

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter gives information about background and current situation of the study, the research problem, research objectives, research questions, limitations of the study, the definition of key terms, and structure of the proposal. These will assist the reader in understanding the topic of the research.

1.2 Background of the Study

Technological advances have affected all aspects of human life over the last few decades. One of the technological innovations that affect economic growth is cryptocurrency. The presence of cryptocurrency has been used by the people of Indonesia as a new digital-based means of payment and investment where this technology is considered quite profitable for investors. Investing in cryptocurrencies has become a distinct trend for people in Indonesia, even though they are not present in physical form, cryptocurrency has several advantages such as having high returns, transactions that are transparent, fast, and practical. Apart from these advantages, crypto investment has the risk of very volatile movements where increases and decreases in the exchange rate of cryptocurrency can occur in a short time, and are vulnerable to cybercrime. High returns and high risks are natural and vice versa. Therefore, the importance of having financial literacy before investing.

Trust and awareness are one of the important factors that influence individual behavioral intention to invest in cryptocurrency. Trust in cryptocurrency can be generated by trust in technology. In this case, cryptocurrency is very safe because the technology in cryptocurrency always records every transaction that has ever been made. Not only that, awareness of cryptocurrency also affects the amount of its use. The more cryptocurrency users, the more aware Indonesian people are about investing in cryptocurrency. This shows that trust and awareness have a significant influence on behavioral

intentions in Indonesia to invest in cryptocurrency. The situation described above is why this study investigates the influence of financial literacy, trust, awareness on behavioral intention to invest in cryptocurrency.

1.2.1 Background of Financial Literacy

Investors must have an overview before making an investment, one of the provisions that investors must have is financial literacy and financial knowledge. According to Jariyapan et al., 2022 as cited in Thomas and Florentina, 2023, financial literacy is the ability to use financial resource management skills for lifelong financial stability. Financial literacy is very important in the survival of society both in Indonesia and in foreign countries. The better the financial literacy and financial knowledge possessed by the community, the better the financial management. Therefore, financial literacy and financial knowledge can be very much needed by the community so that those who are just about to enter the investment world can avoid illegal investments.

These statistics demonstrate that education is very important in order to develop the financial community since, according to a study performed by the FSA in 2013, the degree of financial literacy of the Indonesian people is classified into four categories, namely:

1. Well-literate (21,84%), with knowledge and views about financial institutions and financial goods, including characteristics, advantages and dangers, rights and duties connected to financial products and services, and the ability to use financial products and services.
2. Sufficiently literate (75,69%), with knowledge and views about financial institutions, financial goods and services, including characteristics, advantages and dangers, rights and duties associated to financial products and services.
3. Less literate (2,06%) just know about financial institutions, financial goods, and financial services.
4. Illiteracy (0,41%), lack of understanding and faith in financial institutions as well as financial products and services, and lack of competence in using financial products and services

products and services

5. Illiteracy (0,41%), lack of understanding and faith in financial institutions as well as financial products and services, and lack of competence in using financial products and services

According to the results of research conducted by the Financial Services Authority (OJK) in 2022, it is stated that, out of every 100 residents in Indonesia, only 49 people are well-literate (financial literacy index of 49.68%). As for financial inclusion, out of 100 Indonesian residents, only 85 people have access to financial services/products (financial inclusion index of 85.10%). Judging from the public financial literacy index for all provinces in Indonesia, it turns out that only 21 provinces have a financial literacy index above the national average. This condition reflects that the public's knowledge of financial literacy is not evenly distributed in all provinces.

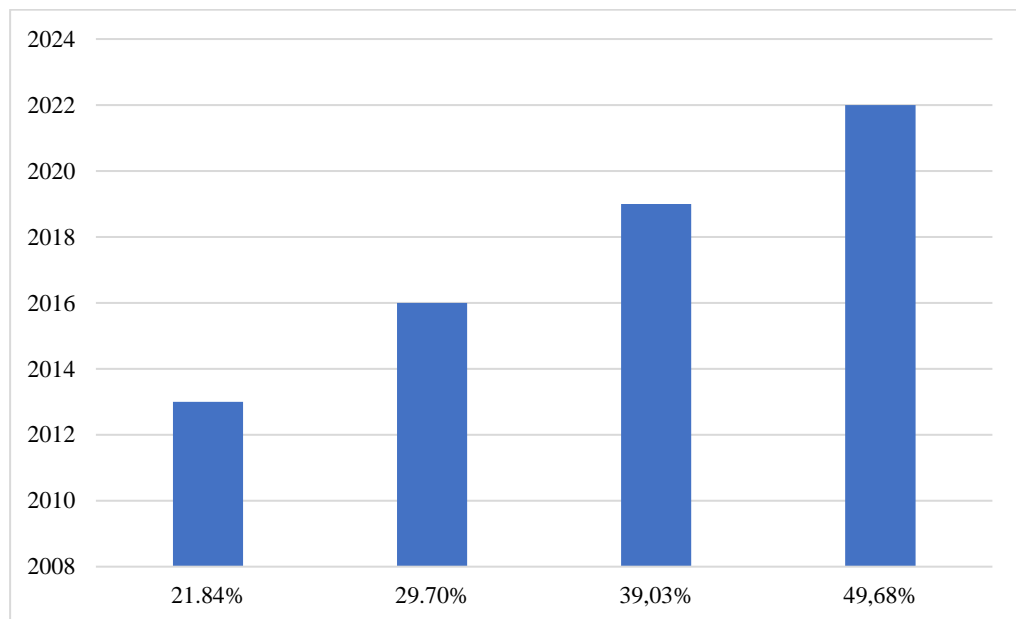


Figure 1.1 Indonesian Financial Literacy Index From 2013-2022

Source: Otoritas Jasa Keuangan

Based on Figure 1.1, we can conclude that there has been an increase every year. We can also see, in 2019, 38.03% of Indonesian people are well-literate. In 2022, 49.68% of Indonesian people have good financial literacy. This shows that

the Indonesian people's awareness of the importance of financial literacy and financial knowledge is growing from year to year.

Tabel 1.1 Comparison of Financial Literacy Index by Gender in 2019 and 2022

Gender	2019	2022
Male	39,94%	49,05%
Female	36,13%	50,33%

Source: Otoritas Jasa Keuangan

According to Table 1.1 above, the female financial literacy index is higher at 50.33% compared to men 49.05% in 2022. Table above shows that Female in Indonesia have better financial literacy than male in Indonesia.

According to (Rasool and Ullah, 2020 as cited in Thomas and Florentina, 2023), in order to optimise investment options and possibilities from the many investment products available, investors must have a high degree of financial literacy. From this explanation it can be concluded that financial literacy and financial knowledge influence Indonesian people to invest.

1.2.2 Background of Trust

Trust can be defined as an individual's belief in something. Trust is a catalyst for the Indonesian people which makes them have high hopes to be satisfied with something. One of them is investment activity in cryptocurrency. Trust in cryptocurrency determines people's decisions in Indonesia to invest. Distrust of cryptocurrency will prevent Indonesian people from investing in cryptocurrency. Trust in cryptocurrency is the willingness of the Indonesian people to make investments that are transparent, fast and practical. Therefore, trust is very influential on individual behavioral intentions to carry out an activity.

Trust is very important, when implementing new technology (Tang et al., 2021 as cited in Thomas and Florentina, 2023). According to Arli et al as cited in Thomas and Florentina (2023), the more people who are aware of cryptocurrencies, the more inclined they are to trust and invest in them. According to a survey conducted by the GlobalWebIndex, around 10% of internet users in Indonesia

already hold cryptocurrencies. At this proportion, Indonesia is ranked fifth in the world in terms of cryptocurrency users. It can be concluded that 10% of the Indonesian population already trusts and uses cryptocurrency as an investment tool.

1.2.3 Background of Awareness

Awareness can be defined as individual action or behavior to be aware of something. One example is awareness of investing. However, there are still many Indonesian people who still have wrong perceptions about investment. Indonesian people think that investment activities are generally associated with people who are already working, have income or only for those who have a lot of money. In fact, investment can be done by anyone. Therefore, awareness is very influential on individual behavioral intentions to carry out an activity.

Public awareness of the importance of investment is increasing from year to year. This can be proven from the survey report entitled "Insights and Future Trends of Investment in Indonesia" conducted by Populix in October 2022. The majority (72%) of respondents surveyed said that they had started investing, especially among the millennial generation. This figure has increased when compared to the Populix survey in January 2021 which revealed that only less than half of the respondents (44%) had started investing. The majority of respondents (64%) of all age ranges have the main goal of investing to prepare an emergency fund. Specifically, when looking at the investment behavior of each generation, the survey shows that apart from preparing emergency funds, Gen Z and millennials tend to invest to earn additional income, while Gen X has a goal of collecting retirement funds. However, based on the survey report, only 20% of Indonesians invest in cryptocurrency. From these data it can be concluded that there is still a lack of interest in the awareness of the Indonesian people to invest in cryptocurrency.

1.2.4 Background of Behavioral Intention to Invest in Cryptocurrency

In everyday life, people are faced with endless needs both to be met in the present and in the future, therefore many people are trying to prepare for the future by carrying out many activities to improve their financial condition, one way is by

make an investment. Investment is an action or belief that is currently carried out on money or assets and other resources owned and hopes to be rewarded in the form of profit (return) in the future. But unfortunately, investment is still too foreign to most Indonesians.

Basically, investment is useful for protecting retirement with financial freedom and protecting asset values from the effects of inflation, which increase from year to year. Investment is also one of the development instruments that is needed by a nation to improve the welfare of society, including the Indonesian people.

Cryptocurrency or commonly known as crypto, attracts the attention of the people in Indonesia because it has investment characteristics that are high risk, high return. This attracts public interest to invest in cryptocurrency. Regardless of the various pros and cons that have emerged about cryptocurrency, the growth of cryptocurrency transactions has great potential to develop as an investment asset that has emerged before.

Even more so with the news that the Indonesian government will create a crypto exchange in order to increase state capital gains, making cryptocurrency increasingly guaranteed by the state and easy to access by the public as an investment medium. With the high number of cryptocurrency investors and the discourse on crypto exchanges, the perception is that cryptocurrency and various related matters will be a financial investment opportunity that remains relevant in the future (Muhammad et al, 2021).

1.3 Problem Statement

Apart from the presence of cryptocurrency in the economic field which has made it easier for people to carry out investment activities. Indonesian people still ignore and hesitate to invest in cryptocurrency. According to Wijaya et al. (2021), the trust of crypto asset investors is currently not in the system but in the exchange. Not only that, many crypto traders introduce cryptocurrency to the public through social media such as instagram and tiktok. They want to increase public awareness about cryptocurrencies and the benefits of investing in them. Based on this, further

research is needed regarding public trust and awareness of the interest in using cryptocurrency investments in Indonesia.

Based on a survey from the Financial Services Authority (OJK, 2022) it shows that the financial literacy possessed by Indonesian people is still at 49%. The level of financial literacy in Indonesia is 49,68%, this means that only 49.68% of Indonesian people understand financial literacy. From these data it can be indicated that the level of financial knowledge of the Indonesian people is still relatively low. Lack of financial literacy will result in losses for individuals and society, both as a result of inflation, declining economic conditions both domestically and abroad, or the development of an economic system that makes people more consumptive or more wasteful. In addition, the lack of financial literacy makes it difficult for someone to invest. Based on this, further research is needed on financial literacy on interest in using investment in cryptocurrency in Palembang

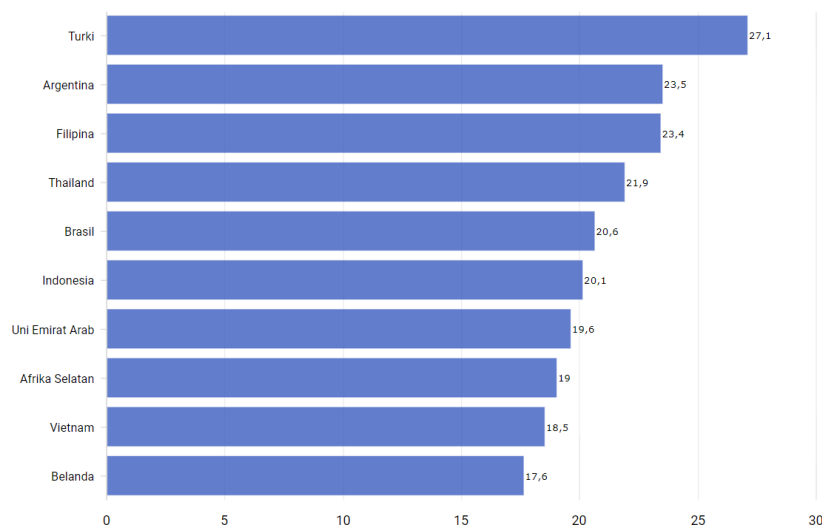


Figure 1.2 10 Countries with the Largest Percentage of Internet Users with Cryptocurrency (January 2023)

Source: www.databooks.co.id

Based on the figure 1. Indonesia occupies the 6th position with a percentage of 20.1% This shows that the interest of the Indonesian people in using cryptocurrency as an investment tool is quite high. This is driven by the high interest of the younger generation who are already literate in investment. Researchers want

to examine the factors that influence Z generation in Palembang to invest in cryptocurrency.

Based on the Indonesia Crypto Outlook Report 2022 published by the Indonesian Blockchain Association (ABI) and Indonesia Crypto Network (ICN), the report states that there are 16.4 million crypto investors in the country, surpassing capital market investors who are 9.98 million people. The report also reveals that From January - October 2022, the total transaction has decreased by 61.03%. It has decreased significantly to Rp279,8 trillion compared to Rp717,99 trillion in the same period previous year. On the other hand, the value of crypto asset trading transactions in Indonesia has risen since early 2023. The value of crypto transactions was IDR 13.8 trillion as of February 2023. This figure has risen by 13.7% from January 2023, when it was at IDR 12.14 trillion. This demonstrates that cryptocurrency asset trades will expand in Indonesia in 2023.

This study focuses on the determinants that influence behavioral intention to invest in cryptocurrency in Indonesia so this research will focus more on the scope of areas which will influence Z generations in Palembang to invest in cryptocurrency. There are many factors that can influence behavioral intention to invest in cryptocurrency resulting in an interesting area for research. In this study, researchers examine how financial literacy, trust and awareness affect behavioral intention to invest in cryptocurrency in Palembang.

1.4 Research Objectives

The research objective is what the researcher expects to achieve in the research of study. A research objective is usually expressed in lay terms, which are words or statements that someone outside of a specific field can understand. This part may be linked with the hypothesis. In general, the objective of this study is the influence of financial literacy, trust, awareness on behavioral intention to invest in cryptocurrency in Indonesia

1.4.1 General Objective

This study will examine the influence of financial literacy, trust, awareness on behavioral intention to Invest in Cryptocurrency Among Z Generation in

Palembang.

1.4.2 Specific Objectives

The specific objectives of this study seek to prove the effect of these following factors that influence behavioral intention to invest in cryptocurrency.

1. To examine the relationship between financial literacy on behavioral intention to invest in cryptocurrency in Palembang.
2. To evaluate the relationship between Trust on behavioral intention to invest in cryptocurrency in Palembang.
3. To examine the relationship between awareness on behavioral intention to invest in cryptocurrency in Palembang.

1.5 Research Questions

The research conducted in this paper aims to solve the following research questions:

1. RQ1: What is relationship between financial literacy and behavioral intention to invest in cryptocurrency in Palembang?
2. RQ2: What is relationship between trust and behavioral intention to invest in cryptocurrency in Palembang?
3. RQ3: What is relationship between awareness and behavioral intention to invest in cryptocurrency in Palembang?

1.6 Significance of the Study

The results of this study are expected to be beneficial both theoretically and practically elaborated in the following section:

1.6.1 Theoretically Significance

This research is expected to provide an overview of the factors that influence behavioral intention to invest in cryptocurrency as well as a means of developing theory and knowledge obtained in universities.

1.6.2 Practically Significance

1. For Public

The findings of this study will provide new insights to the public, considering that Cryptocurrency is the current favorite investment tool. This study also provides information about the effect of financial literacy, trust, and awareness on behavioral intention to invest in cryptocurrency. Through this research, public will be more aware of the importance of investing in cryptocurrency

2. Other researchers

This study can help other researchers to further study in this field. It can also be used to provide additional information for other researchers who wish to conduct further research in this fields.

1.7 Scope of the Study

This study is to determine the effect of behavioral intention to invest in cryptocurrency in Indonesia within a predetermined time limit and possibility. This study limits the scope consisting of Z generations in Palembang. Researcher designs the sample selection criteria with data that are in accordance with the research. Based on these criteria, Z millennial generations in Palembang with age between 17-26 years old. This research was conducted for the year period 2023.

1.8 Limitations of the Study

There were several difficulties in conducting this research. First of all, lack of previous research on cryptocurrency. This study describes the factors that influence behavioral intention to invest in cryptocurrenc7. However, cryptocurrency are a relatively new phenomenon and previous research on cryptocurrency is limited.

Second, the limitation of this research is the time allotted to collect respondents. It is difficult to get respondents according to the target required because time is very limited. Researchers only have less than 2 weeks to get as many respondents as possible. So that researchers only get 116 respondents. The number of respondents who were only 116 people, of course, is still not enough to describe the actual situation.

1.9 Definition of Key Terms

1.9.1 Financial Literacy

Financial literacy, is the degree to which a person comprehends the key financial concepts and is able to confidently manage his or her own finances by making short- and long-term financial decisions (Zhao and Zhang, 2021 as cited in Ali and Nasuha, 2023). According to Luzardi (2019), Financial literacy refers to the use of financial information, abilities, motives, and confidence to make informed decisions that will improve one's financial situation. From this explanation it can be concluded that financial literacy is a person's ability to understand financial concepts that can influence a person to make decisions in managing their finances which will improve a person's financial situation so that his life is prosperous.

1.9.2 Trust

Trust is defined as a person's readiness to put themselves in a vulnerable position in the expectation of a favourable outcome or conduct (Kaur and Rampersad, 2018 as cited in Thomas and Florentina, 2023). (Alaeddin and Altounjy, 2018 as cited in John et al., 2023) assert that if someone feels comfortable utilising new technology after using it for the first time, they can continue to use it. Based on this explanation, it can be concluded that trust in using cryptocurrency can be defined as a person's sense of security and willingness when carrying out investment activities in cryptocurrency.

1.9.3 Awareness

Awareness can be defined as being sensibility of something. in other terms, awareness measures people's grasp of a certain issue (Hommerová et al., 2020 as cited in John et al., 2023). According to an investor's perspective, awareness is gauged by the person's assessment of the risks and potential rewards associated with a given investment vehicle (Gopi & Paulraj, 2017, as cited in John et al., 2023). According to the description given above, it can be concluded that awareness in investing in cryptocurrency is individual awareness in assessing cryptocurrency as a digital investment tool which will be useful for the provision of individual life in the future.

1.9.4 Behavioral Intention to Invest

According to Fishbein and Ajzen (1975), Behavioral intention (BI) refers to “a person’s subjective probability that he will perform some behavior”. Behavioral intention to invest in cryptocurrency can be defined as a component in an individual that is based on a person's desire to invest in cryptocurrency.

1.10 Chapter Summary

This chapter is a summary of the research study. It forms the basis of the research project and its operation. The background of the study and problem statement, research questions, research objectives, the significance of the study, the scope of the study, the limitation of the study and the definition of key terms. The research will be discussed in the next chapter of the literature review.

This study proposal will be divided into three parts, with each chapter detailing the following:

CHAPTER 1 INTRODUCTION

This chapter gives information about background and current situation of the study, the research problem, research objectives, research questions, significances, scope, and limitations of the research, the definition of key terms, and structure of the proposal.

CHAPTER 2 LITERATURE REVIEW

This chapter comprises a study of relevant experts' theoretical underpinnings for the topic's research, an empirical literature review, a research framework, and research hypotheses.

CHAPTER 3 RESEARCH METHODOLOGY

This chapter describes the research technique, covering the demographic and research sample, data gathering methods, data analysis methods, and research variables.