

CHAPTER I

INTRODUCTION

1.1 Background

Financial Literacy is necessary to increase understanding of the use of financial products and services. People who have income, usually want to have healthy finances. The issue of Financial Literacy is quite an attraction in today's modern era. Everyone is competing to have healthy finances in the present and keep them for the future. However, Financial Literacy is not enough to prevent the public from the crime of financial products and services. The times that focus on technological developments make all aspects of life develop digitally, one of which is the financial aspect. Financial Technology (Fintech) combines technology with financial products or services that eventually developed into a business model from conventional to online, which initially had to pay face-to-face and carry a certain amount of cash, now can complete long-distance transactions in seconds (Winarto, 2020).

These various kinds of Fintech products and services offer many advantages for their users, such as convenience, process speed, and cost savings (Berger et al., 2018). These advantages make the number of users more and more in demand. Official OJK statistical data states that the number of lending in Indonesia (Fintech Lending) for the September 2021 period is 262,934, while in the following month (October 2021) has the data by 272,434, which is an increase of 3.6% from the previous month in the same year. This increase is clear evidence that the use of Fintech in Indonesia is increasing from time to time. Even based on the State of Finance App Marketing Apps Flyer 2021 report, Indonesia is the third rank as the country with the most financial application installations among 15 other countries.

Besides offering benefits, Fintech also has potential risks described by the OJK, consist of cybercrime, default, money laundering, and terrorism. Unfortunately, cases related to fintech companies are increas, OJK recorded complaints against official fintech peer-to-peer (P2P) lending providers and illegal online loans of 19,711 cases during the 2019-2021 period. A total of 47.03% are serious commanders and the remaining 10,441 cases are included in minor violations. In the report, there are four issues of serious complaints that are most widely reported: disbursement of funds or loans without the applicant's consent, threats to spreading personal data, billing all cellphone contacts by terror or intimidation, and billing with harsh words and sexual harassment. Then as of September 25, 2020, the closure of 126 Illegal Fintech Lending and 32 Unlicensed Investments by the Investment Alert Task Force. The latest data shows that only 104 licensed fintech lending companies are registered with OJK as of October 15th, 2021. From this data, it can be judged that some Fintech Lending that is already operating, some of them do not have a license. Unfortunately, there are only a few companies that have just been detected by related parties among many more companies that have not yet been legally detected.

Digital Financial Literacy is needed to avoid Fintech crime for the modern era because financial literacy is not enough to make society safe and free from Fintech crime. If communities already understand of Digital Financial Literacy, it is hoped that the community can become individuals who can manage finances well and can also avoid the risks and negative impacts of Fintech.

This condition is interesting to be discuss for find out what factors affect the level of Financial Literacy, especially related to digital finance in Indonesia. The National Strategy for Indonesian Financial Literacy states that 8 principles can serve as guidelines in triggering economic growth by encouraging the development of digital financial services, the 6th principle being the most

important principle, namely Strength Digital and Financial Literacy and Awareness (SNLKI, 2017). Financial literacy is one of the important factors to support the economic growth of a country.

A good level of Financial Literacy can guide individuals or communities to achieve good financial planning and management and it can reduce the risk of loss or failure. In addition, better decision-making based on available information is supported by good financial literacy and will have an impact on increasing the welfare of individuals or society. Previous studies have linked Financial Literacy with Financial Wellbeing. One of them is research by Rafik & Rahayu (2020) which investigates the extent to which financial behavior and financial well-being can be influenced by financial literacy in Yogyakarta. In line with the research conducted by Kamakia et al. (2017), proves that there is a positive relationship between financial literacy and Financial Wellbeing. In addition, previous studies also examined the relationship between Financial Literacy and Financial Wellbeing of retirees in the research Niu et al., 2020; Yu et al., 2021; and Adam et al., 2017 . Niu et al., (2020) and Yu et al., (2021) examine the relationship between Financial Literacy and retirement preparation or in old age, the results show that Financial Literacy has a strong and positive impact on retirement preparation. Slightly different from the research of two previous studies, Adam et al., (2017) which discusses in more detail the relationship between Financial Literacy and Financial Wellbeing of retirees, especially in developing countries which is expected to describe the relationship more broadly that supported by several factors other than Financial Literacy. This study clearly states that there is an impact on Financial Wellbeing, although it is not as strong as other factors such as retirement planning and family support.

The results of all studies are clear evidence that the Financial Literacy which one is the factor that influence Financial Wellbeing. However, these studies still discuss non-digital-based Financial Literacy. But previous statement stated the

Financial Literacy itself is not enough to protect users from Fintech crime and Financial Literacy is no longer sufficient to make good financial planning and management in this digital era. Research is needed to examine by detail the relationship between Digital Financial Literacy and Financial Wellbeing. The lack of research sources regarding Digital Financial Literacy is an obstacle to be faced because the issue of Digital Financial Literacy is still fairly new.

1.2 Formulation of the problem

The formulation of the problem in this study is to analyze the relationship between Digital Financial Literacy and Financial Wellbeing in the people of West Sumatra, while in particular, the formulation of the problem in this research is:

1. What is the level of Digital Financial Literacy in the people of West Sumatra?
2. What factors can affect the level of Digital Financial Literacy in the people of West Sumatra?
3. Does the Digital Financial Literacy of the people of West Sumatra affect the level of Financial Wellbeing of the people of West Sumatra?

1.3 Research Objectives

The purpose of this study is to answer the formulation of the problem above, below:

1. To find out what factors can affect the level of Digital Financial Literacy in the people of West Sumatra.
2. To find out how the level of Digital Financial Literacy in the people of West Sumatra.
3. To find out whether the level of Digital Financial Literacy has an effect on Financial Wellbeing in the people of West Sumatra.

1.4 Benefit of Research

This study aims to add to the literature on the contribution of knowledge to support accounting knowledge, especially the effect of Digital Financial Literacy on Financial Wellbeing in the People of West Sumatra.

a. For Author

The results of this study are expected to increase the author's knowledge about the relationship between Digital Financial Literacy and Financial Wellbeing, especially in the people of West Sumatra. In addition, the author can find out the truth in completing the thesis preparation materials to meet the requirements in taking the undergraduate exam at the International Accounting Study Program, Faculty of Economics, Andalas University.

b. For Other Parties

It is expected to be a source of new knowledge and a source of thought for the development of science. In addition, this research is expected to be a means of information for readers who will conduct research in the same field of study.

1.5 Writing System

Systematics in this research is divided into five parts. The first chapter explains the background, problem definition, objectives, and benefits of research and research systematics. Next, chapter two will explain the literature review. Chapter three describes the research method which includes the type of research, population and sampling, data collection methods, research instruments, types and sources of data, models, and data analysis techniques. The analysis of research results and other factors that may influence the findings will be presented in the fourth chapter. The fifth chapter presents the conclusions, limitations, and suggestions for this research.

