


Chapter 25

The Urgency of Digital Financial Services in Islamic Boarding Schools to Improve Financial Literacy

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ABSTRACT

The new normal COVID-19 pandemic has changed the pattern of people's behavior in money transaction towards a safer contactless payment. Currently, digital financial service can be an alternative option to break down and finalize the rate of transmission of the corona virus, where transfer of funds or payment of financial transactions can be done online with digital applications without physical involvement. The use of digital finance in Indonesia has been growing significantly. Several Islamic boarding schools have implemented a non-cash payment system in various types of transactions. This chapter comprehensively discussed the urgency of non-cash transaction facilities in Islamic boarding schools to improve financial literacy in the new normal period. The results showed that digital financial service were very safe to use, because it could reduce physical interference/physical distancing as a form of implementing health protocols in financial transaction activities and increase financial literacy of students and high rate of responsibility for managing their personal finances.

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INTRODUCTION

The National Financial Literacy Survey of Financial Services Authority (Otoritas Jasa Keuangan) in 2016 revealed that the level of financial literacy in Indonesia has only reached 29.7%. The survey illustrated that from 100 populations of Indonesian, there were only approximately 30 people who were considered well literate. In another view, people did not yet have sufficient knowledge on the way to optimize the function of money to be more productive (Otoritas Jasa Keuangan, 2017). To expand access to financial literacy in whole areas in Indonesia, in 2014, the Indonesian Bank had launched a Digital Financial Service (LKD) system. Digital Financial Service used electronic money (E-Money) as a medium for electronic transactions both for payment and transfer activities (Bank Indonesia, 2018). The presence of Digital Financial Service was the impact of the development of technology 4.0 which demanded safety, fast, rapidness, and efficient economic transactions in completing billions of transactions.

Digital Financial Service that was acknowledged from the 4.0 industrial revolution has obtained an extraordinary position after it enters the New Normal era during the Covid-19 pandemic. The limitation of physical interaction (physical distancing) among people has caused various forms of economic transactions to be carried out remotely (online) particularly by utilizing digital technology. The Indonesian Bank applies a community approach, one of which is boarding school as a means of reaching and facilitating public acceptance on Digital Financial Service (LKD). Based on information from the Ministry of Religion of the Republic of Indonesia, there are 27 Islamic boarding schools in 10 provinces with 1,400 santri affected by Covid-19 (Permana, 2020). Therefore, the presence of digital financial services at Islamic boarding schools during the New Normal Era in the Covid-19 pandemic has changed the pattern of public performance (the way) in making payment transactions towards more secure contactless payments. So it is not an exaggeration if the Digital Financial Services at this Islamic boarding school will succeed in curbing the speed of the spread of corona virus transmission, where funds transfers (payments) can be made online with digital applications.

As one of the oldest educational institutions in Indonesia, Islamic boarding schools have a potency to develop financial literacy in the community through the development of Digital Financial Service in the Islamic boarding school environment. Based on statistical data from the Directorate General of Islamic Institution, the Ministry of Religion of the Republic of Indonesia in 2001, there were 11,312 Islamic boarding schools with 2,737,805 students (*santri*). In 2005, the number of Pesantren has increased to 14,798 with a total of 3,464,334 *santri*. Meanwhile, based on data from the Data, Information System, and Public Relations Division of the Secretariat of the Directorate General of Islamic Education, Ministry of Religion, there were 28,194 Pesantren spread in urban and rural areas with 4,290,626 *santri* in 2016, and those Pesantren are categorized as private boarding school (Muhyiddin, 2018).

Number of efforts to improve financial literacy skills should be carried out as early as possible, so that people's financial literacy competencies can increase. Financial literacy is important to be instilled from an early age because the knowledge and financial experience that is implanted will be internalized in the child so as to form the character and habits of managing their finances in the future as a good culture, such as knowing the meaning of money, saving habits, to prioritizing needs over desires and even understanding values for sharing (keuangan, 2020). Puncak Darussalam Islamic Boarding School is one of the Islamic boarding schools that have participated in increasing public financial literacy from an early age; one of which is by creating a boarding school financial institution in the form of a cooperation which implements Digital Financial Service (E-money) as a medium for students' payment. As compared to cash, a transaction by using digital money is much faster and more convenient, especially

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