JRSSEM 2024, Vol. 03, No. 12, 1687 – 1698
E-ISSN: 2807 - 6311, P-ISSN: 2807 - 6494

Perception and Practices of Personal Financial Management among Generation Z in Indonesia

Ahmad Fathoni Ardyansyah [1]
Nur Khusniyah Indrawati [2]
Universitas Brawijaya, Indonesia[1,2,3]
Email: ahmadfathoni@student.ub.ac.id, nur_khusniyah@ub.ac.id
*Correspondence: ahmadfathoni@student.ub.ac.id

ABSTRACT: Generation Z, born between 1995 and 2010, is notable for its proficiency with technology, social media presence, expressiveness, tolerance, and multitasking abilities. The advancement of technology, combined with these qualities, raises the possibility that Generation Z will have consumerist tendencies. This study aims to examine Generation Z's perceptions and practices of personal financial management in Indonesia. The research employs a qualitative approach with data collection through literature review. The Significance of Personal Financial Management, Building Economic Stability Through Financial Literacy are some of the major subjects that were investigated. The results revealed that by managing their finances, Generation Z may achieve their goals, protect themselves from uncertainty, and contribute significantly to society. Personal financial management is essential for ensuring financial security and personal well-being. Developing financial literacy in Generation Z is obviously vital to ensuring economic stability. Providing people with the knowledge and abilities to handle their money wisely helps to improve both their financial security and the overall stability of the economy. One of the primary responsibilities of the Indonesia Financial Services Authority, also known as Otoritas Jasa Keuangan, or OJK, is to promote financial literacy throughout the country. Financial literacy is critical for both individual financial well-being and economic stability.

Keywords: Perception, Personal Finance Management, Generation Z

INTRODUCTION

Perception is the process of selecting, organizing, and interpreting information and sensations obtained through sight, touch, hearing, smell, and taste to produce meaning. It is affected not only by physical stimuli, but also by environmental circumstances and the individual's health. According to Schiffman and Kanuk, perception is heavily influenced by both inputs and individual variables. Individual elements include past experiences, goals, and expectations, whereas stimuli include physical characteristics such as size, weight, color, or shape. Benefits, ease of use, self-efficacy, security, trust, and perceived utility are key factors influencing customer perceptions of online purchasing (Syahdan, 2021).

With the advancement of technology, fintech companies, particularly those offering payment services and e-wallets, have proliferated in Indonesia. This rise in fintech can have both positive and negative effects on the millennial generation. Fintech benefits individuals who use it wisely, but it can have adverse effects if millennials use it solely for spending money. Numerous fintech payment and e-wallet platforms, such as OVO, GoPay, Dana, Doku, Midtrans, and LinkAja, provide digital wallet services that enable users to store money in the application for various payments, including transportation and merchant transactions both online and offline. This innovation has fostered a cashless culture among millennials, who now prefer not to carry large amounts of cash. Additionally, fintech companies often offer promotions or cashbacks to attract customers, which can encourage millennials to spend more and adopt a more consumerist lifestyle (Kartawinata et al., 2021).

Discussions about generational disparities have been around for a while in society. Each generation has unique traits that influence how people communicate in different situations. Because each generation clings to particular ideal values that may not correspond with those of others, these discrepancies frequently result in conflicts. Given Indonesia's collectivistic culture, which places a strong emphasis on group orientation, generational gaps are a particularly important issue (Pangestu & Karnadi, 2020). A generation is a cohort within a population that shared major age-related experiences over the same historical period. Generation Z, born between 1995 and 2010, is distinguished by its technological proficiency, social media presence, expressiveness, tolerance, and multitasking ability. The advancement of technology, paired with these characteristics, increases the likelihood that Generation Z might exhibit consumerist tendencies.

The majority of Indonesian households purchase electronics and travel-related items mostly due to the influence of Generation Z. A 2016 Nielsen Consumer and Media View study on Generation Z found that 33% of children aged 10 to 14 have an influence on decisions about purchasing electronic products, while 47% of children have an impact on decisions for vacation purchases. The purchasing power of teenagers between the ages of 15 and 19 is considerably greater; 67% of them influence vacation plans and 62% influence purchases of electronics (Hinduan et al., 2020). The financial literacy of Generation Z is shaped by various factors, as noted by (Patrisia et al., 2023) prior research has identified several influences on financial literacy and behavior, including family communication patterns, the impact of financial literacy on risk tolerance, and the effects on financial and investment behaviors.

Personal finance refers to the methods used by individuals or families to get, budget, save, and spend money while taking a variety of risks and events into account. In order to manage personal and family finances, this method applies financial principles to decision-making. Personal finance is monitoring risks, planning for the future, and managing financial resources across time. Meanwhile, Personal financial management entails budgeting and managing funds as well as expenses, credit, savings, and investments. When it comes to running a business, investing, and saving, efficient personal financial management helps strike a balance between a consumptive and productive lifestyle. It also permits the budgeting of restricted financial resources to fulfill all wants and aspirations (Kartawinata et al., 2021). Based on the background previously described, this study aims to analyze the Perception and Practices of Personal Financial Management among Generation Z in Indonesia.

Literature Review

Financial Literacy

Financial literacy refers to the capacity to understand and apply various financial skills such as personal financial management, budgeting, saving, investing, and financial planning to achieve financial well-being. Financial literacy is essential for improving savings allocation, wealth-building skills, and household financial decision-making. Its significance is increasing as the reduction in welfare state benefits and pension systems in advanced economies transfers more financial decision-making risks to individuals. Financial literacy requires processing financial information using a set of skills often not taught in standard education curricula. Consequently, specific evaluation programs have been created to assess these additional skills not captured by standardized tests (Bellocchi & Travaglini, 2024).

The recent economic crisis has heightened policymakers' focus on financial literacy due to concerns about market efficiency. Governments have taken steps to enhance household financial literacy, introducing various initiatives to measure the financial literacy levels of both youth and adults. Financial literacy greatly influences both consumption patterns and savings rates. When financial literacy is considered, factors such as gender, age, and field of study do not significantly predict consumption and savings behaviors (Pangestu & Karnadi, 2020).

Personal Financial Management

The process of handling financial resources is referred to as financial management. Financial management is defined as processes encompassing planning and controlling, accounting, cash flow management, capital budgeting or appraisal, and working capital management. Furthermore, financial management also described as standard operating procedures aimed at enhancing the effective execution of financial accounting, reporting, budgeting, and related tasks to boost a firm's technical efficiency. Management researchers investigate financial management practices, which are actions related to money decision-making or financial resource management. Working capital management, accounting and information systems, financial reporting and analysis, capital structure (or financing structure), and capital planning are the four primary operational variables for financial management techniques (Mang'ana et al., 2023).

Financial management practices enable individuals or households to monitor their income and expenditures to enhance their financial situation. These practices include budgeting, timely payments, saving, managing credit card debt, and understanding one's net worth. Financial counselors recommend these practices to curb excessive spending, noting that compulsive buyers and those who are lax with money often do not engage in them. Consequently, big spenders are expected to exhibit high materialism and low engagement in financial management practices, whereas value seekers, also high in materialism, are more likely to utilize these practices. As financial management practices indicate money conservation, they may moderate the relationship between materialism and compulsive buying (Pham et al., 2012).

Generation Z Characteristics

Generation Z, often known as Gen Z, is the newest generation in the workforce. They were born between 1995 and 2012 and are commonly known as the internet generation. Gen Z is defined as a digital generation with high IT abilities and a passion for technical breakthroughs. Furthermore, Gen Z places a great importance on money and jobs. Despite their interest in these topics, Gen Z's fast-paced lifestyle and lack of knowledge about financial management make it difficult for them to manage their finances. Success in managing finances for Gen Z largely depends on discipline in maintaining a frugal and smart lifestyle. This means being able to prioritize needs over wants and managing the fulfillment of these needs efficiently and with quality). In the midst of modern challenges, Gen Z needs to consider long-term financial needs due to increasing competition in job searches and a tendency towards increased consumptive habits compared to previous generations .(Wulansari et al., 2024)

Generation Z heavily relies on mobile money services for regular payments, preferring the convenience and security offered by these platforms, along with the ability to access their financial status anytime. Compared to other generations, Generation Z shows a stronger inclination towards using mobile money services. Research findings indicate that once Generation Z has a positive experience with a service, they are more likely than older generations to continue using it. The survey also found that Generation Z consumers prioritize security, convenience, and the availability of extensive features when evaluating their mobile money service experiences. The widespread adoption of mobile money systems among Generation Z is anticipated due to their comfort with technology and preference for convenience. They are accustomed to using smartphones and other digital devices for everyday activities, including financial transactions. Additionally, Generation Z values efficiency and convenience, and mobile money services provide a streamlined way to send and receive money, aligning well with their preferences (Kelly, 2024).

Theoretical and Conceptual Background

Bounded Rationality Theory

Herbert Simon's theory of bounded rationality postulates that people make judgments in response to time restrictions, cognitive limitations, and restricted knowledge. Bounded rationality, in contrast to the perfect rationality assumption of traditional economic theory, recognizes that people frequently satisfice that is, select a satisfactory alternative instead of optimizing that is, select the best choice available. Within the domain of finance, this theory contributes to the understanding of why people do not always make the best financial decisions even when they have access to knowledge. Their decisions are influenced by a variety of factors, including practical constraints, emotional effects, and cognitive biases (Petracca, 2021).

Middle Range Theory: Behavioural Finance

Due to the shortcomings of conventional ideas, behavioral finance emerged as a modern method of researching financial markets. This field acknowledges that models with partially rational agents are more appropriate for explaining certain financial phenomena. In behavioural Finance, Middle Range Theory connects theoretical ideas with observed practices in financial decision-making om the Efficient Market Hypothesis (EMH), which postulates that investors behave rationally and that markets reflect all available information. Rather, Middle Range Theory investigates the subtleties of investor behaviour, such as information-related anomalies like herding behaviour, overreactions or underreactions, and the influence of sentiment on market patterns (Valcanover et al., 2020). It focuses on how emotional reactions, social influences, cognitive biases, and psychological factors affect financial decisions and market results. This strategy departs fr

RESEARCH METHODOLOGY

This study employed qualitative approaches, with data obtained through a review of the literature. Data were sourced from national and international journals via the search engines Google Scholar, Web of Science, Science Direct, and Elsevier. The keywords employed in the literature are perception, personal financial management, and Generation Z. The review article may serve as a foundation for future research. They set intended to prevent researchers from applying the same old theories and approaches in a repeated and comprehensive manner. A well-designed literature review paper can act as a foundation/platform/lens/springboard for future research by explicitly synthesizing current knowledge, identifying research gaps, and proposing intriguing new avenues for future research in specific subject areas (Paul & Criado, 2020).

RESULT AND DISCUSSION

The Significance of Personal Financial Management

According to (Bapat, 2020) Personal financial management is a vital element of contemporary life, impacting one's capacity to maintain financial stability, pursue objectives, and secure a safe future. Efficient personal financial management guarantees financial stability and security by incorporating budgeting, saving, and expense management, which aids individuals in avoiding debt and building an emergency fund. This stability acts as a safety net during unforeseen financial difficulties, such as job loss or medical emergencies. Additionally, effective financial management enables individuals to set and achieve both short-term and long-term goals. Whether it's purchasing a home, funding education, starting a business, or planning for retirement, disciplined financial planning ensures resources are allocated efficiently towards these objectives. Moreover, understanding and managing debt is a crucial aspect of financial management. It involves making informed decisions about incurring debt, comprehending interest rates, and developing strategies to repay existing debts. This approach alleviates financial stress and enhances credit scores, which are vital for obtaining loans and favorable interest rates in the future.

Additionally, personal financial management encompasses making well-informed investment choices. By strategically investing in stocks, bonds, real estate, or other assets, individuals can grow their wealth over time. This not only enhances financial security but also generates additional income streams, supporting long-term financial objectives. Proper financial management alleviates financial stress and anxiety, leading to an improved quality of life. When finances are well-managed, individuals can focus on personal and professional development, enjoy leisure activities, and have peace of mind knowing they are financially prepared for the future.

Based on Behavioral Finance theory, financial behavior study in the context of Indonesian Generation Z can provide insight into the relevance of personal financial management and the factors that influence their financial decisions. Gen Z is more likely to imitate financial trends or decisions made by peers or social media influencers. This habit can lead to poor investing decisions and impulse purchases. Furthermore, many Generation Z individuals choose short-term enjoyment over long-term rewards. This is seen in their proclivity to spend more money rather than save or invest for the future.

Effective financial management is crucial for retirement planning. It involves evaluating future financial needs, saving consistently, and investing in retirement accounts (Tomar et al., 2021). Proper planning ensures individuals can maintain their standard of living and achieve financial independence in their later years. Personal financial management is more than just handling money; it is about establishing a foundation for a secure and fulfilling life. By taking control of their finances, individuals can realize their dreams, protect themselves against uncertainties, and contribute positively to society. The importance of personal financial management cannot be overstated, as it is essential for personal well-being and economic stability.

Building Economic Stability Through Financial Literacy in Generation Z

Financial literacy is the first step in achieving economic stability, which is essential for individual and community development (Hasan et al., 2021). Financial literacy is especially important for Generation Z, the generation born between the middle of the 1990s and the beginning of the 2010s. Giving kids financial literacy as they enter adulthood in a fast evolving economic environment is crucial to both their own success and the stability of the economy as a whole.

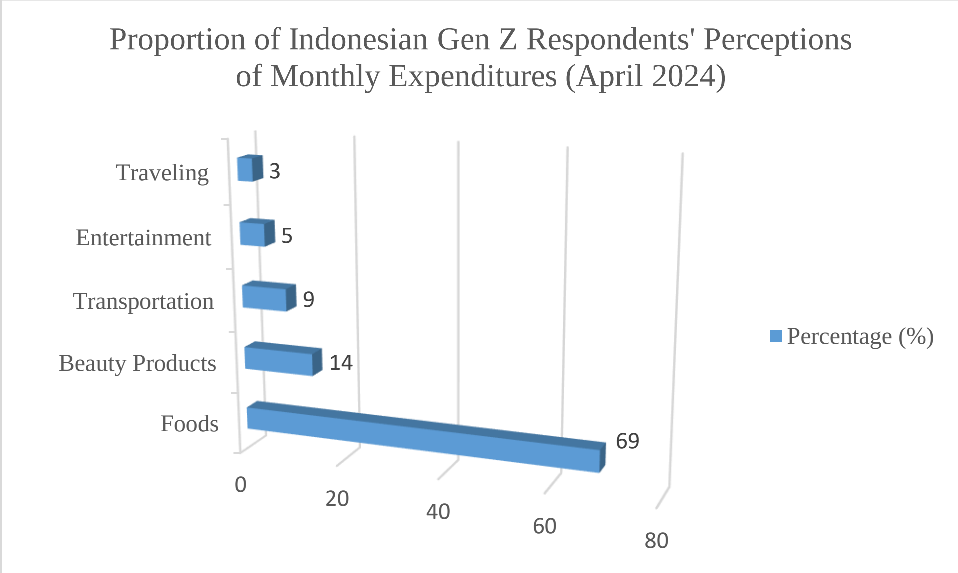

Figure 1. Proportion of Indonesian Gen Z Respondent's Perception of Monthly Expenditures (April 2024)

Source: (Santika, 2024)

According to a Populix research institute survey conducted in April 2024, up to 70% of Indonesians belonging to Generation Z (Gen Z) spend their money on snacks. 69% of Gen Z respondents said they spent the most money on meals, according to the survey. Transportation was named by 9% of respondents as the next highest expense, and beauty goods were selected by 14% of respondents. Furthermore, 5% of respondents said they used their money for entertainment, and 3% said they used it for vacations. This survey included 875 Indonesian Gen Z respondents and was conducted online via PopPoll. Data was collected from April 19-30, 2024.

Financial literacy equips Generation Z with an understanding of essential money management principles like budgeting, saving, and investing (Andreou & Anyfantaki, 2021). This knowledge allows them to make informed financial decisions, helping them avoid common issues such as excessive debt and poor spending habits. Given the rising costs of education and living expenses, many in Generation Z encounter substantial debt. Financial literacy enables them to manage this debt effectively by teaching them how to use credit wisely, comprehend interest rates, and develop debt repayment strategies. Early education on saving and investing can pave the way for financial security for Generation Z. Grasping the benefits of compound interest, diversified investments, and retirement planning helps them accumulate wealth over time and prepare for their future. Financially literate individuals are also better prepared to engage in the economy through investing, home ownership, and entrepreneurship, thereby contributing to economic growth and stability.

Herbert Simon presented the theory of bounded rationality, which holds that a person's capability to analyze information and come to a fully rational decision is constrained by a number of variables, including time, cognitive aptitude, and sensory limitations. This hypothesis offers insight into the reasons for the poor level of financial literacy among Indonesia's Generation Z and offers solutions for addressing it. Financial decision-making in Gen Z is often based on heuristics or rules of thumb. Yet, this frequently results in cognitive biases such confirmation bias, present bias, and overconfidence, which can produce less than ideal financial management judgments.

Increasing financial literacy among Generation Z is critical to ensuring economic stability. Giving people the knowledge and skills to manage their finances improves their financial security and the economy's general stability. Promoting a financially informed and financially stable generation necessitates using technology tools, community involvement, educational programs, and supportive legislation.

Development of financial literacy by Indonesia Financial Services Authority (*Otoritas Jasa Keuangan* / OJK)

The level of financial literacy among millennials and Generation Z in Indonesia is still relatively unsatisfactory. Meanwhile, the results of the Population Census conducted by BPS in 2020 show that there are 69.38 million millennials and 74.93 million Gen Z, which means that more than 50% of Indonesia's population are millennials and Gen Z. Although the financial literacy rate in Indonesia has reached 47.98% for millennials and 44.04% for Gen Z, this level is considered unsatisfactory as it is still below 60%. The low numbers indicate a lack of understanding among millennials about investments, insurance, loans, and savings. Among Generation Z, investment knowledge is also still low. Despite being considered financially active, young adults have very little financial knowledge. In comparison to other generations, millennials have the lowest financial literacy rate, with only 24% of respondents correctly answering financial literacy questions. Based on these features and facts, it is critical to boost Generation Z's knowledge and execution of financial literacy so that their financial management improves (Nursjanti et al., 2023).

Financial literacy has a positive and partly significant impact on financial inclusion. It comprises three components: financial knowledge, financial behavior, and financial attitudes. Each of these components positively influences financial inclusion. The research indicates that higher levels of financial knowledge lead to improved financial behavior and attitudes, thereby increasing the use, utilization, and understanding of financial products and services. The availability of these financial products and services can enhance the economic welfare of the community by enabling better financial management and utilization. Financial knowledge positively and significantly affects personal financial management. This study demonstrates that better financial knowledge correlates with improved personal financial management behavior in society.

Individuals who comprehend concepts like the time value of money, loan interest, deposit interest, compound interest, rates of return, investment risks, inflation, and diversification are more adept at using financial products and services appropriately. Besides utilizing them effectively, they can also select financial products and services that match their needs and capabilities. Communities that engage in household financial budgeting, personal financial oversight, set long-term goals, and exercise caution in financial decision-making tend to have higher rates of financial inclusion (Noor et al., 2020). Therefore, Improving financial literacy throughout the country is a major responsibility of the Indonesia Financial Services Authority, often known as *Otoritas Jasa Keuangan*, or OJK. The OJK has launched a number of projects and programs targeted at teaching the public about financial management, investing, and risk mitigation because it recognizes the significance of financial literacy for both economic stability and individual financial well-being (Azmi & Indriyani, 2024).

CONCLUSION

Gen Z may fulfill their dreams, protect themselves from unpredictability, and make valuable contributions to society by managing their finances. In order to maintain both one's financial security and personal well-being, personal financial management is crucial. Developing financial literacy in Generation Z is also evidently critical to maintaining economic stability. Enhancing people's financial security and the economy's general stability are both facilitated by providing them with the knowledge and skills to manage their money well. Enhancing financial literacy across the nation is also one of the main duties of the Indonesia Financial Services Authority, also referred to as Otoritas Jasa Keuangan, or OJK. Since financial literacy is essential for both individual financial well-being and economic stability, the OJK has initiated several projects and programs aimed at educating the public about risk mitigation, investment, and financial management.

It can be concluded that Generation Z in Indonesia faces significant challenges in personal financial management due to low levels of financial literacy. Addressing these challenges requires concerted efforts from educators, policymakers, and financial institutions. By enhancing financial education and providing practical tools and resources, we can empower Generation Z to make informed financial decisions, ensuring their financial well-being and contributing to the broader economic health of Indonesia.

REFERENCES

Andreou, P. C., & Anyfantaki, S. (2021). Financial Literacy And Its Influence On Internet Banking Behavior. *European Management Journal*, *39*(5), 658–674.

Azmi, R., & Indriyani, R. (2024). *Debt Management Programme Or Plan (DMP) And Financial Or Credit Counselling In Malaysia, Thailand And Indonesia*. UNRISD Working Paper.

Bapat, D. (2020). Antecedents To Responsible Financial Management Behavior Among Young Adults: Moderating Role Of Financial Risk Tolerance. *International Journal Of Bank Marketing*, *38*(5), 1177–1194.

Bellocchi, A., & Travaglini, G. (2024). Financial Literacy, Uncertainty And Costs Of Education. *Economics Letters*, *238*, 111701.

Hasan, M., Le, T., & Hoque, A. (2021).

How Does Financial Literacy Impact On Inclusive Finance? *Financial Innovation*, *7*(1), 40.

Hinduan, Z. R., Anggraeni, A., & Agia, M. I. (2020). Generation Z In Indonesia: The Self-Driven Digital. In *The New Generation Z In Asia: Dynamics, Differences, Digitalisation* (Bll 121–134). Emerald Publishing Limited.

Kartawinata, B. R., Wijayangka, C., Akbar, A., & Hendiarto, R. S. (2021). The Influence Of Lifestyle And Financial Behavior On Personal Financial Management For The Millennia Generation (Study On College Students In Bandung City, Indonesia). *Proceedings Of The International Conference On Industrial Engineering And Operations Management*, 2957–2965.

Kelly, A. E. (2024). The Sustainability And Contribution Of Generation Z Influenced By Hedonic And Utilitarian Values To Use Mobile Money Services For Fee Payment. *Telematics And Informatics Reports*, *14*, 100145.

Mang'ana, K. M., Ndyetabula, D. W., & Hokororo, S. J. (2023). Financial Management Practices And Performance Of Agricultural Small And Medium Enterprises In Tanzania. *Social Sciences & Humanities Open*, *7*(1), 100494.

Noor, M., Fourqoniah, F., & Aransyah, M. F. (2020). The Investigation Of Financial Inclusions, Financial Literation, And Financial Technology In Indonesia. *Jurnal Perspektif Pembiayaan Dan Pembangunan Daerah*, *8*(3), 257–268.

Nursjanti, F., Amaliawiati, L., & Utami, E. M. (2023). Peningkatan Literasi Keuangan Syariah Bagi Milenial Dan Gen Z Di Jawa Barat. *Madaniya*, *4*(1), 54–67.

Pangestu, S., & Karnadi, E. B. (2020). The Effects Of Financial Literacy And Materialism On The Savings Decision Of Generation Z Indonesians. *Cogent Business & Management*, *7*(1), 1743618.

Patrisia, D., Abror, A., Dastgir, S., & Rahayu, R. (2023). Generation Z's Financial Behaviour: The Role Of Islamic Financial Literacy. *ISRA International Journal Of Islamic Finance*, *15*(2), 20–37.

Paul, J., & Criado, A. R. (2020). The Art Of Writing Literature Review: What Do We Know And What Do We Need To Know? *International Business Review*, *29*(4), 101717.

Petracca, E. (2021). On The Origins And Consequences Of Simon's Modular Approach To Bounded Rationality In Economics. *The European Journal Of The History Of Economic Thought*, *28*(5), 708–732.

Pham, T. H., Yap, K., & Dowling, N. A. (2012). The Impact Of Financial Management Practices And Financial Attitudes On The Relationship Between Materialism And Compulsive Buying. *Journal Of Economic Psychology*, *33*(3), 461–470.

Santika, E. F. (2024). *Apa Betul Gen Z Hedon? Ini Survei Pengeluaran Bulanannya*. Databoks. Https://Databoks.Katadata.Co.Id/Datapublish/2024/06/03/Apa-Betul-Gen-Z-Hedon-Ini-Survei-Pengeluaran-Bulanannya

Syahdan, R. (2021). Factors Influencing Gen-Z Customer Perception Online

Shopping In Indonesia. *International Journal Of Communication And Society*, *3*(2), 99–111.

Tomar, S., Kumar, S., & Sureka, R. (2021). Financial Planning For Retirement: Bibliometric Analysis And Future Research Directions. *Journal Of Financial Counseling & Planning*, *32*(2).

Valcanover, V. M., Sonza, I. B., & Da Silva, W. V. (2020). Behavioral Finance Experiments: A Recent Systematic Literature Review. *Sage Open*, *10*(4), 2158244020969672.

Wulansari, P., Saputra, A. J., & Ikhlash, M. (2024). Analisis Ketertarikan Gen Z Di Indonesia Terhadap Investasi Di Pasar Modal. *JOURNAL OF APPLIED MANAGERIAL ACCOUNTING*, *8*(1), 109–115.