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The Influence of Financial Literacy, Materialism, And Risk Perception on The Propensity to Indebtedness of the Millennial Generation

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ABSTRACT: The tendency of the millennial generation to take out loans is an interesting topic for debate. The characteristics of the millennial generation, especially high disposable income, motivate the habit of debt (Rudhiwantoro, 2018). In fact, millennials earn more than enough money to pay all bills and save some for the future. However, millennials cannot invest because they depend on consumer credit or installment payments (Rahayu, 2019). This materialistic tendency can encourage people to engage in debt-inducing behavior. This type of debt behavior is carried out intentionally by someone, usually due to difficulty managing finances or being unable to resist buying items to fulfill a lifestyle. Propensity to Indebtedness is the tendency to always borrow money. Propensity to Indebtedness can have a negative impact on consumptive behavior, such as buying products that only satisfy oneself. This study examines how financial literacy, materialism, and risk perception influence Propensity to Indebtedness. This study involved residents of Bandung. A convenience sampling was conducted to collect 200 residents of Bandung City through a questionnaire. Data were analyzed using partial least squares. Financial literacy had a significant negative effect on propensity to indebtedness, materialism had a significant positive effect, and risk perception was insignificant.

KEYWORDS: Financial literacy, Materialism, Risk Perception, Propensity to Indebtedness

I. INTRODUCTION

Thanks to modern globalization, consumers have access to a variety of financial products and services, making it possible to maximize product features and benefits. Knowing what to expect regarding risks and uncertainties is just as important (OECD, 2012). In addition to a lack of knowledge about how to use these financial services and products, consumers may be hesitant to buy them because of the possible risks (Potrich et al., 2016). This is related to people's tendency to go into debt to get what they want (Davies & Lea, 1995). In general, consumer behavior, including buying products for personal satisfaction, can be a negative way of showing Propensity to Indebtedness. A lack of savings causes people to take on more debt, which means they will not be able to afford the things they want in life, such as a house, car, college for their children, or retirement. Debt, if used constructively, can have a positive impact, especially if invested in ventures that have the potential to generate future profits. This study examines the relationship between financial literacy, materialism, and risk perception, which are three factors that can influence a person's propensity to incur debt. Prudent individuals will manage their finances to prevent Propensity to Indebtedness by reducing borrowing money to meet their own needs. In addition, it is necessary to have financial literacy (Huston, 2010). A person can control themselves and refrain from taking out loans to buy material goods if the level of materialism is lower (Tatzel, 2002). One way to avoid debt is to control risk perception your (Tatzel, 2002).

The tendency of the millennial generation to take out loans is an interesting topic to debate. The characteristics of the millennial generation, especially high disposable income, motivate debt habits (Rudhiwantoro, 2018). In fact, the millennial generation makes more than enough money to pay all the bills and save some for the future. However, the millennial generation cannot invest because they depend on consumer credit or installment payments (Rahayu, 2019). The tendency of materialism can encourage people to engage in behaviors that trigger debt. This kind of debt behavior is carried out intentionally by someone, usually due to difficulties in managing finances or not being able to resist buying goods to fulfill their lifestyle.

Production credit and consumer credit are the two main types of loans. According to Setiawan (2020), there are two types of credit: consumer credit, which is intended to meet the needs of creditors, and productive credit, which is intended to finance capital and investment. A person's financial situation should improve when they are able to use credit to acquire assets, pay important expenses, or overcome long-term economic difficulties (Rahman et al., 2020). Unfortunately, the millennial generation has become accustomed to taking out loans instead of saving for large expenses due to the technological advantages available for consumers today. The end result of this ease of use is Propensity to Indebtedness, or an unconscious and continuous tendency to be in debt.

A person's tendency to be in debt may be influenced by consumption habits. A person's negative emotions, such as those caused by addiction, stress, or boredom, which are known as risk perception, motivate them to repeatedly purchase goods (Leite et al., 2011). Achtziger et al. (2015) found that a person's sense of risk can lead to overspending, which in turn can lead to high levels of debt. Propensity to Indebtedness is influenced by a person's sense of risk (Wahono & Pertiwi, 2020). When people cannot afford the things they arewanted, they tend to go into debt. The inability to save for things like a down payment on a house or property, children's tuition fees, or retirement is one of the negative consequences.

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Preventing future financial problems is the hope of good financial literacy . The millennial generation should be better prepared to manage their own finances and less likely to go into debt to fulfill their wants and needs. This can only happen if they have a strong understanding of personal finance (Huston, 2010). Financial literacy significantly reduces the likelihood of debt, according to studies cited by Azma, Rahman, Adeyemi, and Rahman (2018). A person's ability to manage and clarify financial goals can be improved by acquiring good financial literacy . Individuals will be able to avoid financial problems that can lead to Propensity to Indebtedness if they achieve these goals. Flores and Vieira (2020) found no statistically significant relationship between financial literacy and the likelihood of debt. People who are financially literate are also more prone to debt because of the ease and benefits of the credit system.

Because they don't understand the meaning of rich, millennials waste money and live materialistically. According to Ponchio (2006), a person's tendency to go into debt is influenced by the level of materialism. Richins (1992) argues that materialistic people are more likely to take out loans and use credit cards excessively. Propensity to Indebtedness is positively correlated with materialism, according to a study conducted by Rahman et al. (2020). This occurs because highly materialistic people consider buying goods on credit to be normal because they are highly motivated to own luxury goods. People who have no problem saying "no" to material goods are less likely to get into debt when buying expensive goods (Tatzel, 2002). materialism does not affect Propensity to Indebtedness, according to research by Potrich and Vieira (2018).

People tend to go into debt for various reasons, depending on how they view risk. Propensity to Indebtedness is inversely proportional to a person's perception of risk (Rahman, et al., 2020). Propensity to Indebtedness is associated with risk perception which is high. Similarly, risk perception which is low is associated with reckless financial decision making and an increased likelihood of going into debt (Caetano et al., 2011). While older generations in Indonesia tend to be more reserved, today's middle-class millennials are known to be brave and eager to try new things. Although risk perception does influence the likelihood of going into debt in practice, Azma et al. (2018) found no statistically significant influence from risk perception on this likelihood.

Financial literacy, materialism, and risk perception are the variables that we want to examine in relation to Propensity to Indebtedness in this study in the millennial generation in the City of Bandung. Because of Bandung's status as a Metropolis and its importance as a center of trade, industry and education in Indonesia, this study focuses on its residents. Bandung is also the capital of West Java Province. This shows that as the City of Bandung develops into a metropolis, its residents will have a level of financial literacy which is high, which will be facilitated by rapid urban growth and increased use of banking services. As shown by value added tax and sales tax on luxury goods (VAT and VAT on LGM) which reached 52.53% or IDR 16.81 trillion (Regional Office of the Directorate General of Taxes West Java III), the level of materialism Bandung is easily visible. The level of risk perception among Bandung residents is driven by the large number of malls in the city. People who live in the City of Bandung are the object of study because researchers are interested in knowing how financial literacy, materialism, and risk perception affects the behavior of Propensity to Indebtedness.

II. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Propensity To Indebtedness. Greenberg (1980) defined indebtedness as a state of being obligated to repay another, or One definition of debt is the legal requirement for loan repayment. Furthermore, according to Ting (2017), "the theory of indebtedness states that it is the duty of the beneficiary to repay the beneficiary after receiving a benefit." One way to view the debt hypothesis is as a situation in which the beneficiary is expected to pay it back. Furthermore, according to Flores and Vieira (2014), "the propensity to indebtedness is defined as a subjective measure of debt consumed, or debt consumption decision-making." Propensity to Indebtedness defined by Flores as a subjective evaluation of debt consumption or decisions related to debt consumption.

Currently, people sometimes have to sacrifice most of their income to cope with or pay off debt, which contributes to debt problems (Gathergood, 2012). Hornby (1993) states that when one party pays another for the use of a commodity or service, the first party incurs debt. A person is considered in debt if they have an outstanding balance on a credit card, bank loan, or even utility bill. Another definition of debt is the monetary commitment that one party has to another due to uncertainty about the future (Erdem, 2008). Credit, loans, installments, or purchases made by methods other than cash are generally considered debt. In this study, the indications used are the individual's tendency to incur unexpected costs and the lack of financial management skills shown (Doosti & Karampour, 2017).

Financial Literacy. Hudson and Bush (2012) interpret that financial literacy means having a strong understanding of basic financial concepts and situations, as well as the wisdom to put that understanding into practice. To make good financial decisions and achieve good financial standing, one needs financial literacy, which is defined by Atkinson and Messy (2011) as awareness, knowledge, behavioral skills, and habits. The importance of using one's financial knowledge and abilities in making financial decisions is emphasized by financial literacy. Each person's ability to achieve long-term economic success depends on the level of financial literacy. A better life is possible if a person's income and assets are distributed correctly. Without proper knowledge of financial management, a person's future prospects will be bleak, regardless of income or profit earned.

Moore claims (quoted in Lusardi and Tufano, 2015) that pawning is more common among people with less financial knowledge. Someone who is experienced in personal finance will have fewer debt problems because of this. In addition, individuals who are financially literate, have good budgeting skills, and have a responsible outlook on money are better able to control spending and, in the long run, are less likely to be in debt (Mariott, 2007). The point here is that having financial knowledge, or financial literacy, can help people avoid excessive debt traps. General financial knowledge, financial management knowledge, savings and investment knowledge, and risk knowledge are the indicators used in this study (Lusardi & Mitchel (2007)). Someone must have financial literacy good to borrow money responsibly and make the right decisions when in debt (Lusardi & Tufano, 2009). At the same time, lack of information about money, is important when making decisions that make a person open to a number of predatory financial products, increasing the likelihood of debt and default (Lyons, 2004). To manage personal finances well, an individual needs financial literacy so that they can set their financial goals, and know how to manage their expenses and pay credit on time (French & McKillop, 2016). With good financial capabilities, individuals are able to choose the right financial products, thereby reducing the possibility of financial difficulties. Individuals who are free from financial difficulties will avoid debt and default behavior.

However, the results of research by Flores and Vieria (2014) show that Financial Literacy has no effect on behavior propensity to indebtedness. An individual who has financial literacy understands if the behavior propensity to indebtedness is not good. However, with the development of the era's debt system now brings up many institutions such as bank or card credit that gives advantages its own for the users. Financial literacy helps a person manage their personal finances so that an individual is aware of their debt.

Risk Perception. When people make decisions in the face of uncertainty, perceptions of the associated risks are very important. However, the components of risk, how risk is perceived, and the tendency to take risks in decision-making have received little attention from researchers (Forlani & Mullins, 2000). In most people's minds, a risky scenerio is a scenario inwhich there is a risk of losing money due to unwise choices. Considering risk perception is a person's evaluation of a potentially dangerous scenario, it is greatly influenced by unique psychological traits and life experiences. Each decision maker will have their own unique way of measuring the level of uncertainty.

Consumer fear of unexpected outcomes from purchasing a product is known as risk perception, according to Dunn (1986). An important idea in risk perception is that consumers have a very subjective experience regarding the existence and severity of the risks they feel. Different people can have risk perception that vary when faced with the same purchasing scenario. Furthermore, consumer reactions to risk are not affected by the actual or true probability of loss, as long as the current perspective is based on past experience. When people make decisions, risk perception reflects this (Caetano, 2011). Financial, social, performance, psychological, physical, and time/convenience risks are the risks used as indicators in this study (Ujang Sumarwan, 2011; 259). Risk perception low will likely not think twice about going into debt. This is in line with the findings of Silvia (2020) and Flores and Vieira (2014), which show a substantial relationship between risk perception and Propensity to Indebtedness. risk perception are more afraid, which makes them reluctant to go into debt. The impact of risk perception towards Propensity to Indebtedness was not found to be statistically significant in studies conducted by Azma et al. (2017) and Patulak et al. (2021). Both studies show a persistent negative relationship between risk perception and Propensity to Indebtedness, albeit with minor results.

Materialism (Materialism). According to Kasser (2002), materialistic values are values that prioritize material possessions at the expense of more abstract concepts such as spirituality, intelligence, community, and ethnic heritage. The tendency to find satisfaction in collecting material goods is known as materialism. These material goods are seen as the pinnacle of human prosperity and happiness at the level of materialism at its most extreme (Mowen & Minor, 2002:280). People with a tendency towards materialism are more likely to lead a life of constant money accumulation (Richins & Dawson, 1992:307). For materialists, material goods are the pinnacle of success as well as the key to a satisfying existence (Belk, 1985:266). Three aspects materialism identified by Richin and Dawson (1994 in Schiffman & Kanuk, 2000:119) are the centrality of acquisition, success defined by possessions, and acquisition as the pursuit of happiness. A person's level of acquisition centrality indicates how important possessions are. This level measures the extent to which a person considers possessions and ownership as a fundamental aspect of life. Buying things that make you happy regularly, enjoying luxury, and considering possessions very important are three markers used to measure this dimension.

Ownership Defined A person's sense of success is influenced by possessions, both in terms of quantity and quality. This aspect is evaluated with the help of three markers: envy of people who have a lot of money and luxury goods, seeing wealth and material goods as indicators of success, and wanting the same thing. One aspect of wealth and possessions as a source of happiness is the belief that these things are fundamental to a person's health and life satisfaction. This belief is measured by the dimension of acquisition as the pursuit of happiness. There are three ways to measure this aspect: how satisfied you are with the items you Anda currently have, how much joy you get from buying additional items, and how nervous you are when you can't afford something you want.

Ponchio (2006) argues that highly materialistic individuals are more likely to be in debt because they will always want more and will do anything to obtain expensive products. Materialistic values are associated with a higher propensity to incur debt, according to research by Gardarsdottir and Ditttmar (2012). Getting a loan from debt may make someone happy, even if it's just materialistic behavior. Findings from studies conducted by Flores and Vieira (2014), Azma et al. (2018), Rahman et al. (2020), Wahono and Pertiwi (2020), and Patulak et al. (2021) show that materialism significantly reduces the likelihood of being in debt. Debt is common among materialistic people because they are not good at allocating resources and do not have a solid financial strategy. Debt tends to be less common among those with low levels of materialism—those who do not believe in materialism find it easy to resist the temptation to buy luxury and expensive items. People who value material possessions tend to accumulate debt more easily because of their habit of buying things without careful consideration. On the other hand, Potrich et al. (2018) found no evidence that materialism affects the likelihood of falling into debt.

To clarify the research hypothesis formulation, the following research model scheme is presented:

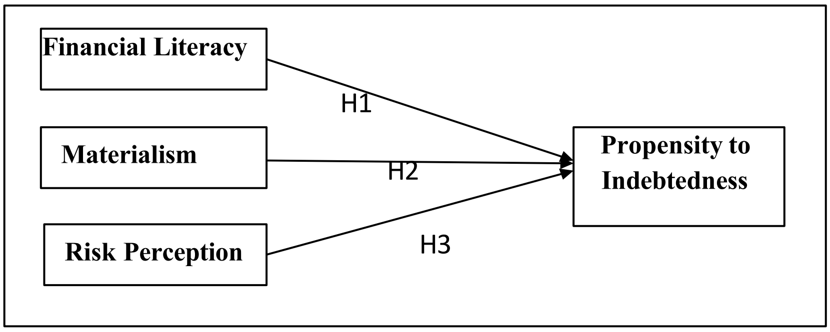

Figure 1: Research Model Based on the explanation above, the hypotheses in this study are:

H1: Financial literacy has a significant effect on propensity to indebtedness behavior. H2: Materialism behavior has a significant effect on Propensity to Indebtedness behavior. H3: Risk Perception has a significant effect on Propensity to Indebtedness behaviour

III. RESEARCH METHOD

This study uses quantitative data with an associative research design. The subjects of this study are residents and individuals living in Bandung. Generation Y, or Millennials, are defined as those born between 1981 and 2000 and are now between 25 and 44 years old. The demographics of this sample reflect this generation. One term for this group is "digital natives," or people who grew upmwith computers and the internet. In addition, they are innovative, ambitious, collaborative, and value work-life balance. Individuals reach maturity and full decision-making capacity at this age.

The sampling method used in this study was non-probability sampling, meaning not all members of the population had an equal chance of being selected. Alternatively, researchers could accurately reflect the population and select study participants using well-defined evaluation criteria. This study used convenience sampling, a method that collects data from individuals in the population who are easily accessible and willing to provide data (Sekaran & Bougie, 2016). Data collection procedures can be made more efficient and time-saving by utilizing convenience sampling techniques, which allow participation from anyone willing and meeting the criteria.

According to Sekaran and Bougie (2016), researchers ensure that sample sizes reflect the population being studied by

selecting a sufficient number of subjects. Roscoe (1982) stated that research should use sample sizes ranging from thirty to five hundred. Two hundred respondents, all millennials from Bandung, were surveyed for this study.
The research variables used in this study are measured using the following indicators:

Dependent Variable

The dependent variable, also known as variable Y, acts as a variable that results from or is influenced by the independent variable (Sugiyono, 2013). The dependent variable in this study is Propensity to Indebtedness, a behavior that places an individual in a situation where they are obligated to repay a sum of money they have previously borrowed from someone else. The propensity to indebtedness variable is measured using the indicators presented in Table 1

Table 1: Operationalization of the Propensity to Indebtedness Variable

Variable	Statement	Code	Scale	Source
Propensity to Indebtedness (PI)	It is not true to spend more money than I earn.	PI1	Interval	Rahman *et al.* (2019)
	I know exactly how much I owe to the store, on my credit card, or on my bank.	PI2		
	It is important to know how to control expenses at home. my stairs.	PI3		
	It's better to collect money first then spend it.	PI4		
	People around me will be disappointed with me if they find out about me have debt.	PI5		

Independent Variable

The independent variable acts as an independent variable that can cause changes or developments in the dependent variable (Sugiyono, 2013). The following are the independent variables used in this study:

- *Financial Literacy (X1)*

*Financial literacy*Financial literacy is an individual's ability to manage their personal finances, enabling them to manage and make appropriate decisions to optimize their personal financial goals. Financial literacy is measured using the indicators presented in Table 2.

Table 2: Operationalization of Financial Literacy Variables

Variable	Statement	Code	Scale	Source
Financial Literacy (FL)	I save every month	FL 1	Interval	Flores Viera (2014)
	I am satisfied with my system in controlling finances.	FL 2		
	I have a backup finances more than or equal to three times monthly income.	FL 3		
	I record and control everything personal expenses.	FL 4		
	I analyze my personal finances before making any major purchases.	FL 5		

- ***Materialism*(X2)**

*Materialism*It is an individual's attitude that prioritizes and makes the possession of goods or something material a life goal to be achieved. People with a materialistic attitude usually tend to measure their happiness and success based on the possessions they possess. The materialism variable is measured using the indicators presented in Table 3.

Table 3: Operationalization Table of Materialism Variables

Variable	Statement	Code	Scale	Source
Materialism (M)	I like spending money on expensive things.	M 1	Interval	Azma *et. Al (2017)* Rahman *et al.* (2019)
	Buying things gives me a taste like.	M 2		
	I will be happier if I could buy more stuff	M 3		
	I admire people who have houses, cars and clothes.expensive.	M 4		
	My life would be much better if I had things that I don't have now.	M 5		

- ***Risk Perception (X3)***

*Risk perception*is a fear orientation experienced by an individual, resulting in the perception of negative future events, such as loss or damage to money, reputation, or even regret. The risk perception variable is measured using the indicators presented in Table 4.

Table 4: Operationalization of Risk Perception Variables

Variable	Statement	Code	Scale	Source
Risk Perception (RP)	I am willing to be a guarantor for someone.	RP 1	Interval	Flores dan Viera (2014)
	I spend money impulsively, without thinking. the consequences.	RP 2		
	I invest in businesses that have no chance of success. goes well.	RP 3		
	I lend most of my personal income to friends or relatives.	RP 4		

In this study, researchers attempted to simplify the process of measuring respondents' opinions or perceptions of an object by using interval and Likert scales. Scores on the Likert scale can range from 1 to 5.

Data Analysis Techniques

The first step in testing a hypothesis about the nature of the relationship between variables is data analysis, which is performed after statistical analysis of the collected data (Sekaran & Bougie, 2016). To analyze the data, this study used PLS-SEM, or Partial Least Squares-Structural Equation Modeling. To estimate a number of independent multiple regressions, PLS-SEM, a multivariate analysis method, requires the user to describe the structural model of the statistical program (Hair et al., 2019). Quantitative data analysis was used in this trial. The SmartPLS version 3.0 application proved useful in this study.

IV. RESULT

By analyzing the t-statistic and p-value, the hypothesis can be tested. If the t-statistic is greater than 1.96 and the p- value is less than 0.05, the research hypothesis is not rejected. The following table displays the results of hypothesis testing conducted using the bootstrapping approach.

Table 5: Results of the t-Test or Significance

Variable	***t-statistic***	***p-values***	**Statment**
Financial literacy → Propensity to Indebtedness	-5,827	0,000	Not rejected
Materialism → Propensity to Indebtedness	3,440	0,012	Not rejected
Risk Perception → Propensity to Indebtedness	-1,043	0,128	Rejected

Source: Processed data

The results of the hypothesis testing according to the table above show that the financial literacy variable has a negative influence on the propensity to indebtedness, the materialism variable has a positive influence on the propensity to indebtedness, the risk perception variable is not significant on the propensity to indebtedness.

DISCUSSION

There is a significant influence of financial literacy on propensity to indebtedness. The initial research hypothesis (H1) was not rejected based on the test results. Several studies have examined how financial literacy influences the likelihood of debt, and the findings are consistent with those of Potrich and Vierra (2017), Patulak et al. (2020), and Wahono et al. (2020). These findings indicate a negative and statistically significant relationship between financial literacy and the likelihood of debt. The results indicate that people are less likely to go into debt when they have a better understanding of personal finance. People with less understanding of personal finance are more likely to utilize various available loan products, which can lead to financial difficulties or even default. When people are financially literate, they are better able to make informed decisions, such as whether to take on debt. This aligns with the view of Lusardi and Tufano (2009), who stated that understanding the ins and outs of one's financial situation, as well as the risks associated with debt, provides a solid foundation for making informed decisions about whether to take on debt. Lyons (2004) found that people without strong financial literacy are more likely to take on market-based debt instruments, which can lead to financial problems when default becomes a real possibility. These results align with the theory. Paying bills on time is a good indicator of good financial literacy, which leads to positive outcomes, such as debt-free status, according to respondents. Financially literate people in Bandung are less likely to go into debt because they know how to manage their money and view debt as a burden, rather than an opportunity. In other words, a person's level of financial knowledge significantly influences their propensity to go into debt. Therefore, it is crucial for people to improve their financial literacy if they want to avoid a Propensity to Indebtedness.

There is a significant influence of materialism on propensity to indebtedness. Research by Flores and Viera (2014), Azma

(2017), Rahman et al. (2019), Patulak et al. (2020), and Wahono and Pertiwi (2020) concurs with our findings. These findings demonstrate that materialism has a beneficial effect on Propensity to Indebtedness. Higher levels of materialism are associated with a higher likelihood of debt. High levels of materialism are associated with an inability to control spending on luxury goods, which in turn increases the likelihood of debt. Consequently, these individuals are willing to go into debt to acquire desired goods. This is consistent with the view expressed by Ponchio (2006), who argued that a person's ability to resist the temptation to acquire expensive material goods is directly correlated with their level of materialism. This finding is also in line with that of Gardarsdottir and Ditttmar (2012), who found that materialism is a determinant of a person's debt. Consequently, a lack of materialism makes a person reluctant to take out loans to purchase luxury goods. People who consider showing off their money a bad thing have low levels of materialism. Furthermore, many respondents don't go into debt to satisfy their cravings for expensive items. So, it's not surprising that Bandung residents who aren't overly materialistic are less likely to be in credit card debt. People tend to be more satisfied with what they have and are less likely to go into debt if they don't buy luxury goods. Simply put, a lack of materialism makes people reluctant to go into debt.

There is no influence of Risk Perception on Propensity to Indebtedness. This suggests that the likelihood of becoming indebted is not influenced by a person's perception of danger. A higher risk perception does not necessarily reduce the propensity to indebtedness, according to this study. The reason: most people reported viewing risks normally, meaning they did not consider social, performance, physical, psychological, or comfort risks too much. Lucia et al. (2021) showed that risk perception negatively but negligibly affects propensity to indebtedness. However, Silvia (2020) and Flores and Viera (2014) both found that risk perception had a detrimental effect on propensity to indebtedness. Therefore, this finding aligns with the findings of Silvia (2020) and Flores and Viera (2014) but at different levels of significance. People are less likely to go into debt when they have a high risk perception because they are less likely to take risks. When it comes to taking risks, people with a high risk perception are more cautious and avoid debt, while those with a low risk perception tend not to think about the consequences of their actions. "I lend most of my personal income to friends or relatives" is the risk perception indicator most correlated with the likelihood of getting into debt among study respondents, indicating a high level of risk perception.

CONCLUSION

The data collected indicates that financial literacy has a significant negative effect on the likelihood of becoming indebted, materialism has a significant positive effect, and risk perception has a negative but insignificant effect on the likelihood of becoming indebted. Future researchers should expand the scope of their studies or recruit more participants to better understand the variables influencing the likelihood of becoming indebted in different contexts.

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