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Financial capability and financial well-being: The role of digital financial literacy and financial behavior

Permata Dian Pratiwi

Universitas Paramadina, Daerah Khusus Ibukota Jakarta, Indonesia
Email: dianpratiwi@paramadina.ac.id

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ABSTRACT

Purpose-Digital finance makes transactions fast and frictionless, yet it is unclear whether understanding digital services is enough to protect young people's financial well-being. This study analyzes the effect of financial capability on the financial well-being of university students in Yogyakarta, directly and through digital financial literacy and financial behavior.
Methodology-This study uses a quantitative survey design. Data were collected via an online questionnaire administered to 113 currently enrolled college students in Yogyakarta, Indonesia, selected using purposive sampling. Data were analyzed using partial least squares–structural equation modeling with SmartPLS 4.
Findings-Financial capability positively affects digital financial literacy, financial behavior, and financial well-being. Financial behavior positively affects financial well-being and mediates the effect of financial capability. Digital financial literacy has no significant effect on financial well-being and does not mediate the relationship.
Research Limitations-This study included 113 active college students in Yogyakarta and used a cross-sectional survey design. Therefore, the results cannot be generalized to all college students in Indonesia or used to explain changes in financial behavior and well-being over time.
Novelty-By testing a knowledge-based and an action-based pathway side by side, the study shows that actionable financial behavior, rather than digital knowledge alone, converts financial capability into financial well-being, extending the theory of planned behavior to digital personal finance. Universities, financial educators, and fintech providers should therefore prioritize behavior-building programs and spending-control features over knowledge-only campaigns.

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1. Introduction

Digital technology has changed how people manage money, and mobile banking, e-wallets, quick response code Indonesian standard (QRIS), marketplaces, and investment applications now complete transactions within seconds (George, 2024; Zakariya & Arifin, 2025). This ease creates a digital paradox: paying with a tap or scan weakens the discomfort that normally restrains spending (Prelec & Loewenstein, 1998). Short-term credit, such as buy now, pay later (paylater) and online loans, is also just a few clicks away. Young people are the main audience for these products, and research links their use to overspending, debt accumulation, and

financial vulnerability (Coffey et al., 2024; Hayashi & Routh, 2025). Studies of Indonesian consumers likewise link e-payment convenience to weaker financial management when spending control is lacking (Yuttama, 2025; Groda & Kusbianto, 2026).

These developments make financial well-being a pressing outcome for young adults, who often handle limited funds with little experience. Financial well-being is the ability to meet current needs, handle obligations, withstand unexpected shocks, and pursue future goals (Rahman et al., 2021; García-Mata & Zerón-Félix, 2022). It depends not only on income but also on a sense of financial security and control (Fan & Henager, 2022; Riitsalu et al., 2024). In an environment where spending and borrowing are nearly frictionless, this sense of control cannot be taken for granted, particularly when budgets are tight. The question, therefore, is what protects students' well-being when digital finance makes overspending so easy.

Financial capability is a strong candidate for this protective role. It is the capacity to apply financial knowledge, skills, and resources to make sound decisions and reach financial goals (Çera et al., 2021; Xiao et al., 2022). It appears in budgeting, setting priorities, curbing spending, and saving, for example, when managing an allowance, scholarship, or part-time income (Rodriguez et al., 2024), which are everyday tasks for students. Earlier work has associated capability with higher financial well-being (Anvari-Clark & Ansong, 2022; Xiao et al., 2024). What remains unclear is the channel through which this effect operates, and whether capability helps through student knowledge or through student actions, a distinction with direct implications for intervention design.

Two channels are plausible. The knowledge-based channel runs through digital financial literacy, the ability to understand and use digital services safely, which capable individuals are expected to develop and which is expected to raise well-being (Choung et al., 2023; Kumar et al., 2023; Kamble et al., 2024). The action-based channel runs through financial behavior, meaning concrete actions such as budgeting, tracking spending, saving, and resisting impulse purchases (Çera et al., 2021; Yuneline & Rosanti, 2023). Understanding a tool is a cognitive skill, whereas well-being depends on turning that understanding into daily action (Nanda & Banerjee, 2021). The theory of planned behavior (TPB) links the two, treating capability and literacy as control resources that improve outcomes mainly when translated into behavior (Ajzen, 1991).

University students in Yogyakarta, Indonesia, are a suitable group for examining these channels, driven by a transition toward financial independence and an increasing responsibility to decide how to use allowances and cover academic and living costs (Rubin et al., 2026). Those living apart from their families have less parental supervision, which places greater weight on their own capabilities and habits. Yogyakarta, Indonesia, also draws students from many regions and socioeconomic backgrounds, so funding sources and spending patterns are likely to vary widely. This variation allows us to examine whether differences in capability and behavior accompany differences in well-being, and whether digital knowledge or concrete habits matter more.

Earlier studies have treated financial literacy and financial behavior as determinants of well-being (Hwang & Park, 2023; Choowan et al., 2024), and digital financial literacy as a separate determinant (Choung et al., 2023; Bhat et al., 2025). Its evidence is also conditional. Researchers have examined it with moderators such as gender and religiosity (Lone et al., 2025) and reported that it operates through financial behavior (Gosal & Nainggolan, 2023; Rahman et al., 2026). To the best of our knowledge, few studies start with financial capability and compare knowledge- and action-based channels in a single model for students in an emerging digital economy. The gap matters in practice: digital education suffices if knowledge carries the effect, but interventions must target student actions if behavior is the mechanism.

This study contributes by testing the two channels side by side, starting from financial capability. It uses the TPB to explain why knowledge and action may not have equal consequences. Accordingly, it examines how financial capability affects the financial well-being of currently enrolled students in Yogyakarta, both directly and through digital financial literacy and financial behavior as mediating variables. The results are expected to contribute to research on students' personal finances and enrich theory on how control resources translate into

outcomes. In addition, this study aims to guide universities, financial educators, and digital financial service providers in designing programs and product features that build capability, literacy, and healthy financial behavior.

2. Literature Review and Hypothesis Development

Financial Well-Being Framework

This study uses the Consumer Financial Protection Bureau (CFPB) 2015 financial well-being framework as its main theoretical framework. This framework defines financial well-being as a state in which individuals can meet current and ongoing financial obligations, weather financial shocks, stay on track to achieve their financial goals, and make life choices. Financial well-being depends not only on income level but also on an individual's ability to manage resources, make decisions, and adopt appropriate financial behaviors (Mahendru et al., 2022). In this study, financial capability is viewed as a foundational skill that can enhance digital financial literacy and foster healthy financial behaviors, thereby ultimately supporting improvements in students' financial well-being.

Theory of Planned Behavior

Ajzen's (1991) theory of planned behavior (TPB) holds that behavior is driven by intention, which is shaped by attitudes toward the behavior, subjective norms, and perceived behavioral control; perceived control also relates directly to behavior to the extent that it reflects actual control over the skills, resources, and opportunities needed to act. The study's constructs map onto the TPB as follows. First, financial capability, the knowledge, skills, and resources to manage money (Xiao et al., 2022), corresponds to perceived behavioral control over personal finances. Second, digital financial literacy is the same type of control specialized to the digital domain: it reflects the ability and confidence to use, evaluate, and protect oneself within digital financial services (Yadav & Banerji, 2024), and is therefore a domain-specific control resource rather than a behavior. Third, financial behavior (budgeting, tracking, saving, and restraining spending) is the enacted behavior toward which control resources lead. Fourth, financial well-being is the outcome of that behavior, defined through the CFPB framework. The mapping yields a testable proposition: control resources (capability, digital literacy) improve well-being to the degree that these resources are converted into behavior.

Financial Capability

Financial capability is an individual's ability to manage financial resources effectively to meet needs and achieve financial goals (Xiao et al., 2022). This concept relates not only to financial knowledge but also encompasses the ability to apply that knowledge in everyday decision-making. Individuals with strong financial capability can plan their use of funds, prioritize needs, control spending, create a budget, save, and consider risks before making financial decisions (Lučić et al., 2023). An individual's financial capability can be reflected in their ability to manage an allowance, a scholarship, part-time income, or other sources of funds (Sun & Chen, 2022). Individuals with strong financial capability can better distinguish between needs and wants, allocate funds in a planned manner, and avoid financial decisions that exceed their capacity (Yeo et al., 2024). Research by Çera et al. (2021) shows that financial capability is closely related to financial knowledge, financial behavior, and the use of financial services. Improving these aspects can strengthen an individual's ability to manage financial resources.

Digital Financial Literacy

Digital financial literacy is an individual's ability to access, understand, evaluate, and use digital financial information and services effectively, safely, and responsibly (Yadav & Banerji, 2024). This concept includes understanding how digital financial products work, transaction costs and risks, personal data protection, account security, digital fraud risks, and the appropriate use of digital lending and investment products (Mir, 2024; Muslim, 2024). Digital financial literacy is often necessary because digital wallets, mobile banking, QRIS, marketplace payments, and investment apps have become integral to transactional activities. Individuals with

stronger digital financial literacy are expected to choose services that suit their needs, protect their financial information, understand the consequences of digital transactions, and avoid excessive use of digital credit facilities (Lyons & Kass-Hanna, 2021; Abdallah et al., 2025). Kumar et al. (2023) and Bhat et al. (2025) found that digital financial literacy positively affects financial behavior and financial well-being.

Financial Behavior

Financial behavior refers to the actions individuals take to manage their finances practically and sustainably (Huda et al., 2023). Such behaviors may include budgeting, tracking income and expenses, prioritizing needs, controlling spending, comparing prices before making a purchase, paying obligations on time, saving, and evaluating one's financial situation before making major decisions (Natal et al., 2023; Ali et al., 2024). Financial behavior matters because financial skills and knowledge yield optimal benefits only when applied in daily actions. Healthy financial behavior helps individuals avoid impulsive purchases, reduce reliance on debt, manage funds more effectively, and build preparedness for unexpected needs (Morris et al., 2025; Yoganandham, 2025). A study by Bartholomae and Fox (2021) shows that budgeting, saving, spending, borrowing, and debt repayment practices are linked to individuals' well-being.

Financial Well-Being

Financial well-being is a state in which a person can meet current financial needs and obligations, manage finances effectively, and feel secure and prepared for their financial future (Mahendru et al., 2022; Riitsalu et al., 2024). Financial well-being depends not only on income level but also on one's ability to manage money, financial anxiety, available savings, and confidence in achieving financial goals (Nanda & Banerjee, 2021; Sajid et al., 2024). Financial well-being reflects the ability to meet daily needs, such as paying for education or housing, set aside funds for unexpected expenses, control spending, and feel confident about one's future financial situation (Rahman et al., 2021). Research by Hernandez-Perez and Rambaud (2025) shows that better financial management habits are closely linked to lower debt levels and higher levels of financial well-being. Previous studies by Xiao et al. (2024) and García-Santillán (2026) also indicate that financial competence is strongly and positively related to financial well-being.

Hypothesis Development

Financial Capability and Digital Financial Literacy

Financial capability describes an individual's ability to use knowledge, skills, and resources to manage their finances (Xiao et al., 2022). Within the TPB logic, capability strengthens perceived control, and this sense of control extends to new domains of action such as digital finance. The mechanism runs in three steps. First, managing money well requires skills such as budgeting, prioritizing, and evaluating costs and benefits (Kumar et al., 2023). Second, these skills transfer directly to assessing a digital product's features, fees, benefits, and risks before using it, which is the core of digital financial literacy. Third, Active fund management gives capable individuals more reason to learn how mobile banking, digital wallets, QRIS, marketplaces, and investment apps work and to check their security and cost implications (Koskelainen et al., 2023; Muat et al., 2025). In short, general money-management skills provide the conceptual base and the motivation on which technical digital skills are built. **H_1: Financial Capability Has a Positive Effect on Digital Financial Literacy.**

Financial Capability and Financial Behavior

Financial capability can foster better financial behavior because it relates to an individual's ability to plan and make financial decisions (Shi et al., 2025). Individuals who can manage their financial resources effectively are expected to be more disciplined in budgeting, controlling spending, tracking expenses, saving, and considering their financial situation before making purchases (Bai, 2023; Yoganandham, 2025). Çera et al. (2021) position financial behavior as one mechanism explaining improvements in financial capability. In TPB terms, perceived control over one's finances is expected to facilitate planned behaviors such as

budgeting and saving (Ajzen, 1991). In this model, financial capability is positioned as an initial ability that encourages more purposeful financial management. **H_2: Financial Capability Has a Positive Effect on Financial Behavior.**

Financial Capability and Financial Well-Being

Financial capability enables individuals to make financial decisions aligned with their needs and capabilities (Kumar et al., 2023). Individuals who can plan their spending, allocate resources appropriately, control expenditures, and prepare for financial goals are expected to have more stable financial conditions (Challoumis, 2024). These capabilities can enhance a sense of control, reduce financial stress, and help individuals meet both current and future financial needs. Individuals with strong financial capabilities are better prepared to cover educational and daily living expenses without excessive financial stress (Zhang & Chatterjee, 2023). Research by Fan and Henager (2022) and García-Santillán (2026) found that financial capability positively affects financial well-being. In CFPB terms, capability supports control over day-to-day finances and the capacity to absorb shocks. **H_3: Financial Capability Has a Positive Effect on Financial Well-Being.**

Digital Financial Literacy and Financial Well-Being

Digital financial literacy helps individuals understand and use digital financial products appropriately (Mir, 2024). Individuals who understand transaction security, service fees, fraud risks, digital credit, and digital investments tend to make decisions better aligned with their financial circumstances (Hasan, 2024; Pak et al., 2026). This understanding can prevent impulsive use of digital services, reduce loss risk, and improve fund management. It can facilitate more planned use of digital wallets, mobile banking, and investment platforms (Bhat et al., 2025). Research by Choung et al. (2023) and Kamble et al. (2024) indicates that digital financial literacy levels positively affect financial well-being. At the same time, the literature signals that this effect is not guaranteed. Digital financial services offer both benefits and risks (Pak et al., 2026); the ease of e-payment can erode spending control (Yuttama, 2025; Groda & Kusbianto, 2026); and studies that include behavioral variables report that digital financial literacy contributes to well-being through financial behavior (Gosal & Nainggolan, 2023; Rahman et al., 2026). Under the TPB, a control resource such as digital literacy is expected to matter mainly when it is translated into action. The baseline expectation from the main body of evidence is therefore positive, but the direct effect remains an empirical question. **H_4: Digital Financial Literacy Has a Positive Effect on Financial Well-Being.**

Financial Behavior and Financial Well-Being

Financial behavior is the practical application of an individual's ability to manage finances (She et al., 2022). Habits such as budgeting, saving, controlling spending, paying obligations on time, and evaluating one's financial condition can help individuals maintain financial stability (Sinnewe & Nicholson, 2023; Ali et al., 2024). Consistent practice of these behaviors allows individuals to better meet routine needs, reduce the risk of running out of funds, and prepare for future financial goals. At the same time, the literature signals that this effect is not guaranteed. Digital financial services offer both benefits and risks (Pak et al., 2026); the ease of e-payment can erode spending control (Yuttama, 2025; Groda & Kusbianto, 2026); and studies that include behavioral variables report that digital financial literacy contributes to well-being through financial behavior (Gosal & Nainggolan, 2023; Rahman et al., 2026). Under the TPB, a control resource such as digital literacy is expected to matter mainly when it is translated into action. The evidence therefore suggests a positive baseline expectation, but the direct effect remains empirically uncertain. Previous research shows that financial behavior positively influences financial well-being (Choowan et al., 2024; Sabri et al., 2024). Rahman et al. (2026) also confirm that financial behavior enhances financial well-being and mediates the relationship between digital financial literacy and financial well-being. **H_5: Financial Behavior Has a Positive Effect on Financial Well-Being.**

Financial Capability and Financial Well-Being: The Mediating Role of Digital Financial Literacy

Financial capability is estimated to influence financial well-being both directly and through digital financial literacy. Individuals who manage their finances well tend to be more aware of the characteristics and risks of digital financial services (Pak et al., 2026; Sharma et al., 2026). This understanding can help individuals make safer, more rational transaction decisions that align with their financial capabilities. Appropriate digital decisions can ultimately support financial well-being (Kumar et al., 2023; Mir, 2024). Although previous research has shown a positive relationship between digital financial literacy and financial well-being, testing its role as a mediator between financial capability and financial well-being offers a more comprehensive explanation of the mechanism behind this influence**.** Under the TPB, digital financial literacy's mediating role therefore depends on whether the digital control it provides guides behavior. **H_6: Digital Financial Literacy Mediates the Effect of Financial Capability on Financial Well-Being.**

Financial Capability and Financial Well-Being: The Mediating Role of Financial Behavior

Financial literacy is also expected to improve financial well-being through financial behavior. People with financial management skills are more likely to budget, limit spending, save, monitor cash flow, and evaluate purchasing decisions (Yeo et al., 2024; Yuttama, 2025). These behaviors can help individuals use their financial resources more efficiently, reduce financial stress, and feel more secure about their financial situation. Era et al. (2021) and Sajid et al. (2024) support the notion that financial capability, financial behavior, and financial well-being are interdependent; a study by Era et al. (2021) highlights the importance of financial behavior in the mechanism of financial capability formation, while a study by Sajid et al. (2024) highlights the importance of financial well-being. This study examines the core TPB chain, ranging from capability (perceived control) to behavioral outcomes. **H_7: Financial Behavior Mediates the Effect of Financial Capability on Financial Well-Being.**

Figure 1 illustrates the research model that tests the effect of financial capability on financial well-being. This effect is tested both directly and indirectly through digital financial literacy and financial behavior as mediating variables.

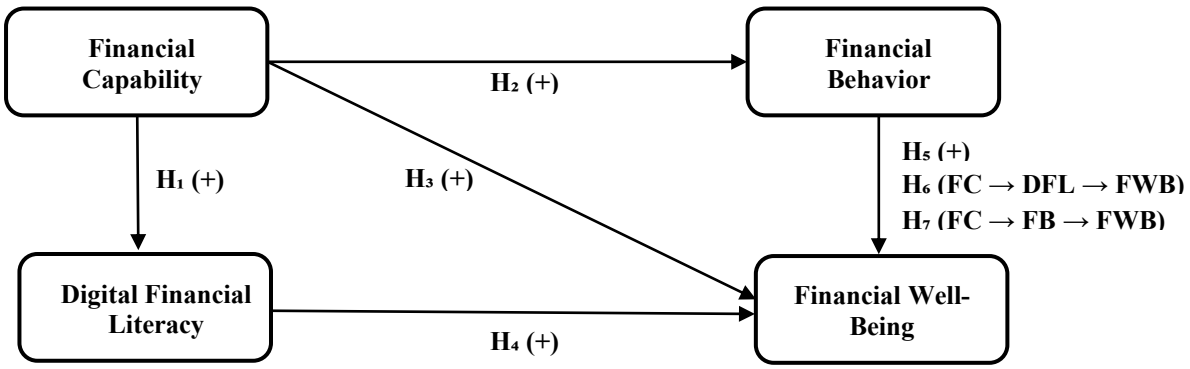


Figure 1. Research Model

3. Research Methodology

This study uses a quantitative survey design to examine the impact of financial capability on financial well-being, both directly and indirectly through digital financial literacy and financial behavior as mediating variables. Data were collected via a closed-ended questionnaire distributed online. Each statement was measured using a five-point Likert scale: 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree.

The study population consisted of active college students at universities in Yogyakarta, Indonesia. Purposive sampling is a non-probability method that involves selecting respondents based on criteria aligned with the study's objectives. Respondents were active students aged 18

or older, residing in Yogyakarta, Indonesia, during their studies, managing their personal finances independently, and involved in decision-making regarding personal expenditures. These funds may include stipends, scholarships, income from part-time jobs, business income, or other sources of funding. In addition, respondents had to use at least one digital financial service in the previous six months, including mobile banking, internet banking, digital wallets, QRIS, digital payments on marketplaces, digital investment apps, or financial tracking apps.

The study involved 113 active students who met the criteria. This sample meets the minimum guidelines for PLS-SEM under the "ten-fold" rule, which requires a sample size at least ten times the number of structural paths leading to the endogenous construct (Barclay et al., 1995). In this research model, financial capability, digital financial literacy, and financial behavior each have direct paths to financial well-being. The sample size must be at least 30 individuals, and the total number of respondents exceeded this number by 113.

Table 1 presents the variables analyzed in this study. This table presents the items used to measure each research construct: financial capability (FC), digital financial literacy (DFL), financial behavior (FB), and financial well-being (FW). It includes the construct names, operational definitions, measurement items, and reference sources used to develop the instruments. All measurement items were adapted for active college students in Yogyakarta and measured using a five-point Likert scale.

Table 1. Measurement Item

Construct	Measurement item
Financial Capability (Damayanti et al., 2026)	FC1: Ability to manage financial activities digitally
	FC2: Control over financial activities
	FC3: Understanding of digital features
Digital Financial Literacy (Nugraha et al., 2022; Damayanti et al., 2026)	DFL1: Ability to use various digital financial services (e.g., digital banking, e-wallets)
	DFL2: Sufficient knowledge about digital financial products (e.g., online investments, digital loans)
	DFL3: Confidence in making financial decisions using digital platforms
	DFL4: Ability to identify and avoid digital financial fraud
Financial Behavior (Çera et al., 2021)	FB1: I establish financial targets for the long term
	FB2: I follow a weekly or monthly plan for expenses
	FB3: I compare prices when buying something
	FB4: I analyse my financial situation before a big purchase
	FB5: I have plans to achieve my financial goals
Financial Well-Being (Mahdzan et al., 2023)	FW1: I have enough money for daily expenses
	FW2: I have the money to purchase the things I desire
	FW3: I have enough money to cover my utility costs
	FW4: At the end of the month. I have extra money
	FW5: I can meet my short-term financial objectives, such as purchasing appliances and furniture
	FW6: I can reach long-term financial objectives, including purchasing a home
	FW7: I have saved enough money for emergencies for at least three months

This study used partial least squares–structural equation modeling (PLS-SEM) with SmartPLS 4 to analyze the data. This technique tests direct and indirect relationships among latent variables simultaneously, including the mediating roles of digital financial literacy and financial behavior (Hair et al., 2022). The analysis was conducted in two main stages: evaluating the measurement model (external model) and evaluating the structural model (internal model) (Hair et al., 2022).

The external model was tested by examining convergent validity, discriminant validity, and construct reliability. Convergent validity was measured through external loadings (above 0.70) and average variance extracted (AVE) above 0.50 (Hair et al., 2022). Construct reliability was assessed using Cronbach's alpha and composite reliability, with a minimum threshold of

0.70 (Hair et al., 2022). For discriminant validity, the Heterotrait-Monotrait (HTMT) ratio approach was used, where a value below 0.90 indicates that each construct exhibits valid empirical distinctions (Henseler et al., 2015). Discriminant validity was evaluated using the HTMT ratio and, for reference, the Fornell–Larcker criteria (Fornell & Larcker, 1981).

The model was evaluated for multicollinearity using the variance inflation factor (VIF), and the coefficient of determination (R-squared) and path coefficients were used to determine the direction and strength of relationships among the variables (Hair et al., 2022). Hypothesis testing was performed using a bootstrap procedure with 5,000 subsamples (Hair et al., 2022). The research hypothesis was supported if the t-statistic exceeded 1.96 and the p-value was less than 0.05 at the 5% significance level (Hair et al., 2022). Finally, indirect effect tests were used to evaluate the mediating roles of digital financial literacy and financial behavior in linking financial competence to financial well-being. Common method validity was assessed using Harman's one-factor test (Podsakoff et al., 2003) as well as the full collinearity VIF approach, where a value above 3.3 indicates pathological collinearity and the potential for method bias (Kock, 2015), since all constructs were self-reported by the same respondents at a specific point in time. The R^2 values were interpreted based on Hair et al. (2022), where 0.75, 0.50, and 0.25 indicate high, moderate, and low explanatory power, respectively.

4. Result and Discussion

Respondent Characteristics

This study involved 113 active college students in Yogyakarta, Indonesia. Respondents were predominantly female (64 participants; 56.6%) and aged 21–23 (47 participants). Most respondents lived in rented rooms or dormitories (71 participants), and their primary source of funds was an allowance from parents or guardians (75 participants). The most frequently used digital financial service was mobile or internet banking (68 respondents), followed by digital wallets or e-money (39 respondents). These characteristics indicate that most respondents have experience managing personal finances and using digital financial services in their daily activities. In sum, most respondents lived apart from their parents and relied mainly on a regular allowance, managing a largely fixed budget with some independence.

Table 2. Characteristics of Respondents

Classification	Category	Frequency	Percentage
Gender	Male	49	43.4
	Female	64	56.6
Age	18–20 Years Old	35	31.0
	21–23 Years Old	47	41.6
	≥ 24 Years Old	31	27.4
Living Arrangement	Living With Parents/Guardians	27	23.9
	Dormitory/Residence Hall	71	62.8
	Rented Room	15	13.3
Main Source of Funds	Allowance From Parents/Guardians	75	66.4
	Scholarships	11	9.7
	Part-Time Work	19	16.8
	Business Income	8	7.1
Most Frequently Used Digital Financial Services	Mobile Banking/Online Banking	68	60.2
	Digital Wallets/Electronic Money	39	34.5
	Digital Investment Apps	6	5.3

Figure 2 presents the measurement and structural model estimates using PLS-SEM. The measurement model was evaluated to ensure the indicators validly and reliably measure the constructs of financial capability, digital financial literacy, financial behavior, and financial well-being.

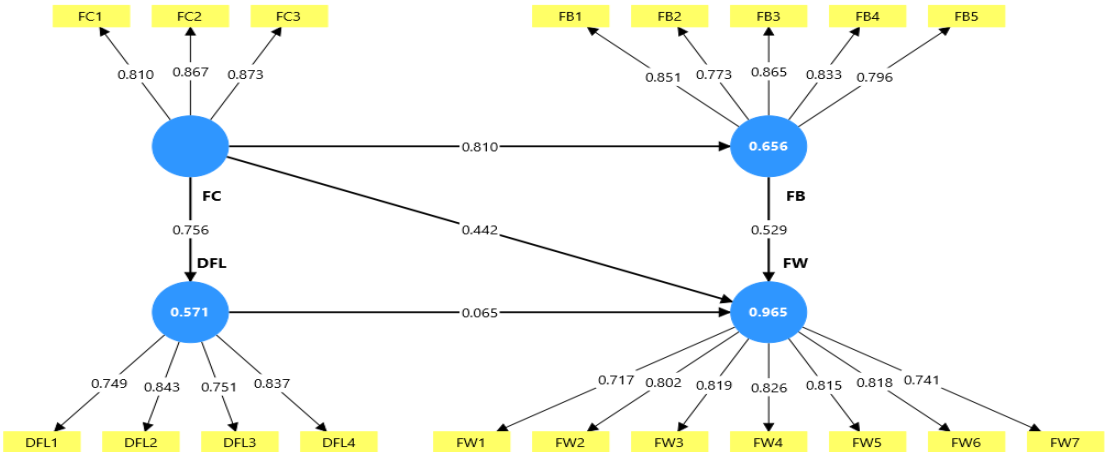


Figure 2. Measurement Model

Table 3 shows that all indicators have outer loadings above 0.70, indicating a strong correlation between each indicator and its construct. Reliability tests show that Cronbach's alpha and composite reliability exceed the 0.70 threshold; thus, all constructs are considered reliable. The AVE values for each construct are also above 0.50, indicating convergent validity. Therefore, the research instrument meets the criteria for convergent validity and construct reliability based on the general evaluation thresholds for PLS-SEM, namely outer loadings ≥ 0.70, AVE ≥ 0.50, and composite reliability ≥ 0.70. Furthermore, all indicators have VIF values below 5.00, indicating no multicollinearity issues in the measurement model.

Table 3. Validity, Reliability, and Variance Inflation Factor Tests

Construct	Outer Loading	VIF	Cronbach's Alpha	Composite Reliability	AVE
Financial Capability			0.809	0.887	0.723
FC1	0.810	1.644			
FC2	0.867	1.787			
FC3	0.873	1.939			
Digital Financial Literacy					
DFL1	0.749	1.580	0.807	0.874	0.634
DFL2	0.843	1.999			
DFL3	0.751	1.689			
DFL4	0.837	1.878			
Financial Behavior			0.882	0.914	0.680
FB1	0.851	2.425			
FB2	0.773	1.886			
FB3	0.865	2.701			
FB4	0.833	2.628			
FB5	0.796	2.081			
Financial Well-Being			0.901	0.922	0.628
FW1	0.717	1.709			
FW2	0.802	2.205			
FW3	0.819	2.253			
FW4	0.826	2.445			
FW5	0.815	2.169			
FW6	0.818	2.392			
FW7	0.741	1.862			

Table 4 reports the Fornell–Larcker criteria, which require the square root of each construct's AVE (diagonal) to exceed its correlation with other constructs. The diagonal values are 0.850 for financial capability, 0.797 for digital financial literacy, 0.824 for financial behavior,

and 0.792 for financial well-being. The criteria are met for financial competence, but not for the other three constructs: the square roots of their AVEs are lower than some inter-construct correlations, which reach 0.847. These criteria support discriminant validity only partially, and the strong overlap among digital financial literacy, financial behavior, and financial well-being must be considered when interpreting the structural results.

Table 4. Fornell-Larcker Criterion

	DFL	FB	FC	FW
Digital Financial Literacy	0.797			
Financial Behavior	0.831	0.824		
Financial Capability	0.756	0.810	0.850	
Financial Well-Being	0.821	0.847	0.819	0.792

Table 5 shows the HTMT ratio values used to test discriminant validity among the research constructs: digital financial literacy, financial behavior, financial competence, and financial well-being. Discriminant validity is considered to be met if the HTMT ratio between constructs is below the standard threshold of 0.85 or 0.90. Based on the table, all HTMT values range from 0.725 (financial competence and digital financial literacy) to 0.842 (financial competence and financial behavior). Since all values are below the strict threshold of 0.85, each variable demonstrates clear differentiation. Therefore, all constructs in this research model have met the criteria for good discriminant validity.

Table 5. Heterotrait-Monotrait Ratio

	DFL	FB	FC	FW
Digital Financial Literacy				
Financial Behavior	0.801			
Financial Capability	0.725	0.842		
Financial Well-Being	0.835	0.757	0.765	

Based on the structural model evaluation using the R-Square values in Table 6, financial capability explains 57.1% of the variation in digital financial literacy and 65.6% of the variation in financial behavior, which Hair et al. (2022) classify as moderate to substantial. Together, the three constructs explain 96.5% of the variation in financial well-being (adjusted $R^2 = 0.964$), exceeding the range normally considered substantial. A value this high is unusual in behavioral research and is interpreted with caution rather than as evidence of an almost deterministic model, as explained below in Table 6.

Table 6. R-Square

	R-Square	R-Square Adjusted
Digital Financial Literacy	0.571	0.567
Financial Behavior	0.656	0.653
Financial Well-Being	0.965	0.964

The hypothesis test results in Table 7 were obtained through a bootstrapping procedure using 5,000 subsamples. A hypothesis is considered supported if the t-statistic exceeds 1.96 and the p-value is less than 0.05. Significant effects are indicated by a t-statistic greater than 1.96 (5% significance level), such as the relationship between financial competence and digital financial literacy, as well as the mediating effect of financial competence → financial behavior → financial well-being. Conversely, the relationship between digital financial literacy and financial well-being is not significant because the t-statistic value is very low (0.947). Overall, strong statistical findings support most of the hypotheses in this model, except for the path representing the direct effect of digital financial literacy on financial well-being. Therefore,

financial competence and financial behavior are the most important factors in determining financial well-being in this model.

Table 7. Hypothesis Testing Results

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistic (|O/STDEV|)	P-Values
Financial Capability → Digital Financial Literacy	0.756	0.756	0.042	17.876	0.000
Financial Capability → Financial Behavior	0.810	0.812	0.035	23.374	0.000
Financial Capability → Financial Well-being	0.442	0.452	0.045	9.825	0.000
Digital Financial Literacy → Financial Well-being	0.065	0.083	0.068	0.947	0.343
Financial Behavior → Financial Well-being	0.529	0.502	0.095	5.567	0.000
Financial Capability → Digital Financial Literacy → Financial Well-being	0.049	0.063	0.052	0.950	0.342
Financial Capability → Financial Behavior → Financial Well-being	0.428	0.406	0.076	5.668	0.000

Discussion

Financial Capability and Digital Financial Literacy

Students who manage their money capably also understand digital financial services better, supporting the first hypothesis. The link is clearest through the TPB, where a sense of control gained in one domain spills over into a neighboring one. Someone who already budgets an allowance tends to weigh costs and risks, and that habit naturally transfers to checking fees, account security, and fraud warnings on digital platforms. Active money management also gives students a practical reason to learn how apps and wallets work. Comparable patterns appear in studies connecting capability and technology use with stronger personal financial management (Koskelainen et al., 2023; Kumar et al., 2023; Muniarty et al., 2025).

Financial Capability and Financial Behavior

Capability also shapes what students actually do with their money, which explains why the second hypothesis holds. Having the skills and resources to act makes planned conduct easier to carry out, a point central to perceived behavioral control. A student who can rank needs and judge his or her own position is more inclined to set a spending plan, compare prices, and pause before a large purchase. In this sense, capability is where budgeting and saving routines begin. Research on young adults shows that stronger capability and literacy are associated with better budgeting, saving, and debt avoidance (Çera et al., 2021; Sinnewe & Nicholson, 2023; Barus et al., 2025; Shi et al., 2025).

Financial Capability and Financial Well-Being

Capability is tied to well-being even without any intermediary, so the third hypothesis is supported. Under the CFPB framework, such students can better manage day-to-day finances, absorb unexpected shocks, and stay on track toward their goals. The indicators measured in this study capture these conditions, from daily needs to emergency reserves. Earlier research has reached similar conclusions in other samples (Fan & Henager, 2022; Xiao et al., 2024; García-Santillán, 2026). The finding also aligns with work that treats university years as a formative stretch, in which early financial choices shape later security and quality of life (Bai, 2023; Lučić et al., 2023; Rubin et al., 2026).

Digital Financial Literacy and Financial Well-Being

Knowing how digital finance works did not, by itself, make students feel financially better off, so the fourth hypothesis was not supported. This runs against the usual expectation, and three readings deserve attention. Under the TPB, literacy is a control resource that pays off only when it is enacted as behavior, as research on behavioral variables suggests (Gosal & Nainggolan, 2023; Rahman et al., 2026; Sharma et al., 2026). Cashless payment also blunts the pain of paying, so impulse spending can occur regardless of what users understand (Prelec & Loewenstein, 1998; Yuttama, 2025; Groda & Kusbianto, 2026). Finally, literacy and habits may be so intertwined that the unique share of literacy is absorbed, which later studies should examine.

Financial Behavior and Financial Well-Being

Students who maintain sound financial habits report better financial well-being, confirming the fifth hypothesis. In TPB terms, this is the stage at which control resources become outcomes. In CFPB terms, budgeting, tracking expenses, and setting money aside build control over daily finances, create an emergency reserve, and move students toward their goals. Studies of college students show that disciplined money practices accompany greater satisfaction and a better quality of life (Bartholomae & Fox, 2021; She et al., 2023; Sabri et al., 2024). Other work likewise treats behavior as a key driver of well-being and a safeguard against overspending (Choowan et al., 2024; Morris et al., 2025; Zainol et al., 2025).

Financial Capability and Financial Well-Being: The Mediating Role of Digital Financial Literacy

The sixth hypothesis was rejected because digital literacy does not transmit the benefits of capability to well-being. Capable students do become more literate, yet that added literacy does not translate into better well-being, so the path stops at its second step. In TPB terms, a control resource that is not executed as behavior cannot bridge capability and well-being, which is why literacy enables safe use without guaranteeing budgeting or limits on transactions. Research pairing literacy with behavioral or psychological factors points in the same direction, since the payoff appears to hinge on application (Rahman et al., 2026; Sharma et al., 2026). For these students, the route from capability to well-being therefore does not pass mainly through digital knowledge.

Financial Capability and Financial Well-Being: The Mediating Role of Financial Behavior

The seventh hypothesis was supported, indicating that part of capability's benefit reaches well-being through financial behavior. Given that capability also directly affects well-being, the pattern is complementary partial mediation (Zhao et al., 2010). Under the TPB, capability improves outcomes only when it is enacted as behavior; under the CFPB framework, that behavior builds daily control, a cushion against shocks, and progress toward goals (Ajzen, 1991). Prior studies agree that skills and knowledge deliver value mainly when applied consistently (Çera et al., 2021; Kumar et al., 2023; Sajid et al., 2024; Merter & Balcıoğlu, 2025). Behavioral execution therefore bridges personal capability and financial well-being.

5. Conclusion

This study aimed to explain how financial capability translates into financial well-being among university students in an era of frictionless digital finance. The study's central lesson is that the answer lies in action, not digital know-how alone. Capability improves well-being directly and, to a comparable extent, through the financial behavior it produces. In contrast, digital financial literacy improves well-being only indirectly, through its effect on capability. Understanding digital services supports safe use, but it is not sufficient for financial health on its own. What distinguishes students who feel financially secure is their consistency in planning, tracking, and restraining spending.

These findings suggest that support for students should shift from teaching about digital finance to building and prompting the behaviors it is meant to support. Universities can offer

budgeting practicums, expense-tracking challenges, and financial coaching, and judge their success by behavioral indicators rather than test scores. Financial educators and regulators can design digital literacy campaigns around actions, such as scenario-based exercises on pay later and online loans and commitment tools like monthly budgets. Fintech providers can embed spending limits, alerts, and clear installment summaries at the point of transaction, where knowledge alone appears insufficient. These proposals follow from correlational evidence and should be piloted and evaluated before wide adoption.

Several limitations qualify these conclusions. The sample comes from one region and was purposively selected, limiting generalizability and reducing power to detect small effects. The cross-sectional design captures a single moment, so the mediation results are statistical and cannot establish causal order. All data are self-reported, leaving room for social desirability bias, especially in budgeting and spending control, and for common method variance (Podsakoff et al., 2003). The model did not control for background variables such as allowance, parental income, and living arrangement, and it omitted a path from digital literacy to behavior, as well as the attitudes, norms, and intentions in the TPB.

Future research can address these limitations in several complementary ways. Longitudinal or panel designs would test whether capability precedes behavior and well-being over time, and objective transaction records from banks or e-wallets would reduce reliance on self-reports and verify actual behavior. Field experiments could evaluate behavior-based interventions such as spending alerts and budgeting challenges among students. Studies could incorporate the psychological factors highlighted in the discussion, including self-control, financial stress, and risk propensity, and compare alternative models, such as serial mediation from capability through digital literacy and behavior to well-being. Larger, more representative samples across regions, with allowance and income controlled for and multi-group differences tested, would strengthen the evidence.

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