

When Financial Literacy is Not Enough: Assessing the Mediating Roles of Self-Efficacy and Behavior on Financial Well-being in Malang City

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Abstract

This study investigates the determinants of financial well-being among the residents of Malang City, specifically examining the mediating roles of financial self-efficacy and financial behavior. Using an explanatory research design with a quantitative approach, data were collected via structured questionnaires from 150 respondents across three generational cohorts (X, Y, and Z). The data were analyzed using Structural Equation Modeling with Partial Least Squares (SEM-PLS). The results reveal that while financial literacy significantly strengthens both financial self-efficacy and financial behavior, it does not exert a direct impact on financial well-being. Notably, financial behavior also failed to act as a significant mediator in this relationship. Instead, financial self-efficacy emerged as a potent full mediator and the most critical predictor of financial welfare. These findings suggest that in a dynamic urban economy, technical knowledge and routine habits are insufficient without the psychological confidence to manage personal finances. To achieve holistic financial well-being, policymakers should shift from basic literacy programs to psychological empowerment initiatives that build inner conviction and mental resilience. This research highlights that the "psychological bridge" is far more essential than the "behavioral bridge" in translating knowledge into a secure financial future.

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1. Introduction

Financial well-being has developed into an essential measurement which determines both personal and communal well-being because it assesses financial security perceptions together with income and asset evaluations (Bhat et al., 2024; Bhattacharya et al., 2025; Tasman et al., 2023). People who achieve their highest level of financial well-being maintain their ability to handle everyday expenses while protecting themselves against unplanned expenses and reaching their future objectives without experiencing major pressure. People who experience low financial well-being face both financial problems and decreased life satisfaction which leads to detrimental mental health effects (Curry, 2025; Jaffar et al., 2024). The financial well-being of people in Indonesian cities throughout developing and emerging urban areas has not experienced sufficient progress which matches their economic and financial development.

Financial well-being, on the other hand, is a fundamental concept that goes beyond economic wealth and is best described as the "intersection of financial security and the ability to make choices that enhance one's life" (Brüggen et al., 2017). In addition to individual financial wealth, a lack of financial well-being is strongly associated with increased financial stress, which, in turn, contributes to negative effects on physical, emotional, and productivity outcomes (Bhattacharya et al., 2025; Jaffar et al., 2024; Nițoi et al., 2022). In the case of Indonesia, Malang City is a city that is worthy of being highlighted as a case study, given that in 2024, the city's economic growth was

a robust 5.41%, with a high Human Development Index rating of 84.68. In spite of a financial literacy level of 69.43%, which is considerably higher than the national financial literacy level, a very pertinent question is: how well are such cognitive and structural advantages being converted into actual financial well-being?

The existing research demonstrates that financial well-being depends on three elements which include financial literacy and psychological traits along with behavioral competencies (Lusardi & Messy, 2023). Financial literacy provides the essential foundation for navigating complex financial instruments, yet its impact is often moderated by financial self-efficacy—an individual's confidence in their ability to manage money effectively (Islam & Khan, 2024). Financial knowledge and self-belief must be channeled through positive financial behavior which includes disciplined budgeting and emergency planning to create real improvements in life quality according to empirical evidence (Lone & Bhat, 2024; Wulandari & Siregar, 2025). Financial behavior serves as the important connection which enables people to transform their internal capabilities into external financial stability.

The research field remains disjointed because existing studies concentrate on small business enterprises and midlife caregivers and young adults who live in Jakarta and Bandung (Bahiu et al., 2021; Rumbianingrum & Wijayangka, 2018). The research gap exists because researchers have not studied the way these factors work together in the multi-generational urban population of Malang, which exists as a secondary growth center. The previous research results show that people need both psychological factors and contextual variables to function because financial well-being depends on their local economic conditions and specific demographic characteristics. Financial literacy stands as one of the main factors that people use to measure their financial well-being. Financial literacy describes a person's capacity to comprehend financial principles and assess financial services so they can make sound financial choices. People who possess advanced financial literacy skills demonstrate superior money management abilities because they prevent unnecessary debt while they prepare for their future financial obligations. People who possess financial literacy skills face barriers because they cannot use their financial knowledge to attain better financial results according to research findings.

Financial self-efficacy serves as a vital element that connects financial knowledge with measurable financial results according to the research from behavioral finance and social cognitive theory. Financial self-efficacy describes an individual's assessment of their ability to handle financial responsibilities effectively. People who possess high financial self-efficacy demonstrate greater belief in their ability to handle budgeting tasks and saving activities and make financial decisions during unpredictable circumstances (Goyal et al., 2023; Kurniasari et al., 2023; Shah et al., 2024). Financial behavior functions as the visible result of both financial knowledge and self-efficacy since it includes all aspects of money management and saving and investment practices and debt management. While people who demonstrate positive financial behavior show a clear link to financial well-being according to established research (Chhillar et al., 2025; Respati et al., 2023).

Researchers demonstrate through their empirical analysis that financial literacy functions as the essential mental framework which people require for successful money management. Previous studies (Lestari et al., 2024; Ramadhania & Krisnawati, 2024) illustrates how financial knowledge enables people to make better decisions which leads to improved life satisfaction. The relationship between these two factors does not exist in a straightforward manner because financial behavior acts as the link between them. While the others (Amaliyah, 2025; Wahyuni et al., 2024) demonstrates that literacy functions as the initial factor which leads people to practice responsible money management which results in their ability to build lasting financial stability. People who achieve higher literacy levels develop better digital financial skills which establish an ongoing pattern that leads to higher financial results for both Generation Z and working-age adults.

The psychological aspect of financial self-efficacy (FSE) together with cognitive elements functions as a key determinant of economic prosperity. FSE represents an individual's confidence in their ability to execute specific financial tasks, such as budgeting or investing. The financial self-efficacy (FSE) of a person determines their confidence to perform different financial activities, which Bandura (2012) identifies as a primary driver of daily decision-making. Previous empirical

evidence (Bojuwon et al., 2023; Dare et al., 2023) indicates that FSE serves as a powerful internal mechanism that translates financial resources and inclusion into positive outcomes. High self-efficacy reduces financial procrastination and avoidance, ensuring that individuals not only possess knowledge but also feel empowered to apply it (Furrebøe & Nyhus, 2022; Kurniasari et al., 2023; Lestari et al., 2024). Consequently, FSE acts as a catalyst for positive financial habits, directly mitigating financial stress and enhancing perceived future security.

Researchers today agreed that financial behavior functions as the main point where knowledge and psychology and environmental factors meet. Recent studies (Prakash & Hawaldar, 2024; Sutini & Wiyanto, 2024; Yadav et al., 2025). Their study examines how financial literacy and self-efficacy lead to better welfare results through their function as essential mediators between the two factors. Current research models offer a complete causal framework through which financial literacy and self-efficacy enable people to control their financial habits which then determines their financial security and life contentment.

The increasing number of studies about these concepts has not produced complete scientific evidence because their results do not apply to particular urban community situations. Research about Malang City's entire population remains limited because the city has active economic development and people can reach financial services. The research investigates this financial literacy study because it assesses how financial competence impacts residents' financial health through their financial self-efficacy and financial behavior in Malang City. The research presents a specific local viewpoint about how psychological elements and behavioral patterns combine to create economic results in a developing urban environment.

2. Methods

This study employs an explanatory research design with a quantitative approach to examine the causal relationships between financial variables. The primary objective is to analyze the impact of Financial Literacy as an exogenous variable on Financial Well-being as the endogenous variable, with Financial Behavior and Financial Self-Efficacy serving as intervening (mediating) variables. Data collection was conducted through a survey method, utilizing structured questionnaires distributed to the residents of Malang City. This location was strategically selected due to its diverse demographic profile and the high level of digital financial service adoption among its citizens, providing a relevant urban context for studying financial welfare determinants.

The study population comprises the general public residing in Malang City, with participants selected through a quota sampling technique. To ensure a balanced representation across different life stages, a total sample of 150 respondents was established, divided equally into three generational cohorts: Generation X, Generation Y (Millennials), and Generation Z, with 50 participants per group. The inclusion criteria required respondents to reside in one of the five districts of Malang, fall within the specified age ranges, and possess practical experience in managing personal finances, such as saving or investing. This cross-generational approach allows for a comprehensive understanding of how financial determinants vary across different socio-economic backgrounds and age groups.

The research instrument was developed as a closed-ended questionnaire using a Likert scale to capture respondent perceptions. Financial Literacy is operationalized through dimensions of financial awareness, experience, and skills, while Financial Behavior focuses on daily money management, savings, and debt habits. Financial Self-Efficacy is measured by an individual's confidence in budgeting and long-term planning, and Financial Well-being is assessed through emergency preparedness, current management stress, and perceived security. To ensure the integrity of the data, the instrument underwent rigorous construct validity testing (significance < 0.05) and reliability assessment via Cronbach's Alpha, with a minimum threshold of 0.6.

Data analysis was performed using a dual-stage approach consisting of descriptive and inferential analysis via Structural Equation Modeling (SEM) based on Partial Least Squares (PLS). Descriptive analysis provides a profile of the respondents and frequency distributions, while PLS-SEM is employed to test the hypothesized causal paths between latent constructs without requiring a normal data distribution. The model evaluation followed a two-tier process: the outer

model assessment to ensure convergent and discriminant validity, and the inner model evaluation through R-Square, Predictive Relevance (Q^2), and Goodness of Fit (GoF) metrics. The PLS method was specifically chosen for its robustness in handling complex models involving multiple mediating variables and its high predictive power.

3. Results and Discussion

The study analysis required balanced demographic representation from Malang City to study multiple age groups. The study showed almost equal gender distribution because males made up 58% of participants. The study divided participants into three distinct age groups which included Generation X, Millennials and Generation Z at equal rates of 33.3%. The sample includes participants from five districts, but most participants (28.7%) come from Lowokwaru. The local economy depends mainly on private sector employment because it constitutes 40% of the total employment in the area. The study found that 78.7% of respondents had financial accounts for more than five years, while 64.7% of respondents used traditional banks and electronic wallets for their daily transactions to show their advanced digital participation.

Instrument testing confirmed that all indicators for Financial Literacy, Financial Self-Efficacy, Financial Behavior, and Financial Well-being are valid and reliable. The Financial Literacy construct Statistically proved that financial information-seeking behavior ($r = 0.744$) stood as its strongest measurement while investment diversification emerged as its most significant technical capability. The Financial Self-Efficacy component showed its highest measurement accuracy through evaluators who conducted research on financial crisis management and long-term planning skills. The daily cash flow tracking discipline shows its strongest representation in Financial Behavior while Financial Well-being most strongly derives from two factors: ($r = 0.688$) and the emergency fund backup capacity. The research team established data integrity for structural analysis because all items exceeded the 0.30 correlation threshold and 0.60 Cronbach's Alpha limit.

Results indicate a high overall perception across variables, yet they highlight a significant gap between conventional management and complex financial instruments. Respondents show high self-confidence for budgeting and timely bill payment which they rated at 4.21 but their actual use of risk-mitigation products such as insurance and capital market investments remains below that level which they rated approximately 3.04. This community displays strong daily money management skills and emotional strength to handle financial stress yet they show clear resistance toward using advanced financial planning tools. The public requires specific educational programs which will help them advance from basic financial stability toward advanced strategies for wealth protection and investment management. The public needs particular educational programs which will assist them in achieving advanced financial knowledge from their current basic understanding of financial stability.

The Financial Literacy study reveals that the community exhibits selective financial responsibility while lacking complete technical skills. The respondents showed high critical awareness through their practice of comparing different financial products before making purchasing decisions which resulted in a mean value of 4.15. The people who select their behavior through this method want to extract maximum value from their actions yet their meticulous approach to banking matters stops at basic knowledge about interest rates which resulted in lower performance scores. The basic financial management skills of people create a major barrier which prevents them from understanding advanced investment methods. The respondents show strong skills in managing physical assets yet they have very low participation rates in stock markets which results in a mean value of 3.04. Malang residents maintain traditional financial literacy because they view advanced investment methods as dangerous and unknown investment areas.

The data shows that people display high confidence during short time periods but their confidence decreases due to psychological challenges and extended future obstacles which they encounter. Respondents express the highest level of self-assurance in meeting immediate obligations, specifically their ability to pay bills on time (mean = 4.21). Their financial assurance

base itself comes from their sense of duty. Internal factors which include their battle against uncontrolled shopping behavior (mean = 3.72) create obstacles to their efficacy. People show financial strength through their ability to handle immediate financial problems without losing control but they experience hidden doubts about their capacity to plan for future expenses such as retirement. The public expresses control over their present circumstances yet they experience financial security doubts which extend into their far-off financial future. The financial behavior patterns of respondents show a combination of disciplined spending and loose administrative control over their money management. The community shows strong commitment to "future-proofing" because members dedicate their income to savings and investments with an average rating of 4.09. The community demonstrates its best strength through its dedication to proactive asset development. The practice of saving money exists in a disciplined manner but respondents maintain an unstructured approach because many fail to track their daily financial activities. The community prioritizes long-term saving goals yet it lacks the ability to manage daily cash flow which creates financial problems through unnoticed spending.

People show their financial autonomy through their financial matters but they experience continuous financial stress. Respondents demonstrate they possess complete financial control through their "financial agency" which they rate at a mean value of 4.09. The person achieves financial independence because they choose to use only their real assets for security instead of using credit as a temporary cash solution. The individual achieves high control of their situation but this does not bring them complete emotional security. The average score of 3.37 for "enjoying life without worrying about money" shows that people still see financial management as work which requires substantial effort. People need to use mental energy all the time to maintain their current level of welfare because this process stops them from reaching actual financial freedom and a state of living without worries.

The results create a clear "Prudence-Complexity Gap" which exists in the Malang community. The collective strength lies in short-term responsibility, debt avoidance, and a high belief in personal agency. The finance sector experiences its most critical weaknesses through two specific areas which include essential record-keeping and risk protection through insurance and contemporary investment tools. The community possesses a solid foundation of conventional financial well-being but needs to bridge the gap between basic money management and advanced financial planning to reach its ideal sophisticated welfare state. The two remaining challenges to complete total financial security require people to build daily habits and understand complicated financial products better.

The inner model evaluation process which assesses the structural model shows all research framework elements including their indicators to multiple tests which determine model accuracy and predictive ability. The research used three main methods to evaluate structural model strength through R-Square (R²) Q-Square Predictive Relevance (Q²) and Goodness of Fit (GoF) index. The analysis showed that Financial Behavior achieved its highest R-Square value at 0.640 which means independent variables in the model explain 64.0% of its variance while external factors account for the remaining 36.0%. The R-Square values for Financial Well-Being and Financial Self-Efficacy reached 0.508 and 0.459 respectively. The results meet the established criteria which demonstrate that the model can explain financial literacy dynamics together with their effects on financial well-being.

Table 1. Direct Effects

Relationship Among Variables	Beta	t-statistics	P values
Financial Literacy -> Financial Behavior	0.800	30.442	0.000
Financial Literacy -> Financial Self-Efficacy	0.677	16.500	0.000
Financial Literacy -> Financial Well-Being	0.169	1.831	0.069
Financial Behavior -> Financial Well-Being	-0.070	0.540	0.590
Financial Self-Efficacy -> Financial Well-Being	0.642	7.210	0.000

Source: Data Analyzed (2026)

The model evaluation used predictive relevance assessment and global fit assessment as validation methods. The Q-Square Predictive Relevance calculation produced a result of 0.9041 which comes very close to 1. The observations demonstrate excellent predictive relevance which

exceeds the threshold required to establish a strong model according to this value. The Goodness of Fit (GoF) assessment showed a result of 0.615. The structural model demonstrates extreme power to interpret real-world data because its 0.36 benchmark for large GoF exceeds this figure. The model demonstrates strong reliability because it shows how financial literacy together with financial self-efficacy and financial behavior, affects community financial well-being. The model evaluation used predictive relevance assessment and global fit assessment as validation methods. The Q-Square Predictive Relevance calculation produced a result of 0.9041 which comes very close to 1. The observations demonstrate excellent predictive relevance which exceeds the threshold required to establish a strong model according to this value. The Goodness of Fit (GoF) assessment showed a result of 0.615. The structural model demonstrates extreme power to interpret real-world data because its 0.36 benchmark for large GoF exceeds this figure. The model demonstrates strong reliability because it shows how financial literacy together with financial self-efficacy and financial behavior, affects community financial well-being.

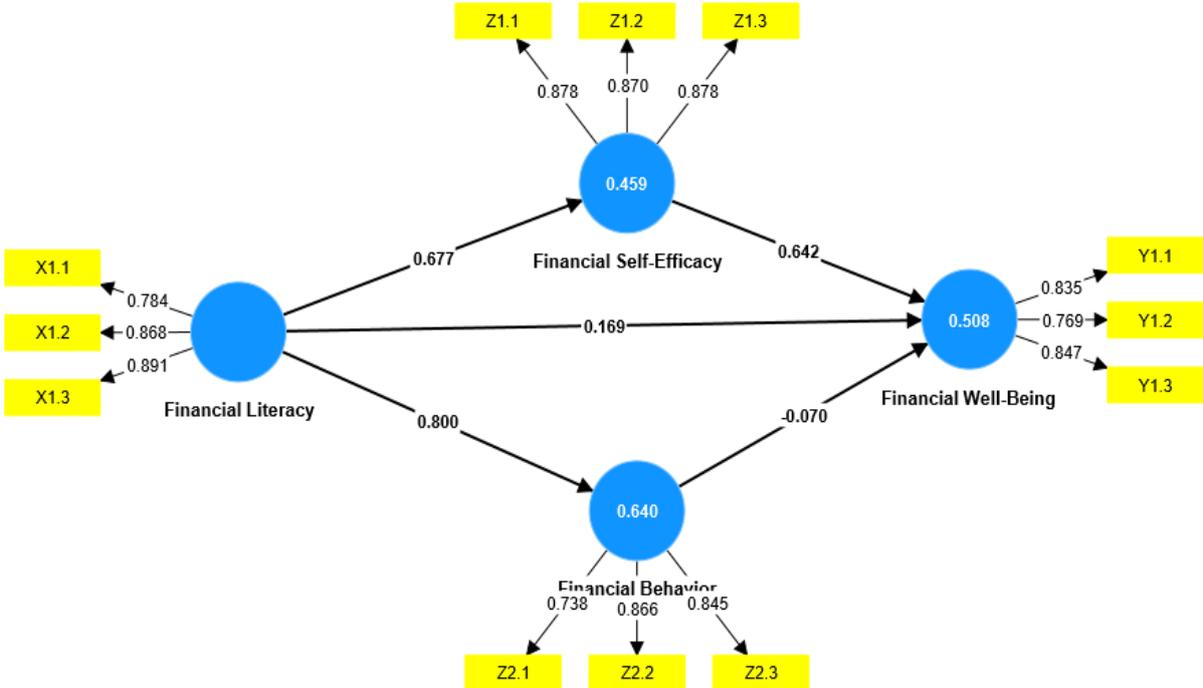


Figure 1. Path Coefficients
Source: Data Analyzed (2026)

The indirect effect analysis further clarifies the mechanisms through which financial knowledge is translated into well-being. The path from Financial Literacy to Financial Well-being through Financial Behavior is found to be non-significant ($\beta = -0.056, p = 0.591$), indicating that knowledge alone—even when manifested in behavior—does not automatically guarantee a sense of financial security or freedom. In contrast, the indirect effect through Financial Self-Efficacy is highly significant ($\beta = 0.435, p = 0.000$). This identifies Financial Self-Efficacy as a critical mediating bridge; it demonstrates that financial literacy enhances one’s internal belief in their financial management capabilities, which in turn substantially boosts overall Financial Well-being.

Table 2. Indirect Effects

Relationship Among Variables	Beta	t-statistics	P values
Financial Literacy -> Financial Behavior -> Financial Well-Being	-0.056	0.539	0.591
Financial Literacy -> Financial Self-Efficacy -> Financial Well-Being	0.435	6.843	0.000

Source: Data Analyzed (2026)

Despite the non-significance of some direct paths, the total indirect effect of Financial Literacy on Financial Well-being remains highly significant ($\beta = 0.379, t = 4.458, p = 0.000$). This finding

underscores that Financial Literacy is a vital prerequisite for financial welfare, but its influence is primarily realized through the enhancement of individual self-confidence and psychological resilience. In the context of Malang City, these results suggest that financial education programs should not only focus on technical knowledge or habits but must also prioritize building the public's confidence and self-assurance in managing their personal financial future to achieve true financial wellness.

The mediation analysis reveals a compelling psychological mechanism in the pursuit of financial wellness. According to the results, Financial Self-Efficacy serves as a powerful and indispensable bridge between Financial Literacy and Financial Well-being. This is evidenced by a high mediation path coefficient of 0.435 and a t-statistic of 6.843, which far exceeds the critical threshold of 1.96, supported by a p-value of 0.000. Crucially, because the direct relationship between Financial Literacy and Financial Well-being was found to be non-significant, this relationship is classified as full mediation. This implies that financial knowledge alone is insufficient to enhance an individual's sense of welfare; rather, its value is only realized when it successfully builds a person's internal confidence and belief in their own financial management capabilities.

In contrast, the study finds that Financial Behavior does not function as a mediator in this relationship. The path from Financial Literacy through Financial Behavior to Financial Well-being yielded a negligible coefficient of -0.056 and a t-statistic of only 0.539—well below the required statistical significance ($p = 0.591$). This suggests a "behavioral gap" where routine financial actions or habits do not automatically translate intellectual understanding into a tangible sense of financial security or freedom. In the context of the Malang City community, possessing the "know-how" and even performing the "daily tasks" of money management are proven to be ineffective unless they are accompanied by a deeper psychological shift in self-assurance.

Overall, these findings shift the focus from a purely technical perspective to a psychological one. The results underscore that Financial Self-Efficacy is the true "linchpin" of the model. To achieve true financial well-being, it is not enough for an individual to be literate; that literacy must be transformed into a robust sense of self-belief. Without this psychological foundation, even the most sophisticated financial knowledge and consistent daily behaviors remain stagnant, failing to exert a meaningful impact on an individual's quality of life. This highlights a vital insight for financial educators: the goal of literacy should not just be "informed" citizens, but "empowered" ones. Testing for mediation effects showed that financial self-efficacy and financial behavior mediate the relationship between financial literacy and financial well-being. This finding indicates that improving financial literacy will be more effective in improving financial well-being if accompanied by strengthening financial self-efficacy and developing healthy financial behaviors.

The research findings demonstrate that Financial Literacy serves as a robust cognitive foundation that significantly enhances Financial Self-Efficacy and Financial Behavior among the people of Malang City. The strong correlation between literacy and self-efficacy suggests that as individuals gain a deeper understanding of financial concepts, their confidence in managing personal finances grows proportionally. This aligns with the previous findings (Amagir et al., 2020; Lone & Bhat, 2024), who argue that financial education does more than provide data; it builds the mental resilience necessary to navigate complex financial landscapes. In Malang, this is evidenced by the high ability of respondents to critically compare financial products, transforming theoretical knowledge into a sense of practical competence that mitigates the intimidation often felt toward modern digital financial services.

Furthermore, the significant impact of Financial Literacy on Financial Behavior highlights that knowledge acts as a "trigger" for systematic positive actions. Respondents with higher literacy scores tend to prioritize saving and investment (mean = 4.09), a finding that corroborates the work of Dare et al., (2023). In an urban environment like Malang, literacy provides the rational basis for disciplined daily budgeting. However, the study also reveals a persistent gap in administrative diligence, such as routine expense tracking. This suggests that while literacy encourages "big-picture" behaviors like wealth accumulation, it has yet to fully instill the meticulous record-keeping habits necessary for a comprehensive financial overview, echoing the "behavioral gap" often discussed in contemporary financial literature.

Contradicting some traditional assumptions, this study reveals that Financial Literacy does not have a direct significant impact on Financial Well-being, nor is it mediated by Financial Behavior. This lack of direct linearity confirms the perspectives of Lusardi & Messy (2023) and also Philippas & Avdoulas (2020), who suggest that knowledge alone is merely potential energy. In Malang, the low participation in capital markets and hesitation toward risk-mitigation products like insurance indicate that literacy remains at an "administrative" level. Without a tangible increase in assets or insurance coverage, knowledge fails to convert into a subjective sense of security. Similarly, financial behaviors in this context are often perceived as a means of "surviving" rising living costs rather than "thriving," explaining why routine actions fail to enhance overall life satisfaction, as previously noted by Fan & Henager (2022).

The most critical finding of this research is the role of Financial Self-Efficacy as a full mediator and the most powerful predictor of Financial Well-being. The belief in one's ability to pay bills on time and manage financial crises without panic provides a psychological shield that is far more valuable to respondents than the mere possession of wealth. This reinforces the arguments made by Bhat et al., (2024) and Sajid et al., (2024) that empowerment through self-belief is the true driver of welfare. In Malang, self-efficacy acts as the bridge that transforms "knowing" into "feeling secure." When individuals feel they have autonomy and control over their financial path, their subjective well-being increases, regardless of the complexity of the external economic environment.

The research results provide a detailed analysis which contradicts the findings of Pulungan & Siregar (2024) about behavior functions in their study yet it supports the psychological pathways which shown by Yadav et al., (2025) have established. The disconnect between behavior and well-being suggests that "doing the right thing" financially does not equate to "feeling safe" unless it is accompanied by high self-efficacy. Financial well-being becomes an intimate psychological journey for all Malang residents. People need to transform their knowledge into self-assurance which will enable them to achieve a state of living without worries. The research conclusion shows that future financial interventions should concentrate on developing inner belief systems which enable people to handle their financial future instead of teaching technical abilities. The research demonstrates through Social Cognitive Theory in financial settings that cognitive literacy requires self-efficacy to impact human well-being. The research shows through evidence from an urban economy in development that people perceive "psychological bridge" as more important than "behavioral bridge" in current financial times.

4. Conclusion

The researchers of this research project discovered that psychological empowerment serves as the main factor which drives Financial Well-being in Malang City. The community shows high financial literacy together with digital inclusivity, but these achievements do not lead to better financial outcomes for them. The essential driving force of Financial Self-Efficacy exists because people believe they possess the required skills to manage their finances. Financial Behavior does not show significant effects because people in urban areas need to know that their mental capacity to handle financial difficulties matters more than their ability to perform daily financial tasks.

The Malang City Government and financial institutions which include the OJK should change their financial education programs to focus on building psychological financial empowerment skills. The existing literacy programs should be modified to include "confidence-building" modules which enable people from Generation X, Y, and Z to handle complex economic changes. The city should develop policies which combine mental financial resilience and digital access to protect financial stability for its residents during economic growth which results in high Human Development Index (HDI) scores. Future research should examine which environmental or cultural factors exist in Malang that lead to the observed financial behavior pattern which did not affect well-being according to this model. The research encourages researchers to use longitudinal studies which will examine how self-efficacy functions as a mediating factor throughout the ongoing development of the digital economy. Stakeholders can achieve advanced financial

inclusion through their psychological work because it enables them to build a society which possesses both financial expertise and strong financial security.

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