

## Low Financial Literacy on the Desire to Take Online Loans (Case Study of Muhammadiyah Surabaya University Students) Bagas Laksana PUTRA<sup>1</sup>, Arfian Ambar RIFQI<sup>2</sup>, Samdan AL-MASYHURI<sup>3</sup> <sup>1,2,3</sup>Faculty of Economic and Business, University of Muhammadiyah Surabaya, Indonesia

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### Abstract:

#### Purpose:

The purpose of this study is to find out the Low Financial Literacy Against the Desire to Make Online Loans (Case Study of University of Muhammadiyah Surabaya Students).

#### Methodology:

The type of research used in this study is a qualitative method. In this qualitative method, the researcher conducts research by considering the situation and condition of the respondents. The data collection method used is by conducting interviews and documentation. Interviews were conducted with 90 management students at the University of Muhammadiyah Surabaya. Meanwhile, the following data collection method is the method of documentation or collecting information in journals.

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### Findings:

The results of the study showed that there were still many students who had a lack of understanding. Then, many students do not understand the impact caused by the dissemination of personal information data. Then, many students have not been able to calculate the risk that will be obtained if the payment exceeds the maturity date or even the risk of spreading illegal data.

### Implication:

This study underscores the importance of equipping students with the necessary skills to navigate financial decisions responsibly. It can include educating them about the implications of sharing personal information, understanding the risks associated with late payments, and recognizing the dangers of spreading illegal data.

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## INTRODUCTION

Knowledge of finance is an essential aspect of making financial decisions. Correct knowledge will provide the best decisions and impacts because individuals are currently more responsible for personal finances because they will impact future finances. With the hope of increasing living standards and can be used for retirement funds.

Knowledge will provide more critical individual thinking; this causes differences of opinion and views between communities. With the development of technology and products, the financial market is multiplying, and many new and more complex financial products. The range of financial products differs, from student loans to mortgages, credit cards, mutual funds and annuities. A great deal of judgment is required when making decisions regarding financial products. It will have an impact on individual welfare. Additionally, the growth of financial technology (fintech) is revolutionizing how people make payments and financial investment decisions. Many people are complacent about getting big profits but forget the risks in implementing and participating in financial programs.

In this context, it is crucial to understand how knowledgeable the extent to which personal knowledge of finance influences financial decision-making. An important indicator of people's ability to make financial decisions is the level of individual financial literacy. The Organization of Economic Co-operation and Development (OECD) defines financial literacy not only as knowledge and understanding of financial and risk concepts but also skills, motivation, and confidence to apply this knowledge and understanding to make effective decisions in a financial context, to improve the financial well-being of individuals and communities, and enable participation in economic life.

Thus, financial literacy refers to financial knowledge and behavior, also known as financial literacy. Financial literacy in developed countries with well-developed financial markets needs help regarding financial literacy. On average, about a third of the global population has basic knowledge and concepts that underlie day-to-day financial decisions (Lusardi & Mitchell, 2020). This fact hides a surprising vulnerability because only one-third can understand the financial fluctuations in the world, even though financial understanding will provide individual abilities in building this welfare. Included in deciding to make a loan.

In the context of rapid changes and developments in the financial and economic sector, it provides a critical understanding of whether people need financial literacy to effectively prepare and think about the financial decisions they face daily. In order to make better financial decisions, individuals need a way to assess, analyze, and evaluate the programs available to them in their economic context. Several fundamental concepts underlie most financial decision-making. These concepts are universal and applicable to every economic context and environment. These three concepts are arithmetic relating to calculating interest rates, understanding interest compounding, inflation, and risk diversification.

The four principles provide information, among others, by doing and knowing about the interest rate that must be paid within a certain period. The second is about the amount of interest that individuals must pay. Then the third is knowledge about inflation, or the possibility of a decrease in currency values which will harm the owners of capital, and the last is knowledge about the diversification of risks/risks that will arise in following and promoting money lending programs to the public.

The importance of financial knowledge is what triggers the many companies that offer to provide financial consulting and create an insurance business in preparing future funds. For example, JasaRaharja, Taspen, and Allianz provide financial literacy.

Loans are someone's decision when there is a pressing situation, and someone needs financial assistance, and the borrower must return the money/assets within a certain period. Technological advances make it easy for someone to get money/assets online. Online lending is an issue widely circulating in the community and is a solution when people need money. However, many negative impacts make people reluctant to use online loan services. Online loans have become popular since the development of fintech. There is much negative public stigma about online financial services.

Online loans are chosen as services that are easy and fast to use. The primacy of online loans is a solution in dealing without making data administration requests that are too long-winded. By depositing a KTP or the Resident Identity Card, someone can borrow money within certain limits. It forms a broad market, so many entrepreneurs use this opportunity to provide money loans online with agreed interest rates. Thus, the government began to provide policies related to online loans. Utilizing loan services and making it easy for customers to obtain money will make one party feel disadvantaged. It causes the creditor to give the loan but has the risk of returning the money that is not following the agreed time or the risk that the money lent is not returned. On the other hand, providing an ID card and photo is an essential requirement. However, with this, there is a risk because there is a possibility that valid personal data will be disseminated from the KTP.

The government must handle these risks through full supervision from the authorized institution, namely the OJK or Otoritas Jasa Keuangan (Financial et al.). With OJK supervision, all financial transactions will be

adequately monitored. What distinguishes legal and illegal financial service providers lies in licensing the institution's operations. When the standard is protected and supervised by the OJK, the financial institution is legal, but if the OJK does not supervise financial transactions, it indicates that the financial institution is illegal.

It is because the OJK will provide firmness when there are illegal transactions or take actions that are not following procedures, which will result in strict sanctions against the relevant institutions. However, this supervision does not mean that an analysis error in choosing a program or loan is good. Not all parties know because of differences in financial literacy between individuals. It also happened to management students at the Muhammadiyah University of Surabaya.

Students are one of the targets that are easily influenced to take part in loan programs because many students need deeper financial literacy in making financial decisions. It causes many students to make mistakes in making financial decisions. Management students have good financial understanding, but this does not rule out the possibility of bad experiences or events in making financial decisions, especially related to online loan decisions.

This research is an extension of Lusardi's research (2019) which discusses the effect of financial literacy in making financial decisions. Then another study, namely Wahyuni (2019), discusses financial practices in making online loans. So, researchers want to research the low financial literacy of students on the desire to make loans online. This study aimed to determine the relationship and impact of low student financial literacy on the desire to make online loans to management students at the Muhammadiyah University of Surabaya.

## METHODS

The type of research used in this study is a qualitative method. In this qualitative method, the researcher conducts research by considering the situation and condition of the respondents. The data collection method used is by conducting interviews and documentation. Interviews were conducted with 90 management students at the University of Muhammadiyah Surabaya. Meanwhile, the following data collection method is the method of documentation or collecting information in journals such as Scopus, Research Gate, International Journal, and other journals accredited by Sinta or Google Scholar. Authors obtain journals by accessing various websites, namely the Scopus Journal page, the Emerald Journal, Sinta Ministry of Education and Culture (Kemendikbud), and other journal access links.

## RESULTS AND DISCUSSION

**Financial Literacy.** The term financial literacy was first coined in 1787 in the United States when John Adams, in a letter to Thomas Jefferson, acknowledged the need for financial literacy to overcome the widespread confusion and pressure in America due to ignorance of credit, circulation, and the nature of credit. Coins (Financial Corps, 2014). Since then, developments have taken place, and the term financial literacy has been used repeatedly by different researchers, organizations and governments and addressed differently (Hung et al., 2009).

Remund (2010) identified the implementation of financial literacy research as a significant challenge because there needs to be a well-defined definition of financial literacy in the literature. Some researchers consider financial literacy synonymous with financial knowledge. Lusardi and Mitchell (2011) conceptualize financial literacy as knowledge of basic financial concepts and the ability to perform simple calculations. Mandell (2007) defines financial literacy as "the ability to evaluate new and complex financial instruments and make informed judgments in both the choice of instrument and the level of use in their own best long-term interest."

**Online Loans.** Online loans are a financial service for the community, resulting from technological advances in the national economy. This service is expected to improve people's welfare with an ongoing economic cycle (Wahyuni & Turisno, 2019). The rapid growth of loans in this country is also due to the potential of the large Indonesian population, plus the current pandemic conditions, which make it difficult for many people's economies.

Financial Literacy Analysis of Online Loan Interests. Based on research conducted on the University of Muhammadiyah Surabaya students, it was stated that many students still needed to understand the risks involved when making online loans. In addition, knowledge of the legal basis and other considerations.

The University of Muhammadiyah Surabaya students stated that many still needed to learn about bank lending procedures. It is a factor that makes many students interested in finding instant ways to earn money. Practical factors then quickly become the main factors that cause students to be interested in taking part in this online loan administration system, even though it has a slightly more expensive interest.

Low student financial literacy causes many students to be unable to calculate the risk that will be obtained if the payment exceeds the due date or even the risk of spreading illegal data. In addition, knowledge about the ability to pay obligations is also one of the areas for improvement of students.

Many students must be aware of the consequences of disseminating personal data information. It causes much misuse of data to commit fraud or other acts. Students overestimate personal data so that they provide data as collateral for online loans. Online loans will provide an exciting 5-15% agreement for interest on each installment. In comparison, the sanctions given follow each company's policies. However, the sanctions are unreasonable for illegal online loans because online lenders can access private videos.

Lusardi and Tufano (2009) report debt literacy as an essential component of financial literacy and hence consists of the ability to make simple decisions about debt and apply knowledge about compound interest in real-life situations. A comprehensive definition that is widely accepted by the Organization for Economic Co-operation and Development (OECD) conceptualizes financial literacy as "knowledge and understanding of finance and risk concepts, and the skills, motivation and confidence to apply that knowledge and understanding to make effective decisions in across a range of financial contexts, to enhance the financial well-being of individuals and society, and to enable participation in economic life."

The way a person behaves will significantly affect their financial well-being. Therefore, it is imperative to capture evidence of behavioral dimensions in financial literacy measures (OECD, 2013). Individuals with high financial understanding will understand the stock market and financial markets, among others:

1. Save actively.
2. Make bill payments on time.
3. Evaluate financial products carefully.
4. Prefer saving to borrowing in times of crisis.
5. Self-assess the affordability of the product.
6. Do retirement planning.
7. Collect and manage assets well.
8. Prefer a low-cost loan.
9. Plan and monitor household budgets and personal finances.

## CONCLUSION

Based on research conducted on the University of Muhammadiyah Surabaya students, it was stated that many students still did not understand the risks involved when making online loans. In addition, knowledge of the legal basis and other considerations. Low student financial literacy causes many students to be unable to calculate the risk that will be obtained if the payment exceeds the due date or even the risk of spreading illegal data. In addition, knowledge about the ability to pay obligations is also one of the areas for improvement of students. Many students must be aware of the consequences of disseminating personal data information. It causes much misuse of data to commit fraud or other acts. Students overestimate personal data so that they provide data as collateral for online loans.

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