



***EFFECT INFLUENCER, P2P REPUTATION AND RISK PERCEPTION TOWARDS INVESTMENT DECISIONS OF MILLENNIAL IN P2P LENDING: FINANCIAL LITERACY AS A MEDIATION VARIABLE***

**PENGARUH INFLUENCER, REPUTASI P2P DAN PERSEPSI RISIKO TERHADAP KEPUTUSAN INVESTASI MILENIAL DI P2P LENDING: LITERASI KEUANGAN SEBAGAI VARIABEL MEDIASI**

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***Abstract***

*P2P lending is a fintech innovation that makes it easier to apply for credit than banks. Many investors were tricked and faced other losses for their investment decisions in P2P lending. Therefore, this study examines the impact of Influencer, P2P reputation, and Risk Perception on Investment decisions of Millennials in P2P Lending with Financial Literacy as a mediation variable. The research conducted is focused on millennial investors. With the purposive sampling technique, there are 50 research samples obtained. The research sample is compiled by distributing the questionnaire online through Google Form. The data analysis used SmartPLS 3.0 software, divided into descriptive analysis, path analysis, and partial test (T-test). Results show that influencer significantly affects investment decision and is non-significant to financial literacy. Meanwhile, P2P reputation and risk perception are significant for financial literacy yet insignificant for investment decision. Financial literacy is not significant to investment decision and unable to mediate influencer, P2P reputation, and risk perception to investment decision.*

*Keywords: P2P lending; Influencer; Millennial; P2P Platform; Risk Perception; Financial Literacy*

**Abstrak**

P2P lending merupakan salah satu inovasi fintech yang memberikan kemudahan dalam pengajuan kredit dibandingkan bank. Banyak investor yang tertipu dan menghadapi kerugian lain atas keputusan investasinya di P2P lending. Oleh karena itu, penelitian ini menguji pengaruh Influencer, Reputasi P2P, dan Persepsi Risiko terhadap Keputusan Investasi Generasi Milenial di P2P Lending dengan Literasi Keuangan sebagai variabel mediasi. Riset yang dilakukan difokuskan pada investor milenial. Dengan teknik purposive sampling diperoleh 50 sampel penelitian. Sampel penelitian dikumpulkan dengan menyebarkan kuesioner secara online melalui Google Form. Analisis data menggunakan software SmartPLS 3.0 yang terbagi menjadi analisis deskriptif, analisis jalur, dan uji parsial (uji T). Hasil penelitian menunjukkan bahwa influencer berpengaruh signifikan terhadap keputusan investasi dan tidak signifikan terhadap literasi keuangan. Sementara itu, reputasi P2P dan persepsi risiko berpengaruh signifikan terhadap literasi keuangan, namun tidak signifikan terhadap keputusan investasi. Literasi keuangan tidak signifikan terhadap keputusan investasi dan tidak mampu memediasi pengaruh, reputasi P2P, dan persepsi risiko terhadap keputusan investasi.

Kata Kunci: P2P lending; Influencer; Milenial; Platform P2P; Persepsi Risiko; Literasi Keuangan

**INTRODUCTION**

Indonesian Fintech Association (2019) revealed the rapid growth of fintech in Indonesia through modern financial services, namely Peer-To-Peer lending (P2P lending). P2P lending is an

online-based funding service (lending) without going through a bank (J. G. Wang et al., 2015). P2P lending acts as a business capital solution for a fast and non-collateral online loan compared to banking (Diana, 2019). P2P lending also acts as an alternative that can diversify the investment portfolio. The source of funds from P2P lending comes from a third party, namely the lender. Lenders on P2P lending are third parties with an excess amount of money to lend to P2P lending borrowers. The lenders will receive a significant level of return from the initial capital invested and the number of P2P users (lenders and borrowers) is increasing rapidly.

Borrowers' account has increased ten times since it started approximately with 6 million people as initial borrowers, and presently the number has grown to 73,2 million people. Authority of Financial Service, OJK recorded an increase in the number of P2P lending borrowers in 2021 by 29.69 million, which rose 68.15% compared to 2020. The number of lenders in P2P lending has increased four times since March 2019 with 200 thousand people as initial lenders and has grown to 800 thousand. This growth figure shows that P2P lending is highly demanded and provides many investment opportunities in Indonesia compared to conventional loans.

Recently, Millennials are shifting their behavior to invest in certain businesses to manage their finances. Making an investment decision involves the psychological aspect of following certain people (influencers), considering the accounting data (reputation and track record of the entities), and understanding the expected risk of the investment. According to past research, several aspects affect the investment decision in P2P lending, namely the impact of influencers, P2P reputation, and risk perception (Adil et al., 2022; Asmara & Wiagustini, 2021; Ayu Wulandari & Iramani, 2014; Chairunnisa & Dalimunthe, 2021; Saputro & Lestari, 2019; Septarizki & Wijaya, 2020; Tanuwijaya & Setyawan, 2021).

According to previous research, the study showed that an influencer's credibility significantly influenced investors' herding behavior. A higher level of credibility led to a higher herding behavior (Chairunnisa & Dalimunthe, 2021). Moreover, social media influencers are positively influence their followers on investment decision, especially on millennials (Ulmi et al., 2022). Millennial investors make investment decisions due to external influence, specifically herding bias by following trends (Mahafani et al., 2021). Millennials assume that following the majority or certain people to invest is always right and can benefit from investment (Bakar & Yi, 2016). In the long run, Millennials may not be able to make rational investment decisions and become independent investors. Other than herding behavior, economic phenomena also affect in terms of investment decision making. The phenomena like dividend policy, stock split, and leverage policy of company are known as a signal from the company. Signaling theory describes management's perception of the company's growth, which will affect the response of potential investors toward the company (Brigham & Houston, 2011).

The platform reputation of P2P lending is crucial in making investment decisions. Platform reputation refers to P2P lenders' perception of the mechanism of the platform or known as testimony, which may accommodate the performance of lending and protect their rights. Platform reputation is evaluated through the accumulated volume of transactions and calculated based on the loan value of the P2P lending platform for a certain period (Shi et al., 2019). Ignorance of the P2P platform reputation may cause Millennials to face severe losses due to impulsive investment. The previous research found that platform reputation is significant and positively influenced investors' investment choices in Indonesia (Septarizki & Wijaya, 2020; Shi et al., 2019).

Financial literacy may help investors deny irrelevant information (Sabir et al., 2019), giving an investor the ability to choose the financial product and isolate investors from herding behavior. According to previous research, investors who vary in financial literacy may also vary in their investment proportion (Adil et al., 2022). Financial literacy can only mediate the economic experience of investment intention (Tanuwijaya & Setyawan, 2021). Financial literacy also plays a role in mediating education and investment decisions (Asmara & Wiagustini, 2021). Due to the low level of financial literacy compared to the previous generation, Millennials recommended being more careful before making an investment decision.

Recently, P2P lending has become a world trend. However, there are many fraudulent cases and illegal P2P platforms in Indonesia. These occur due to lack of financial literacy and limited sources of P2P lending compared to other financial sectors. Therefore, to increase knowledge and contribution of P2P lending, the researchers would like to study “The Impact of Influencer, P2P Reputation, and Risk Perception towards Investment Decision of Millennials in P2P Lending with Financial Literacy as Mediating Variable.”

## **LITERATURE REVIEW**

### **Herding Theory**

Herding behavior is a form of behavioral bias arising from irrational decisionmaking. The behavior is by following others like influencers or mentors in making decisions. Trust in influencers' credibility may lead people to follow the same decision (Chairunnisa & Dalimunthe, 2021). Investors with herding behavior may not think and plan, such as conducting quantitative analysis and other techniques during the investment decision-making process (Alquraan et al., 2016). Commonly, herding behavior appear on new investors with lack of financial literacy Investors assume that following the majority or certain people to invest is always right and can benefit from investment (Bakar & Yi, 2016). However, investors with herding behavior may not be able to make rational investment decisions and become independent investors. Concurrently, herding behavior moves the trading volume and market volatility causing the price to rise and become overpriced (Gebka & Wohar, 2013).

### **Signaling Theory**

The signaling theory was introduced by Spence in 1973, explaining how managers hand out information which benefits the investors. Signaling theory is related to a signal derived from management policy as hints for investors in making investment decisions. The theory describes management's perception of the company's growth, which will affect the response of potential investors toward the company (Brigham & Houston, 2011). Several phenomena are categorized in signaling theory, such as dividend policy, stock splits policy, and leverage policy. Signaling theory expects to decrease information asymmetry among two elements, variables or parties (Connelly et al., 2011). Whereas the content is considered essential information, management will use the policy to inform the investors about the value of company which will influence the return (Puspitaningtyas, 2019). The company information will be analyzed and interpreted 1011 whether it is a positive (beneficial) or negative (disadvantage). If it is a positive signal, investors will respond positively and differentiate the qualified company. As a result, the stock price and the company's value will increase simultaneously. However, if it is a negative signal, investment volume will decrease and affect the company's value (Przepiorka & Berger, 2017).

### **Peer-to-Peer Lending**

Peer-to-peer (P2P) lending is one of the financial technology innovations that occurs directly between individuals without a traditional financial intermediary (Lee et al., 2011). P2P Lending is an online-based funding loan service without going through a bank (J. G. Wang et al., 2015). While according to OJK regulation, P2P lending is a direct loan service connecting creditors or lenders as lenders and debtors or borrowers as recipients of information technology-based loans by using Rupiah in the transaction. The first online P2P lending company was Zopa, launched in the United Kingdom in 2005 and followed by Prosper in the United States in 2006. Back in the day, P2P lending was an alternative platform to traditional saving and investment (Domingo, 2018).

P2P lending connects borrowers and lenders through the internet. The borrower provides personal financial conditions, while lenders assess the risk and later select their desired enterprise to fund (Stern et al., 2017). P2P lending evaluated requests digitally by the investment committee beforehand (Pişkin & Kuş, 2019). The online funding is carried out through various loan platforms and self-credit checking tools for the funding company (J. G. Wang et al., 2015). Hence, the mechanism of P2P lending diminishes the role of intermediaries between borrowers and lenders.

In Indonesia, Asosiasi Fintech Indonesia (AFI) introduced the emergence of P2P lending in 2016. P2P lending registered in OJK is 103 companies, with 96 Conventional companies and 7 Syariah companies by January 2022. Among 12 numerous companies, there are several credible companies in Indonesia's P2P lending, namely Koinworks, Akseleran, Investree, TaniFund, and Amarta. The amenities among companies differ as risk insurance, auto lending service, and fixed return from 12% to 18% annually.

### **Financial Literacy**

Financial Literacy is knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision-making and financial management to achieve prosperity (OJK, 2017). Financial literacy is a person's understanding of basic finance such as savings, investment, debts, insurance and many more (Fitriarianti, 2018). There are several advantages to understanding financial literacy, like manageable savings and expenses (Money+, 2021). Additionally, those who understand financial literacy may have insights about investment and how to avoid debt. According to OJK's survey in 2013, there is a level of awareness of financial literacy among Indonesian. The levels are divided into four parts, whilst well literate, sufficient literate, less literate, and not literate. Well-literate is familiar with financial products and services but unable to use them properly. Sufficient-literate is the most advanced group that understands and often uses financial products and services. While less literate partially understand financial products and services. Lastly, not literate does not understand any financial product and services.

Financial literacy becomes inseparable for investors because it assists investment decision-making process. Furthermore, when investors in charge on their own finance, financial problems may be avoided (Gozali, 2015). Comprehensive understanding of financial literacy may solve various problems including poverty (Yushita, 2017). Therefore, higher level of financial literacy will result on welfare rate.

### **Relationship among Variables and Hypothesis Statements**

#### **Influencer and Financial Literacy**

As part of the public figure, influencer has an influence on society. Generally, influencers share a certain topic, promote products, and talk about their daily lives. Those with the same interest

tend to follow the influencers, especially millennials. Financial literacy is basic finance management, yet not many people understand it. As the topic is minorly spoken among society, millennials' financial literacy is 24% lower than the previous generation. While spending so much time on social media, millennials rely on and believe what they see virtually. Through their practice of promotion, some influencers also discuss financial literacy. Hence, influencers may be good communicators of financial literacy. The relationship between influencers and financial literacy as studied previously and findings show that influencers positively increase financial literacy (Chikhi, 2021).

*H1: Influencer will positively affect Financial Literacy*

### **P2P Reputation and Financial Literacy**

P2P reputation is about the track record of borrowers' habit of taking loans. It is crucial to briefly understand the investment platform and screen the borrower's track record before investing in P2P lending. Meanwhile, financial literacy is about the ability to improve an individual's welfare in making financial decisions (Zahra & Anoraga, 2021). As the number of P2P users rises, the disadvantages of the convenience provided by the platform also emerge. In November 2021, the investigator of OJK recorded that there were 116 illegal P2P lending platforms. Due to these cases, investors are terrorized with spam offers, trapped in using predatory lending, or even their funds get tricked (Romualdus, 2022). Hence, financial literacy may act as a safety net to prevent fraudulent cases in P2P lending. Along with its relation, investors with financial literacy understanding might check on the platform reputation of P2P lending before initiating the investment (Shi et al., 2019). Therefore, P2P reputation may positively influence financial literacy.

*H2: P2P reputation will positively affect Financial Literacy*

### **Risk Perception and Financial Literacy**

Risk perception is a personal assessment of a risky situation and depends on the person's psychology (Rosyidah & Lestari, 2013). Investors with high-risk perceptions are more careful than investors with low-risk perceptions in making investment decisions. Investors with a more profound understanding of financial literacy are braver in making investment decisions in certain situations. On the other hand, those with less understanding of financial literacy are concerned about their decision. Hence, the relationship between risk perception and financial literacy as studied previously and findings show that risk perception positively influences financial literacy (Aren & Zengin, 2016; Samsuri et al., 2019).

*H3: Risk perception will positively affect Financial Literacy*

### **Influencer and Investment Decision**

An influencer is a public figure who influences their followers (Kádeková & Holienčinová, 2018). Along with their capability in communication and marketing skills, influencers become ambassadors to promote certain products. With their credibility, people are interested in following their behavior and preferences. The same thing happens when influencers promote fintech and investment tools. Hence, people began to follow or herd by the influencers' recommendations. The relationship between influencers and investment decisions as studied previously and findings show that influencers significantly influence investment decisions (Ulmi et al., 2022).

*H4: Influencer will positively affect P2P Investment Decision*

### **P2P Reputation and Investment Decision**

A reputation review will be essential before making the investment decision. New investors in P2P lending tend to rely on the platform's reputation (Wang et al., 2014). P2P platform reputation

is seen through the application rate and comments. While the investment in P2P lending is selecting a specific project for the borrower to fund, the lender will profit from loan interest. Therefore, it is essential to see the borrower's track record (how many times it has raised a loan and how many times it has paid on time). The relationship between P2P reputation and investment decision has been studied previously and findings show that the variable has significant effect on investment decision (Septarizki & Wijaya, 2020; Shi et al., 2019).

*H5: P2P reputation will positively affect P2P Investment Decision*

#### **Risk Perception and Investment Decision**

Risk perception varies from one investor to another. Regarding investors' psychology, risk perception may be perceived differently. Investors' decision making is also influenced subjectively by attitude toward the investment (Saputro & Lestari, 2019). According to previous research, if investors have a high level of risk perception, they will be more cautious. However, in the status quo, some investors decide to invest despite the high level of risk. Moreover, with a higher level of risk tolerance, investors tend to be braver in making decisions than those who are not. Therefore, the relationship between risk perception and investment decision has been studied previously and findings show that the variable is negatively significant in investment decisions.

*H6: Risk perception will negatively affect P2P Investment Decision*

#### **Financial Literacy and Investment Decision**

Investment decisions require a lot of analysis, evaluation, and consideration before finalization. If the decision were made recklessly, it would affect the whole financial condition of the investor. Therefore, financial literacy is crucial in managing finance while making investment decisions, especially on selected investments. As a result, the relationship between financial literacy and investment decision has been studied previously and findings show that the variable is positively significant in investment decisions (Agustin & Lysion, 2021).

*H7: Financial Literacy will positively affect P2P Investment Decision*

#### **Financial Literacy as Mediating Variable between Influencer and Investment Decision**

Influencer has the power to influence others' decision (Kádeková & Holienčinová, 2018). Not only do they promote beauty products, but nowadays, influencers also promote financial products and services. People begin to follow or herd by the influencers' recommendations with their credibility and influence. Like any other decision making, personal knowledge may support investment decision making (Asmara & Wiagustini, 2021). Therefore, financial literacy could mediate between influencer and investment decision.

*H8: Financial literacy mediate the effect of influencers on P2P Investment Decision*

#### **Financial Literacy as Mediating Variable between P2P Reputation and Investment Decision**

Financial literacy is the basic need for knowledge to manage finance and avoid financial problems (Iriani et al., 2021). As the number of fintech is rising, many potential investors are trying to enter the market. Simultaneously, fraud and illegal fintech are becoming a threat to amateur investors. Hence, reviewing P2P reputation is very crucial before making an investment decision. Moreover, the presence of financial literacy eases the decision-making process and prevents investors from being tricked by the appealing offer of the platform (Effendi et al., 2021). Therefore, financial literacy could mediate P2P reputation and investment decisions.

*H9: Financial literacy mediate the effect of P2P reputation on P2P Investment Decision*

## **Financial Literacy as Mediating Variable between Risk Perception and Investment Decision**

Investment has a lot of risks, such as economic risk, compliance risk, security and fraud risk, financial risk, reputation risk, and operational risk. As investor, recognizing personal risk perception is very important as one may differ from another. Align with risk perception, financial literacy may motivate investor to initiate an investment (Kanagasabai & Aggarwal, 2020). Investors with higher financial literacy will have better attitude in facing investment risk and the greater motive for saving, the better the investor's behavior in making investment decisions (Ramandhanty et al., 2021). Therefore, financial literacy could mediate risk perception and investment decisions.

*H10: Financial literacy mediate the effect of risk perception on P2P Investment Decision*

## **RESEARCH METHOD**

### **Method of Collecting Data**

There are several methods of collecting data to support this research as follows:

#### **Questionnaire**

According to Sugiyono (2021), questionnaires collect data by giving a set of questions or written statements to be answered by respondents. Questionnaire is an efficient method of collecting data when the researcher knows the variable to measure and knows the expected result from the respondents. Questionnaires can be in the form of open or closed statements or questions given to respondents directly or sent via post or online. This study used closed questionnaires to obtain data on millennials' behavior in making investment decisions using a Likert scales.

#### **Library Research**

Library research is a data collecting method by compiling sources searches and data from various sources, like literature, journals, and previous studies (Fadli, 2021). Library research examines several theories related to research problem which the sources can be obtained literature, journal, and previous studies about influencer, P2P reputation, risk perception, financial literacy, and investment decision.

### **Population and Sample**

#### **Population**

The population is a generalized area filled with objects/subjects with specified quantities and characteristics determined by the researcher to be studied and then concluded (Sugiyono, 2021). The population in this study is the millennials as beginner or experienced investors.

#### **Sample**

The sample is part of the amount and characteristics possessed by the population (Sugiyono, 2021). This research uses non-profitability sampling technique with purposive method. Non-profitability sampling is a sampling technique that does not provide equal opportunities for every element or member of the population as sample. Purposive sampling is equipped with certain considerations.

### **Research Variable**

#### **Independent Variable**

Independent variable is a variable that affects or is the cause of the change or emergence of the dependent variable (Sugiyono, 2021). The independent variable in this study are influencer (IF), P2P reputation (PREP), and risk perception (RP).

### **Mediating Variable**

Mediating variable is a variable that connect the independent and the dependent variables and explains the relationship between the other two variables. Moreover, it is known as an intervening variable. The mediator in this study is financial literacy (FL).

### **Dependent Variable**

Dependent Variable commonly known as output, criteria, and consequent variable (Sugiyono, 2021). The dependent variable in this study is investment decision (ID).

### **Analysis Method**

The research hypothesis will be tested using the Structural Equation Model Partial Least Square (SEM-PLS) approach using the Smart Partial Least Square (*SmartPLS*) software version 3.0. Structural Equation Modeling (SEM) is a powerful multivariate technique commonly used in scientific research to evaluate multivariate causal relationships (Fan et al., 2016). SEM differs from regression modelling approaches in testing direct and indirect effects on pre-assumed causal relationships. Partial Least Square (PLS) is part of Structural Equation Modeling (SEM), which can analyze latent variables, indicator variables, and measurement errors directly (Wiyono, 2020). The PLS analytical method requires no assumption and allows narrow sample size, so applicable to all data scales. The data analyses in *SmartPLS* do not require normal distribution because it uses the bootstrapping method allowing small samples. *SmartPLS* tests formative and reflective SEM models with different indicator measurement scales in one model (Harahap, 2018). The *SmartPLS* analysis method does not base on OLS but applies maximum likelihood as the parameter estimation. As a result, *SmartPLS* analysis method does not require a classical assumption test (Hendryadi & Suryani, 2014).

### **Measurement Model (*outer model*)**

#### **Validity Test**

Validity test measures variables accurately according to the research conducted (Cooper & Schindler, 2014). Validity test refers to method accuracy in measuring the intended object (Middleton, 2022). In several kinds of research, the validity can be measured through questionnaires given to the respondent to obtain specific results. Validity occurs when there is a significant correlation of variable with the total score, this indicates support exists to obtain the result (Purnomo, 2016). Research with high validity corresponds to the actual characteristic and variations in society. The validity test used in this study is the construct validity, which shows how well the results obtained from measurement follow the theories used to define a construct (Wiyono, 2020). Construct validity includes discriminant validity and convergent validity, explained as follows:

#### **Discriminant Validity**

Discriminant Validity relates to the principle that measures of different constructs should not be highly correlated. Discriminant validity is when measuring the uncorrelated constructs results in a non-correlated score (Katopo, 2015). The criteria in the discriminant validity test were assessed based on cross-loading. The value of the cross-loading correlation with the latent variable must be greater than the correlation to the other latent variables (Wiyono, 2020). Another method to evaluate discriminant validity is the average variance extracted (AVE). Each construct and latent variable whose value must be above 0.50 is discriminately valid (Ghozali, 2015).



### **Convergent Validity**

Convergent validity relates to the principle that measures of a construct should be highly correlated. If the result of two different instruments measuring the same construct is highly correlated, then convergent validity is obtained (Hartono, 2008). The test is valid when the loading factor score is around 0.60- 0.70 (Hair et al., 2017).

### **Reliability Test**

The reliability test is a continuation of the validity test, where the items that enter the test are only valid items (Purnomo, 2016). Reliability test refers to the consistency of method that measures something. Reliability test is concerned with how a measurement is free of random or unstable error (Cooper & Schindler, 2014). The measurement is reliable if a consistent result is achieved using the same methods under the same circumstances (Middleton, 2022). The method commonly used to measure internal consistency especially in research using the Likert scale is Cronbach Alpha and Composite Reliability (Purnomo, 2016; Robinson, 2010).

### **Cronbach Alpha**

The reliability test for over two alternate results uses the Cronbach Alpha method, which score will be compared to the minimum acceptable coefficient of the reliability test (Warnilah, 2018). This method is widely used because the formula used is not affected if the variance and covariance of the components are not the same (Wiyono, 2020).

### **Composite Reliability**

Composite reliability or construct reliability is a test of indicators, the extent to which they can measure theoretical constructs. The reliability of the construct can be tested through composite reliability. The rule of thumb used in the composite reliability test is greater than 0.7, and the Cronbach's Alpha is greater than 0.7 (Chin, 1998; Ghozali, 2016). Therefore, a construct is highly reliable if the score of composite reliability is greater than 0.7.

### **Structural Model (*inner model*)**

#### **R-Square (R<sup>2</sup>)**

Contribution testing of all independent variables toward the dependent variable is viewed from the coefficient of determination (R<sup>2</sup>), where  $0 < R^2 < 1$ . The coefficient of determination shows the extent to which independent variables contribute to explaining the dependent variable variation (Ghozali, 2016). If R<sup>2</sup> is getting closer to 1, then the influence of the independent variable on the dependent variable is stronger. On the other hand, if the R<sup>2</sup> value is further from 1 and closer to 0, then the influence of the independent variable on the dependent variable is weaker (Sabrina, 2015).

#### **Path Analysis**

Path analysis is an analytical technique used to analyze the inherent causality between variables arranged in a temporary order by using the path coefficient as a value in determining the magnitude of the effect of the exogenous independent variable on the endogenous dependent variable (Sarwono, 2011). There are several models that can be used in path analysis, yet in this research will be two analysis path model (Juliandi et al., 2014). The regression formula that will be used to test the hypothesis with direct and indirect explanations between the independent variable and the dependent variable on influencer, p2p reputation, and risk perception toward investment decision through financial literacy as mediating variable as follows:

Regression (1):  $FL = \beta_1 IF + \beta_2 PREP + \beta_3 RP + e_1$

The regression explains the effect of the independent variable on the dependent variable through the intervening variable.

Regression (2):  $ID = \beta_4IF + \beta_5PREP + \beta_6RP + \beta_7FL + e_2$

The regression explains the effect of the independent variable on the dependent variable directly without going through the intervening variable.

Description:

*FL* = Financial Literacy

*ID* = Investment Decision

*IF* = Influencer

*PREP* = P2P Reputation

*RP* = Risk Perception

*e*<sub>1</sub> = Error 1

*e*<sub>2</sub> = Error 2

$\beta$  = (beta) means the static method used to test allegations about the relationship between variables.

While the error explains the difference between the estimated value and the actual observation.

### **Mediation Effect Analysis**

Mediation analysis implies a causal process that connects the variables by modelling how an intervening, or mediator variable transmits the influence of an independent variable onto an outcome (Fairchild et al., 2010). Mediation considers the presence of an intermediate variable or mechanism that transmits the effect of an antecedent variable to an outcome (Aguinis et al., 2017). Mediation processes are framed as intermediate variables between independent and dependent variables (Agler & De Boeck, 2017). There are two types of effect, direct and indirect effect. The direct effect describes the relationship that connects the two constructs with one arrow. Indirect effects are structural model pathways that involve a sequence of relationships with at least one intervention construct involved.

### **Hypothesis Testing**

Hypothesis testing is drawing conclusions from sample data about a parameter or population probability distribution using a statistical program (Williams et al., 2020). Hypothesis testing provides methods to understand the extrapolation of findings from samples to the population of research. The researcher will formulate several hypotheses, evaluate sample data, and decide whether the data support any hypotheses (Davis & Mukamal, 2006). Hypotheses testing in this study is using Structural Equation Model Partial Least Square (SEM-PLS) approach. Structural Equation Model Partial Least Square (SEM-PLS) approach is a set of statistical techniques that examine a relatively complex set of relationships that linear regression equations cannot solve. There are 3 (three) procedures in SEM-PLS, measurement model, structural model, and hypothesis testing. The measurement model, known as confirmatory factor analysis, is divided into validity and reliability testing. At the same time, the structural model is to test the relationship model between variables (path analysis). Lastly, the structural and regression analysis obtain the prediction model (Harahap, 2018). SEM-PLS approach is used because the research is more predictive and explains latent variables than testing a theory. Moreover, the number of samples in the study is not large. Therefore, SEM-PLS approach will be done using a structural equation model carried out with the *SmartPLS* software.

## **DATA ANALYSIS AND DISCUSSION**

### **Data Analysis**

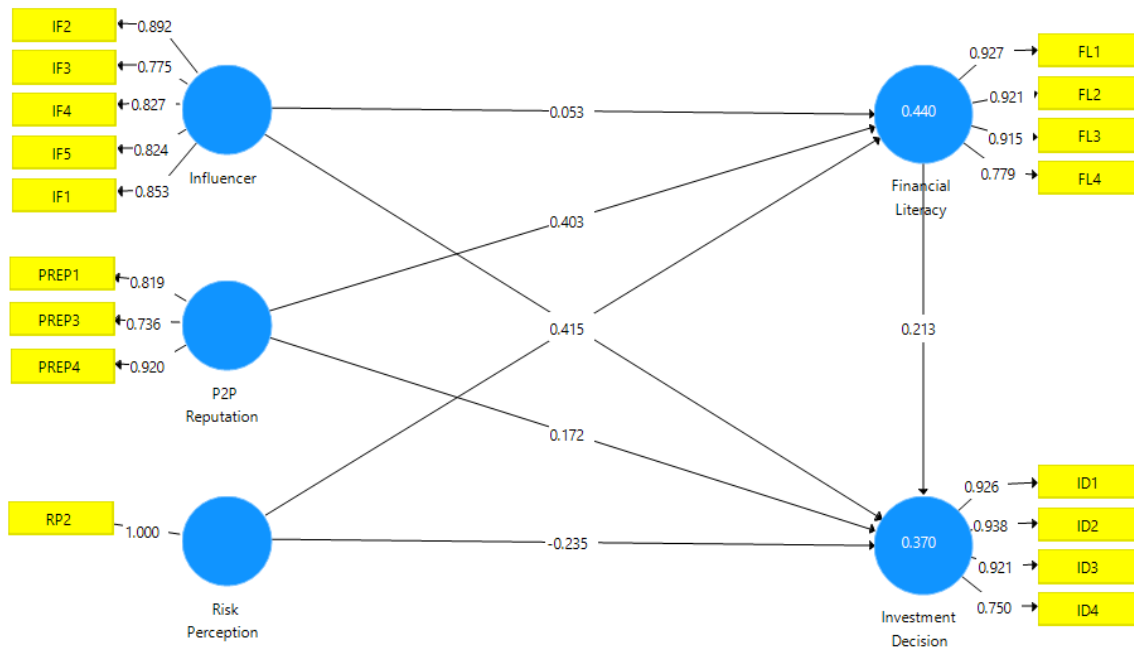
This Research uses Structural Equation Model (SEM) and Path Analysis to analyze the data with SmartPLS 3.0 software, an application to analyze formative and reflective SEM models with different indicator measurement scales in one model (Harahap, 2018). SEM differs from the regression model approach in testing direct and indirect effects on pre-assumed causal relationships. Meanwhile, as part of SEM, PLS can directly analyze latent variables, indicator variables, and measurement errors (Wiyono, 2020). The structural Equation Model (SEM) is used to evaluate multivariate causal relationships (Fan et al., 2016). Therefore, SEM is a combination of analysis and regression or path analysis.

### **Evaluation and Outer Model Measurement**

The Structural Equation Model (SEM) analysis in this study is carried out by measuring the model to assess variables that cannot be measured directly, reflecting construct or latent variables in perception and ratio data. The outer model measurement describes the relationship between latent variables and the indicators. The indicator with the highest outer loading shows that the indicator is the most dominant variable measuring. The evaluation of the latent variable measurement model was analyzed by screening at the convergent validity. According to Ghozali (2015), the outer model covers the outer loading value, if the outer loading  $> 0.5$  and ideally  $> 0.7$ , the average variance (AVE)  $> 0.5$ , and composite reliability is  $> 0.8$  to be reliable.

### **Convergent Validity**

As part of the construct validity, convergent validity is related to the principle which measures a construct should be highly correlated. When two different instruments measuring the same construct are highly correlated, then convergent validity is obtained (Hartono, 2008). The test is valid when the loading factor score is around 0.60- 0.70 (Hair et al., 2017). Several invalid numbers in the validity test of the questionnaire for all variables. The invalid numbers must be removed or opted out in the following analysis. The opted indicators are to improve the model and to normalize the data for the upcoming test. After opting the invalid indicators, the new model is re-tested. From the new model, different outer loading values will be obtained. The changes are only on the variables, while the outer loading score will remain the same. Based on figure 1 indicates that all the indicators have reached the minimum number of validity (0.7) or even. With the values of 55 outer loading greater than 0.7, means the variables have fulfill the criteria of convergent validity.



**Figure 1. Outer Loading Test Result**

**Discriminant Validity**

The way to evaluate the discriminant validity is looking at the value of the square root of the Average Variance Extracted (AVE). The recommended value of AVE is equal to or above 0.5 and if below 0.5 means error variance exceeds the explained variance. Here are the AVE results as presented in Table 1.

**Table 1. Average Variance Extracted Test Result**

Variable	AVE
Influencer (IF)	0.697
P2P Reputation (PREP)	0.686
Risk Perception (RP)	1.000
Financial Literacy (FL)	0.788
Investment Decision (ID)	0.787

Source: Processing Data SmartPLS 3.0

### Reliability Test

Reliability test is the next step of the validity test as the method of measuring the construct. The measurement is reliable if the result is consistent using the same methods under the same circumstances (Middleton, 2022). The method commonly used to measure internal consistency, especially in research using the Likert scale, is Cronbach Alpha and Composite Reliability (Purnomo, 2016; Robinson, 2010). The expected value for composite reliability is  $> 0.7$ , ideally  $> 0.8$  or  $> 0.9$  and Cronbach's alpha expected to be  $> 0.6$ .

**Table 2. Reliability Test Result**

Variable	Cronbach's Alpha	Composite reliability
Influencer (IF)	0.892	0.920
P2P Reputation (PREP)	0.775	0.867
Risk Perception (RP)	1.000	1.000
Financial Literacy (FL)	0.910	0.937
Investment Decision (ID)	0.910	0.936

*Source: Processing Data SmartPLS 3.0 (2022)*

From the Table 2 above, the reliability test result shown that all of the value of Composite Reliability passes the requirement that is  $> 0,7$  where it means that the construct has a high reliability. Moreover, the values of Cronbach's Alpha for all construct is above 0.6 which means that all constructs have high reliability in term of variable measurement.

### Structural (Inner) Model

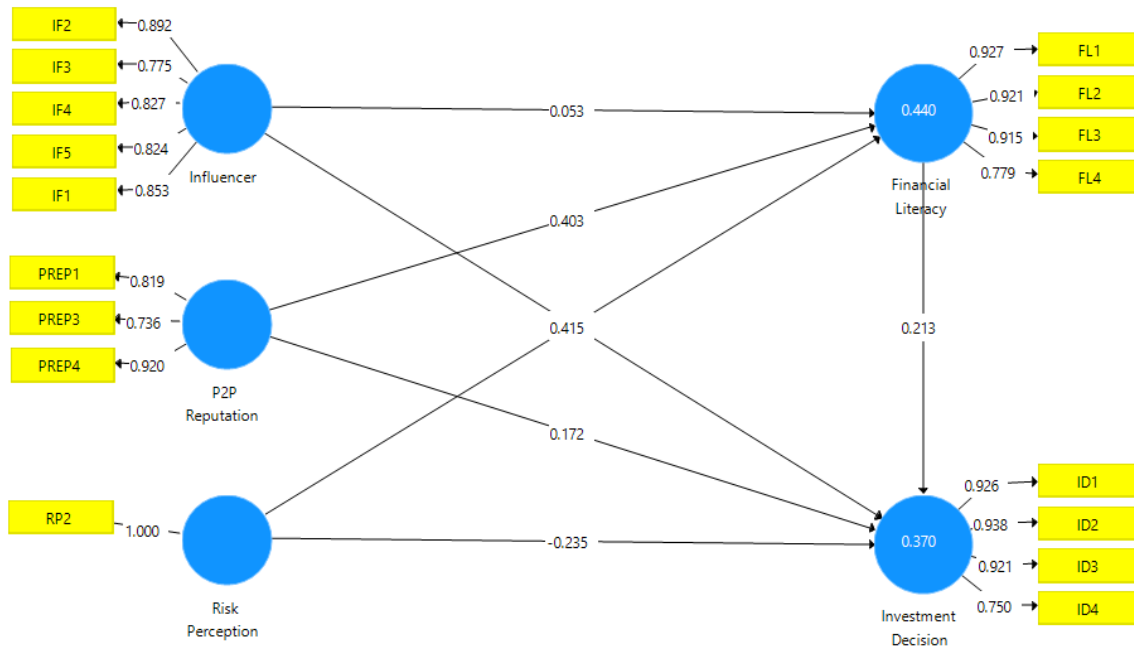
There is an inner model part in SEM analysis that describes the relationship among the latent variables. The inner model part known as the Structural model that will be measured through R-square, hypothesis, and significance structural path coefficient analysis.

### Coefficient of Determinant (*R-Square*)

The R-square tests the contribution testing of all independent variables toward the dependent variable, where  $0 < R^2 < 1$ . The extension of which the independent variable explains the dependent variable is shown in the coefficient of determination (Ghozali, 2016). The parameter is when  $R^2$  is closer or further to 1, closer means strongly explained, while further means weakly explained (Sabrina, 2015). R-square value from the independent variable in this study can be seen in figure 2.

PLS R-square represents the total variance of the constructs described by the model. The bigger the number of R-square, the better the model generated. From Figure 2, the R-Square value of Financial Literacy is 0.440, which is categorized as moderate meaning Financial Literacy can be explained by Influencer, P2P Reputation, and Risk Perception by 44%. On the other hand, the R-square value of Investment Decision is 0.370, which is also categorized as moderate. Investment

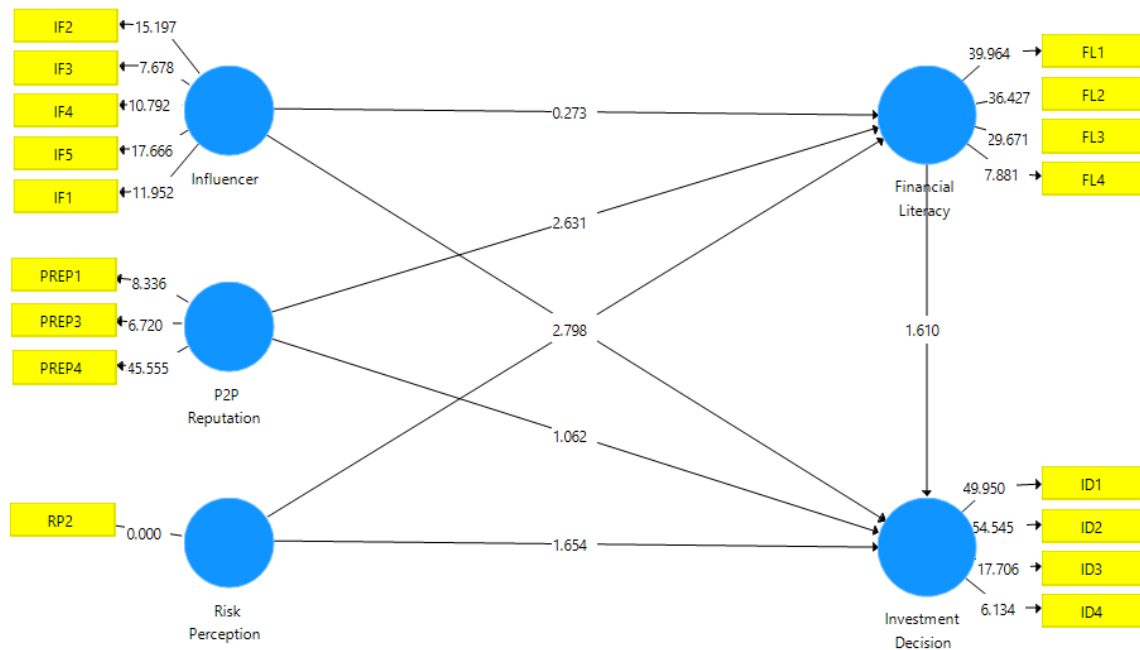
Decision can be explained by Influencer, P2P Reputation, Risk Perception, and Financial Literacy by 37%.



**Figure 2. R-square Result**

### Hypothesis Testing Results

Hypothesis testing is generating conclusions from sample data about a parameter or population probability distribution using a statistical program (Williams et al., 2020). The procedure of hypothesis testing is done to assure whether the hypotheses are supporting the research theory or not. In order to analyze hypothesis testing, therefore the researcher make a bootstrapping process.



**Figure 3. Bootstrapping Output**

The hypothesis test in this study is by screening the value of T-statistic and P-value. The criteria to accept or reject the hypothesis when the T-statistics are greater than T-table which is 1.96 (significance level = 5%) and P-value is smaller than 0.05.

**Direct Effect and Indirect Test Results**

The following table is presented results of direct effect of financial literacy in the relationship between variable of influences, P2P Reputation, and risk perception towards investment decision of millennial in P2P Lending.

**Table 3. Direct Effect and Indirect Effect Test Results**

<b>Direct Effect:</b>	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>T Statistics</b>	<b>P Values</b>	<b>Conclusion</b>
Influencer → Financial Literacy	0.530	0.046	0.193	0.273	0.785	Not supported
Influencer → Investment Decision	0.438	0.424	0.132	3.323	0.001	supported
P2P Reputation → Financial Literacy	0.403	0.433	0.153	2.631	0.009	supported

P2P Reputation → Investment Decision	0.172	0.173	0.162	1.062	0.289	Not supported
Risk Perception → Financial Literacy	0.415	0.412	0.149	2.798	0.005	supported
Risk Perception → Investment Decision	-0.235	-0.216	0.142	1.654	0.099	Not supported
Financial Literacy → Investment Decision	0.213	0.213	0.132	1.610	0.108	Not supported
<b>Indirect Effect:</b>						
Influencer (IF) → Financial Literacy (FL) → Investment Decision (ID)	0.011	0.014	0.047	0.235	0.814	Not supported
P2P Reputation (PREP) → Financial Literacy (IF) → Investment Decision (ID)	0.088	0.086	0.065	1.367	0.172	Not supported
Risk Perception (RP) → Financial Literacy (FL) → Investment Decision (ID)	0.086	0.089	0.067	1.288	0.198	Not supported

Source: Processing Data SmartPLS 3.0 (2022).

## Discussion

The result the hypothesis test shows P2P Reputation (PREP) and Financial Literacy (FL) have a relationship P-value of 0.009, which is smaller than 0.05. The original sample value is 0.403,



which indicates the relationship between P2P Reputation and Financial Literacy is supported. As the safety net of P2P investment, the platform's reputation presents the payment track record. By screening the track record, P2P potential investors will be aware of the payment schedule and predict the future interest, increasing each investor's financial literacy. Additionally, this result was supported by the previous research by Shi (2019), where P2P reputation may positively influence financial literacy.

The result of the hypothesis test shows Risk Perception (RP) and Financial Literacy (FL) has a relationship with P-value of 0.005, which is smaller than 0.05. The value of original sample is 0.415, which indicates the relationship between Risk Perception and Financial Literacy is supported. Risk perception relies on an investor's psychology in managing investment risk. Investors with a higher level of financial literacy will understand better the possibility of investment risks. Moreover, this result was aligned with the previous research by Aren & Zengin (2016) and Samsuri (2019), where risk perception positively influences financial literacy.

The result of the hypothesis test shows Influencer (IF) and Investment Decision (ID) has a relationship P-value of 0.001, which is smaller than 0.05. The value of original sample is 0.438, which indicates the relationship between Influencer and Financial Literacy is supported. Influencers as financial mentors promote P2P lending to their followers. Hence, people tend to follow their financial influencers because they trust the influencer's credibility and do not want to miss the chance to gain profit. Therefore, influencers make people follow their investment decision which may lead to herding behavior in the long run. This result was aligned with the previous research by Ulmi (2022), where influencers significantly influence investment decisions.

Financial literacy could not mediate Influencer to Investment decisions with several factors, such as recommendation inaccuracy, severe loss cases, and trust issues toward influencers. Not every recommendation will be accurate and profit the investors. Some influencers also face severe losses, e.g. Lo Kheng Hong, who met severe loss in the stock of Bumi Resources by Bakrie Group. Moreover, some investors with a higher level of financial literacy are more cautious and would conduct personal analysis before initiating an investment. Thus, they value the recommendation but remain rational in making investment decisions by balancing expected return and risks. Therefore, this statement was supported by the prospect theory previously studied by Kahneman & Tversky (1979).

This signifies that P2P reputation to Investment Decision should be able to mediated by financial literacy. P2P reputation showed the payment track record of P2P investment, profit prediction, and possible risk in the investment. With the data presented, investors are at ease in determining whether to initiate the investment or not. Although the P2P reputation has been screened, not every investor wishes to continue the investment because they have known the upcoming risk to face in the investment. Due to the uncertainty of a volatile market, investors tend to analyze the platform's reputation, use it as a reference for financial literacy, and not initiate any investment decision. Therefore, financial literacy cannot mediate the relationship of P2P reputation to Investment Decisions. It was supported by the prospect theory, whereas investor value certainty over risk, especially when gains and losses are equal in the likelihood by Boyce (2022).

These results indicate that the relationship between Risk perception and Investment Decision mediating by Financial Literacy is not supported. It can be concluded that Risk perception through Financial Literacy as mediation does not have a significant effect on Investment Decision, but it directs to a positive relationship. Risk perception provides positivity in terms of facing

possible investment risks. With the support from financial literacy, the investor is expected to have a better attitude in facing investment risk and better the investor's behavior in making investment decisions. Therefore, financial literacy predicts to mediate risk perception and investment decisions, as stated by Ramandhanty (2021). However, the results of the calculation state otherwise. Financial literacy helps investors analyse and understand the investment while simultaneously building a prevention wall within the investor's mindset. Investors will embed that to avoid investment risk, best not to initiate the investment in the first place. Those investors with a higher level of financial literacy will also be more cautious in managing their finance and prefer savings over investment, lottery clubs, and low risk activities. Thus, financial literacy does not mediate risk perception and investment decision, as stated by Sipangkar & Wijaya (2020).

## CONCLUSION

The purpose of this study is to examine the relationship among Influencer, P2P Reputation, and Risk Perception on Investment Decision, with mediation from Financial Literacy. Moreover, SmartPLS3.0 was used to analyze the questionnaires data collection. The data was collected using e-questionnaires and answered by 50 categorized P2P investors in Indonesia.

According to the analysis test in this study, there are three out of ten hypotheses were supported namely influencer to investment decision, P2P reputation to financial literacy, and Risk perception and financial literacy. For the analysis of the mediation effect, the results show that Financial Literacy (FL) does not play a role as mediating variable on the relationship between Influencer (IF), P2P Reputation (PREP) and Risk Perception (RP) to Investment Decision (ID).

Based on the result shows that influencer triggers investment decision. Some investors tend to follow the recommendation from influencers in the hope of receiving the same luck as they are causing herding behavior in investment, however, the recommendation act only as profit prediction, which could be right or wrong. Moreover, P2P reputation and Risk perception also enhance investors' financial literacy. Therefore, one should be financially literate and able to conduct personal analysis before initiating the investment to manage the unexpected risk of investment. For further research, the author suggests that the variables of model be expanded for the upcoming research because there are many more variables that could influence investment decision. The author suggests that for the next researcher to perform a research based on current events or phenomena.

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