FINANCIAL LITERACY, RISK PERCEPTION, MATERIALISM AND PROPENSITY TO INDEBTEDNESS

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ABSTRACT
The purpose of this paper is to study the influence of financial literacy, risk perception and materialism on propensity to indebtedness. The number of samples in this study was 200 respondents who were credit card users who already had income in the Jakarta area. For data analysis, this study used Structural Equation Modelling (SEM). The result of this study indicated that Financial Literacy and Risk Perception has a negative effect on Propensity to Indebtedness, while Materialism has a positive effect on Propensity to Indebtedness.

Keywords: *Financial literacy, risk perception, materialism, propensity to indebtedness*

1. INTRODUCTION

In the beginning, humans began to recognize money as the simplest means of exchange. The Rupiah currency is issued by Bank Indonesia and can officially be used as a legal means of payment for buying and selling transactions. Along with time, banks began to introduce savings and loan services with more practical tools, namely in the form of cards. For loans, especially for daily payment transactions, people are familiar with credit cards. The system in credit cards is that the bank will lend money for payment transactions first, and people can pay it in the following month with interest and other fees charged.

The ease of carrying out transactions via credit cards has a significant impact on people's consumption behaviour. People tend to choose to use the system offered by credit cards to fulfil their consumption as quickly as possible and pay later. The convenience of credit facilities encourages consumptive behaviour that grows in society and gives rise to a propensity to indebtedness, make impulsive purchases even for goods or services that are not included in their needs, but rather their desires.

The value of credit card transactions grew 26.53% annually (year on year) in the first half of 2023 or as of June 2023. Based on Bank Indonesia (BI) payment system and financial market infrastructure statistics (SPIP), the value of credit card transactions in June 2023 reached IDR 33.67 trillion. Credit card transaction volume rose 14.14% year on year to 31.87 million transactions in June 2023. The number of cards in circulation reached 17.59 million units, up 5.32% year on year (Bisnis.com, 2023).

The increase in the value of credit card transactions and the volume of credit card transactions in Indonesia shows a high level of propensity to indebtedness in society. According to Livingstone and Lunt (1992), propensity to indebtedness is a financial behaviour that is demonstrated through

a strong relationship between debt behaviour and a person's debt level. Davies and Lea (1995) found a relationship between debt and behaviour, these things underlie the emergence of the term propensity to indebtedness in financial behaviour.

Figure 1. Indonesian Credit Card Transactions
Source: DataIndonesia.id

Figure 1, it can be seen that the value of credit card transactions in Indonesia in 2022 increased to IDR 33.68 trillion. The total volume of credit card transactions in Indonesia in 2022 also increased to reach 32.19 million transactions.

In previous research, the financial literacy was used to explain propensity to indebtedness. The research results of Doosti and Karampour (2017) show that financial literacy has a positive effect on propensity to indebtedness. Different research results were found by Potrich and Vieira (2018), Prashella and Leon (2020) and Wahono and Pertiwi (2020) who stated that financial literacy has a negative effect on propensity to indebtedness.

The risk perception was also used to explain propensity to indebtedness in previous research. The research results of Selvaraja and Abdullah (2019) show that risk perception has a positive effect on propensity to indebtedness. Different research results were found by Flores and Vieira (2014), Doosti and Karampour (2017) and Flores and Bidarte (2019) who stated that risk perception has a negative effect on propensity to indebtedness.

In previous research, the materialism was used to explain the propensity to indebtedness. The research results of Flores and Vieira (2014) and Doosti and Karampour (2017) show that materialism has a positive effect on propensity to indebtedness. Different research results were found by Potrich and Vieira (2018) who stated that materialism has no effect on propensity to indebtedness.

The purpose of this paper is to study the influence of financial literacy, risk perception and materialism on propensity to indebtedness.

According to Erdem (2008), Indebtedness is a financial obligation that a person has to another person due to the inability to predict future circumstances. Flores and Vieira (2014) explain propensity to indebtedness as a subjective measure of debt for consumption, or consumer debt decision making. Ting (2017) defines indebtedness as a condition where the debt recipient is obliged to pay back the debt giver after receiving benefits. Rosadi and Andriani (2023) stated that propensity to indebtedness is the gap between income and expenditure so that individuals feel lacking, then all forms of deficiency are met by taking on debt.

Mandell (2007) defines financial literacy as the ability to evaluate new and complex financial instruments and make appropriate judgments, both in the choice of instruments and the extent to which their use will be in the best interests in the long term. According to Lusardi and Tufano (2008), "financial literacy as the ability to make simple decisions regarding debt, specifically how someone applies basic knowledge of interest compounding, measured in the context of everyday financial choices." PACFL (2008) defines financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for lifelong financial well-being." Flores and Vieira (2014) explained that financial literacy as a collection of information that helps people manage their income, money management, expenses and loans, savings and investments in the short and long term. The research results of Patulak, Sarita and Hamid (2020) show that financial literacy has a negative effect on propensity to indebtedness. Individuals who have a high level of financial literacy will be able to reduce the propensity to indebtedness. Thus, the first hypothesis can be developed as follow:

H_1: Financial literacy has a negative effect on propensity to indebtedness.

Sitkin and Weingart (1995) defines risk perception as an individual's assessment of how risky a situation in relation to a probabilistic estimate regarding the level of uncertainty of the situation, how controllable the uncertainty, and confidence in those estimates. Ricciardi (2004) stated that risk perception is the way people see or feel potential danger or hazard. The concept of risk perception attempts to explain the evaluation of risky situations based on instinctive and complex decision making, personal knowledge, and information obtained from the external environment. Doosti and Karampour (2017) explained that risk perception as a subjective assessment of the characteristics and severity of risk. Mitta and Pamungkas (2022) show that risk perception has a negative effect on propensity to indebtedness. Individuals with high risk perception tend to be more careful and therefore have lower propensity to indebtedness behaviour. Thus, the second hypothesis can be developed as follow:

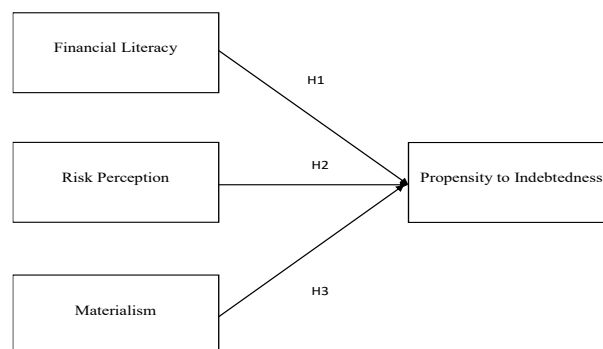H_2: Risk perception has a negative effect on propensity to indebtedness.

Figure 2. Research Model

Belk (1985) defines materialism as a person's interest in being attached to worldly possessions. At the highest level of materialism, possessions occupy a central place in a person's life and are believed to provide the greatest source of satisfaction and dissatisfaction. Richins and Dawson (1992) explain materialism as related to the act of consumption which is defined as the importance of ownership and acquisition of material goods in achieving life goals or desired circumstances. Kasser (2002) defines materialism as a view containing orientations, attitudes, beliefs and life values that emphasize or prioritize the ownership of material goods or material wealth above other life values, such as those relating to spiritual matters, intellectual, social and cultural. Azma, Rahman, Adeyemi and Rahman (2019) show that materialism has a positive effect on propensity to indebtedness. Individuals with high materialism behaviour, have poor

resource allocation and do not have good financial planning so they tend to have a high level of propensity to indebtedness. Thus, the third hypothesis can be developed as follow:
H_3: Materialism has a positive effect on propensity to indebtedness.

2. RESEARCH METHOD

The research design used in this research is a descriptive research design. The population in this research is all credit card users who already have income in the Jakarta area. The sampling technique used in this research was convenience sampling. The number of samples in this study was 200 respondents who were credit card users who already had income in the Jakarta area. This research uses primary data. Data was obtained by distributing questionnaires online using Google Form. Likert scale is used to measure indicators.

Financial literacy was measured by using 5 items, as adapted from Flores and Vieira (2014): (1) "I have concerns about better money management", (2) "I follow a monthly spending plan", (3) "I feel satisfied with the way I manage my finances", (4) "I make notes and control all personal expenses", (5) "I paid my credit card bill in full to avoid fines".

Risk perception was measured by using 4 items, as adapted from Flores and Vieira (2014): (1) "I am willing to be a guarantor for someone's debt", (2) "I spend money impulsively without thinking about the consequences", (3) "I made an investment in a business that probably not going well", (4) "I gave large loans to friends or relatives".

Materialism was measured by using 5 items, as adapted from Potrich and Vieira (2018): (1) "The things I own show how well I am doing in life", (2) "I like having things that make other people admire", (3) "I admire people who have luxury houses and cars", (4) "I feel happy if I can buy more things", (5) "I sometimes feel annoyed if I can't buy something I like".

Propensity to indebtedness was measured by using 6 items, as adapted from Potrich and Vieira (2018): (1) "Taking a loan is a good thing because with it I can enjoy life", (2) "It's a good idea to own an item now and pay for it later", (3) "Credit is an important part of today's lifestyle", (4) "I can postpone the return of the money I borrow", (5) "I like borrowing money", (6) "I am planning a large purchase in the future".
Validity and reliability testing were carried out on the research instruments. The data analysis technique used in this research is Structural Equation Modelling (SEM).

3. RESULT AND DISCUSSIONS

Table 1 shows that the variables Financial Literacy, Risk Perception, Materialism and Propensity to Indebtedness have Average Variance Extracted (AVE) values above 0.5. Thus, it can be stated that all variables are valid.

Table 1. Validity and Reliability Test Results

Variable	AVE	Cronbach's Alpha	Composite Reliability
Financial Literacy	0.512	0.798	0.838
Risk Perception	0.692	0.852	0.900
Materialism	0.584	0.819	0.873
Propensity to Indebtedness	0.595	0.861	0.897

From table 1, it can also be seen that the variables Financial Literacy, Risk Perception, Materialism and Propensity to Indebtedness have Cronbach's Alpha and Composite Reliability values above 0.6. Thus, it can be stated that all variables are reliable.

In this research, the coefficient of determination (R^2) value was 0.416 or 41.6%. This means that 41.6% of the variation in propensity to indebtedness can be explained by financial literacy, risk perception and materialism, while the remaining 58.4% is explained by variations in other variables.

In this research, the goodness of fit value was 0.4978. This means that the suitability of the model generated in this study is large.

Table 2. The Result of Bootstrapping Test

Variable	Path Coefficient	t-statistics	p-values
Financial Literacy → Propensity to Indebtedness	-0.101	2.063	0.040
Risk Perception → Propensity to Indebtedness	-0.367	6.092	0.000
Materialism → Propensity to Indebtedness	0.373	7.192	0.000

Table 2 shows that financial literacy has a negative effect on propensity to indebtedness (path coefficient = -0.101; t-statistics = 2.063 (greater than 1.96); p-values = 0.040 (less than 0.05)). The higher the financial literacy of an individual, the lower the level of propensity to indebtedness. Individuals who have high financial literacy can help individuals manage their finances better, make better financial decisions and can improve financial well-being thereby reducing the propensity to indebtedness. The results of this research are in accordance with the results of research conducted by Potrich and Vieira (2018), Prashella and Leon (2020), Wahono and Pertiwi (2020) and Patulak, Sarita and Hamid (2020).

Table 2 shows that risk perception has a negative effect on propensity to indebtedness (path coefficient = -0.367; t-statistics = 6.092 (greater than 1.96); p-values = 0.000 (less than 0.05)). The higher the individual's risk perception, the lower the level of propensity to indebtedness. Individuals who have a high-risk perception tend to avoid making risky financial decisions. Thus, the individual will have a low level of propensity to indebtedness. The results of this research are in accordance with the results of research conducted by Flores and Vieira (2014), Doosti and Karampour (2017), Flores and Bidarte (2019) and Mitta and Pamungkas (2022).

Table 2 shows that materialism has a positive effect on propensity to indebtedness (path coefficient = 0.373; t-statistics = 7.192 (greater than 1.96); p-values = 0.000 (less than 0.05)). The higher the level of materialism of an individual, the higher the level of propensity to indebtedness. Individuals who have a high level of materialism feel that having various items can show how well the individual is doing in their life. The results of this research are in accordance with the results of research conducted by Flores and Vieira (2014), Doosti and Karampour (2017) and Azma, Rahman, Adeyemi and Rahman (2019).

4.   CONCLUSIONS AND SUGGESTIONS

The results of this study show that financial literacy and risk perception has a negative effect on propensity to indebtedness, materialism has a positive effect on propensity to indebtedness.

The limitation of this research is that only credit card users in Jakarta were used as respondents so the results of this research can only explain the propensity to indebtedness of credit card users in Jakarta. This research also only uses financial literacy, risk perception and materialism

variables to explain propensity to indebtedness. In the next paper, we discuss to use other independent variables to explain propensity to indebtedness such as compulsive buying, emotions, risk behaviour, value of money, and demographic variables. This research will be developed by trying to use other respondents such as online loan users and pay later users in explaining propensity to indebtedness. For the government, it is recommended to collaborate with religious leaders and educational institutions to provide education to the public from an early age regarding materialism behaviour which can lead to bad lifestyles such as consumptive behaviour, so that the propensity to indebtedness behaviour among people can be relatively lower.

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