CHAPTER II
LITERATURE REVIEW

2.1 Introduction

The aim of this chapter is to establish the connection between comprehension of fiscal matters, financial innovation, and the integration of fiscal offerings. This chapter rigorously assesses prevailing academic literature investigating the influence of fiscal literacy and financial technology on students' incorporation into the domain of finance.

This chapter will also describe of empirical review and findings, theory of study, conceptual framework, hypothesis development, and chapter summary. Through the utilization of a quantitative approach within the literature review, the investigator intends to elucidate the influence of financial literacy and financial technology on the financial inclusion of students at State Polytechnic of Sriwijaya. This will be achieved by establishing connections between financial literacy and financial technology. The focus will be on enhancing access to financial products or services, thereby promoting financial inclusion.

2.2 Theory of The Study

In order to achieve a substantial amalgamation of objectives and outcomes in the realm of financial inclusion, the necessity of employing theories pertaining to financial inclusion becomes evident. The application of a hypothesis or a collection of hypotheses offers a methodical framework of concepts that can be employed to clarify the goals, methodologies, and results linked to the concept of financial inclusion (Ozili, 2020).

2.2.1 Financial Literacy Theory of Financial Inclusion

In accordance with scientific discourse, the theory of financial inclusion posits that educational interventions designed to enhance the financial acumen of individuals can expedite the realization of financial inclusiveness. This theory posits that augmenting individuals' grasp and cognizance of fiscal principles will engender an amplified inclination and eagerness to engage in the conventional financial domain (Ozili, 2020).

In accordance with the principles of financial literacy theory, individuals possessing financial literacy are likely to possess knowledge regarding the financial services and products accessible to them. Once they acquire awareness regarding the already existing financial goods and services capable of enhancing their overall welfare, they shall demonstrate a readiness to engage in the official financial domain through the act of initiating the establishment of a bank account.

Improved understanding of financial concepts and principles in the established financial field empowers individuals to gain benefits encompassing additional offerings like investment prospects and mortgage instruments. Based on this theoretical framework, providing individuals with information about distinguishing between essential needs and wants, creating and managing a budget, cultivating savings to ensure prompt bill payments, and engaging in strategic retirement planning all contribute to promoting self-sufficiency and fostering a level of stability in one's personal financial situation.

Given the relatively low cost associated with educating the general population on financial service utilization, governments encountering limitations in public funding or restricted tax income for facilitating financial inclusion might choose to embrace financial literacy as a holistic approach to amplify financial inclusion on a national scale.

The inadequacy within the financial literacy paradigm of financial inclusivity resides in its sole concentration on the inclination of individuals as opposed to their aptitude to engage in the official financial framework. Though the instruction in financial literacy holds promise in augmenting individuals' eagerness to partake in the formal financial system, it does not inevitably amplify their capability to do so. Competence, in this milieu, pertains to the ownership of fiscal assets essential for participating in singular or multiple fiscal transactions. Consequently, it suggests that individuals lacking financial resources are unable to actively participate in the financial system, regardless of their level of financial literacy.

This theory shows that there is a strong relationship between the Financial Literacy as independent variable (X1) and the Financial Inclusion (Y) as dependent variable within the context of this research. The theory suggests that an individual's level of financial literacy is directly linked to their inclination to engage in formal financial activities, thereby leading to a notable enhancement in their financial inclusion.

2.2.2 Theory of Change

Digital services and new technological solutions can reach much more individuals than conventional methods. Moreover, 12 of the 17 SDGs are considered as being supported by digital financial services (Facilitating Policy and Regulation for Digital Financial Ecosystems: A Change Theory by the United Nations Capital Development Fund in 2018)

An adaptable and knowledgeable approach to risk management is necessary in the linked digital economy. Utilizing digital channels from different suppliers and safeguarding client data are two ways to do this. Protecting money will also be a top priority concern as more individuals utilize formal bank accounts and expect to have access to their money whenever they need it. As rapid economic expansion will be fueled by it, boosting customer trust will also be given priority. Building consumer trust in a fiercely competitive economy is a never-ending effort, and governments play a crucial role in determining where customers may turn for abuse protection, help, and a dependable system.

Various types of activity, such as expert-led policy formulation that necessitates rigorous analysis of policy choices, can improve the enabling environment for digital solutions. Data-driven decision-making also include systematic gathering and evaluation to inform regulation and direct policy agendas.

Frequent engagement of both public and private entities in deliberations concerning particular market constraints and objectives in public policy further enhances constructive discourse between the public and private sectors. Finally, and most importantly. Regulators may better grasp their options in the context of new trends by being exposed to international practice. This will help them guarantee that their government partners are able to take use of their expanding expertise and experience in exploiting digital finance.

This theory posits a strong relationship between the Financial Technology as independent variable (X2) and the Financial Inclusion as dependent (Y) within the confines of this study. The contention of this hypothesis is that the adoption and utilization of financial technology will augment individuals' capacity to engage with conventional financial instruments and services, thereby resulting in a notable augmentation of student financial inclusion.

2.3 Dependent Variable

2.3.1 Financial Inclusion

Financial inclusion, as defined by the United Nations in 2016, refers to the offering of economical financial amenities over a prolonged duration, designed to attract persons from disadvantaged circumstances to participate in the conventional economy. The utilization of formal financial services by marginalized individuals can be denoted as financial inclusion (Ozili, 2018).

According to Indonesia Ministry of Finance in 2013, financial inclusion is a constituent element of the National Financial Inclusion strategy and pertains to the entitlement of every individual to avail comprehensive services from financial institutions promptly, conveniently, knowledgeably, and affordably, while upholding their inherent dignity.

Financial inclusion, as explicated by the Centre for Financial Inclusion, entails the pervasive offering of extensive arrays of financial commodities, encompassing loans, savings, coverage, and transactions, coupled with easily reachable, economically viable, client-focused, and conveniently attainable pathways. The amplification of financial inclusion encompasses not solely the evolution of assorted fiscal goods and amenities but also the advancement of four supplementary constituents: enlarging financial entry, guaranteeing the presence of financial commodities and amenities, fostering the utilization of financial commodities and amenities, and refining the efficiency of their employment.

To facilitate the growth of the domestic financial industry, leading to an enlargement of a nation's economy, the extent of integration within public fiscal matters will influence the manner in which fiscal resources and financial amenities are administered, along with the formulation of choices (Ferdi, Muhammad et al., 2022).

Per information presented by the Organization for Economic Cooperation and Development (2016), numerous factors can serve as indicators for quantifying the extent of financial inclusion. These factors encompass a range of dimensions, including:

1) Product Holding

    The present study utilizes current accounts, e-money (excluding credit cards), insurance policies, credit or mortgage products, and savings or retirement products as the key variables to ascertain the assortment of financial products owned by the surveyed participants. This indicator can investigate if consumers choose financial products, are at least aware of the financial products that are offered nationwide, and individuals have relied on their family or close companions to aid them in economizing or fulfilling their financial obligations.

1) Product Awareness

Owning financial items is crucial, but so is being informed of how to utilise them appropriately. This insight will help consumers avoid poor decisions and will assist financial product suppliers in understanding consumer demand.

2) Product Choice

If the financial goods that customers have are appropriately monitored, financial inclusion tremendously helps consumers. If there are new financial services or products, or if the pricing structure changes, adjustments must be made. In contrast, customers who use financial goods risk suffering losses if they do not properly manage them. For instance, carrying insurance that is insufficient for their needs, utilising expensive payment options with needless transaction services, or cumbersome credit products with excessive interest rates.

3) Seeking Alternatives to Formal Financial Services

Individuals lacking access to formal financial services are identified through the utilization of the ultimate determinant. The questions centre on two issues: Do individuals seek financial assistance from friends or family? The outcome reflects a number of variables, including how much saving is being done actively and how well people are managing their finances. But it also demonstrates the possibility of creating straightforward, inexpensive items that satisfy market demands.

2.4 Independent Variable

2.4.1 Financial Literacy

The degree of financial knowledge notably impacts the magnitude of financial incorporation. The presence of financial literacy provides students with enhanced abilities to effectively navigate and make informed choices in financial matters, owing to the provision of comprehensive financial knowledge and competencies. To utilise digital financial products and effectively manage risks, a certain amount of financial literacy is necessary. Financial literacy should be a priority for policymakers and practitioners. To foster financial awareness, it is essential to improve student financial literacy as part of the existing educational systems (Shen, Yan et al., 2018).

Economic comprehension, as expounded upon by the Organization for Economic Collaboration and Development (OECD, 2018), refers to the acquisition and comprehension of financial principles and hazards, accompanied by the ability, drive, and assurance to employ said knowledge and comprehension to make proficient choices encompassing diverse financial scenarios. Its purpose is to enhance the economic prosperity of both individuals and society at large while facilitating their involvement in the financial system.

The Organization for Economic Cooperation and Development (OECD) directed its attention towards financial literacy as a fundamental notion involving financial cognizance, financial engagement, and financial disposition. Within the scope of student financial inclusion, the primary targets and participants of financial literacy programs are students, who should possess a deep understanding of money management as informed individuals.

Contrarily, poor financial literacy has a number of negative effects. According to Feige and Yen (2021), indebted students experience pain, are under financial hardship, feel isolated from others, are unsure of the value of a college degree, are unable to live one's life, and have a tenuous future after graduation. Hence, an urgent requirement exists for students globally to enhance their economic comprehension (Bottazzi and Lusardi, 2020). We all know that a person's behaviour has a big impact on how well off he is financially. Therefore, it is crucial to include behavioural evidence when measuring financial literacy.

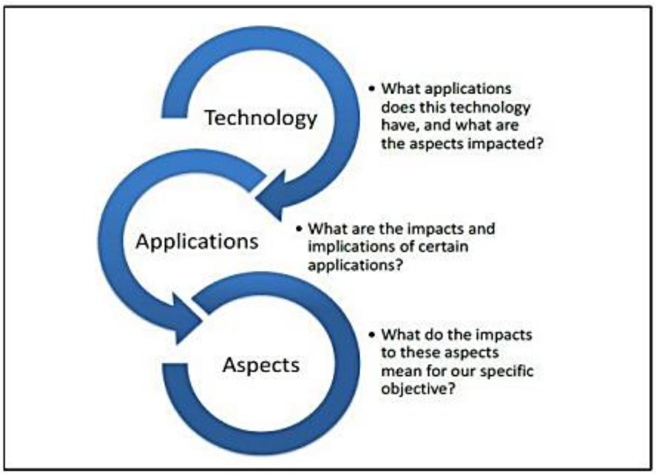
2.4.2 Financial Technology

The robust correlation between financial inclusivity and the uptake of digital financial items was conspicuous. The application of digital fiscal items harbors encouraging possibilities for expanding the demographic and commercial range capable of reaching fiscal amenities, thereby fostering financial inclusiveness and augmenting the accessibility of fiscal services (Shen, Yan et al., 2018).

The swift progress of information technology has resulted in the emergence of numerous digital financial offerings, culminating in the optimization of consumer transactions and funding. Termed as financial technology or Fintech in combination, these digital financial services, are referred to collectively, have become synonymous with the digitization of financial services and encompass various innovative technological solutions.

According to the OECD (2016), there are three dimensions, including technology, application, and aspect. These dimensions may be used to analyse the effect and consequences of innovations in financial technology.

Figure 2. 1 Financial Technology Dimensions



Source: Organization of Economic Co-operation and Development

According to Hsueh (2017), there are three categories of financial technology:

1) Third-Party Payment Systems

   Diverse payment mechanisms enabled by intermediaries, particularly electronic commerce cross-border dealings, online-to-offline (O2O) setups, mobile payment frameworks, and platforms providing functions like banking-based payments and fund transfers.

2) Peer-to-Peer (P2P) Lending

   Peer-to-Peer Lending embodies a virtual medium that enables the amalgamation of creditors and debtors, providing a credit apparatus alongside proficient hazard mitigation tactics. This medium aids lenders and borrowers in satisfying respective requisites, and utilizes funds judiciously and effectively.

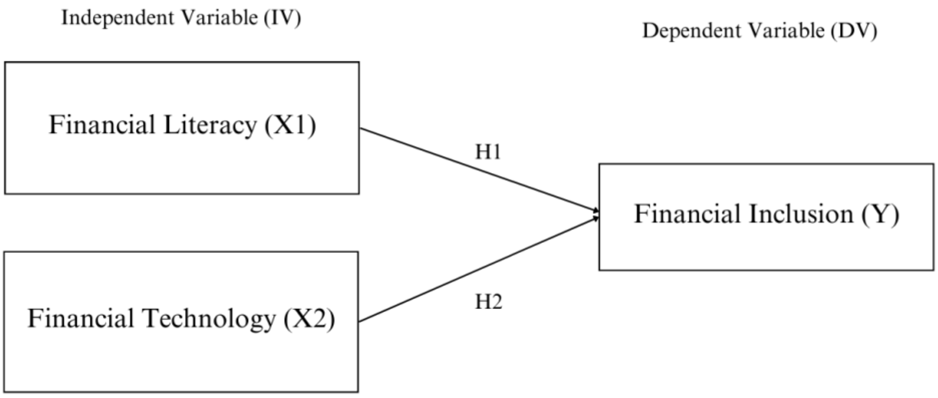
3) Crowdfunding

   Crowdfunding is a form of financial technology (FinTech) that involves the public sharing and publication of concepts or products, such as designs, programs, content, and creative work. Individuals who have an interest in and wish to support these concepts or products can contribute financial support. Crowdfunding serves as a means to alleviate the need for entrepreneurial finance and to forecast market demand.

2.5 Conceptual Framework

Drawing upon the literature examination previously conducted, the investigation will present a theoretical structure, which will be depicted in the subsequent sections:

Figure 2. 2 Conceptual Framework of The Relationship between Financial Literacy and Financial Technology on Financial Inclusion



Source : Processed by the author

2.6 Hypotheses Development

A hypothesis is a short-term conclusion developed to address a research question that hasn't been empirically tested. The assertion in question is an accusation that could or might not be accurate. This study uses one dependent variable and two independent variables.

2.6.1 Relationship Between Financial Literacy and Financial Inclusion

In accordance with the discoveries of Yan, Shen et al. (2018), the existence of economic knowledge exerts a constructive and noteworthy influence on financial incorporation. The provision of economic data and competencies through financial education empowers consumers, thereby easing their capacity to render educated economic choices. To competently apply digital financial commodities and prudently alleviate risks, a necessary degree of economic literacy is mandatory. Recognizing the significance of economic knowledge in this context, and actively formulating approaches aimed at nurturing economic knowledge, is imperative for policymakers and practitioners. To cultivate economic consciousness among individuals, enhancing economic literacy among local inhabitants as a component of ongoing educational systems is indispensable. Varied phases of life should have accessibility to financial literacy programs.

H1: There is a significant positive relationship between financial literacy and financial inclusion.

2.6.2 Relationship Between Financial Technology and Financial Inclusion

Per Yan, Shen et al. (2018), The statistical insignificance of the association between financial technology and financial inclusion is evident. The integration of internet-based technologies within financial technology exerts an implicit impact on financial inclusion by expediting the adoption of digital financial commodities. The employment of the Internet possesses the capability to amplify financial inclusion in an indirect fashion by facilitating the utilization of financial commodities and amenities. To guarantee the effective operation of financial commodities and amenities, it is imperative to confront and surmount obstacles to access.

H2: There is a significant positive relationship between financial technology and financial inclusion.

2.7 Chapter Summary

These two variables have been identified by the literature review as influencing factors for student financial inclusion. Prior research has also indicated that these two variables are interconnected with financial inclusivity. The results of preceding investigations illustrate that variables influencing financial technology and financial proficiency exert an influence on the inclusion of students in financial matters.