.5 Research Scope**

This research was conducted in February 2024 until completion in July 2024, with the object of research being the Generation Z demographic group in the Jakarta area. Simple random probability sampling was used as a sampling technique in this study. The focus of this research is the influence of locus of control, financial

attitude, and financial self-efficacy on Generation Z's financial management behavior in the Jakarta area.

## **1.6 Research Benefit**

This study aims to furnish both practical and academic advantages. Anticipated outcomes of this research include:

### **1. Theoretical Benefit**

The objective of this research is to augment and intensify understanding within the financial domain, specifically through the exploration of challenges associated with locus of control, financial attitude, financial self-efficacy, and the financial management behaviors exhibited by the working-age populace in Jakarta. Moreover, it is envisaged that the findings of this research will provide invaluable insights for subsequent scholars aiming to delve deeper into the intricacies of financial management behavior and as a reference for further research on the similar field.

### **2. Practical Benefit**

#### **a. Benefits for Generation Z**

The anticipated outcome of this study is to furnish essential data and resources that will aid in the Investment decision-making process, particularly when behavioral aspects are taken into account, with a focus on individuals from Generation Z engaged in financial management behavior.

#### **b. Benefits for Regulator**

This research should be able to be referred by regulatory bureau in Indonesia, to better understand the problem that arises within the financial behavior management in the Indonesian, and formulate the regulation to prevent individuals from doing financial management behavior failure. The regulator may thereafter give a better overview for individual to do financial management as how it should be done.

## **1.7 Writing Systematic**

### **1. CHAPTER 1: INTRODUCTION**

In this chapter, the foundation of the issue is elucidated, presenting the fundamental rationale from both a theoretical and empirical perspective, which underpins the motivation for undertaking this study. The manuscript initiates with an exposition of the research context, proceeds to articulate the problem statement, delineates the study's objectives, forecasts the prospective advantages derived from the investigation, and outlines the structure of the document.

### **2. CHAPTER 2: LITERATURE REVIEW**

This section sets forth the theoretical underpinnings, offering elucidations of the theories that inform hypothesis development and aid in the explication of empirical results, thus expanding upon antecedent investigations and furthering the scholarly frameworks.

### **3. CHAPTER 3: RESEARCH**

This section underscores the methodologies, strategies, and procedures employed in the acquisition and examination of data, aimed at tackling the research questions posited.

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

This section delves into the traits of the participants, evaluates the outcomes derived from data gathering, and scrutinizes the interpretation of the collected data.

### **5. CHAPTER 5: CONCLUSION**

This section encapsulates the culmination of the investigation and proffes suggestions pertinent to the scholarly inquiry.