

CHAPTER I

INTRODUCTION

1.1 Research Overview

Online Loans are counted as one of the payment methods nowadays. The ease and speed are the main attractions of online loans that makes people interested to do it. Online loan itself has grown rapidly in Indonesia in the last two years. This is also supported by the increasingly rapid development of information technology, especially the internet (Javine, n.d.). As we know from the beginning, applying for credit to a bank has not been a pleasant experience for many people. Apart from being a long process, there are many conditions and it is very difficult to approve (Maucash, 2020), meanwhile, the need for loans in the community is getting higher. Many people need loans, both for personal consumption and for business purposes. (Budiyanti, 2019)

So now, good news is coming from fintech, a technological innovation that is changing the way the world of finance works. Fintech offers a loan and borrowing process that are easier, faster, online without the need to meet, that is online loans (Budiyanti, 2019). This makes it easier for borrowers to make loans because it can be done by anyone, anywhere. Online loans are a type of loan that can be submitted online via a cellphone application, without the need to be face-to-face (duwitmu, 2020). Currently this type of loan is also increasing significantly in Indonesia, because in addition to the relatively fast loans process when compared to banks or savings and loan cooperatives, the online loan period can also be adjusted as needed when compared to like when you have to borrow from a relative or close friend which of course has a limited period of time. (Sinaga, Irawati & Kurniawan, 2019) One more advantage is that some types of loans do not require collateral at all but are still safe and have minimal risk (duwitmu, 2020)

In Indonesia there are 2 (two) institutions authorized to regulate the fintech industry, namely Bank Indonesia (BI) and the Financial Services Authority (OJK) (Aziz & Aziz, 2019). Bank Indonesia as a macroprudential

institution to providing markets for business actors, investment and risk management, etc. Meanwhile OJK itself is the Financial Services Authority (OJK) has the function of implementing an integrated regulatory and supervisory system of all activities in the financial services sector. (Bimo & Tiyanasyah, 2019). The Financial Services Authority (OJK) has the task of regulating and supervising financial service activities in the banking sector, capital market sector and the non-bank financial industry sector. So far, OJK has only issued 1(one) fintech company supervision regulation, which is related to the supervision of a fintech product. namely the Financial Services Authority Regulation Number 77/POJK.01/2016 concerning Information Technology-Based loan and Borrowing Services (Otoritas Jasa Keuangan, 2016)

As we know before, credit card is the most used way to loan money. But since 2016, there is a new form of credit that is easier and also can be used by students, namely online credit or online loans (Lestari, 2020). Online loan is currently very popular among students due to the easy process of disbursing and with guarantees. Because of that, here the author will show the comparison between volume usage of Credit card and Online loans.

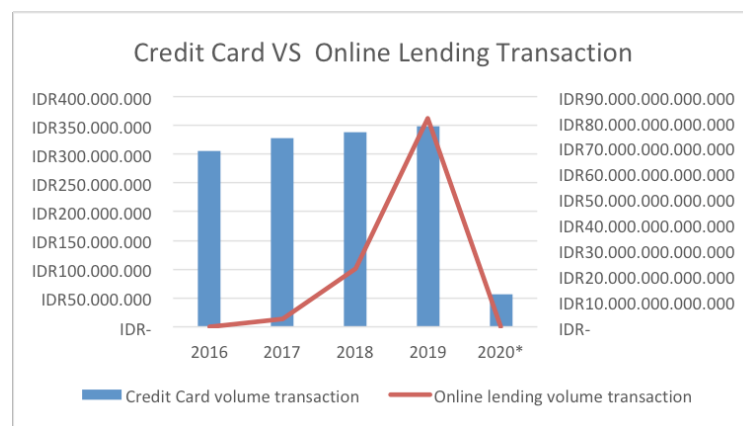


Figure 1.1 The Volume Usage of Credit card Vs The Volume Usage of Online Loans (2016-2020)

Source: processed data sources (2020)

The popularity of online loan also can be seen in the picture above. Since 2016 that the online loan was born, the volume of online loan increased

significantly and even beat the credit card. Online loans services were more often used to help local MSMEs or Micro, Small and Medium Enterprises. This online loan for MSMEs makes it easy to develop a business, without the need for collateral. Behind that, online loans are also still have the disadvantages which took a large number of victims who are trapped in illegal online loans. Where, they usually offer loans with interest that are not normal, so that it makes victims feel heavy in making installments. (Trisna Dewi & Darmawan, 2021)

Not a few of the victims of illegal online loans have committed suicide because they are in debt. Plus, the majority of online loan customers are middle to lower class people. In fact, OJK itself receives 500 complaints every day, from the public regarding illegal online loans. Not only by telephone, these complaints are also sent in the form of short messages and also e-mails. So that the OJK also urges the public to be more vigilant in choosing online loans. ([cekaja](#), 2020).

Based on the data from OJK, College students age represent a sizable market and a large chunk of the population of online loan users. A college student has a big power of purchasing for about \$200 billion each year. Besides that, they are the trendsetter and also usually loyal to a brand, and the starter and gives impact to their parent's. College students are a society whose numbers are quite large and play an important role in national change (agent of change). Students are one group that goes to school but already has their own finances. Student finances can come from pocket money given by parthyents or guardians and can come from scholarships (Setiyani, 2017). Based on OJK, 70,43% from 18.569.123 user are in the age 19-34 years old, or we can say 13.078.233 user of online loan, meanwhile in 2020 its already increased more than 100% and become 26.293.630 user According to the Practical Indonesian Dictionary, students are those who are studying in higher education (Taufik, 2010).

Some of the popular Online Loan or fintech companies are *credivo*, *akulaku*, and *shopeepaylater*.

1.2 Research Background

Along with the times, technology is increasingly sophisticated and covers many areas of life. Data from the Ministry of Communication and Informatics states that up to now, internet users in Indonesia have reached 196,7 million people, and with this achievement Indonesia is ranked 8th in the world (KOMINFO, 2020). One area that does not escape technological sophistication is finance. This affects the way humans transact. If in the past we had to go to a store to make a purchase, now everything can be done via a smartphone. No exception in the payment process. If in the past people made transactions or made payments using cash, now people are starting to switch to non-cash money, one example is using credit cards and debit cards. In addition, other online transactions such as *t-cash*, *ovo*, *gopay*, *shopeepay*, etc. are increasingly mushrooming and the easier they are to use. Now, users can simply download the application via their cellphone and can transact anywhere by simply scanning the barcode in the shop via their cellphone..

Along with developments, the banking industry has also begun to use technological advances in the process of the era where the internet network seems to be a primary need and smartphones are a very important item, so various manufacturers providing goods or services are now competing to make applications on smartphones so that their products or services are used by many people. This also applies to the banking industry, which is now starting to give rise to various financial technologies or fintech. The advancement of globalization time impacts changes in the way of life of Indonesian individual.

These developments occur in various parts of life, especially in the generally difficult way of life. Of course, loans are now starting to turn to online. At present, online loans are increasingly crowded which is due to the ease of transactions they offer. In the table below, we can see that the number of online loan users has increased by hundreds of times from 2018 to October 2020.

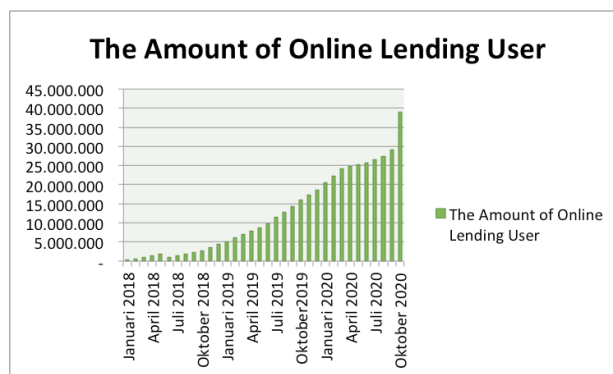


Figure 1.2 The Amount of Online Loan User Processed Data Sources in Indonesia.

Source: [Www.ojk.go.id](http://www.ojk.go.id) (2019), Processed data sources.

As we can see in the picture above, the amount of online loan users are always increased each month since 2018. It means that online loan now is already become one of the payment method that are popular in Indonesia. The increased of the online loan is also related because of the fast growth of e-commerce in Indonesia. As said from www.kominfo.com (2020), "Indonesia is in the top 10 with the growth of 'e-commerce' with 78 percent growth and is in 1st place. Meanwhile, Mexico is in second place, with a growth value of 59 percent," said Septriana Tangkary, Director of Informatics Empowerment, Directorate General of Informatics Applications. Ministry of Communication and Information in Pamekasan, East Java, Wednesday (27/2). Based on techno.okezone.com,(2020), compared to the previous year's growth acceleration of only 54 percent, in 2020 during the Covid-19 pandemic, there was an acceleration of growth reaching 91 percent. Not only because of the increasing shopping trend but also the emergence of new e-commerce and many new e-commerce users during the Covid-19 period. The payment methods offered by

online shopping service providers are very diverse, ranging from payments through ATMs, using cash when goods are received, and also using Online loan. The following are 10 Provinces with the Largest Accumulated Value of Fintech Loans (as of 31 January 2020) that can be seen in Picture 1.3.

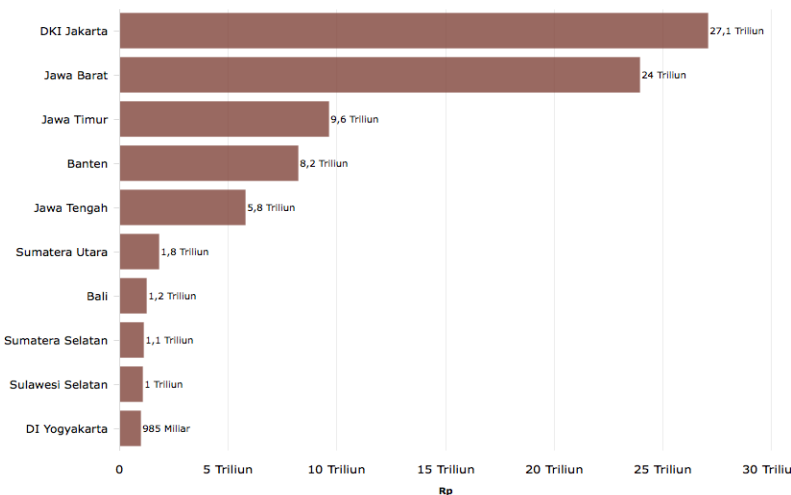


Figure 1.3 Ten Provinces with the Largest Assessment of Accumulated Fintech Loans in Indonesia 2020

Source: Wwww.Ojk.co.id, processed data sources (2020)

From the data above, The accumulated value of loan from fintech loan in Indonesia reached IDR 88.4 trillion throughout January 2020, or an increase of almost 240% on an annual basis. As we know, the total online loan distribution in Indonesia is IDR 88.4 trillion. From here we can see that the interest of Indonesian users from the number of Indonesian users has increased significantly. Because of this significant increase, as of March 2020 in Indonesia the largest contributor to online loan users is dominated by the millennial generation aged 19 to 34 years dominated online loans with a share of 70.07%, www.ojk.co.id (2020). This number is enormous. The next borrowers are people aged 35 to 54 with a share of 27.79%, and only 1.37% who are over 54 years old. Meanwhile, the smallest portion is only 0.77% of borrowers under 19 years of age.

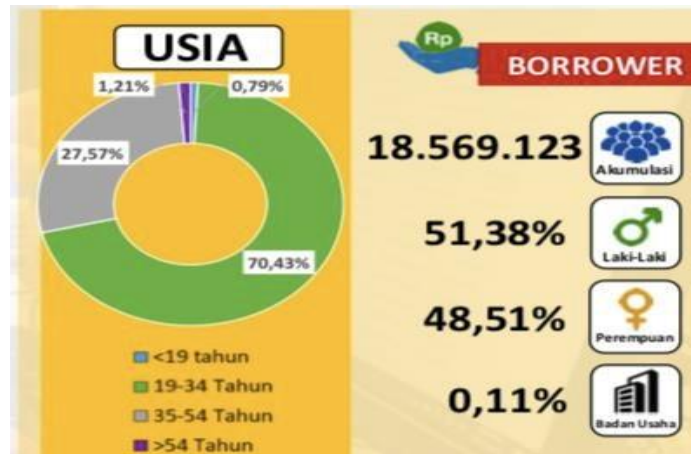


Figure 1.4 The User Range of Online loan in 2019

Source: ojk.go.id



Figure 1.5 The User Range of Online loan in 2020

Source: ojk.go.id

As we can see based on the data above, college students age represent a sizable market and a large chunk of the population of online loan users. According to the Practical Indonesian Dictionary, students are those who are studying in higher education (Taufik, 2010). Based on some of the expert opinions above, the researcher concludes that students are people who are undergoing higher education at a university or college. Students are a group in society who get their status because of their ties to universities and are also prospective intellectuals or young intellectuals in a society who often qualify with various predicates.

The region with the most borrowers, namely more than IDR 51.1 trillion

is dominated more than half by DKI Jakarta and West Java, with the total online loan in DKI Jakarta IDR 27.1 Trillion and West Java IDR 24 Trillion. Meanwhile, the number of value outside DKI Jakarta and West Java was recorded at IDR 37,3 Trillion. From Picture 1.3 we can see that 70,43% from 18.569.123 user are in the age 19-34 years old, or we can say 13.078.233 user of online loan, meanwhile in 2020 its already increased more than 100% and become 26.293.630 user (ojk.co.id, 2020).

According to Sakitri (2017), students are in a transitional period where a person's individual status becomes all and there are doubts about the role that must be performed. Likewise, in terms of implementing financial behavior. According to Setiyani (2017) most students do not have the income obtained from work, the reserves of funds that students have from a limited allowance are used every month.

Using credit card has a lot requirements, that is why, there are so many college student that are moving from credit card to online loan because it is easier and also faster way to loan money. Because the most user of the online loan is from college student age, that is why we should find about how much their knowledge about financial knowledge and their behavior through their online loan usage. (Panginan & Irwansyah, 2020)

According to Yushita (2017) financial difficulties not only come from low income but also arise if there are mistakes in financial management and the absence of financial planning. Therefore, students as intellectuals must have good financial literacy in order to be able to apply financial behavior in accordance with their financial knowledge and skills. Students who do not have good financial behavior in spending money every day will experience more complex financial problems. Financial literacy is related to financial management because the higher the level of individual financial literacy, the better the individual financial management. Financial management is an application concept to the concept of financial management at the individual level. Financial management includes planning, management and financial control activities, this is important in achieving financial well-being (Kurniawan,

et al., 2019)

Financial literacy or financial knowledge is defined as intelligence as well as individual ability to manage finances. Financial literacy is a must for every individual to avoid financial problems because individuals are always faced with trade off situations where the individual must sacrifice his or her interests for other interests.

Financial literacy is behavior, the level of skill knowledge, which affects attitudes, beliefs, to improve the quality of decision making and financial management to achieve prosperity. The community at large not only knows or understands financial institutions about financial products or services, but also changes or improves people's behavior in financial management so as to improve their welfare (Ojk, 2017)

Perry and Morris quoted by Moch. Zakki Zahriyan financial management behavior can be measured in five components seen by the individual's ability to save money, budget, manage expenses. The five components are (1) being able to spend money as needed, (2) paying monthly obligations always on time, (3) planning finances for future needs, (4) saving, (5) setting aside money for self and family needs. According to Alfin Sahalahuddinta and Susanti, students need greater knowledge about personal finance and real-life skills such as managing expenses, balancing income, providing a budget, using credit cards, paying interest, saving money, and even joining insurance for a prosperous future.

Because of the increased of usage of online loan that are dominated by people in the college student ages, and also there is the decreased in the payback and lots of misuse phenomenon of online loan, author wants to make a research to prove if there are any relationship between loan knowledge among college student and their behavior of using online loan. Based on the above phenomena, this research sets the title "The Influence Of Financial Knowledge Online loans Usage Behavior In Indonesia (Study on Students in DKI Jakarta and West Java)." With this research, the researcher hopes that the reader can know more about financial knowledge, so that the abuse of online loans can

result in debt that does not match your income can be reduced.

1.3 Problem Formulation

According to OJK or Financial Services Authority of Indonesia, The Online loan usage in Indonesia is increased significantly, and the college student ages is the largest user of online loan. Therefore, there is also a lot of cases that the borrower can not pay the credit in time, and it could be because of the financial knowledge of the borrower.

Based on the research background above, the formulation of the problem is to know if there is any influence from financial knowledge to the online loan usage behavior.

1.4 Research Objectives

Based on the research question above, the formulation of research objective can be described as follows:

1. To know the relation between financial knowledge and online loan use behavior

1.5 Benefit of The Research

This research is expected to provide benefits for several parties, namely:

1.5.1 Theoretical Aspects

Judging from the theoretical aspects, the results of this study are expected to provide benefits to:

1. Academically, the results of this study can be additional information and reference material for further studies for those who conduct similar research on the behavior of using online loan.
2. Researchers, this study can provide information about the effect of financial literacy on the online loan usage behavior among student.

1.5.2 Practical aspects

Viewed from a practical aspect, the results of this study are expected to make people use online loan to be even better based on their financial knowledge.

1.5.3 Systematic Writing of Research

To facilitate the discussion and provide a more detailed and directed description, this thesis is divided into five chapters, each of which has sub-chapters. The writing structure is arranged to provide a general overview of the research performed. The structure are:

CHAPTER I INTRODUCTION

This chapter consists of an overview, research background, problem statement, research questions, benefits of the research and the scope of the research.

CHAPTER II LITERATURE REVIEW

The literature review chapter contains the theoretical foundations that support research, similar earlier research, the framework of thought and hypothesis proposed in this study.

CHAPTER III RESEARCH METHODOLOGY

This chapter discusses the types of research used, operational variables, populations and samples, data collection, and analytical and hypothesis testing techniques.

CHAPTER IV ANALYSIS AND RESULT

This chapter contains the discussion and explanation regarding the research based on the analysis of the data gathered and the theories that support the research, which have been stated on Chapter II.

CHAPTER V CONCLUSION AND RECOMMENDATION

This chapter contains the restatement of the problem, brief description the research and the research procedure, principal findings and conclusion, and last is the recommendation for further research.