

Risk Appetite and Digital Financial Skills Toward Investment Intention: The Mediating Role of Financial Literacy

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Abstract

The rapid advancement of digital technology has transformed financial behavior, particularly among Generation Z, who are increasingly exposed to investment opportunities through digital platforms. However, their readiness to invest is often constrained by limited financial literacy, leading to impulsive or poorly informed investment decisions. This study addresses the problem of how risk appetite and digital financial skills influence Generation Z's investment intention, with financial literacy acting as a mediating variable. The objective of this research is to analyze both the direct and indirect effects of psychological and digital factors on investment intention within the framework of the Theory of Planned Behavior. A quantitative approach with a causal-comparative design was employed, using purposive sampling to collect primary data from 160 Generation Z respondents in Malang City through a structured Likert-scale questionnaire. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 3.0, which enabled the evaluation of measurement reliability, validity, and structural relationships. The results show that risk appetite, digital financial skills, and financial literacy each have a positive and significant effect on investment intention. Furthermore, financial literacy was found to significantly mediate the influence of both risk appetite and digital financial skills on investment intention. These findings highlight the critical role of financial literacy in transforming psychological willingness and digital competencies into informed investment behavior. The study contributes to the literature on financial behavior and provides practical insights for enhancing financial education strategies, particularly in strengthening sharia-based investment participation.

INTRODUCTION

The financial landscape has undergone significant transformation due to advancements in digital technology, particularly in shaping the investment behaviors of younger generations, notably Generation Z. As a cohort raised with extensive access to the internet and technological innovations, Generation Z possesses substantial opportunities to engage with financial information and a variety of digital investment instruments (Hii et al., 2025; Oberoi & Puranik, 2024). However, access to these resources does not inherently ensure that they are adequately equipped to make informed and profitable investment decisions. Gultom et al. (2024) highlight that, despite a strong interest in investing, Generation Z often lacks sufficient financial knowledge and intrinsic motivation to invest.

Recent financial trends show that many Gen Z individuals make investment decisions based on social media influence and peer recommendations, often engaging in high-risk assets

such as cryptocurrencies and NFTs without adequate understanding of the associated risks (Król & Zdonek, 2023). In Indonesia, a 2023 survey by the Financial Services Authority (OJK) revealed that over 60% of investors aged 18–25 admitted to investing without proper financial planning, frequently leading to financial losses and regret, indicating a misalignment between investment intention and actual financial preparedness. This issue emphasizes that financial preparedness among Generation Z is still suboptimal and is closely related to the level of financial literacy possessed by the individuals.

Investment intention itself has been conceptualized as an individual's plan or willingness to invest resources with the expectation of future benefits. According to the Theory of Planned Behavior Ajzen (1991), intention is influenced by three primary components: attitudes toward behavior (cognitive), subjective norms (social), and perceived behavioral control (psychological). This integrative framework suggests that a comprehensive understanding of investment intention must include digital, cognitive, and psychological dimensions. However, research on Generation Z's investment intention has revealed notable deficiencies, particularly in the cognitive readiness of this cohort. Studies such as Utami et al. (2025) suggest that although many Gen Z individuals express a high willingness to invest, their intentions often do not translate into actual behavior due to gaps in financial capability, knowledge, and literacy.

Financial literacy, which refers to the ability to comprehend and effectively manage financial information, is an essential factor in determining investment behavior. Upadana & Herawati (2020) found that students' financial knowledge significantly influences their investment decisions. Supporting this view, Hasanudin et al. (2022) revealed that financial attitudes, financial literacy, and knowledge collectively shape investment behavior. Similarly, Safryani et al. (2020) emphasized that a sound understanding of financial concepts is crucial when making decisions related to investments and income. Despite these insights, many studies have primarily positioned financial literacy as an independent predictor, whereas its potential role as a mediating factor between psychological and digital variables with investment intention remains underexplored.

An individual's comfort level with assuming risk, commonly referred to as risk appetite, is a critical factor in the investment decision-making process (Mardikaningsih & Darmawan, 2023). Risk tolerance has been identified as a key determinant of investment behavior, including among university students (Mubaraq et al., 2021). Kurniawan (2021) further asserts that students' willingness to invest is shaped by their perceptions of risk and anticipated success rates. However, the extent to which risk appetite influences investment intention through the mechanism of financial literacy is still insufficiently studied.

The growing demand for digital financial skills has also been driven by the rapid advancement of financial technologies, particularly among younger investors. Palesta & Paramita (2024) revealed that Generation Z's investment decisions are significantly influenced by their use of digital financial applications. In a similar vein, Ahzar et al. (2023) identified a correlation between financial literacy, risk perception, and the adoption of financial technologies. Conversely, Apriliawati et al. (2025) found that financial technology, along with the psychological phenomenon of fear of missing out (FOMO), shapes students' investment behavior. Nevertheless, most existing studies conceptualize digital financial skills as direct determinants of investment intention, while their indirect impact via financial literacy has not been sufficiently addressed.

Taken together, these gaps underscore the critical importance of investigating how risk appetite and digital financial skills shape Generation Z's investment intention, with financial literacy acting as a mediating variable. By employing the Theory of Planned Behavior Ajzen (1991)

as the overarching framework, this study aims to contribute both theoretically and practically to the growing body of literature on the financial behavior of younger generations, while also offering implications for the development of more effective financial education strategies in the digital era.

METHODS

This quantitative study investigates how Generation Z's investment intention is influenced by risk appetite and digital financial skills, with financial literacy as a mediating variable. A causal-comparative design was applied to objectively examine these relationships through statistical analysis (Sugiyono & Lestari, 2021).

The population consists of Generation Z individuals aged 17–24 residing in Malang City, selected using purposive sampling to ensure alignment with the study's objectives (Etikan et al., 2016). A sample of 160 respondents was determined based on Hair et al. (2017) rule for PLS-SEM, which recommends 10 times the number of structural paths directed at the most complex endogenous construct and an ideal range of 150–200 for moderately complex models. Respondents came from diverse backgrounds, were not limited to students, and demonstrated proficiency in using digital financial tools such as mobile banking, e-wallets, and digital investment platforms.

Data were collected using a structured five-point Likert-scale questionnaire, developed from validated indicators to ensure reliability. Financial literacy was measured by knowledge of basic financial concepts, budgeting ability, personal financial management, and familiarity with financial instruments, serving as the mediating variable (Nguyen et al., 2019; Safryani et al., 2020; Upadana & Herawati, 2020). Risk appetite indicators included willingness to take investment risks, tolerance for loss, risk management capability, and preference for high-risk instruments (Grable & Lytton, 1999; Juliano et al., 2024). Digital financial skills were assessed through use of digital applications, understanding of fintech, transaction competence, and application of digital tools for financial control (Apriliawati et al., 2025). Investment intention was evaluated based on interest in investment, readiness to invest, ability to assess risk-return, and long-term financial goal orientation (Goyal & Kumar, 2021).

Data analysis employed PLS-SEM using SmartPLS 3.0 for its ability to handle complex models with small-to-medium samples and non-normal data (Hair Junior et al., 2014). The analysis comprised two stages: (1) outer model evaluation for Convergent Validity (loading ≥ 0.5), Discriminant Validity (AVE ≥ 0.5), and reliability (Cronbach's Alpha and Composite Reliability ≥ 0.7); and (2) inner model assessment using R^2 and significance of path coefficients via bootstrapping. Mediation effects were also tested using bootstrapping for robust estimation (Zhang, 2025).

RESULTS AND DISCUSSION

Descriptive Test

The object of this study is individuals from Generation Z residing in Malang City, aged between 17 and 24 years. The data for this study was collected through simple random sampling by distributing an online questionnaire via Google Forms to the respondents. To ensure that the questionnaire met the required criteria, during the online distribution, respondents were asked to confirm the following statements: that they are part of Generation Z, reside in Malang City, and are aged between 17 and 24 years. A total of 160 questionnaires were deemed valid and usable for analysis.

Table 1.
Respondent Profile

Criteria	Frequency	Percentage %
Age:		
17-20 years	42	26,1%
21-24 years	118	73,9%
Total	160	100%
Gender:		
Male	17	10,9%
Female	143	89,1%
Total	160	100%

Source: data processed, 2025

The respondent profile in this study reflects the demographic characteristics of Generation Z in Malang City. In terms of age, 73.9% of respondents are between 21 and 24 years old, while 26.1% fall within the 17 to 20-year age range. Regarding gender, 89.1% of the respondents are female, and 10.9% are male.

Data Quality Assessment

Validity Testing

Table 2.
Validity Test Result

Variable	Indicators	Outer Loading	Validity
Risk Appetite	RA 1	0.691	Valid
	RA 2	0.624	Valid
	RA 3	0.745	Valid
	RA 4	0.754	Valid
	RA 5	0.600	Valid
	RA 6	0.723	Valid
	RA 7	0.724	Valid
	RA 8	0.567	Valid
Digital Financial Skills	DFS 1	0.626	Valid
	DFS 2	0.700	Valid
	DFS 3	0.676	Valid
	DFS 4	0.739	Valid

Financial Literacy	DFS 5	0.670	Valid
	DFS 6	0.745	Valid
	DFS 7	0.789	Valid
	DFS 8	0.762	Valid
	FL 3	0.807	Valid
	FL 4	0.738	Valid
	FL 5	0.746	Valid
	FL 6	0.660	Valid
Investment Intention	FL 7	0.597	Valid
	FL 8	0.631	Valid
	II 1	0.758	Valid
	II 2	0.801	Valid
	II 3	0.837	Valid
	II 4	0.840	Valid
	II 5	0.862	Valid
	II 6	0.839	Valid
	II 7	0.878	Valid
	II 8	0.845	Valid

Source: PLS process, 2025

Based on the results of the outer loading analysis, all indicators for the variables of Risk Appetite, Digital Financial Skills, Financial Literacy, and Investment Intention have values above 0.50, indicating that they meet the criteria for convergent validity (Chin, 1998). The highest outer loading value is found in the II7 indicator (0.878), while the lowest is observed in the RA8 indicator (0.567). Despite being the lowest, RA8 still falls within the acceptable threshold for social research. Therefore, all indicators in this model are considered valid and can be used to measure the constructs of each variable in the PLS model.

Reliability Test

Table 3.
Reliability Test

Variable	Cronbach's alpha	Composite reliability	(AVE)
Risk Appetite	0.835	0.873	0.565
Digital Financial Skills	0.872	0.893	0.512
Financial Literacy	0.790	0.851	0.590
Investment Intention	0.937	0.948	0.694

Source: PLS process, 2025

The results of the reliability and construct validity test using the PLS approach show that all variables meet the required criteria. Cronbach's Alpha values for all constructs are above 0.70 Ghozali & Latan (2015), indicating good internal consistency. The highest Cronbach's Alpha is found in Investment Intention (0.937), while the lowest is in Financial Literacy (0.790). Similarly, Composite Reliability (CR) for all variables exceeds 0.80, confirming strong construct reliability. The highest CR is recorded by Investment Intention (0.948) and the lowest by Financial Literacy (0.851).

In terms of Average Variance Extracted (AVE), all constructs surpass the minimum threshold of 0.50 Fornell & Larcker (1981), showing adequate convergent validity. The highest AVE is achieved by Investment Intention (0.694), while the lowest is Digital Financial Skills (0.512). Thus, the measurement model demonstrates satisfactory reliability and validity, providing a solid basis for structural analysis.

Hypothesis Testing

R-square (R²) Test

Table 4.
R-square (R²) Test

Variable	R-square	R-square Adjusted
Financial Literacy	0.430	0.423
Investment Intention	0.553	0.544

Source: PLS process, 2025

Based on the R-square analysis results from the PLS model, the Financial Literacy variable has an R-square value of 0.430, while the Investment Intention variable has an R-square value of 0.553. According to Hair et al. (2017) and Latan et al. (2017), an R-square value of 0.25 is categorized as weak, 0.50 as moderate, and 0.75 as substantial in social and behavioral research. This indicates that the R-square of Financial Literacy (0.430) falls within the weak category but is close to the moderate threshold, while the R-square of Investment Intention (0.553) is categorized as moderate. Therefore, it can be concluded that the structural model demonstrates acceptable predictive power, particularly in explaining the variance in Investment Intention, and is adequate for further analysis.

Path Significance Test (t-statistic dan p-value)

Table 5.
Path Significance Test (t-statistic dan p-value)

Effect	T statistics	P values	Decision
RA -> II	5.761	0.000	H ₁ Accepted
DFS -> II	2.063	0.040	H ₂ Accepted
FL -> II	3.017	0.003	H ₃ Accepted
RA -> FL -> II	2.698	0.007	H ₄ Accepted
DFS -> FL -> II	2.543	0.011	H ₅ Accepted

Source: PLS process, 2025

Risk appetite has a positive effect on the investment intention of Generation Z.

The analysis indicates that risk tolerance significantly influences the investment intention of Generation Z. Risk Appetite (RA) exerts a significant positive influence on Investment Intention (II), as indicated by a t-statistic of 5.761 and a p-value of 0.000. This finding supports the first hypothesis, suggesting that individuals with higher levels of Risk Appetite exhibit a greater propensity to engage in investment activities. This suggests that individuals with a greater tolerance for financial risk are more inclined to participate in investment activities. This relationship can be theoretically grounded in the Expected Utility Theory proposed by Mongin (1998), which posits that individuals tend to engage in actions that maximize their expected utility, particularly when evaluating choices under uncertainty, such as investment decisions. Generation Z, having been raised in a digitally integrated and economically volatile global landscape, appears more adaptive

and receptive to financial risks, especially within digital investment platforms that offer the appeal of high returns and immediate accessibility. Despite this, risk appetite significantly influenced investment intention, indicating that even a modest willingness to take risks is a strong predictor of financial action among Generation Z. This observation is consistent with the findings of Kurniasari & Utomo (2022), who reported that risk tolerance significantly influences investment decisions among Generation Z investors in Greater Jakarta areas. Similarly, a study by Rahmayanti et al. (2025) highlights the combined impact of risk tolerance, financial literacy, and subjective norms on the formation of investment intention among students participating in the capital market. These studies collectively underscore that an individual's willingness to assume risk, coupled with social and environmental influences, are central to enhancing the investment intention of the younger generation.

Digital financial skills have a positive influence on the investment intention of Generation Z.

Digital financial skills have been found to significantly influence the investment intention of Generation Z. Digital Financial Skills (DFS) demonstrate a significant positive effect on Investment Intention (II), as evidenced by a t-statistic of 2.063 and a p-value of 0.040. This result supports the second hypothesis, indicating that higher proficiency in digital financial skills enhances individuals' intention to invest. This underscores that competence in utilizing and understanding financial technologies plays a critical role in fostering investment participation. This finding is consistent with the Technological Acceptance Model introduced by Davis (1989), which asserts that individuals' perceptions of a technology's usefulness and ease of use significantly shape their behavioral intention and actual usage. As digital natives, members of Generation Z benefit from inherent familiarity with technological tools, enabling them to access real-time financial information through mobile applications, e-wallets, trading platforms, and finance-oriented social media. This accessibility facilitates quicker and more efficient investment decision making. This digital competence appears to directly encourage investment behavior, possibly by lowering technical barriers and increasing ease of access to financial markets. Supporting this view, Sunandes & Meifilina (2024) demonstrated that proficiency in financial technologies positively contributes to investment behavior among Gen Z individuals. Likewise, Hasan (2024) emphasizes that digital fluency empowers the younger generation to engage more actively in online investment activities, as their comfort and confidence in using digital platforms enhance their willingness to participate.

Financial literacy has a positive influence on the investment intention of Generation Z.

Financial literacy has been found to significantly influence the investment intention of Generation Z. Financial Literacy (FL) demonstrates a significant positive effect on Investment Intention (II), as evidenced by a t-statistic of 3.017 and a p-value of 0.003. This result supports the third hypothesis, indicating that higher levels of financial literacy enhance individuals' intention to invest. This underscores that understanding fundamental financial concepts such as budgeting, risk management, and familiarity with various investment instruments plays a critical role in fostering investment participation. This finding aligns with the Theory of Planned Behavior proposed by Ajzen (1991), which emphasizes that knowledge and perceived behavioral control strongly shape intention and subsequent behavior.

Financial literacy equips individuals with the capability to evaluate financial options effectively, assess risks, and plan for long-term financial goals, thereby reducing uncertainty and

increasing confidence in investment decisions. For Generation Z, whose exposure to digital financial services is high, strong financial literacy complements their digital competence, allowing them to make rational and informed investment choices rather than impulsive or speculative decisions.

Supporting this view, Utami et al. (2025) found that financial knowledge and literacy significantly and positively influence the investment intentions of Generation Z students, with financial attitude acting as a mediator in the relationship. Similarly, Al Qoriana & Ningtyas (2024) reported that financial literacy directly and significantly predicts investment intention among Gen Z in Malang, even when controlling for environmental and attitudinal factors. These consistent findings reinforce that financial literacy is a critical determinant in shaping investment behavior, as greater knowledge and skills empower young individuals to develop strategic, goal-oriented, and rational investment plans.

Financial literacy mediates the relationship between risk appetite and the investment intention of Generation Z.

Financial literacy has been found to significantly mediate the relationship between risk appetite and the investment intention of Generation Z. Financial Literacy (FL) demonstrates a significant mediating effect, as evidenced by a t-statistic of 2.698 and a p-value of 0.007. This result supports the fourth hypothesis, indicating that financial literacy strengthens the influence of risk appetite on individuals' intention to invest. This suggests that although a high risk appetite reflects an individual's willingness to accept uncertainty in pursuit of greater returns, such propensity alone is insufficient to drive investment behavior without adequate financial knowledge and skills.

This finding aligns with the Theory of Planned Behavior proposed by Ajzen (1991), which emphasizes that behavioral intention is shaped by attitudes, subjective norms, and perceived behavioral control. In this context, risk appetite serves as an attitudinal component, while financial literacy enhances perceived behavioral control, enabling individuals to translate their willingness to take risks into rational investment decisions.

Empirical evidence supports this perspective. Dinarjito (2023) demonstrated that financial literacy mediates the relationship between financial behavior and investment decisions, while Iram et al. (2023) highlighted its mediating role between behavioral biases and investment intentions among women entrepreneurs. Similarly, Sembel et al. (2024) confirmed that financial literacy mediates the link between individual characteristics and stock investment intention among students. These consistent findings underline the critical role of financial literacy as a bridge that converts risk-taking tendencies into informed and goal-oriented investment behaviors.

Financial literacy mediates the relationship between digital financial skills and the investment intention of Generation Z.

Financial literacy has been found to significantly mediate the relationship between digital financial skills and the investment intention of Generation Z. Financial Literacy (FL) demonstrates a significant mediating effect, as evidenced by a t-statistic of 2.543 and a p-value of 0.011. This result supports the fifth hypothesis, indicating that financial literacy amplifies the influence of digital financial skills on individuals' intention to invest. This implies that although digital financial skills enable individuals to access and utilize technology-based financial services, such competencies alone may not sufficiently encourage investment behavior without the support of financial knowledge and interpretive ability.

This finding is consistent with Theory of Planned Behavior Ajzen (1991), which posits that behavioral intention is shaped by both prior experience (e.g., digital competence) and perceived behavioral control (e.g., financial literacy). In this context, digital financial skills facilitate technical access and operational capability, while financial literacy provides the cognitive foundation required to evaluate investment risks and make rational decisions.

Empirical studies corroborate this perspective. Annisa et al. (2023) observed that financial literacy, in combination with digital technology, significantly influences Generation Z's investment intentions in the Islamic capital market. Similarly, Salmayanti et al. (2024) found that digital literacy contributes to investment interest primarily when supported by adequate financial knowledge. Tania & Tjhin (2025) also emphasized that digital proficiency promotes the adoption of investment applications, but its effectiveness is reinforced by strong financial literacy. Collectively, these findings highlight the critical role of financial literacy as a mediating mechanism that transforms digital capabilities into informed, goal-oriented investment intentions.

CONCLUSION

This study demonstrates that risk appetite, digital financial skills, and financial literacy have a significant positive effect on Generation Z's investment intention. Furthermore, financial literacy is confirmed to mediate the influence of both risk appetite and digital financial skills, transforming psychological readiness and digital competence into rational investment behavior.

Theoretically, the findings contribute to the extension of the Theory of Planned Behavior by positioning financial literacy as a mediating mechanism that links attitudes, digital competencies, and behavioral intention. This highlights the importance of cognitive ability in bridging risk-taking tendencies and technological skills with effective financial decision-making.

Practically, the results emphasize the need for integrated financial education programs that combine literacy enhancement with digital financial training to encourage Generation Z's active participation in both conventional and sharia-based investment markets. Future research may explore additional psychological constructs, such as financial self-efficacy or behavioral biases, and conduct comparative studies across different cultural or financial market contexts to strengthen the generalizability of these findings.

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