Factors Affecting Loan Quality on Sharia Fintech Lending Platforms: A Study Case In Indonesia

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Abstract:

This study aims to see the Factors Affecting Loan Quality on Sharia Fintech Lending in Indonesia. This research uses a qualitative method of case studies by collecting secondary data through from OJK. This article looks at the Factors of current loans and non-current loans starting in early 2021 to 2023 for Sharia FinTech in Indonesia by adopting the multiple linear regression method and dummy variables to analyze data on more than two free variables. The estimates show factors for gender, age and domicile in FinTech lending in Indonesia. Furthermore, gender does not appear to significantly impact the number of loan recipients or the outstanding loan amount, age and domicile variables have a significant impact on these factors. Age categories show a positive impact on the number of loan recipients and the outstanding loan amount. Meanwhile, individuals outside of Java are more likely to be loan recipients compared to individuals in Java. These findings recommend that financial services authorities intensively encourage new innovative Sharia FinTech business models for lending to expand digital financial inclusion by providing financing for people (P2P) who are not touched by banks.

Keywords : Fintech Lending, Sharia Fintech, Loan Quality, Financial Services Authority

1. Introduction

Financial technology (Fintech) has emerged as a transformative force within the global financial landscape, offering innovative solutions to traditional banking services (Hu, 2023). In Indonesia, Fintech has gained significant

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traction, particularly in the realm of lending, revolutionizing the way individuals and businesses access financial services. Fintech lending platforms provide convenient and accessible avenues for borrowing, often catering to underserved segments of the population who may have limited access to formal banking institutions. This surge in Fintech lending activities has prompted a growing interest in understanding the dynamics and factors shaping this burgeoning sector, particularly with regard to loan quality. Similarly, some scholars propose that digital finance can be described as financial services delivered through mobile phones, personal computers, the Internet, or cards connected to a reliable digital payment system (Ozili, 2018). According to a report released by Peking University's Institute of Digital Finance in China, digital finance is the mode in which financial institutions and Internet companies apply digital technology to offer financing, payments, investments, and other new financial services (Zhang, 2022).

Today, digital finance development models and business forms show diverse trends and have achieved a high level of penetration into our daily lives, while digital finance is a central hot research area, its related theories and practices have received much scientific attention. (Yao & Yang, 2022) found that the growth of digital finance is beneficial to real economic expansion, and the path of impact is shown as a cubic curve. In addition, the impact has a spatial spillover effect. Subsequently, confirmed the above view. Next, they explore the mediated development that R&D innovation plays in spatial spillover effects, and finally, they discover structural differences in digital finance in boosting the real economy. Due to its inclusive nature, digital finance contributes to the development of rural finance and plays an important role in reducing the income gap between urban and rural residents, while the gap between urban and rural consumption decreases in parallel with the income gap. The transmission relationship between housing consumption and digital finance can be realized through two channels: providing a more convenient means of payment and reducing residents' liquidity constraints. Importantly, along with the increase in housing consumption, there is an acceleration in the growth of housing household debt, which needs to be watched out. Digital finance can effectively curb companies' inefficient investment behavior, and specific transmission mechanisms are achieved by helping companies reduce their leverage and increase their level of financial stability.

Islamic finance has grown rapidly over the past four decades and has a global reach. It is considered one of the fastest-growing segments of the global financial industry. Indeed, the rapid growth of Islamic finance is expanding to

other Western and non-Muslim countries. It is now in the stage of global integration to be adopted as an international financial system. One of the biggest challenges for Islamic finance in the next decade is financial and technological innovation. In the digital world, traditional financial practices will lag. Customers expect more innovations that will facilitate their needs and transactions most conveniently. Therefore, financial technology (Known as Fintech) is a new way of financing by providing innovative products that will enhance existing practices and facilitate consumer experience in transacting efficiently and effectively.

Fintech offers product innovation by structuring financial products that are new or significantly improved and improved regarding their characteristics or intended use. In other words, fintech is simply defined as the application of technology in the financial industry in a more friendly and efficient way. Recently, the term fintech has been popularized in the financial industry and the widespread adoption of fintech in the industry encompasses a wide range of activities including financing, payments, operations and risk management, data security and monetization, and customer interface as well as other related fields. The main types of fintech services are peer-to-peer (P2P) lending, smart contracts, mobile payments, investments including crowdfunding, and to some extent investment advice (Laldin & Djafri, 2019). The research aims to investigate the factors affecting loan quality, including age, gender, and domicile, in fintech lending loans registered with the OJK in Indonesia. Specifically, it seeks to determine whether there is a statistically significant difference in loan continuity rates among different age groups, the extent to which gender influences loan status (current, non-current, or bad), and how an individual's domicile impacts the total loan amount and whether this difference is statistically significant.

2. Theoretical Background

Financial Technology

Financial technology is a powerful tool in financial infrastructure, used to strengthen and smooth the delivery of financial services into the broader space. Financial technology involves software, applications, and other technologies designed to improve and automate traditional forms of financial services for businesses established in different areas (Gautam et al., 2022).

The birth of Islamic financial service technology innovation (Shari'ah Fintech) has provided a lot of convenience. In practice, the community can carry out the

financing collaboration process without having to meet face-to-face. However, behind all these conveniences, it is not widely known to what extent this sharia fintech application service is in accordance with the provisions of the DSN MUI Fatwa No. 117/DSN-MUI/II/2018 and also Islamic law, or is not in accordance with the legal provisions stipulated apply (Wiguna & Wirdyaningsih, 2022).

Fintech Lending

Fintech Lending or also known as Fintech Peer-to-Peer Lending (Lending) is one of the innovations in the financial sector by utilizing technology that allows lenders and borrowers to make lending and borrowing transactions without having to meet in person.

Fintech Lending providers can be in the form of legal entities or cooperatives that have a system to carry out online lending and borrowing transaction mechanisms, both through applications and website pages (OJK, 2016). Regulations related to Credit Distribution are contained in the Financial Services Authority Regulation (POJK) Number 77/POJK.01/2016 concerning Information Technology for Money Lending and Borrowing Services (LPMUBTI).

Fintech lending develops as a simple and straightforward platform to attract a lot of consumer interest. In its use, individual fintech lending users only need to register on the fintech lending application or web by taking a photo of their Identity Card. After registering, the borrower will submit a loan proposal. The peer-to-peer lending organizer will analyze the credit score, loan history, and the borrower's income to determine the loan interest and the borrower's score (Hasna & Taufiq Syamlan, 2021).

Loan Quality

Loan Quality means the number of loans originated in accordance with the Company's underwriting policies and procedures and is measured as loans sold, either individually, through bulk sales transactions, or through securitizations, at a premium price as a percentage of total loans sold, based on information as reported in the Company's quarterly and/or annual financial statements (Chavan & Gambacorta, 2016).

Previous Research

Studies on debtor characteristics have been fairly frequent in previous studies. Factors commonly used as free variables include debtor characteristics, business characteristics, and loan/loan characteristics. The following is a previous study that is described succinctly.

Financial innovation has always aimed to facilitate efficient and effective financial arrangements for humans (Milawati & Indartono, 2020). It encompasses the design, development, and implementation of innovative financial instruments as well as the creation of creative solutions to financial problems. Islamic banks in Indonesia operate based on Islamic sharia principles, as provided for by Law Number 21 of 2008. This legislation serves as the institutional and operational legal framework for Islamic banks. Additionally, through the enactment of Law No. 23 of 1999, amended by Law No. 3 of 2004, Bank Indonesia has the authority to implement monetary policies based on sharia principles and affect liquidity through Islamic banks.

However, in the era of the digital economy, the banking sector in Indonesia experiences intense competition. The digital economy, driven by information and communication technology, globalizes the world. The digital economy is characterized by inclusivity, equal opportunity, and competition, attracting many small and medium enterprises to participate. Startups that support collaboration and synergy are instrumental in enhancing the competitive spirit in this industry.

Islamic crowdfunding has the potential to be the next financial innovation in the Islamic financial sector (Achsien & Purnamasari, 2016). It can take the form of Zakat, Infaq Shadaqah Waqf, Qard al hasan Shirkah Mudharabah and Musharakah, and Lending Murabaha, Ijarah, Istishna, among others. While the Islamic financial services sector, particularly Islamic banking, has developed interest-free alternatives for debt financing for small and medium enterprises (SMEs) using Islamic commercial instruments, Islamic equity financing for SMEs remains elusive. Islamic crowdfunding offers a transparent, cooperative, and cost-effective method for implementing Shariah-compliant equity financing. Crowdfunding, both in its equity-based and loan-based models, brings various advantages from an Islamic finance perspective. It fosters profit and loss sharing, provides capital access for a wide range of entrepreneurs, creates new asset classes for small and medium-sized investors, minimizes risk through capital sharing across multiple startups, stimulates innovation, sustains local talent, promotes job creation, and supports business growth and the potential for future Initial Public Offerings (IPOs) in various sectors. Trust is a

fundamental element in crowdfunding, resembling economic relationships in historical Islamic societies where long-term business connections relied on trust.

Takidah & Kassim (2022)Argue that the advent of the digital era has necessitated a quick adaptation from traditional banking practices to technology-based banking. Traditional banking faced challenges regarding collateral, KYC processes, high-interest rates, and geographical access. However, financial innovation enabled by technology has provided a wider range of easily accessible, reliable, affordable, and inclusive financial services. The most significant trends in fintech are peer-to-peer (P2P) lending, which includes P2P consumer lending and peer-to-business lending. P2P lending fintech allows individuals and businesses to engage in lending and borrowing activities through internet platforms or mobile applications. Fintech P2P lending offers low-interest rates to lenders and a convenient borrowing process for consumers due to its streamlined structure. Fintech has been growing since 2006, and P2P lending emerged in 2016 as a means to provide open access to financing and support national economic growth in Indonesia. Fintech Peer-to-Peer Lending, also known as Fintech Lending, is well-known among the Indonesian population compared to other forms of fintech.

According to oliver (2021) investigates online platforms created through financial innovation harness technology to facilitate direct lending between fund owners and borrowers. This form of innovation provides higher yields for fund owners while offering easier and faster borrowing processes compared to traditional financial institutions. The lending and borrowing transactions occur through systems provided by Fintech Lending organizers, either through applications or website platforms. The development of Fintech brings numerous benefits to the national economy, benefiting both business actors and consumers. It serves as an alternative source of public financing. The history of Fintech dates back to the 19th century as the first stage (Fintech 1.0), with the advent of the Pantelegraphy device and the establishment of transatlantic communication networks. Fintech 2.0 commenced when ATMs were introduced in 1967, followed by milestones such as the establishment of NASDAQ in 1971, SWIFT transactions in 1973, and cashless payments in 1998. Fintech continued to evolve rapidly, leading to Fintech 3.0 after the 2008 financial crisis, marked by the introduction of cryptocurrencies and bitcoin.

Then, Fintech 3.5 emerged from 2014 to 2018 such as Alipay, financial software, and the level of electronic market payments soared upwards. The

final stage is Fintech 4.0 which started in 2018 until now which has launched all financial services electronically and created blockchain as a commercial model of Fintech. So, there are five stages of Fintech evolution now and growing decade by decade due to changes in the global economic environment and our financial crisis. Other reasons for Fintech development are easy access, providing better services, easy monitoring, low prices, and saving time.

Moreover, Fintech innovation is encouraged in Islam if there are no forbidden elements and unclear processes. Therefore, in simple words, Islamic Fintech is the delivery of digital financial services by Islamic financial institutions using the latest modern software technology, is user-friendly, and does not include prohibited elements in Islam.

Other studies also investigate about customer lender interaction. For example, Berg et al., (2021) define that FinTech lending can be based on the nature of customer-lender interaction or on the technology used to screen and monitor borrowers.

Customer-lender interaction: The lending process may give rise to the FinTech label if the customer-lender interaction is purely app-based or purely online. Such lending processes can lower processing times, lower operational costs, and improve user experience. This increases the elasticity of lenders to demand shocks and reduces errors that may arise from human interaction in the lending process. This may be especially appealing to borrowers who value convenience over personal interaction and advice.

Screening and monitoring: Screening and monitoring technology may give rise to the FinTech label if lenders use the technology to improve traditional bank models for screening and/or monitoring borrowers. Technology can be used to expand a set of information or by applying machine learning algorithms to enhance the information content of a particular set of information (Ilmiah & Islam, 2023). The use of such technology can increase default and recovery rates, change pricing and non-pricing terms, and affect the pool of borrowers who gain access to finance.

According to (Isa & Suryomurti, 2023) Fintech is not only transforming in the conventional financial industry, but fintech is also in the Islamic finance industry. The Islamic finance industry, which is expected to have assets of US$3.8 trillion by 2022, provides a major impetus for fintech start-up companies, especially in the area of crowdfunding and peer to peer financing. The development of sharia fintech in Indonesia continues to increase even

﴿ وَإِن كُنتُمْ عَلَىٰ سَفَرٍ وَلَمْ تَجِدُواْ كَاتِبًا فَرِهَٰنٌ مَّقْبُوضَةٌۖ فَإِنْ أَمِنَ بَعْضُكُم بَعْضًا فَلْيُؤَدِّ ٱلَّذِى ٱؤْتُمِنَ أَمَٰنَتَهُ وَلْيَتَّقِ ٱللَّهَ رَبَّهُۗ وَلَا تَكْتُمُواْ ٱلشَّهَٰدَةَ ۚ وَمَن يَكْتُمْهَا فَإِنَّهُۥ ءَاثِمٌ قَلْبُهُۥ ۗ وَٱللَّهُ بِمَا تَعْمَلُونَ عَلِيمٌ (٢٨٣)

though it is still inferior to conventional fintech (Yahya, 2021). This fundamental difference with Sharia fintech is through an initial agreement or agreement between investors and borrowers. As explained in Surah Al-Baqarah verse 283 which means:

"If you're on a trip (and not paying cash) and you don't have a writer, then there has to be collateral held (by the debtor). However, if some of you have faith in others, then let those who are trusted fulfill their mandate (debt) and let them fear Allah their Lord; and let ye (witnesses) not hide your testimony. "And whosoever concealed it is a sinner in his heart, and Allah knows what you do" (QS. Ali Baqarah [2]: 283).

Based on data from the Financial Services Authority (OJK), 12 Sharia fintech are licensed and registered. The types of services carried out are payment channels/systems, digital banking, online/digital insurance, Peer-to-Peer (P2P) Lending, and crowdfunding. Proven research from Latifah & Waluya Jati (2023) the opportunity for Sharia financial technology for Sharia banking is how financial technology as a newcomer can synergize with financial institutions, especially Sharia banking. Development of sharia fintech is quite high when associated with the number of Muslim populations in Indonesia, which is the largest Muslim population in the world. However, some of the challenges that must be faced include low levels of financial literacy, sharia fintech regulations and policies, and service product innovation.
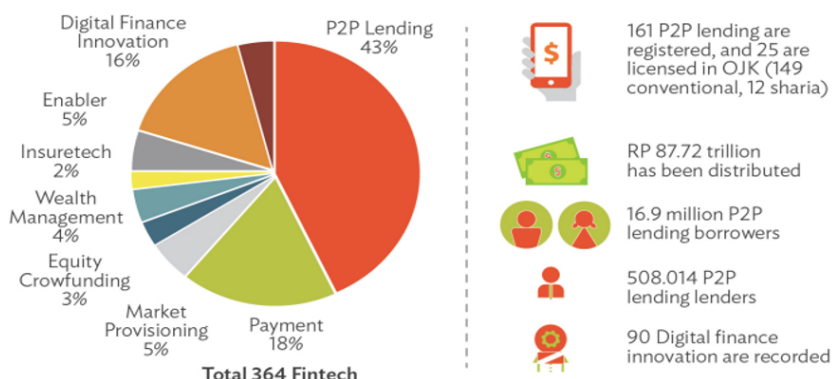
Figure 1. Fintech

Source: Indonesia Finance Service Authority and Aftech.2020 OJK= Indonesia Financial Services Authority, P2P = peer to peer

Research Framework

This research framework is intended to clarify the concept of this research so that it is easier to understand. In this study, the author conducted a study on P2P Lending Products to determine the effect of loan quality on age, gender, and domicile inside and outside Java in fintech lending companies registered with OJK. The framework in this study is as follows:

Figure 2. Research Framework
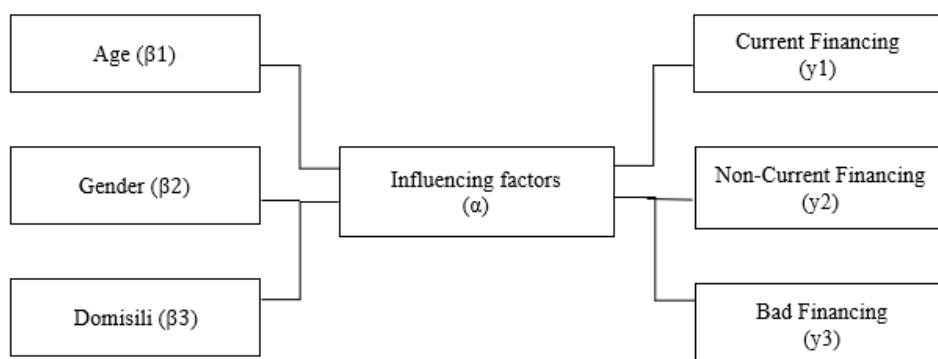
Source: author

Hypothesis Development

H_1 **:** There is a significant difference in the level of loan continuity between different fintech lending age groups registered with OJK

H_2 **:** Gender affects current loans, non-current loans, and bad loans fintech lending registered with OJK

H_3 **:** Tri Pantangan memperkuat pengaruh positif Pemahaman Akuntansi Dana Desa terhadap Pengelolaan Dana Desa tidak terdukung.

H_4 **:** Domicile affects total fintech lending loans registered with OJK.

3. Methodology

The research will use a type of quantitative research In obtaining objective results in the calculations to be made for determining the content validity, the quality and number of experts have significant importance (Surucu & Maslakci, 2020). The data used is numerical data taken from data of customers and will then be processed using statistical analysis tools.

The type of data used is secondary data taken from the Fintech statistical report on the official website of OJK. The study period used in the period from January 2021 to June 2023 was using monthly data for the database (Martins et al., 2018).

Data collection techniques on all independent variables, especially age, gender, and domicile are obtained from monthly and annual fintech statistics on the official website of the Financial Services Agency, and data on all dependent variables are also obtained from Fintech. Monthly statistics on the official website of the Financial Services Agency.

The population is recognized as the whole gathering of individuals, occasions, or things of premium that the analyst needs to explore or determine by the objectives of the examination (Naseri & Rahmiati, 2022). The sampling technique suggested adopting a two-stage sampling technique which included convenience sampling (first stage-sampling frame development) and simple random sampling (second stage). Convenience sampling refers to a type of nonprobability or nonrandom sampling where members of the target population that meet certain practical criteria, such as easy accessibility, geographical proximity, availability at a given time, or the willingness to participate are included for the study (Etikan, 2016).

Operational Definition of Variables

This study used the multiple linear regression method to analyze data on more than two free variables. Here is an explanation of the variables used in this study:

Table 1. Operational Definition of Variables

Variable	Definition	Data Source	Reference
Age	Age is the length of time lived or exists (since birth or held)	Statistik Fintech	(Demiray & Bluck, 2014)
Gender	The term gender is used to show the differences between men and women that are studied	Statistic Fintech	(Nemati & Bayer, 2007)
Domicile	Domicili is used to show the province in Java and Out Java	Statistik Fintech	(Wook, 2015)

Source: author's own

In this study, we also used quantitative methods with multiple linear regression with the following estimation equation.

$$y1 = \alpha + \beta DGender \tag{1}$$

where Gender is a dummy variable whose value is 1 for men and 0 for women.

$$y2 = \alpha + \beta1 DAge1t + \beta2 Dage2t + \beta3 DAge3t \tag{2}$$

where Age is a dummy variable whose value is Age 1 = 1, Age 2 = 0, Age 3 = 0 for the range under <19 years, Age 1 = 0, Age 2 = 1, Age 3 = 0 for the range 19-34 years, Age 1 = 0, Age 2 = 0, Age 3 = 1 for the range under 35-54 years, Age 1 = 0, Age 2 = 0, Age 3 = 0 for the range > 54 years.

y3 = α + βDDomicile
     (3)

where Domicile is a dummy variable whose value is 1 for Java and 0 for outside of Java.

4. Empirical Findings/Result

The outcomes of this research unveil substantial revelations regarding the determinants of loan quality within the framework of Fintech lending in Indonesia, thus setting the stage for a comprehensive discourse and examination of the ramifications for stakeholders in the industry and policymakers alike.

Gender

Table 2. Number of Loan Recipient on Gender

	(1) Liquid	(2) non-liquid	(3) default
gender	-229405.61	195997.48*	-2302.939
	(351417.37)	(112302.61)	(15502.101)
constan	8275430***	783704.73***	199774.82***
	(248489.61)	(79409.938)	(10961.641)
Observations	66	66	66
R-squared	0.007	0.045	0

Standard errors are in parentheses
*** *p<0.01, ** p<0.05, * p<0.1*

The classification of being male has a coefficient of 195997.48* is correlated with an elevated probability of exhibiting non-performing loan status in contrast to individuals categorized under the "liquid" (1) category of loan recipients. Additionally, both the constant term and the gender coefficient demonstrate statistically significant impacts on loan performance, underscoring the pivotal role of gender as a determinant factor in assessing loan quality.

Table 3.Oustanding Loan Amount of Gender

	(1) Liquid	(2) non-liquid	(3) default
gender	-326132.15**	14815.152	-2080.485
	(132731.8)	(41861.066)	(11712.272)
constan	1663170.3***	142828.73***	51364.758***
	(93855.553)	(29600.243)	(8281.827)
Observations	66	66	66
R-squared	0.086	0.002	0

Standard errors are in parentheses
*** *p<0.01, ** p<0.05, * p<0.1*

The gender of male show has a coefficient of -326132.15** is linked with an increased propensity for exhibiting non-performing loan status when contrasted with individuals classified under the "liquid" (1) category of loan recipients. Furthermore, both the constant term and the gender coefficient exhibit statistically significant effects on loan performance, elucidating the influential role of gender as a determinant factor in loan quality assessment.

Age

Table 4. Number of Loan Recipient on Age

	(1) Liquid	(2) non-liquid	(3) default
dummyage1	-449074.52*	-46932.152	-14041.424
	(268514.74)	(81918.034)	(11631.814)
dummyage2	9676038.5***	1055132.1***	232242.21***
	(268514.74)	(81918.034)	(11631.814)
dummyage3	4939185.3***	506989.33***	110643.15***
	(268514.74)	(81918.034)	(11631.814)
constan	538826.24***	62054.424	17100.667**
	(189868.59)	(57924.797)	(8224.934)
Observations	132	132	132
R-squared	0.936	0.65	0.82

Standard errors are in parentheses
*** *p<0.01, ** p<0.05, * p<0.1*

Being categorized within age group 1, encompassing individuals aged below

19 years (dummyage1 coefficient of -449074.52*), correlates with an elevated probability of exhibiting non-performing loan status in comparison to membership in the "liquid" (1) category of loan recipients. Similarly, individuals falling within age group 2, spanning the age range of 19-34 years (dummyage2 coefficient of 9676038.5***), manifest a heightened likelihood of experiencing non-performing loan status when juxtaposed with counterparts classified under the "liquid" (1) category of loan recipients. Furthermore, membership in age group 3, comprising individuals aged 35-54 years (dummyage3 coefficient of 4939185.3***), is associated with an augmented likelihood of non-performing loan status relative to those falling within the "liquid" (1) category of loan recipients. The constant term alongside the coefficients pertaining to age groups demonstrates statistically significant impacts on loan performance, underscoring the pivotal role of age as a determinant   factor.

Table 5. Total Oustanding of Loan Value

	(1) Liquid	(2) non-liquid	(3) default
dumyage1	-141867.97	-5726.727	-2530.121
	(93947.541)	(8580.918)	(3625.582)
dumyage2	1653702.9***	143529.42***	48884.152***
	(93947.541)	(8580.918)	(3625.582)
dumyage3	877134.88***	76073.636***	24953.939***
	(93947.541)	(8580.918)	(3625.582)
constan	162589.94**	7195.091	3103.576
	(66430.943)	(6067.626)	(2563.674)
Observations	132	132	132
R-squared	0.788	0.761	0.675

Standard errors are in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In column number 1, individuals aged below 19 years (dummyage1 coefficient of -141867.97) exhibit a heightened propensity for non-performing loans relative to the "liquid" (1) category of loan recipients. Similarly, in column number 2, individuals aged between 19 and 34 years (dummyage2 coefficient of 1653702.9***) display an increased likelihood of experiencing non-performing loans compared to the "liquid" (1) category of loan recipients. Moreover, in column number 3, individuals aged between 35 and 54 years (dummyage3 coefficient of 877134.88***) also demonstrate a greater

susceptibility to non-performing loans relative to the "liquid" (1) category of loan recipients. The constant term and coefficients pertaining to age groups exhibit statistically significant effects on loan performance, highlighting the importance of age as a determinant in loan quality within the examined context.

Domicile

Table 6. Loan Recipient in Java and Out of Java

	(1) Loan recipient
domicile	1.477e+08***
	(25215839)
constan	34113179*
	(17830291)
Observations	66
R-squared	0.349

Standard errors are in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

For the data on the table number 6 show domicile has a statistically significant effect on loan performance, with a coefficient of 1.477e+08***.

Table 7. Domicile of Province in Java

	(1) Domicile
Dprovince1	1.047e+08***
	(14526263)
Dprovince2	85242698***
	(14526263)
Dprovince3	11985509
	(14526263)
Dprovince4	0
Dprovince5	2000980.2
	(14526263)
constan	35499934***
	(10271619)
Observations	165
R-squared	0.373

Based on the data above, dummy province 1 (dprovince1) represents DKI Jakarta, dummy province 2 (dprovince2) represents West Java, dummy province 3 (dprovince3) represents East Java, dummy province 4 (dprovince4) represents Central Java, and finally, dummy province 5 (dprovince5) represents Banten.

Based on the provided data, the coefficient for Dprovince1 is 1.047e+08 with a significant p-value of <0.01. The coefficient for Dprovince2 is 85242698 with a significant p-value of <0.01. The coefficient for Dprovince3 is 11985509, but it does not have a significant p-value. The coefficient for Dprovince4 is 0.

Therefore, Dprovince1 and Dprovince2 have significant coefficients with p<0.01, while Dprovince3 does not have a significant coefficient. Dprovince4 has a coefficient of 0, indicating that it does not affect the outcome.

Based on the regression results, the gender variable does not have a significant impact on the number of loan recipients or the outstanding loan amount. However, the age variable does show a significant impact on both the number of loan recipients and the outstanding loan amount. In the case of the number of loan recipients, the age categories have a significant positive coefficient, indicating that as the age category increases, the number of loan recipients also increases. Similarly, for the outstanding loan amount, the age categories have a significant positive coefficient, suggesting that as the age category increases, the outstanding loan amount also increases.

Furthermore, the domicile variable shows a significant impact on the number of loan recipients. The coefficient for domicile indicates that individuals outside of Java are more likely to be loan recipients compared to individuals in Java. However, when it comes to the outstanding loan amount, the province within Java does not have a significant impact.

While gender does not appear to significantly impact the number of loan recipients or the outstanding loan amount, age and domicile variables have a significant impact on these factors. Age categories show a positive impact on the number of loan recipients and the outstanding loan amount. Meanwhile, individuals outside of Java are more likely to be loan recipients compared to

individuals in Java.

5. Discussion

The outcomes of this research unveil substantial revelations regarding the determinants of loan quality within the framework of Fintech lending in Indonesia, setting the stage for a comprehensive discourse and examination of the ramifications for stakeholders in the industry and policymakers alike.

The findings indicate that gender significantly influences loan quality in fintech lending. Specifically, being male is associated with a higher probability of having a non-performing loan status. This aligns with previous research by Nemati and Bayer (2007), which highlighted gender differences in financial behaviors and risk preferences. The statistically significant impact of gender on loan performance underscores the necessity for fintech companies to consider gender-specific strategies to enhance loan repayment rates.

Age also emerges as a crucial determinant of loan quality. Individuals under 19 years and those in the 19-34 and 35-54 age brackets are more likely to have non-performing loans compared to other age groups. This finding is consistent with the study by Demiray and Bluck (2014), which suggested that age influences financial decision-making and risk tolerance. The significant coefficients for different age groups highlight the importance of age-specific risk assessment models in fintech lending.

The impact of domicile on loan performance is notably significant, with individuals residing outside Java more likely to be loan recipients than those in Java. However, the outstanding loan amount does not show a significant difference based on domicile within Java. This is corroborated by the findings of Berg, Fuster, and Puri (2021), who noted regional disparities in fintech lending patterns. The significant influence of domicile suggests that regional economic conditions and access to financial resources play a pivotal role in loan quality.

For fintech companies, these findings highlight the need for tailored risk assessment models that incorporate demographic factors such as gender, age, and domicile. By understanding these determinants, companies can develop more accurate credit scoring systems and offer products better suited to the needs of diverse borrower groups.

Policymakers can leverage this information to create regulations that ensure fair and inclusive access to fintech lending services. Addressing regional disparities and promoting financial literacy across different demographics can enhance the overall stability and inclusiveness of the financial system.

The significant role of gender in loan performance, as evidenced by the higher likelihood of non-performing loans among males, resonates with the findings of Chavan and Gambacorta (2016), who observed similar trends in traditional banking contexts. This research extends their conclusions to the fintech domain, indicating that gender-specific challenges persist across different financial platforms.

Similarly, the age-related findings support the work of Hu (2023), who demonstrated that younger borrowers tend to face higher default risks. The significant impact of domicile on loan performance aligns with the observations of Yao and Yang (2022), who noted that regional economic conditions significantly affect financial behavior and loan outcomes.

6. Conclusion

According to the research, delves into the intricate dynamics of loan quality within Sharia Fintech lending platforms in Indonesia. By scrutinizing customer demographics, behaviors, and characteristics, the research sheds light on pivotal factors influencing loan performance. Through a structured research framework encompassing hypotheses on age, gender, and domicile, this study employs rigorous quantitative methods leveraging secondary data from the OJK Fintech statistical report. The findings gleaned from statistical analyses offer valuable insights for a myriad of stakeholders including scholars, investors, practitioners, and regulators

The implications of this research stretch beyond mere academic discourse. They extend to practical applications in risk prediction, decision-making enhancement, customer service improvement, and regulatory policy optimization within the financial landscape of Indonesia. Moreover, the study underscores the transformative potential of financial and technological innovation, particularly in Fintech and Islamic finance sectors, offering a pathway to substantial benefits for the broader financial industry.

As the Indonesian financial ecosystem continues to evolve, fueled by innovation and regulatory adaptations, this study serves as a beacon of knowledge, guiding stakeholders towards informed strategies and policies. It reinforces the critical role of empirical research in navigating the complexities of modern finance, fostering resilience, inclusivity, and sustainable growth in the digital era.

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