The Effect of Financial and Financial Technology Literation on Financial Inclusion

Meiryani, Jessica Elizabeth, Andreas Chang and Yen Sun
Bina Nusantara University, Jakarta, Indonesia

Keywords: Financial Literacy, Financial Inclusion, Financial Technology, SME.

Abstract: The purpose of this study was to determine the effect of financial literacy and financial technology on financial inclusion. This research method is carried out by distributing questionnaires to SME (Small Medium Enterprises) respondents in West Jakarta area. The sample in this research used 130 respondents and statistical testing was carried out using SPSS 25. The results showed that only financial literacy had a positive effect on financial inclusion, while other independent variables had no effect on financial inclusion. It can be concluded that financial literacy has an influence on financial inclusion because when someone has a high literacy level, their ability to apply financial products and services is also wiser.

1 INTRODUCTION

The economic development of a country cannot be separated from the financial sector and the role of the government. In developing the financial sector, a country is expected to increase access to financial services. The mindset of the people in some areas of the capital city of Jakarta is still modest in responding to financial problems and the lack of socialization of the importance of financial institutions and the awareness of the people of Jakarta cannot be said to have developed. So there is a need for changes that bring people more inclusively in utilizing existing financial access. Under these circumstances, people need strong financial literacy to improve their welfare and prevent being exposed to fraud in the financial sector. Financial literacy is important because with financial literacy, financial inclusion can be formed. Thus, financial literacy is intended for anyone, especially for middle and lower class people who really need clearer knowledge of financial instruments. MSMEs are micro, small and medium enterprises. In growing the economic growth of the UMKM community, it has a big contribution. According to the Ministry of Education and Culture (Culture, 2016), literacy is the ability to access, understand, and use something intelligently through various activities, including reading, viewing, listening, writing and speaking.

According to the World Bank, financial inclusion is a major supporting factor in reducing poverty and increasing welfare. Financial inclusion itself is defined as access to financial products and services that are useful and affordable in meeting the needs of the community and their businesses in terms of transactions, payments, savings, credit and insurance that are used responsibly and sustainably. The elements that play a role in financial inclusion are access, availability of financial products and services, use and quality which are expected to reduce the number of people who do not have bank accounts because they do not have access to banking services. There are many benefits that can be obtained when financial inclusion has been achieved, such as increasing economic efficiency and supporting financial system stability. Before achieving financial inclusion, several factors are needed to improve it, so the public must understand financial inclusion. Along with the development of information technology and supported by a fast internet penetration rate, several digital financial services have emerged that make it easier for people to make transactions and to obtain financing. The digital service in question is Financial Technology, abbreviated as fintech. Based on Pribadino (2016), Financial Technology (fintech) is a combination of technology and financial features or it can also be interpreted as innovation in the financial sector with a touch of modern technology. Based on the descriptions that have been previously described

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in the above problem, the research problem can be formulated as follows:

- Does financial literacy affect the financial inclusion of the MSME community in West Jakarta?
- Does financial technology affect the financial inclusion of the MSME community in West Jakarta? Based on the formulation of the problem, the objectives of this study are to:
- To find out whether financial literacy affects the financial inclusion of the people of West Jakarta.
- To find out whether the effect of financial technology on financial inclusion in West Jakarta society.

2 THEORETICAL FRAMEWORK

2.1 The Effect of Financial Literacy on Financial Inclusion

There are several supporting components to get the welfare of the people in Indonesia. The components in question are in the form of economic growth, poverty reduction, income distribution and financial system stability. By using instruments for policy in the form of financial literacy and financial inclusion seen from various aspects such as economic conditions, demographic conditions, and geographical conditions and cultural conditions in Indonesia (Sari and Dwilita, 2018). The decision of business actors to access capital from financial institutions and manage their finances with various related parties certainly illustrates how the level of financial inclusion is defined as a situation in which all adults of working age have effective access to credit, savings, payments, and insurance from formal service providers. Financial inclusion data in Indonesia shows the level of financial inclusion at 67.8% in 2016, which increased by 8.1% from the last survey in 2013, which was 59.7%. This means that the Indonesian people have access to formal financial service institutions. To achieve a good level of financial inclusion, an individual or a business actor must go through a decision-making process to use the resources they have. With the era of globalization, the influence of modernization has brought socio-cultural changes in Indonesian society from a traditionalist to a more modern one and is reflected through increasingly advanced public financial management patterns and utilizing financial products and services from formal financial institutions (Sari and Dwilita, 2018). However, not all Indonesian people have accepted this modernization.

Some regions in Indonesia still use traditional (non-formal) institutions to facilitate the financial needs of these communities because they are based on the principles of trust and respect for customs which are quite strong and make Indonesians more comfortable to carry out financial activities through traditional institutions compared to formal financial institutions (Sari and Dwilita, 2018). One of the target groups of SNLKI (National Strategy for Indonesian Financial Literacy) in 2017 is MSMEs (Micro, Small and Medium Enterprises). MSMEs have an important and strategic role in denominational development in Indonesia and play a role in absorbing workers in Indonesia and distributing development products. In the process of developing MSMEs can be facilitated by the financial market, and can lead to substantial poverty reduction which will affect national economic growth (Fauzan and Ahmad, 2019). Sanistasya et al. (2019), suggested that financial institutions be more active in providing education for the products and services offered and adjusting the needs of MSMEs from time to time so as to encourage them to develop more. So, the writer formulates the fifth hypothesis which is in the form:

H5: Financial literacy has an influence on the financial inclusion of the MSME community in the West Jakarta area.

2.2 The Influence of Financial Technology on Financial Inclusion

In the current era of globalization, technological progress is a new driver of economic growth. Especially when it is related to the financial sector, fintech has been able to become a new instrument with the hope of increasing financial growth and financial inclusion. fintech itself has become popular in recent years. In essence, fintech is a financial service based on innovative technology that is integrated online to facilitate various transactions such as installment payments, insurance premiums, household bills, money transfers, balance checks, funding, investments and others (Alimirruchi, 2017). The basic forms of Fintech include payments (Digital Wallets, P2P Payments), investment (Equity Crowdfunding, Peer to Peer Lending), financing (Crowdfunding, Microloans, Credit Facilities), insurance (Risk Management) and crossprocess (Big Data Analysis, Predictive Modeling)), as well as the security infrastructure of Fauzan Ahmad (Fauzan and Ahmad, 2019).

From the diversity of forms of fintech, it has become the main support in facilitating various community activities in Indonesia. The recent strong role of fintech in achieving public access to easy access to finance is likely to have an impact that will be able to increase financial inclusion in Indonesia. Previous research stated that fintech was able to increase financial inclusion and financial literacy quite well, (Sari and Kautsar, 2020). In addition, increasing financial inclusion through digitalization of banks that are integrated with fintech has a positive effect in increasing financial inclusion (Yoshino and Morgan, 2017). Research by Annisa et al (2019). with the title ”DETERMINING FACTORS OF FINANCIAL INCLUSION IN INDONESIA” said that financial technology has a significant contribution in increasing financial inclusion. With the existence of financial technology, people who previously did not have formal banking accounts now have accounts in various technologybased financial services. Thus, the authors formulate the sixth hypothesis, namely in the form of :

H6: Financial Technology has an influence on the financial inclusion of the MSME community in the West Jakarta area.

3 RESEARCH METHODOLOGY

This research uses quantitative methods. The variables in this study use a Likert scale, where the distribution of questionnaires focuses on people who have their own businesses or MSMEs (Micro, Small and Medium Enterprises). The determination of the number of samples in this study used the Hair formula, so that there were 130 respondents who had to fill out a questionnaire. The test which is done is validity and reliability test. This research was conducted from September 2020 to February 2021. The method of presenting data used in this study is a method of documentation, the data obtained is documented in tabular form, after which it is processed using predetermined methods. Researchers use multiple linear regression as a data processing tool to determine the effect of independent variables on the dependent variable.

Researchers used SPSS 25 as a tool or application in this study. The determination of the number of samples used in this study is based on the Hair formula. According to Hair et al. (2019), determining the number of representative samples depends on the number of indicators used multiplied by five to ten observations. According to Hair et al. (2019), the sample size should be 100 or larger. As a general rule, the minimum sample size is at least five times as many as the number of question items to be analyzed, and the sample size. Therefore, in this study, the number of samples used is multiplied by 5, so that the minimum sample used is 130 MSMEs. Hair formula is as follows:

- Number of Samples = Total Indicators × 5 = 26 × 5 = 130 Thus, the number of samples to be used in this study is 130 samples.
- Sampling Unit While the sample is part of the number and characteristics of the population (Sugiyono, 2010) Therefore, the samples of this study are: MSMEs domiciled in West Jakarta.
- Method of collecting data In this study, researchers obtained data using primary data collection methods, namely by using a questionnaire or questionnaire. The questionnaire is a data collection technique that is carried out by giving a set of questions or written statements to the respondent to answer (Sugiyono, 2010). The questionnaire is an efficient data collection technique if the researcher knows exactly what variables to measure and what can be expected from the respondent. In addition, a questionnaire is also suitable if the number of respondents is large enough and spread over a large area. Questionnaires can be in the form of closed or open questions / statements, can be given to respondents in person or sent by post, or the internet.

4 RESULT AND DISCUSSION

This study uses primary data obtained from distributing questionnaires using google form. Respondents in this study focused only on people who have businesses or UMKM (Micro, Small and Medium Enterprises). Researchers used the Hair formula with a sample of 130 SMEs and the number of questionnaires distributed was 171 pieces. The number of respondents obtained was 130 respondents who filled in the data completely without a single unanswered question.

4.1 Description of Research Objects

The object of research in this study is financial literacy and financial technology on financial inclusion. The statements in the questionnaire are answered using a Likert scale with the following ratings.

4.2 Descriptive Statistical Analysis Results

Descriptive statistics serve to describe or provide an overview of the object under study through sample or population data (Sugiyono, 2010). Data presentation in the form of tables, graphs, diagrams, and quantities such as minimum, maximum, sum, mean, and standard deviation.

4.3 Validity Test Results

It can be seen that the validity measurement for financial literacy variables using Pearson Correlation shows that the R value obtained from the results of running SPSS 25 is greater than the R-Table (R-Table = 0.1723). It can be concluded that all questions made by researchers based on reference journals can be declared valid, so that 10 questions representing financial literacy variables can be used for the questionnaire. Then the measurement of the validity for the financial technology variables which consists of 6 questions describes each valid question to represent the financial technology variables. The R value from running SPSS 25 using Pearson Correlation has a value above the R-Table (R-Table = 0.1723) so it can be said that all of them are valid and can be used for distributing questionnaires. The last 10 questions that represent financial inclusion variables can be declared valid because the R value from running SPSS 25 is above the R-Table value (R-Table = 0.1723) so that these questions can be used in distributing questionnaires.

4.4 T-test Results

Table 1: T Test Results.

Independent Variable	Beta	Sig.	Conclusion
Financial Literacy	0,585	0,000	Has influence
Financial Technology	0,027	0,763	Has no influence

T test was conducted to determine the effect of each independent variable partially on the dependent variable. If the significance value is below 0.05, it can be said that the independent variable has an influence on the dependent variable. Meanwhile, if the significance value is above 0.05, it can be said that the independent variable has no influence on the dependent variable. There is 1 independent variable that has an influence on financial inclusion. The independent variable that affects the dependent variable is financial literacy. Meanwhile, the financial technology variable has no influence on financial inclusion because it has a significance value above 0.05. Financial literacy variables have an influence on financial inclusion.

4.5 T Test Results

The F test is carried out to see whether the independent variables together have an influence on the dependent variable. If the significance value is below 0.05, it can be said that the independent variables jointly have an influence on the dependent variable. Meanwhile, if the significance value is above 0.05, it means that the independent variable has no effect on the dependent variable. It can be concluded that the significance value of the F test is 0.000, so it can be said that the variables of financial literacy and financial technology together have an influence on the financial inclusion variable

4.6 R-Square Test Results

The R-Square test is used to predict and see how much influence the variable x contributes to the variable y together. The R-Square value obtained from SPSS 25 processing is 0.362, which means that the independent variable describes 36.2% of having contributed to the financial inclusion variable. Meanwhile, 43.9% is described by other variables which are not used in this study.

5 CONCLUSION AND SUGGESTION

5.1 Conclusion

After the researcher processes and tests the data, conclusions can be drawn from the results of the hypothesis as follows:

- Testing the first hypothesis in the form of the effect of financial literacy on financial inclusion. Based on the results of the research that has been done, it can be seen that the significance value of the financial literacy variable <0.05 is 0.000. According to Chen

and Volpe (1998), someone who has high financial literacy will have higher success.
- The second hypothesis testing is the effect of financial technology on financial inclusion.

Based on the results of the research that has been done, it can be seen that the significance value of the variable financial technology > 0.05 is 0.303. According to Aribawa (2016), it is stated that financial technology is used by companies and banks to enter into new market sectors, so it can be said that financial technology is not a major factor because its main purpose is to penetrate new markets.

5.2 Suggestion

Based on the research that has been done, there are several suggestions that can be used as material for consideration for further researchers, the government and the banking sector.

- The next researcher, Further researchers are expected to conduct research in more detail and be able to describe what factors most influence financial inclusion, so as to assist the government in evaluating programs related to financial inclusion. In further research, it is hoped that researchers can reveal financial technology products in more detail, so that the research is more specific.
- Government, This research is expected to serve as an illustration for the government to evaluate activities related to financial inclusion, whether they are effective or require improvement. So that the even distribution of financial inclusion can be evenly distributed from Sabang to Merauke.
- Banking, This research is expected to assist banks in formulating programs that will support government financial inclusion programs so that assistance from banks can make it easier for the government to implement activities that support equitable distribution of financial services.

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