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ANALYSIS OF FINANCIAL LITERACY, FINANCIAL INCLUSION AND MENTAL ACCOUNTING ON INVESTMENT DECISIONS OF THE MILLENNIAL GENERATION IN SURABAYA

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Abstract: There are several factors that influence investment decision making, one of which is the psychology of the millennial generation in Surabaya in making investment decisions. The basis for making investment decisions consists of rate of return, risk and time period. Investment decisions are steps taken by individuals to place their funds in the hope of obtaining a rate of return in the future. This cannot be separated from the influence of financial literacy, financial inclusion and accounting mentality. This research aims to analyze the influence of financial literacy, financial inclusion and mental accounting on investment decisions of the millennial generation in Surabaya. This research method uses quantitative methods. The instrument used was a questionnaire. The data used is data from 152 millennial generation respondents in Surabaya and the data was analyzed using the Partial Least Square-Structural Equation Modeling (PLS-SEM) method. The research results show that financial literacy, financial inclusion and mental accounting have a significant positive effect on the investment decisions of the millennial generation in Surabaya. The contribution of this research in the future can provide an overview of investment products for the millennial generation in Surabaya in making investment decisions related to the level of financial literacy, financial inclusion and mental accounting in the post-pandemic era.
Keywords: Investment Decisions, Financial Literacy, Financial Inclusion, Mental Accounting

INTRODUCTION

In 2020, Indonesia was hit by the corona virus (COVID-19) pandemic, with the presence of COVID-19 it could affect almost all aspects of life, from economics to politics, causing the unemployment rate to increase and most countries to be in recession. The Indonesian economy experienced a decline of 2.97 percent during COVID-19 (Melati, 2023). The economic impact of COVID-19 changed individual investment perceptions and behavior, because individuals needed to adapt to the new environment. After the COVID-19 pandemic, the Indonesian economy experienced a significant increase of 5.03 percent (Purwowidhu, 2023). This increase was driven by domestic demand, especially investment, where individuals have changed their investment behavior to be better than during COVID-19.

Based on research results from Hamonangan & Wisuda (2022), it shows that the investment level of the millennial generation after COVID-19 increased by 87 percent compared to only 79 percent during COVID-19. This shows that the millennial generation has started to think about the future, where the millennial generation cannot be separated from their high curiosity, especially regarding technology. The millennial generation's use

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of technology in accessing the internet is quite high at 90.4 percent compared to generation X which is only 75.9 percent. The use of this technology can help the millennial generation obtain information, especially on investment instruments.

An investment decision is a policy taken by an individual to place capital in one or more, with the aim of obtaining profits or allocating funds into future investments (Armansyah, 2021). The millennial generation who can make decisions about investing shows that the millennial generation already understands how to safeguard finances from inflation and already understands achieving financial goals in the future. Financial literacy aims to make informed choices, to take effective action to improve their financial well-being, and to know where to seek help (Alaaraj & Bakri, 2020) . Individuals who have a high level of financial literacy are increasingly able to make investment decisions by considering various aspects. This is supported by Nugraha, Tulung & Arie (2021) ; Alaaraj & Bakri (2020) ; Putri & Hamidi (2020) and D.A.T (2020) show that financial literacy has a significant positive effect on investment decisions. Meanwhile, research results from Wardani & Lutfi (2019) show that financial literacy does not influence family investment decisions in Bali.

Financial inclusion is an advantage for people who have easy access to financial products and services that meet their needs and are protected by law. This ease of use may be due to lower transaction costs, closer distance to financial institutions, more flexible delivery channels, and lower security for using financial products and services (Sutejo, 2021). This is supported by Nugraha, Tulung & Arie (2021) who show that financial inclusion has a significant positive effect on investment decisions. Mental accounting is the behavior of individuals who always use mental accounting in making investment decisions by weighing the costs and benefits of all actions taken by the individual (Thaler, 2011). Mental accounting makes the millennial generation more careful and considers the risks and benefits obtained in their investment decisions. This is supported by Armansyah (2021); Anggini (2019) dan Santi, Sahara & Kamaludin (2019) show that mental accounting has a significant positive effect on investment decisions. Different results were shown by Novandalina, Ernawati & Adriyanto (2022) that mental accounting did not have a significant effect on investment decision making.

Research on financial literacy, financial inclusion, and mental accounting on investment decisions is interesting to research, especially in Surabaya. Surabaya is the second largest city in Indonesia after Jakarta and it can be said that economic conditions in Surabaya tend to be stable from year to year. This could be the biggest market potential for marketing investment instruments targeted at the millennial generation. Therefore, it is interesting to research the investment decisions of the millennial generation, especially after the pandemic, where the millennial generation has characteristics, one of which is being interested in new things. So, with the presence of various investment instruments offered, the millennial generation will be interested in choosing the right and suitable investment product according to their risk level. So, this research took the city of Surabaya to get respondents as research done. This research also has the novelty of focusing on investment decisions of the millennial generation in Surabaya after the COVID-19 pandemic.

Investment Decision

An investment decision is a policy taken by an individual to place capital in one or more, with the aim of obtaining profits or allocating funds into future investments

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(Armansyah, 2021). On the other hand, the action or decision taken by an individual or individuals to choose an investment that is likely to produce returns in the future is called an investment decision. Individuals take a number of considerations into account before Putri & Hamidi (2020) there are several indicators that can influence investment decisions, including the following:
1. Risk
2. Return
3. The Time Factor

Financial Literacy

According to the Organization for Economic Co-Operation and Development (OECD), financial literacy is a combination of consumers' or individuals' understanding of financial products and concepts, as well as their ability and confidence to appreciate financial risks and opportunities. Financial literacy aims to make informed choices, to take effective action to improve their financial well-being, and to know where to seek help (Alaaraj & Bakri, 2020). Financial literacy is also defined as the process by which individuals use a combination of resources, skills, and contextual knowledge to process information and make decisions with knowledge of the financial consequences of those decisions. There are indicators of financial literacy according to research by Sutejo (2021), including:
1. Basic financial knowledge
2. Banking
3. Investment
4. Insurance and pension funds
5. Understand interest rates
6. Learn about credit rights and obligations
7. Understand the mechanism of debit and credit payments in this type of investment

Financial Literacy on Investment Decisions

The research results of Sutejo (2021) explain that financial literacy is a process that measures an individual's understanding in processing financial information. Financial literacy can make it easier for individuals to choose and decide on investment options by understanding their own finances, because in making investment decisions a person must carry out good analysis to avoid unwanted losses when investing. So the higher the financial literacy of individuals, the better they will be in making investment decisions, which is in line with research by D.A.T (2020) showing that financial literacy has a positive and significant effect on investment decisions among students. Based on this, the following hypothesis is proposed:
H1: Financial literacy influences investment decisions

Financial Inclusion

Financial inclusion is an advantage for people who have easy access to financial products and services that meet their needs and are protected by law. This ease of use may be due to lower transaction costs, closer distance to financial institutions, more flexible delivery channels, and lower security for using financial products and services (Sutejo, 2021). Meanwhile, according to (Nugraha, Tulung & Arie, 2021) financial

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inclusion is all activities aimed at destroying all kinds of barriers to financial access, or means activities that facilitate access to affordable, useful and responsible financial products and services. There are indicators financial inclusion according to Fitriah (2021) includes:
1. Access
2. Usage
3. Quality
4. Well-being

Financial Inclusion in Investment Decisions

Education about financial service institutions and the availability of financial institutions can help develop financial habits, one of which is investing. The higher the education, ease of use and investment security of financial service institutions, the greater the public's tendency to obtain products from financial service and investment institutions that can help individuals in the future. A study conducted by Sutejo (2021) shows that the large number of people's choices regarding financial service institution products encourages people's desire to buy financial service institution products, especially for investment purposes. Research by Nugraha, Tulung & Arie (2021) shows that financial inclusion has a simultaneous and significant positive effect on investment decisions in Manado. Based on this, the following hypothesis is proposed:
H2: Financial inclusion influences investment decisions

Mental Accounting

According to Thaler (2011) Mental accounting is the behavior of individuals who always use mental calculations in making investment decisions by weighing the costs and benefits of all actions taken by the individual. In the context of real estate, (Armansyah, 2021) states that these individuals are individuals who will later experience losses in their assets so that individuals can minimize their regrets and will think that the portfolio return is greater than the losses. There are mental accounting indicators according to Santi, Sahara & Kamaludin (2019), including:
1. Allocation of earned income in several different accounts
2. Management of monthly income and bonuses obtained differently
3. Take into account the monthly costs incurred
4. Take into account the costs that will be incurred from the bonus money

Mental Accounting for Investment Decisions

Mental accounting is a person's behavior in separating incoming and outgoing funds and accounting models (Thaler, 2011). Individuals who have very high mental accounting will try to limit the budget allocation for their expenses, by accumulating the profits and losses that will be obtained. Armansyah's research (2021) states that mental accounting has a significant positive effect on individual decisions in the Indonesian capital market. Based on this, the following hypothesis is proposed:
H3: Mental accounting influences investment decisions

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METHODS

This research uses primary data with respondents namely the millennial generation in Surabaya with an age range of 24 years to 39 years. This research was conducted with the aim of analyzing the influence of financial literacy, financial inclusion and mental accounting on investment decisions of the millennial generation in Surabaya. The sampling technique is purposive sampling based on several criteria of age, income according to the Surabaya MSE in 2023 and domiciled in Surabaya. Data is collected through fields e-questionnaire and obtained 159 respondents. After selection was carried out based on the criteria used, 152 respondents were obtained who met the criteria and were then processed using descriptive analysis and inferential analysis using the data collection method using Partial Least Square-Structural Equation Modeling (PLS-SEM).

Table 1. Indicators and Construct

Construct	Items	Code	References
Investment Decision	Return	ID1 – ID2	Putri & Hamidi (2020)
	Risk	ID3 – ID4	
	The time factor	ID5 – ID7	
Financial Literacy	Basic financial knowledge	FL1 – FL3	Wardani & Lutfi (2019)
	Knowledge of credit	FL4 – FL6	
	Knowledge of insurance	FL7 – FL8	
	Knowledge about investment	FL9 – FL10	
	Knowledge about savings	FL11 – FL12	
Financial Inclusion	Access	FI1 – FI3	Fitriah (2021)
	Usage	FI4 – FI6	
	Quality	FI7 – FI8	
	Well-being	FI9 – FI10	
Mental Accounting	Allocation of earned income in several different accounts	MA1 – MA2	Santi, Sahara & Kamaludin (2019)
	Management of monthly income and bonuses obtained differently	MA3 – MA4	
	Take into account the monthly costs incurred	MA5	
	Take into account the costs that will be incurred from the bonus money	MA6	

Source: Putri & Hamidi (2020) ; Wardani & Lutfi (2019) ; Fitriah (2021) ; Santi, Sahara & Kamaludin (2019)

RESULTS AND DISCUSSION

This research uses a quantitative approach in processing and analyzing the power obtained so that it becomes a problem regarding the influence of financial literacy, financial inclusion and mental accounting on investment decisions so that conclusions can be drawn and discussed. Data analysis This test uses descriptive analysis and inferential analysis to answer the research hypothesis.

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Descriptive Analysis

Table 2. The Description of Respondents

Demographics	Categories	Frequency	Percentage
Gender	Female	82	53.46%
	Male	70	46.54%
Age	24 to 27 years	58	38.16%
	28 to 31 years	70	46.05%
	32 to 35 years	17	11.18%
	36 to 39 years	7	4.61%
Occupation	Self-employed	36	23.68%
	Private employees	70	46.05%
	BUMN employee	15	9.87%
	State civil apparatus	9	5.92%
Monthly Income	IDR 4,525,479 to IDR 6,525,479	90	59.21%
	IDR 6,525,480 to IDR 8,525,479	44	28.95%
	IDR 8,525,480 to IDR 10,525,479	14	9.21%
	More than IDR 10,525,480	4	2.63%

Source: Google form results of respondent questionnaires (2023)

Data was obtained through an online questionnaire according to predetermined criteria, resulting in 152 respondents. The following are the descriptive results of the respondents. Based on table 2, the majority of respondents (53.46%) are female, with an age range of 28-31 years (46.05%), and 70 respondents (46.05%) of all respondents work as private employees with a monthly income. ranges from IDR 4,525,479 to IDR 6,525,479 (59.21%).

Table 3. Descriptive of the Construct

Construct	Average Score	Interpretation
Investment Decision	3.58%	Investment decision is very good
Financial Literacy	73.49%	Financial literacy is high
Financial Inclusion	3.58%	Financial inclusion is very good
Mental Accounting	3.50%	Mental accounting is very good

Source: Google form results of respondent questionnaires and processed by researchers (2023)

The results of respondents' responses to investment decisions with an average value of 3.58 on a scale of 4, which can be said to be very good, means that the millennial generation is able to make investment decisions in the placement of their funds by considering the rate of return, risk and time. The KI1 item has the highest mean score of 3.68 with the highest respondent response being strongly agree at 69.74 percent or 106 respondents, meaning that the millennial generation 64 thinks that it is important to prioritize profits from the investment products chosen.

Respondents' responses to financial literacy averaged 73.49 percent with the highest score on the insurance knowledge indicator at 90.46 percent. These results explain that the millennial generation has a very high understanding of insurance, especially on item LK8, 94.08 percent of respondents answered correctly that life insurance provides protection if the insured dies.

Respondents' results for the financial inclusion variable have an average of 3.58

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on a scale of 4, which can be said to be very good, meaning that the millennial generation finds it easy to access available information and financial resources. The IK3 item has the highest mean score of 3.71 with the highest respondent response being strongly agree at 71.05 percent or 108 respondents, meaning that the availability of access to financial services can make it easier for the millennial generation to carry out financial transactions.

Meanwhile, the results of respondents' responses to the mental accounting variable have an average of 3.50 on a scale of 4, which can be said to be very good, meaning that the millennial generation has quite an attitude of thinking in deciding and evaluating their finances. Item 68 MA1 has the highest mean score of 3.53 with the highest respondent response being strongly agree at 56.58 percent or 86 respondents, meaning that the millennial generation has a different savings account for each source of income they obtain.

Inferential Analysis

The inferential analysis carried out was to assess the reliability and validity of indicators on each variable by looking at the inner model. Inner models are carried out for hypothesis testing and latent variable interactions. The following are the results of statistical analysis:

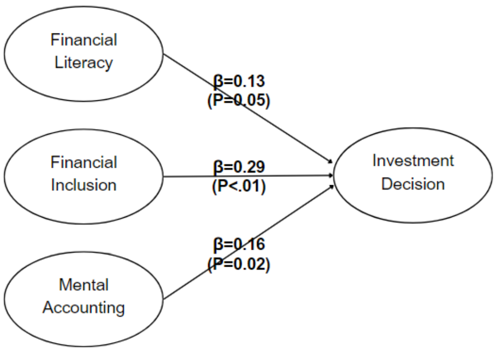

Figure 1. PLS-SEM Model
Source: WarpPLS output attachment (2023)

Figure 1 shows the final results of testing the outer model which had previously been retested several times to obtain the optimal outer model.

Table 4. Loading Factor

	FL	FI	M.A	ID
FL	1.000	-0.000	0,000	-0.000
FI1	0.168	0.332	-0.088	0.148
FI2	0.049	0.421	-0.072	0.049
FI3	-0.143	0.123	-0.046	-0.143
FI4	-0.021	0.402	-0.141	-0.021
FI5	-0.088	0.367	-0.184	-0.088
FI6	-0.065	0.357	0.329	-0.065
FI7	-0.068	0.384	-0.131	-0.068
FI8	-0.073	-0.023	0.185	-0.073
FI9	0.106	0.686	0.093	0.106

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FI10	-0.069	0.624	0.100	-0.069
MA1	0.248	-0.370	0.634	0.248
MA2	0.263	-0.183	0.336	0.263
MA3	-0.142	-0.033	0.543	-0.142
MA4	0.060	0.192	0.446	0.060
MA5	-0.038	-0.044	0.530	-0.038
MA6	-0.274	0.394	0.639	-0.274
ID1	0.202	-0.337	0.078	0.202
ID2	0.026	-0.035	-0.033	0.026
ID3	0.101	0.158	0.048	0.101
ID4	-0.229	0.064	0.076	-0.229
ID5	0.075	0.199	0.190	0.075
ID6	-0.140	-0.181	-0.077	-0.140
ID7	-0.090	0.397	-0.183	-0.090

Source: WarpPLS output attachment (2023)

Table 3 shows that several indicators have loading factor values below 0.7 so these indicators must be deleted and need to be retested, resulting in indicators with loading factor values above 0.7 which can be said to have fulfilled validity and it can be concluded that the FI1 indicator, FI4, MA1, MA5, ID2 and ID6 can measure financial inclusion, mental accounting and investment decision variables which show loading factor values above 0.7.

Table 5. Outer Model Results

	AVE	Composite Reliability	R-Square
FL	1,000	1,000	0.143
FI	0.624	0.769	
M.A	0.687	0.814	
ID	0.600	0.750	

Source: WarpPLS output attachment (2023)

Table 4 shows that the composite reliability value has a value above 0.7 so that the reliability is met (Chin, 1998). Therefore, all indicators can measure the variables of financial literacy, financial inclusion, mental accounting, and investment decisions. The R-Square value is 0.143 which indicates a very weak category because it has an R^2 value smaller than 0.19.

Table 6. Hypothesis Test

	Correlation Coefficient	P-Value	Remarks
FL → ID	0.132	0.047	Affected
FI → ID	0.293	<0.001	Affected
MA → ID	0.160	0.022	Affected

Source: WarpPLS output attachment (2023)

Financial Literacy

The first hypothesis is accepted, meaning that financial literacy has a significant positive effect on investment decisions of the millennial generation in Surabaya.

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Financial literacy produces a p-value below 0.05, namely 0.047 and has a positive coefficient value of 0.132. This explains that the higher the millennial generation's understanding of financial knowledge and concepts, the better they will be at processing information and making investment decisions. This knowledge will make it easier for the millennial generation, especially in Surabaya, to choose and decide on investment products to take according to the level of risk and profits to be obtained. When someone has a high level of financial literacy, they tend to make more rational and informed investment decisions. Through financial literacy, a person can understand the concept of risk and return in investment. They can recognize that every investment has risks associated with it, and that the expected level of return is related to that level of risk. With this understanding, a person can make investment decisions that align with their risk tolerance and financial goals. Financial literacy also influences a person's ability to manage investment risk. They can understand portfolio diversification strategies, risk management using derivative instruments, and understand the importance of insurance in protecting their investments. Overall, financial literacy plays an important role in making rational and informed investment decisions. With a good understanding of financial concepts and investment instruments, individuals can manage risk, optimize returns, and better achieve their financial goals.

These results are in line with research by Nugraha, Tulung & Arie (2021), D.A.T (2020) , Alaaraj & Bakri (2020) and (Putri & Hamidi, 2020) . However, this is not in line with research by Wardani & Lutfi (2019) where financial literacy does not have a significant influence on investment decisions. This difference in results can be caused by the sample and region, in Wardani & Lutfi's (2019) research using a family sample and the research location was in Bali. Meanwhile, the current research uses the millennial generation as the research sample and the area uses the city of Surabaya, so it can be said to influence the results of the analysis.

Financial Inclusion

The second hypothesis is accepted, meaning that financial inclusion has a significant positive effect on investment decisions of the millennial generation in Surabaya. Financial inclusion produces a p-value below 0.05, namely <0.001 and has a positive coefficient value of 0.293. This explains that the better access to information on financial products and services that can be accessed by the millennial generation, the more they will be able to help the millennial generation in making investment decisions that are useful for improving the individual's economy. The ease of access obtained and felt by the millennial generation in Surabaya will later be able to choose financial products, especially investment products, whether the millennial generation places their funds in investing in shares, bonds, mutual funds or others. Financial inclusion ensures that individuals from underserved groups have access to affordable investment products. This could be a mutual fund with a low initial investment, a deposit savings product with a competitive interest rate, or an easy-to-access online investment platform. With easier access, individuals can start investing with less capital and capitalize on long-term growth potential. Financial inclusion is also related to the development of digital financial services such as online banking, investment applications and trading platforms. With easy access via mobile devices or the internet, individuals can monitor their investments, perform real-time market analysis, and make investment decisions more quickly and efficiently. Financial inclusion provides wider access to financial information and

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education. It can help individuals understand investment concepts, the financial instruments available, and the associated risks and returns. With better knowledge, they can make more informed and rational investment decisions. These results are in line with research by Nugraha, Tulung & Arie (2021).

Mental Accounting

The third hypothesis is accepted, meaning that mental accounting has a significant positive effect on investment decisions of the millennial generation in Surabaya. Mental accounting produces a p-value below 0.05, namely 0.022 and has a positive beta coefficient of 0.160. This explains that the higher the mental accounting that the millennial generation has, the better they will be at allocating their finances according to the sources and use of their needs. This thinking ability can help in allocating income, managing income, evaluating finances and considering the risks involved in decision making. Therefore, the millennial generation needs to have a good accounting mentality so that they are more careful and consider the risks and benefits obtained when making the investment decisions they choose. According to mental accounting theory, individuals tend to divide their money into different mental "accounts", such as accounts for daily needs, savings, vacations, or investments. Each of these accounts has certain limits and is treated separately in financial decision making. Mental Accounting theory also includes the concept of "reference value" or "threshold value". Individuals tend to compare their financial decisions with certain reference values, such as a monthly budget or certain prices. For example, if someone exceeds their set budget for eating out, they may feel guilty or limit spending in other areas to compensate, which can influence purchasing and investment behavior. For example, someone may be more likely to spend money earned from gifts or bonuses than money earned from a regular paycheck, because they view it as “extra money” that is separate from their regular spending account.

These results are in line with research by Armansyah (2021), Santi, Sahara & Kamaludin (2019) dan Anggini (2019). However, this is not in line with Anggini (2019) research where mental accounting does not have a significant influence on investment decision making. This difference in results can be caused by the sample and research area. Research (Anggini, 2019) used a sample of garment, weaving, carving and batik SMEs, research locations in Jepara Regency. Meanwhile, the current research uses the millennial generation as a sample and the area uses the city of Surabaya, so it can be said to influence the results of the analysis.

CONCLUSION

Based on the research results, it can be concluded that financial literacy has a significant positive effect on investment decisions of the millennial generation in Surabaya. This shows that the millennial generation's higher understanding of financial knowledge and concepts can improve investment decisions. Furthermore, the results also show that financial inclusion has a significant positive effect on the investment decisions of the millennial generation in Surabaya. This indicates that the easier access to financial products and services will improve investment decisions, then mental accounting has a significant positive effect on the investment decisions of the millennial

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generation in Surabaya, so that the higher the ability to think in allocating the funds owned, the risk will be minimized, so that investment decisions are getting better. Some of the limitations of this research include the relatively small R square value so that further research is expected to be able to re-explore the factors that influence investment decisions, especially in the realm of millennial generation behavior, then another limitation lies in the respondents used, namely millennial generation respondents who domiciled in Surabaya so that further research can use other areas as a comparison of results to enrich exploration in the field of financial behavior. This research has theoretical implications, namely several factors that influence the millennial generation in Surabaya in making investment decisions, namely financial literacy, financial inclusion and mental accounting from the generation itself. The contribution of this research is to provide an overview of the investment products that will be chosen by the millennial generation in Surabaya in making investment decisions related to financial literacy, financial inclusion and mental accounting in the post- pandemic period, making it easier for investment marketers to provide their product offerings, especially to the millennial generation in Surabaya.

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