

## CHAPTER II

### LITERATURE REVIEW

#### A. Theoretical Framework

##### 1. Perceived Financial Technology

###### a. Financial Technology Peer-To-Peer Lending

Social networks transcended banking with the emerging of online financial network that allows lenders and borrowers to lend and borrow through intermediary platform online (King, 2010). This online financial network is known as Financial Technology. The type of Financial Technology that serve lending and borrowing is known as Fintech Peer-To-Peer Lending (Fintech). In Indonesia, Indonesia Financial Service Authority Regulation (POJK) No.77/POJK.01/2016 explains about Fintech Peer-to-Peer Lending as a type of Fintech institutions that acts as marketplace for lender and borrower to meet and conduct loan and borrowing agreement through electronic system using internet network. Other definition of Fintech is: *A field or sector arising from the symbiosis of digital platforms and artificial intelligence in financial services, generally at odds with traditional financial services* (Lacasse, et al., 2016).

Fintech emerged with resources and legitimacy to provide technology-based financial services (Andersson & Holmgren, 2017). Fintech brought innovation to financial service by using advanced

technology. Financial service, that used to be exclusively offered by banks, is now also offered by Fintech (Andersson & Holmgren, 2017). Fintech acts as facilitator between two parties agreeing a lending and borrowing agreement similar with traditional loan and do not take deposits (King, 2010).

b. Sharia Financial Technology Peer-To-Peer Lending

The development of Fintech has risen the type of Fintech Peer-To-Peer Lending known as Sharia Fintech. National Sharia Board – Indonesian Council of Ulama in a rule No.117/DSN-MUI/II/2018 explains that Technology-Based Financial Service Based on Sharia Principles is the implementation of financial services based on Sharia principles that connects Financiers with Financing Receivers in order to perform financing contract through electronic system using internet network. Sharia Fintech is permitted with the requirement based on Islamic principles. As mentioned in the rule, Sharia Fintech Peer-To-Peer Lending operates using some Islamic contracts, which are *Murabaha*, *Ijarah*, *Musyarakah*, *Mudharabah*, *Qardh*, and *Wakalah*. Sharia Fintech institution should be free from forbidden aspects based on Islamic principles, including *Riba* (interest), *Gharar* (uncertainty), and *Maysir* (gambling).

The advance of technology adopted by Sharia Fintech is basically same with Conventional Fintech (or shortly called Fintech).

Sharia Fintech Peer-To-Peer Lending also meets lenders and borrowers directly. The different between Fintech and Sharia Fintech based on the rule by National Sharia Board – Indonesian Council of Ulama is the disappearance of interest in Sharia Fintech as interest is acknowledged as *Riba* in Islamic principles. Sharia Fintech is allowed to ask for fee service for the availability of system and technology facility. By acting as intermediary, Sharia Fintech should make sure the agreement between the parties is transparent and clear, because *Gharar* (uncertainty) is forbidden in Sharia Fintech operation.

#### c. Disruption of Financial Technology

The term “disruption” defines a process where a smaller company with fewer resources is able to successfully challenge established incumbent business (Lacasse, et al., 2016). Fintech Peer-To-Peer Lending provides customer low-cost, fast, flexible, and more customer-oriented alternatives (World Economic Forum Project Team, 2015). Fintech has better organized data to improve the understanding between product offered and borrower’s risk profile (Arner, et al., 2015). Fintech uses digital platform as the attempt to create more cost-effective service than traditional financial services (Lacasse, et al., 2016). The change of finance industry and disruptive innovations challenged banks to give more

attention to customer demands as priority and creates broader customers base.

#### d. Perceived Financial Technology

Perception is a process that makes a person to choose, organize, and interpret stimuli into a meaningful and complete picture. Consumer perception is consumer response to the existence of an object or product chosen (Wahyuni, 2008). Consumers show their behavior after making a perception of what decision will be taken in buying a product. Debtor perception is debtor response from a process that makes debtors to choose, organize, and interpret stimuli into complete picture. Perceived financial technology is a process where debtors make complete picture about financial technology after organizing, and interpreting stimuli about financial technology. Debtors perception about financial technology related with debtors' behavior in making decision to use a financing product.

#### 2. Service Feature

Feature is the characteristic that gives additional basic function to a product and one of the reasons for customer to choose a product (Schmitt, 2010). Service feature for financial institution, including banks, becomes one thing that could differentiate one institution with others. Offering different feature availability that meet user's need was one of determinant factors for the success of financial service innovation (Gerrard & Cunningham, 2003). Good quality of banking service has become one of the

success keys to attract banking customers (Suharini, 2008). Financial service given by bank is the continuous service, so maintaining good relation between bank and customers is a must. Customer loyalty could be earned through product features and service excellence (Poon, 2008).

### 3. Perceived Ease of Use

Perceived ease of use is defined as the degree to which a person expects that using one particular system would be free of effort. On Technology Acceptance Model, perceived ease of use and perceived usefulness on technology related with a person's attitude on using the technology (Davis, 1989). A person's attitude, that showed interest to a product or services, could be used to predict a person's intention to use a product or service (Amijaya, 2010). Perceived ease of use influenced customer behavior indirectly through perceived usefulness (Zhu & Lei, 2016) and perception of usage risk (Featherman & Pavlou, 2003). If a product or service is perceived as being complex, it is also likely assumed as risky to use. Davis (1989) also stressed that the easier to use a technology, the more useful the technology can be. Customers with higher perceived ease of use had higher possibility to buy or use a product or service (Zhu & Lei, 2016).

### 4. Perceived Risk

Risk has been defined as consumer's subjective estimation to suffer losses in receiving desired results (Chellappa & Pavlou, 2002). Risk is the uncertainty condition people considered in deciding to conduct online

transaction (Amijaya, 2010). Perceived risk is the uncertainty regarding negative consequences that may occur from using a product or service (Featherman & Pavlou, 2003). Perceived risk is uncertainties and unfavorable condition which against customer's expectation. Customers tend to decide on doing the transaction if their perception of the risk is minimized and alleviated to get what was expected.

Perceived risk mainly related to searching and choosing information of products and services before customers make the decision (Kesharwani & Bisht, 2012). If customers perceive higher risk, then customers may avoid to use the product and services as the result did not come out as expected. Customer's expectation of losses acted as an inhibitor to customer's purchasing behavior (Peter & Ryan, 1976). The thought of perceived risk could be managed using IT devices and impacted customer's intention (Krauter & Faullant, 2008). In the case of internet banking, the risks may rise from system and information exchange error or illegal access to the account caused by imperfect verification (Fadare, 2016).

##### 5. Customer's Preference

The development of industries caused the customer behavior and preference to change. The customer preference might change according to new trends and customer's expectations. Customers demanded speed and transparency of real time service due to changing of customer expectations (Jayamaha, 2016). In the integrated digital and physical world, customer preference for greater self-service rose various players in financial industry.

The increase in customer preference for hassle-free transactions has triggered the digital transformation (Agrawal, 2017). Technology innovation had the ability to disrupt the established players by attracting its customers to favor the new solutions (Andersson & Holmgren, 2017).

Customers showed the preference for convenient transactions through mobile and internet (Agrawal, 2017). According to Jayamaha (2016), several alternative service providers adopting advanced technology have gained intention from customer's perspective. Understanding customer's perception could be important for banks and financial institutions to build digitalized banking. Establishing a digital banking business could meet customer's expectations as customers have found the limited use of digital facility and low customer service at bank branches. Even though the demand for digitalization in banking increased, but bank still had long process to reach the full scale.

According to Sohail & Shanmugham (2003), customers' preference for internet-based banking service would not only depend on internet service, but also on other social and psychological aspects. Customers who prefer social and psychological benefits established relationship with banks through face to face interactions. Other customers who prefer the efficiency of services would choose internet-based banking service as the alternative. Banks should quickly adjust to digitalization to maintain the competition with new technology-based non-banks institutions (Agrawal, 2017). Banks

needed to measure customers' preference on digitalization from customers' perspective rather than from bank's point of view (Jayamaha, 2016).

## **B. Previous Study**

The EY Global Consumer Banking Survey (2017) measured banks' relevance to consumers with more than 55,000 consumers participated. According to the survey, traditional banks were still the primary financial services provider for most consumers, but consumers started establishing expectations for the emergence of credible alternatives. Consumers did not close the possibility to change financial service providers if the new one offered better experience. The openness to change came from consumers with well digital understanding, while other segment of consumers preferred better guidance and experience via digital channels from banks. Consumer showed the most important reasons to consider online non-bank provider such as more attractive rates, better online experience, different product and services access, easy to make an account, and better service quality. Digital consumers found banks lack of digital facilities, but many branch consumers still preferred direct interactions when they have problems or questions.

According to Sohail and Shanmugham (2003) on the study titled E-banking and Customer Preferences in Malaysia: An Empirical Investigation resulted that internet accessibility, attitude towards change, cost of computer and internet access, trust in bank, security concern, ease of use and convenience were the major factors influencing internet bank adoption in Malaysia. Awareness of e-banking products did not actually affect the internet banking adoption. This could because of the



respondents were internet users who are already well aware of e-banking. Accessibility and customers' attitude towards change were significant factors affecting the usage of e-banking. Computer and internet access costs and security concerns of e-banking did not significantly affect the usage of e-banking. Promotion done by banks created better awareness of e-banking and supported the success of e-banking usage.

Based on the research by Amijaya (2010) with the title *Pengaruh Persepsi Teknologi Informasi, Kemudahan, Resiko Dan Fitur Layanan Terhadap Minat Ulang Nasabah Bank Dalam Menggunakan Internet Banking (Studi Pada Nasabah Bank BCA)* (The Influence of Perceived Information Technology, Perceived Ease of Use, Perceived Risk, and Service Feature on Bank's Customers Interest in Using Internet Banking (Study Case on BCA Bank Customers)), perceived information technology, perceived ease of use, perceived risk, and service feature as independent variables influenced bank customers interest in using internet banking. The independent variables had positive influence on banks customers interest to use internet banking. Perceived information technology had most influence to bank customers interest. The least influence variable was perceived ease of use. The independent variables explained dependent variable by 51%, while the rest 48,8% was explained by other variables outside the research model.

Fadare (2016) conducted the research titled *A Survey on Perceived Risk and Intention of Adopting Internet Banking with postgraduate students in Nigeria as respondents*. The research found that perceived risk, performance risk, time risk, financial risk, security risk significantly related with intention to use internet

banking. On other hand, social risk did not show significant relation with intention for internet banking usage. The research showed that perceived risk, performance risk, social risk, time risk, financial risk, and security risk negatively affected intention towards internet banking usage. Perceived risk showed larger contribution in explaining intention to use among other variables in the research indicated perceived risk as most important factor influenced intention to use. Certain methods needed to be implemented and more value and reliability should be added to online transaction for customers to improve the intention to use internet banking.

Zhu and Lei (2016) on the study titled *The Impact of Characteristics of B2C Retailer on Purchasing Intention - Based on TAM Model* divided perception of network consumers into perceived usefulness, perceived ease of use, and perceived risk. Perceived ease of use was particularly influenced by computer usage skill and network shopping experience. Perceived usefulness and perceived ease of use influenced consumer purchasing intention positively, but perceived risk influenced purchasing intention negatively. The higher efficiency and convenience caused lower perceived risk and resulted higher purchase intention. Higher perceived ease of use and perceived usefulness created improvement to purchase intention. Information quality and service quality positively affected perceived usefulness and perceived ease of use, but negatively affected perceived risk.

Okumus and Genc (2013) on the study titled *Interest Free Banking in Turkey: A Study of Customer Satisfaction and Bank Selection* conducted a survey on Islamic bank customers to analyze customer satisfaction and bank selection criteria. The study found that the most important criteria for selecting Islamic bank

was religious belief. Other criterias followed were interest free and availability of products and services, provision of fast and efficient service, financial counselling by employees, and return on investment. The respondents who were the Islamic bank customers recorded for not understand enough of Islamic terminology used in Islamic bank. It reflected that the customer probably chose a product or service because of other reasons without have well understanding on the product or service. Customers showed low satisfaction on some aspects of Islamic bank product and service features, such as the limited number of branches, the availability of a wide range of credits with favorable terms and high service commission and fees. Islamic bank should improve its product and service feature to lift the customer satisfaction.

Kesharwani and Bisht (2012) on the study titled *The Impact of Trust and Perceived Risk on Internet Banking Adoption in India: An Extension of Technology Acceptance Model* found that website features had negative relation with perceived risk and positive relation with perceived ease of use. Good-designed website could offer better explanation of internet banking service and lower perceived risk in the transaction. Enhance customer trust through complete presentation of the product could lower perceived risk and increase customer intention in using internet banking service. Internet banking with good-designed website also would increase perceived ease of use and strengthen customer trust in using internet banking. Well-built website had important role to increase trust and decrease perceived risk which then positively affected customer intentions and behaviors.

Oshodin, et al. (2017) on the research titled *Is FinTech a Disruption or a New Eco-system? An Exploratory Investigation of Banks' Response to FinTech in*

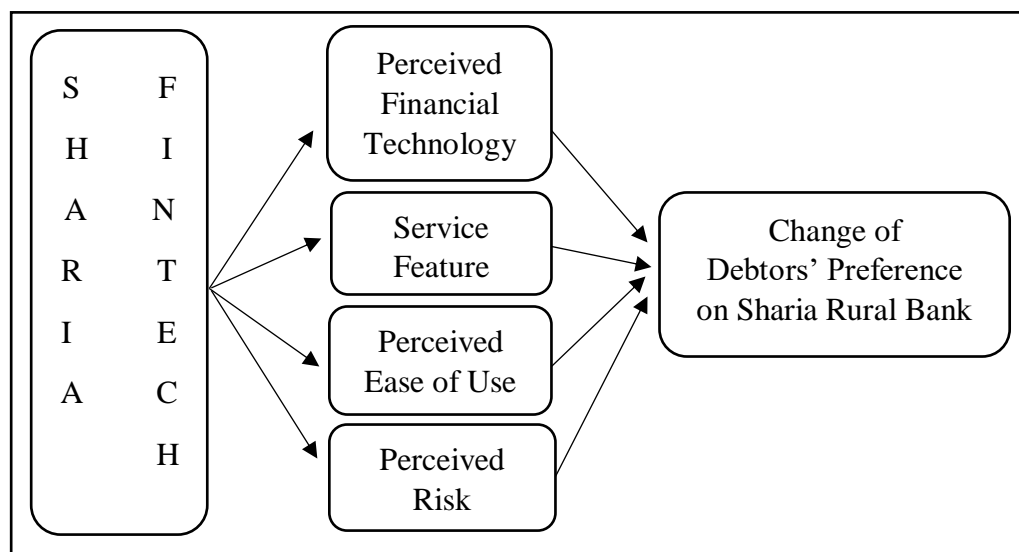
Australia analyzed the response of banks to emergence of FinTech in Australia. The research found that banks started to understand deeply about customers' needs, attitude, insights, and expectation of how customers want to get financial services. Banks learnt to adjust the functionalities of new technology, searched for new innovative ideas from employees and society, and encouraged employees to contribute more for implementation of the ideas. Banks enriched its knowledge from external sources to adapt with the innovation. Banks cooperated with new non-bank firms to provide win-win solution as banks already had brand, customers, and other resources, while the new firms could utilize the technology innovation.

Widyarini (2005) on the study titled Analisis Niat Perilaku Menggunakan Internet Banking di Kalangan Pengguna Internet di Surabaya (Analysis of Behavioral Intention to Use Internet Banking among Internet Users in Surabaya) found that behavioral intention of internet users to use internet banking was significantly influenced by attitude towards internet, attitude to use internet banking, and subjective norm on internet banking usage. Intention to use internet banking was mostly influenced by risk, environment, and product value. Perceived usefulness and perceived ease of use on internet did not significantly influence intention to use internet banking. Internet users in Surabaya more considered factors that directly linked with internet banking. Understand user intention helped to decide strategy based on environment and customers' need.

Pollari (2016) on the study titled The Rise of Fintech Opportunity and Challenge explained that customers have demanded for higher level of personalization, immediacy, and convenience through digital platform and mobile

device. Financial products such as credit cards, loans, and payments were expected to receive digital transformation. Customers sought for new technology and shifted their trust from their financial institution. The review of products from fellow customers received more trust than the information provided directly by financial institution. The institutions in this new developing environment should keep trying to understand and respond to the transformation occurred in the industry, then quickly adjust the approach and strategy to be put into action. Policy makers and regulators also increased the awareness and understanding about Fintech companies to understand the new technology development in the industry.

### C. Research Model



**FIGURE 2.1.**  
Research Framework

The emergence of Sharia Fintech in financial market became new challenge for Islamic financial institutions. This study is proposed to analyze how Sharia Fintech influence Debtors' Preference on Sharia Rural Bank in using financing

products. Using the variables Perceived Financial Technology, Service Features, Perceived Ease of Use, and Perceived Risk as indicators to measure the influence, the result is expected to show whether Debtors' Preference on Sharia Rural Bank change or not. The result is also expected to be used to analyze debtor acceptance on advanced technology adoption and what kind of financing product demanded by bank's debtors.

#### **D. Hypothesis**

The hypothesis on this study are:

- H1: Perceived Financial Technology has significant and positive influence towards the change of Debtors' Preference on Sharia Rural Bank.
- H2: Service Feature has significant and positive influence towards the change of Debtors' Preference on Sharia Rural Bank.
- H3: Perceived Ease of Use has significant and positive influence towards the change of Debtors' Preference on Sharia Rural Bank.
- H4: Perceived Risk has significant and negative influence towards the change of Debtors' Preference on Sharia Rural Bank.
- H5: Perceived Financial Technology, Service Feature, Perceived Ease of Use, and Perceived Risk simultaneously have significant influence towards the change of Debtors' Preference on Sharia Rural Bank.