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MENTAL ACCOUNTING THEORY AND FINANCIAL DECISION-MAKING BEHAVIOR IN INDONESIA: A SECONDARY-DATA ANALYSIS OF INVESTOR DIVIDEND PREFERENCE AND THE FINANCIAL LITERACY-INCLUSION GAP

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Abstract: Mental accounting, the cognitive process through which individuals compartmentalize money into separate, non-fungible categories according to its source or intended use, has become a foundational concept in behavioral finance and behavioral accounting research. This study examines how mental accounting manifests in Indonesian financial behavior at two levels: household financial management and capital-market investor behavior, drawing entirely on secondary data published by national authorities and prior empirical studies. At the household level, the 2025 National Survey of Financial Literacy and Inclusion (SNLIK), jointly conducted by the Financial Services Authority (OJK) and Statistics Indonesia (BPS), reports a financial literacy index of 66.46 percent against a considerably higher financial inclusion index of 80.51 percent, a gap that widened further from the 2024 figures of 65.43 and 75.02 percent respectively. This persistent literacy-inclusion gap is interpreted through a mental accounting lens as evidence that households increasingly hold and use formal financial products without a corresponding capacity to integrate them into a single, fungible financial plan. At the capital-market level, prior Indonesian studies of investors on the Indonesia Stock Exchange find that investors treat dividend income and capital gains as separate mental accounts, remaining willing to spend dividends while reluctant to realize equivalent value through selling shares, and that this preference is consistent with the classical bird-in-hand explanation for cash dividend demand. The study concludes that mental accounting offers a coherent behavioral explanation linking two apparently distinct phenomena in Indonesia's financial system, household underutilization of financial literacy gains and continued corporate emphasis on cash dividend policy, and that both accounting disclosure practice and financial education policy would benefit from explicitly accounting for these non-fungible money categories rather than assuming rational, integrated financial decision-making.

Keywords: *mental accounting, behavioral accounting, behavioral finance, dividend preference, financial literacy, financial inclusion, secondary data*.

1. INTRODUCTION

Standard financial and accounting theory assumes that money is fungible: a rupiah from a salary, a bonus, a dividend, or a tax refund carries identical purchasing power and should be treated identically in a rational household or investor's decision calculus. Empirical observation of actual financial behavior, however, consistently departs from this assumption. Individuals routinely assign money to separate mental categories, budget and evaluate these categories independently, and make decisions that would appear irrational if money were treated as fully interchangeable. This phenomenon, formalized by Thaler as mental accounting, has become one of the most widely applied concepts in behavioral finance and, increasingly, in behavioral accounting research concerned with how psychological categorization affects financial reporting, disclosure, and corporate payout decisions.

Indonesia offers a particularly relevant setting for examining mental accounting because two national-scale phenomena appear, on the surface, difficult to reconcile with a purely rational-actor framework. First, successive rounds of the national financial literacy and inclusion survey show financial inclusion consistently and substantially outpacing financial literacy, meaning that a large share of the population has adopted formal financial products faster than it has developed the knowledge to manage them as part of an integrated financial plan. Second, despite well-

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established theoretical arguments that dividends and capital gains should be valued equivalently by rational investors, Indonesian capital-market research continues to document a persistent investor preference for cash dividends and a reluctance to treat share-price appreciation as an equivalent, spendable resource, prompting continued corporate attention to dividend policy as a signaling and investor-relations tool.

This study uses secondary data, rather than new primary surveys, to examine both phenomena through the lens of mental accounting theory. The research questions are as follows:

- How does mental accounting theory help explain the widening gap between financial literacy and financial inclusion documented in Indonesia's national survey data?
- How does mental accounting theory help explain documented investor behavior toward dividends and capital gains among Indonesian capital-market participants?
- What implications do these patterns hold for accounting disclosure practice, corporate dividend policy, and financial education policy in Indonesia?

The study aims to synthesize existing secondary evidence into a coherent behavioral account of Indonesian financial decision-making, contributing to public administration and accounting scholarship concerned with designing policy and disclosure practices that reflect how people actually process financial information, rather than how classical theory assumes they do.

2. LITERATURE REVIEW

2.1 Mental Accounting Theory

Mental accounting was introduced by Thaler as the set of cognitive operations individuals and households use to organize, evaluate, and keep track of financial activities, and was later elaborated into three core components: how outcomes are perceived and experienced, how expenditures are grouped into categories against implicit or explicit budgets, and how frequently accounts are reviewed and 'bracketed' for decision-making purposes. Each component causes money to be treated as less fungible than economic theory assumes, meaning that the source, intended use, and psychological framing of a given sum of money can change how it is spent, saved, or risked, even when its objective value is identical to money held in another mental account.

The theoretical roots of mental accounting draw on prospect theory and transactional utility theory, both of which describe how people code and evaluate gains and losses relative to reference points rather than in terms of final wealth states. A widely cited illustration is the 'house money effect,' in which investors treat recent trading gains as a separate, more disposable account than their original capital, leading them to take greater risks with those gains than they would with their initial investment.

2.2 Mental Accounting and Dividend Preference

One of the earliest and most influential applications of mental accounting to corporate finance is the explanation of investor preference for cash dividends. Classical theory holds that dividend policy should be irrelevant to firm value under perfect capital markets, since investors can manufacture their own 'homemade dividends' by selling shares. Behavioral finance scholarship, however, has long argued that investors instead maintain separate mental accounts for dividend income and capital gains, deriving greater self-control benefit and psychological comfort from spending dividends than from realizing an equivalent amount by selling shares, which the behavioral life-cycle framework treats as a more consequential draw against principal.

2.3 Mental Accounting and Household Financial Behavior

At the household level, mental accounting predicts that individuals will compartmentalize income by source (regular salary versus windfall bonus), by purpose (rent budget versus entertainment budget), and by account type (everyday spending versus long-term savings), often to the point of simultaneously holding high-interest debt and low-interest savings, a pattern difficult to justify under a fully rational, integrated view of household finance. This compartmentalizing tendency has direct relevance to the relationship between financial inclusion, defined as access to and use of formal financial products, and financial literacy, defined as the knowledge, skills, and behavior needed to manage money effectively: a household can hold multiple formal accounts (satisfying inclusion) while still mismanaging the relationships among them (reflecting incomplete literacy), consistent with mental accounting's prediction that access to more account categories does not automatically produce a more integrated or optimized financial plan.

2.4 Behavioral Accounting Perspective

Behavioral accounting research extends mental accounting from individual and household behavior to organizational reporting and disclosure practice, examining how managers, auditors, and investors categorize, frame, and evaluate financial information in ways that depart from purely economic reasoning. From this perspective, corporate dividend policy, budget categorization practices, and financial disclosure formats are not merely technical choices but also respond to, and reinforce, the mental accounting tendencies of the investors and stakeholders who use them.

2.5 Conceptual Framework

This study frames mental accounting as a unifying behavioral mechanism operating at two levels of Indonesia's financial system: at the household level, where compartmentalized use of formal financial products can outpace integrated financial understanding, and at the capital-market level, where compartmentalized treatment of dividends versus capital gains sustains a persistent preference for cash payout policies. Both manifestations are examined using nationally representative or peer-reviewed secondary data rather than newly collected primary data.

3. METHODOLOGY

3.1 Research Design

This study adopts a descriptive quantitative design based on secondary data analysis. It synthesizes and interprets statistics and findings already published by national authorities and in peer-reviewed Indonesian accounting and finance journals, rather than collecting new survey or market data.

3.2 Data Sources

- The 2025 and 2024 National Survey of Financial Literacy and Inclusion (SNLIK), jointly published by the Financial Services Authority (OJK) and Statistics Indonesia (BPS), covering 10,800 respondents aged 15 to 79 across 34 provinces and 120 districts/cities.
- Peer-reviewed Indonesian studies of mental accounting among capital-market investors, including analyses of dividend-versus-capital-gain account separation and anchoring/narrow-framing behavior on the Indonesia Stock Exchange (IDX).
- Peer-reviewed and university-published studies of Indonesian corporate cash dividend policy, including bird-in-hand-consistent findings among firms listed on the IDX.
- Foundational international behavioral finance literature on mental accounting, prospect theory, and dividend preference, used to frame interpretation of the Indonesian evidence.

3.3 Analytical Technique

Data were synthesized descriptively across sources to identify consistent patterns in two areas: (a) the trend and magnitude of the gap between Indonesia's financial literacy and financial inclusion indices across the two most recent survey rounds, interpreted as an indicator of compartmentalized rather than integrated financial behavior; and (b) documented investor treatment of dividends relative to capital gains in Indonesian capital-market studies, interpreted as direct evidence of mental account separation. No new statistical modeling was performed; reported figures and findings are drawn directly from the cited sources.

3.4 Limitations

Because this study relies on existing secondary sources, it cannot establish new causal estimates linking literacy, inclusion, and mental accounting at the individual level, nor can it independently verify unpublished data underlying the cited studies. The synthesis presented here should be read as an evidence-based interpretive framework intended to guide, and to be tested further by, future primary research combining survey instruments with capital-market data.

4. RESULTS AND DISCUSSION

4.1 The Financial Literacy-Inclusion Gap as Evidence of Compartmentalized Financial Behavior

SNLIK 2025 results, jointly announced by OJK and BPS, show Indonesia's financial literacy index at 66.46 percent against a financial inclusion index of 80.51 percent, an inclusion-literacy gap of roughly 14 percentage points. This gap has persisted and widened slightly from the 2024 survey round, which recorded a literacy index of 65.43 percent against an inclusion index of 75.02 percent, an inclusion-literacy gap of approximately 9.6 percentage points. In other words, financial inclusion rose by more than five percentage points year-on-year while literacy rose by only about one percentage point, indicating that Indonesians are adopting formal financial products, savings accounts, insurance, credit, digital payments, considerably faster than they are developing the integrated knowledge and behavior needed to manage those products as a coherent financial plan.

Read through a mental accounting lens, this pattern is consistent with households opening and using multiple distinct financial products, each functioning as its own mental account with its own implicit rules, without necessarily integrating them into a single fungible view of total wealth. A household may simultaneously hold a savings account earmarked for a specific goal, use a separate digital wallet for daily spending, and carry consumer credit, treating each as functionally separate even where reallocating funds among them would be financially advantageous. The OJK's continued emphasis on financial education programming, alongside its literacy target of 69.35 percent by 2029 against a considerably higher inclusion target of 93 percent, implicitly acknowledges this gap and the risk that expanding access without corresponding literacy may leave mental-accounting-driven inefficiencies, and vulnerabilities such as overreliance on informal or costly credit, unaddressed.

4.2 Mental Accounting in Dividend and Capital Gain Treatment Among Indonesian Investors

At the capital-market level, Indonesian studies provide direct empirical support for mental account separation between dividend income and capital gains. Research examining investors on the Indonesia Stock Exchange finds that investors remain willing to spend dividend income for consumption purposes but are considerably more reluctant to realize an equivalent amount of value by selling a corresponding portion of their shareholding, even though both actions draw down the investor's total wealth by the same amount. This finding echoes the foundational behavioral finance explanation for dividend preference, namely that investors derive greater psychological comfort from spending an income-labeled account (dividends) than from spending down a principal-labeled account (capital), consistent with the broader bird-in-hand preference for the certainty of a declared cash dividend over the uncertain prospect of a future capital gain.

Complementary Indonesian evidence on investor decision-making documents the use of anchoring and narrow framing when Indonesian investors evaluate return and risk across candidate securities, selecting reference points that shape whether a given outcome is perceived as a gain or a loss. Such framing effects are a direct mechanism through which mental accounting operates in practice: the same objective return can be evaluated more or less favorably depending on the reference account against which it is measured. On the corporate side, Indonesian dividend-policy research consistently finds that profitability, free cash flow, and investment opportunity are significant determinants of cash dividend payout ratios among listed firms, a pattern compatible with, though not fully explained by, corporate responsiveness to investors' persistent preference for cash dividends over relying on market-driven capital gains.

4.3 Implications for Accounting Disclosure and Corporate Payout Policy

Taken together, these findings suggest that Indonesian corporate issuers operate in an investor environment where dividends and capital gains are not treated as interchangeable, giving continued strategic relevance to dividend announcements, payout stability, and dividend-related disclosure as tools for shaping investor perception, independent of any change in underlying firm value. From an accounting standpoint, this implies that disclosure practices emphasizing the composition and stability of dividend payments, rather than total shareholder return alone, may carry disproportionate influence over investor behavior precisely because of mental accounting rather than purely rational wealth assessment.

4.4 Synthesis

The household-level and capital-market-level evidence, though drawn from separate data sources, point toward a common behavioral pattern: Indonesian financial actors, whether households managing multiple accounts or investors evaluating dividends against capital gains, consistently treat money as less fungible than classical theory assumes. At the household level this manifests as an inclusion-literacy gap that has persisted across two consecutive national survey rounds; at the investor level it manifests as a documented, decades-old but still-observed preference for spending dividends over realizing capital gains. Mental accounting theory offers a single, parsimonious behavioral explanation connecting both patterns.

5. CONCLUSION AND RECOMMENDATIONS

This study finds that mental accounting theory provides a coherent behavioral explanation for two prominent, secondary-data-documented patterns in Indonesia's financial system: a persistent and widening gap between financial inclusion and financial literacy at the household level, and a continuing investor preference for treating dividends and capital gains as separate, non-fungible accounts at the capital-market level. From a public administration and accounting policy perspective, these findings argue against designs that assume rational, integrated financial decision-making and instead favor approaches that explicitly account for how people psychologically categorize money.

Based on the evidence reviewed, the following recommendations are proposed:

- Financial education programming (e.g., OJK's Gencarkan national financial literacy movement) should explicitly teach integrated financial planning across mental accounts, rather than product-specific literacy alone, to help close the inclusion-literacy gap rather than merely expanding product access.
- Financial-sector actors mandated under Indonesia's Law No. 4 of 2023 on Financial Sector Development and Strengthening (P2SK) to provide consumer education should design materials that address common mental accounting pitfalls, such as holding costly debt alongside low-yield savings.
- Listed companies and their accountants should recognize that dividend disclosure and payout stability carry behavioral significance for investors beyond their strict economic equivalence to capital gains, and should communicate dividend policy accordingly in investor relations and annual reporting.
- Capital-market regulators and financial educators should consider investor-education content that explicitly addresses anchoring, narrow framing, and dividend-capital gain account separation, given documented evidence of these patterns among Indonesian investors.
- Future research should combine household survey instruments with capital-market transaction data to test, at the individual level, whether the same households or investors exhibit both the literacy-inclusion gap and dividend-capital gain account separation described in this study.

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