

Millennial Financial Crisis: A Review of the Role of Regulation in Online Lending

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Article Info	ABSTRACT
<p>Corresponding Author: Renika Hasibuan E-mail: renikahasibuan2016@gmail.com</p>	<p>The millennial financial problem caused by online borrowing is urgent. Online loans are convenient yet risky due to high interest rates, aggressive debt collection, and lack of transparency. This crisis effects financial health, economic well-being, and societal issues, including financial stress-related mental health issues. Financial literacy and regulation are important to solving this problem. The Financial Services Authority (OJK) regulates to protect consumers, enhance transparency, and guarantee financial institutions meet requirements. Financial literacy can assist people comprehend internet lending risks and advantages and make smart financial decisions in addition to regulation. The attached research uses descriptive qualitative methods. This research analyses documents and literature to assess regulation efficacy, identify gaps, and propose a better regulatory framework. The results reveal that existing restrictions are often insufficient to protect customers from unethical lending activities, and low financial literacy contributes to lending decisions that worsen millennials' financial situations. Transparency, consumer protection, and financial awareness among millennials, especially about internet loans, are vital. The millennial financial problem requires effective regulation, financial knowledge, mental health help, and debt stigma reduction. To protect millennials' financial well-being, tighter industry norms and debt support measures are also advocated.</p> <p>Keywords: Millennial Financial Crisis, Online Loans, Financial Regulation, Financial Literacy</p>

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INTRODUCTION

The millennial generation, who grew up in the digital era, faces different economic conditions than previous generations. With easier access to information and technology, millennials have a tendency to look for quick and practical financial solutions to meet their needs. Online loans, with an easy and fast process, have become a popular choice (Suryono et al., 2021). However, this comfort is often accompanied by ignorance about financial risks,

such as high interest rates and loan terms that can lead to debt traps(Perwitasari, 2022; Purwanti, 2021; Radiansyah et al., 2023).

The financial crisis faced by the millennial generation is an important issue that requires serious attention from various parties. In the last decade, the online lending phenomenon has grown rapidly, providing instant financial solutions for many people, including the millennial generation who often face unique financial challenges. However, this easy access to online loans also brings risks and challenges, triggering a financial crisis for some users(Wahyuni & Turisno, 2019). The millennial financial crisis exacerbated by online loans is an urgent problem for several reasons. First, the negative impact on the financial health of individuals and families. Excessive debt burdens can disrupt long-term financial capabilities, including savings, investments and economic well-being. Second, this issue has the potential for wider social impacts, including increased stress and mental health problems related to financial pressure(Kennedy, 2017).

Technological advances and high internet penetration make things easier for people, especially the millennial generation(Fauzi et al., 2023; Prahendratno et al., 2023), to access online loan services. Many of these services offer an easy application process and minimal requirements, appealing to those who need funds quickly but may not have access to traditional financial services(Nugraha et al., 2023). While online lending offers many benefits, the industry's rapid growth has also come with problems, such as a lack of transparency in terms and conditions, aggressive debt collection practices, and data privacy concerns.

The growth of a poorly regulated online lending industry could affect the stability of the financial system as a whole, creating systemic risks that may require government intervention. Therefore, the urgency to understand and address this issue through effective regulation has become increasingly important to protect consumers and maintain economic stability.

Low financial literacy among millennials often leads to a lack of understanding about financial products, including the risks and consequences of online loans, which can ultimately lead to poor financial decisions and the accumulation of debt(Ginting et al., 2023; Hasibuan et al., 2021). With increasingly uncertain economic conditions and the increasing complexity of financial products. Lack of financial literacy not only affects an individual's ability to manage personal finances but also has a broader impact on society's economic health. Millennials, a large demographic group, are in a key position to influence the future direction of the economy(Abdullah, 2021). Therefore, increasing financial literacy among these circles will not only help in reducing the risk of personal financial crises but also contribute to more stable and inclusive economic development.(Damayanti & Gumilang, 2023).

Based on the urgency above, this research aims to investigate the impact of regulations on handling the financial crisis faced by the millennial generation due to the use of online loans. Specifically, these objectives include evaluating the effectiveness of existing regulations in protecting millennial consumers, identifying gaps in regulations that enable exploitation by online loan providers, and developing recommendations for a more effective regulatory framework. This research also aims to explore the role of financial education as a prevention tool against debt traps, with the ultimate aim of improving millennial financial well-being in facing the challenges of online loans.

METHOD

Literature Review

Online Lending

Online loans are financial services offered online by fintech companies. Online loans allow individuals to borrow money quickly and easily without having to go through the complicated processes involved in traditional loans. Online loans can be accessed through applications or websites provided by online loan service providers (Kennedy, 2017). Online loans can be provided in the form of personal loans, business loans, or other loans. Online loans usually have easier requirements compared to traditional loans, such as not requiring collateral or collateral. However, the interest charged on online loans is usually higher than traditional loans. In addition, online loans also have higher risks due to the lack of adequate regulations and consumer protection. Online loans can be grouped into several types, such as peer-to-peer (P2P) lending (Hasibuan et al., 2023), sharia online loans, and unsecured online loans. P2P lending is a type of online lending where individuals can borrow money from other investors through an online platform. Sharia online loans are a type of online loan that follows Islamic sharia principles. Unsecured online loans are a type of online loan where individuals can borrow money without having to provide collateral or collateral. Online loans can provide convenience and accessibility in obtaining loans, but keep in mind that online loans also have risks that must be considered. Therefore, before deciding to take out an online loan, it is important to carefully consider and understand the requirements and risks associated with the online loan. (Devi et al., 2022).

Financial Literacy

Financial literacy is an individual's ability to understand and manage finances effectively. Financial literacy includes knowledge, skills and beliefs that influence individual attitudes and behavior in making financial decisions. Financial literacy includes an understanding of financial concepts, such as budget management, investments, insurance and loans (Ulfatun et al., 2016). Apart from that, financial literacy also includes skills in managing finances, such as making financial plans, managing debt, and developing investments. Confidence in financial literacy includes a positive attitude towards finances and the ability to make sound financial decisions (Ratnawita et al., 2023). Financial literacy is very important in everyday life because it can help individuals to make the right financial decisions and avoid unwanted financial risks. Financial literacy can also help individuals to manage their finances more effectively and improve their financial well-being (Udayanthi et al., 2018). Apart from that, financial literacy can also help individuals to understand the financial products offered by financial institutions and choose products that suit their needs (Octaloca et al., 2023). Financial literacy levels can vary between individuals (Ariawan et al., 2023). The Financial Services Authority (OJK) divides financial literacy levels into 4 types, namely well literate, moderately literate, less literate and not literate. Individuals who are well literate have adequate knowledge regarding finance and have trust in financial service institutions. Meanwhile, individuals who are not literate do not have the knowledge and skills in managing finances (Damayanti & Gumilang, 2023).

Research Methods

Descriptive qualitative research methodology is utilised to examine the impact of regulations on the online lending behaviour of millennials and the subsequent financial crisis that ensued as a consequence. By conducting an examination of relevant literature and analysing documents, this approach can be utilised to collect insights, experiences, and perspectives of millennials regarding online lending, in addition to gaining knowledge of the current regulatory landscape (Ibrahim et al., 2023; Kurniawan et al., 2023; Wada et al., 2024). Data triangulation ensured the dependability of the findings, whereas analysis techniques pertained to subjects concerning regulation and its causes. By employing this qualitative methodology, profound and nuanced understandings of the interplay among millennials, online lending, and regulation can be produced. Such insights serve as the foundation for suggestions that seek to enhance policies and practices, as well as provide assistance for the financial welfare of millennials.

RESULTS AND DISCUSSION

The millennial financial crisis has become an increasingly important issue in recent years. The millennial generation, generally defined as individuals born between 1981 and 1996, is faced with unique financial challenges. They tend to have high debt loads from student loans and have difficulty qualifying for traditional loans. Along with that, technological advances have enabled the development of the online lending or fintech lending industry (Judijanto et al., 2024), which offers easy access but often at high interest rates. This raises concerns about the impact on the financial stability of the millennial generation and the economy as a whole.

One of the factors that worsens the millennial financial crisis is online loans. Online loans allow individuals to borrow money quickly and easily without having to go through the complicated processes involved in traditional loans. Online loans usually have easier requirements compared to traditional loans, such as not requiring collateral or collateral. However, the interest charged on online loans is usually higher than traditional loans. In addition, online loans also have higher risks due to the lack of adequate regulations and consumer protection.

Therefore, the role of regulation in online lending is very important to overcome the millennial financial crisis. Regulation can help protect consumers from harmful practices and ensure that financial institutions comply with established standards (Devita et al., 2023). Regulation can also help increase transparency and accountability in the online lending industry.

Several regulatory efforts have been made by the government and financial institutions to overcome the millennial financial crisis related to online loans. The Financial Services Authority (OJK) has issued several regulations related to online loans, such as OJK Regulation Number 77/POJK.01/2016 concerning Information Technology-Based Money Lending and Borrowing Services. This regulation regulates the requirements and procedures for providing information technology-based money lending and borrowing services. Apart from that, OJK has also issued OJK Regulation Number 18/POJK.05/2020 concerning Consumer Protection

in the Financial Services Sector. This regulation aims to protect consumers from harmful practices and increase transparency in the financial services industry.

The study results show that low financial literacy plays a role in making unwise loan decisions, worsening the already vulnerable financial condition of millennials. Dependence on online loans with quick approval and easy access, without adequate understanding of the long-term consequences, often traps them in a cycle of debt. Additionally, this research highlights that existing regulations are often insufficient in protecting consumers from unethical lending practices, including high interest rates and aggressive collection tactics. The psychological impact of financial stress and the stigma around debt is also a major concern, highlighting the need for wider wellbeing support for affected individuals. Efforts are needed to identify the urgent need to revise and strengthen the regulatory framework with a focus on increasing transparency and consumer protection. More comprehensive financial education is needed to empower millennials with the knowledge they need to make more informed financial decisions. From these findings, the development of stricter industry standards and the establishment of support mechanisms for those trapped in debt are recommended. Through the implementation of policies designed to promote transparency, fairness and responsibility among online loan service providers, as well as the development of financial education initiatives, it is hoped that we can create a safer and more supportive environment for the financial well-being of the millennial generation. This emphasizes the importance of a holistic approach in addressing the millennial financial crisis, considering not only regulatory and educational aspects but also mental health support and reducing the stigma around debt.

Apart from regulations, financial literacy is also an important factor in overcoming the millennial financial crisis related to online loans. Financial literacy can help individuals understand the risks and benefits of online loans, and help them make the right financial decisions. OJK has made various efforts to increase financial literacy among the public, such as counseling, training and financial literacy programs. In research conducted by [1], it was found that public opinions regarding online loans (pinjol) are positive and negative about online loans. Sentiment analysis shows that people have concerns about the risks of online loans, such as high interest and detrimental practices. Therefore, the role of regulation in online lending is very important to protect consumers from harmful practices and increase transparency in the online lending industry. In another research conducted by [3], it was found that many people were entangled in online loans (pinjol) and had difficulty paying back the loans. This shows that online loans have high risks and can worsen the millennial financial crisis. Therefore, the role of regulation in online lending is very important to protect consumers from harmful practices and ensure that financial institutions comply with established standards. In other research conducted by [4], it was found that financial literacy has an important role in financial planning, especially among millennials. Good individual self-control will help individuals to avoid unwanted financial risks. Therefore, increasing financial literacy among millennials can help overcome the financial crisis faced by this generation. In research conducted by [5], it was found that P2P Sharia Lending is an online lending platform that applies Islamic principles. Sharia online loans can be an alternative for individuals who want to borrow money without having to pay interest or usury. Sharia online loans can also help overcome the millennial financial crisis related to online loans.

From the results of this research, it can be concluded that the role of regulation and financial literacy is very important in overcoming the millennial financial crisis related to

online loans. Regulation can help protect consumers from harmful practices and increase transparency in the online lending industry. Financial literacy can help individuals understand the risks and benefits of online loans, and help them make the right financial decisions. Apart from that, sharia online loans can also be an alternative for individuals who want to borrow money without having to pay interest or usury. Therefore, efforts need to be made to improve financial regulations and literacy among the public, especially among the millennial generation.

CONCLUSION

The study's findings indicate that the financial predicament encountered by millennials as a result of utilising online loans is an urgent matter. The risks associated with online loans, which include high interest rates, aggressive debt collection practices, and opaque terms and conditions, are substantial despite the convenience they provide. Individuals' financial health and economic well-being are impacted by this crisis, which may also give rise to broader social consequences such as financial stress-related mental health issues. Financial literacy and regulation are crucial in addressing this issue. The implementation of regulatory measures, such as the one undertaken by the Financial Services Authority (OJK), is critical in safeguarding consumers against detrimental practices, promoting transparency, and ensuring adherence to established standards by financial institutions. Additionally, financial literacy can assist individuals in making informed financial decisions by enabling them to comprehend the risks and benefits of online lending. In addition to its potential to mitigate personal financial crises and foster a more inclusive and stable economy, financial literacy extends beyond regulatory measures. As a result, it is critical to enhance millennials' financial literacy, transparency, and protections with regard to online lending in particular. In addition to a comprehensive strategy that incorporates financial literacy, mental health support, debt stigma reduction, and effective regulation, a holistic approach is required to tackle the millennial financial crisis. Additionally, it is suggested that stricter industry standards and support mechanisms for those in debt be established in order to foster a more secure and encouraging environment for the financial well-being of millennials.

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