

The Importance of Digital Financial Literacy in Cryptocurrency Investment: A Qualitative Study

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Abstract

This research aims to examine the role of digital financial literacy in cryptocurrency investment activities. This research is a qualitative study through interviews with two key informants who have qualified experience in the field of investing in cryptocurrency. The study shows that digital financial literacy plays an important role in investing, especially in the technology-driven cryptocurrency space. Therefore, it is important for investors to have a good understanding and experience before choosing cryptocurrencies as part of their investment portfolio. From a government perspective, it is important to spread the understanding that financial literacy is an important part of investing. These findings also support the continuation of the government's programme to make digital financial literacy part of the roadmap in Indonesia's National Financial Literacy Strategy.

Keywords: Digital Financial Literacy, Investment, Cryptocurrency, Investor, Roadmap.

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1. Introduction

Bitcoin, the first cryptocurrency, is a peer-to-peer electronic cash system that enables internet payments to be transmitted directly from one party to another, bypassing financial institutions. Bitcoin is also known as decentralised digital money or internet currency, which is distributed globally without a physical form or official support, but governed digitally [1]. According to these descriptions, Bitcoin is primarily used as an alternative currency [2].

Since the introduction of Bitcoin in 2008, various cryptocurrencies with distinct properties have emerged. Cryptocurrencies are digital tokens that utilise blockchain technology and cryptographic methods. Cryptocurrency, such as Bitcoin, Ethereum and Ripple as innovative digital currencies supported by cryptography to secure and govern the transactions and supply of digital coins in circulation.

Cryptocurrencies can also be utilised as assets; therefore, they serve a different function. Bappebti via regulation No.13 of 2022 defines cryptocurrencies or a crypto asset as intangible commodities in digital form, using cryptography, information technology networks and distributed ledgers, to organise the creation of new units, verify transactions and secure transactions without interference from other parties. This definition also shows that in the Indonesian context, cryptocurrencies or crypto assets act as digital assets, not as currencies as their original function [3].

Cryptocurrency has emerged as a noteworthy innovation in the realm of finance [4]. This digital asset operates through a system of encryption, thereby eliminating the requirement of a third-party intermediary in transactions [5]. Cryptocurrency

encryption is based on cryptography, which guarantees secure encoding of predetermined rules [6]. In addition, the peer-to-peer network indicates that cryptocurrency is decentralised [7].

Unlike in the past, when people choose to consult with professionals, investors these days choose to cut out the middleman and rely on their knowledge when investing [8]. As digital assets, cryptocurrencies may offer fantastic investment opportunities. It also requires specific knowledge of financial instruments and technological capabilities, that is, the digital financial literacy owned by investors. Understanding the principles of digital finance promotes the successful use of digital financial products and prevents mis-selling, fraud such as phishing, cyber assaults, unauthorised data usage, discriminatory treatment, and behavioural problems [9].

Studies related to the influence of financial literacy on investment have received considerable attention from researchers. In a national survey of 28,146 adults and households, financial literacy is likely to change financial behaviours across five financial topics: credit cards, investments, loans, insurance, and financial advice. Then, effect of financial literacy to understanding participation in the stock market. Effect of financial literacy on cryptocurrency investment in individual investors in the United States. This study employs specific investment-related questions to assess financial literacy [10]. However, research on the influence of financial literacy in the digital context is still in the developmental phase [11].

The concept of digital financial literacy is a recently developed idea [12]. Research related to digital financial literacy have been carried out that examine the role of digital financial literacy in mediating the

relationship between skills, financial decision-making, as well as well-being. Then, relationship between social characteristics, digital financial literacy, current savings, and spending behaviour. Investigating the impact of digital financial literacy on investment in cryptocurrency is intriguing, as cryptocurrency must be viewed from both technological and financial perspectives [13].

Understanding financial literacy is crucial for comprehending the influence and hindrances of sound financial decisions. Financial literacy should be conceptualized as having two dimensions namely understanding (personal finance knowledge) and use (personal finance application). The aforementioned information suggests that financial literacy involves acquiring knowledge and applying it to various aspects of an individual's life, such as investment activities [14].

Financial literacy is the capacity of individuals to comprehend financial information and make knowledgeable choices regarding financial planning, wealth accumulation, debt, and pensions. Financial literacy as an individual's ability to manage money effectively [15]. Then, financial literacy refers to an individual's comprehension of fundamental financial principles and their capacity to apply them in making business decisions [16]. Based on these definitions, financial literacy can be defined as individuals' ability to make financial decisions based on their existing knowledge [17].

The emergence of digital finance has facilitated the rise of digital financial literacy as a novel concept [18]. Digital financial literacy was defined as an understanding of digital financial products and service knowledge of digital financial risk management and familiarity with consumer rights and complaint procedures [19]. Furthermore, stress that digital financial literacy empowers individuals with appropriate digital skills to navigate digital financial domains effortlessly, skillfully, and wisely make sound financial decisions, which leads to long-term financial well-being [20].

This explanation indicates that digital financial literacy encompasses an internal resource possessed by investors, which facilitates the realisation of diverse financial objectives. Emphasised that achieving goals by making good financial decisions requires the enhancement of resources [21]. Additionally, people strive to attain multiple goals, which motivates them to engage in higher-order cognitive processes. Social Cognitive Theory that posits a reciprocal deterministic relationship between the individual, his or her environment, and behavior. In this case, cognitive factors are part of an individual's internal factors [22]. Cognitive accomplishments require the acquisition of domain-specific knowledge and rules of judgement applicable to the activity domain [23].

High level of financial literacy is associated with increased saving behavior, saving planning, stock market participation, and improved selection of financial products. By contrast, a limited or low degree of financial knowledge is linked to poorer business decisions, costlier loans, and expensive credit card privileges. Data from the American Life Panel (ALP) to demonstrate that stock market literacy is crucial for participation in equity markets. Then, also conclusively demonstrated that financial literacy is positively correlated with both financial market participation and the utilization of specific financial products.

As individuals become more financially independent and accountable for their own financial planning, the advent of fintech products has heightened the importance of digital financial literacy, therefore guaranteeing financial autonomy and financial inclusion. In the context of digital financial literacy, Claimed that digital financial literacy enables individuals with the necessary digital skills to navigate digital financial domains with ease, expertise, and discernment, thereby enabling them to make prudent financial decisions [24].

A number of previous studies, literacy determines a person's investment. In another study, financial literacy, namely, subjective and objective financial literacy, exhibits significant results on the intention to participate in the stock market in India. Furthermore, understanding fintech-related products requires knowledge of both financial concepts and contemporary digital technology. In the context of investing in cryptocurrency as a digital asset, digital financial literacy can influence cryptocurrency investment. Those with good digital financial literacy would have good experience during their investment in cryptocurrencies, including achieving their investment goals, are not sensitive to price volatility in cryptocurrencies, have a certain risk tolerance when investing in cryptocurrencies, and are willing to hold cryptocurrencies for a long period of time.

2. Research Method

In this study, the researchers conducted interviews to answer the research question. The researcher invited several individuals to serve as key informants to further explore the findings of this study. These individuals include the a Generation Y crypto enthusiast with over eight years of experience investing in cryptocurrencies (KI-1), and a Generation Z crypto enthusiast with over five years of experience investing in cryptocurrencies (KI-2). The researcher asked open-ended questions related to the importance of digital financial literacy in investing in cryptocurrency. The interview was recorded and then the respondents answers were recorded and codified by the researcher.

3. Result and Discussion

The following information was gathered through the researcher's interview with the key informant. Digital financial literacy is certainly very important in

investing in digital assets. With the mastery of digital financial concepts, investors are able to check their investment portfolios. Investors will find it difficult to invest in cryptocurrency if they do not know how to save their crypto account password. Another example, those who do not master digital financial concepts will have a greater possibility of loss. Therefore, investors with digital financial literacy will be more confident to be part of cryptocurrency investment. KI-1 on experienced investors should have good digital financial literacy. However, many investors ignore this. As a result, they get caught up in FOMO and end up with investment losses.

KI 2 on the explosion of financial products and services, combined with the volatility of the global economy, has increased the complexity of financial investment choices, and poses significant challenges for individuals involved in economic and financial activities. The importance of financial literacy is underlined by the increasing development and complexity of financial products. Inadequate understanding of financial matters inevitably leads to inappropriate financial choices, which may subsequently lead to unexpected consequences and economic circumstances.

Investing in cryptocurrencies involves high risk, both market risk and technology risk. By their very nature, the value of crypto assets can rise or fall dramatically in a short period of time. There are also issues of hacking or cryptocurrency investment scams. Therefore, a good understanding of the investor is required. This includes the benefits, potential and risks of this digital asset. The results of the study can be attributed to the profile of respondents in this study who are generation Y and Z. Generation Y is the first generation to have spent their entire lives in the digital environment; hence information technology has a significant impact on how they live and work. Then, Generation Z is the most technologically adept generation and is extremely connected to the social media. Digital financial literacy plays a significant role in shaping the perception of the current generation towards the investments they have made in cryptocurrency.

The findings of this study provide confirmation evidence for several prior studies pertaining to the relationship between digital financial literacy and investing choices including that sheds light on the fact that literacy determines a person's investment. Then, that people who possess the requisite digital skills can navigate digital financial domains with ease, expertise, and discernment, which empowers them to make wise financial decisions.

4. Conclusion

Digital financial literacy will put investors at ease when it comes to investing in cryptocurrencies as one of the digital financial products. Digital financial literacy is essential for investors looking to participate

in cryptocurrency markets responsibly. By acquiring and applying digital financial literacy, investors can make informed decisions and navigate the complexities of the cryptocurrency ecosystem more effectively. This study shows the importance of continued efforts in enhancing digital financial literacy programs initiated by the government to empower investors to make informed decisions in the cryptocurrency market. The results show that digital financial literacy is a factor that is considered when investing in cryptocurrencies. This shows that cognitive factors in social cognitive theory are factors that are considered when investing. Digital financial literacy plays an important role in investing, especially in the technology-driven cryptocurrency space. Therefore, it is important for investors to have a good understanding and experience before choosing cryptocurrencies as part of their investment portfolio. From a government perspective, it is important to spread the understanding that financial literacy is an important part of investing. These findings also support the continuation of the government's programme to make digital financial literacy part of the roadmap in Indonesia's National Financial Literacy Strategy.

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