# CHAPTER 1

INTRODUCTION

1.1 Background

Indonesia has experienced a significant surge in the development of the digital economy over the past few years. One of the main drivers is e-commerce sector, which has experienced a major surge in recent years. The growth of the digital economy is also strengthened by the rapid development of digital financial services, which are changing the way people transact. Buy Now Pay Later (BNPL) is increasingly enriching the digital financial services ecosystem in Indonesia. According to OJK, BNPL is a term that refers to payment transactions or services. BNPL is a service to postpone payments or debts that must be paid off later. BNPL provides payment flexibility to consumers, allowing them to make purchases and pay in several installments without interest or with low interest. Several major companies in Indonesia have played an important role in popularizing BNPL services, including Shopee Paylater, Kredivo, Akulaku, and GoPay Later. Among them, Shopee Paylater has emerged as the market leader in Indonesia.
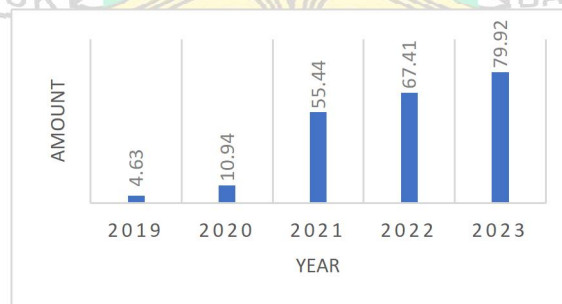
Figure 1. 1 The growth of BNPL usage in Indonesia in 2019-2023

(Otoritas Jasa Keuangan)

OJK noted that the number of BNPL financing contracts in Indonesia reached 79.92 million in 2023. This number has increased rapidly from 2019, when only 4.63 million BNPL payment contracts were recorded in Indonesia. According to OJK, the average annual increase reached 144.35%. Data from OJK also noted that BNPL financing receivables by financing companies in August 2024 increased by 89.20% year on year to 7.99 trillion. This massive value shows the high public interest in this system.

The rapid growth of BNPL services in Indonesia is driven by high consumer demand for financial flexibility in online shopping. In addition, amidst the continuing decline in purchasing power. Center of Reform on Economics (CORE) Indonesia revealed that the decline in Indonesian people's purchasing power had occurred since 2023. It was triggered by rising prices due to the policy of increasing subsidized fuel prices in 2022, which also pushed up food prices, causing volatile food inflation to rise since early 2024, although it has now decreased. However, this increase was not accompanied by an increase in wages for the working class or middle class.

Data on the number of middle class in Indonesia has shrunk this year and many of them have moved down a class. Based on BPS data, the number of middle class in Indonesia in 2019 was still 21.45% of the total population. Then, in 2024 there will only 17.13%. Likewise, the number of vulnerable poor community groups has increased from 20.56% in 2019 to 24.23% of the total population in 2024. This means that many middle class groups have moved down.

From the economic phenomena discussed, BNPL is a solution for people who experience financial constraints. BNPL provides a solution that allows

consumers to more easily manage their cash flow while still getting the goods or services they need or want instantly. Some of these causes ultimately make the use of BNPL in Indonesia more attractive and increase every year. The dynamic economic conditions and the need for more flexible financial management, BNPL continues to be an increasingly popular choice among Indonesian consumers, especially millennials and Gen Z, who tend to be more adaptive to new technologies and want ease and convenience in transactions.
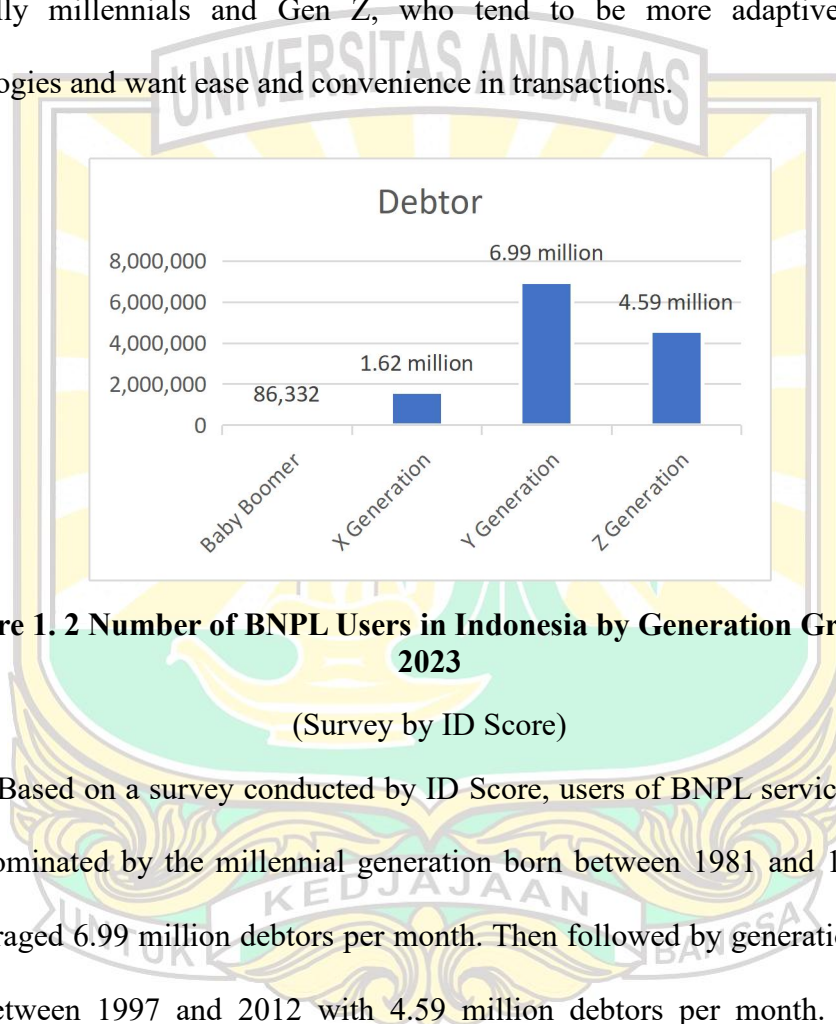
Figure 1. 2 Number of BNPL Users in Indonesia by Generation Group in 2023

(Survey by ID Score)

Based on a survey conducted by ID Score, users of BNPL service in 2023 were dominated by the millennial generation born between 1981 and 1996 with the averaged 6.99 million debtors per month. Then followed by generation Z who born between 1997 and 2012 with 4.59 million debtors per month. The data reveals that the generation group that uses the most BNPL services is dominated by generation Y with the number of users being around 52.13% of the total users in Indonesia. Then followed by the generation Z group with the number of users being 35% of the total users in Indonesia. This proves that the young generation of Indonesia is the main player in using this BNPL service.

Based on West Sumatra Central Statistics Agency (BPS in 2020), the population in this province has reached 5.3 million people, with the millennial generation and generation Z dominating the majority of the population. The millennial generation comprises 24.25% of the total population. Meanwhile, generation Z comprises 30.56% of the population of West Sumatra. Thus, these two groups collectively comprise more than half of the province's population, making them a key segment in the region's social and economic dynamics. The dominance of millennials and generation Z is particularly significant in shaping the adoption and usage of financial technology services, including BNPL. These generations are known for their strong affinity for technology, digital payments, and convenience-oriented financial solutions. The rapid growth of fintech platforms in Indonesia, combined with the evolving spending habits and financial preferences of young consumers, highlights the importance of studying BNPL usage trends in West Sumatra.

The millennial generation is known as a group that is adaptive to digital technology, including in accessing application-based financial services. They tend to be more comfortable using non-conventional financial services such as BNPL. On the other hand, generation Z, who grew up in the digital era, is also increasingly accustomed to the use of digital financial technology, compared to older age groups (Pratama & Anas, 2024).

Their involvement in e-commerce and the increasing trend of online shopping make them potential users of BNPL services. According to Hohnen et al. (2020), young consumers tend not to view BNPL services as a form of debt but rather as a tool for consumption, except when they incur late fees, which shifts

their perspective to see BNPL as debt (Gallo Cordoba et al., 2024). Additionally, BNPL companies promote their products as a responsible and inclusive form of consumption (Aalders, 2023) that is enjoyable, enhancing appeal among young people who perceive BNPL as a "way to pay" rather than as credit (Cook et al., 2023).

Behind all of the convenience that BNPL provide to costumers, there are some risks that need to be considered, especially related to the potential for long-term financial problems. For example, It is very vulnerable to uncontrolled debt problems, as well as difficulties in meeting installment obligations on time, if they do not have sufficient understanding of personal financial management. Many users do not realize that they are accumulating financial obligations in the future. The feeling of "not paying immediately" often obscures the urgency to set aside funds to meet installment obligations in the future. These services also may lead consumers into a debt trap by motivating them to purchase items beyond their means, fostering a culture centered around materialism and excessive consumerism (Raj et al., 2024). Debt accumulation also can trigger significant financial stress. In the long run, the inability to meet these obligations can lead to an unstable financial condition, where individuals have difficulty maintaining a balance between income and expenses.

In 2022, several BNPL service providers such as Shopee Paylater and Kredivo recorded an increase in default cases among young users. A report from one financial institution revealed that 30% of BNPL users were late in paying their installments more than once, which led to an increase in debt burden and a negative impact on their future credit capacity. This phenomenon indicates a

fundamental problem in how users understand and manage this financial service. Late payment of BNPL debts poses several risks. The most common risk is that users who are late in paying installments will be subject to a fine, usually 5% of the total bill per month. This can cause the amount of debt to become larger.

Based on reports from the OJK and the Legal Aid Institute, there has been an increase in complaints from users who have difficulty paying bills on time due to the high burden of accumulating debt. This is exacerbated by collection practices that often cause psychological stress, such as threats via social media or aggressive personal messages. Consumer research in the UK shows that more than one in three BNPL users cite their mental health as a problem, even labeling the payment scheme as "shop now, stress later" (Andrews, 2021).

Another risk is the poor credit history of users who experience late payments. This can make it difficult for users to get loans in the future, including business loans or mortgages. In addition, this delay can also affect employment and education opportunities for young users. Many companies and educational institutions are now starting to consider credit history as part of the selection process, both in hiring and providing scholarships or education programs. In this context, late installment payments can have a significant impact on the assessment of the individual. When someone has a bad credit history or is often late in paying, this not only affects their reputation in the eyes of financial institutions, but can also hinder access to various career and education opportunities. Many companies now use credit scores as an indicator of a prospective employee's responsibility and discipline in managing personal finances, which is considered to reflect behavior in the workplace.

As a result, young people need to be more careful in using financial services such as BNPL, given the potential long-term impact on their future professional and academic lives. BNPL system in Indonesia aims to simplify the transaction process in meeting needs. Irresponsible use actually makes this system have a negative connotation, even though its purpose is still positive. As long as it is used within reasonable limits, BNPL will greatly assist the Indonesian people in meeting their needs.

After discussing the various risks that may arise from using BNPL services, it is important to further analyze the factors that influence consumer decisions, especially the younger generation, in using this service. Various factors, ranging from socio-economic conditions to promotional, social influences, and also self control play a role in driving BNPL usage behavior.

The use of BNPLservices is influenced by various socio-economic factors such as gender, education level, and income that influence their decisions and behavior in various aspects of life, including in terms of finance and consumption. Several studies have shown that differences in consumption behavior between men and women can influence the tendency to use BNPL. Higher levels of education are often associated with better financial literacy, so one may be more cautious in using BNPL services. Conversely, lower levels of education may potentially lead to a lack of understanding of the long-term risks of debt taken on through BNPL. An individual's income also is a major factor in deciding whether to use BNPL. People with higher incomes tend to have a wider range of financial options and may use BNPL as a strategy to manage cash flow. On the other hand,

those with lower incomes may be more dependent on this service to meet their consumption needs (Chinoda & Mashamba, 2021).

Aggressive promotions carried out by BNPL service providers have become one of the main drivers in increasing the adoption of this service among consumers. Various marketing strategies implemented, such as 0% interest offers, massive discounts, and easy application processes, are very attractive to consumers. This is very different from traditional credit services such as credit cards, which often require a longer approval process and stricter requirements. Katadata's survey (2022) found that 60% of BNPL users in Indonesia admitted to making purchases that they had not planned more often, especially when faced with various promotions and discounts . Furthermore, BNPL promotions are often targeted at the younger generation who tend to be more active in online shopping. This generation is not only attracted by payment flexibility, but is also influenced by attractive promotions disseminated through e-commerce platforms and social media.

Social influence is also one of the main factors that influence consumer decisions in using BNPL services. Consumers tend to be influenced by the behavior of their group or social circle. This means that the more people around an individual who use BNPL, the more likely the individual will also use this service. Many study found that positive reviews from friends or family can give consumers the confidence to try services they might otherwise consider risky, such as BNPL.

Another factor that can influence the use of BNPL is financial self-control which refers to a person's ability to manage and control consumption impulses to stay in line with the budget or financial plan that has been set. Without adequate self-control, the use of BNPL can trigger unplanned consumptive behavior, and ultimately, can have a negative impact on an individual's financial stability. Studies show that individuals with low financial self-control are more likely to make impulsive purchases and get caught in long-term debt. This is due to the payment delay offered by BNPL, which often makes consumers underestimate their financial obligations. Consumers feel more free to buy goods because there is no need to pay immediately, even though they may not have considered their ability to pay off installments in the future. The use of BNPL can encourage higher consumption behavior, especially for those who do not have strong financial control.

The thesis title "Analyzing the determinants of BNPL Users Among Young People in West Sumatra: A Logistic Regression Approach" focuses on analyzing the factors that influence BNPL usage among the young generation in West Sumatra, using a logistic regression approach. BNPL promotion, social influence, and financial self-control are relevant variables because each of these variables represents key dimensions in the TPB that influence BNPL usage intention and behavior. By mapping the characteristics of BNPL users based on socio-economic factors, this study will provide deeper insights into the factors that influence consumer behavior in West Sumatra, especially in the context of digital financial services.

The findings of this study can be a basis for the government and financial service providers to improve financial literacy and offer more responsible solutions in managing BNPL services in the future (Alcazar & Bradford, 2021). Desai & Jindal (2024) highlighted the need for legislative developments along with the expansion of BNPL to provide consumers with comprehensive information about BNPL risks. Soni (2023) further underlined the need for regulation related to consumers' capacity to identify risks related to the use of BNPL services so that they can avoid financial problems due to excessive purchases.

1.2 Problem Statement

This study addresses several significant gaps compared to previous research on BNPL usage. First, most prior studies have employed linear regression or descriptive statistical analysis, while this study utilizes logistic regression, which is more appropriate for predicting the probability of individuals becoming BNPL users or non-users based on independent variables. Second, previous research has often overlooked socio-economic characteristics as determinants of BNPL usage behavior, whereas this study maps the influence of factors such as income, age, and employment status to provide a more comprehensive understanding.

The combination of BNPL promotion, social influence, and financial self-control variables within a single analytical model offers a new and holistic perspective aligned with the Theory of Planned Behavior (TPB), which has rarely been examined simultaneously in prior studies. Additionally, this research focuses on the local context of West Sumatra, a region with unique cultural and economic characteristics, in contrast to most studies conducted in major cities or developed

countries. Lastly, by emphasizing the importance of financial literacy and regulation, this study addresses practical needs highlighted in previous literature regarding risk management for BNPL users. Therefore, the formulation of the problem statement are as follows:

1. Do socio-economic factors influence individual tendency to use BNPL services?

2. Does BNPL promotion affect individuals' tendency to use BNPL services?

3. Does social influence influence an individual's tendency to use BNPL services?

4. Does financial self-control affect individual tendency to use BNPL services?

1.3 Research Objectives

Based on the background and problem statement, the purpose of this study is to determine:

1. The influence of socio-economic factors on the tendency to use BNPL services

2. The influence between BNPL promotion and tendency to use BNPL services

3. The influence between social influence and the tendency to use BNPL services

4. The influence between financial self-control and the tendency to use BNPL services

1.4 Research Benefits

1.4.1 Theoretical Benefits

This study is expected to provide a significant contribution to the development of literature in the field of digital economy, especially related to consumer behavior towards the use of Buy Now Pay Later (BNPL) services. By

using a logistic regression approach, this study can enrich academic understanding of how socio-economic factors, BNPL promotion, social influence, and financial self-control influence the decision to use these services. The results of this study can be a reference for other researchers who want to explore similar topics, both in the context of Indonesia and other developing countries, as well as provide new insights into the behavior of the younger generation in the digital financial ecosystem.

1.4.2 Practical Benefits

For practitioners, especially BNPL service providers and the digital financial sector, this study provides an in-depth overview of the factors influencing the adoption of BNPL services among the younger generation. By understanding the influence of promotion, social, and consumer financial control, service providers can design more effective and responsible marketing strategies. In addition, the findings of this study are expected to be a consideration for supervisory bodies, namely the Financial Services Authority and other regulators so that they can design better regulations related to consumer protection in the use of digital financial services, as well as create or formulate policies regarding the operationalization and use of BNPL services. These findings can also be used to develop risk mitigation policies, especially in terms of preventing excessive consumer behavior and increasing financial literacy among users.

1.5 Scope of Research

This study will discuss the characteristics of Buy Now Pay Later (BNPL) service users among the younger generation in West Sumatra, focusing on the variables that influence their decisions in using the service. This study is limited to

millennial generation subjects (born between 1981-1996) and generation Z (born between 1997-2012) who live in West Sumatra. This study aims to understand the differences in characteristics between users and non-users of BNPL services in the region. The variables to be studied include the dependent variable, namely the use of BNPL (users and non-users), as well as independent variables such as socio-economic factors (age, gender, marital status, education, employment status, and income), BNPL promotion, social influence, and self-control in financial management.

1.6 Outline of Research

The writing systematics in this research consists of five parts with the following structure:

CHAPTER I : INTRODUCTION

The research background, problem formulation, research objectives, research benefits, research scope, and writing systematics are presented in this section.

CHAPTER II : LITERATURE REVIEW

This section contains an explanation of the theory underlying this research, several previous studies related to this research, development of research hypotheses, and research models.

CHAPTER III : RESEARCH METHODS

This section explains the research design, operational definition of variables, population and sample, data collection techniques, data analysis

techniques used in this study, as well as the stages of data testing and research hypothesis testing.

CHAPTER IV : RESEARCH AND DISCUSSION

This section explains the research object, namely students in Padang City, discusses the results of the processed data, and provides analysis and discussion of the results of the data processing.

CHAPTER V : CLOSING

This section contains conclusions from the research results, research implications, limitations in the research, and suggestions provided by the author in this research.