CHAPTER II

THEORICAL FOUNDATION

2.1 Financial Technology

2.1.1 Definition of Financial Technology

Fintech comes from the term Fintech comes from the term financial technology or financial technology. Fintech has become a public concern because this service provides many service features to make it easier from the financial side, such as being used in cooperative financial institutions, banking and insurance. Financial technology arises along with the changing trends of human life, which are currently dominated by users of information technology and the pressure to live a very practical life. Financial technology has replaced ordinary business schemes into modern ones (Rahardjo et al., 2019).

Fintech comes from the term Fintech comes from the term financial technology or financial technology. According to The National Digital Research Center (NDRC), in Dublin, Ireland, defines fintech as "innovation financial services" or "innovation in fintech financial services" which is an innovation in the financial sector that gets a touch of modern technology. Financial transactions through fintech include payments, investments, money lending, transfers, financial plans and comparisons of financial products.

Bank Indonesia also provides a definition of Financial Technology (Fintech) which is regulated in Article 1 Paragraph 11 of Bank Indonesia Regulation Number 19/12/PBI/2017 concerning the Implementation of Financial Technology, that Fintech is the use of technology in the financial system that produces products, services, technology and / or new business models and may have an impact on monetary stability, financial system stability, and / or efficiency, smoothness, security, and reliability of the payment system. Fintech provides convenience in using and utilizing various financial services digitally, including payments, loans, investments, and insurance.

Rahma (2018), explained that Fintech is not a service provided by banks but a new business model that really helps the community. Fintech provides services in the form of financial transactions without having to have an account like in banking in general. FinTech was developed to meet the needs of the market that wants ease and speed of transactions in the financial sector. The presence of FinTech can move the joints of the Indonesian economy through the various innovations it offers. Financial Technology (FinTech) has the ability to disrupt and transform finance in a number of ways, mostly in emerging markets: such as payments, insurance, credit and financial compliance. There is no agreed definition of Fintech yet (Puschmann, 2017; Schwabe, Dolata and Zavolokina, 2016). So it can be interpreted simply that fintech is an innovation in financial services that utilizes information technology. The significant development of Fintech in Indonesia is expected to encourage the growth of the national economy.

2.1.2 Financial Technology Classification

A. Digital Payment

Fintech digital payment firms offer online transaction payment services to make the process more convenient, quick, and affordable. These service providers are usually virtual wallets with a variety of capabilities to make online transactions between consumers and business owners or between business actors easier (B2B).

B. Peer To Peer Lending and Crowd Funding

This fintech connects lenders (investors) and borrowers on a single platform. The interest from the loaned cash will be paid to investors later. Borrowers are given the power to choose the loan duration and amount that best suits their needs. The loan amount is determined by the company's policies.

C. Account Aggregator

This sort of Fintech Account Aggregator will provide services that can accommodate all of these transactions through a single platform for users that require and use transaction services from several banking accounts. The ease of validating transactions is provided to users of this platform because the process is quick and easy. Consumers with various banking accounts can register their accounts on this platform, which can subsequently be used to track all of their financial activity from a single location.

D. Insurance

In the fintech insurance business model, fintech work to allow more relationships easy between the insurance company and the customer. They analyze and modify risk using data analytics, and clients are offered goods to match their needs as possible customer groups develop (e.g., auto insurance, life insurance, health insurance). They too, make the billing process easier. Traditional insurance firms appear to adopt the insurance fintech business model the most. This technology enables insurance companies to supplement their standard strategy by collecting data from non-traditional insurance providers and improving risk analysis (Lee and Shin, 2017:1-85).

E. Information and Feeder Site

This sort of Fintech company provides services related to the information required by potential customers who wish to utilize a financial services product or service. Credit cards, interest rates, mutual funds, insurance premiums, and so on are examples of information that can be presented. Information on these topics is gathered from Financial Services Providers in the domains of banking, capital markets, insurance, and financing organizations, among others.

F. Personal Finance

The neighborhood is in desperate need of financial planning at this time. Against this backdrop, a number of fintech businesses in Indonesia have created Fintech that can accommodate this. Personal finance fintech companies may assist consumers with everything from financial reporting to fund processing via their platforms.

G. Management of Investments

   Fintech investment management works as an individual network provider for managing various securities or securities such as stocks, bonds, and other assets with the intention of attaining a profitable investment target for investors. This type of service might make it easier for investors to monitor and discuss their investment plans or portfolios with other social network members. Stock trading in fintech services allows investors and traders to communicate with one another in real time to debate and share information, buy and sell commodities and stocks, and monitor risks. Users can securely pay and receive funds in many currencies while viewing live stock prices on their mobile device. Users of fintech services can transact with considerably cheaper fees and via a payment mechanism that is much more convenient for individuals or businesses.

According to Hsueh (2017), three types of financial technology were found, namely:

A. Third-party payment systems are payment patterns through third parties such as cross-border EC, mobile payment systems, online-to offline (O2O) with repayment platforms that provide services in the form of bank payments and transfers.
B. Peer-to-Peer lending or P2P Lending is an Internet-based business type to fulfill the need for loans between financial intermediaries. This platform is aimed at small and medium-sized businesses whose opinion is that the lending conditions in banking are very high. Peer-to-Peer Lending has relatively low payouts and relatively high efficiency compared to traditional banking-based loans.
C. Crowdfunding is a type of finance in which a basis or product in the form of content, design, program and creative work is issued openly

and for people who are attracted and want to help the concept or product can provide financial support. Crowdfunding can be used to minimize entrepreneurial financial desires and predict market needs.

2.1.3 The Role of Financial Technology in Indonesia

A. According to the Financial Services Authority (2017), the role of fintech in Indonesia is as follows:
B. Encouraging even distribution of the level of welfare of the population.
C. Assist in meeting the still very large domestic financing needs.
D. Encouraging the distribution of national financing is still uneven in 17,000 islands.
E. Improving national financial inclusion.
F. Encouraging the export capability of SMEs, which is currently still low.

2.1.4 Advantages and Disadvantages of Fintech

A. According to the Financial Services Authority (2016), the advantages of fintech are:

   Serving the Indonesian people who have not been served by the traditional financial industry due to strict banking regulations and the limitations of the traditional banking industry in serving the community in certain areas.
B. To become an alternative to funding other than traditional financial industry services where the community needs a more democratic and transparent financing alternative. While the disadvantages of fintech are :
   a. Fintech is a party that does not have a license to transfer funds and is less established in running its business with large capital, when compared to banks.
   b. There are some fintech companies that do not yet have physical offices, and lack of experience in carrying out procedures related to security systems and product integrity.

2.2 Small and Medium Enterprises (MSMEs)

2.2.1 Definition of MSMEs

MSME refers to a business with a limited market reach, a small workforce, and is run by the owner (Simmons, Armstrong & Durkin, 2008). Micro, small, and medium enterprises, or MSMEs, is an economic term that refers to a productive firm owned by individuals or corporate organizations that meet the micro-enterprise criteria.

As to the provisions of Law No. 20 of 2008. Due to the increasingly dynamic development conditions, the definition of MSME was updated to Law No. 20 Article 1 of 2008 covering Micro, Small and Medium Enterprises. The definition of MSME is as follows:

A. Micro Enterprises are profitable businesses owned by individuals who have complied with the criteria for Micro Enterprises as stipulated in the Law.

B. Small Business is a profitable trading business which develops on its own, which is carried out by individuals or organizations that are not industrial agents that are owned, owned or as part of either directly or indirectly from a large business or medium-sized business that is in accordance with the character of Small Business. as in this Act.

C. Medium Business is a profitable trading business that develops independently carried out by individuals or or a business that is not part of an industrial agency that is owned, authorized, or as a part, directly or indirectly with a small business or large business with net figures or net profit sales. per year as stipulated in this Law.

D. Large Business is a profitable trading business carried out by the business sector with annual net income or profit figures exceeding the size of medium-sized businesses, which include national businesses, nationally owned, or owned by organizations, joint ventures, and immigrant businesses that conduct economic business in the State.

E. The Business World is a Micro business, Small business, Medium business, and Big business that carries out trading activities in this country and resides in this country.

2.2.2 Criteria MSMEs

Government Regulation No. 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and Micro, Small and Medium Enterprises (PP UMKM) has been issued by the government along with 48 other implementing regulations from Law no. 11 of 2020 concerning Job Creation (UU Cipta Kerja) on 16 February 2021. The PP UMKM changed several provisions that had previously been regulated in Law no. 20 of 2008 concerning Micro, Small and Medium Enterprises (UU MSMEs). One of them is the rules related to the criteria for SMEs themselves.

The new MSME criteria are regulated in Article 35 to Article 36 of the PP on MSMEs. Based on the article, MSMEs are grouped based on the criteria for working capital or annual sales results. The criteria for working capital are used for the establishment or registration of MSME activities that were established after the PP MSMEs came into effect. The capital criteria consist of:

A. Micro Enterprises have a business capital of up to a maximum of Rp. 1,000,000,000.00 (one billion rupiah) excluding land and buildings for business premises.
B. Small Business has a business capital of more than Rp. 100,000,000.00 (one billion rupiah) up to a maximum of Rp. 5,000,000,000.00 (five billion rupiah) excluding land and buildings for business premises.
C. Medium Enterprises have a business capital of more than Rp.5,000,000,000.00 (five billion rupiahs) up to a maximum of

Rp.10,000,000,000.00 (ten billion rupiahs) excluding land and buildings for business premises.

2.2.3 MSME Development Indicators

The indicators used in this study include:

A. Business capital, is the amount of money used to run a business whether it is used to buy equipment, rent a building or for basic costs.
B. Sales Turnover, is the amount of income or profit earned from selling goods or services within a certain period of time, which is calculated based on the amount of money earned.
C. Labor, This demand for labor is influenced by changes in wage levels and changes in other factors that affect the demand for production products.

2.2.4 Advantages and Disadvantages of MSMEs

According to Anoraga (2010), MSMEs have all hidden abilities that symbolize the hope that becomes the basis for improvement in the future, namely:

A. Providing employment opportunities for small industry positions in labor input must be appreciated, calculated to be able to include up to 50% of human resources who are willing.
B. The presence of young entrepreneurs in small and medium enterprises up to now can really help increase new businesses.
C. Have a market business section which specializes in simple and elastic administration of market exchanges.
D. Using natural environmental resources, small businesses mostly use waste from large businesses or other businesses.

Weaknesses, which many also make one of the causes of obstacles and problems for MSMEs, are:

A. Very lack of expertise from HR itself.
B. The problem of product marketing, half of small business entrepreneurs prioritize the production section, while the marketing function is unable to access it, especially market information and market networks, so that half of them are only useful as workers.
C. The frequency of users who trust only in big business is not sure about the quality of Small business products.
D. Funding problems most Small businesses use their own money in very minimal numbers.

2.2.4 Role of MSME

Law No.20 of 2008 concerning Micro, Small and Medium Enterprises in article 3 states that micro and small businesses aim to grow and develop their businesses in the context of building a national economy based on just economic democracy. This means that MSMEs play a role in national economic development through their contribution to GDP, job creation, and employment.

According to Gilen Gilenardi, the ability of MSMEs in facing the crisis and national economic development is caused by:

a. The micro sector can be developed in almost all business sectors and is spread throughout Indonesia.
b. Due to the nature of its very wide distribution, the micro sector also plays a very important role in equal distribution of employment opportunities.
c. MSMEs include cooperative member businesses which are generally flexible. MSMEs with a small business scale, simplicity of specifications and the technology used can more easily adapt to changes or developments that occur.
d. Most of the products produced are products that are directly related to the primary needs of the community.

e. MSMEs are appropriate and close to life at the lower level so that efforts to eradicate and reduce people from low economic backwardness will be more effective.

2.3 Previous Research

Research on the influence of financial technology on the development of MSMEs has been studied before, as for some previous research that is considered to be about the discussion, namely:

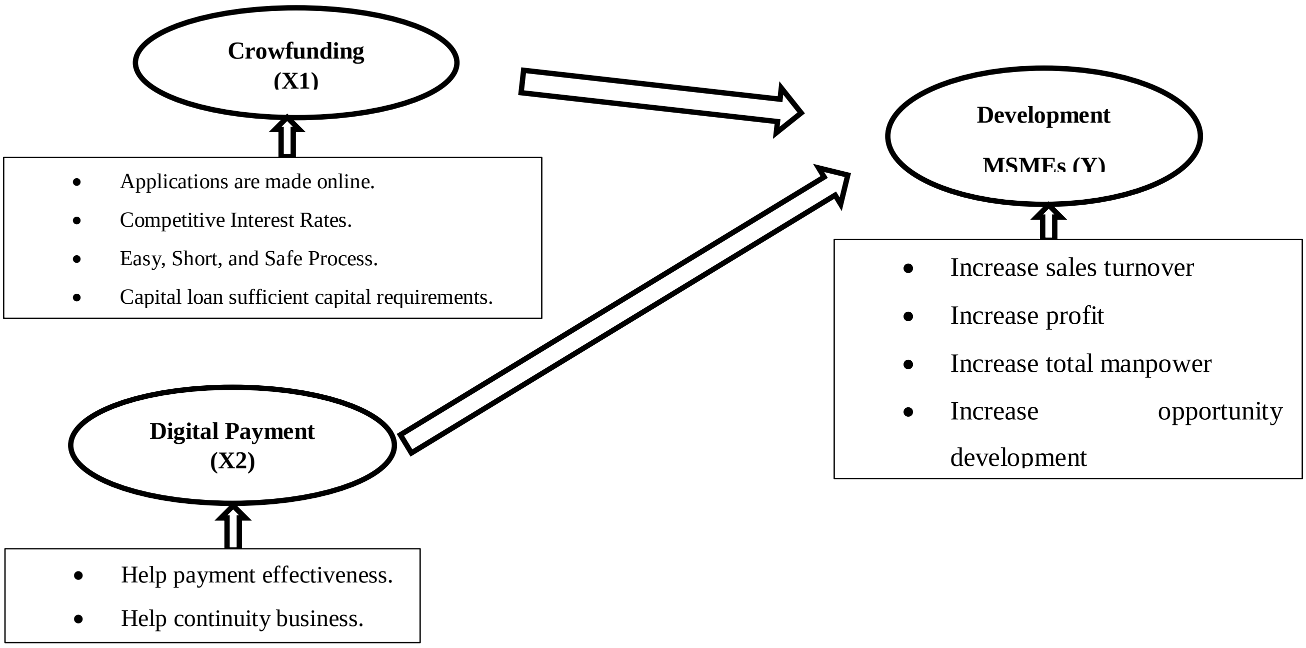
NO	Name	Research Title	Variable	Research Methods	Research Results
1	Fenwick, et al. (2018)	Fintech and the Financing of SMEs and Entrepreneurs: From crowdfunding to Marketplace Lending (2018)	Crowdfunding, Peer-to-Peer Lending, Technology	Using descriptive analysis	We examine venture capital investment whose findings here have implications for how regulation is likely to play an important role in the development of the fintech market.
2	Mukhtar (2019)	Analysis of MSME capital funding through financial technology peer to peer lending (p2p) (case study on MSME PT. investree	Financial Technology, Peer to Peer Lending, Modal UMKM, SAK EMKM	Descriptive qualitative method with structured interviews as primary data.	The results of this research show that the role of fintech peer to peer lending companies can be an easy, fast, safe way out for capital lending for

		radhika jaya) (2019).			MSMEs and the application of financial reports is suitable for MSME.
3	Sheng (2020)	The effect of fintech on banks' credit provision to SMEs: Evidence from China (2020)	Fintech and SMEs	To test our hypothesis, we use empirical analysis.	Our empirical analysis shows that fintech can promote the overall supply of credit to SMEs from banks.
4	Utari & Dewi (2021)	The Influence of Capital, Education Level, and Technology on the Income of Micro, Small and Medium Enterprises (MSMEs) in the Imam Bonjol Area, West Denpasar	Capital, Education Level, Technology and Micro, Small and Medium Enterprises.	Examining the independent variable, namely technology, while the differences between previous and present studies have differences in the independent variables, namely capital, education	There are conclusions that can be drawn in this study, namely the first results show that capital, education level, and technology simultaneously have a significant effect on MSME income. Second, the greater the capital consumed, the greater the income received by MSMEs, the higher the level of education, the

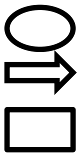
				level and the dependent variable, namely the income of the UMKM studied, is the dependent variable on the development of the UMKM.	higher the level of income received, and the more modern the technology used, the greater the income received.

2.4 Conceptual Framework

Based on the description above, the researcher identified two independent variables and one dependent variable, namely: Financial Technology (X) and MSMEs (Y). The conceptual framework used in this study can be described as follows:



Note: **Gambar 2.1 Conceptual Framework**



: Variabel

: Influence

: Indicator

2.5 Hypothesis

A hypothesis is an estimate or response that lasts for a moment where the truth is still in doubt, because it must be tested empirically (Sugiyono, 2014). A hypothesis can be accepted if the data collected leads to a statement. A hypothesis is an initial statement which then makes an opinion that needs to be tested for validity. So the hypothesis is a temporary response to the statements issued in the problem formulation. In relation to the influence of financial technology on the development of MSMEs, the formulation of the hypothesis in this study is:

The concept of crowdfunding itself is an inspiration from the concepts of micro finance (Morduch, 1999) and crowdsourcing (Poetz, 2012), but this crowdfunding concept has a unique character that is different from the two previous concepts, the uniqueness of this crowdfunding concept is that in terms of fundraising facilitated by internet sites (Mollick, 2014). According to Hollis and Sweetman, 2011 in (Hobbs, Grigore, & Olesworth, 2016) Crowdfunding in many ways is not a new idea. This can be traced back to the 1700s through the concept of microfinance. One prominent example is the Irish Loan Fund, initiated by Jonathan Swift to provide credit to the poor in a country where more than 20% of all Irish households hold the Irish Loan Fund. The loan concept gained popularity and peaked in the 1800s (Svobodov, 2016). The transformation of the concept of micro finance and the concept of crowdsourcing via the Internet gave birth to the concept of crowdfunding. So, the concept of crowdfunding is not a new concept, which is a new thing because crowdfunding is due to technological developments. Crowdfunding is defined as a funding project based on raising funds in large or small amounts to increase capital from an initiative or idea via the internet (Belt, B. , C. Brummer, 2012). Therefore, this study suggests the following hypothesis:

Hypothesis 1 (H1): There is an influence of Crowfunding on Development of MSMEs in Bandarlampung City.

According to Donner and Escobari (2010), mobile phones have helped MSMEs become more productive and increase their sales thereby improving financial performance. According to Sartono (2012; 113) there are several types of profitability such as, ROA (Return on Assets), ROE (Return on Equity), ROI (Return on Investment), Sales Revenue (Sales Revenue). In addition, sales revenue can also be used as a variable to measure the company's financial performance (Ngaruiya et al, 2014). Based on research conducted by Luckandi (2018) with the title Analysis of Payment Transactions Using Finetch on MSMEs in Indonesia using the adaptive structuration theory method with research results using technology can be a strategy for MSMEs in running a business, because there are many benefits such as ease and convenience in transactions. Based on research conducted by Jumba and Wepukhulu (2019) with the title The Effect of Non-Cash Payments on the Financial Performance of PT Supermarkets in Nairobi Regency, with the variables of financial accessibility, financial innovation, and transaction costs affecting financial performance with the results recommending that supermarkets should reduce outside transaction costs in order to have a positive impact on the financial performance of the managed supermarkets. Thus, one hypothesis is suggested as follows:

Hypothesis 2 (H2): There is an influence of Digital Payment on Development of MSMEs in Bandarlampung City.

Rizal et.al (2018), said that in the current digitalization era, various activities use technology for cost efficiency. Digitalization in the financial sector makes financial sector institutions compete to increase financial technology innovation to increase efficiency and market share. According to (Hui, 2012) defines crowdfunding as a request for financial resources both online and offline in return for being offered a gift, such as recognition, experience, or product by the creator of the project. According to (Valanciene, L., &

Jegeleiciute, 2014) stated that Crowdfunding is a method to connect between entrepreneurs who want to increase capital and investors who have sources of funds through internet-based intermediary entities. based on research conducted by Xena and Rahadi (2018) with the title Application of E Payment to Support Small and Medium Enterprise Payment Systems: Conceptualization Models using six independent variables, namely performance expectations, technology acceptance culture, social influence, security and business expectations by providing research results that useful for understanding about the adoption of electronic payments to support small and medium business payment systems.

Hypothesis 3 (H3): There are influence of Crowfunding and Digital Payment on Development of MSMEs in Bandarlampung City.