THE ROLE OF RISK MANAGEMENT IN STRENGTHENING THE IMPACT OF FINANCIAL LITERACY ON INVESTMENT DECISIONS

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Abstrak: Penelitian ini bertujuan untuk menganalisis peran manajemen risiko sebagai variabel moderasi dalam memperkuat hubungan antara literasi keuangan dan keputusan investasi. Dengan menggunakan pendekatan kuantitatif, data dikumpulkan dari 50 responden di Indonesia yang memiliki pengalaman investasi minimal satu tahun. Analisis data dilakukan menggunakan metode Partial Least Squares-Structural Equation Modeling (PLS-SEM). Hasil penelitian menunjukkan bahwa literasi keuangan memiliki pengaruh positif namun tidak signifikan terhadap keputusan investasi. Sebaliknya, manajemen risiko terbukti memiliki pengaruh positif dan signifikan terhadap keputusan investasi, serta mampu memoderasi secara signifikan hubungan antara literasi keuangan dan keputusan investasi. Temuan ini menegaskan bahwa literasi keuangan saja tidak cukup; kemampuan manajemen risiko sangat penting untuk meningkatkan kualitas pengambilan keputusan investasi. Penelitian ini memberikan kontribusi teoretis dengan mengintegrasikan literasi keuangan dan manajemen risiko sebagai faktor penting dalam perilaku investasi, serta menawarkan rekomendasi praktis untuk meningkatkan literasi dan kesadaran risiko di masyarakat.

Abstract: *This study aims to analyze the role of risk management as a moderating variable in strengthening the relationship between financial literacy and investment decisions. Using a quantitative approach, data were collected from 50 respondents in Indonesia who had at least one year of investment experience. Data analysis was conducted using the Partial Least Squares-Structural Equation Modeling (PLS-SEM) method. The results showed that financial literacy has a positive but insignificant effect on investment decisions. In contrast, risk management is proven to have a positive and significant effect on investment decisions, and is able to significantly moderate the relationship between financial literacy and investment decisions. These findings confirm that financial literacy alone is not enough; risk management skills are essential to improve the quality of investment decision making. This study provides theoretical contributions by integrating financial literacy and risk management as important factors in investment behavior, and offers practical recommendations to improve risk literacy and awareness in the community.*

INTRODUCTION

Investment has become one of the important components in achieving individual financial goals and supporting a country's economic growth. In the last decade, financial literacy has increasingly become the focus of research due to its significant impact on investment decision-making. Financial literacy includes a person's knowledge, skills, and attitudes in managing their finances, including understanding investment instruments, risks, and returns. Several previous studies, such as those conducted by (Lusardi & Mitchell, 2014) and (Mongan et al., 2023), highlighted that individuals with high levels of financial literacy are more likely to make rational investment decisions that are in accordance with their risk profile. However, many studies have not explored in depth the role of risk management as a moderating factor in the relationship between financial literacy and investment decisions. This study aims to fill this gap and provide a more comprehensive understanding.

In the context of Indonesia, the level of financial literacy of the community is still at a relatively low level. Based on the National Survey of Financial Literacy and Inclusion (SNLIK) conducted by (OJK, 2021), the national financial literacy rate only reached 49.68%, while the financial inclusion rate reached 85.10%. This shows that although access to financial services has increased, many individuals do not yet have an adequate understanding of how to use financial products and services effectively. This phenomenon is one of the causes of the high number of suboptimal investment decisions, including investments in high-risk schemes without carefully considering the potential for losses.

Risk management is an important element that is often overlooked by individual investors. In financial literature, risk management is defined as the process of identifying, analyzing, and mitigating risks that can affect investment outcomes. For example, research by (Theressa & Armansyah, 2022) shows that individual investors tend to have overconfidence bias, which leads to overly optimistic decision-making without considering risks proportionally. In this context, the ability to manage risk can help individuals mitigate behavioral biases and make more rational investment decisions.

In addition, global phenomena such as the COVID-19 pandemic have reinforced the urgency of financial literacy and risk management. The pandemic brought high market volatility, which tested investors' ability to make decisions amidst uncertainty. Research by (Gormsen & Koijen, 2020) found that individuals who have a good understanding of risk tend to be better able to navigate market changes during periods of crisis compared to those who do not. This shows that financial literacy alone is not enough; it requires a combination with risk management skills to achieve optimal investment results.

In comparison, several previous studies have explored the relationship between financial literacy and investment decisions, but most of these studies only focused on the direct effects of financial literacy. Furthermore, a study by (van Rooij et al., 2011) found that individuals with high financial literacy are more likely to participate in the stock market. However, this study did not consider how risk management skills can moderate the relationship. Another study by (Kulintang & Putri, 2024) also emphasized the importance of financial literacy in encouraging investment participation, but did not explore the behavioral risk dimension.

The novelty of this study lies in the holistic approach that combines financial literacy and risk management as complementary factors in influencing investment decisions. By including risk management as a moderating variable, this study is expected to provide new insights into how the combination of these two factors can improve the quality of individual investment decisions. In addition, this study also adopts a quantitative approach using more recent data, so that it is relevant to the dynamics of today's financial markets.

The urgency of this research is not only driven by the low level of financial literacy in Indonesia, but also by the increasing public interest in investment instruments, such as stocks, mutual funds, and digital assets. Based on data from the Indonesia Stock Exchange (IDX), the

number of retail investors has continued to increase significantly in recent years. Unfortunately, this increase is often not accompanied by an adequate understanding of investment risks. As a result, many investors experience major losses due to a lack of ability to manage risk. Thus, this research has practical relevance in providing policy recommendations that can improve financial literacy and risk management awareness among the public.

The main objective of this study is to analyze the role of risk management in strengthening the impact of financial literacy on investment decisions. Specifically, this study aims to:

1. Measuring the level of individual financial literacy and its influence on investment decision making.
2. Identifying how risk management can moderate the relationship between financial literacy and investment decisions.
3. Providing strategic recommendations to improve financial literacy and risk management capabilities of the Indonesian people.

With a comprehensive approach, this research is expected to provide theoretical and practical contributions in the field of financial management, as well as assist individuals in making wiser and more informed investment decisions.

LITERATURE REVIEW

Financial Literacy

Financial literacy is a fundamental element in rational financial decision-making. (Huston, 2010) defines financial literacy as a combination of financial knowledge, skills, and attitudes that enable individuals to make wise financial decisions. Research by (Klapper et al., 2020) shows that individuals with high levels of financial literacy are more likely to have long-term financial planning and greater participation in the capital market. Financial literacy includes an understanding of compound interest, risk diversification, and the relationship between risk and return (risk-return tradeoff).

In the context of Indonesia, the low level of financial literacy is one of the obstacles to optimizing investment. According to data from the Financial Services Authority (Otoritas Jasa Keuangan (OJK), 2022), only 49.68% of Indonesians have adequate levels of financial literacy. This low level of financial literacy often causes individuals to make irrational investment decisions, such as participating in high-risk investments without understanding the risks involved.

Investment Decisions

Investment decisions are the process by which individuals or institutions select investment instruments based on an analysis of risk, return, and financial goals. According to the utility theory proposed by Von Neumann and Morgenstern (1944), individuals will try to maximize their utility based on risk preferences. However, research by (Barber & Odean, 2001) shows that many individual investors make irrational decisions due to cognitive biases, such as overconfidence and loss aversion.

Previous studies have also highlighted the relationship between financial literacy and investment decisions. (van Rooij et al., 2011) found that individuals with higher levels of financial literacy are more likely to engage in the stock market. Another study by (Kulintang & Putri, 2024) showed that financial literacy plays a role in increasing individual confidence in making investment decisions.

Risk Management in Investment

Risk management is a systematic process that involves identifying, analyzing, and mitigating risks that can affect investment outcomes. In the context of investment decisions, risk management helps individuals understand and manage the uncertainty associated with their investments. Research by (Markowitz, 1952) through modern portfolio theory emphasizes the importance of risk diversification to minimize portfolio volatility without sacrificing expected returns.

(Barber & Odean, 2001) added that investor behavior is often influenced by psychological biases, such as framing effects and mental accounting, which can lead to irrational risk taking. In this case, good risk management skills can help investors avoid these biases and make more objective decisions.

The Relationship between Financial Literacy, Risk Management, and Investment Decisions

The relationship between financial literacy and investment decisions has been widely discussed in the literature. However, the moderating role of risk management in this relationship has not been widely explored. Research by (Guiso, 2008) shows that understanding risk plays an important role in investment decision making, especially in situations of market uncertainty. In addition, research by (Gormsen & Koijen, 2020) during the COVID-19 pandemic found that individuals with good risk management skills are better able to navigate market volatility.

This study attempts to fill the gap in the literature by exploring how risk management can strengthen the relationship between financial literacy and investment decisions. This approach provides a new contribution to the literature by integrating two important concepts, namely financial literacy and risk management, as complementary factors in influencing investment behavior.

Formulation of Hypothesis

Based on the literature review above, this study proposes the following hypotheses:

1. **H1**: Financial literacy has a positive influence on investment decisions.
2. **H2**: Risk management has a positive influence on investment decisions.
3. **H3**: Risk management moderates the relationship between financial literacy and investment decisions, where this relationship becomes stronger in individuals with good risk management skills.

By formulating this hypothesis, the study is expected to provide deeper insight into the dynamics between financial literacy, risk management, and investment decisions, as well as provide an empirical basis for strategies to improve financial literacy and risk management in society.

Based on the hypothesis above, the author tries to describe the conceptual framework of this study as follows:

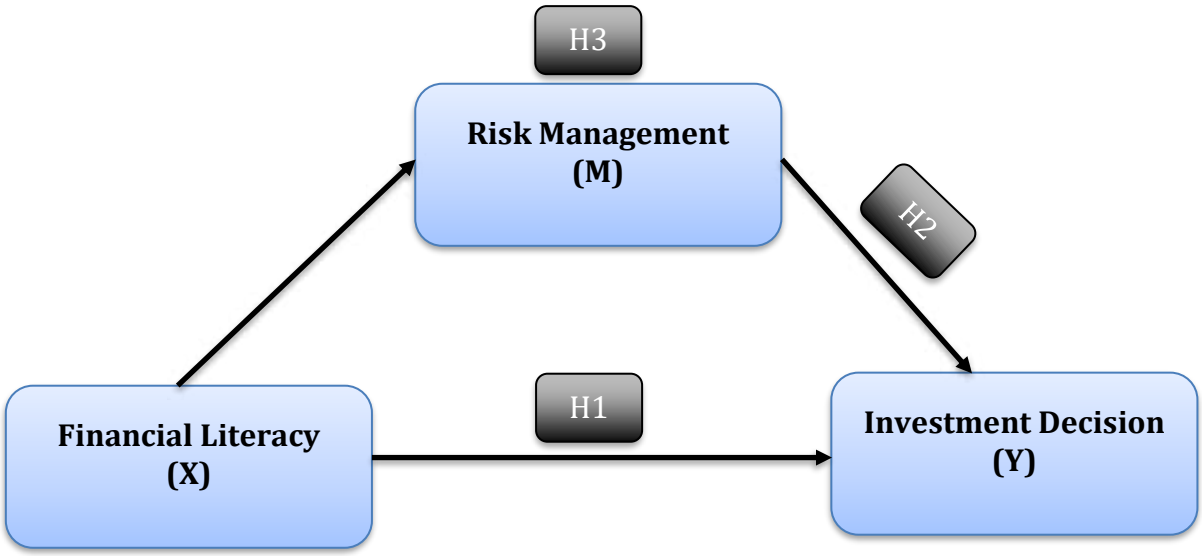

Figure 1. Conceptual Framework
Source: Author's Personal Conception (2024)

METHODS

This study uses a quantitative approach with an explanatory research design. This design was chosen to test the causal relationship between the independent variable, namely financial literacy, with the dependent variable, namely investment decisions, and to test the role of risk management as a moderating variable. Explanatory research allows for in-depth analysis of interactions between variables using statistical models.

The population in this study are individuals in Indonesia who have invested in various financial instruments, such as stocks, mutual funds, or digital assets. The selection of this population aims to ensure that respondents have direct experience in making investment decisions.

The sampling technique used is purposive stratified sampling, with the following criteria:

1. Aged between 21 and 55 years.
2. Have at least one year of investment experience.
3. Understand and can fill out the questionnaire properly.

The number of samples taken was 50 respondents, in accordance with the approach (Hair et al., 2021), which recommends a sample size of at least 10 times the number of indicators in the analysis model.

Primary data was obtained through online questionnaire distribution using a digital survey platform. For the data analysis technique of this study using statistical methods with the help of the SmartPLS version 4.0 application. The tests we conducted include:

- - Outer model test consisting of data validity and reliability test.
- - Inner model test consisting of R-Square test, F-Square test, Discriminant Validity, and
- - Hypothesis test consisting of direct hypothesis test and indirect hypothesis test.

Measurement Indicators

The Independent Variable (X), namely Financial Literacy, is measured using a scale that includes three main indicators, namely knowledge of financial aspects (FL1), financial behavior (FL2), and financial attitudes (FL3), based on the model developed by (Lusardi & Mitchell, 2014) and used in previous research from (Halik et al., 2022; Mongan et al., 2023).

Dependent Variable (Y), namely Investment Decisions, is measured based on indicators that include Decision rationality (ID1), risk-taking courage (ID2), and portfolio diversification (ID3) as adopted from research by (Pradnyawati & Sinarwati, 2022).

The Moderation Variable (M), namely Risk Management, is measured using 3 indicators which include the respondent's ability to identify (RM1), analyze (RM2), and mitigate investment risks (RM3), based on the instrument developed by (Markowitz, 1952).

RESULTS AND DISCUSSION

Respondent Characteristics. Respondents consist of 50 sample units that have the following criteria: Aged between 21 to 55 years, have had at least one year of investment experience and understand and can fill out the questionnaire well.

In terms of Respondent Gender. As many as 38 people (76%) of the respondents we gave the questionnaire to were male. The remaining 12 people (24%) of the respondents were female.

In terms of respondent age. We found that respondents aged 21-30 years old numbered 15 people (30%) of the total respondents. Those aged between 31-40 years old were 12 people (24%) of respondents. Those aged between 41-50 years old were found to be 16 people (32%) of respondents. The rest, those aged 51 years and over were 7 respondents (14%).

In terms of education level. As many as 10 people (20%) of our respondents were educated equivalent to high school. Those who had a Bachelor's degree (S1) we found were 25 people (50%) of our total respondents. The remaining 15 people (30%) were educated above Bachelor's degree (Masters and Doctoral).

In terms of Income Level. We found 11 respondents (22%) who have income between 3 to 5 million per month. Those who earn between 5 to 10 million per month we found 28 people (56%) of the total respondents. The remaining 11 people (22%) respondents have income above Rp. 10 million per month.

In terms of investment experience. From a total of 50 respondents we interviewed, it was found that 5 people (10%) had just started trying or getting to know the investment products they are currently running (under 1 year). Those who have known investment products for 1-3 years are 15 people (30%) respondents. Finally, those who have known investment products for more than 3 years are 30 people (60%).

For further clarity, we present respondent characteristics data in **Table 1** below..

Table 1. Respondent Characteristics (N=50)

Variable	Frequency	Percentage (%)
Gender		
Male	38	76
Female	12	24
Respondent Age		
21 – 30 years	15	30
31 – 40 years	12	24
41 – 50 years	16	32
Over 50 years	7	14
Level of education		
High school / equivalent	10	20
Bachelor Degree (S1)	25	50
Magister / Doctoral	15	30
Income Level		
Rp 3 million - 5 million	11	22
Rp 5 million - 10 million	28	56
Above Rp. 10 million	11	22
Investment Experience		
Under 1 year	5	10
1 – 3 years	15	30

Above 3 years	30	60

Source: Primary Data Processed (2024)

Validity and Reliability Test. In this investigation, concept validity was evaluated using two approaches. The factor loading values for each questionnaire item are tested using the convergent validity test, which is the first technique. A construct's validity is assessed using the convergent validity value. A general rule (rule of thumb) states that an indicator factor loading value of 0.700 or higher is considered legitimate (Hair et al., 2019). Factor loading values in the range of 0.500 to 0.600 are still suitable however, while creating new models or indicators (Haryono, 2017). It could be assumed that all the validity indicator items used are legitimate because all of the statement items in **Table 2** have factor loading values larger than 0.700.

Table 2. Evaluation of Measurement Models

Construct	Code	Loading Factor	Cronbach's Alpha	CR	AVE
Financial Literacy (X)	IT1	0.943	0.911	0.944	0.847
	IT2	0.888			
	IT3	0.928			
Risk Management (M)	RM1	0.872	0.871	0.874	0.796
	RM2	0.828			
	RM3	0.925			
Investment Decision (Y)	ID1	0.830	0.862	0.888	0.783
	ID2	0.919			
	ID3	0.903			

Source: Primary Data Processed (2024)

The second approach determines the average variance extracted (AVE) value for each variable with the objective to measure discriminant validity. Discriminant validity is said to be good if the AVE value of a variable is equal to or greater than 0.500, in accordance with established criteria (Hair et al., 2019). In **Table 2** it can be seen that the AVE value for all variables includes Financial Literacy with a value of 0.847, Risk Management shows a value of 0.796, and the Investment decision variable is 0.783. This confirms that each variable shows good discriminant validity, indicating that they are distinct constructs that effectively measure different aspects of this research.

Table 3. Discriminant Validity with the Fornell and Larcker Approach

Variable	Financial Literacy	Risk Management	Investment Decision
Financial Literacy	**0.920**		
Risk Management	0.397	**0.892**	
Investment Decision	0.471	0.671	**0.885**

Source: Primary Data Processed (2024)

By contrasting the correlation value between the latent variables and the Average Variance Extracted Square Root (AVE), discriminant validity can also be verified. The square root value of AVE must be higher than the correlation between latent variables, using the Fornell-Larcker Criteria (Ghozali, 2021). This is demonstrated in **Table 3**, where the square root of AVE is greater than the correlation coefficient between the latent variables. As a result, every statement item in the research instrument is reliable and appropriate for use as a gauge.

We computed Cronbach's alpha values for all variables and performed a composite reliability test to evaluate the credibility of our research instrument. When an instrument's Cronbach's alpha and composite reliability value are both equal to or higher than 0.700, it considered to be reliable (Ghozali, 2021). All of the study's variables—including composite

reliability and Cronbach's alpha values—exceeded this threshold, as indicated in **Table 2**. The results presented confirm that every variable utilized in the study is reliable.

Structural model test. The internal model of this study is measured next, and its value is shown by the R-squared. Initially, we evaluate the R-square value corresponding to every latent endogenous variable. We can better understand how some exogenous latent variables affect endogenous variables and whether this influence is statistically significant by looking at the R-square value of the structural model (Ghozali, 2021). If the value is more than 0.670, the R-squared value is extremely strong/large; if the value is greater than 0.330 but less than 0.670, the effect is moderate; and if the value is above 0.190 but less than 0.330, the influence is weak/small (Hair et al., 2019).

Table 4. R-Square Value

	R-Square	R-Square Adjusted
Risk Management	0.158	0.140
Investment Decision	0.500	0.479

Source: Primary Data Processed (2024)

The Risk Management variable has an R-square value of 0.158. According to this R-square value, 15,8 percent of the variability of the Risk Management construct can be determined by the variability of the Financial Literacy constructs, with the remaining variables being explained by factors external to those beneath research. According to (Ghozali, 2021), the model's R-square values are 0.670, 0.330, and 0.190, meaning that it is strong, moderate, and weak. As a result, we can conclude that the influence is weak/small.

The R-square value of the Investment Decision variable is 0.500. With this R-square value, it can be inferred that 50 percent of the variation in Investment Decision can be accounted for by variations in the financial literacy and risk management constructs; the remaining variation is due to factors not included in the analysis. According to (Ghozali, 2021), the R-Square values are 0.670, 0.330, and 0.190, it can be concluded that the model is strong, moderate, and weak. Thus, we can conclude that the influence is **moderate**.

The next step, we calculated the effect size (F-Square). This test determines if the external latent variable has a significant impact on the endogenous latent variable. According to (Ghozali, 2021; Hair et al., 2019; Haryono, 2017), the exogenous latent variable's influence is classified as small if the F-square value is 0.020; moderate if it is 0.150; and large if it is 0.350. The output results are displayed as follows in **Table 5**.

Table 5. F-Square Value

Variable	Financial Literacy	Risk Management	Investment Decision
Financial Literacy		0.187	0.099
Risk Management			0.557
Investment Decision			

Source: Primary Data Processed (2024)

From the output above the results can be described as follows: The Financial Literacy variable towards Risk Management has an F-square value of 0.1187, so the influence is classified as **moderate**. The Financial Literacy variable on investment decision shows an F-square value of 0.099, so the influence is considered **small/weak**. The Risk management variable on investment decision has an F-square value of 0.557, so its influence is considered **large/strong**.

Table 6. Model Fit Result

	Saturated Model	Estimated Model
SRMR	0.071	0.071
d_ULS	0.226	0.226
d_G	0.204	0.204
Chi-square	62.253	62.253
NFI	0.809	0.809

Source: Primary Data Processed (2024)

The research model also demonstrates good relevance. The Standardized Root Mean Square Residual (SRMR) value, as seen in Table 7, is 0.071, which is less than the recommended threshold of 0.080 (Hair et al., 2019). **Figure 2** shows the path coefficients for the structural equation model.

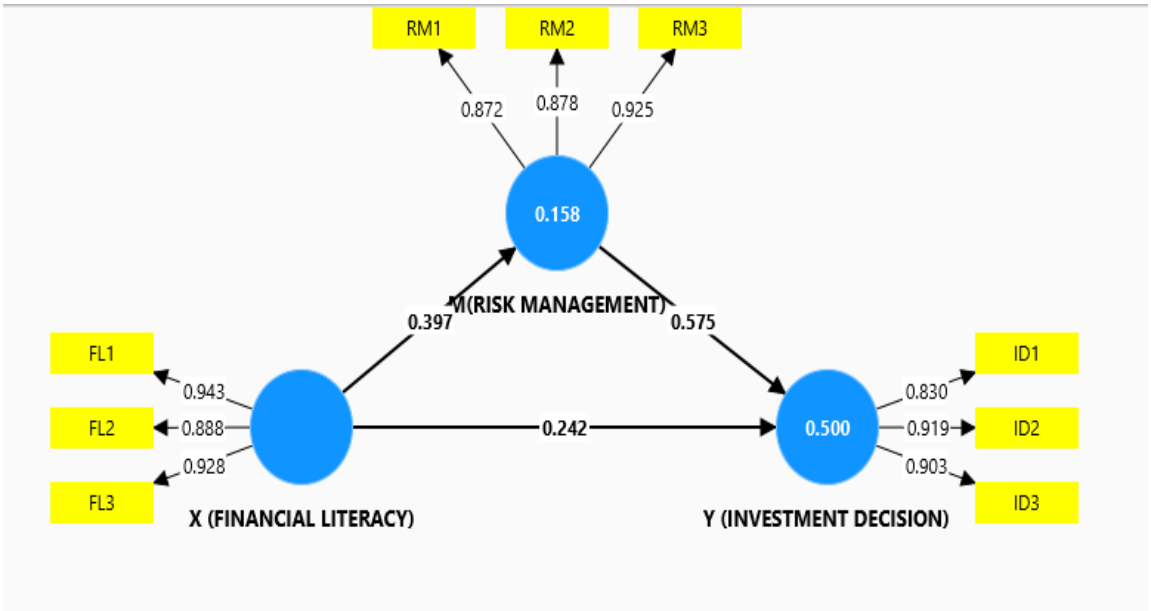

Figure 2. Structural Equation Modeling
Source: Primary Data Processed (2024)

Hypothesis testing. The SmartPLS 4 software's Bootstrapping capability is used to do hypothesis testing. It is generally acknowledged in economics and management studies that research should have a significance level of between 5 and 10 percent. If the T-statistic value is more than the minimal requirement of 1.960 and the significance level, represented by the P value, is equal to or less than 0.050, the hypothesis is deemed accepted. This suggests that exogenous and endogenous variables have a considerable impact. In contrast, the effect is deemed unimportant if the P-value is more than 0.050 and the T-statistic value is less than 1.960, suggesting that the relationship between exogenous and endogenous variables is unaffected. (Ghozali, 2021; Hair et al., 2019; Haryono, 2017).

Table 7. Path Coefficient and Hypotheses Testing

Hypothesis	Relation	Original Sample	Mean	SD	T-Statistics	P-Values	Description
H1	FL → ID	0.242	0.250	0.136	1.787	0.074	**Not Supported**
H2	RM → ID	0.575	0.579	0.112	5.147	0.000	**Supported**
H3	FL→ RM → ID	0.228	0.234	0.085	2.698	0.007	**Supported**

Note: FL = Financial Literacy, RM = Risk Management, ID = Investment Decision.

Source: Primary Data Processed (2024)

The following conclusions can be drawn based on the research findings shown in **Table 7**:

The initial sample value is 0.242, which indicates a positive influence, the P-value is 0.074, greater than 0.050, and the T-statistic value is 1.787, which is below the T threshold. -table of 1,960 (Hair et al., 2019). This does not support the relationship between financial literacy and investment decision. Therefore, **hypothesis 1** which states that financial literacy influences investment decision, is **not supported or rejected**.

The results of the second hypothesis, which examines the possible relationship between the risk management and investment decision, are as follows: The initial sample value of 0.575, which indicates a positive influence, a P-value of 0.000 (less than 0.050), and a T-statistic value of 5.147 (over the T-table threshold of 1.960) all support the association between Risk Management and Investment decision. Thus, supporting **Hypothesis 2**, the risk management process has a significant and helpful impact on investment decision. It is important to point out that the risk management variable were having the highest initial sample value of any of the three independent variables analyzed in this study, at 0.579, or 57.9 percent. Based on the results of this study, the Risk Management process has a significant influence on a person's investment decision-making process.

Moderation analysis. This study used the particular indirect impact method in conjunction with the SmartPLS moderation strategy to examine the moderating role of open innovation. The findings of our study are described in the sections that follow.

According to the analysis of **Hypothesis 3**, the P-value is 0.007, which is less than the significance level of 0.050, and the T-statistic value of the influence of the risk management process moderating the impact of financial literacy on Investment decision is 2.698, which is greater than the critical T-table value of 1.960. Based on the results obtained, **Hypothesis 3 has been supported**, indicating that Risk Management moderates a relationship between financial literacy and investment making decision.

DISCUSSION

The results of the study indicate that risk management plays a key role in increasing the effectiveness of financial literacy on investment decision making. This supports the findings of previous studies (Gormsen & Koijen, 2020; Markowitz, 1952) which state that understanding risk increases investors' adaptability in volatile market conditions. However, financial literacy without risk management skills does not significantly influence investment decisions. This finding emphasizes the importance of integrating these two factors, especially in the context of increasing retail investment participation in Indonesia.

This study presents an important factor of understanding risk management in making investment decisions. The results of the study found that being equipped with adequate financial literacy alone is not enough for someone to make an investment decision. Understanding risk becomes a mediating factor that strengthens someone's confidence in making an investment decision.

CONCLUSION

This study analyzes the role of risk management as a moderator in the relationship between financial literacy and investment decisions. Based on the results of the data analysis, the following are the main conclusions that answer the research questions:

1. **The Influence of Financial Literacy on Investment Decisions.** Financial literacy directly has a positive influence on investment decisions. However, this influence is not

significant. This shows that financial knowledge alone is not enough to ensure optimal investment decisions, especially amidst the complexity of market risks faced by individuals.

2. **The Influence of Risk Management on Investment Decisions.** Risk management has a significant and positive influence on investment decisions. This confirms that an individual's ability to identify, analyze, and manage risk is essential in producing wise investment decisions and reducing the impact of behavioral bias.
3. **Moderation of Risk Management on the Relationship between Financial Literacy and Investment Decisions.** Risk management has been shown to significantly moderate the relationship between financial literacy and investment decisions. The combination of good financial literacy and strong risk management skills increases the effectiveness of investment decision making.

Findings Compared with Previous Research

The results of this study are in line with previous studies by (Gormsen & Koijen, 2020) and (Markowitz, 1952) which emphasize the importance of understanding risk in making investment decisions, especially in uncertain market conditions. However, this study makes a new contribution by highlighting the moderating role of risk management, an aspect that is less discussed in previous studies such as those conducted by (van Rooij et al., 2011) and (Kulintang & Putri, 2024), which only focus on the direct influence of financial literacy.

Research Article Contribution

1. This study enriches the literature by showing how risk management can strengthen the relationship between financial literacy and investment decisions. The integration of these two variables provides a holistic perspective in understanding investment behavior.
2. This article provides strategic guidance to improve financial literacy and risk management awareness, which is particularly relevant in Indonesia given the low level of financial literacy and high level of public investment interest.

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