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The Role of Financial Technology and Financial Literacy in Shaping Gen Z Students' Consumer Choices

Abstract

This study addresses the critical issue of how financial literacy impacts the consumption behavior of Generation Z students. The primary objective is to examine the relationship between financial literacy, fintech usage, and consumption behavior among this demographic. The research employs a survey method utilizing Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the proposed model. The findings reveal that financial literacy significantly influences the consumption behavior of Generation Z students. Additionally, financial literacy positively affects the use of fintech; however, fintech usage does not significantly impact the consumption behavior of these students. The implications of this research highlight the importance of enhancing financial literacy among Generation Z to foster responsible consumption habits. However, the study's limitation lies in its focus on students from economic backgrounds, which may not fully represent the diverse perspectives within Generation Z. Future research should include a broader range of participants to gain a more comprehensive understanding of these dynamics.

Keywords: financial literacy, fintech, consumption behavior, Generation Z.

Introduction

Currently, we cannot ignore the influence of digital technology development, as it closely relates to the economic life of society and impacts consumption patterns among the public and students. (Sidharta & Suzanto, 2015; Dey et al., 2020; Pencarelli, 2020; Huynh, 2022) Among the student population today, Gen Z, born between the mid-1990s and early 2000s, plays a significant role and influences Indonesia's development now and in the future. (Hinduan et al., 2020; Lestari, 2019) They grow up in a digital era filled with financial technology innovations or fintech. (Kushwaha, 2021) The convenience experienced by Gen Z students affects their adopted lifestyle. (Hoque, 2018; Manap et al., 2021) The age group of Generation Z and millennials shows a strong preference for purchasing products online. (Saidi & Radzi, 2023; Genoveva & Syahrivar, 2020)

The findings from research by Lusardi & Messy (2023), Philippas & Avdoulas (2021), and Lone & Bhat (2022) identify financial literacy as the key to managing finances wisely, emphasizing the ability to read, analyze, and manage personal financial conditions that affect well-being. Individuals often seek satisfaction by consuming goods that are not necessities but rather fulfill their desires, which aligns with consumptive behavior. Students are expected to gain a deeper understanding of fintech and financial literacy. (Sanchez et al., 2021; Zahra & Anoraga, 2021; Dias et al., 2021) However, in reality, many students face challenges in paying tuition

fees due to financial difficulties, which are indicated by their consumptive behavior, a lack of financial literacy, and insufficient knowledge about fintech.

The research by Liu et al. (2021) examines the influence of digital behavior, financial literacy, and financial inclusion using a partial least squares approach. The results show that financial literacy serves as a mediator for financial behavior regarding financial inclusion in Pakistan. Basmantra et al. (2023) apply Structural Equation Modelling (SEM) PLS and demonstrate the impact of e-Wallet usage and financial literacy on consumptive behavior among e-wallet users. Findings from Hasan & Hoque (2021), utilizing an econometric model, analyze 852 respondents in Bangladesh and reveal that financial literacy can reduce the gap in financial inclusion, highlighting that financial knowledge significantly influences consumption patterns in rural areas. Research by Morgan & Long (2020) indicates that financial literacy positively impacts financial inclusion and savings among the population in Laos. Individuals with higher financial positions and greater literacy scores are more likely to save in both formal and informal forms compared to those with lower financial literacy scores, regardless of their income and education levels. This study employs the Ordinary Least Squares (OLS) regression approach. Additionally, Philippas & Avdoulas (2021) investigate the factors shaping financial literacy, financial fragility, and financial well-being in fintech among 456 students in Greece. The analysis using logistic regression shows that financial literacy can be a key driver of financial well-being among students who belong to Gen Z.

The research by Kadoya & Khan (2020) employs linear regression and reveals that, in terms of financial literacy, men possess a higher literacy level compared to women. However, women display a more positive attitude toward financial behavior. Additionally, the study finds a positive relationship between age and financial literacy, while it identifies a negative relationship between age and financial behavior. This indicates that people in Japan have a higher level of financial literacy, yet younger generations exhibit more positive attitudes and behaviors regarding finances.

The findings from Li et al. (2020), using panel data from the China Household Finance Survey (CHFS) in 2013, 2015, and 2017, reveal that the adoption of digital inclusive finance contributes to an increase in household consumption. In terms of consumption categories, fintech shows a positive relationship with spending on food, clothing, home maintenance, healthcare, as well as education and entertainment expenses. Furthermore, fintech significantly encourages recurring expenditures by households. Through mediation model analysis, the study identifies online shopping, digital payments, online credit acquisition, internet financing product purchases, and business insurance as mediating variables through which fintech influences household consumption. In other words, fintech impacts household consumption through the use of online shopping services, digital payments, access to online credit, purchasing financing products via the internet, and business insurance. The research indicates that the adoption of fintech in digital inclusive finance has a positive effect on household consumption patterns. Fintech provides easy access to and use of digital financial services, encouraging households to increase their spending across various consumption categories. The research problem of this study aims to further analyze the influence of fintech usage and financial literacy on the consumptive behavior of Gen Z students.

Method

In this study, the problem-solving approach employs a quantitative method through a survey. This approach aims to measure and analyze the impact of fintech usage and financial literacy on the consumptive behavior of Gen Z students. The respondents for this research consist of students from STIE in Palembang City. The researcher selects a sample of 266 students as respondents. The problem-solving approach in this research utilizes a quantitative method with a survey technique. The survey uses a questionnaire that will be distributed to STIE students in Palembang City. The mechanism for distributing the questionnaire involves asking respondents if they are willing to fill it out.

The variables to be tested in this research model include fintech, which refers to financial technology. This evolving technology in the financial sector provides financial solutions. It has transformed how individuals conduct various financial transactions, such as payments, money transfers, loans, and investments. The rapid advancement of technology has played a crucial role in automating financial services, making them more accessible and convenient for participants in the financial industry. (Knoll & Houts, 2012; Heo et al., 2021; Juhana et al., 2024)

The financial literacy variable refers to an individual's ability to read, analyze, manage, and communicate about personal financial situations that impact financial well-being. (Dew & Xiao, 2011; Basmantra et al., 2023) The consumptive behavior variable of students reflects attitudes that focus on purchasing items not based on necessity but rather on the desire to appear stylish and enhance attractiveness. (Li et al., 2020; İbrahim, 2022) Next, the researcher will analyze the data using structural equation modeling (SEM) techniques, which will measure the extent of the influence of the previously established research variables.

Result and Discussion

The characteristics of the respondents include gender proportion and the duration of education completed. The data reveals that 69% of the respondents are women, while 30.1% are men. Additionally, the distribution of education duration varies, with 7.9% of respondents having studied for 1 year, 42.5% for 2 years, 33.8% for 3 years, and 15.8% having pursued education for more than 3 years. The gender proportion indicates that 69% of the total respondents are women, highlighting the dominant participation of women in this study. This may reflect a broader trend in society, where more women are pursuing higher education and actively engaging in various fields, both academically and professionally.

The duration of education completed by the respondents indicates that 42.5% have studied for 2 years. This is a significant figure, as it shows that many respondents are at the early stages of their higher education, which often represents a crucial period in shaping their academic and professional identities. On the other hand, 33.8% of respondents have studied for 3 years, suggesting that they may have attained a deeper understanding of their fields of study and might have begun engaging in research projects or internships. Meanwhile, 15.8% of

respondents have pursued education for more than 3 years. Those in this category are typically final-year students. Next, the author will conduct a data quality test.

Table 1. Results of Validity, Reliability, and VIF.

	FL	FT	PK	AVE	Cronbach's alpha	Composite reliability (rho_a)	VIF
FL1.	0.706			0.515	0.865	0.877	1.601
FL2.	0.710						1.644
FL3.	0.658						1.640
FL4.	0.720						1.994
FL5.	0.789						2.209
FL6.	0.796						2.253
FL7.	0.643						1.459
FL8.	0.705						1.833
FT1.		0.880		0.559	0.793	0.851	2.501
FT2.		0.682					1.463
FT3.		0.760					1.946
FT4.		0.857					2.037
FT5.		0.494					1.160
PK1.			0.858	0.700	0.882	0.950	2.441
PK2.			0.915				3.774
PK3.			0.937				2.805
PK4.			0.589				1.649

In Table 1, the results of validity, reliability, and Variance Inflation Factor (VIF) obtained through Partial Least Squares Structural Equation Modeling (PLS SEM) appear as crucial aspects of the research aimed at understanding the relationships between financial literacy, financial technology, and consumption behavior. The results for Financial Literacy show that outer loadings range from 0.658 to 0.796, indicating that the indicators used to measure financial literacy significantly contribute to forming this construct. Additionally, the Average Variance Extracted (AVE) of 0.515 indicates that more than half of the variance in the indicators can be explained by the financial literacy construct, suggesting good convergent validity.

Regarding reliability, the Composite Reliability of 0.877 and Cronbach's Alpha of 0.865 indicate that the instruments used to measure financial literacy exhibit high internal consistency. The VIF values, ranging from 1.459 to 2.253, demonstrate that there are no significant multicollinearity issues among the indicators, allowing us to be confident that each indicator provides a unique contribution to the measured construct.

Financial Technology shows outer loadings that vary between 0.494 and 0.880, indicating differences in the contribution of each indicator to the financial technology construct. Although some indicators have lower loading values, such as 0.494, this does not necessarily

mean that these indicators are irrelevant. Instead, it may suggest that there is room to enhance understanding or usage of financial technology among the respondents. The AVE of 0.559 indicates that this construct also possesses good convergent validity, as more than half of the variance in the indicators can be explained by the financial technology construct.

In terms of reliability, the Composite Reliability of 0.851 and Cronbach's Alpha of 0.793 indicate that the instruments used to measure financial technology also demonstrate good consistency, although slightly lower compared to financial literacy. The VIF values, ranging from 1.160 to 2.501, suggest that some indicators may have stronger relationships with each other; however, overall, there are no significant indications of multicollinearity issues.

Consumption Behavior displays outer loadings ranging from 0.589 to 0.937, indicating that the indicators used to measure consumption behavior contribute variably. However, overall, these indicators are quite strong in explaining the consumption behavior construct. The AVE of 0.700 signifies that this construct has good validity, as more than 70% of the variance in the indicators can be explained by the consumption behavior construct.

In terms of reliability, the Composite Reliability of 0.950 and Cronbach's Alpha of 0.882 demonstrate that the instruments used to measure consumption behavior are highly consistent and reliable. The VIF values, ranging from 1.649 to 3.774, suggest that some indicators may have stronger relationships with each other, yet they remain within acceptable limits.

The PLS SEM analysis results indicate that the three constructs examined—financial literacy, financial technology, and consumption behavior—exhibit good validity and reliability. Each construct demonstrates that the indicators used effectively explain their latent variables and are interconnected. This provides a solid foundation for developing a deeper understanding of the relationships among these three variables.

Table 2. Testing HTMT Ratio and Fornell-Lacker Discriminant Validity.

HTMT Matrix			
	FL	FT	PK
FL			
FT	0.596		
PK	0.189	0.096	
Fornell-Lacker Discriminant Validity			
	FL	FT	PK
FL	0.718		
FT	0.521	0.748	
PK	-0.215	-0.054	0.836

The analysis results show that the HTMT values range from 0.096 to 0.596, all of which fall below the threshold of 0.9, as seen in Table 2. These figures indicate a strong discrimination between the tested variables. Practically, these values suggest that Financial Literacy, Financial Technology, and Consumption Behavior can be regarded as distinct constructs that do not overlap.

Next, we consider the Fornell-Larcker Criterion, which serves as another method to assess discriminant validity. In this analysis, we examine the square root of the Average Variance Extracted (AVE) for each variable. The analysis results reveal that the square root AVE for Financial Literacy is 0.718, for Financial Technology is 0.748, and for Consumption Behavior reaches 0.836. These values indicate that each variable has a substantial variance that can be explained by its respective construct, and all square root AVE values exceed the values related to other variables.

Table 3. Data Analysis Results.

Full Model					
	Coefficients	Standard deviation (STDEV)	VIF	P values	Sig.
FL -> FT	0.521	0.074	1.000	0.000	Accept
FL -> PK	-0.256	0.116	1.373	0.027	Accept
FT -> PK	0.079	0.108	1.373	0.463	Not Accept
		R-square	R-square adjusted	Q2predict	RMSE
FT		0.272	0.268	0.249	0.887
PK		0.051	0.041	0.008	1.000
Gender Different Model MGA					
		Coefficients	Standard deviation (STDEV)	P values	Sig.
Female	FL -> FT	0.407	0.645	0.000	Accept
	FL -> PK	-0.350	0.535	0.000	Accept
	FT -> PK	0.120	-0.375	0.245	Not Accept
Male	FL -> FT	0.645	0.099	0.000	Accept
	FL -> PK	0.535	0.472	0.257	Not Accept
	FT -> PK	-0.375	0.341	0.271	Not Accept
Full Gender Different Model MGA					
	Difference (Female - Male)	1-tailed (Female vs Male) p value	2-tailed (Female vs Male) p value		Sig.
FL -> FT	-0.238	0.969	0.062		Not Accept
FL -> PK	-0.885	0.985	0.030		Accept

FT -> PK	0.495	0.118	0.236	Not Accept

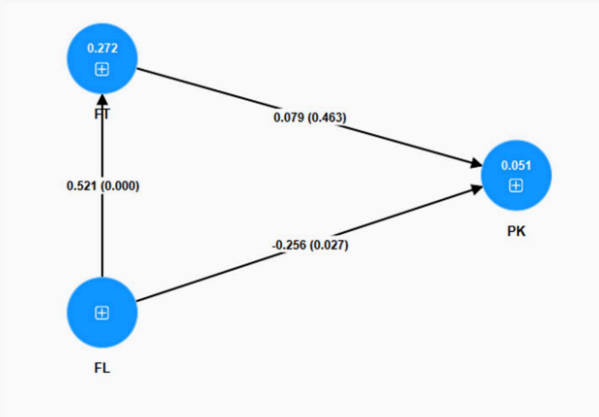


Figure 1. Financial Technology and Financial Literacy in Shaping Gen Z Students' Consumer Choices

The data analysis calculations, as shown in Table 3 and Figure 1, can be explained as follows: The influence of Fintech on the consumption behavior of Gen Z students has a coefficient value of 0.079 and a p-value of 0.463, indicating a conclusion of Not Accepted.

The research results indicate that the influence of fintech on the consumption behavior of Generation Z students shows a coefficient of 0.079 and a p-value of 0.463, leading to the conclusion that the hypothesis is not accepted. This suggests that there is no significant relationship between fintech usage and the spending habits of Gen Z students.

Khan et al. (2024) emphasize the importance of understanding the behavioral dynamics of Generation Z, particularly in the context of financial literacy. Their study highlights that financial literacy may not be a prerequisite for accessing fintech services among this demographic. Similarly, Singh and Sharma (2023) explore the intentions of Indian consumers from Gen X and Millennials to utilize fintech payment services during the COVID-19 pandemic, indicating that various factors influence the adoption of fintech beyond mere financial literacy.

Moreover, Cardoso et al. (2024) examine how digital influencers affect Generation Y's acceptance of fintech banking services in Brazil, suggesting that social influences play a significant role in fintech adoption. Overall, these studies collectively suggest that while fintech has potential, its direct impact on the consumption behavior of Gen Z students may not be as pronounced as anticipated.

The research findings reveal that financial literacy significantly influences the consumption behavior of Generation Z students, with a coefficient of -0.256 and a p-value of 0.027. This

indicates that the hypothesis is accepted, suggesting that higher levels of financial literacy correlate with more responsible consumption habits among Gen Z students.

Shi, Ali, and Leong (2025) provide insights into personal financial management, emphasizing the relationship between financial literacy, financial capability, and financial behavior. Their systematic review highlights how financial literacy equips individuals with the knowledge necessary for effective financial decision-making. Panos and Wilson (2020) discuss the importance of financial literacy in the FinTech era, noting that it poses both capabilities and challenges for consumers. They argue that understanding financial concepts is crucial for navigating the complexities of modern financial services.

Additionally, Lina, Hou, and Ali (2022) explore the impact of online convenience on impulsive buying behavior among Generation Z, highlighting the role of social media celebrities in influencing their purchasing decisions. This suggests that while financial literacy is essential, external factors such as social influences also play a critical role in shaping consumption behavior. Overall, the evidence indicates that enhancing financial literacy can lead to more informed and responsible spending practices among Generation Z students.

The research findings indicate that financial literacy significantly influences the consumption behavior of Generation Z students, with a coefficient of 0.521 and a p-value of 0.000. This result leads to the conclusion that the hypothesis is accepted, suggesting that financial literacy positively impacts consumption behavior when mediated by fintech. However, it is important to note that fintech itself does not have a significant direct effect on the consumption behavior of Generation Z students.

Daqar, Arqawi, and Karsh (2020) explore how Millennials and Generation Z perceive fintech and its relationship with their financial behavior. Their study highlights that while these generations are open to fintech solutions, the direct influence of fintech on their spending habits is limited. Similarly, Srivastava, Mohta, and Shunmugasundaram (2024) provide evidence from India that Gen Y and Gen Z users adopt digital payment fintech services, yet they do not necessarily translate this adoption into significant changes in consumption behavior.

Garai-Fodor, Varga, and Csiszárik-Kocsir (2022) discuss generation-specific perceptions of financial literacy and digital solutions, emphasizing that while financial literacy enhances understanding and usage of fintech, it does not automatically lead to changes in consumption patterns. Overall, the evidence suggests that while financial literacy plays a crucial role in shaping consumption behavior through fintech, fintech alone does not significantly influence the spending habits of Generation Z students.

Conclusions

The research demonstrates that financial literacy significantly influences the consumption behavior of Generation Z students. Additionally, financial literacy also has a notable impact on the use of fintech. However, the study finds that fintech usage does not significantly affect the consumption behavior of these students. Future research should include a more diverse

sample of students from various educational backgrounds, not limited to those from economic institutions. This broader approach can provide a more comprehensive understanding of how financial literacy and fintech influence consumption behavior across different demographics. One major limitation of this study is its focus solely on students from economic backgrounds, which may skew the results. By excluding students from other fields of study, the research may not fully capture the diverse perspectives and behaviors of the entire Generation Z population.

Researchers should consider expanding the participant pool to include students from various disciplines. Additionally, future studies could explore the potential mediating factors that might influence the relationship between fintech usage and consumption behavior, providing deeper insights into this dynamic.

References

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