

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Today, everyone is used to using technology in his/her everyday operations. Almost every business that exists today makes use of technology as one of the innovations that has been implemented to stay up with the expansion of the contemporary generation, notably in the financial sector. Fintech, which stands for financial technology, is an invention in the realm of financial services that has been growing in Indonesia in recent years. Financial technology innovation refers to a technology utilized by financial service organizations to facilitate some of the services that have been given (Idris, 2021).

The growth of financial technology in Indonesia has been quite rapid, as seen by the large number of financial technology businesses that have arrived in the country. Financial technology development in Indonesia has been ongoing since 2006. However, in terms of winning the faith of Indonesians in fintech enterprises, it has only been around since the *Asosiasi Fintech Indonesia* (AFI) was created in September 2015. From 2006 to 2017, the number of financial technology businesses in Indonesia increased by around 78 percent (LinovHR, 2020).

The presence of fintech per transaction value in Indonesia supplied by the *Asosiasi Fintech Indonesia* (AFI) in 2020, indicating that fintech in Indonesia has recorded transactions of more than Rp. 80 billion, with total transactions of

Indonesian fintech in 2020 reaching roughly Rp. 4.6 trillion.

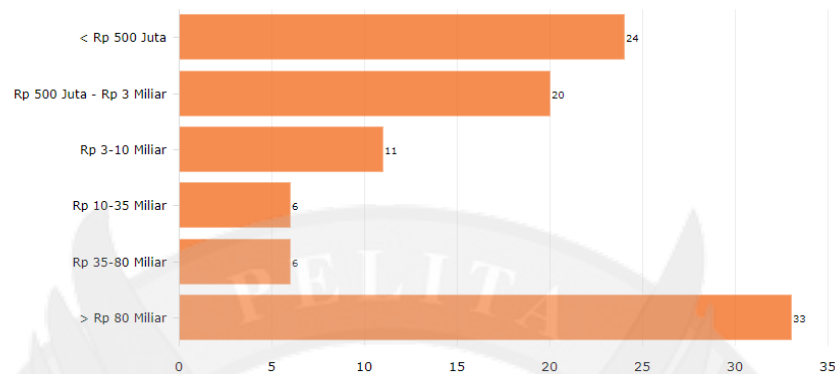


Figure 1.1 Presence of fintech per transaction value 2020

Source: <https://databoks.katadata.co.id/>, retrieved in 2021, December 14

Based on graph above, with the increase in financial technology in Indonesia also has a lot of positive effects on people in Indonesia, such as increasing financial inclusion, assisting businessmen in obtaining capital for their businesses, providing convenience in financial services, increasing options for low-interest loans for the community, and assisting people in improving their living standards (Paskalia, 2021). Another thing that is one of the factors that affects financial technology in Indonesia is the Covid-19 pandemic.

We faced a terrible struggle towards the end of 2019 when a case of the covid-19 pandemic was reported, with the first instance occurring in China, to be precise, the city of Wuhan, and ultimately arriving in Indonesia in early 2020. The COVID-19 epidemic also had a significant influence on the global economy. World economic growth in 2020 was down by 3 percent, but when the world's COVID-19 pandemic spread in June 2020, there was another 4.9 percent drop. In Indonesia, the impact of the COVID-19 epidemic is also significant; although the

domestic economy grew by 2.97 percent in the first quarter of 2020, this figure was lower than the previous year; normally, the Indonesian economy grows by over 5 percent on average (Liputan6.com, 2021).

As a result of the COVID-19 pandemic, which requires the application of social distance, it introduces new behaviors into the society, particularly potential for banking, financial, and financial services organizations. The COVID-19 epidemic has also caused several businesses to shift communication methods and offer items digitally.

The financial technology business is one of the fastest expanding during the COVID-19 pandemic, particularly in Indonesia, as indicated by a surge of 80 percent in the number of licensed financial technology providers. Statistical data supplied by the *Otoritas Jasa Keuangan* (OJK) and *Bank Indonesia* (BI) also demonstrate a rise in financial technology in Indonesia, as evident by public use of financial technology, with Bank Indonesia recording a total of Rp.393 million e-money instruments in September 2020 (Santia, 2020).

According to the 2021 edition of AppsFlyer's State of Finance App Marketing report, Indonesia ranks third among 15 countries in terms of the number of financial app installs. Marketers in Indonesia are also continuing to spend money on advertising to get new customers. This is predicated on a 180 percent rise in costs from the second quarter of 2020 to the first quarter of 2021 (Sari, 2021).

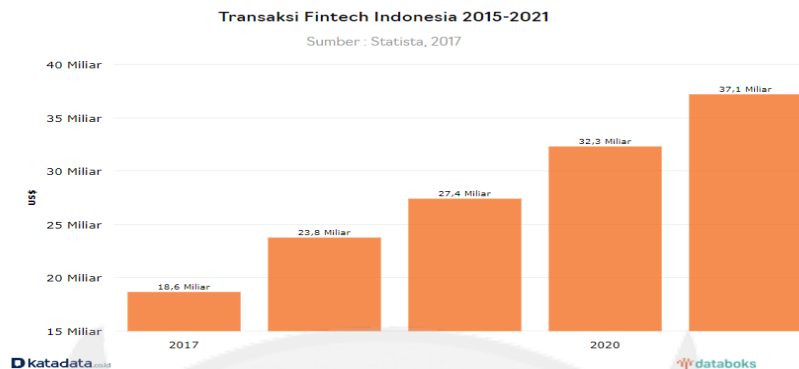


Figure 1.2 Fintech transactions in Indonesia

Source: <https://katadata.co.id/>, retrieved in 2021, December 14

According to the data above, the use of transactions in Indonesia increased between 2015 and 2021. Currently, \$37.1 billion in transactions are being carried out till 2021. KOMINFO also said that the growth of fintech firms such as digital custody increased by 36%, digital payment increased by 26%, and the peer-to-peer industry decreased by 8%.

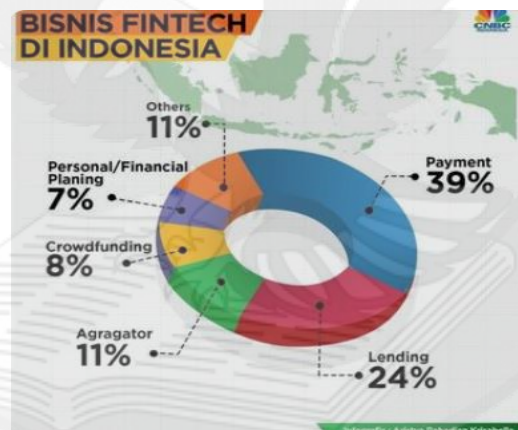


Figure 1.3 Fintech Business in Indonesia

Source: <https://www.cnbcindonesia.com/>, retrieved in 2021, December 14

According to the *Asosiasi Fintech Indonesia* (AFI) graph above, 39 percent of fintech firms are involved in the payment system subsector. Financial technology players are tied to the banking sector in 63.90 percent of cases, and 77 percent have worked directly with banks. Payments and loans dominate the Indonesian fintech industry. Based on the *Otoritas Jasa Keuangan* (OJK), the

kind of fintech in Indonesia is categorized into two categories: fintech 2.0 and fintech 3.0. Fintech 2.0 refers to a digital financial service provided by banking financial institutions, whereas fintech 3.0 refers to a technology firm that provides financial innovation goods and services. Crowdfunding, digital payment systems, aggregators, peer-to-peer lending, financial planning, and other sorts of fintech are emerging in Indonesia (Daryono, 2021). One of the financial technology companies in Indonesia is the OVO company.

OVO is a web-based program that offers online payment and transaction services. In the OVO application, we may also conduct transactions for free by accumulating points with each transaction. OVO was formed by a business called Lippo Group and has been in operation since 2017. However, on September 25, 2017, OVO got an e-money permission from Indonesian banks as a *financial technology* firm throughout Indonesia. The Tokyo Century Corporation then invested \$116 million in December 2017 for a 20% share in the OVO firm (Mhijanto, 2020). Grab and Tokopedia both invested in OVO in 2018 and 2019, but in October 2021 Tokopedia was no longer cooperated with OVO and sold its shares to Grab and on May 17, 2021, Tokopedia and Gojek officially joined the name (GOTO) namely PT GoTo Gojek Tokopedia Tbk, and on April 11, 2022, the GoTo company officially listed shares in Bursa Efek Indonesia (BEI). By the end of 2021, Grab will have increased its stake in OVO, where it owns 90%, and the remaining is held by the local investors.



Figure 1.4 OVO logo

Source: <https://www.cermati.com/>, retrieved in 2021, December 14

Since March 14, 2019, OVO has been valued at \$2.9 billion. As a result, OVO is a unicorn in the financial technology industry. The term "unicorn" refers to a start-up firm with a valuation of more than \$1 billion. OVO is the first firm in Indonesia to achieve unicorn status in the payment and financial services sectors (Katadata, 2019). OVO got a proud achievement in 2021 at the FinTech Intel 2021 FinTech Awards event for being one of the digital payment firms that managed to obtain the Fintech of the Year award. It is feasible to establish payment services and financial services with a diverse ecology using OVO's ecosystem. The usage of OVO for MSMEs is also highly beneficial to them, notably during the COVID-19 epidemic, with a 95 percent growth in the number of MSMEs with OVO partners by 2020 (Lumanauw, 2021).

OVO has an advantage that its competitors do not have according to a survey performed by Kadence International Indonesia, OVO is one of the digital payment systems with the most users during the epidemic. OVO is the most well-known digital payment platform, according to 96% of respondents. Many individuals utilize OVO because the features are simple to use. For further information, Kadence performed research on the behavior patterns of active users

of 14 digital payment platforms in Indonesia, including OVO, and OVO dominated with a score of 71% based on data received from active users (Putri J. , 2021).

Table 1.1 Transaction Volume, Transaction Value And frequency ratio

	<u>ShopeePay</u>	OVO	<u>GoPay</u>	DANA	<u>LinkAja</u>
Transaction volume	29%	25%	21%	20%	6%
Transaction value	33%	24%	19%	18%	6%
Frequency of use	14,4 times	13,5 times	13,1 times	12,2 times	8,2 times

Source: <https://katadata.co.id/desysetyowati/digital/605d9ee9399b9/jumlah-pengguna-shopeepay-ovo-dana-melonjak-hingga-267>, retrieved in 2021, December 14

According to Harumi Supit, Head of Corporate Communications, OVO experienced a 267 percent rise in the number of users throughout 2020. The OVO application was used on nearly 115 million devices. OVO's partner count increased by 95% year on year (YoY). ShopeePay, on the other hand, triumphed in terms of transaction volume, transaction value, and frequency of usage for financial technology payment in Indonesia between November 2020 and January 2021. ShopeePay has a transaction volume of 29%, OVO has a volume of 25%, GoPay has a volume of 21%, DANA has a volume of 20%, and LinkAja has a volume of 6%. ShopeePay accounts for 33% of total transaction value, OVO accounts for 24%, GoPay accounts for 19%, DANA accounts for 18%, and LinkAja accounts for 6%. The frequency of ShopeePay customers is up to 14.4 times per month, Ovo is up to 13.5 times per month, GoPay is up to 13.1 times per month, DANA is up to 12.2 times per month, and LinkAja is up to 8.2 times per month (Burhan, 2021).

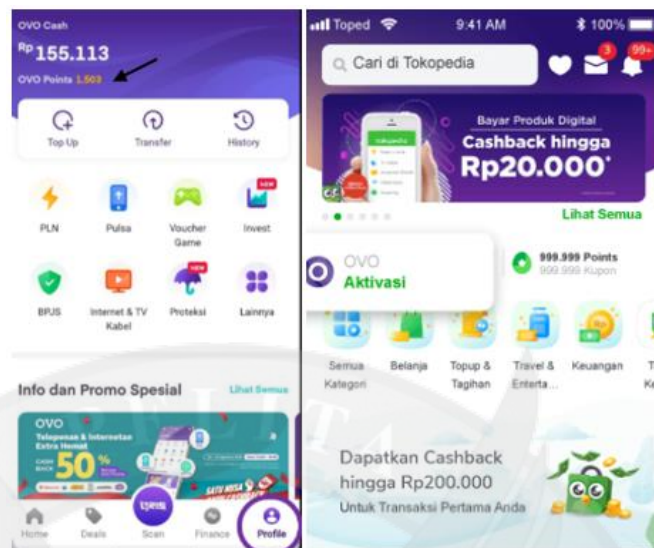


Figure 1.5 OVO Features

Source: <https://www.ovo.id/>, retrieved in 2021, December 14

The OVO program contains several functions that may be used when using OVO. The first is multiplied points, which is one of OVO's features that allows us to earn points every time we purchase at a retailer that has an OVO sign. Then you may get these points by spending a minimum of Rp. 10.000. The point itself has a 1:1 value, which means that if we have 10,000 points, we can buy the same number of things. Then there are many intriguing promos that we can acquire, one of which is when we purchase at the Tokopedia online store, we will be able to view some of the promos that are offered on the offers page. Aside from that, we normally earn cashback when we purchase with OVO, and there are other additional promotions. Then OVO also works with a variety of fantastic businesses, like Hypermart, First Media, Agoda, Cinemaxx, Matahari department store, and many others. Another great advantage of OVO is its speedier payment system, which allows us to rapidly conduct purchases by just entering a phone number or bank account. OVO also offers services where we can effectively handle funds, such as OVO Club and OVO Premier. OVO also provides

convenience in transactions, with over 60,000 merchants collaborating with OVO from Sabang to Merauke (Ovoint, 2021).

Table 1.2 Feature Comparison

Application	GoPay	OVO	DANA	LinkAja
Save money	Yes	Yes	Yes	Yes
Transfer to others	Yes	Yes	Yes	
Bank transfer	Yes	Yes	Yes	Yes
QR Scan	Yes	Yes	Yes	Yes
pay for transportation online	Yes	Yes	Yes	Yes
Save card	Yes	Yes	Yes	
Investment (Gold/Mutual fund)	Yes	Yes		Yes
Pay fot clinic/hospital	Yes	Yes	Yes	
Shopping at retail	Yes	Yes	Yes	Yes
Pay later	Yes	Yes		
cash withdrawal	Yes		Yes	Yes
Pay for food, bills, credit, etc	Yes	Yes	Yes	Yes
Max balance	Rp. 2 mil - 20 mil	Rp. 2 mil - 10 mil	Rp. 10 mil - 20 mil	Rp. 2 mil - 10 mil

Source: <https://bisnisindonesia.id/>, retrieved in 2021, December 15

In the table above we can see what features are provided by each financial technology application and can also be a picture of how each application has advantages and disadvantages for each of the features provided.

As a result of the explanation that has been described previously, we should be able to comprehend the significance of fintech in its application and use, particularly during this pandemic. Because many individuals in Indonesia have switched to utilizing fintech because they feel underserved by the traditional financial sector, here is where financial technology comes in as a solution to make it easier for them to carry out all payment and other operations. Many individuals in Indonesia are still enduring financial difficulties, particularly as the pandemic makes it difficult for people to manage their cash and make responsible economic planning. As a result, it is critical for individuals to take the proper steps in managing their money to avoid financial issues in the future and to have a positive attitude toward healthy financial conduct. People can predict the appearance of

financial troubles in the future with solid financial planning, especially millennials. With the understanding of financial knowledge, it will help them to be more prepare about managing their own financial plan.

Financial knowledge itself according to (Sinambela, 2020) has a significant positive relationship with financial literacy. Financial literacy is of course also very much needed, especially in terms of financial problems caused by a lack of financial knowledge. Therefore, someone who always tries to improve his financial knowledge with reading and learn about finance, it is certain that that person will become better in terms of financial literacy also with financial knowledge. Financial literacy is one of the most crucial aspects of financial management. Financial literacy is a process or activity that aims to raise consumers or society's knowledge, skills, and beliefs for individuals to better manage their financial (Raiz Invest Indonesia, 2021). According to the comparison of the use of financial products or services in Indonesia, there are only 46 people for every 100 people who have bank accounts, 15 people for every 100 people who have life insurance policies, 7 people for every 100 people who use the services of finance companies, and 1 person for every 100 people who is a participant in the pension fund, and 0.15 people who become investors. Based on the OCBC NISP Financial Fitness Index, it is known that the financial literacy level of the Indonesian people in 2021 will only be at 37.72 out of a total score of 100 (Widhiyanto, 2021). And according to OJK statistics from 2013, the level of financial literacy in Indonesia remains quite low for people who understand financial literacy and have abilities in using financial goods or services, with a

rate of 21.84 percent (Otoritas Jasa Keuangan, 2021).

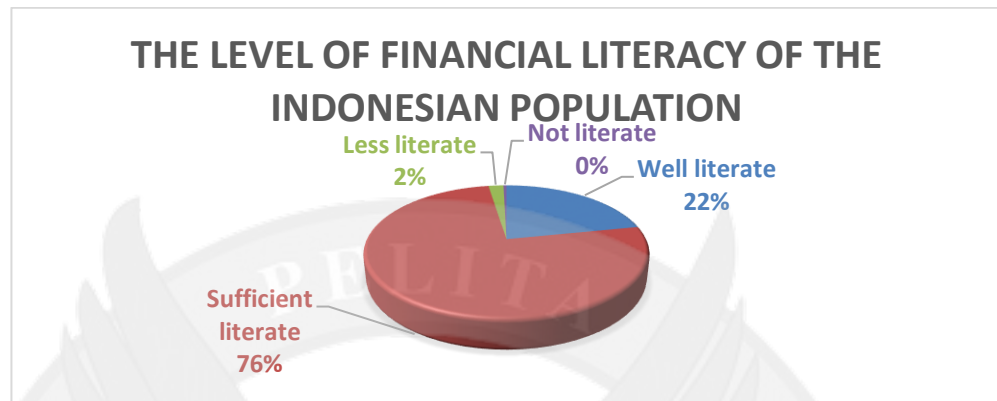


Figure 1.6 Level of Financial Literacy

Source: <https://www.ojk.go.id/>, retrieved in 2021, December 16

It can be seen in the picture above, based on data taken from OJK, there are still many people who are sufficient literate, with little knowledge of literacy many people suffer losses and falls because of a lack of financial knowledge, particularly in the economic sector, and this promotes a wasteful or consumptive mindset, particularly among millennials. Many people do not invest or are unfamiliar with the capital market due to a lack of financial education. College education is highly beneficial for people in developing financial knowledge on financial literacy understanding, particularly for millennials. College education will at the very least assist to shape characters who are more cautious in areas of financial literacy, particularly among the millennial generation who live in a society with a broad and complicated economy. The millennial generation is particularly devoted to social media and has a strong understanding of modern equipment such as telephones, which results in a vulnerability for millennials since it can have a negative influence (Kompasiana, 2022).

The millennial generation grew up with the introduction of the internet and

computers, resulting in natural technological abilities. Millennials have diversified lifestyles, they are always looking for new experiences, they are more concerned with transitory pleasures than satisfying their own requirements first, and they enjoy spending time in pricey cafés (Ningtyas, 2019). Indonesia has numerous potentials to capitalize on its economic advantages through the utilization of demographic bonuses and fintech trends, but millennials have not been able to develop the necessary skills to capitalize on these opportunities. (Damayanti & Zakarias, 2020). As a result, the millennial generation should prepare themselves to be smart market participants in the industry and financial services, as this will be beneficial to them and the environment around them in the future. So, with financial technology, financial knowledge and financial literacy, the millennial generation should pay more attention to these two things because of course this will help them in the future.

The advancement of financial technology in Indonesia has elevated financial technology to the forefront of the financial industry. As a result, there is a high level of market demand for enterprises in Indonesia. Making the Indonesian government construct an entity that monitors technological financial activity in the Indonesian financial sector, the entity called *Otoritas Jasa Keuangan* (OJK).

Otoritas Jasa Keuangan (OJK) is one of the entities formed under Law No. 21 of 2011 that serves as a regulatory framework as well as organized oversight of all financial services sector operations, including the financial technology industry (Otoritas Jasa Keuangan, 2021).

Then, in terms of the millennial generation, the availability of financial

technology, of course, influences how these millennials respond to financial behavior because of the benefits given by fintech. This financial technology has either a positive or negative influence. For millennials, this technology will undoubtedly aid them in solving difficulties, as well as speeding up the transaction process with one another, among other things. However, many millennials are still following the crowd when it comes to financial technology. Those who are compelled to use it due to environmental conditions and there are people also wish to have a cash loan. However, if they are not prepared with the necessary knowledge, this will undoubtedly have a negative influence in the future.

In Medan, the growth of financial technology is also quite rapid, numerous fintech businesses say that Medan is the sixth most populous city in the world. As a result, many businesses aim to launch their products in Medan City by holding events there to attract new clients. This is also excellent news since the expansion of fintech in the field will, of course, boost the literacy of the people there, particularly millennials (Luvita, 2019).

The *Otoritas Jasa Keuangan* (OJK) stated that the financial literacy and inclusion index was rising, particularly in the province of North Sumatra, which includes one of the country's largest cities, Medan. According to the findings of a study conducted by *Survei Nasional Literasi dan Inklusi Keuangan* (SNLIK) in 2019, the financial literacy index has achieved 38.03 percent, above the aim of 35 percent (Siregar, 2020). This suggests that, while financial literacy in Indonesia was formerly low, there has been a growth in awareness of financial literacy in Indonesian society in pace with the times.

Because the millennial generation is one of the generations that will sustain or manage Indonesia's present economy, they must expand their understanding of economic behavior. The following statistics show the millennial generation's population in Indonesia.

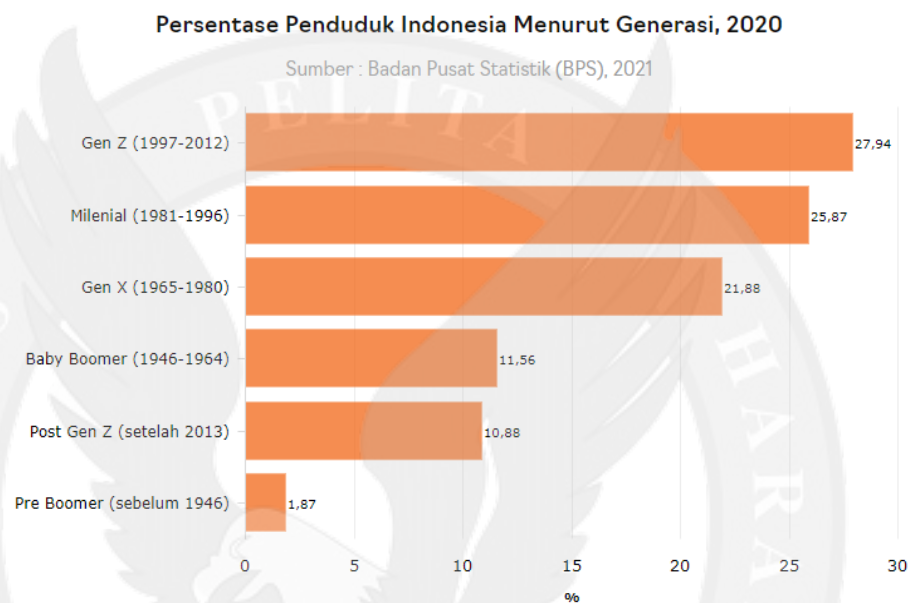


Figure 1.7 Indonesian population presentation

Source: <https://databoks.katadata.co.id/>, retrieved in 2021, December 16

According to the comparison above, the millennial generation is the second largest population in Indonesia, with a percentage of 25.87 percent. This means that the number of millennials in Indonesia is nearly one third of the total population of Indonesia, which has an impact and greatly contributes to the Indonesian economy.

Based on the explanation that has been mentioned above and also based on several sources, namely from: OCBC NISP Financial Fitness Index which says financial literacy level of the Indonesian people in 2021 only be at 37.72 out of a total score of 100 (Widhiyanto, 2021) which is data on the level of financial literacy of the Indonesian population. To observe the phenomenon This study

examines the adoption of fintech apps, particularly fintech payments, because the availability of financial technology offers consumers with a new breakthrough. Users may enhance their financial literacy and expertise by using fintech to make it easier to obtain information or utilize different existing financial products. As a result, I am particularly interested in conducting research on financial technology, financial knowledge, and financial literacy for the millennial age, which is a large population in Indonesia especially in Medan city.

The problem of financial literacy, of course, necessitates an attitude from Indonesian financial businesses to present a concept that may assist these millennial generations manage their money to make costs and income more secure for the future, and so aid future millennial generations so that they are not swayed by the culture of joining friends or following trends, and all of this must be balanced with the appropriate financial arrangements for millennials. With millennials being able to better comprehend fintech and financial knowledge, they will be more productive and will have a beneficial influence on people around them. Therefore, I am very interested in this research which has title of **“THE INFLUENCE OF FINANCIAL TECHNOLOGY AND FINANCIAL KNOWLEDGE IN INCREASING MILLENNIAL FINANCIAL LITERACY IN MEDAN ON USING OVO APPLICATION”**.

1.2 Problem Limitation

Because there are many things that can play a role in improving Financial Literacy in the millennial generation, which in turn could result in me having to limit this research so that later this research will not be too broad. This research

will later examine the influence of using OVO application as Financial Technology and Financial Knowledge in increasing Financial Literacy in millennials aged around 25 to 40 years old. And this research will only represent the millennial generation in the city of Medan.

1.3 Problem Formulation

Here is a problem formulation that will serve as a guide for the things to be done in this research. So, the formulation of the problem in this study is as follows:

1. Does Financial Technology have an influence on the millennial generation in the city of Medan on using OVO application in increasing Financial Literacy?
2. Does Financial Knowledge have an influence on the millennial generation in the city of Medan on using OVO application in increasing Financial Literacy?
3. Do Financial Technology and Financial Knowledge both have an influence on the millennial generation in the city of Medan on using OVO application in increasing Financial Literacy?

1.4 Objective of the Research

The purpose of this study is that researchers want to find out the best solution and provide conclusions based on the hypotheses developed in this study which can provide knowledge to the millennial generation for the future. The aims of this research are to analyze and evaluates the influence of:

1. Financial Technology towards Increasing Financial Literacy for millennial generation in Medan on using OVO application.
2. Financial Knowledge towards increasing Financial Literacy for millennial generation in Medan on using OVO application.
3. Financial Technology and Financial Knowledge towards increasing Financial Literacy for millennial generation in Medan on using OVO application.

1.5 Benefit of the Research

Researchers hope that this research can help the millennial generation to understand more both practically and theoretically, as follows:

1.5.1 Theoretical Benefit

From a theoretical standpoint, this research is supposed to offer understanding about what Financial Technology and Financial Knowledge is to the millennial generation and the Indonesian people, allowing them to subsequently enhance the Financial Literacy index, which will undoubtedly benefit many parties. Theoretically, it is intended that this research will provide more understanding of management science connected to finance, particularly about the function of Financial Technology and Financial Knowledge in increasing Financial Literacy for the millennial generation.

1.5.2 Practical Benefit

Practically, this research aims to provide practical benefits for readers and future researchers, hopefully the results of this study can be used as a reference in the work of subsequent research, and hopefully the explanations and conclusions

in this study can help future researchers related to Financial Technology and Financial Knowledge on millennial generation Financial Literacy.

