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The Influence Of Financial Literacy And Familiarity Bias On Investment Decisions Of Yogyakarta Investors On Digital Investment Platforms

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Abstract

This study aims to investigate the influence of financial literacy and familiarity bias on investment decisions in the capital market. A quantitative approach was utilized, with data collected via an online questionnaire from 235 respondents with investment experience, residing in Yogyakarta. Data analysis was performed using Structural Equation Modelling (SEM) through SmartPLS 4 software. The results indicate that financial literacy has a significant positive effect on investment decisions, and familiarity bias was found to positively affect investment decisions as well. These findings underscore the importance of enhancing financial literacy to promote more informed investment decisions, while also addressing the influence of familiarity bias, which may impede the optimization of investment portfolios. The implication is that financial literacy improvement should be a key focus for financial institutions and policymakers to enhance the quality of investment decisions within the public.

Keywords: Financial Literacy, Familiarity Bias, and Investment Decisions on Digital Investment Platforms.

INTRODUCTION

Financial literacy refers to an individual's ability to understand and effectively use financial information in daily financial decision-making, including a grasp of basic concepts such as savings, investment, debt, risk, inflatioyn, and diversification (Jones et al., 2024). Good financial literacy enables individuals to manage their personal finances

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wisely, make sound investment decisions, and plan for their financial future more effectively.

According to the national financial literacy and inclusion survey conducted by the Financial Services Authority in 2022, Indonesia's financial literacy index reached 49.68%, an increase from 38.03% in 2019 (Otoritas Jasa Keuangan, 2022). Data from the Central Statistics Agency indicate that Indonesia's economic growth in 2022 reached 5.31%, up from 3.70% growth in the previous year, along with an increase in the number of capital market investors, which reached 10.31 million by the end of 2022, a rise of 37.68% from the previous year (Otoritas Jasa Keuangan, 2022). The development of financial literacy has become increasingly relevant in the current digital era, where access to financial information via the internet, social media, and financial applications is more readily available. However, many individuals still lack sufficient financial literacy to make sound investment decisions. Huston (2010) emphasizes the importance of financial literacy for investors in making informed decisions, reducing the risk of losses, and maximizing potential gains. Similarly, Chen and Volpe (1998) argue that sound financial literacy can influence an investor's opinions and decisions on personal finance issues, such as debt management, investment, and retirement planning.

In addition to financial literacy, familiarity bias also plays a crucial role in investment decisions. Familiarity bias refers to an investor's tendency to choose investments that are well-known rather than unfamiliar, often leading to safer and more predictable decisions, even though more profitable opportunities may exist outside their comfort zone (Mohanty, 2023). Research by Zhdanov and Simonov (2021) shows that familiarity bias significantly influences investment decisions, with investors more likely to retain familiar assets and avoid unknown risks. In Indonesia, the growth of digital investment platforms reflects significant progress, mirroring the overall development of the digital economy in the country. A study by Tahir and Danarsari (2023) revealed an increase in the number of retail investors in Indonesia’s capital market, driven by technological advancements and easier access through digital investment applications such as Bibit and Bareksa. However, research on the influence of financial literacy and familiarity bias on investment decisions on digital investment platforms remains limited. Therefore, this study aims to further examine the impact of financial literacy and familiarity bias on investment decisions on digital investment platforms among Yogyakarta residents. This research is expected to provide insights into the importance of financial literacy and familiarity bias in influencing investment decisions on digital platforms in Indonesia.

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LITERATURE REVIEW

Financial Literacy

Financial literacy refers to the ability to comprehend fundamental financial concepts and apply them in everyday financial decision-making. A high level of financial literacy allows investors to more accurately assess risk and make more rational decisions, such as diversifying their portfolios and selecting appropriate investment products, thereby reducing risk and enhancing potential returns.

Familiarity Bias

Familiarity bias is the tendency to choose familiar or well-known investments, often avoiding assets or markets that are less understood. This bias can lead to under-diversified portfolios and increase the risk of concentration in specific assets. In the digital context, familiarity bias can hinder investors from exploring broader and potentially more profitable investment opportunities.

Investment Decisions

Investment decisions involve selecting instruments to achieve financial goals. This process is influenced by financial literacy and cognitive biases such as familiarity bias, which can lead investors to avoid diversification. Strong financial literacy helps mitigate the negative impact of these biases, encouraging more rational and optimal investment decisions.

Digital Investment Platforms

Digital investment platforms provide easy access to a variety of financial instruments and realtime market information. However, utilizing these platforms requires strong financial literacy to critically assess the information and avoid decisions influenced by cognitive biases that could be detrimental.

Previous Research and Hypothesis Development

Previous research has consistently shown that financial literacy significantly influences more prudent and informed investment decisions. Putri et al. (2023) state that investors with a high level of financial literacy tend to better analyze risk, optimally diversify their portfolios, and select investment instruments that align with their risk profiles. This indicates that financial literacy contributes to improved investment decision-

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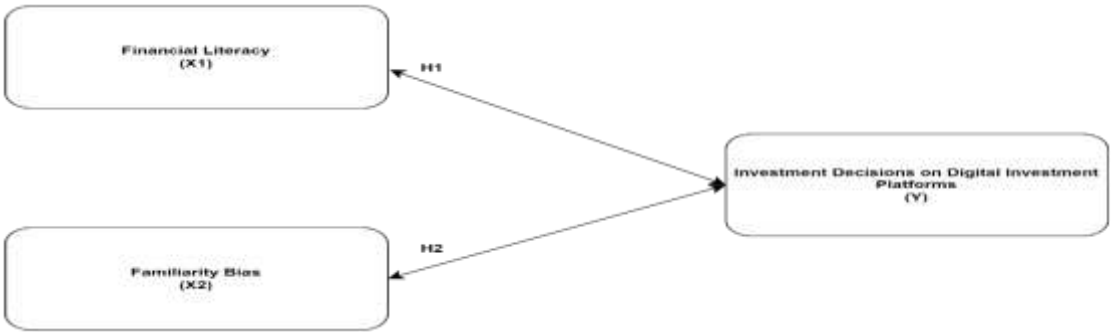
making quality and more effective risk management. Moreover, familiarity bias can also have a positive impact on investment decisions, particularly in the context of portfolio diversification. Research by Nurcahya and Maharani, (2021) found that familiarity bias can increase investor confidence in selecting well-known assets. This confidence leads to more informed decision-making and can help reduce uncertainty in investing. Familiarity bias enables investors to focus on assets they understand deeply, potentially creating a more stable and consistent portfolio. Based on these findings, the proposed hypotheses in this study are as follows:

H_1: Financial Literacy Positively Influences Investment Decisions on Digital Investment Platforms.

H_2: Familiarity Bias Positively Influences Investment Decisions on Digital Investment Platforms.

These hypotheses aim to examine how financial literacy and familiarity bias can positively contribute to more optimal investment decision-making on digital platforms, as well as to provide deeper insights into the factors influencing investment behavior in this digital era.

RESEARCH FRAMEWORK



RESEARCH OBJECTIVE

This study aims to identify the ideal model that explains how financial literacy and familiarity bias influence investors' investment decisions on digital platforms. The research adopts a quantitative approach, with primary data collected through a survey using a questionnaire distributed online via Google Forms on social media platforms such as WhatsApp and Instagram. The study population comprises investors residing in

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Yogyakarta, with a purposive sampling method used to select a sample of 235 respondents (90 males and 145 females). Data were collected using a questionnaire that consisted of several sections: respondent identity and variable indicator questions measured using a Likert scale (1-5). The independent variables in this study are financial literacy and familiarity bias, while the dependent variable is investment decisions on digital platforms. The variable indicators were adapted from previous research, using Likert-based measurements to evaluate the relationship between financial literacy, familiarity bias, and investment decisions.

Table 1: Measurement Indicators

No	Research Variable	Operational Definition	Indicator
1.	**Financial Literacy**	Financial literacy is the ability of individuals to understand and utilize various financial knowledge, attitudes, and behaviors (Potrich et al., 2015).	1. Financial Knowledge 2. Financial Attitude 3. Financial Behavior
2.	***Familiarity Bias***	Familiarity bias refers to the tendency of investors to invest in assets they are familiar with, such as local company stocks or frequently used products, without considering objective information (Shao and Wang, 2021).	1. Investment Product Preferences 2. Familiarity with Investment Decisions 3. Portofolio Diversification 4. Trust in Local Information
3.	**Investment Decision on Digital Platform**	Investment decisions made on a digital platform can be understood as the intention or action of individual investors to use digital investment services offered by distributors (Digital Investment Platforms) (Kasemharuethaisuk and Samanchuen, 2023)	1. Perceived Usefulness 2. Convenience 3. Trust

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The data analysis was conducted using the Partial Least Square Structural Equation Modeling (PLS-SEM) method with SmartPLS 4 software. The analysis process involved two main stages: descriptive analysis and inferential statistical analysis. Descriptive analysis grouped respondent data based on demographic variables, while inferential analysis included testing for validity, reliability, and structural model evaluation (causal relationships) between independent and dependent variables. The validity test involved both convergent and discriminant validity, while the reliability test was conducted by evaluating internal consistency and indicator reliability. The structural model was used to assess causal relationships through the bootstrapping method, utilizing path coefficient testing, coefficient of determination, and effect size analysis.

RESULT AND DISCUSSION

Analysis Results

This study explores the influence of financial literacy and familiarity bias on investment decisions made by investors in Yogyakarta on digital investment platforms. Data collected from 235 respondents were analyzed using the Structural Equation Modeling-Partial Least Squares (SEM-PLS) method to test the reliability, validity, and significance of the relationships between variables.

Descriptive Statistics of Respondents

The following are the demographics of the respondents used in this study

Table 2. Respondent Profile

Characteristic	Category	Male	Female	Total	Percentage
Gender	Male	90	-	90	38%
	Female	-	145	145	62%
Age	18 - 30 years	36	18	54	22.98%
	31 - 40 years	48	96	144	61.28%
	41 - 50 years	5	30	35	14.89%
	> 50 years	1	1	2	0.85%
Last Education	High School	12	3	15	6.38%
	Diploma	18	38	56	23.83%
	Bachelor	56	96	152	64.68%
	Master	2	5	7	2.98%
	Doctorate	2	3	5	2.13%

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Marital Status	Married	52	108	160	68.09%
	Unmarried	38	37	75	31.91%
Monthly Income	< 1,000,000	6	1	7	3%
	1,000,000 - < 3,000,000	13	30	43	18.3%
	3,000,000 - < 5,000,000	27	51	78	33.2%
	5,000,000 - < 10,000,000	18	18	36	15.3%
	≥ 10,000,000	26	45	71	30.2%

The demographic characteristics of the respondents involved in this study are as follows:

- **Gender**: The majority of respondents were female (62%), while male respondents accounted for 38%.
- **Age**: Most respondents were in the age range of 31-40 years (61.28%), followed by 18-30 years (22.98%), 41-50 years (14.89%), and over 50 years (0.85%).
- **Educational Background**: A total of 64.68% of respondents held a Bachelor's degree, followed by Diploma holders (23.83%), high school or equivalent (6.38%), Master's degree (2.98%), and Doctorate degree (2.13%).
- **Marital Status**: A total of 68.09% of respondents were married, while 31.91% were unmarried.
- **Monthly Income**: Respondents' income varied, with 30.2% earning above Rp 10,000,000, 33.2% earning between Rp 3,000,000 - Rp 5,000,000, 18.3% earning between Rp 1,000,000 - Rp 3,000,000, 15.3% earning between Rp 5,000,000 - Rp 10,000,000, and 3.5% earning less than Rp 1,000,000.

Descriptive Statistics of Research Variables

This study measured three main variables: financial literacy, familiarity bias, and investment decisions on digital platforms.

Table 3: Descriptive Statistics of Variables

Variable	Indicator	Mean
Financial Literacy	X1.1	462
	X1.2	417
	X1.3	428

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	X1.4	449
	X1.5	451
	X1.6	448
	X1.7	444
	X1.8	440
	X1.9	436
	X1.10	434
	X1.11	430
	X1.12	433
Average		**440**
Familiarity Bias	X2.1	463
	X2.2	410
	X2.3	436
	X2.4	446
	X2.5	446
	X2.6	434
	X2.7	437
Average		**439**
Investment Decision on Digital Platform	Y1	466
	Y2	414
	Y3	440
	Y4	447
	Y5	445
	Y6	442
	Y7	443
	Y8	432
	Y9	430
	Y10	438
Average		**440**

Reliability and Validity Testing Results

The measurement model testing was conducted to assess the reliability and validity of the indicators used in this study. The results showed that all indicators met the expected criteria for reliability and validity. The Average Variance Extracted (AVE) values for each variable were greater than 0.5, and the Composite Reliability (CR) values exceeded 0.7, indicating that the research instruments possess good internal consistency and are capable of accurately measuring the intended constructs.

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Table 4: Reliability and Validity Testing Results

Variable	Cronbach's Alpha	Composite Reliability	AVE
X1 (Financial Literacy)	0.884	0.907	0.523
X2 (Familiarity Bias)	0.774	0.848	0.531
Y (Investment Decision)	0.815	0.866	0.519

Structural Model Testing Results

The structural model testing results indicate that both financial literacy and familiarity bias have a significant influence on investment decisions on digital platforms. The path coefficient between financial literacy and investment decisions was 0.559, with an F-Square value of 0.375, a T-Statistic of 9.379, and a P-Value of less than 0.001, demonstrating a strong and statistically significant positive effect. This suggests that financial literacy is one of the key determinants in investment decision-making, where an increase in financial literacy significantly enhances the quality of investment decisions.

Meanwhile, familiarity bias also showed a significant positive influence on investment decisions, with a path coefficient of 0.302, an F-Square value of 0.110, a T-Statistic of 4.945, and a P-Value of less than 0.001. Although the impact of familiarity bias is smaller compared to financial literacy, these results confirm that familiarity bias still plays an important role in shaping investment preferences. Investors tend to choose investment instruments they are familiar with, even though this may reduce optimal portfolio diversification.

Table 5: Structural Model Testing Results

Path	Path Coefficient (β)	F-Square	T-Statistics	P-Values
Financial Literacy (X1) → Investment Decision (Y)	0.559	0.375	9.379	0.000
Familiarity Bias (X2) → Investment Decision (Y)	0.302	0.110	4.945	0.000

Hypothesis Testing Results

Referring to the results from the four stages of structural model analysis namely path coefficients (β), coefficient of determination (R^2), t-tests using the bootstrapping method, effect size (f^2), and predictive relevance (Q^2), the following is a detailed explanation based on the research questions and previously established hypotheses. Based on the structural model analysis, the t-test and p-value results were positive, and

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all hypotheses were accepted. As shown in Table 6, the relationship between financial literacy and investment decisions on digital investment platforms (H1) has a significant effect, as does the relationship between familiarity bias and investment decisions on digital investment platforms (H2), both of which were found to be significant.

Table 6: Hypothesis Testing Results

Hypothesis		P Values	Conclusion
No	Path		P Values
H1	X1 → Y	0.000	Significant and Accepted
H2	X2 → Y	0.000	Significant and Accepted

DISCUSSION

This study found that financial literacy has a significant impact on investment decisions on digital investment platforms. Adequate financial literacy enables investors to understand the risks and benefits of various investment instruments, such as stocks, mutual funds, and cryptocurrencies. This deep understanding allows investors to be more cautious and rational in decision-making, helping them avoid impulsive and speculative investment traps that can lead to significant financial losses (Zaimovic et al., 2023). As explained by Liviana and Munawaroh (2022), individuals with high levels of financial literacy tend to be more confident in using complex digital investment platforms, as they possess the ability to better evaluate and comprehend investment information. This has implications for more informed decision-making, thereby reducing the risk of losses caused by investments that are not based on valid data or accurate analysis (Al-Qibthya and Sari, 2022).

This study also indicates that familiarity bias has a significant influence on investment decisions on digital platforms. This bias refers to the tendency of investors to favor investment assets they are familiar with, such as local company stocks or products they frequently use. This preference can provide investors with a sense of comfort and confidence, although it may lead to suboptimal portfolio diversification and increased investment risk (Shao and Wang, 2021). Lei and Mathers (2024) further suggest that familiarity bias can be mitigated by a high level of social trust, which encourages investors to explore less familiar non-local assets. This opens up opportunities for better portfolio diversification and the potential for higher investment performance. However, when social trust is low, investors are more likely to rely on familiarity bias, which can hinder effective risk management.

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These two factors, financial literacy and familiarity bias, are interrelated in influencing investment decisions on digital platforms, albeit in different ways. Financial literacy encourages more rational, data-driven decision-making, whereas familiarity bias steers investors' emotional preferences toward assets they are already familiar with. When working together, good financial literacy can mitigate the negative effects of familiarity bias by enhancing investors' understanding of the importance of portfolio diversification and risk management. Investors with strong financial knowledge are better equipped to avoid the traps of familiarity bias and are more likely to choose assets that not only are familiar but also offer the best opportunities in line with their risk profiles (Zaimovic et al., 2023). Thus, high financial literacy serves as an effective mitigating tool to reduce bias and improve the quality of investment decisions, while familiarity bias can be leveraged to attract initial investor interest, which can then be further diversified through proper financial education (Shao and Wang, 2021).

The implications of these findings highlight the importance for financial service providers and investment platforms to educate their users on financial literacy, while also recognizing and managing the effects of familiarity bias in their marketing and outreach strategies. By adopting this approach, investors are more likely to make balanced and informed decisions, thereby enhancing overall portfolio performance and reducing the risks associated with investments that are overly concentrated in familiar assets.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study found that financial literacy significantly enhances investors' ability to make sound investment decisions on digital platforms, helping them manage portfolios, understand risks, and select appropriate investments, while also protecting them from fraud and high-risk ventures. Familiarity bias also has a positive impact, encouraging investors to invest in platforms they are already familiar with, as it provides a sense of comfort and confidence. However, over-reliance on this bias may hinder the exploration of other, potentially more profitable investment opportunities and limit portfolio diversification. Therefore, it is essential for investors to continuously update their financial knowledge and remain open to new investment opportunities to achieve diversification and optimal investment outcomes.

Recommendations

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This study suggests that future research should include additional variables, such as the influence of social media and government policies, to obtain a more comprehensive understanding of the factors influencing investment decisions. Researchers are also encouraged to employ more diverse methods, such as in-depth interviews or focus group discussions(FGDs), to explore investor motivations and challenges, and to focus on changes in investment behavior over time, particularly following financial education or technological advancements in digital platforms.

For digital investment platform companies, it is recommended to strengthen financial education programs through various formats, such as webinars, tutorial videos, articles, and investment simulations, to help users better understand risks and opportunities while reducing fraud risks. Additionally, the provision of clear information, user-friendly analytical tools, and transparency regarding fees, risks, and investment performance should be enhanced to build trust and improve user loyalty. By implementing these recommendations, it is expected to create a more informative, transparent, and beneficial digital investment ecosystem for all stakeholders.

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