CHAPTER I

INTRODUCTION

1.1 Background of Study

Currently, the digital platform has penetrated all fields. The business world is afield that has a significant impact on digital platforms because the use of digital-basedcan provide convenience in the business world. This can be proven in the last few years,there has been a change in conditions from the traditional economy to a digital economyassisted by technological advances. With the rapid development of a new digital-based economic system, it can provide developments in the economic system, as well as change models and processes, such as e-business which is a business that is in a digital scope (Weill and Woerner, 2015)

In today's digital era, digital-based financial products and services in various businesses are continually overgrowing from time to time. In the current digital age, information technology has created innovations that have succeeded in transforming a system or market that can affect human behaviour and expectations. In this case, consumers access various information through electronic service features. One of the latest technological developments in Indonesia is financial technology or Financial Technology (FinTech). The Fintech (Financial Technology) industry illustrates the application of digital technology in the financial sector. FinTech has been implementedin industrial business developments. It also provides access to a wide variety of financial products. The financial products in question are payments, transfers, insurance, credit, and savings (Ilham et al., 2014).

This sector is what the government and the public most hope to encourage an increase in the number of people who have access to financial services. The potential of the digital economy in Indonesia is vast and vital to development. The fast pace of innovation has resulted in various changes in all aspects of life. The survey published by the Association of Indonesian Internet Service Providers (APJII) in November 2016 states that the number of internet users in Indonesia is 130.8 million, or 98.6 per cent of the Indonesian population. The internet is known as the sale and purchase of goodsand services, 84.2 million or 63.5 per cent as internet users, for online transactions (Indonesia, 2019).The results above show that the number of users using digital technology information in Indonesia is enormous, exceeding the population in countries around Indonesia (ASEAN), which almost changes people's behaviour in aspects of life (Sari and Dwilita, 2018).

However, all processes carried out will inevitably have consequences from the procedure itself, both in current and future conditions. In the fintech environment, currently, several problems can harm the surrounding environment. From early 2018 until now, the Investment Alert Task Force and the Ministry of Transportation and Information have blocked 3,198 illegal fintech platforms. The crimes that have occurred have penetrated a significant number, and there are 25 times more fintech platforms that try to operate outside the regulations because they use legally inIndonesia.

With the above issues, the cause of the rise of illegal fintech is the large number of Indonesian people who are not bankable, and services on fintech platforms are more accessible and faster (Effendi et al., 2021). In addition, according to the Director- General of Aptika, Kemkominfo, Xiuping Hua (2020) said that many people are trapped in illegal fintech because of a lack of literacy. This statement also supports theresults from several surveys conducted by the Financial Services Authority (OJK) thatfrom 2016 to 2018, financially literate individuals only increased by 4-5%, with a percentage of 20-30% (Zaini, 2013). This percentage cannot be said to have grown significantly. Therefore, the presence of financial literacy can help individuals becomefinancially literate.

Based on the research of Chlouba, Šimková, and Němcová (2011) in recent months, the lack of financial literacy of citizens has also become one of the causes of the financial crisis (especially in the US). For this reason, financial education has proven to be a key element in economic recovery. Furthermore, in the Mastercard Financial Literacy Index survey, in 2015, Indonesia was ranked 10th out of 17th amongseveral countries in the Asian region. Based on the survey results, the Mastercard index also shows that Indonesia still occupies a low position among the countries surveyed regarding financial literacy (MasterCard, 2015).

The issues described previously discussed in this research, namely the lack of public understanding in managing and making financial decisions using digital platforms. Several previous studies only examined financial literacy. Meanwhile,currently, everything is associated with digital media, so people must follow the flow of the times so that their survival can run well.

Digital financial literacy is critical today as we know that now all financial services and products are available in digital form. The exciting side of digital financialliteracy can directly provide knowledge about online purchases, online payments through various means, and online banking systems (Prasad et al., 2018). OCDE (2018) also mentioned that digital financial literacy is crucial because it will affect how peoplesave and spend money.

Digital Financial Literacy will become increasingly important from an economic perspective. Data collected by International Monetary Fund (2018) shows that Indonesia is ranked 16th with the largest economy and 4th in terms of population with a nominal value of 266 million people. The rapid development of the economy can soon require individuals to become more responsible for their financial planning.

Individuals need to manage their finances to avoid economic risks. Then, a person needs to implement their digital-based financial management options due to changes in the environment over time by using more effective and efficient methods. Several socio-economic factors can directly affect digital financial literacy, including age, income level, and a person's educational background (Laily, 2016).

The first socio-economic factor is age. Age has several categories of manufacture. Generations by researchers for the first time in 1952 researchers explained that the term generation could be an association of individuals who have a birth year close to 20 years and are in the same era (Mannheim, 1952). The results of several previous studies show that there are three sections of the generation that have different characteristics caused by the environmental factors they are facing. The 3 generation groups are the baby boomers, generation x, and generation y. They are thenfollowing the rise of generation z due to the declining composition of baby boomers (Yanuar, 2016).

At this time, the most influential generations in the digital era are generations yand z. Reporting from the Pew Research Center, Dimock (2019) says that the youngest generations in the workforce are Generation Y (born between 1981 and 2001) and Generation Z (born after 2001). Furthermore, research Yanuar (2016) explains that generation z is millennials who value understanding technology, such as gadgets, email, and other communication and information technologies. The above statement means that as a young generation, millennials cannot separate from technology, and even they are dependent on technology in all aspects, including the financial sector. Itcan be said that the age factor will significantly affect digital financial literacy.

Second, in terms of income, financial literacy and behavior tend to be better when respondents have higher incomes, more significant assets, and higher levels of education (Grohmann and Menkhoff, 2015). The third socio-economic factor is educational background. Higher education status was also an important indicator of high financial knowledge, financial attitudes, financial behavior, and financial literacy (Garg and Singh, 2017). The three social-economic factors above are sufficient to prove that individuals need social-economic elements to support digital financial literacy.

Furthermore, financial literacy is a person's financial knowledge about managing finances and financial products. Knowledge and understanding of finance will affect a person's behavior in making decisions related to finance, such as planningand managing finances that are less precise. Regardless of the income or money received from various sources to meet their needs, they experience insufficiency dueto inappropriate spending.

The public can take advantage of and use the available digital financial services,but most are not yet literate with the knowledge or literacy of these financial services.The development of technology can be a media for developing students' mindsets in their behavior related to their finances. Knowledge and understanding of finance will influence a person's behavior related to planning and managing finances well.

Financial knowledge and managing individual finances are essential in life. Someone with good financial literacy will have a small risk of financial problems (Suyono et al., 2020). Several studies have been conducted previously, including research conducted by Humaidi et al. (2020), which shows that financial technology and financial literacy have a significant positive effect on financial management behavior in the productive age population in Surabaya. This study proves that digital financial literacy can align with financial literacy influencing one's financial behavior.

The OECD (2018) says that digital financial literacy is crucial because it will affect how people save and spend their money. So that digital financial literacy has a positive effect on saving and spending behavior. Good financial behavior indicates excellent financial planning, management, and control activities. Indicators of good financial behavior can regulate the entry and exit of money, credit management, savings, and investment from the way/attitude of a person (Hilgert, Hogarth, and Beverly 2003). Wise or not, personal financial management is closely related to a person's ability and knowledge of financial concepts known as financial literacy(OECD, 2015).

Furthermore, investment behavior is one part of financial behavior that will affect a person's level of digital financial literacy for the long term. According to published data Badan Pusat Statistik (2020), investment interest increases every year. In 2019, Indonesia's investment realization reached Rp. 809.6 trillion, exceeding the target of Rp. 792 trillion. Indonesia's investment realization increased by 48.4%, from Rp545 trillion in 2015, and by 12.24%, from Rp721.3 trillion in 2018.

Ariadi et al. (2015) said that among the allocation of funds available in the current digital era, the best way to provide benefits to individuals in the future is an investment. Investment has two forms of purpose, namely for tangible assets, such as land, property, gold. And other forms of investment for financial assets, such as deposits, stocks, mutual funds, and bonds. Batubara (2020) said that the place to invest as the capital market in this millennial era is an economic instrument (investment) thatis in great demand by individuals and institutions. This issue can be seen from its increasing growth every year, and there is a picture development of Capital Market investment in 2014-2018. In the picture, from 2014, the growth number was 364,465 people. In 2015, there were 434,107 people. In 2016 there were 536,334 people. In 2017 there were 628,346, and in 2018 it had a significant growth compared to 2014, which was 778,763 (Coal, 2020). This result shows that investment is trendy today forthe general public and is enough to prove that investment is also one of the supports for the development of the digital era and has an essential role in literacy that someone must understand.

Based on the discussion above, the author conducted this research to determinethe effect of digital financial literacy on financial behavior, including saving behavior, spending behavior, and millennial generation investment behavior in Indonesia. Then, researchers want to see whether socio-economic factors affect digital financial literacy.Therefore, the authors conducted a study entitled “**Analysis Digital Financial Literacy and Its Application in The Millennial Genereation in Indonesia** "

1.2 Research Questions

Based on the description above, the researcher formulates the problem of this research as follows:

1. To what extent is the millennial generation's digital financial literacy level inIndonesia?
2. What factors influence the level of digital financial literacy of the millennialgeneration in Indonesia?
3. Does the level of digital financial literacy of millennials affect their financialbehavior?

1.3 Objectives of Research

Meanwhile, the objectives of this research are as follows:

1. To see the extent of the digital financial literacy level of the millennialgeneration in Indonesia.
2. To find out what factors affect the level of digital financial literacy of themillennial generation in Indonesia.
3. To see whether the level of digital financial literacy of the millennialgeneration affects their financial behavior.

1.4 Research Benefits

This study aims to increase understanding and become a source of knowledge for readers and hopefully can support accounting knowledge, especially the influenceof Digital Financial Literacy on financial behavior and socioeconomic factors in the millennial generation throughout Indonesia.

a. For Author

1) The study results are expected to increase knowledge for writers about the influence of digital financial literacy on socioeconomic factors and financial behaviorfor the millennial generation in various provinces in Indonesia.

2) The research results are also used to fulfill the final undergraduate examination requirements at the International Accounting Study Program, Faculty ofEconomics, Andalas University. It can increase student motivation to improve competence to know how to manage digital-based finance better.

b. For Other Parties

The results of this study are useful for other parties to be a source of information related to the financial sector and increase motivation to increase competence to knowhow to manage digital-based finance better.

1.5 Writing Systematic

The systematics in this research has five parts. The first chapter explains the background, problem formulation, objectives, and benefits of research and research systematics. Next, chapter two will present the theoretical basis, literature review, review of previous research, a conceptual framework of research, and development of hypotheses. Chapter three describes research methods which include design, types, and sources of research data, population and samples, research variables and measurement variables, data processing, and analysis techniques. The fourth chapter will present the research results and other factors that may influence the findings. The fifth chapter will give the conclusions, limitations, and suggestions for this research.