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The Mediator Role of Perceived Risk in The Relationship Between Financial Literacy and Hassle Factor on Investment Decision

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ABSTRACT

Purpose: This study examines the influence of financial literacy, hassle factor on investment decisions in the Indonesian capital market, with perceived risk as a mediator.

Methodology/approach: A survey of 400 active capital market investors of IDX was conducted, and the data were analyzed using PLS-SEM.

Findings: The results show that financial literacy significantly improves investment decisions, while the hassle factor has no significant effect. Perceived risk is shown to mediate the relationship between financial literacy and the hassle factor on investment decisions, emphasizing that individuals consider potential risks and financial consequences more carefully before making investment decisions.

Practical implications: These findings have implications for the development of more effective financial education programs and investment platforms.

Originality/value: This study contributes to the literature by combining cognitive (literacy) and behavioural (hassle) perspectives, providing new insights into investor behavior, and offering practical guidance for reducing barriers to investment participation.

Keywords: Financial Literacy; Hassle Factor; Investment Decision; Perceived Risk.

ABSTRAK

Tujuan penelitian: Penelitian ini bertujuan untuk mengetahui pengaruh literasi keuangan dan faktor

kesulitan (*hassle factor*) terhadap keputusan investasi di pasar modal Indonesia, dengan percieved risk sebagai mediator.

Metode/pendekatan: Survei dilakukan terhadap 400 investor pasar modal aktif di BEI, dan data dianalisis menggunakan PLS-SEM.

Hasil: Hasil menunjukkan bahwa literasi keuangan secara signifikan meningkatkan keputusan investasi, sedangkan faktor kesulitan atau *hassle factor* tidak memiliki pengaruh signifikan. Persepsi risiko terbukti memediasi hubungan literasi keuangan dan faktor kesulitan dengan keputusan investasi, menekankan bahwa individu lebih mempertimbangkan potensi risiko dan konsekuensi finansial sebelum membuat keputusan investasi.

Implikasi praktik: Temuan ini memberikan implikasi bagi pengembangan program edukasi keuangan dan platform investasi yang lebih efektif.

Orisinalitas/kebaharuan: Studi ini berkontribusi pada literatur dengan menggabungkan perspektif kognitif (literasi) dan perilaku (kerepotan), dapat memberikan wawasan baru tentang perilaku investor, dan menawarkan panduan praktis untuk mengurangi hambatan dalam partisipasi investor dalam melakukan investasi.

Kata kunci: Faktor Kesulitan; Keputusan Investasi; Literasi Keuangan; Persepsi Risiko.

INTRODUCTION

A country's economic growth can be reflected in the size of its Gross Domestic Product (GDP). Based on Statistics Indonesia/BPS (2025) shows that GDP per capita in 2024 will reach IDR 78.6 million, an increase of 5.03% from 2023. An increase in GDP indicates economic growth, where an increase in real GDP is generally interpreted as a sign that a country's economy is in good condition (Callen, 2024). One effort to improve the economy is to increase the investment sector through capital markets. Capital markets are crucial for economic progress because they allow businesses and governments to access financing, both from abroad and domestically. Capital markets can make public finances more resilient, flexible and can promote financial stability and inclusion (OECD, 2025).

The number of Indonesian capital market investors at the end of January 2025 reached a significant milestone, surpassing 15 million single investor identification (SID) figures (BEI, 2025). Despite the increasing number of investors, Indonesia has a low capital market participation rate compared to other countries such as the United States, with a population of 345.43 million people in Databooks (2024) as many as 162 million people own shares (Caporal, 2025). More than 50% of the American population participates in the capital market and owns stocks as one of their investment sources. Compared to Indonesia, with a population of 281.62 million people, the investor participation was only around 5.38% of the Indonesian population, indicating a low number of people deciding to invest in the capital

market (Indonesia Stock Exchange, 2025). This low level of participation indicates that many people lack sufficient understanding and confidence in investment activities.

One of the factors that influences investment decisions is financial literacy. From the perspective of the theory of planned behavior, financial literacy strengthens investment behavior indirectly by shaping attitudes toward investing and enhancing perceived behavioral control (Ajzen, 1991). Individuals who understand financial instruments are more likely to develop favorable beliefs about investing and have greater confidence in managing financial outcomes (DAT, 2020; Suresh G, 2024; Rizaldy et al., 2020; and Mishra et al., 2024). Consequently, policy and regulatory institutions in many countries, including Indonesia, have prioritized financial education as a primary intervention to improve investment participation and financial well-being (OECD, 2022; OJK, 2024). However, this dominant assumption has been increasingly questioned in behavioral finance literature. Recent evidence shows that financial literacy improves awareness but produces limited and unstable behavioral change (Kaiser et al., 2021). Similarly, behavioral finance research demonstrates that psychological biases and emotional responses continue to shape investment decisions even among financially knowledgeable individuals (Fernandes et al., 2014). Consistent with this view, several empirical studies report that financial literacy does not exert a statistically significant influence on investment decisions, suggesting that knowledge alone is insufficient to discipline investor behavior in complex financial environments (Akpene et al., 2022; Senda et al., 2020). The limitations of knowledge-based models are consistent with bounded rationality theory, which argues that decision outcomes are shaped not only by cognition but also by contextual and psychological constraints (Simon, 1957). This indicates that financial literacy may be a necessary, but insufficient, condition for effective investment behavior, thereby motivating the need to examine literacy within a broader behavioral framework rather than as a standalone predictor.

Beyond individual capability, investment decisions are also constrained by structural and procedural frictions embedded in financial systems. These conditions raise the psychological cost of participating in the capital market, discouraging action even when investment opportunities appear attractive. This inconvenience – called hassle factors - can lead to accumulation of minor frictions that generate frustration, avoidance, and decision fatigue (Kanner et al., 1981). In economic decision-making, hassle factors operate as non-monetary barriers that distort rational choice and suppress participation despite expected benefits (Schotter & Beamish, 2013). In the financial domain, situational and attitudinal constraints have likewise been shown to interfere with investment engagement, particularly under conditions of cognitive overload and psychological strain (Sivaramakrishnan et al., 2017). While empirical studies confirm the negative effect of hassle factors (Handranata et al., 2023), dominant investment models lack theoretical clarity explaining *how* these frictions suppress participation.

This study incorporates perceived risk as a mediating variable grounded in Risk-as-Feelings Theory (Loewenstein et al., 2001). The theory posits that individuals respond to risky situations not primarily through cognitive evaluation, but through emotional reactions such as anxiety, fear, and anticipatory worry. Consequently, behavioral responses are shaped more by subjective feelings toward uncertainty than by objective assessments of probability or return. Empirical evidence supports this view, as perceived risk has been shown to play a central role in shaping risky decision-making behavior across financial contexts (Shehata et al., 2021; Ahmed et al., 2022). Furthermore, Weber et al. (2002) demonstrate that individual differences in risk-taking behavior are better explained by variation in risk perception than by stable personality traits, reinforcing the argument that risk perception reflects a cognitive–

affective appraisal rather than a dispositional tendency. Under this framework, perceived risk serves as the psychological mechanism through which financial capability and situational difficulty are transformed into actual investment behavior. By modelling perceived risk as a mediator, this study provides a theoretically grounded explanation for why financial literacy may fail to produce consistent behavioral change and why seemingly minor frictions may generate disproportionately large deterrent effects. This approach extends prior research by shifting focus from structural determinants of investment behavior to the emotional–cognitive processes that govern decision-making under uncertainty.

This study aims to examine the factors influencing investment decisions among Indonesian capital market investors. Specifically, it investigates (1) the effect of financial literacy on investment behavior, (2) the influence of hassle factors on investment behavior, and (3) the mediating role of perceived risk in translating financial literacy and structural friction into actual investment decisions. By focusing on the Indonesian context, this study provides a behaviorally grounded understanding of how cognitive capabilities and environmental constraints jointly shape investor decisions in an emerging market.

This study contributes to the literature by addressing inconsistent findings regarding the effects of financial literacy and hassle factors on investment decisions (Fernandes et al., 2014; Akpene et al., 2022; Senda et al., 2020; Handranata et al., 2023). While prior research has shown that financial literacy sometimes fails to translate into action and that procedural frictions can both deter and, in some contexts, have negligible effects (Sivaramakrishnan et al., 2017), the psychological mechanism explaining these outcomes has been underexplored. By conceptualizing perceived risk as a cognitive–emotional mediator (Loewenstein et al., 2001; Shehata et al., 2021; Ahmed et al., 2022), this study explains how both individual capability (financial literacy) and structural friction (hassle factors) influence investment behavior. Specifically, it demonstrates that risk perception transforms knowledge and environmental constraints into action or inaction, providing a theoretically grounded explanation for previously contradictory results. Furthermore, this study situates the framework within the Indonesian capital market, an emerging market characterized by rapid retail investor growth, low participation, and procedural complexity, thereby offering both context-specific insights and broader implications for behavioral finance theory and policy.

Financial literacy is the knowledge, skills, and beliefs that influence attitudes and behaviour to improve the quality of decision-making and financial management to achieve public financial well-being (Otoritas Jasa Keuangan, 2024). Financial literacy can be measured through financial attitudes, knowledge, and behaviour across various investment channels and financial dimensions. Financial literacy is the ability to understand and use financial information effectively in decision-making. Financial literacy enables investors to make informed investment decisions and financial planning and reduces the likelihood of being misled. Asaad (2015) stated that individuals with good financial knowledge tend to make sound financial decisions. Conversely, individuals with limited knowledge tend to make risky financial decisions. Therefore, financial literacy enhances investors' knowledge in stock selection, purchase or sale timing, and risk and return estimation without hesitation. The presence of financial competence, skills, and opportunities develops investors' financial literacy to make profitable investment decisions (Suresh, 2024). Thus, the hypothesis proposed in this study is:

H1: Financial literacy has a significant positive influence on investment decisions.

The hassle factor is a behavioral friction that discourages individuals from engaging in an intended behavior due to small but meaningful barriers such as time, effort, or procedural

complexity. These frictions impose additional and often unnecessary burdens that can deter individuals from making optimal decisions. Reducing friction helps minimize individuals' tendency to procrastinate by lowering the immediate costs of a behavior, such as time or inconvenience. Studies across various domains have shown that removing such friction—often referred to as *hassle factors*—can effectively reduce administrative burdens and switching costs, thereby encouraging participation and action (National Academies of Sciences, 2023). Hassle factors can be related to costs, such as switching costs, which make customers reluctant to switch to another product even if they feel disappointed (Panther & Farquhar, 2004). Individuals tend to avoid decisions that require high cognitive or administrative effort (Sinaga et al., 2023). Previous research shows that even minor obstacles can reduce investment participation, such as Stampatori & Rossetto, (2024) who found that simplifying the process can increase investment participation. According to Sunstein (2014) resistance to change is often not due to objections to arguments but rather to perceived difficulty or ambiguity. Barriers such as the perceived complexity of digital systems can reduce individuals' interest in investing (Ashrafi, 2023). Therefore, it can be concluded that the higher the hassle factor, the lower the investment decision. Therefore, the hypothesis proposed in this study is:

H2: Hassle Factor has a significant negative influence on investment decisions.

Individuals with high levels of financial literacy are better able to understand information and thus have a more realistic assessment of investment risk. Good literacy will reduce uncertainty and increase self-confidence. Individuals with good financial knowledge will assess risk more objectively and not overestimate it, because their financial decisions are based on rational considerations of benefits and risks (Becker, 1976; Rooij et al., 2011). This shows that the higher the level of financial literacy, the lower the perceived risk of investment activities. Individuals with high financial literacy have a better understanding of how financial markets work and the responsibilities of each industry player (Hermansson & Jonsson, 2021). This condition indicates that individuals with high financial literacy are more familiar with financial risks and have a clearer understanding of the risks they will face in the future. Therefore, it can be concluded that the higher the level of financial literacy, the lower the perceived risk. Therefore, the hypothesis proposed in this study is:

H3: Financial literacy has a significant negative effect on perceived risk.

Individuals perceive an investment process as complicated and impractical; they tend to perceive higher risk due to the uncertainty and inconvenience. Several studies support the notion that barriers increase perceived risk, including (Sunstein, 2014), who explains that friction or obstacles amplify perceived risk. Hassle factors aim to capture all factors that can cause discomfort and friction for someone to engage in a behavior (Handranata et al., 2023). Procedural complexity, transaction costs, and difficulty monitoring investments can increase perceived risk, even when the actual risk is low (Daskalakis & Karpouzis, 2022). Therefore, the hypothesis proposed in this study is:

H4: Hassle factor has a significant positive effect on perceived risk.

Perceived risk is defined as the risk that motivates decision makers to engage in certain behavioral patterns (Dowling & Staelin, 1994). Previous research suggests that perceived risk mediates the relationship between perceived uncertainty, product knowledge, and risk avoidance (Lim et al., 2013). This finding supports the findings of (Cho & Lee, 2006), that perceived risk is a direct determinant of the decision to invest in risky assets. Similar findings are also documented by recent research (Daskalakis & Karpouzis, 2022; Canikli & Aren,

2019). Shehata et al. (2021) have attempted to demonstrate the relationship between perceived risk and investment decisions in capital products. Based on the description above, the hypothesis proposed in this study is:

H5: Perceived risk has a significant negative effect on investment decisions.

Perceived risk can mediate between financial literacy and investment decisions, as well as between hassle factors and investment decisions. Lim et al. (2013) and Indrawati et al. (2025) showed that perceived risk mediates the relationship between literacy and investment behaviour. Within the RFH theoretical framework Loewenstein et al. (2001) perceived risk acts as a mediator that bridges the influence of risk tolerance, financial literacy, and hassle factors on investment decisions. This risk perception is influenced by an individual's subjective view of a particular situation, which in turn determines their level of comfort or concern when making investment decisions. Therefore, the hypothesis proposed in this study are:

H6: Perceived risk mediates the relationship between financial literacy and investment decisions.

H7: Perceived risk mediates the relationship between hassle factor and investment decisions.

METHOD

Variables	Indicator	Statement Items
Financial Literacy (X1) (OECD, 2022)	Basic financial knowledge	X1.1 I understand the concept of inflation and its impact on purchasing power
	Understanding risk and return	X1.2 I understand that investments with high potential returns also carry high risks.
	Financial planning	X1.3 I create a financial plan to achieve my investment goals.
	Investment product knowledge	X1.4 I understand the difference between stocks, bonds, and mutual funds
	Decision-making ability	X1.5 I can make sound investment decisions based on the information I have.
Hassle Factor (X2) (Sivaramakrishnan et al., 2017)	Perception of investment complexity	X2.1 I find the investment process too complicated to do
	Time constraints	X2.2 I don't have enough time to study and invest
	Mental and administrative efforts	X2.3 I feel overwhelmed by the paperwork and administrative processes in investing.
	Percieved risk of failure	X2.4 I am worried about making mistakes in the investment process.

Table 1. Operational Definitions and Measurement of Variables

Variables	Indicator	Statement Items
	The urge to procrastinate	X2.5 Due to the perceived hassle, I often postpone investment decisions.
Percieved risk (M) (Grable, 2000; Weber et al., 2002)	Fluctuation risk	M1 I am worried that the value of my investment will decrease due to market fluctuations.
	Liquidity risk	M2 I am worried that I will not be able to sell my investments when needed.
	Inflation risk	M3 I am worried that inflation will reduce the real value of my investment returns.
	Default risk	M4 I am worried that the issuer or investment institution will fail to fulfill its obligations.
Investment Decision (Y) (Gambetti & Giusberti, 2019; Indrawati et al., 2025; Raut, 2020)	Investment intention	Y1 I intend to invest regularly in the capital market.
	Commitment to allocating funds	Y2 I set aside part of my income for investment.
	Strategic Decision Making	Y3 I consider various information and risks before making investment decisions.
	Long-term orientation	Y4 I consider the long-term impact in every investment decision I make.

This study used a quantitative method with explanatory research, aiming to explain the causal relationship between financial literacy, hassle factor, perceived risk, and investment decisions. Data were collected through a survey using a Likert-scale questionnaire. Each indicator is measured using a single statement item on a five-point Likert scale, where a higher score indicates a better level of financial literacy. The analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM) using SmartPLS 4 software. This study used a structured questionnaire to collect data, allowing for the measurement of these relationships and, therefore, objective and measurable insights.

The population in this study is individuals with capital market investor status in Indonesia. The research locations were selected in five provinces: DKI Jakarta, DI Yogyakarta, Riau Islands, East Kalimantan, and Bali. The sampling technique used in this study was purposive sampling, a technique for determining samples based on specific considerations relevant to the research objectives (Sugiyono, 2021). Respondents were selected using purposive sampling, focusing on individuals who fulfill all the following criteria: (1) Active capital market investors — individuals who have made at least one transaction in the past 12 months, ensuring they have recent investment experience; (2) Minimum monthly income

requirement — respondents earning ≥ Rp5,000,000 per month to ensure they have sufficient financial capacity to participate in the capital market; (3) Investment experience — individuals who have engaged with at least one financial instrument (stocks, bonds, mutual funds) to guarantee familiarity with market mechanisms. The sample size was determined using the minimum rule in PLS-SEM analysis, which is 10 times the maximum number of indicators in a single construct (Hair et al., 2019). However, to increase model reliability and result accuracy, this study targeted a sample size of ≥ 200 respondents, with a result of 400 samples collected.

Financial literacy is defined as an individual's ability to understand basic financial concepts, assess the relationship between risk and return, and make appropriate financial decisions in an investment context (OECD, 2021). In the context of capital market investors in Indonesia, financial literacy reflects the extent to which individuals can manage financial information and apply it in making rational investment decisions. The measurement of financial literacy in this study adapts the OECD concept, which emphasizes aspects of financial awareness, knowledge, skills, attitudes, and behavior. This construction is operationalized reflectively through five main indicators, namely: (1) basic financial knowledge, (2) understanding of risk and return, (3) financial planning, (4) knowledge of investment products, and (5) decision-making ability. This approach was chosen because each indicator reflects the overall level of financial literacy and has been used in previous studies (Potrich & Veiera, 2016; Rahim et al., 2022; Suh, 2022).

The hassle factor refers to an individual's perception of the complexity, time constraints, and administrative effort associated with the investment process. This concept is rooted in behavioral economics theory (Sunstein, 2014), which explains that individuals tend to avoid decisions that require high cognitive and time effort (effort-avoidance bias). In the context of capital markets, the greater the perception of the hassle and complexity of the investment process, the lower the individual's tendency to invest. The hassle factor instrument was adapted from Sivaramakrishnan et al. (2017) with five main indicators, namely: (1) perceived investment complexity, (2) time constraints, (3) mental and administrative effort, (4) perceived risk of failure, and (5) incentive to delay investment.

Perceived risk is defined as the extent to which individuals assess the potential losses that may arise from their investment decisions (Weber et al., 2002; Grable, 2000). The magnitude of perceived risk influences people's confidence and trust in their decisions (Zhao & Khaliq, 2024). In the context of capital markets, perceived risk reflects investors' subjective views on the possibility of fluctuations in investment value, the inability to sell assets on time, decreased purchasing power due to inflation, and the risk of failure by the issuer of the investment instrument (Lim et al., 2013). This construct is measured through four indicators adapted and contextualized from previous research on investment risk perception, namely: fluctuation risk, liquidity risk, inflation risk, default risk.

Investment decisions are defined as the individual process of selecting, allocating, and maintaining financial resources across various investment instruments to achieve future financial goals (Lusardi & Mitchell, 2014; Ricciardi & Simon, 2000). In the context of capital markets, this construct reflects the level of caution, commitment, and consistency demonstrated by investors in making and maintaining their investment decisions. This concept reflects the behavioral, cognitive, and strategic aspects of investment decision-making, including investment intentions, commitment to fund allocation, rational decision-making methods, and long-term orientation. This construct is measured through four indicators (Gambetti & Giusberti, 2019; Indrawati et al., 2025; Raut, 2020), namely:

investment intentions, fund allocation commitment, strategic decision-making, and long-term orientation.

This study uses primary data. Data were obtained through an online questionnaire distributed through social media, investor communities, and digital investment platforms to respondents who met the sample criteria. The questionnaire is divided into two parts: demographic data (age, gender, income, investment experience), and Statement of variables based on measurable indicators. The questionnaire was compiled based on the indicators that have been determined in the variable operational table, with a 5-point Likert measurement scale (1 = Strongly Disagree to 5 = Strongly Agree). The content validity test was carried out through expert judgment, while the construct validity and reliability were tested with PLS-SEM through outer model assessment. Data analysis was carried out using Partial Least Squares - Structural Equation Modeling (PLS-SEM). All constructs were modeled reflectively, with validity and reliability assessed via outer loadings, AVE, and reliability coefficients.

Written informed consent was obtained from all respondents prior to their participation in the study. Each respondent was fully informed of the study's purpose, objectives, and procedures. Respondents were informed that participation was entirely voluntary and that they could discontinue completing the questionnaire at any time without any consequences. All responses were collected under a guarantee of confidentiality and used solely for research purposes. Respondents' personal identities were removed during data analysis to ensure anonymity. Each respondent signed a written consent form stating that they understood the study's content and agreed to participate. The consent form also included the researcher's contact information, who could be contacted with any questions or concerns. To ensure voluntary participation and protect respondents' human rights, the informed consent process was implemented at several stages throughout the study.

RESULT AND DISCUSSION

Table 2. Respondents Characteristics

No	Respondent Characteristics	Amount	Percentage
	Gender		
1	Man	206	51.5%
2	Woman	194	48.5%
	Age		
3	22 – 59 Years	400	100%
	Province		
1	Bali	67	16.75%
2	DI Yogyakarta	76	19%
3	DKI Jakarta	141	35.25%
4	East Kalimantan	53	13.25%
5	Riau islands	63	15.75%
	Monthly Income		
6	Rp. 8,000,000 – Rp. 10,000,000	42	10.5%
7	> Rp. 10,000,000	358	89.5%
	Investment Period		
8	15 years	88	22%
9	> 5 – 10 Years	107	26.75%
10	> 10 Years	205	51.25%

Source: Processed Data, 2025

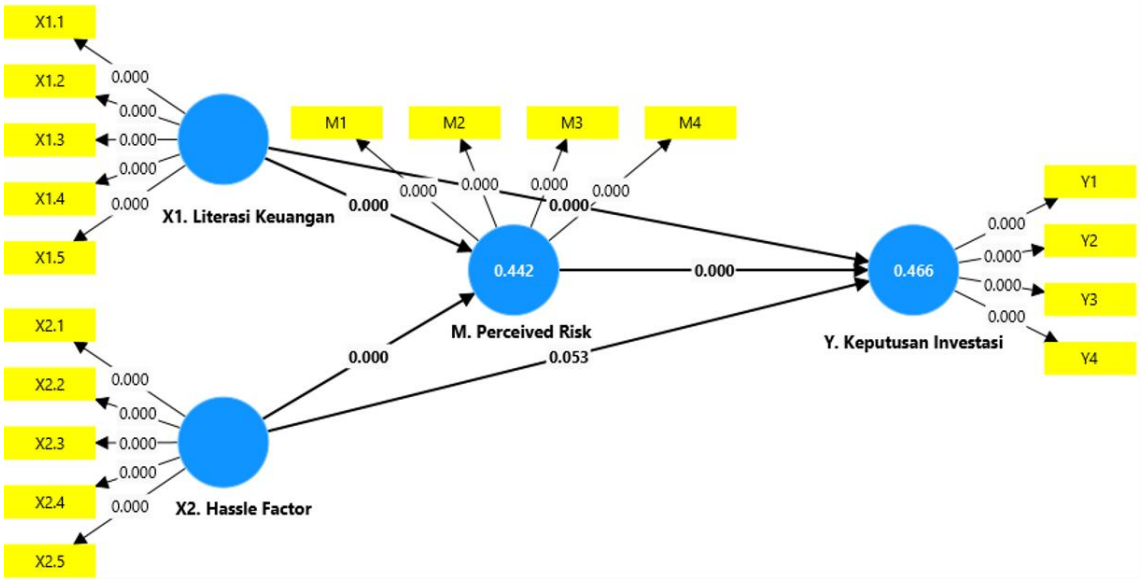

Figure 1. Measurement Model Evaluation Result

The table 2 shows that male respondents dominate with 206 people (51.5%) compared to female respondents with 194 people (48.5%). This result indicates that men invest more. Respondents who invest are aged 22 to 59, so it can be said that investments are made by all age groups. Respondents from the province of DKI Jakarta dominate the findings in this study with 141 people (35.25%), the second highest is from DI Yogyakarta with 76 people (19%), followed by respondents from Bali with 67 people (16.75%), and the Riau Islands with 63 people (15.75%), and the lowest is East Kalimantan with only 53 people (13.25%). This is because DKI Jakarta is a province that carries out many investment activities compared to the other four large provinces. The majority of respondents' income is above Rp 10,000,000 per month, with a total of 358 people (89.5%), and only 42 respondents (10.5%) have an income of Rp 8,000,000 – Rp 10,000,000. This income figure shows that the higher the respondent's income, the more respondents invest. The length of investment that respondents have made is > 10 years with a total of 205 people (51.25%), then 5 – 10 years as many as 107%, and those who have recently invested in the last 1 – 5 years are 88 people. Based on this, it can be seen that the respondents in this study mostly have extensive experience in investing considering that the majority of respondents have invested for more than 10 years.

Indicator	Outer Loading	*Average Variance* Extracted (AVE)	Description
Financial Literacy			
X1.1	0.863		Valid
X1.2	0.845		Valid
X1.3	0.859	0.719	Valid
X1.4	0.837		Valid
X1.5	0.835		Valid
Hassle Factor			
X2.1	0.881		Valid
X2.2	0.871		Valid
X2.3	0.864	0.734	Valid

Table 3. Convergent Validity Test

X2.4	0.838		Valid
X2.5	0.828		Valid
Investment Decision			
Y1	0.854		Valid
Y2	0.857	0.706	Valid
Y3	0.842		Valid
Y4	0.806		Valid
Percieved Risk			
M1	0.861		Valid
M2	0.826	0.707	Valid
M3	0.853		Valid
M4	0.823		Valid

Source: Analyzed Data, 2025

Convergent validity in Table 3 is tested by looking at the item scores and the overall score of the constructed research framework, this is useful to see the extent to which the indicators measure a construct. A correlation is declared to meet the requirements of convergent validity if the loading factor value is ≥ 0.5-0.6 (Chin, 1998; Ghozali, 2014). Convergent validity testing on the items of the financial literacy, hassle factor, perceived risk, and investment decision variables found loading factor values ≥ 0.5. This means that all items are valid because they are above the threshold. The next stage is constructing validity testing using the Average Variance Extracted (AVE) value. The AVE value limit is ≥ 0.5, which means that the items are considered capable of describing more than 50% of the item variance. The AVE construct validity test shows that the financial literacy, hassle factor, perceived risk, and investment decision variables have AVE values greater than 0.5, indicating that all have met construct validity.

Reliability test result can be seen in Table 4, the composite reliability and Cronbach's alpha, which are used to assess the reliability of a construct. A construct is considered reliable if its composite reliability is greater than 0.6 and its Cronbach's alpha is greater than 0.7. The reliability test results indicate that the financial literacy, hassle factor, perceived risk, and investment decision variables have values greater than the reliability requirements, thus meeting the construct reliability criteria.

Table 4. Reliability Test Result

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)
Perceived Risk	0.862	0.862	0.906
Financial Literacy	0.902	0.903	0.927
Hassle Factor	0.909	0.910	0.932
Investment Decision	0.861	0.864	0.906

Source: Analyzed Data, 2025

Table 5. R-Square Result

	R-square
Perceived Risk	0.442
Investment Decision	0.466

Source: Analyzed Data, 2025

Table 6. Q-Square Result

	Q^2predict
Perceived Risk	0.435
Investment Decision	0.388

Source: Analyzed Data, 2025

The measurement model analysis can be evaluated using R-squared for the dependent variable construct, which will then be tested for predictive relevance using Q-square. The categories in the R-square value grouping consist of three groups, namely R-square values > 0.75 including the strong category, 0.50 - 0.75 including the moderate category and 0.25 including the weak category (Hair et al., 2019). The results of the R-square test showed that 0.466, meaning that 46.6% of the strength of financial literacy, hassle factor, and perceived risk in predicting investment decisions is in the moderate category. In addition, the perceived risk variable showed a value of 0.442, indicating the strength of financial literacy and hassle factor in predicting perceived risk of 44.2% which is in the moderate category. In the predictive relevance test using Q-square which aims to determine the goodness of a research construct, the higher the predictive value indicates that the research structure model is more feasible. The criteria for a construct to have a good predictive relevance value is if Q-square > 0. The test results in this study show that the Q-square value for the perceived risk and investment decision variables is more than 0 so that it can be stated that the research model has a good observation value and meets the requirements for goodness.

The results of the structural model analysis indicate that most of the hypotheses in this study are empirically supported. Financial literacy has a positive and significant effect on investment decisions ($\beta = 0.342$; $t = 6.186$; $p < 0.001$), so H1 is accepted. This indicates that the higher an individual's financial literacy, the better their investment decisions. The test results for H2 indicate that the hassle factor has a positive but insignificant effect on investment decisions ($\beta = 0.090$; $t = 1.932$; $p = 0.053$), so H2 is rejected. Thus, cognitive and administrative barriers are not proven to significantly reduce respondents' investment decisions. Furthermore, perceived risk is proven to have a positive and significant effect on investment decisions ($\beta = 0.358$; $t = 7.237$; $p < 0.001$), so H3 is accepted. This means that the higher an individual's perceived risk, the more careful and rational they are in making investment decisions. Financial literacy was also found to have a significant positive effect on perceived risk ($\beta = 0.448$; $t = 8.770$; $p < 0.001$), supporting H4. These results indicate that individuals with higher financial knowledge tend to be more aware and understand investment risks. In addition, the hassle factor had a significant positive effect on perceived risk ($\beta = 0.318$; $t = 6.267$; $p < 0.001$), supporting H5. This means that the higher the perceived obstacles in the investment process, the greater the perceived risk. For the mediation effect, bootstrapping results showed that perceived risk significantly mediated the effect of financial literacy on investment decisions ($\beta = 0.160$; $t = 5.758$; $p < 0.001$), thus H6 was accepted. Thus, financial literacy can improve investment decisions by increasing more accurate perceived risk. Finally, perceived risk was also shown to mediate the effect of hassle factor on investment decisions ($\beta = 0.114$; $t = 4.440$; $p < 0.001$), supporting H7.

Table 7. Hypothesis Test

	Path Coefficient	T statistics	P values	Result
Financial Literacy -> Investment Decision	0.342	6.186	0.000	Significant
Hassle Factor -> Investment Decision	0.090	1.932	0.053	Not Significant
Perceived Risk -> Investment Decision	0.358	7.237	0.000	Significant

Financial Literacy -> Perceived Risk	0.448	8.770	0.000	Significant
Hassle Factor -> Perceived Risk	0.318	6.267	0.000	Significant
Financial Literacy -> Perceived Risk -> Investment Decision	0.160	5.758	0.000	Significant
Hassle Factor -> Perceived Risk -> Investment Decision	0.114	4.440	0.000	Significant

Source: Analyzed Data, 2025

This finding suggests that investment barriers do not directly influence investment decisions, but their effect is canceled through an increase in individual perceived risk.

The results of this study confirm that financial literacy plays a crucial role in shaping investment decisions through its influence on risk perception. These findings indicate that individuals with higher financial literacy can interpret market information, assess uncertainty, and make more rational investment decisions. The indirect relationship between financial literacy and investment decisions through risk perception suggests a mediating role of psychological aspects in the financial decision-making process. Increased financial literacy makes risk perception more structured and objective, thus encouraging more consistent and strategic decisions. Therefore, the higher the level of financial literacy, the greater an individual's ability to recognize, understand, and manage uncertainty in investing.

Meanwhile, the insignificant direct effect of the hassle factor on investment decisions indicates that procedural barriers do not directly reduce individuals' interest in investing. However, the significant indirect effect through perceived risk indicates that the level of procedural complexity or difficulty can increase investors' perceptions of uncertainty, which ultimately affects their investment behavior. This emphasizes the importance of simplifying investment procedures and improving risk understanding to increase public participation in the capital market. Theoretically, these results enrich models of financial behavior by emphasizing two main psychological pathways—cognitive (financial literacy) and contextual (hassle factor)—that influence investment decision-making.

Overall, the main contribution of this research lies in the simultaneous examination of financial literacy, hassle factor, and risk perception in the context of investment decisions in the Indonesian capital market. This study broadens our understanding of the psychological mechanisms behind investment behavior by demonstrating that risk perception functions not only as a deterrent but also as a cognitive bridge that transforms financial knowledge into more rational and informed decisions.

CONCLUSION

Investors' financial literacy levels are generally considered good, but this study's results indicate that high levels of literacy do not always lead to improved investment decisions. Although respondents understood basic concepts such as diversification, inflation, and risk, most still tended to be cautious when investing. This phenomenon suggests that high financial literacy does not necessarily translate into confidence in facing investment risks. Conversely, the hassle factor has been shown to reduce investment intentions and decisions because individuals tend to avoid processes perceived as complicated, time-consuming, or requiring high administrative effort. This situation confirms that in addition to rational aspects, psychological factors and subjective perceptions play a significant role in determining people's investment behaviour.

This study has several limitations that should be considered. First, the data were collected cross-sectionally, so the causal relationship between financial literacy, hassle factor, risk perception, and investment decisions can only be interpreted as an associative, not a causal, approach. Second, the study sample was limited to individual investors in the Indonesian capital market, so generalizing the findings to other populations, such as institutional investors or markets in other countries, requires caution. Third, the variables were measured using a self-report questionnaire, which has the potential to introduce subjective biases, such as memory errors or a desire to appear "more competent" in answering questions. Fourth, moderator variables or other external factors, such as macroeconomic conditions, digital literacy, or prior investment experience, were not included in the model, so their influence on investment decisions has not been tested. These limitations open up opportunities for future research to use a longitudinal design, expand the population, and add additional control variables or moderators to gain a more comprehensive understanding. The constructs were measured using an adapted scale that may not fully capture the nuances of financial literacy and risk management in the context of capital market investors. Additional unobserved factors may influence investment decisions that are not accounted for in the model. Future researchers could increase the sample size and use stratified sampling techniques to ensure better representation. Furthermore, future research could explore additional variables that may influence financing decisions.

Theoretically, this study emphasizes the importance of integrating a rational economic perspective with a behavioural financial approach in explaining individual investment decisions. Practically, these results provide input for financial institutions, capital market authorities, and digital investment platform providers to simplify transaction processes, reduce administrative barriers, and provide risk education that is easily understood by various levels of financial literacy. Financial literacy programs should not only emphasize understanding basic financial concepts but also encompass behavioural aspects, such as how to assess risk and manage psychological barriers to investing. Thus, investors are expected to be able to make more rational, efficient, and long-term goal-oriented decisions, thereby contributing to strengthening public participation in the Indonesian capital market.

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