

The Phenomenon of Paylater and Online Loan Defaults Among Gen Z

Halleina Rejeki Putri Hartono ^{1*}, La Ode Abdullah ², Asri Primasiwi ³, Yopie Diondy Kurniawan ⁴,
Adilla Secio Meilandri ⁵

^{1*,2,3,4,5} Accounting Department, Politeknik Negeri Madiun, Madiun City, East Java Province, Indonesia

Email: halleina@pnm.ac.id ^{1*}, laode891@gmail.com ², asriprimasiwi@pnm.ac.id ³, yopie86@pnm.ac.id ⁴,
adillasec@gmail.com ⁵

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Abstract

OJK statistics on fintech lending for 2024 indicate that the total value of online loans in Indonesia exceeded IDR 47 trillion as of June 2024. The majority of borrowers fall within the 19-to-34 age bracket, representing Generation Z. This highlights the tangible impact of loan defaults and financial literacy on the borrowing decisions made by Gen Z. This study aims to examine the factors influencing Gen Z's decisions to use online loans and the subsequent occurrence of defaults. Data was collected from Gen Z individuals aged 20–28 residing in Madiun City using questionnaires. The research findings reveal that hedonism, social influence, and financial literacy all affect "PayLater" defaults among Gen Z.

Keywords:

Default risk; Gen Z; Online loans; PayLater services.

1. INTRODUCTION

Fintech is growing rapidly in Indonesia. According to the Financial Services Authority (OJK), the World Bank reported that the sector grew by 78% in 2017, with the total value of fintech transactions in Indonesia reaching IDR 202.77 trillion. Fintech encompasses various forms, including online lending and peer-to-peer (P2P) lending. The number of users of P2P lending fintech services in Indonesia is steadily increasing. As of November 2025, the OJK reported that online loan disbursements grew by 25%, reaching IDR 94.85 trillion; disbursements for that month alone rose by 4.33% compared to the previous month. Today's younger generation—particularly Gen Z—tends to exhibit consumptive behavior and lacks a sense of responsibility regarding sound financial management. This trend is driven by lifestyle influences on social media, which showcase the lavish lives of influencers and public figures, as well as a "debt culture" (such as "pay-later" services) fostered by the rapid advancement of financial technology. This hedonistic lifestyle creates a domino effect, leading to irrational behavior and a dependency on online loans, pay-later schemes, credit cards, and other forms of crowdfunding, ultimately trapping individuals in debt as they seek to sustain their lifestyles.

It is important to recognize that the decision to take out an online loan entails responsibility. Irresponsible borrowing can lead to bad debt or loan defaults. Defaulting on a loan from a legitimate fintech provider carries risks that the borrower must bear, including escalating interest charges, visits from debt collectors, and a poor credit record in the OJK's SLIK system; such a record will influence how other Financial Services Institutions (LJK) or banks evaluate the borrower for future loans, projects, employment screening, or other purposes.

Financial literacy involves seeking new solutions and raising awareness among Gen Z regarding the benefits and risks of online loans to prevent financial, mental, and social harm to borrowers. The ease of accessing online loans can encourage individuals to use extra funds inappropriately and irresponsibly, leading to financial difficulties such as loan defaults. "Doom spending"—driven by stress and economic pessimism—leads Gen Z to engage in impulsive purchases using "pay-later" services, while algorithms on platforms like TikTok and Instagram foster artificial lifestyle standards that compel the use of these services to create content.

Research by Akmal Taufiq and Rangga Aditya (2023)—titled "Analysis of the Validity of Sale and Purchase Agreements via Electronic Media with PayLater Payment under the Indonesian Civil Code"—indicates that such agreements are legally valid under the Indonesian Civil Code. Both parties must fulfill the conditions stipulated in the agreement, specifically the mutual acknowledgment and understanding of the rights and obligations agreed upon. Furthermore, the party obligated to make the payment must adhere to the

provisions regarding debt liability to ensure the agreement remains enforceable. Consequently, legal professionals must exercise caution when assisting clients in complying with legal regulations to avoid potential issues regarding legality.

Research by Hisny Fajrussalam et al. (2023), titled "Analysis of PayLater Payments in the Shopee Application from an Islamic Perspective," indicates that the PayLater feature imposes a penalty for late payments by consumers. This practice conflicts with Islamic principles regarding sales transactions—specifically concerning **riba** (usury)—as it involves an increase or decrease relative to the actual amount due; in Islam, any sales transaction containing **riba** is considered **haram** (forbidden). Furthermore, the feature generates profit for the provider, and the deferred payment arrangement constitutes **riba** because it includes a penalty clause for exceeding the previously agreed-upon timeframe.

A similar result was observed regarding the FoMO variable and its relationship with impulsive buying behavior among Generation Z in this study. However, viewed from the perspective of the marketplace (specifically Shopee PayLater), this presents an opportunity to increase the number of Generation Z buyers by further simplifying the application process and ramping up online advertising. Research by Cinta Rahmi (2024)—titled "The Influence of **Riba** [Usury] in the Use of the Shopee PayLater Feature on Millennials"—indicates that the use of Shopee PayLater has a significant impact on the Millennial generation. Although the feature facilitates online shopping, many respondents experienced financial pressure due to the interest charged on purchases made via the credit system. Some respondents reported falling into a debt spiral that was difficult to escape, leading to stress and anxiety regarding their financial situations. The study also highlights the crucial role of financial literacy in the use of the Shopee PayLater feature; many respondents admitted to not fully understanding the concept of **riba** and its impact on their personal finances. Therefore, efforts are needed to improve the financial literacy of Millennials so that they are more aware of the risks associated with **riba** and can manage their finances more wisely. Consequently, this researcher aims to distinguish this study from previous research by identifying and analyzing the key determinants of PayLater usage among Generation Z—specifically social influence, ease of use, and hedonism. Furthermore, the study seeks to identify how these factors influence PayLater payment defaults, focusing exclusively on Generation Z in Madiun City.

1.1. E-Commerce Fintech and e-commerce

E-commerce is a trading platform—or, more precisely, a dynamic combination of application technology and business processes—that connects businesses, consumers, and various communities (Sitepu & Fadila, 2024); meanwhile, fintech encompasses concepts such as credit cards that can be used for transactions on e-commerce platforms (Maharani et al., 2023). The e-commerce industry is expanding and will support the growth of deferred payment or financing services. For companies, increased consumer uptake of financing for e-commerce purchases leads to higher profit levels (Waluyo et al., 2022).

The growth of e-commerce has transformed payment methods, shifting from traditional cash or card transactions to digital options (Fazlur Rahman, 2023). The rise of e-commerce has spurred companies to compete in developing high-quality online services, thereby adding new value to their products. One notable e-commerce feature is "PayLater," offered by platforms such as Traveloka, Tiket.com, Tokopedia, Gojek, SPayLater, OVO, and Akulaku.

1.2. PayLater

In the modern era, buying and selling activities have undergone rapid development. This shift is evident not only in online delivery patterns but also in the increasingly diverse range of transactions and contracts. One example is "paylater," a widely used online transaction method. Paylater allows buyers to make purchases in installments via marketplace platforms. It is a payment system applicable to various needs, such as shopping, booking flight tickets, or reserving accommodation online.

In Indonesia, numerous e-commerce and digital platforms—including Traveloka, Ovo, Tokopedia, Gojek, Shopee, and others—have adopted "PayLater" payment systems (Cuandra, 2022). PayLater offers various conveniences, such as simple registration requirements, the elimination of the need for a physical card, mobile accessibility, and the provision of a specific loan limit for consumers (Nindya & Astuti, 2022). PayLater services enable users to make immediate purchases without paying at the time of the transaction. Payment is deferred and billed later—similar to a credit arrangement—requiring settlement within a specific timeframe, such as on a weekly or monthly basis. Every instance of PayLater usage is subject to terms and conditions set by the service provider, which users must fulfill. These terms and conditions are typically presented prior to the PayLater registration process (Akmal Taufiq & Rangga Aditya, 2023).

1.3. Social Factors

Social factors inevitably influence an individual's habitual behaviors across various aspects of life. These factors encompass family, friends, roles, and status, thereby encouraging individuals to adopt practices observed among those in their social circles (Lestari & Haris, 2024). Social influence is a process wherein an individual's decisions or behaviors are shaped by others; for instance, a university student might use a "pay-later" service because their friends do so, or simply to keep up with the prevailing trend of using such services. This social influence is a key determinant in an individual's decisions, including those regarding consumption.

Within the framework of the UTAUT2 theory, this factor is known as "Social Influence," referring to the concept that technology usage can be shaped by one's social environment (Afiana et al., 2019). Information and encouragement from those around an individual can influence their beliefs regarding the use of a specific technology. However, social influence can also have negative consequences if the influencing individuals have poor habits regarding "paylater" services, or if the information conveyed is inaccurate or irrelevant to the individual's needs (Maharani et al., 2023).

1.4. Convenience

The ease of use and implementation of "paylater" services have driven changes in people's lifestyles. While people were previously often reluctant to incur debt, many have now become loyal users of these services. This convenience is a factor that influences consumer spending behavior. Furthermore, the ease of online transactions also impacts consumption habits, potentially fostering a more consumptive mindset when using paylater services (Nugroho, 2024). Within the framework of UTAUT2 theory, this ease is referred to as "Effort Expectancy"—an individual's perception that a technology or service can be used easily without requiring significant effort. Paylater services enable users to shop without a credit card; transactions can be conducted via the provider's app or website using the allocated paylater balance or other available payment options (Sitepu & Fadila, 2024).

This convenience drives a strong tendency among Gen Z to consume non-essential items (Aisyah et al., 2023). The greater the convenience offered to "paylater" users, the higher the likelihood of increased consumption behavior among Gen Z (Rahmi, 2024). Since consumers generally prefer simple payment systems that streamline transactions—and given that paylater services offer convenience and ease of use—these services tend to gain greater public acceptance. Consequently, the perception of ease of use is a crucial factor in encouraging Gen Z to adopt paylater services (Cuandra, 2022). According to Anton Priyonggo (2024), the indicators of ease include: 1. Ease of operation or use; 2. Ease of conducting transactions; and 3. Ease of obtaining desired items.

1.5. Hedonism

Paylater is not merely viewed as a payment method; it also supports the lifestyle of the younger generation—specifically Gen Z—who tend to prioritize convenience and speed. Hedonism is a philosophy of life positing that an individual's happiness is achieved by pursuing maximum pleasure while avoiding pain or suffering as much as possible (Prastiwi & Fitria, 2021). Within the context of the UTAUT2 theory, this relates to "Hedonic Motivation," a state in which individuals derive satisfaction and comfort from using specific technologies because their needs or activities are fulfilled through that usage. A hedonistic lifestyle is fundamentally linked to an individual's economic circumstances. People strive to meet their needs through transactions with product providers, activities driven by their financial capacity. A hedonic lifestyle reflects a behavioral orientation manifested in daily activities, particularly those involving economic engagement (Waluyo et al., 2022). According to Putri and her colleagues (2022), the indicators of hedonism are:

- a. Purchasing a product due to a gift or bonus.
- b. Purchasing because the product is attractive.
- c. Buying a product to follow a trend.
- d. Buying a product without regard for need or utility.
- e. Buying solely as a status symbol.
- f. Using a product because of a preferred brand ambassador.
- g. Believing that high-priced items boost self-confidence.
- h. Trying more than two products from different brands.

Maharani et al. (2023), a hedonistic lifestyle is expressed through an individual's way of life, characterized by their activities, interests, and opinions. They identify two categories of factors associated with hedonism: a. demographic factors, such as education level, age, and gender; and b. psychographic factors, including interests, hobbies, attitudes toward the environment, personality, and so forth. Another factor is prestige, as it can influence an individual's lifestyle. Adopting a hedonistic lifestyle driven by prestige can have negative consequences for the individual, such as impaired psychological well-being and financial instability.

1.6. Hedonism Influences Latent Payment Failure in Gen Z

A hedonistic lifestyle is characterized by the pursuit of pleasure—such as spending time with friends and purchasing often non-essential items to attract the attention of others. Hedonism has negative impacts on both individuals and society, manifesting in traits and behaviors such as individualism, consumerism, selfishness, ostentatious displays of wealth, laziness, irresponsibility, extravagance, and various forms of manipulation (Furoidah & Setiyono, 2024). Impulsive buying behavior—the act of purchasing spontaneously without planning, often driven by momentary emotion—is also a factor reinforcing the use of "pay later" services.

H1: Hedonism influences latent payment failure in Gen Z.

1.7. Social Influence Affects PayLater Defaults

Social factors are the impact that arises from a group of individuals that motivates someone to imitate their behavior. Social factors such as social groups, family, and social roles and status are external factors that stimulate consumer purchasing considerations (Kotler and Keller, 2012). Social factors related to environmental factors in a person. A person can be easily influenced by their environment in making decisions. This is because social factors encourage individuals to accept things that have been done by people in their environment.

H2: Social influence affects pay-later defaults.

1.8. Financial Literacy Influences PayLater Defaults

Financial literacy is an individual's skill in understanding and utilizing financial information to manage their finances wisely. It is broken down into four key aspects: general financial knowledge, an understanding of savings and loans, insight into insurance products, and the ability to invest.

H3: Financial literacy influences PayLater defaults.

2. RESEARCH METHOD

This research employs a quantitative approach. Sugiyono (2012) defines the quantitative method as one used to study specific populations or samples, involving data collection via research instruments and quantitative or statistical analysis to test established hypotheses. More specifically, this is a descriptive-comparative study designed to describe and compare the consumption expenditure variables of university students and workers across predetermined segments. Data were obtained from Generation Z individuals residing in Madiun City, aged 20–28; however, the data collection process faced challenges, as some respondents were reluctant to disclose whether they used "paylater" services in their social lives, viewing the topic as sensitive. Data collection was conducted using questionnaires, with respondents asked to answer a series of written questions or statements. Regarding the sensitive nature of the paylater-related questions, respondents hesitated to reveal details about their daily usage of these services. Data processing for this study utilized regression analysis, with calculations performed using SPSS.

3. RESULTS AND DISCUSSION

3.1. Results

This overview of respondent characteristics presents data obtained from the research conducted. Data collection was carried out by distributing questionnaires to 100 respondents. Based on the results above, a sample of 100 Gen Z youths in Madiun City was selected. Regarding education, 23 individuals had a high school education, 42 held a diploma, and 35 had pursued or completed a bachelor's degree. In terms of income, 40 individuals earned less than IDR 3 million, 47 earned between IDR 3 million and IDR 5 million, and 13 earned IDR 5 million or more.

This study examines payment defaults on "paylater" services among Generation Z based on a lifestyle analysis, focusing on respondents who have experienced such defaults with services like GoPayLater and ShopeePayLater. To analyze decision-making factors, the study employs a regression model examining three influential variables: hedonism, social influence, and financial literacy. Data collection was conducted via a survey, beginning with a pilot sample of 100 individuals to assess the survey's validity and reliability. The KMO and Bartlett tests. The KMO test results obtained a result of .575 with a significance value of 0.00 and where this number is more than 0.5 and the significant value is more than 0.05.

Following the validity test, a reliability test was conducted using Cronbach's alpha. Reliability test results were obtained from 100 respondents. The results indicate that each variable is reliable, as the coefficients exceed the R-table value of 0.3961. Consequently, these variables can consistently be used in subsequent analyses.

Normality testing is used to determine whether the data follows a normal distribution. When conducting the test using SPSS 23 software, data is considered normally distributed if the significance score (sig.) is greater than the significance level (0.05). The normality test yielded a significance value of 0.200. This value exceeds the significance level of 0.05 (i.e., sig. > 0.05), indicating that the data for the four variables are normally distributed. The multicollinearity test aims to determine whether there is a correlation between independent variables in a regression model. A good regression model should not exhibit correlation among the independent variables.

Table 1. Multicollinearity Test

Variabel	Tolerance	VIF	Conclusion
Hedonisme	0,368	2.714	Free from Multicollinearity
Pengaruh Sosial	0,499	2.006	Free from Multicollinearity
literasi keuangan	0,791	1.264	Free from Multicollinearity

Based on Table 1, where the tolerance value exceeds 0.01 and the VIF is less than 10, it can be concluded that there is no inter-variable relationship—or that the variables are free from multicollinearity. The heteroscedasticity test is used to determine whether the variance of the residuals differs across observations within a regression model. The results of the heteroscedasticity test using the Park test are presented in the Table 2.

Table 2. Heteroskedasticity Test

Variabel	t	Sig.	Conclusion
Hedonisme	-2,227	0,094	Free from Heteroskedasticity
Pengaruh Sosial	1,503	0.136	Free from Heteroskedasticity
literasi keuangan	0,681	0,497	Free from Heteroskedasticity

The test results indicate that none of the variables exhibit heteroscedasticity, as all variables show significance values greater than 0.05. The results of the simple regression analysis are as follows. Based on the analysis using the SPSS 25 program, the simple regression results were obtained.

Table 3. Simple Linear Regression Equation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.816	2.819		3.52	0.002
Hedonisme	0.689	0.159	0.447	2.294	0.025
Pengaruh Sosial	0.372	0.141	0.351	1.837	0.067
literasi keuangan	0.421	0.199	0.523	2.026	0.039

Based on the table above, the simple regression equation is obtained as follows: $Y = 2.816 + 0.689X_1 + 0.372X_2 + 0.421X_3 + e$. The regression equation is interpreted as follows:

- The constant value of 2.816 indicates that if the variables of Hedonism, Social Influence, and Financial Literacy are assumed to be constant or equal to zero, investment decision-making will increase.
- If the Hedonism variable increases by one point, it will cause the "paylater" default variable to increase by 0.689.
- If the Social Influence variable increases by one point, it will cause the "paylater" default variable to increase by 0.372.
- If the Financial Literacy variable increases by one point, it will cause the "paylater" default variable to increase by 0.421.

The coefficient of determination test is conducted to determine the extent to which the model can account for the variation in the dependent variable. A low coefficient of determination indicates that the independent variables have limited ability to explain the variation in the dependent variable, whereas a higher coefficient indicates a better ability to explain that variation. An R^2 value of 0.439 (43.9%) indicates that the independent variables—hedonism, social influence, and financial literacy—account for 43.9% of the variation in the dependent variable (paylater default), while the remainder is influenced by other variables not included in this study. The results of the study's hypothesis testing are as follows:

- The first hypothesis aims to test whether hedonism influences "paylater" payment defaults among Generation Z. The hedonism variable yielded a calculated t-value of 2.29 and a significance level of 0.025, against a t-table value of 1.663. Since the calculated t-value exceeds the t-table value, it can be concluded that the hedonism variable has a significant influence on "paylater" payment defaults. The positive t-value indicates a positive relationship between hedonism and "paylater" payment defaults; thus, it is concluded that hedonism significantly influences "paylater" payment defaults.
- The second hypothesis aims to test whether the Social Influence variable affects paylater default. The Social Influence variable yielded a calculated t-value of 1.83 (with a significance level of 0.067) against a t-table value of 1.663. Since the calculated t-value exceeds the t-table value, it can be concluded that the Social Influence variable contributes to paylater default. The positive t-value indicates a positive relationship between the Social Influence variable and paylater default. Thus, it can be concluded that the Social Influence variable has a significant effect on paylater default.
- The third hypothesis aims to test whether the Financial Literacy variable influences paylater defaults. The Financial Literacy variable yielded a calculated t-value of 1.93 and a significance value of 0.067, against a t-table value of 2.026. Since the calculated t-value is greater than the t-table value, it can be concluded that

the Financial Literacy variable contributes to paylater defaults. The positive t-value indicates a direct relationship between the Financial Literacy variable and paylater defaults. Thus, it can be concluded that the Financial Literacy variable has a significant influence on paylater defaults.

3.2. Discussion

A hedonistic lifestyle is characterized by the pursuit of pleasure such as spending time with friends and purchasing often non-essential items to attract the attention of others. Hedonism has negative impacts on both individuals and society, manifesting in traits and behaviors such as individualism, consumerism, selfishness, ostentatious displays of wealth, laziness, irresponsibility, extravagance, and various forms of manipulation (Furoidah & Setiyono, 2024).

Consequently, consumerist behavior emerges regarding non-essential goods or services that exceed one's financial means, driving the use of "pay-later" services as an alternative when funds are insufficient (Fuadi & Trisnarningsih, 2022). Furthermore, impulsive buying spontaneous purchasing without planning, often fueled by momentary emotion—also reinforces the use of pay-later services. This trend is facilitated by the easy access to instant credit offered by these services, allowing consumers to transact without immediate financial constraints (Mursalina et al., 2024). Ultimately, this can heighten the risk of excessive consumption and potential default on payments.

This study found that hedonism influences "paylater" payment defaults among Generation Z in Madiun City. This trend is driven by the social lifestyles of young people; the recent proliferation of coffee shops and retail outlets encouraging impulse buying—combined with the ease of online shopping—has led young people in Madiun to fall into the trap of defaulting on their paylater payments. This aligns with research by Puspitasari and Trisnarningsih (2025) regarding hedonism and "paylater" services among IKIP PGRI Bojonegoro students; their study found that a hedonistic lifestyle significantly influences Generation Z's decisions to use paylater services. The stronger an individual's hedonistic lifestyle tendencies, the greater their interest in using paylater services. Similarly, research by Bila and Marlena (2024) on Shopee Paylater users demonstrated that the service encourages consumers to indulge in a hedonistic lifestyle and engage in consumptive behavior; driven by a desire to keep up with trends and acquire the latest products for momentary gratification, consumers often prioritize these purchases without considering the actual utility of the products.

Social factors stem from groups of individuals that motivate a person to emulate their behaviors. Factors such as social groups, family, and social roles and status are external influences that shape consumer purchasing decisions (Kotler & Keller, 2012). Young people belonging to Generation Z in Madiun frequently socialize with their peers at the city's rapidly proliferating coffee shops. Current youth fashion trends have shifted from "skinny-fit" styles to a "retro-classic-modern" look characterized by looser-fitting clothing. Additionally, there is a rising trend of marathon running accompanied by the use of expensive athletic gear. Social factors are closely linked to an individual's environment; people are easily influenced by their surroundings when making decisions, as social factors encourage individuals to adopt behaviors or choices demonstrated by those around them. The opinions and recommendations of people in one's social circle serve as a primary driver for individuals to adopt and use technology (Wardhana & Novianti, 2016).

This study found that social influence affects "paylater" default rates among young people—specifically Generation Z—in Madiun City. This is attributed to the active social lives of Madiun's youth, which leads to increased spending to keep up with social activities. These findings align with research by Darsono, Rizada, and Johari (2025), which demonstrated that the greater the social influence an individual receives—whether from friends, family, or their immediate environment—the higher their propensity to use these services. Recommendations and opinions from those closest to them play a role in shaping individual decisions, particularly regarding the use of digital credit features like Shopee Paylater. Furthermore, ease of access, promotions, and incentives such as discounts and coupons further encourage consumptive behavior without regard for long-term financial implications. Research by Aji, Kusumastuti, and Hernando (2026) also indicates that social factors make a significant positive contribution to university students' willingness to use PayLater services.

Financial literacy is an individual's ability to understand and utilize financial information to manage their finances wisely. It is broken down into four key aspects: general financial knowledge, an understanding of savings and loans, insight into insurance products, and investment capabilities. Results from the 2025 SNLK indicate that the financial literacy index among the Indonesian population stands at 66.46%, representing an increase of only 1.03% from 2024 (OJK, 2025). This figure reflects a still-limited public understanding of finance. Consequently, individuals tend to make less rational financial decisions, such as excessive consumption and impulsive use of "pay-later" services.

This study found that financial literacy influences "paylater" defaults, meaning that lower financial literacy increases the likelihood of defaulting on such payments. High financial literacy does not always translate directly into prudent financial behavior, as social norms, digital trends, and lifestyle pressures often reinforce the urge to consume. This comparison demonstrates that digital financial literacy is not the sole determinant of university students' financial behavior; rather, it interacts with contextual variables such as culture, social norms, and local economic structures.

This study aligns with the research conducted by Putri, Nasution, and Atika (2025), which found that individuals with low financial literacy tend to be unable to distinguish between legal and illegal loans or understand the consequences of high interest rates; they are also easily swayed by advertisements promising easy access to instant funds, ultimately falling into debt traps due to defaults on online loans. Research by Sukasih, Jayantini, Sari, and Utami (2025) demonstrates that behavioral beliefs—specifically regarding financial literacy—influence individuals' attitudes and intentions when making financial decisions. Financial literacy fosters a more rational mindset, enabling individuals to assess benefits and risks more objectively before taking action.

4. CONCLUSION

This study examines the factors influencing decision-making regarding "paylater" services using a regression model based on three variables: hedonism, social influence, and financial literacy. The findings indicate that hedonism, social influence, and financial literacy all impact "paylater" default rates among Generation Z. Members of Generation Z are currently drawn in by the convenience of these services, which are accessible as early as age 17. Ultimately, the combination of social lifestyle trends, hedonism, and low financial literacy within this generation has led to an increase in "paylater" defaults among young people in Indonesia, particularly in the city of Madiun.

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