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The Influence of Financial Literacy, Perception of Online Loans, and Consumptive Behavior in the Community of Yogyakarta Province on the Decision to Use Online Loans

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ABSTRACT

Research Aims: This study aims to examine the influence of financial literacy, perceptions of online loans, and consumptive behavior on the decision to use online loans.
Design/methodology/approach: This quantitative study targets the Yogyakarta Province community. Since the population size is unknown, purposive sampling, a non-probability method, was used to select respondents based on these criteria: 1) residing in Yogyakarta, 2) aged 17-35, 3) holding a high school diploma or equivalent, and 4) receiving a monthly income or allowance. The sample size, initially set at 96 using the Lemoshow formula, was adjusted to 150 to meet the minimum requirement for SEM-PLS analysis.
Research Findings: The analysis shows that financial literacy, consumptive behavior, and perceptions of online loans have a positive and significant impact on the decision to use online loans. To address these findings, the public should enhance financial literacy to improve financial management and minimize reliance on online loans.
Theoretical Contribution/Originality: The study underscores the importance for digital lenders to enhance trust, simplify usability, and offer clear value to attract more consumers. These insights provide valuable guidance for industry stakeholders aiming to improve adoption by addressing consumer perceptions.

Keywords: Financial Literacy, Perception of Online Loans, Consumptive Behavior, Use Online Loans.

Introduction

Technological advancements, particularly in the financial sector, have drastically reshaped the way individuals and businesses manage financial transactions. One notable transformation is the rise of online loans through fintech platforms, which have made borrowing easier, faster, and more accessible. However, despite their growing popularity, the use of online loans in Indonesia presents challenges related to financial literacy, perceptions of risk, and consumer behaviour. Existing research has primarily focused on the broader impact of technological innovations but has not adequately explored how financial literacy and consumer behaviour specifically influence the decision-making process surrounding online loans.

While fintech innovations have been studied in various contexts, there is a lack of focused research on how financial literacy, consumer perceptions, and behaviours

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directly affect individuals' decisions to use online loan services. Previous studies have examined the advantages and risks of online loans but have not sufficiently addressed the nuanced factors that shape consumer decisions, such as the understanding of financial risks, credit management, and the broader social implications. This research aims to fill this gap by specifically investigating how these three factors—financial literacy, perceptions of online loans, and consumer behaviour—impact the decision to use online loan platforms in Indonesia.

The digital transformation in finance, through the rise of fintech platforms, has revolutionized borrowing practices. Online loans are now widely used due to their speed and ease of access. However, many individuals face challenges in using these services wisely, often due to insufficient financial literacy. Financial literacy is essential for making informed decisions about borrowing, understanding interest rates, repayment terms, and the risks of accumulating debt. Without this knowledge, consumers may fall into financial difficulties or make unwise borrowing decisions.

In Indonesia, a growing number of people are turning to online loans as a quick solution to financial needs. However, the rapid adoption of these services has been accompanied by a rise in poor financial decision-making, driven by limited financial literacy and misunderstanding of the long-term implications. Many consumers are unaware of the full costs of borrowing, leading to excessive debt burdens and an increased risk of default. Research by Dawood et al. (2022) highlights how a lack of financial knowledge can lead to poor credit decisions, while studies like those of Mariam et al. (2023) show that understanding credit management can lead to wiser borrowing choices.

Consumer behaviour, especially in the digital age, often reflects impulsivity and a lack of awareness about the financial consequences of decisions. In Indonesia, the combination of easy access to online loans and a consumerist lifestyle has led to an increase in debt accumulation, as individuals are influenced by advertising and the ease of digital transactions (Smagulov et al., 2020). Perception of online loans also plays a critical role in shaping borrowing decisions. Factors such as trust in the platform, the perceived ease of obtaining loans, and the perceived risks are all influenced by individual experiences and socio-cultural backgrounds (Glasaurer & Shi, 2022). These factors can either encourage or deter individuals from utilizing online loan services in a responsible manner.

This research seeks to bridge the gap in understanding how financial literacy, consumer perceptions, and behavior affect the use of online loans in Indonesia. By examining these factors in detail, the study will provide insights into how to improve decision-making and encourage responsible financial practices in the face of rapidly expanding fintech services.

Literature Review

Financial Literacy towards Use of Online Loans

Financial literacy plays a critical role in shaping how individuals utilize online loan services. Recent research by Siska Wati and Parulian Tambunan (2024) emphasizes that financial literacy significantly influences the use of online loans, highlighting how individuals with a solid understanding of financial concepts are better equipped to evaluate and select fintech services. The ability to comprehend financial management, investment options, and risk factors enables users to make more informed decisions, reducing the likelihood of falling into debt traps. The relationship between financial literacy and the prudent use of online loans has been corroborated by studies like those of Isnaini Putri and Prianto (2024), which demonstrate that individuals with higher financial literacy tend to exercise more caution in borrowing, significantly reducing financial risks. However, these studies do not fully address how varying levels of financial literacy across different socioeconomic groups can lead to unequal access to the benefits of fintech services. The adoption of online loans, particularly in developing countries, is not only influenced by knowledge but also by the broader social and economic context. This calls for further exploration into how financial education initiatives could be tailored to different demographic segments to ensure inclusive access to financial services. While these studies support the premise that financial literacy is essential for making informed borrowing decisions, they fall short of exploring how low levels of financial literacy can drive users to take on more debt than they can manage. Additionally, while high financial literacy may increase users' confidence in digital transactions, it does not necessarily guarantee responsible borrowing practices.

H1: Financial literacy among the community influences the decision to use online loans.

Perception of Online Loan towards Use of Online Loans

The role of perception in influencing online loan usage is significant, as indicated by Florentina et al. (2023), who argue that the public's interest in using online loans is strongly correlated with their awareness of the service. The study highlights that positive perceptions of ease of access, transparency, and security are key factors driving adoption. However, while the research focuses on the consumer perspective, it overlooks the role of online loan providers in shaping these perceptions through trust-building measures, such as transparent communication about fees and risks. The findings suggest that online loan providers who deliver a positive user experience and effectively communicate the security of their platforms are more likely to gain consumer trust and, consequently, increase usage rates.

Research by Asri et al. (2022) further supports this idea, focusing on the perceptions of risk and trust in peer-to-peer lending. While the study identifies comfort, risk, and reliability as influential factors, it fails to distinguish how perceptions of trust can vary significantly among different demographics, especially among less tech-savvy individuals. Additionally, many users' perceptions of online loans are shaped by their experiences with traditional financial institutions, where trust is often lacking. This suggests a need to explore not just the perceptions of ease and security, but also how fintech companies can bridge the trust gap between consumers and digital finance.

H2: Perceptions of online loans within the community influence the decision to use online loans.

Consumptive Behavior towards Use of Online Loans

Consumer behavior is another critical factor influencing the adoption of online loans. Smagulov et al. (2020) highlight that consumers who exhibit high spending tendencies are more likely to seek quick and accessible credit through online loan platforms. This behavior is often driven by the convenience, speed, and attractive promotions offered by fintech services. However, the tendency for consumers to use loans as a way to finance immediate consumption without considering long-term financial health can lead to over-indebtedness. Research by Mardikaningsih et al. (2020) adds that consumer behavior also plays a crucial role in the use of online loans by students, who may not have the financial experience to fully understand the implications of borrowing. These studies emphasize the need for stricter borrowing limits for certain demographics, such as students, to prevent potential financial harm.

However, the focus on consumer behavior often overlooks the broader structural factors influencing spending patterns, such as economic inequality and access to digital financial services. While fintech platforms may offer convenience, they also have the potential to foster a consumerist culture where individuals may prioritize immediate consumption over long-term financial stability. Future studies should critically assess how consumer behavior is shaped not only by personal preferences but also by broader societal and economic forces, such as marketing strategies and social pressures.

H3: Consumer behavior in society influences the decision to use online loans.

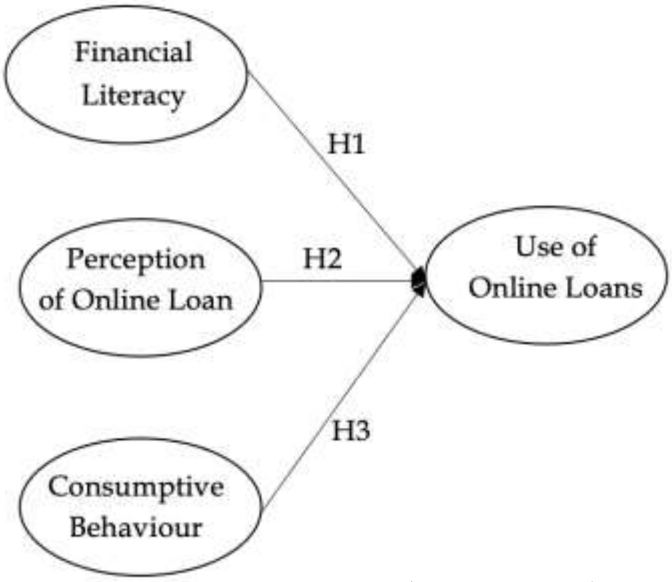

Figure 1. Research Conceptual

Method

This study uses a quantitative research method to examine the relationship between financial literacy, perceptions of online loans, consumer behavior, and the decision to use online loans. The target population consists of individuals in Yogyakarta Province, aged 17 to 35, with at least a high school education and a monthly income. A purposive sampling technique was used to select respondents based on these criteria. Using the Lemeshow formula, the minimum sample size was calculated to be 96, but due to the use of Structural Equation Modelling (SEM-PLS), which requires larger sample sizes for reliability, the sample was increased to 150 respondents. The use of SEM-PLS is justified by its suitability for analysing complex relationships between latent variables, such as financial literacy and consumer behaviour. SEM-PLS is ideal for this study because it can handle smaller sample sizes, is robust to non-normal data, and allows for the simultaneous testing of measurement and structural models. This makes it well-suited for exploring how financial literacy, perception, and behaviour influence the use of online loans.

The questionnaire was developed based on validated scales from previous research, with careful adaptation to the study context. It underwent multiple stages: initial item development, expert review for content validity, pre-testing with 30 respondents for clarity, and validity testing using factor analysis to ensure construct validity. Items with low factor loadings were removed, and reliability was confirmed with Cronbach's alpha and composite reliability, both above the threshold of 0.7. While purposive sampling introduces potential selection bias, steps were taken to mitigate this risk. Clear criteria were set for inclusion, and a variety of recruitment channels (social media, community groups) were used to increase sample diversity. Post-data collection, demographic analysis ensured the sample represented key characteristics, such as age, education, and income.

Table 1. Definition of Operational Variables

Variable	Item	Reference
Financial Literacy	I have a thorough understanding of how to manage finances to avoid any scams I always create a budget for my expenses and spending each month I believe that saving makes life easier in the future I believe it is important to set aside money for investment	(Wati &Tambunan 2024; Widyakto et al., 2022)
Perception of Online Loans	The online loan process is very easy. The availability of online loans is very helpful. I believe that my personal data is secure in those online loan applications.	(Silaswara & Kusnawan, 2022; Fahmi et al., 2022)
Consumptive Behavior	I will consider purchasing a product if it is currently on sale or offers a reward as part of the purchase I frequently purchase products because I am consistently drawn to new and trendy items I purchase multiple versions of the same product, even though I already own them I always take the price of a product into consideration before purchasing it.	(Wati &Tambunan 2024; Fauziah & Nurhasanah, 2020)
Use of Online Loans	I opt to use products from online lending services to address financial challenges I utilize online lending services because I trust the information conveyed through mass media, whether online or print. I use online lending services because they align with my needs. I use online lending services because becoming a customer is straightforward. I use online lending services because they provide efficient and prompt service	(Otunaiya et al., 2014; HAYYINUN, 2020)

Result and Discussion

Characteristic of Respondent

The questionnaire distributed in Yogyakarta Province reveals that 58.7% of respondents are male. This gender distribution suggests a slight male dominance in the sample, which may reflect broader demographic trends in the region or the target population. However, it is important to consider whether this could influence the generalizability of the findings, particularly in areas where gender-specific factors might play a role. The dominant age group is 21-25 years, comprising 57.3% of the respondents. This indicates that the study predominantly captures the perspective of younger adults, a group that may have distinct views and behaviors related to online loans compared to older populations. It is important to interpret the results within the context of this age group, which is often tech-savvy and more likely to engage with digital financial services.

In terms of location, 59.3% of respondents reside in Yogyakarta City. This suggests that the majority of respondents are urban dwellers, potentially reflecting different levels of access to technology, financial services, and educational opportunities compared to those in rural areas. The urban concentration may influence the findings, particularly in understanding the adoption of digital financial products like online loans. The majority of respondents hold a Bachelor's (S1) or Applied Bachelor's (D4) degree (51.3%). This indicates a relatively high level of educational attainment, which may influence respondents' understanding of financial products and their decision-making processes regarding online loans. It suggests that the sample is likely more knowledgeable about financial literacy and fintech compared to populations with lower educational levels. Finally, 57.3% of respondents report a monthly income or allowance between 1,000,000 and 3,000,000 Rupiah. This suggests that the respondents are mostly in the lower to middle-income range, which could influence their financial behaviors, including their use of online loans. Understanding this income distribution is crucial for interpreting the factors influencing their financial decisions, particularly in terms of affordability and financial needs.

Table 2. Demographic of Respondents

No	Characteristic	Description	Total	Percentage
1	Gender	Female	62	41,3%
		Male	88	58,7%
2	Age	17 - 20 Years Old	29	19,3%
		21 - 25 Years Old	86	57,3%
		26 - 30 Years Old	28	18,7%
		31 - 35 Years Old	7	4,7%
3	Domicile	Yogyakarta City	89	59,3%
		Sleman Regency	58	38,7%
		Bantul Regency	2	1,3%
		Gunung Kidul	0	0%

No	Characteristic	Description	Total	Percentage
		Regency		
		Kulon Progo Regency	1	0,7%
4	Educational Background	High School/Equivalent	44	29,3%
		Diploma (DIII)	22	14,7%
		Bachelor/Equivalent	77	51,3%
		Master's Degree	7	4,7%
		Doctoral Degree	0	0%
5	Monthly Wages/Salary	< 1 million Rupiah	6	4%
		1.000.000 - 3.000.000 Rupiah	86	57,3%
		3.000.001 - 5.000.000 Rupiah	43	28,7%
		> 5 million Rupiah	15	10%

Source: Primary Data Processed (2024)

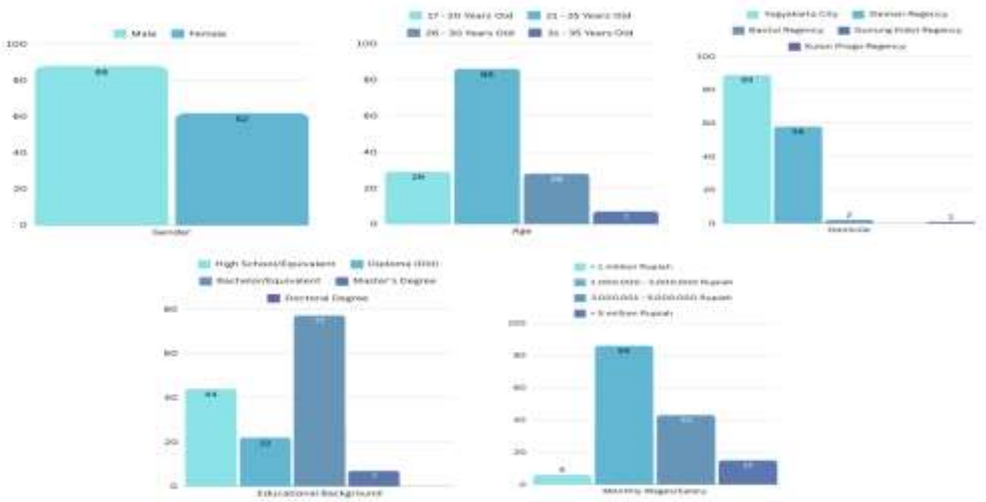

Figure 2. Demographic of Respondents
Source: Primary Data Processed (2024)

Outer Model

The effectiveness of convergent validity can be verified through the loading factor values, which reflect the relationship between measurement items and latent variables. Convergent validity is considered achieved when the outer loading of each item exceeds 0.70 and the Average Variance Extracted (AVE) for each construct reaches 0.50 or higher. The following are the results of the convergent validity test based on the loading factor values of each item for the indicators used in this study.

Table 3. Convergent Validity Result

Variable	Items	Outer Loading	AVE	Description
Financial Literacy	X1.1	0,793	0,685	VALID
	X1.2	0,856		
	X1.3	0,868		
	X1.4	0,79		
Perceptions of Online Loans	X2.1	0,889	0,814	VALID
	X2.2	0,919		
	X2.3	0,899		
Consumptive Behavior	X3.1	0,855	0,755	VALID
	X3.2	0,857		
	X3.3	0,881		
	X3.4	0,883		
Use of Online Loans	Y1	0,772	0,656	VALID
	Y2	0,849		
	Y3	0,843		
	Y4	0,773		
	Y5	0,808		

Source: Primary Data Processed (2024)

Based on the table, the outer loading values in this study's questionnaire exceed 0.7, indicating that the questionnaire meets the criteria for convergent validity. This suggests that the latent variables are well understood by respondents in alignment with the researcher’s intent. Additionally, the Average Variance Extracted (AVE) values are above 0.5, further meeting the AVE criteria. Thus, all questionnaire items satisfy the requirements for convergent validity.

Discriminant Validity

Discriminant validity testing is used to assess and ensure that the statements associated with each latent variable do not cause confusion for respondents when answering the questionnaire, particularly in understanding the intent of the statements. The criterion for measuring discriminant validity is the cross-loading value. Cross-loading reflects the degree of correlation between each variable and its indicators, as well as with indicators from other constructs. According to Indrawati (2018), an indicator is considered valid if its correlation with its corresponding construct is higher than its correlation with other constructs.

Based on the table, the correlations between each variable and its respective elements are higher than the correlations with other constructs. This finding indicates that the questionnaire used in this study meets the discriminant validity criteria, ensuring the clarity and distinctiveness of the latent variables involved.

Table 4. Discriminant Validity Result

	Use of Online Loans	Financial Literacy	Consumptive Behavior	Perception of Online Loans
X1.1	0,545	0,793	0,590	0,501
X1.2	0,585	0,856	0,578	0,440
X1.3	0,611	0,868	0,624	0,388
X1.4	0,614	0,790	0,574	0,314
X2.1	0,408	0,462	0,371	0,889
X2.2	0,453	0,414	0,425	0,919
X2.3	0,489	0,459	0,376	0,899
X3.1	0,666	0,611	0,855	0,407
X3.2	0,603	0,600	0,857	0,325
X3.3	0,620	0,605	0,881	0,390
X3.4	0,672	0,666	0,883	0,381
Y1	0,772	0,602	0,614	0,269
Y2	0,849	0,561	0,601	0,521
Y3	0,843	0,562	0,583	0,398
Y4	0,773	0,551	0,497	0,403
Y5	0,808	0,606	0,676	0,432

Source: Primary Data Processed (2024)

Reliability Test

Reliability testing in research is essential to determine whether the items or instruments used consistently measure the same phenomenon over repeated applications. Reliability is assessed using Cronbach's alpha and composite reliability to evaluate internal consistency. Cronbach's alpha assesses the lower bound of construct reliability, while composite reliability evaluates the actual reliability of the construct. According to Indrawati (2018), the standard threshold for both Cronbach's alpha and composite reliability is 0.7 for descriptive research and 0.8 or higher for more complex studies.

Table 5. Reliability Test Result

	Cronbach's Alpha	Composite Reliability
Financial Literacy	0,846	0,897
Perceptions of Online Loans	0,886	0,929
Consumptive Behavior	0,892	0,925
Use of Online Loans	0,868	0,905

Source: Primary Data Processed (2024)

The results of the composite reliability in this study meet the reliability criteria, with the composite reliability values for each variable exceeding the corresponding Cronbach's alpha values. Both the Cronbach’s alpha and composite reliability values indicate that the Cronbach’s alpha for each variable is greater than 0.7, meeting the accepted threshold for reliability. This confirms that the variables fall within the reliable category. Therefore, it can be concluded that the questionnaire used in this study satisfies the reliability criteria, ensuring consistent measurement across the variables.

Inner Model

The inner model in Partial Least Squares (PLS) refers to the structural relationships between latent variables within the model. It illustrates how these latent variables interact and influence one another. The following is an illustration of the bootstrap output for this study’s model, showcasing the strength and significance of these relationships. This output helps validate the hypothesized pathways and provides insight into the predictive capability of the latent variables involved.

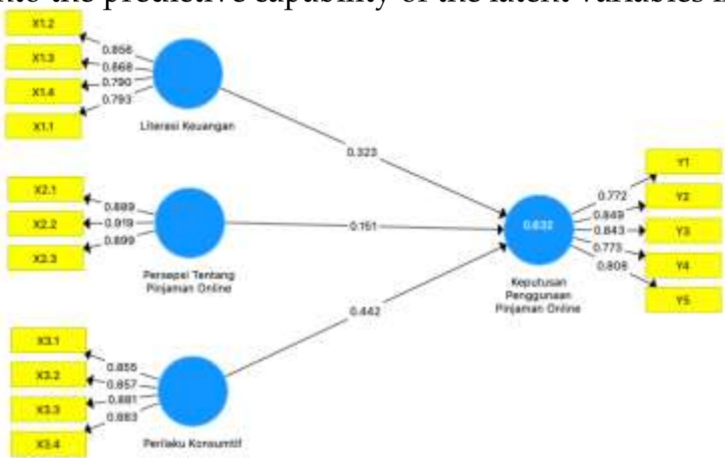

Figure 2. Full Model

R-Square Test

The R-squared value indicates the extent to which the independent variables explain the variance in the dependent variable and is used to assess the strength of the research model. According to Ghozali (2018), an R-squared value of 0.67 or higher is considered strong, a value of 0.33 is regarded as moderate, and a value of 0.19 is categorized as weak. The R-squared value in this study is 0.632, indicating that the model falls within the moderate category, demonstrating a reasonable explanatory power of the independent variables.

Table 6. R Square

	R Square	R Square Adjusted
Use of Online Loans	0,632	0,625

Hypothesis Testing

Table 7. Hypothesis Testing Result

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic (|O/STDEV|)	P Values
Financial Literacy -> Use of Online Loans (H1)	0,323	0,330	0,092	3,526	0,000
Perceptions of Online Loans -> Use of Online Loans (H2)	0,442	0,437	0,084	5,247	0,000
Consumptive Behavior -> Use of Online Loans (H3)	0,151	0,156	0,073	2,060	0,040

Source: Primary Data Processed (2024)

The analysis indicates that financial literacy has a positive and significant influence on the decision to use online loans. This relationship is evidenced by a P-value of 0.000, which is less than the significance threshold of 0.05, and a T-statistic value of 3.526, which exceeds the critical value of 1.96. These results confirm the first hypothesis (H1), suggesting that financial literacy significantly affects the decision to utilize online loans. The data also reveals that consumptive behavior has a positive and significant impact on the decision to engage in online borrowing. This conclusion is supported by a P-value of 0.000, indicating statistical significance at the 0.05 level, and a T-statistic value of 5.247, which is higher than the critical value of 1.96. Therefore, the second hypothesis (H2) is accepted, affirming that consumptive behavior plays a significant role in influencing the decision to use online loans. Lastly, perceptions of online loans are found to have a positive and significant effect on the decision to use online lending services. The results show a P-value of 0.040, which is below the 0.05 threshold, and a T-statistic value of 2.060, surpassing the critical value of 1.96. Based on these findings, the third hypothesis (H3) is accepted, confirming that individuals' perceptions of online loans significantly influence their decision to use these financial services.

Discussion

Financial Literacy on Use of Online Loans

The first hypothesis suggests that financial literacy positively influences the decision to use online loans. Higher financial literacy enables individuals to manage personal finances effectively, make informed choices, and comprehend the risks associated with online loans. Key aspects of financial literacy include understanding loan terms, using fintech platforms efficiently, and managing debt responsibly.

Financially literate users are more likely to select suitable loan platforms, ensuring informed decision-making and timely repayment. These findings are consistent with Lusardi et al. (2014); Mustafa et al. (2023); Oppong et al. (2023) , who emphasize financial literacy's crucial role in managing personal finances, debt, investment, and retirement planning. Xiao et al. (2016); Janposri (2021) further support the view that financial education enhances understanding of financial products, increasing consumer confidence in financial decision-making.

The broader societal implications of these findings are significant, especially in the context of Indonesia's rapidly evolving fintech landscape. Promoting financial literacy through targeted education programs can empower individuals to make informed decisions and reduce the risk of financial instability due to mismanaged loans. However, it is also important to acknowledge potential limitations in measurement. Financial literacy is a multifaceted construct, and the tools used to assess it may not capture all aspects of an individual's financial decision-making capabilities. Additionally, the sample's demographic composition (e.g., young, urban respondents) might not fully reflect the diverse financial literacy levels across broader societal groups, especially in rural areas.

Perceptions of Online Loans on Use of Online Loans

The second hypothesis suggests that perceptions of online loans significantly influence the decision to use them. Positive perceptions—such as ease of access, transparency, and security—encourage individuals to adopt online loans. This aligns with research by Malhotra et al. (2011); Abdul-Rahim et al. (2022); Almaiah et al. (2022) who argue that consumer perceptions of reliability and security are key factors in adopting online financial services. Furthermore, Zheng et al. (2018); Ma & Yao (2023); Yuwono et al. (2023) highlight that impulsive consumer behavior often leads to increased borrowing, including online loans, especially among those with high consumptive tendencies. This underscores the interplay between perceptions and financial decision-making.

The implications for financial policy and consumer protection are significant. As perceptions of online loans are heavily influenced by marketing and user experience, regulators in Indonesia should prioritize transparency, security, and user education to foster trust and mitigate risks of excessive borrowing. However, an alternative interpretation could be that positive perceptions are not solely shaped by user experience but also by broader societal factors such as advertising, media influence, and peer behavior. Acknowledging the role of these factors is important when developing policies aimed at improving consumer behavior and ensuring responsible loan usage.

Consumptive Behavior on Use of Online Loans

The third hypothesis posits that consumptive behaviour influences the decision to use online loans. Consumers with higher impulsive spending tendencies are more likely to borrow for non-essential purchases, contributing to increased loan usage and potential debt accumulation. D'Alessio et al. (2016); Juita et al. (2023); Anggraeni et al. (2024) argue that impulsive consumption behaviours significantly increase the risk of accumulating debt through online loans. Even individuals with high financial literacy may struggle to manage borrowing if their consumption patterns are driven by short-term gratification. This finding has broader implications for both financial education and market regulation. In Indonesia, where a large portion of the population is young and tech-savvy, promoting prudent financial habits is essential to combat the risks of overspending and excessive borrowing. Education programs focused on delayed gratification and the long-term consequences of impulsive spending could reduce reliance on online loans for non-essential consumption. On the other hand, regulatory measures, such as setting borrowing limits or implementing cooling-off periods, could help reduce the negative impacts of consumptive behaviour on financial health.

An alternative interpretation of this result could be that the correlation between consumptive behaviour and loan usage is not entirely causal. For instance, individuals may use online loans as a coping mechanism for other underlying issues, such as low income or financial instability, rather than purely for impulsive purchases. Future studies could explore these complexities further to understand the full scope of factors influencing online loan adoption and usage.

Conclusion

The analysis shows that financial literacy, consumer behavior, and perceptions of online loans have a positive and significant impact on the decision to use online loans. Financial literacy significantly influences loan decisions (P-value 0.000, T-statistic 3.526), indicating that individuals with higher financial literacy make smarter loan decisions, understanding risks and managing debt effectively. Consumptive behavior also plays a key role (P-value 0.000, T-statistic 5.247), as individuals with strong shopping habits tend to use online loans impulsively without considering long-term debt consequences. Additionally, perceptions of online loans (P-value 0.040, T-statistic 2.060) show that individuals who view these loans as quick and easy solutions are more likely to use them. To address these findings, the public should enhance financial literacy to improve financial management and minimize reliance on online loans. Governments and financial institutions are urged to promote financial education and ensure transparency, security, and reliability in loan services to build consumer trust, accompanied by clear advertising that communicates both the benefits and risks of online loans.

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