

## What Drives Generation Z to Use Pay Later Services in Central Java: Psychological or Demographic Factors?

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### Abstract

By identifying through personal usage and/or business usage of BNPL (Buy Now Pay Later) services among generation Z in Central Java, this study examines whether the decision influenced by psychological or demographic factors. This research conducted cross-sectional data collected through questionnaires and implemented multiple regression test such as: multicollinearity test, heteroscedasticity test, normality test, reset test, and MWD (MacKinnon-White-Davidson) in order to determine the most proper functional specifications. It is concluded that variable motivation has a positive and somewhat significant effect on why generation Z in Central Java uses Pay Later services. On the other side, variable easiness has a significant negative effect. Variable age in business use term is the only important factor. Conversely, other variables like income, expense, education does not have a significant effect. The MWD test shows that both linear and log-linear models are equally valid. Offers practical guidance for policy makers, focuses on FinTech (Financial Technology) in fostering more responsible Pay Later utilization to avoid credit risk/default.

Keyword: *Buy Now Pay Later, Pay Later Usage, Generation Z, Central Java, MWD Test*

### Introduction

The Pay Later (Buy Now, Pay Later/BNPL) and fintech sector in Indonesia is expanding rapidly, fueled by technological innovation, high consumer demand, and integration with major e-commerce platforms like Shopee, Tokopedia, and Traveloka, making Indonesia a regional leader in Pay Later adoption with millions of users and significant transaction volumes (Pertiwi et al., 2025). This growth is driven by widespread adoption among Gen Z, who are attracted by the convenience and flexibility of Pay Later services to overcome financial constraints and enable purchases without immediate funds, while fintech also promotes financial inclusion for the unbanked and those with low financial literacy (Prasetyani et al., 2024). However, this convenience comes with risks: easy access to Pay Later increases impulsive and consumptive buying, leading to concerns about debt accumulation, defaults, and financial mismanagement, especially among young users (Serenade et al., 2024). Regulatory frameworks, such as those from OJK and Bank Indonesia, exist but still have gaps in consumer protection, transparency, and supervision, with ongoing legal and policy developments needed to ensure fair contracts and prevent predatory practices (Dwi et al., n.d.).

Buy Now, Pay Later (BNPL) services have evolved from a niche financial innovation to a widely used tool, reshaping how people shop, borrow, and pay for products, particularly among younger generations (Lupşa-Tătaru et al., 2023). Generation Z, being the most digitally connected and consumption-driven group, has become the key demographic adopting BNPL services (Bahasoan et al., 2025). These services offer a tempting alternative to traditional credit systems, allowing users to buy products immediately and pay in interest-free instalments. However, this convenience comes with hidden risks, particularly for young people who may not have strong financial management skills or resources, and BNPL is often framed as “just a way to pay” rather than as a form of credit, which can normalize indebtedness (Cook et al., 2023). While BNPL platforms promote financial flexibility, evidence shows that some users refinance BNPL via high-interest credit cards or accumulate multiple instalment plans, raising concerns about over-indebtedness and regulatory protection (Guttman-Kenney et al., 2023).

At the same time, studies find that BNPL can act as liquidity insurance and significantly boost consumption by freeing up precautionary balances and increasing purchase incidence and basket size (Ji et al., 2023). As the popularity of BNPL continues to rise, it is essential to understand how it impacts young people's financial behaviours and whether its benefits outweigh its potential drawbacks (Maesen & Ang, 2025). This research focuses on Generation Z in Central Java, a region

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that provides a unique perspective on BNPL adoption in Indonesia. Central Java is a diverse and rapidly developing area where internet access is growing, and online shopping is becoming more popular among young people, in line with broader national trends in e-commerce and pay-later usage (Bakar et al., 2025). By focusing on this region, the study aims to explore how local economic conditions and cultural factors influence BNPL usage among young adults. Central Java's young, digitally savvy population makes it an ideal location to study the adoption of BNPL and its impact on consumer behaviour, while existing evidence on financial stress and digital finance risks in Indonesia highlights the importance of understanding how such products affect young consumers' financial well-being (Badrudin et al., 2025).

The research delves into psychological and economic factors as key drivers of BNPL usage. On the psychological side, factors such as ease of use, perceived usefulness, social influence, and personal motivation are critical in understanding why young consumers are drawn to BNPL services, and previous studies show that financial parenting and financial self-efficacy play a central role in shaping students' intentions to use BNPL (Aisjah, 2024). Economically, aspects like income, expenses, and financial stability significantly influence whether these services are accessible and affordable (Permata Gusti et al., 2024). Recent work also emphasizes the role of financial self-efficacy and facilitating conditions—such as digital access, platform support, and financial literacy in driving borrowing intentions and actual BNPL usage (Simiyu et al., 2025). By considering both psychological and economic factors, the study provides a comprehensive view of the motivations and challenges faced by Generation Z when using BNPL services, giving us a clearer picture of their decision-making processes (Sangeetha et al., 2025).

To analyze these relationships, this study employs a cross-sectional regression approach, which allows for examining the influence of both psychological and demographic factors on Pay Later usage. The model incorporates multiple independent variables, including motivation, easiness, age, income, expense, and education, to explain variations in Pay Later usage for both personal and business purposes. This approach is appropriate for identifying direct effects between variables and testing multiple hypotheses simultaneously within a single analytical framework.

To ensure the robustness and reliability of the results, the regression analysis is complemented by several diagnostic tests, including multicollinearity, heteroskedasticity, normality, and model specification tests. In addition, the MacKinnon–White–Davidson (MWD) test is applied to compare linear and log-linear model specifications and determine the most appropriate functional form (Harmina, 2016). This combination of methods enables a comprehensive evaluation of the relationships among variables and strengthens the validity of the empirical findings.

By focusing on both psychological and demographic factors using an econometric approach, this study provides valuable insights into the drivers of Pay Later usage among Generation Z consumers in Central Java. The findings are expected to offer practical implications for policymakers, financial institutions, and fintech providers in designing strategies that promote responsible and effective use of Pay Later services while minimizing potential financial risks among young consumers.

## **Method**

### **Research Framework**

This study is built upon a behavioural-financial framework that examines how demographic characteristics and psychological factors influence Pay Later usage among Generation Z consumers. The framework assumes that the adoption and frequency of Pay Later transactions are shaped by two major categories of determinants: (1) demographic factors (including age, income, expenses, and education) and (2) psychological factors (represented by motivation and perceived easiness in using Pay Later services) (Rolando, 2025). Socio-economic is individual financial conditions, while psychological factors capture internal drivers related to digital literacy, perceived convenience, and user experience. By integrating these variables, the framework provides a comprehensive understanding of how both rational (financial ability) and behavioural (motivation and ease of use) elements influence Pay Later usage. This approach aligns with existing research indicating that BNPL adoption is driven not only by economic considerations but also by convenience, impulsivity, and digital financial engagement common among younger consumers (Biradar & Reddy, 2025). So, there is a few hypotheses regarding this issue, such as:

**H1:** Motivation has a significant effect on Pay Later Usage among Generation Z consumers.

**H2:** Easiness has a significant effect on Pay Later Usage among Generation Z consumers.

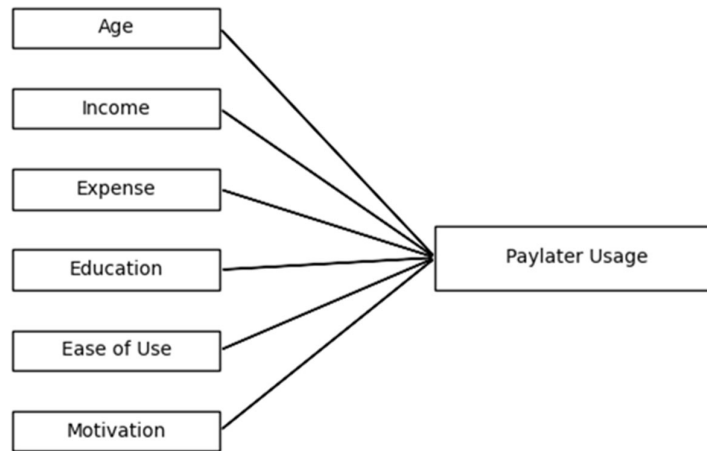
**H3:** Age has a significant effect on Pay Later Usage among Generation Z consumers.

**H4:** Income has a significant effect on Pay Later Usage among Generation Z consumers.

**H5:** Expense has a significant effect on Pay Later Usage among Generation Z consumers.

**H6:** Education has a significant effect on Pay Later Usage among Generation Z consumers.

**H7:** Motivation, Easiness, Age, Income, Expense, and Education simultaneously affect Pay Later Usage among Generation Z consumers.



**Figure 1.** Research Framework

### *Respondents*

The respondents of this study consist of 305 individuals belonging to Generation Z, defined as those aged 18 to 28 years old at the time of data collection. The data collected through questionnaires (Google Form) spread all over the city in Central Java. All participants reside in Central Java, Indonesia, a region recognized for its government support, platform collaboration, and MSME participation to enhance economic growth and help overcome the negative impacts of the pandemic (Leksono & Handayani, 2022). This population is highly relevant to the research context because Generation Z constitutes the largest and most active segment of BNPL (Buy Now, Pay Later) users, driven by their digital exposure, online shopping habits, and preference for flexible payment options. A non-probability sampling technique was employed, targeting Gen Z individuals who have been exposed to or have used Pay Later services within the past six months. Respondents include university students, early-career employees, freelancers, and young entrepreneurs, representing diverse socio-economic backgrounds. The final sample size of 305 participants is adequate for conducting classical assumption testing, reliability analysis, and multiple regression modeling used in this study.

### *Operational Variable*

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**Table 1.** Variable Used

<b>Variable</b>	<b>Operational Definition</b>	<b>Scale</b>
Pay Later Usage	Pay Later Usage refers to the frequency and extent to which an individual uses Pay Later services within a defined period for personal consumption or business-related financial needs.	Ratio
Age	Age refers to the chronological age of respondents, restricted to members of Generation Z.	Ratio
Income	Income refers to the respondent's total monthly earnings from salary, business, or other sources.	Ratio
Expense	Expense refers to the respondent's monthly spending for personal, household, lifestyle, and other financial obligations.	Ratio
Education	Education refers to the respondent's highest level of educational attainment, within the typical Gen Z educational progression as of the current year (high school to postgraduate).	Ordinal

Motivation	Motivation in Pay Later refers to the internal psychological factors that encourage individuals to use Pay Later services, including the desire to enhance financial convenience, increase purchasing ability, and engage in digital financial inclusion.	Likert (1-4)
Easiness	Easiness in Pay Later refers to the level of convenience, simplicity, and minimal effort required by customer to access, use, and complete Pay Later transactions	Likert (1-4)

## Discussion

This study aims to examine the determinants of Pay Later usage among Generation Z in Central Java by distinguishing between personal use (PPU) and business use (PBU). To achieve this objective, the analysis employs a cross-sectional regression approach complemented by a series of classical assumption tests, including multicollinearity, heteroskedasticity, normality, and model specification tests. Furthermore, the Mackinnon–White–Davidson (MWD) test is applied to determine the most appropriate functional form of the model by comparing linear and log-linear specifications. The use of multiple diagnostic tests is intended to ensure the robustness and reliability of the estimated model. By validating the underlying assumptions and functional form, the study provides a more accurate understanding of how demographic and psychological factors influence Pay Later usage. The discussion in this section presents and interprets the empirical findings in a structured manner, beginning with descriptive statistics, followed by regression results, and concluding with model validation through specification tests.

**Table 2.** Descriptive Statistics

	Obs	Mean	Std. Dev.	Min	Max
PPU	123	1.64E+08	1.80E+09	0	2.00E+10
PBU	51	954568.6	1371572	0	7000000
LNPPU	123	13.400	1.988	0	23.719
LNPBU	51	10.262	5.841	0	15.761
Age	305	22.2	2.683	17	28
Income	305	3453554	5984713	20000	60000000
Expense	305	2071313	2611259	600	25000000
LNINCOME	305	14.594	0.907	9.904	17.910
LNEXPENSE	305	14.127	1.034	6.399	17.034
Motivation	305	2.587	0.732	1	4
Easiness	305	2.867	0.610	1	4

Table 2 presents the descriptive statistics of the variables used in this study. The results indicate that Pay Later usage for personal purposes (PPU) has a substantially higher mean compared to business purposes (PBU), suggesting that respondents tend to use Pay Later more intensively for personal consumption. This finding aligns with Loomis & Cockayne (2025), who argue that BNPL primarily functions as a consumption-driven financial tool, encouraging users to increase purchases rather than supporting productive or business-related activities (Loomis & Cockayne, 2025). Both variables also exhibit large standard deviations, indicating high variability in usage behaviour among individuals. The average age of respondents is 22.2 years, reflecting the focus on Generation Z. The dominance of young respondents in this study supports existing literature that identifies BNPL users as primarily younger individuals, particularly those with limited credit access but active in digital consumption (Kurniawan et al., 2025). In terms of financial characteristics, the mean income and expenses show moderate levels but with considerable dispersion, as indicated by their high standard deviations. After log transformation, LNINCOME and LNEXPENSE display more stable distributions. Furthermore, the mean values of motivation and easiness are relatively moderate, implying that respondents generally perceive Pay Later as moderately easy to use and are moderately motivated to adopt it. Overall, the descriptive statistics suggest heterogeneous financial behaviour and perceptions among respondents, which may influence their Pay Later usage patterns.

**Table 3.** Main Regression (Log Model)

	PPU (LNPPU)	PBU (LN PBU)
Age	0.070	0.863*
LNINCOME	0.233	-0.344
LNEXPENSE	0.054	-0.025
Motivation	0.595*	-1.121
Easiness	-0.793	0.675
Education (dummies)	Yes	Yes
Constant	10.330**	-10.831
Observations	123	51
R-squared	0.091	0.356

Notes: \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$

Table 3 presents the results of the main regression using the log-linear model for both personal (PPU) and business (PBU) Pay Later usage. For personal use (LNPPU), the results indicate that most demographic variables, including age, income, and expenses, are not statistically significant. However, motivation shows a positive effect and is significant at the 10% level, suggesting that higher motivation is associated with increased Pay Later usage for personal purposes. In contrast, easiness has a negative coefficient, indicating that greater perceived ease of use is associated with lower usage intensity, although its significance is limited. The insignificant effect of easiness in this study is consistent with prior findings by Asja et al., (2021) who show that perceived ease of use does not significantly influence the intention to use PayLater

services. They argue that although PayLater is generally perceived as easy to use, this factor alone is not sufficient to drive usage decisions. Instead, users tend to consider other aspects such as repayment ability, financial risk, interest charges, and potential penalties. For business use (LN<sub>PBU</sub>), age is the only variable that is statistically significant at the 10% level, with a positive coefficient, implying that older individuals tend to use Pay Later more intensively for business activities. The significant role of motivation in personal PayLater usage is consistent with Blue et al., 2023, who find that BNPL adoption among young adults is driven by behavioural factors such as impulsive spending and the desire to smooth consumption through installment payments. Other variables, including income, expenses, motivation, and easiness, are not significant. The R-squared values suggest that the model explains a relatively small proportion of variation in personal use (9.1%) but performs better for business use (35.6%). Overall, the insignificance of income, expenses, motivation, and easiness suggests that PayLater usage behaviour cannot be fully explained by individual financial or perceptual factors alone. Instead, consistent with (Asja et al., 2021), the decision to use PayLater appears to be shaped by a combination of contextual considerations, financial awareness, and situational needs.

**Table 4.** Multicollinearity (VIF)

	VIF (PPU)	VIF (PBU)
Age	1.21	1.09
LNINCOME	1.47	1.51
LNEXPENSE	1.45	1.52
Motivation	1.88	2.41
Easiness	1.85	2.48
Mean VIF	4.20	3.69

Table 4 presents the results of the multicollinearity test using the Variance Inflation Factor (VIF) for both PPU and PBU models. The findings show that all variables have VIF values well below the common threshold of 10, indicating that multicollinearity is not a serious concern in either model. Specifically, the VIF values for age, income, and expense are relatively low, suggesting minimal correlation among the core demographic variables. The psychological variables, motivation and easiness, exhibit slightly higher VIF values but still remain within acceptable limits. The mean VIF values of 4.20 for the PPU model and 3.69 for the PBU model further confirm that the overall level of multicollinearity is moderate and does not threaten the reliability of the regression estimates. Therefore, the independent variables included in the model are sufficiently independent from one another, and the regression results can be interpreted with confidence.

**Table 5.** Heterokedasticity (White Test)

	Chi2	p-value	Conclusion
PPU	24.31	0.946	Homoskedastic
PBU	41.08	0.106	Homoskedastic

Table 5 presents the results of the heteroskedasticity test using the White test for both the PPU and PBU models. The results show that the p-values for both models are greater than the 5% significance level, with 0.946 for PPU and 0.106 for PBU. This indicates that the null hypothesis of homoskedasticity cannot be rejected. In other words, there is no evidence of heteroskedasticity in either model, suggesting that the variance of the error terms is constant across observations. Therefore, the regression estimates are efficient and reliable, and no corrective measures are required.

**Table 6.** Normality Test

	<b>Adj Chi2</b>	<b>p-value</b>	<b>Conclusion</b>
Residual	4.62	0.099	Normal

Table 6 presents the results of the normality test for the residuals. The findings show that the adjusted Chi-square value is 4.62 with a p-value of 0.099, which is greater than the 5% significance level. This indicates that the null hypothesis of normal distribution cannot be rejected. Therefore, the residuals are normally distributed, suggesting that the model satisfies the normality assumption. This condition supports the validity of statistical inference, particularly for hypothesis testing within the regression model.

**Table 7.** Reset Test

	<b>F-statistic</b>	<b>p-value</b>	<b>Conclusion</b>
PPU (LNPPU)	1.22	0.306	No misspecification
PBU (LNPBU)	1.72	0.179	No misspecification

Table 7 presents the results of the Ramsey RESET test for both the PPU and PBU models. The results show that the p-values for the PPU (0.306) and PBU (0.179) models are both greater than the 5% significance level. This indicates that the null hypothesis of correct model specification cannot be rejected. In other words, there is no evidence of omitted variable bias or incorrect functional form in either model. Therefore, both regression models are considered to be properly specified and suitable for further analysis.

**Table 8.** MacKinnon, White, Davidson (MWD) Test

<b>Model</b>	<b>Fitted Variable</b>	<b>Coefficient</b>	<b>p-value</b>	<b>Decision</b>	
PPU	Non-log	yhat_log_ppu	1.16E+09	0.372	Not significant
PPU	Log	yhat_level_ppu	4.34E-10	0.807	Not significant
PBU	Non-log	yhat_log_pbu	-991211.1	0.205	Not significant

PBU	Log	yhat_level_pbu	-7.70E-06	0.146	Not significant
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Table 8 presents the results of the MacKinnon, White, and Davidson (MWD) test, which is used to compare the linear (non-log) and log-linear model specifications for both personal (PPU) and business (PBU) Pay Later usage. The results show that all fitted variables from the alternative models are not statistically significant, as indicated by p-values greater than 0.05. Specifically, for PPU, both yhat\_log\_ppu and yhat\_level\_ppu are not significant, while for PBU, both yhat\_log\_pbu and yhat\_level\_pbu are also not significant. This indicates that neither the linear nor the log-linear model is rejected, implying that both functional forms are equally appropriate for explaining Pay Later usage. Therefore, there is no strong statistical evidence to favor one model over the other, and the choice of model can be based on theoretical considerations.

### Findings

The findings of this study provide a comprehensive evaluation of the proposed hypotheses regarding the determinants of Pay Later usage among Generation Z. Referring to H1, which posits that motivation has a significant effect on Pay Later usage, the results indicate partial support. In the personal use model (PPU), motivation shows a positive coefficient ( $\beta = 0.595$ ) and is statistically significant at the 10% level ( $p < 0.10$ ), suggesting that higher motivation increases the intensity of Pay Later usage. However, in the business use model (PBU), motivation is not statistically significant ( $p > 0.10$ ). Therefore, H1 is partially accepted, particularly in the context of personal consumption.

Furthermore, H2 proposes that easiness affects Pay Later usage. The results show that in the PPU model, easiness has a negative coefficient ( $\beta = -0.793$ ) and does not reach statistical significance ( $p > 0.10$ ), indicating that perceived ease of use does not increase usage intensity and may even reduce it, although weakly. In the PBU model, easiness also remains insignificant ( $p > 0.10$ ). Therefore, H2 is not supported in this study.

Regarding H3, which examines the effect of age, the findings reveal that age is not statistically significant in the PPU model ( $p > 0.10$ ). However, in the PBU model, age has a positive coefficient ( $\beta = 0.863$ ) and is statistically significant at the 10% level ( $p < 0.10$ ), implying that older individuals within Generation Z are more likely to use Pay Later for business purposes. Therefore, H3 is partially accepted, specifically for business-related usage.

For H4, which states that income significantly affects Pay Later usage, the results indicate that income is not statistically significant in both the PPU ( $\beta = 0.233$ ;  $p > 0.10$ ) and PBU models ( $\beta = -0.344$ ;  $p > 0.10$ ). This suggests that financial capacity does not play a decisive role in influencing Pay Later usage. Hence, H4 is rejected.

Similarly, H5, which examines the effect of expenses, is also rejected. The expense variable is not statistically significant in both the PPU ( $\beta = 0.054$ ;  $p > 0.10$ ) and PBU models ( $\beta = -0.025$ ;  $p > 0.10$ ), indicating that spending levels do not significantly determine Pay Later usage behaviour.

In addition, H6, which proposes that education has a significant effect, is not supported. The education dummy variables do not show consistent statistical significance across both models, suggesting that educational background does not play a major role in explaining Pay Later usage. Therefore, H6 is rejected.

Finally, referring to H7, which states that all independent variables simultaneously affect Pay Later usage, the results show mixed evidence. In the PPU model, the R-squared value is relatively low (0.091), indicating that the model explains only 9.1% of the variation and lacks strong explanatory power. In contrast, the PBU model shows a higher R-squared value (0.356), suggesting better model fit and stronger joint explanatory power. Therefore, H7 is partially accepted, particularly for business-related usage.

Overall, the findings indicate that motivation plays a role in explaining personal Pay Later usage, while age is more relevant for business-related usage. In contrast, income, expenses, easiness, and education do not show significant effects, suggesting that Pay Later usage among Generation Z is not primarily driven by financial capacity but rather by behavioural and contextual factors.

### Conclusion

This study investigates the determinants of Pay Later usage among Generation Z consumers in Central Java by distinguishing between personal use (PPU) and business use (PBU). The results reveal that the influence of psychological and demographic factors varies depending on the purpose of Pay Later usage. For personal use, psychological factors, particularly motivation play a more prominent role, while easiness shows a significant but negative relationship. In contrast, for business use, demographic factors such as age are more influential, indicating that older individuals within Generation Z are more likely to utilize Pay Later for business activities.

Furthermore, demographic variables such as income, expenses, and education do not show consistent or significant effects across both models, suggesting that Pay Later usage among Generation Z is not primarily driven by financial capacity. Instead, behavioural and contextual factors appear to be more relevant in shaping usage patterns. The diagnostic tests confirm that the regression models are statistically reliable, with no issues of multicollinearity, heteroskedasticity, non-normality, or model misspecification. The MacKinnon–White–Davidson (MWD) test indicates that both linear and log-linear model specifications are equally valid, as neither model is statistically rejected. Therefore, the selection of the log-linear model is based on theoretical considerations, particularly its suitability for financial data and its ability to provide elasticity-based interpretation.

Overall, this study highlights that Pay Later usage among Generation Z is influenced more by psychological and demographic factors than by traditional economic variables. These findings provide important implications for financial service providers in designing strategies that consider behavioural aspects of users, particularly in targeting young consumers. From a further analytical perspective, the results suggest that future research should incorporate additional behavioural variables such as financial literacy, self-control, and risk perception to better capture the complexity of Pay Later usage.

From a policy standpoint, regulators and financial authorities should strengthen consumer protection frameworks by promoting transparency in fees, interest rates, and repayment obligations, as well as implementing stricter eligibility assessments for young users. In addition, integrating financial literacy programs into education systems is crucial to equip Generation Z with the ability to make informed financial decisions and avoid excessive reliance on deferred payment services.

From a broader social perspective, the increasing use of Pay Later services among young consumers may lead to the normalization of short-term debt and impulsive consumption behaviour. While Pay Later can enhance financial inclusion and provide flexibility, it also poses risks of overconsumption and financial vulnerability if not managed properly. Therefore, a balanced approach that combines innovation with responsible usage and financial awareness is essential to ensure the sustainable development of digital financial services.

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