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EFFECTS OF FINANCIAL LITERACY AND SELF-EFFICACY ON RISKY CREDIT BEHAVIOR OF GEN-Z

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Abstract:

Background: The rise of digital technology has driven the growth of financial services like Paylater, enabling instant purchases with deferred payments. This has shifted financial habits, especially among Generation Z, who are more vulnerable to risky credit behavior. Therefore, understanding factors such as financial literacy and financial self-efficacy is essential to encourage responsible credit use.
Purpose: The research focuses on analyzing the influence of financial literacy and financial self-efficacy on risky credit behavior among Generation Z in Indonesia.
Design/methodology/approach: The study employs a quantitative research approach, utilizing a survey method to collect primary data from 141 Generation Z respondents in Indonesia who use online consumer credit services. The questionnaire assesses financial literacy, financial self-efficacy, and risky credit behavior. The collected data is analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) to evaluate the relationships between financial literacy, financial self-efficacy, and risky credit behavior.
Findings/Results: The study reveals that financial literacy significantly affects risky credit behavior. Furthermore, financial self-efficacy serves as a mediating variable, strengthening the influence of financial literacy on responsible credit management. Specifically, the results indicate that higher financial literacy leads to improved financial self-efficacy, and increased financial literacy reduces risky credit behavior. Financial self-efficacy directly decreases risky credit behavior, and financial self-efficacy successfully moderates the relationship between financial literacy and risky credit behavior, reinforcing responsible credit decisions. These findings highlight the importance of both financial knowledge and confidence in reducing credit risks among Generation Z consumers.
Conclusion: This study confirms that financial literacy and financial self-efficacy play critical roles in shaping the credit behavior of Generation Z. Financial literacy equips individuals with the necessary knowledge to manage their finances effectively, while financial self-efficacy enhances their confidence in making informed financial decisions.
Originality/value (State of the art): This research contributes to the growing body of knowledge on financial behavior by examining the interplay between financial literacy, financial self-efficacy, and risky credit behavior within the context of Generation Z's engagement with online consumer credit. Unlike previous studies that primarily focus on financial literacy alone, this study highlights the mediating role of financial self-efficacy, providing a more comprehensive understanding of how financial knowledge translates into behavior. The findings offer valuable insights for financial service providers, educators, and policymakers in designing interventions aimed at fostering financial responsibility among young consumers.

Keywords: financial literacy, self-efficacy, risky credit behavior, online consumer credit, generation z

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INTRODUCTION

The development of information and communication technology has driven the development of online services in various fields, one of which is consumer credit services. The need for easy shopping and speed of financial transactions has encouraged many companies in the financial and e-commerce sectors to develop online consumer credit services, or what is commonly called paylater. One example of this form of service is the paylater system offered by platforms such as GoPay Later, Shopee Paylater, and Kredivo. The paylater system aims to simplify the purchasing process, provide certainty to buyers, facilitate fund management, and make payments easier for consumers. Paylater allows consumers to buy now and pay later, and provides flexibility in managing short-term financial needs. This system has enabled the emergence of online loan services (pinjol) as a popular alternative to getting fast funds. Pinjol offers convenience and speed in credit application and disbursement services. This service system has changed the way individuals, especially Generation Z, manage their finances and make purchases. However, this convenience turns out to carry risks, such as impulsive spending that leads to debt accumulation and bad debt. Generation Z, who are currently entering a productive age and are increasingly involved in economic activities, is one of the significant groups of Pinjol users in Indonesia.

Generation Z, born between 1997 and 2012, is a demographic group that is highly engaged with digital platforms and services. Their financial habits and decisions are shaped by easy access to credit, which raises concerns about their ability to manage debt responsibly. According to databoks (2023), the value of bad debts for online loans based on the age group of loan recipients aged 19 to 34 years, which includes Generation Z, is IDR763.65 billion. This age group ranks highest compared to other age groups. This problem can hurt an individual's financial health, such as a heavy debt burden and damage to credit scores. This data shows that young consumers (Generation Z) are more susceptible to risky financial behavior, such as risky credit behavior, especially when these consumers do not have adequate financial literacy and financial self-efficacy.

Financial literacy is a basic understanding of financial principles. Financial literacy is internationally recognized as an essential requirement for citizens who need to make informed personal financial decisions in an increasingly deregulated and complex financial system, coupled with the rapid emergence of fintech (Douissa, 2020). Research conducted by Nguyen et al. (2022) shows that financial literacy among the adult population in Low-Middle Income countries is still relatively low. Several factors associated with better financial literacy include education level, employment status, and access to financial information. This study identified that individuals with higher education levels and more stable employment tend to have better financial literacy. In addition, access to financial information and resources, such as financial education seminars and consulting services, also plays an important role in improving financial understanding. Financial self-efficacy in financial literacy can function as a protector against risky credit behavior. Individuals who believe in their ability to manage their finances tend to be more informed and more careful in making decisions related to credit. In the research of Çallı and Coşkun (2021), financial self-efficacy is included in the personality factors that have significant results in avoiding the possibility of default, problematic debt, and financial behavior. Risky credit behavior is a decision-making behavior that is less wise and irresponsible in managing debt and credit. It is suspected that the financial literacy of the community, especially Generation Z, is still low. Therefore, research is needed that can identify the risks faced by Generation Z in managing online loans. Aspects related to online consumer credit are financial literacy, financial self-efficacy, and their relationship to risky credit behavior.

The study of financial literacy, financial self-efficacy, and risky credit behavior has gained significant attention in recent years, particularly in the context of Generation Z, who are rapidly emerging as active participants in the financial market. Existing literature highlights the increasing accessibility of credit among young adults, the challenges they face in managing debt, and the role of financial knowledge and confidence in shaping their financial behaviors. Financial literacy is widely recognized as a crucial determinant of financial well-being. Prior studies have demonstrated that individuals with higher financial literacy tend to exhibit more responsible financial behaviors, such as budgeting, saving, and responsible credit use (Lusardi and Mitchell 2014). However, despite growing efforts to enhance financial education, studies indicate that financial literacy levels among young adults, including Generation Z, remain relatively low (OECD 2020). This knowledge gap often leads to poor financial decisions, including excessive credit card usage, payday loans, and delayed debt repayment.

This study seeks to bridge the gap in existing literature by empirically testing the moderating effect of financial self-efficacy on the relationship between financial literacy and risky credit behavior among Generation Z. By doing so, it aims to provide deeper insights into the educational interventions needed to foster responsible financial decision-making in this demographic. This study aims to explore the relationship between financial literacy and financial self-efficacy on risky credit behavior of Generation Z to develop strategic steps in reducing bad credit among this group. Concerning this objective, the following hypothesis (H) is formulated: H1: Financial literacy affects financial self-efficacy; H2: Financial literacy has an effect on risky credit behavior; H3: Financial self-efficacy has an effect on risky credit behavior; H4: Financial self-efficacy successfully moderates the effect of financial literacy on risky credit behavior.

The current state of research highlights the importance of financial literacy and financial self-efficacy in shaping financial behaviors, particularly among Generation Z. However, gaps remain in understanding how these two factors interact to influence risky credit behavior. This study builds on existing literature by integrating behavioral finance theories and self-efficacy theory to develop a more comprehensive framework for analyzing credit behavior among young adults. The findings will contribute to the design of targeted financial education programs and interventions to improve credit management skills and financial well-being among Generation Z.

In today's digital era, access to financial services has expanded rapidly with the emergence of online lending (pinjol) as a popular alternative for obtaining quick funds. Pinjol offers ease and speed in loan applications and disbursements, but it also makes Generation Z, who are now entering their productive age and becoming increasingly involved in economic activities, one of the significant user groups of Pinjol in Indonesia. According to Figure 1, taken from Databoks (2023), the non-performing loan (NPL) value of Pinjol based on the age group of borrowers aged 19 to 34 years, which includes Generation Z, has reached Rp. 763.65 billion. This age group ranks the highest compared to other age groups. This issue can have negative impacts on individual financial health, such as heavy debt burdens and damage to credit scores. The core issue addressed in this study is risky credit behavior among Generation Z, which can lead to financial instability and high levels of bad credit.

The primary purpose of this research is to analyze the relationship between financial literacy and financial self-efficacy in influencing risky credit behavior among Generation Z. Given the increasing use of digital financial services, particularly online loans (pinjol), Generation Z is at high risk of financial mismanagement, leading to issues such as excessive debt, loan defaults, and poor credit scores.

METHODS

This research was conducted from July to September 2024 online to obtain primary data by distributing questionnaires to respondents. The data collection process was carried out through social media platforms that are popular among the Indonesian people, namely Instagram and WhatsApp, to facilitate distribution and reach a wide range of respondent participants. The respondents of this study came from various regions in Indonesia, thus allowing for diverse representation from various geographical backgrounds. Primary data was obtained by distributing questionnaires to Generation Z who have and use online consumer credit applications such as GoPay Later, Shopee Paylater, or Kredivo.

This study employed a quantitative approach, utilizing a survey method for data collection. The choice of this approach was based on its effectiveness in capturing measurable relationships between financial literacy, financial self-efficacy, and risky credit behavior among Generation Z. To determine the appropriate sample size, the study followed the rule of thumb formula approach as proposed by Sekaran and Bougie (2020), which suggests that the minimum required sample should be five times the number of independent variables studied. Since this research included 15 indicators, the minimum required sample size was calculated as $5 \times 15 = 75$ respondents. However, to enhance the reliability and robustness of the findings, this study successfully collected 141 responses from Generation Z individuals who actively use online consumer credit services.

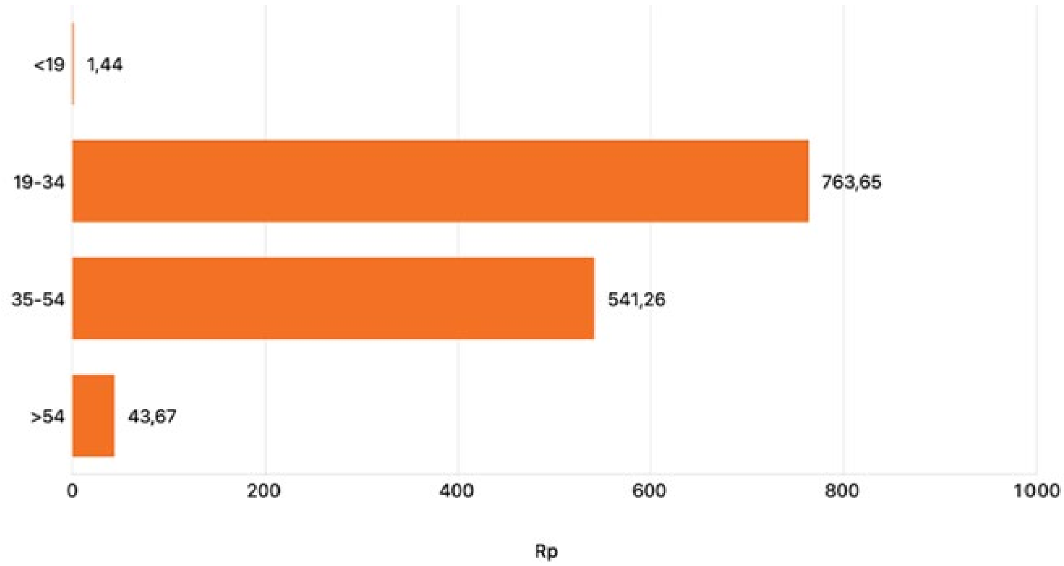

Figure 1. Non-performing Loan (NPL) Value of Pinjol Based on the Age Group of Borrowers

The recruitment of respondents was carried out through online platforms, primarily Instagram and WhatsApp, as these social media channels are widely used by Generation Z and provide effective access to individuals who frequently engage with digital financial services. The online recruitment strategy ensured that the sample consisted of individuals relevant to the study's objectives, particularly those who have experience using financial technology products, such as buy-now-pay-later (BNPL) schemes, digital lending platforms, and credit cards.

To assess the key variables, a structured questionnaire was developed, focusing on three core constructs: financial literacy, financial self-efficacy, and risky credit behavior. The questionnaire was designed to provide an in-depth understanding of how financial knowledge and confidence influence credit-related decision-making among young adults.

Financial literacy in this study is defined as an individual's ability to comprehend financial concepts and make informed financial decisions based on that knowledge. The survey included a series of multiple-choice and Likert-scale questions that evaluated respondents' understanding of basic financial principles, such as budgeting, interest rates, debt management, and savings strategies. These questions aimed to assess not only the respondents' familiarity with financial concepts but also their practical ability to apply that knowledge in real-life situations. Financial self-efficacy, on the other hand, refers to an individual's confidence in their ability to manage personal finances effectively. This concept is crucial because financial knowledge alone does not always translate into responsible financial behavior—one's belief in their ability to control financial decisions plays a significant role. The survey measured financial self-efficacy through statements that assessed respondents' confidence in budgeting, saving, and avoiding unnecessary debt. Participants were asked to indicate their level of agreement with various statements, such as their ability to stick to a budget, resist impulsive spending, and manage credit responsibly. Lastly, risky credit behavior was measured by evaluating respondents' tendencies to engage in financially irresponsible credit usage. The survey included questions that explored patterns of late payments, excessive debt accumulation, reliance on short-term loans, and the use of credit for non-essential purchases. These indicators provided insight into how Generation Z manages their credit obligations and whether their financial habits pose a risk to their overall financial well-being.

By incorporating a structured and comprehensive measurement approach, this study aims to provide a detailed analysis of the factors that contribute to risky credit behavior among Generation Z. The use of a well-targeted sample, combined with a rigorous assessment of financial literacy and self-efficacy, ensures that the findings are relevant, reliable, and applicable to the real-world financial behaviors of young adults in the digital era.

The collected data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS), a robust statistical technique widely used in social sciences and behavioral finance research. SEM-PLS is particularly effective for testing complex relationships between multiple variables, making it suitable for this study's objective of examining the influence of financial literacy and financial self-efficacy on risky credit behavior among Generation Z**.** By analyzing the data using SEM-PLS, this study provides a comprehensive and robust analysis of the relationships between financial literacy, financial self-efficacy, and risky credit behavior, offering valuable insights for financial education, policy development, and risk management strategies targeted at Generation Z.

A study by Surya and Evelyn (2023) indicates a relationship between financial literacy and risky credit behavior, though this requires further investigation, meanwhile, the results of the study conducted by Putri and Dewi (2022) stated that each variable of financial literacy, financial attitudes, and self-efficacy has a significant positive effect. This means that people who have high financial literacy, financial attitudes, and self-efficacy will be able to act financially. Financial literacy and financial attitudes have a significant positive effect on self-efficacy, meaning that people with high financial understanding and financial prospects are more independent, therefore H1:Financial literacy has a positive relationship with risky credit behavior.

Research by Lone and Bhat (2024) found that better financial knowledge enhances individuals' confidence in managing their finances. The research conducted by Ismanto and Amaiyah (2020) also stated that private employees with high financial literacy certainly have better financial behavior compared to those with low financial literacy. Financial literacy will help individuals manage their finances more easily. Financial management skills can be used by individuals to make financial decisions and ultimately achieve financial well-being; therefore, H2: Financial literacy has a positive relationship with financial self-efficacy.

According to Surya and Evelyn (2023) showed that financial literacy has a significant impact on reducing risky credit behavior. Individuals with high levels of financial literacy tend to better understand the consequences of using PayLater and are better able to manage debt wisely. H3: Financial self-efficacy reduces risky credit behavior.

Liu and Zhang (2021) state that financial self-efficacy acts as a critical mediator, translating financial literacy into responsible credit behavior. Additionally, Iramani and Lutfi (2021) emphasize that financial self-efficacy helps individuals make smarter credit choices, therefore H4:Financial literacy through financial self-efficacy reduces risky credit behavior.

The conceptual framework of this research is presented in Figure 1. The development of Information and Communication Technology (ICT) drives the development of online services in various fields, one of which is consumer credit services. The need for easy shopping and speed of financial transactions has encouraged many companies in the financial and e-commerce sectors to develop online consumer credit services, or what is commonly called paylater. The paylater system aims to simplify the purchasing process, provide certainty to buyers, facilitate fund management, and make payments easier for consumers. Paylater allows consumers to buy now and pay later, and provides flexibility in managing short-term financial needs. This system allows the emergence of online loan services (pinjol) as a popular alternative to get fast funds. Pinjol offers convenience and speed in credit application and disbursement services. This service system has changed the way individuals manage their finances and make purchases. However, this convenience turns out to cause risky behavior such as impulsive spending, thus encouraging risky credit behavior, which leads to debt accumulation and bad credit. The problem of bad credit can hurt an individual's financial health, such as a heavy debt burden and damage to the credit score. Therefore, it is necessary to analyze the causes of this bad credit problem. For this reason, it is necessary to collect primary data through questionnaires. Generation Z, which is currently entering a productive age and is increasingly involved in economic activities, is one of the significant groups of online loan users in Indonesia. This data shows that young consumers (Generation Z) are more susceptible to risky financial behavior, such as risky credit behavior. It is suspected that the cause of risky credit behavior in Generation Z is not or lack of adequate financial literacy and financial self-efficacy. In this regard, an analysis was carried out using SEM-PLS.

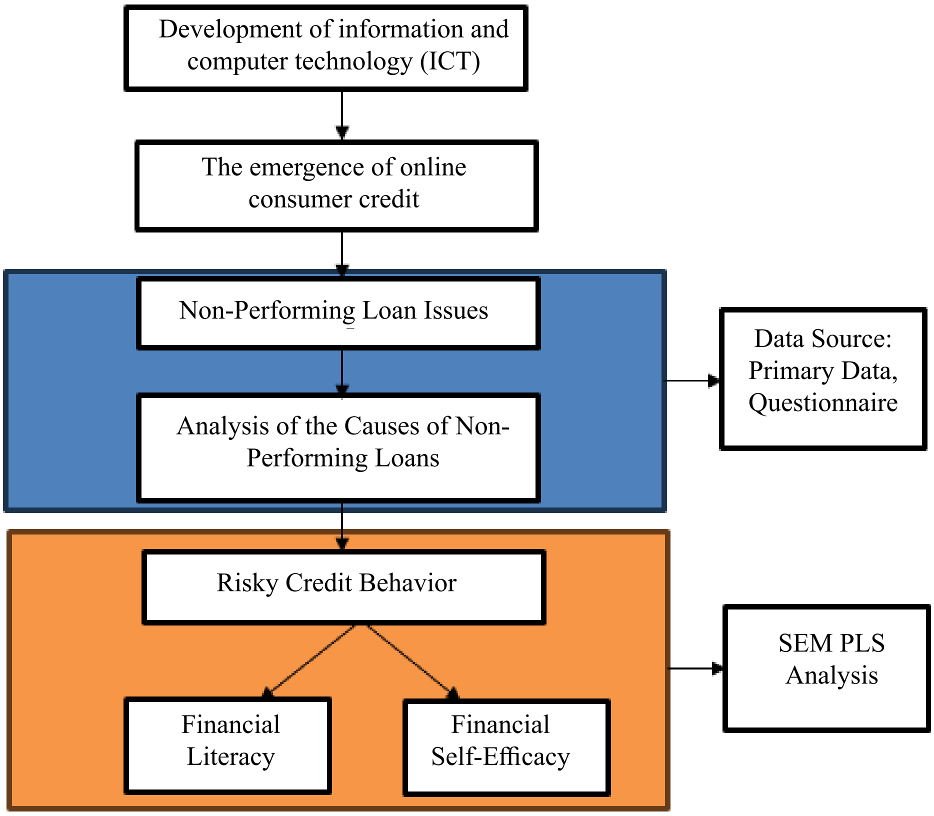

Figure 2. Research framework

RESULTS

The discussion in this study focuses on the characteristics of respondents and the results of the SEM-PLS analysis, consisting of evaluation of the results of the measurement model (outer model), evaluation of the structural model (inner model), and hypothesis testing.

Respondent Characteristics

The respondents who filled out the questionnaire for this study were 141 respondents, consisting of two gender categories, namely male and female. Of the total respondents, 65 people (46.1%) were female, while the majority of respondents, namely 76 people (53.9%), were male. This difference shows that the use of paylater services among Generation Z tends to be more common among men than women. The majority of respondents involved in this study were single, with a total of 121 people (85.8%). Meanwhile, respondents who were married were only 20 people (14.2%). There were no respondents included in other marital status categories. This shows that paylater services are more often used by unmarried individuals. In the last education category, the majority of respondents had a higher education background of Diploma 3 or Bachelor, with a total of 106 people (75.1%). A total of 18 people (12.7%) had a Master's degree, 10 people (7%) were Diploma 1-2 graduates, and only 7 people (5.2%) had a high school/equivalent education. There were no respondents who had a Doctorate. From this data, it can be concluded that Paylater users are mostly individuals with a high level of education. Respondents involved in this study came from varying age groups. The majority of respondents were between 23 and 25 years old (51%), followed by the 26 to 27 year old age group, which reached 46 people (32.6%). The 20 to 22 year old age group included 12.7% of respondents, while the youngest age group (17-19 years) consisted of only 4 people (3.7%). This shows that Paylater services are most popular among young adults. In terms of employment, most respondents work as private employees (62.4%), with a total of 88 people. As many as 39 people (27.6%) are students, and only 9 people (6.3%) work as Civil Servants. Respondents who are not working reach 3.7%. This data shows that the majority of PayLater users are individuals who are already working, especially in the private sector. In the income category, 51 people (36.2%) have an income below IDR 5,000,000, followed by 43 people (30.5%)

who earn between IDR 7,000,000 and IDR 10,000,000. As many as 29 people (20.6%) have an income between IDR 5,000,000 and IDR 7,000,000, and only 18 people (12.7%) earn above IDR 10,000,000. The majority of respondents with low incomes use paylater services, indicating that this service is widely accessed by the lower middle class. Most respondents, namely 114 people (80.9%), live in the Jabodetabek area. Meanwhile, 14 people (10%) live on the island of Java outside Jabodetabek, and only 13 people (9.1%) come from outside Java. This reflects that the use of paylater services is highest in urban areas, especially Jabodetabek. The majority of respondents use Gopay Later (49.6%) and Shopee Paylater (47.5%) as their paylater services. Only a few respondents, as many as 4 people (2.9%), use Kredivo. This data shows that Gopay Later and Shopee Paylater are the most popular services among Generation Z users. Regarding the behavior of using paylater services, 33 people (23.4%) of respondents are still actively using this service. As many as 62 people (44%) have used the paylater service but are no longer active, and 46 people (32.6%) have not used this service at all. This shows that even though the Paylater service is quite popular, not all users continue to actively use the service.

SEM-PLS Analysis Results

This study applies a data analysis method using SEM-PLS assisted by SmartPLS software. Structural Equation Modeling (SEM) aims to test the acceptance or rejection of the proposed hypothesis by analyzing the direct and indirect effects of the mediator in the relationship between the independent and dependent variables. SEM-PLS analysis aims to determine the relationship between latent variables and latent variables with their indicators. This study uses PLS analysis, which is divided into 3 stages of analysis, namely evaluation of the results of the measurement model (outer model), evaluation of the structural model (inner model), and hypothesis testing.

Evaluation of Measurement Model (Outer Model)

Evaluation of the measurement model (outer model) is used to test whether the model being tested has met the valid and reliable criteria (Figure 3). In this regard, convergent validation tests, discriminant validation tests, and reliability tests are carried out.

Convergent Validity Test reflects the variable load on the construct. Convergent validity answers whether the variable’s contribution to the factor variance is valid to describe the factor or not. The convergent validity test is used to measure the correlation between item scores and construct scores or variable scores tested in the SEM-PLS analysis. According to Hair et al. (2010), convergent validity is the degree to which two different measures of the same construct correlate with each other, and this is measured by the Average Variance Extracted (AVE). AVE above 0.5 indicates good convergent validity. In this test, research can be said to be valid if the indicators exceed the standardized loading factor of 0.6 and the average variance extracted (AVE) value is greater than 0.5.

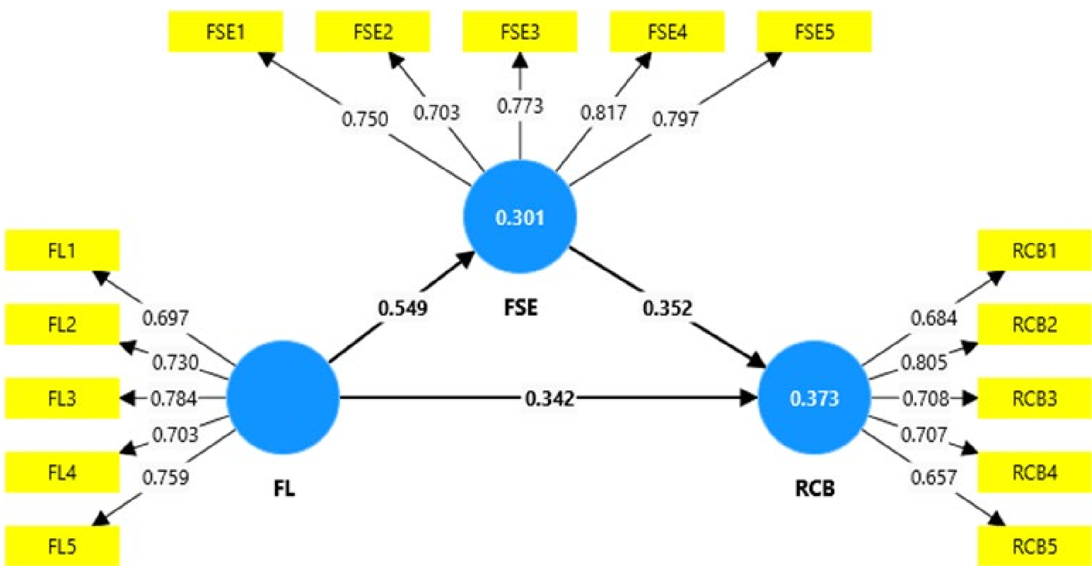

Figure 3. Outer Model

In Table 1, the loading factor value of the latent variables for each indicator is more than 0.6, so it meets the standardized loading factor, thus meeting convergent validity. The AVE value for each construct shown in Table 2 indicates that all latent variables have values greater than 0.5. This indicates that these constructs have a good ability to reflect the measured indicators. In other words, an AVE value greater than 0.5 indicates that the latent variable can explain greater variance of the question items compared to the variance generated by measurement error. The higher the AVE value, the greater the ability of the construct to capture the actual variability rather than error, thus increasing convergent validity.

Specifically, the AVE value for the Financial Literacy (FL) construct was recorded at 0.540, indicating that this variable was able to explain 54% of the variance of the indicators related to it. Meanwhile, the Financial self-efficacy construct had an AVE value of 0.592, indicating that 59.2% of the indicator variance could be explained by this construct, illustrating a fairly strong ability to reflect these variables. As for the Risky Credit Behavior (RCB) construct, the AVE value was 0.510, which, although lower, still met the minimum threshold of 0.5, indicating that more than half of the indicator variance could be explained by this construct. These AVE values provide strong evidence that each construct has a good representation of the question items that measure the construct.

Discriminant validity testing is an important method in structural analysis that aims to ensure that each indicator or construct in the research model is truly different and does not overlap with other constructs represented by different latent variables. This validity is important to show that each construct has a unique meaning in the context of the analysis. Discriminant validity testing can be seen through the cross-loading parameter, which aims to ensure that each indicator is more closely correlated with the latent variable it represents compared to other latent variables. In this context, cross-loading is the correlation value between an indicator and a latent variable. For a model to be said to have good discriminant validity, the correlation value of the indicator with the measured latent variable must be greater than its correlation with other latent variables. In other words, an indicator must have a stronger relationship with its construct than with other unrelated constructs.

The following presents the results of the cross loading values (Table 3) for each indicator related to its latent variable. These values provide a clear picture of the extent to which each indicator correlates more strongly with the measured latent variable compared to other latent variables.

Table 3 shows that the loading factor value for each indicator with its latent variable pair has a greater value compared to the cross-correlation of loading factors between indicators and latent variables from other blocks. In the table presented, the relevant loading factor values are printed in bold, indicating that the value has a more significant weight than other values in the same row. These results indicate that each indicator can effectively explain the appropriate latent variable, and indicate that the placement of indicators in each dimension or latent variable has been done correctly. This strengthens the validity of the measurement and provides confidence that the analysis carried out can produce accurate and relevant conclusions in the context of the research concerned.

Table 1. Loading factor values of latent variables for each indicator

Latent variables	Indicator	Loading Factor
	FL1	0.697
	FL2	0.730
Financial Literacy	FL3	0.784
	FL4	0.703
	FL5	0.759
	FSE1	0.750
	FSE2	0.703
Financial self-efficacy	FSE3	0.773
	FSE4	0.817
	FSE5	0.797
	RCB1	0.684
	RCB2	0.805
Risky Credit Behavior	RCB3	0.708
	RCB4	0.707
	RCB5	0.657

Table 2. Average Variance Extracted (AVE)

Latent variables	AVE	Notes
Financial Literacy	0.540	Valid
Financial self-efficacy	0.592	Valid

Table 3. Results of cross-loading analysis of each indicator related to its latent variable

Indicator Codes	Financial Literacy	Financial Self-efficacy	Risky Credit Behavior
FL1	0.697	0.320	0.339
FL2	0.730	0.472	0.386
FL3	0.784	0.367	0.361
FL4	0.703	0.312	0.413
FL5	0.759	0.499	0.450
FSE1	0.519	0.750	0.417
FSE 2	0.393	0.703	0.331
FSE 3	0.345	0.773	0.320
FSE 4	0.440	0.817	0.451
FSE 5	0.388	0.797	0,519
RCB 1	0.318	0.305	0.684
RCB 2	0.447	0.684	0,805
RCB 3	0.419	0.247	0.708
RCB 4	0.360	0.319	0.707
RCB 5	0.345	0.110	0.657

Reliability test is done by evaluating composite reliability, a measure used in construction analysis to assess the extent to which items in a scale measure the same construct. Reliability refers to the consistency or dependability of a measure or system. In the context of measurements, it indicates the degree to which an instrument yields the same results upon repeated trials (Althubaiti, 2020). Composite reliability measures how well indicators in a construct correlate with each other and measure the same thing. Reliability testing is an important step in research that aims to assess the extent to which the measurement tool used can provide accurate, consistent, and precise results in measuring the construct or variable being studied. In this context, the Composite Reliability value is used as an indicator to assess the reliability of a variable. To be considered reliable, the Composite Reliability value obtained must be greater than 0.70.

Based on the analysis results presented in Table 4, the Composite Reliability value for the latent variable Financial Literacy was recorded at 0.795, while for Financial Self-efficacy it reached 0.835, and Risky Credit Behavior was 0.825. These figures indicate that all Composite Reliability values are much greater than the set threshold, which is 0.70. This provides strong evidence that the measurement tool used in this study has a good level of reliability, or in other words, the measurement tool is consistent in measuring the intended construct.

Based on the results of the evaluation of the measurement model (outer model), it can be concluded that the measurement model built has met good criteria. This can be seen from the valid and reliable measurement results. Overall, the good validity and reliability of this measurement model provide a strong basis for the research conducted. This not only increases the credibility of the research results but also provides confidence to readers and stakeholders that the model used is truly able to describe the reality being studied accurately and consistently.

Structural Model Evaluation (Inner Model)

Inner model testing generally aims to show and measure the relationship between exogenous construct variables and endogenous construct variables in a model. This process is very important because it provides insight into how these variables interact and influence each other. In this analysis, exogenous construct variables function as predictors or independent variables, while endogenous construct variables function as dependent variables that are influenced by exogenous variables.

In other words, inner model testing allows researchers to understand and map the causal relationships between constructs, as well as identify the extent to which one construct can explain variations in other constructs. In this regard, a determination test or R-squared is needed. Structural Model Evaluation, or Inner Model, in the context of Structural Equation Modeling (SEM), refers to the process of testing causal relationships between latent variables based on underlying substantive theory. According to Ghozali and Latan (2020), the Inner Model describes the relationship or strength of estimates between latent variables. Furthermore, the strength and significance of relationships in the Inner Model are typically tested using bootstrapping procedures to determine the reliability of the estimated path coefficients. A well-evaluated Inner Model ensures that the hypothesized relationships align with theoretical expectations and empirical data, providing robust insights into causal mechanisms in complex research models. Inner model result in Figure 4.

The determination test, or R-squared, is a method used to measure how much influence exogenous latent variables have on endogenous variables in a model. In other words, R-squared provides information about the proportion of variation in the dependent variable that can be explained by the independent variables in the model. The higher the R-squared value obtained, the better the model is in explaining the dependent variable, because it indicates that most of the variability in the data can be attributed to the exogenous variables analyzed. In the context of this study, the R-squared value not only provides an overview of the strength of the relationship between the variables involved but also focuses on how effective the structural model is in predicting the desired outcome. A high R-squared value reflects that the model can capture the complex relationships between these variables, thus providing confidence to researchers and stakeholders that the model used has good validity and relevance.

The following data presents the results of R-squared measurements on the structural model that has been analyzed (Table 5). These results provide insight into how much the exogenous variables contribute to the endogenous variables in the context of the research being conducted. This analysis is an important step in evaluating the overall model because it allows researchers to assess the extent to which the variables studied can interact with each other and influence the expected results.

Table 4. Composite Reliability

Latent Variables	Composite Reliability	Note
Financial Literacy	0.795	Valid
Financial Self-Efficacy	0.835	Valid
Risky Credit Behavior	0.825	Valid

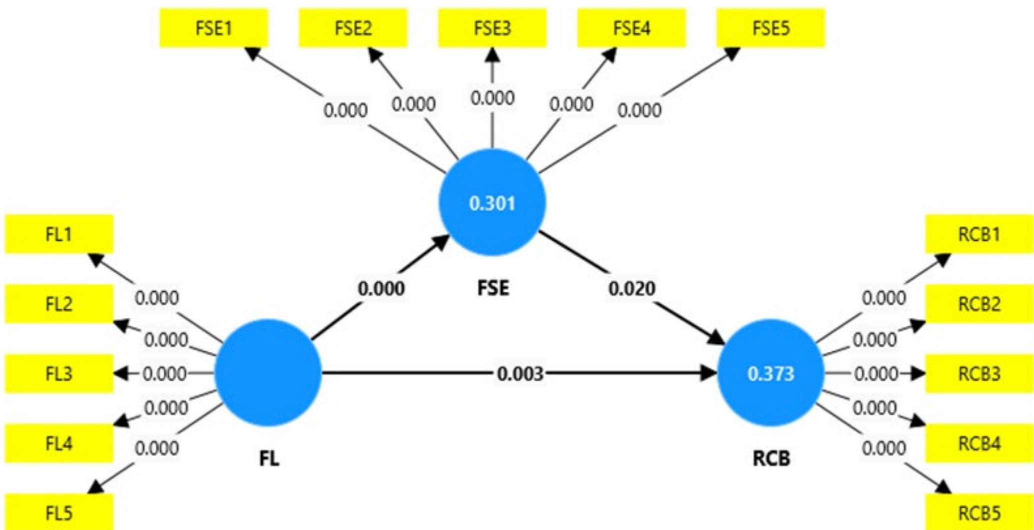

Figure 5. Inner Model

Table 5. R-Square Value

Variables	R-Square (R2)
Financial self-efficacy	0.301
Risky Credit Behavior	0.373

Based on Table 5, it is obtained that the R-squared value for the financial self-efficacy variable is 0.301. This shows that 30.1% of the variation in financial self-efficacy can be explained by the independent variables in the analyzed model. Conversely, 69.9% of the variation in financial self-efficacy is influenced by other variables not included in this study. In addition, the risky credit behavior variable has an R-squared value of 0.373. This means that 37.3% of the variation in risky credit behavior can be explained by the exogenous variables analyzed in the model. Meanwhile, the remaining 62.7% of the variation in risky credit behavior is influenced by other variables not measured in this study.

The results show that although there is a significant relationship between the variables studied, there are still many other factors that play a role in influencing financial self-efficacy and risky credit behavior. In other words, the R-squared value obtained illustrates that the model used can explain part of the variation in the dependent variable, but further research is still needed to identify other variables that contribute to the two constructs.

Hypothesis Test

The next test is to test the hypothesis that can be seen in the path coefficient estimates, which include the direct influence of a latent variable on other latent variables. The bootstrapping process produces the original sample value (O), sample mean (M), standard errors, t-statistic values, and p-values on the path coefficient estimate values. A variable can be said to have a significant relationship if it has a p-value that is smaller than the 5% level and a t-statistic value that is greater than the t-table value of 1.96 with a 95% confidence level. While the original sample value can explain positive or negative relationships in a model. There are two stages of hypothesis testing carried out, namely the hypothesis test for the direct effect related to H1, H2, and H3, and the hypothesis test for the indirect effect related to the influence of the moderating variable in H4.

Hypothesis test for direct effect

The following presents the results of the hypothesis test related to the direct influence between the studied constructs, which is the bootstrapping path coefficient (Table 6). These results will provide deeper insight into how significant the relationship between variables is, as well as how strong the direct influence is of each construct in this path analysis model. This analysis is important to understand the dynamics of interactions between variables and to evaluate the hypotheses proposed in the study. Thus, this information can be a strong basis for drawing conclusions and recommending strategic steps that can be taken based on the results obtained.

Based on the Table 6, the results of the hypothesis testing related to the direct influence between the constructs studied can be described as follows:

H1 : Financial literacy influences financial self-efficacy
Based on Table 6, it can be seen that the P-value of H1 is 0.000 and the t-statistic value is 5.938. This indicates a significant influence of financial literacy and financial self-efficacy. The P-value, which is much smaller than 0.05, indicates that this result is very statistically significant, which means that there is a very small possibility that this result occurred by chance. In addition, the t-statistic value, which exceeds the critical threshold of 1.97, further strengthens this finding, indicating that the independent variable (financial literacy) has a real impact on the dependent variable (financial self-efficacy). Thus, H1, which states that financial literacy has a significant influence on financial self-efficacy, is accepted. Financial literacy directly affects a person's level of confidence in managing their finances.

Kartawinata et al. (2021) also found that financial literacy has a significant impact on financial self-efficacy, highlighting the crucial link between knowledge and confidence in financial decision-making. This finding suggests that individuals who possess a strong understanding of financial concepts, such as budgeting, credit management, investments, and risk assessment, are more likely to develop a greater sense of self-assurance in handling their financial affairs. When individuals are well-informed about financial matters, they feel more capable of making sound financial decisions, managing their resources effectively, and navigating financial challenges with confidence. Furthermore, financial literacy empowers individuals to take control of their financial well-being, reducing feelings of uncertainty or anxiety related to money management. As a result, the higher a person's level of financial literacy, the stronger their financial self-efficacy becomes, enabling them to make more responsible financial choices, avoid excessive debt, and plan for long-term financial stability. This underscores the importance of financial education initiatives in fostering not only knowledge but also the confidence needed to apply that knowledge effectively in real-life financial situations.

The findings are also in line with the research that is conducted by Noor et al. (2020). Based on their research, they stated that individuals with a high level of financial knowledge tend to exhibit greater self-confidence when making financial decisions. This suggests that possessing a strong understanding of financial concepts, such as budgeting, savings, investments, and credit management, enhances an individual's ability to assess financial situations accurately and make informed choices. When individuals are well-versed in financial matters, they are less likely to experience uncertainty or hesitation when faced with important financial decisions. Instead, they approach financial planning and problem-solving with greater confidence, enabling them to set realistic financial goals, evaluate risks effectively, and optimize their financial resources. Additionally, financial knowledge fosters a proactive approach to managing money, reducing the likelihood of impulsive or uninformed financial behaviors that could lead to financial instability. Therefore, the findings of Noor et al. (2020) further reinforce the idea that financial literacy is not just about acquiring information but also about developing the confidence needed to apply that knowledge in everyday financial decision-making. As individuals become more financially literate, they cultivate a stronger sense of control over their financial well-being, leading to more responsible and strategic financial behaviors.

The results of this study show the importance of comprehensive financial education for the younger generation, especially Generation Z, to improve their ability and confidence in managing personal finances. Strong financial knowledge not only provides a foundation for good decision-making but also helps individuals feel more confident in managing financial risks and achieving their financial goals. The study also highlights that financial education programs incorporating practical experiences and digital tools are particularly effective in enhancing financial literacy among young people. This underscores the need for educational institutions, policymakers, and financial organizations to develop innovative, accessible, and technology-driven financial literacy initiatives tailored to Generation Z's learning preferences. By integrating financial education into formal curricula and leveraging digital platforms, young individuals can be better prepared to make informed financial decisions, adapt to evolving financial landscapes, and build a more secure financial future.

H2: Financial literacy affects risky credit behavior

Based on the data in Table 6, it can be seen that the P-value of 0.002 and the t-statistic value of 3.019 indicate that financial literacy has a significant effect on risky credit behavior. A P- P-value of less than 0.05 indicates that this effect is statistically significant, so it can be concluded that there is a real relationship between financial literacy and risky credit behavior. In addition, the t-statistic value of more than 1.97 further strengthens this result, indicating that financial literacy does significantly affect risky credit behavior in the generation studied, namely, generation Z. Thus, H2, which states that financial literacy has a significant effect on risky credit behavior, is accepted. This shows that the level of financial literacy plays an important role in determining how much risk is taken by individuals, especially Generation Z, in using credit.

Table 6 Path Coefficient Bootstrapping

Hyphotesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Notes
H1: FL → FSE	0.549	0.563	0.092	5.938	0.000	Accept H1
H2: FL → RCB	0.342	0.357	0.113	3.019	0.002	Accept H2
H3: FSE → RCB	0.352	0.347	0.152	2.319	0.020	Accept H3

Note: Financial Literacy (FL); Financial Self-Efficacy (FSE); Risky Credit Behavior (RCB)

The findings align with the research conducted by Izazi et al. (2020), which suggests that as a person's financial literacy increases, their ability to manage finances effectively also improves, leading to a reduction in consumptive behavior. Financial literacy equips individuals with the knowledge and skills necessary to make informed financial decisions, allowing them to distinguish between essential and non-essential expenditures, create and adhere to a budget, and prioritize long-term financial stability over short-term gratification. When individuals possess a higher level of financial literacy, they become more aware of the consequences of excessive spending and debt accumulation. This heightened awareness encourages them to adopt more disciplined financial habits, such as saving, investing, and carefully evaluating purchases before making impulsive financial decisions. Furthermore, financial literacy fosters critical thinking in financial management, enabling individuals to assess the risks and benefits of their spending patterns, understand the impact of financial choices on their future, and develop strategies to achieve financial security. As a result, individuals with strong financial literacy are more likely to exhibit responsible financial behaviors, resist unnecessary spending temptations, and cultivate a mindset focused on long-term financial well-being rather than immediate gratification. This highlights the crucial role of financial education in promoting financial discipline, improving money management skills, and ultimately reducing consumptive behavior.

Generation Z, who grew up in the digital era with easy access to financial services such as credit cards and online loans, tends to be more susceptible to risky credit behavior if they are not equipped with adequate financial literacy. This study shows that the better the financial literacy of individuals in this group, the less likely they are to engage in risky credit behavior, such as excessive use of credit or delays in payments. This finding emphasizes the importance of financial education for the younger generation to help them understand the risks associated with using credit. With a better understanding, they will be better able to avoid situations that can lead to uncontrolled debt accumulation, increasing their ability to manage personal finances more responsibly. These findings also underscore the urgent need for financial education initiatives targeted at Generation Z to equip them with the necessary skills to navigate modern financial landscapes responsibly. By fostering financial awareness from an early stage, young individuals can develop strong financial habits, avoid debt traps, and make sound financial choices that contribute to long-term economic security. With a solid financial foundation, Generation Z will be better prepared to manage personal finances effectively, mitigate financial risks, and achieve financial independence in an increasingly complex and digitalized economy.

Research conducted by Wulan et al. (2024) found that individuals with higher financial literacy tend to develop better saving habits. This suggests that strengthening financial education could also mitigate risky credit behaviors by promoting responsible financial habits, such as budgeting, debt management, and informed borrowing decisions. Given the increasing accessibility of financial products, particularly digital banking and buy-now-pay-later (BNPL) services, financial literacy is more crucial than ever in ensuring that young individuals make sound financial decisions. Generation Z, in particular, faces unique financial challenges due to their high exposure to digital financial services, social media-driven consumer culture, and economic uncertainties. Unlike previous generations, Gen Z tends to rely on online resources, peer recommendations, and social media influencers for financial advice, which may not always provide accurate or comprehensive financial guidance. Therefore, there is a pressing need for educational institutions, policymakers, and financial organizations to develop innovative, accessible, and technology-driven financial literacy initiatives tailored to Generation Z's learning preferences.

To effectively enhance financial literacy among this generation, financial education programs should integrate interactive digital tools, gamified learning experiences, and real-world financial simulations. Mobile applications, AI-driven financial assistants, and engaging social media campaigns can serve as effective channels for delivering financial knowledge in a way that resonates with Gen Z's digital habits. Additionally, collaboration between financial institutions, fintech companies, and educational organizations can ensure that financial literacy programs remain relevant, engaging, and practical. By leveraging technology and aligning financial education with Gen Z's behavioral patterns, society can foster a generation that is not only financially literate but also capable of making informed, responsible financial decisions. This, in turn, can contribute to long-term financial stability and economic resilience at both individual and societal levels.

Overall, strong financial literacy not only provides a deep understanding of various aspects of credit but also helps improve individuals' self-control and awareness of the risks associated with risky credit behavior. This emphasizes the importance of broader financial education to encourage healthier credit use and reduce the likelihood of financial problems caused by uncontrolled credit behavior.

H3: Financial self-efficacy affects risky credit behavior

Based on Table 6, it is obtained that the P-value of 0.020 and the t-statistic value of 2.319 indicate that financial self-efficacy has a significant effect on risky credit behavior. The P-value obtained, which is less than the threshold of 0.05, indicates that this result is statistically significant. This means that there is a very small possibility that the observed relationship occurs by chance. In addition, the t-statistic value that exceeds the critical limit of 1.97 further strengthens this conclusion, indicating that financial self-efficacy has a real impact on risky credit behavior in the individuals studied, especially Generation Z.

Thus, H3, which states that financial self-efficacy has a significant effect on risky credit behavior, is accepted. This shows that individuals with a high level of self-confidence in financial management tend to make wiser decisions regarding credit use. Generation Z, which is known for its use of technology and easy access to credit products, is very likely to be affected by their level of self-efficacy in managing finances. When individuals feel more confident in their ability to manage their finances, they are better able to assess the risks associated with credit use and are more likely to make responsible decisions. This includes the ability to avoid risky credit behaviors, such as excessive credit card use or failure to pay debts on time. In other words, financial self-efficacy not only improves individuals' ability to plan and manage debt but also contributes to reducing behaviors that can endanger their financial health.

According to Radianto et al. (2022), self-confidence in managing finances, which is closely related to financial self-efficacy, plays an important role in reducing risky credit behavior, especially among the younger generation. The findings in this research are in line with the research conducted by Surya and Evelyn (2023), who found that financial literacy has a significant impact on reducing risky credit behavior. Research that is conducted by Constanje et al. (2023) stated that the higher a person's knowledge of finance, the better the way that person manages their finances. When a person's financial management is said to be good, then that person will tend to avoid risky credit behavior because he has been able to allocate the money they have properly. It can be interpreted that the higher a person's level of financial literacy, the level of risky credit behavior that person will experience will decrease. Individuals with high levels of financial literacy tend to better understand the consequences of using PayLater and are better able to manage debt wisely. Another study that is conducted by Rahman and Dewi (2022) also stated that higher financial self-efficacy is associated with lower engagement in risky credit behavior.

Meanwhile, financial self-efficacy also plays an important role in mediating this relationship. Individuals who feel confident in their ability to manage their finances effectively are more likely to avoid risky credit behavior, even though they use PayLater services. Adequate knowledge of financial management, credit, and related risks, as well as direct experience in managing finances, will help individuals make wiser financial decisions. This self-assurance stems from a solid understanding of financial management principles, credit mechanisms, and potential risks, as well as firsthand experience in managing personal finances. When individuals are well-equipped with financial knowledge and practical skills, they are more likely to assess the long-term implications of their financial decisions, exercise greater self-control, and adopt responsible borrowing habits.

Indirect Effect

The indirect effect of the independent variable on the dependent variable through the intervening variable is an important aspect in the analysis of the relationship between variables in research. The evaluation of this indirect effect is carried out using the results of the indirect effect calculation obtained through the bootstrapping process in the SmartPLS 4.1 software. The bootstrapping process allows researchers to measure the stability of the estimates and provide confidence intervals for the resulting coefficients, thus providing a more accurate picture of the effects that occur. The following is Table 7, which contains the path analysis coefficients for the indirect effect, as a result of testing the H4 hypothesis.

H4: Financial self-efficacy moderates the influence of financial literacy on risky credit behavior.

Table 7 presents data on coefficient values that indicate the strength and direction of the relationship between the independent and dependent variables through the intervening variables. With this analysis, it can be understood that the intervening variable functions in mediating the influence between the independent and dependent variables, and how significant the influence is in the context of the study. Based on these data, information was obtained that the P-value of 0.020 and the t-statistic value of 2.323 indicate a significant influence of financial self-efficacy as a moderator on the influence of financial literacy on risky credit behavior. A P-value smaller than 0.05 indicates that this result is statistically significant, while a t-statistic value greater than 1.97 indicates that the influence of financial self-efficacy in moderating the relationship can be considered strong. Thus, the hypothesis H4, which states that financial self-efficacy successfully moderates the influence of financial literacy on risky credit behavior, is accepted. This finding shows that individuals with high levels of financial self-efficacy can manage and apply their financial literacy knowledge better, so they are wiser in making decisions related to credit use.

This indicates that financial self-efficacy plays an important role in shaping the financial behavior of Generation Z. High self-confidence in the ability to manage finances not only influences daily decisions related to spending and saving but also strengthens individuals' ability to apply the knowledge they have about financial literacy. When Generation Z feels confident in their ability to manage financial aspects, they are more likely to make wiser and more strategic decisions in terms of credit use. Financial self-efficacy helps individuals overcome various challenges they may face in financial management. By having strong self-confidence, they can be more proactive in seeking relevant information and using that knowledge to avoid risky decisions. For example, individuals who have high levels of financial self-efficacy may be more selective in choosing credit products, can assess their financial condition objectively, and feel more comfortable in negotiating favorable credit terms.

This research is in line with the research that is conducted by Liu and Zhang (2021), which found that students who have better financial knowledge tend to be more careful in using online consumer credit and are better able to manage their debt wisely. Financial self-efficacy also plays an important role in moderating this relationship. Students who feel confident in their ability to manage finances and understand credit products tend to avoid risky credit behavior, even though they use online consumer credit. Kurniasari et al. (2023) found that financial self-efficacy can moderate the relationship between financial literacy and risky credit behavior among Generation Z. Meanwhile, Liu and Zhang (2021) also found that financial self-efficacy functions as a significant mediator between financial literacy and safe credit decision making. Another research that is conducted by Zhang and Yao (2021) found that higher financial literacy is associated with reduced risky credit behavior. Moreover, the study reveals that financial self-efficacy moderates this relationship, suggesting that students with greater confidence in their financial management abilities are less likely to engage in risky credit behaviors, even when their financial literacy levels are lower.

Overall, these findings suggest that financial self-efficacy not only serves as a determinant of financial management, but also plays an important role in linking financial literacy to credit behavior. By increasing individuals' confidence in financial management, we can help them make better decisions and reduce the risk of unhealthy credit behavior.

Table 7. Path Coefficients for Indirect Effects

Hyphotesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Notes
H4: FL → FSE → RCB	0.193	0.190	0.083	2.323	0.020	Accept H4

Note: Financial Literacy (FL); Financial Self-Efficacy (FSE); Risky Credit Behavior (RCB)

Managerial Implications

For paylater service providers and online consumer credit

Companies providing paylater and online consumer credit services need to improve financial literacy education for Generation Z to help them be wiser in using paylater and online consumer credit services. These financial literacy education programs must be structured, including an explanation of how Paylater services work, the costs involved, and the importance of good financial planning. These education programs can include training on how to budget, understand the terms and conditions of credit products, and strategies to avoid unnecessary debt. By providing the necessary knowledge and skills, service providers can help individuals better manage their finances and reduce the risk of non-performing loans. Thus, Generation Z will be better prepared to use these services responsibly.

For users of online consumer credit services

Users should deepen their understanding of the fundamentals of finance, including how interest, loans, and debt work. In-depth knowledge of these matters is essential to help them make wiser decisions regarding the use of online credit. This increase in financial literacy is not only relevant for Generation Z but also applies to all levels of society, from students to experienced professionals. Users of online consumer credit services must also apply the principle of wise credit use. Credit should only be used for productive needs, such as investment in education or business development, rather than for temporary consumptive needs. By adopting a smarter and more informed approach to credit use, users can minimize the risk of bad debt and ensure that their financial decisions support long-term goals.

For the Government

The government can try to strengthen regulations and supervision of online credit service providers as an important step that must be taken to protect consumers, especially Generation Z, who are vulnerable to credit risk. Policies related to interest, late fees, and collection processes must be strictly regulated to ensure that all business practices are carried out fairly and transparently. Through this regulation, the government can help create a safer and more trustworthy credit environment for the community.

The government also has the opportunity to launch a national financial literacy campaign that specifically targets young people, especially Generation Z. This campaign can cover various important aspects, such as education about the risks of debt, how to manage personal finances, and the wise use of credit.

With these steps, the government is not only acting as a regulator, but also as an educator and facilitator that helps Generation Z to face financial challenges with better readiness. Strengthening regulations, cooperation with the private sector, and comprehensive education campaigns can create a more financially intelligent society and reduce the risks associated with debt in the future. This will have a positive impact not only on individuals but also on the stability of the economy as a whole.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study highlights the crucial role of financial literacy and financial self-efficacy in influencing risky credit behavior among Generation Z users of online consumer credit. The findings align with previous research that has explored the relationship between financial literacy, self-efficacy, and risky credit behavior. For instance, Liu and Zhang (2021) found that financial self-efficacy serves as a significant mediator between financial literacy and safe credit decision-making, a conclusion that is also supported by this study. Individuals with higher financial literacy tend to have greater confidence in managing their finances, leading to more responsible credit behavior.

Furthermore, this study corroborates the findings of Lone and Bhat (2024), who examined how financial literacy impacts financial well-being through the mediating role of financial self-efficacy. Their research revealed that individuals with high financial literacy are more likely to experience greater financial well-being. However, their findings also indicate that the effect of financial literacy on financial well-being is often mediated by financial self-efficacy. This suggests that individuals who possess strong financial knowledge are not only better equipped to manage their finances but also develop a higher level of confidence in doing so, which ultimately enhances their financial well-being.

Higher financial literacy enables individuals to make wiser financial decisions, reducing their likelihood of engaging in risky credit behavior. Financial self-efficacy, defined as one's confidence in managing personal finances, has been proven to mediate the relationship between financial literacy and risky credit behavior. This mediation effect strengthens the positive impact of financial literacy in minimizing credit risks. Individuals with greater financial literacy are less prone to risky credit behavior, while those with a strong understanding of financial concepts are more confident in their ability to manage their finances. Furthermore, individuals with higher self-confidence in financial management tend to exhibit more cautious credit behavior. These findings reinforce the crucial role of financial self-efficacy in shaping responsible financial decision-making and mitigating credit risk among Generation Z consumers.

Recommendations

In connection with the research results that have been carried out, several suggestions that need to be carried out as follow-up are as follows: Educational institutions and credit-granting companies need to improve financial literacy education among Generation Z to help them be wiser in using online consumer credit services. For further research: can expand the population and sample coverage by involving other age groups or different demographic segments, such as millennials or older generations, to find out if there are differences in credit behavior and financial literacy between generations can add other variables that may affect risky credit behavior, such as social influence or the role of financial technology (fintech), to get a more diverse view of credit behavior.

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