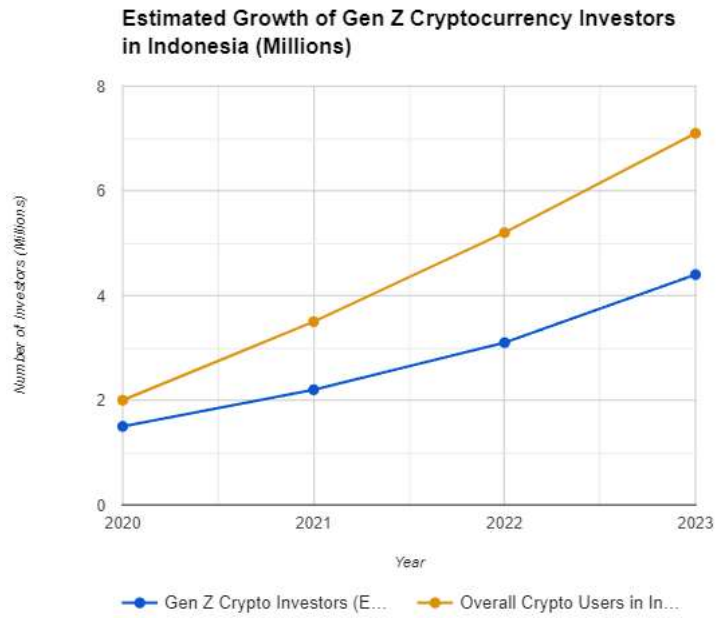


# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

The financial landscape has undergone a significant transformation with the emergence of cryptocurrencies. These digital assets offer alternative investment opportunities with the potential for high returns, but also come with inherent risks. Indonesia has witnessed a remarkable surge in cryptocurrency investors in recent years, with Gen Z (born between 1997 and 2012) emerging as a dominant force in this market. Driven by their tech-savviness, curiosity about innovative financial instruments, and the potential for high returns, Gen Z individuals are increasingly turning to cryptocurrencies. There is a study, conducted by the Organization for Economic Cooperation and Development (OECD), evaluates 15-year-olds' financial literacy skills in participating countries. It offers insights into financial education gaps in younger generations, which are Gen Z. On average, across participating countries globally, only around one-third of 15-year-olds demonstrate a strong foundation in financial literacy concepts. This study suggests that most Gen Z does not have a good enough knowledge of financial literacy, especially Gen Z in Indonesia since the education isn't as good compared to other countries according to international assessments like the Programme for International Student Assessment (PISA).



Source: Statista

**Figure 1.1. Estimated Growth of Gen Z Cryptocurrency Investors in Indonesia (2020 - 2023)**



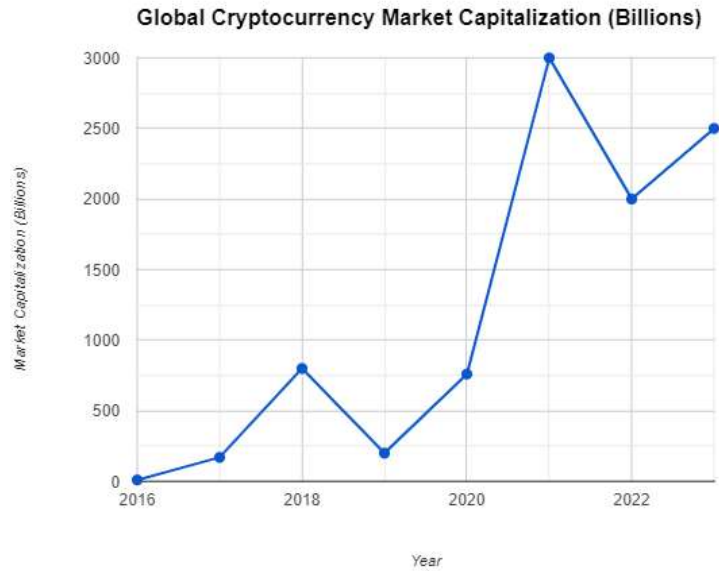
Source: LendingTree, CNBC

**Figure 1.4. Investment Outcome of Cryptocurrency Investors**

According to a survey conducted by LendingTree in November 2022, 38% of American cryptocurrency investors reported losing money on their investments, selling their holdings for less than they purchased them for. 28% reported making a profit, selling their holdings for more than they purchased them for. 13% reported breaking even, neither profiting nor losing money on their investments. Unfortunately, at the moment there are no data that shows how much Indonesians lose money, profited or breakeven in cryptocurrency. So, it's important to note that this data represents a specific survey and the actual percentages in Indonesia might differ, but it should give a great example of the possibilities.

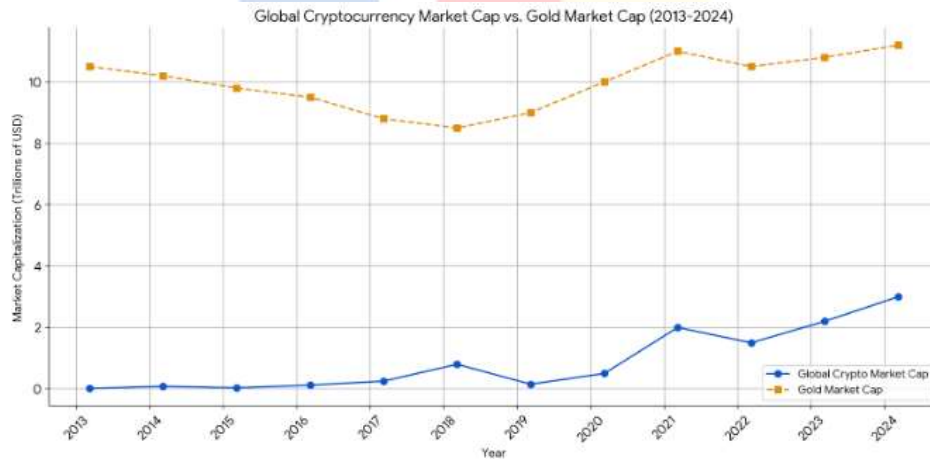
In Indonesia, the cryptocurrency market has witnessed substantial growth, with Gen Z investors actively participating in various digital assets. Data suggests a strong preference for major cryptocurrencies among Gen Z investors. According to a CoinMarketCap report published in February 2023, a significant portion of Gen Z investors globally hold, Bitcoin (BTC): As the most established cryptocurrency, Bitcoin remains a popular choice, though its dominance has decreased slightly in recent years. Ethereum (ETH): Known for its potential for smart contracts and decentralized applications, Ethereum attracts Gen Z investors interested in the broader blockchain ecosystem. Altcoins: The category of alternative cryptocurrencies encompasses a wide range of tokens with varying functionalities and risk profiles. Gen Z investors may allocate a portion of their portfolio to altcoins seeking potentially higher returns, but also accepting greater volatility.

The specific distribution of preferences for Bitcoin, Ethereum, and altcoins among Gen Z investors in Indonesia might require further investigation through local surveys or data from Indonesian cryptocurrency exchanges.



Source: CoinMarketCap

Figure 1.2. Global Market Capitalization for Cryptocurrency (2016 - 2022)



Source: CoinMarketCap and GoldPrice

Figure 1.3. Global Market Capitalization for Cryptocurrency VS Global Market Capitalization for Gold (2013 - 2024)

Cryptocurrency has emerged as a prominent asset class in the global financial landscape attracting attention from investors, academics, and regulators alike. With the advent of blockchain technology, cryptocurrencies offer decentralized, secure, and borderless transactions, challenging traditional financial systems and investment paradigms. Among the various demographic segments engaging in cryptocurrency investment, Gen Z represents a cohort characterized by digital nativism, technological fluency, and a unique perspective on finance and investment. Indonesia, as a vibrant emerging market in Southeast Asia, presents a compelling context for studying cryptocurrency investment behavior among Gen Z individuals. The country's rapidly evolving digital economy, coupled with its sizable young population, underscores the significance of understanding the factors influencing investment decisions in the realm of cryptocurrencies. Against this backdrop, this research seeks to explore the interplay between herding behavior, risk perception, and financial literacy in shaping the investment behavior of Gen Z individuals towards cryptocurrencies in Indonesia.

While Gen Z's interest in cryptocurrencies is evident, concerns exist regarding their financial literacy and preparedness for navigating the complexities of this volatile market. (Cyree, Grant, & Chebet, 2023) highlight a potential link between limited financial literacy and riskier investment choices, including cryptocurrencies.

The emergence of cryptocurrencies has revolutionized the financial landscape, offering alternative investment opportunities with high potential returns but also significant risks. In Indonesia, the number of cryptocurrency investors has surged in recent years, with Gen Z (born between 1997 and 2012) emerging as a dominant force in this market. Driven by factors such as tech-savviness, curiosity about new financial instruments, and potential for high returns, Gen Z individuals are increasingly turning to cryptocurrencies. According to BAPPEBTI, 80% of Indonesia's cryptocurrency investors are Gen Z with an increase of 80% since the January and a total of around 18,83 million investors. While Gen Z's interest in cryptocurrencies is undeniable, concerns exist regarding their investment decision-making processes. Due to their

limited financial experience and the inherent volatility of the cryptocurrency market, concerns arise about their susceptibility to herding behavior, overlooking risk, and lacking adequate financial literacy. While the potential for high returns attracts many, it's crucial to acknowledge the inherent risks associated with cryptocurrency investments.

## **1.2 Scope of Research**

This research investigates the investment behavior of Gen Z individuals in Indonesia regarding cryptocurrencies, focusing on three key factors: herding behavior, risk perception, and financial literacy. It aims to understand how Gen Z's tendency to follow others' investment choices, their perception of risk associated with cryptocurrencies, and their level of financial knowledge influence their investment decisions in this market. While the research focuses on major cryptocurrencies invested within a specific timeframe, it is expected to contribute valuable insights for tailoring financial education and risk management guidance to Gen Z investors, ultimately promoting responsible investment behavior in this dynamic market. Utilized due to the potential difficulty of obtaining a comprehensive list of all Gen Z cryptocurrency investors in Indonesia.

## **1.3 Problem Statement**

The surge of Gen Z's involvement in the Indonesian cryptocurrency market presents both opportunities and challenges. While this generation embraces innovative financial instruments, concerns exist regarding their susceptibility to herding behavior, potentially overlooking risk, and lacking adequate financial literacy, which could lead to uninformed investment decisions. To address these concerns, this research investigates the impact of herding behavior, risk perception, and financial literacy on the investment behavior of Gen Z individuals in Indonesia regarding cryptocurrencies.

Specific research questions guiding this investigation include:

- To what extent does herding behavior influence Gen Z's investment decisions in cryptocurrencies in Indonesia?
- How does Gen Z's risk perception of cryptocurrency investments influence their investment decisions?
- Does financial literacy empower Gen Z individuals in Indonesia to make informed investment decisions in cryptocurrencies?

#### **1.4 Research Benefits**

This research is expected to:

- Uncover the relationship between herding behavior, risk perception, and financial literacy and the investment behavior of Gen Z individuals in cryptocurrency in Indonesia.
- Identify potential areas where financial education and risk management guidance can be tailored to Gen Z cryptocurrency investors, empowering them to make informed and responsible investment decisions.
- Contribute to the understanding of Gen Z's investment behavior in the dynamic and evolving cryptocurrency market, potentially informing policy considerations for promoting responsible and informed investment practices among young adults.
- For Researchers: It adds new knowledge about young people, investing, and social media. It can also inspire future studies on these topics.
- For Government: It helps them understand how Gen Z invests and makes decisions. This can lead to better rules and protections for young people in the crypto world.
- For Scientists: This research can be a bridge between finance and other fields like psychology or computer science. By working together, scientists can learn more about how Gen Z thinks and acts.