

CHAPTER 1

INTRODUCTION

1.1 Background

Financial independence plays a crucial role in an individual's well-being, affecting both economic stability and mental health. In Indonesia, it is essential not only for financial security but also for social and psychological well-being. Research has shown that financial literacy is key to better financial decision-making, such as disciplined saving, informed investments, and managing financial risks. Despite improvements, Indonesia's financial literacy index stands at 65.43% in 2024, highlighting a significant gap in understanding financial products and services, which remains a barrier to financial growth.

Various initiatives, like SMBC Indonesia's financial empowerment programs, aim to bridge this gap. By the end of 2022, over 558,000 people had participated in 161 financial education activities. However, financial instability, particularly among younger generations, persists. According to the Indonesian Institute of Sciences (LIPI), poor economic stability and financial mismanagement contribute to rising financial stress, anxiety, and depression, especially among youth lacking basic financial knowledge.

As financial services evolve, the adoption of Artificial Intelligence (AI) offers a new opportunity for personalized solutions. Generative AI in Indonesian finance is transforming business-as-usual 2024 Oliver Wyman studies show that generative AI on the horizon in Indonesia's financial sector will do everything from automating things such as market research and report production, to enhancing risk analysis and even delivering personalized product recommendations. Currently, AI is already revolutionizing Indonesia's financial services industry, with 100% of respondents from the sector employing it in customer experience, followed by 23% for fraud detection and 10% for loan processing.

Financial institutions around the world are in the middle of an AI arms race, and 91% of them are investing in or deploying AI, a NVIDIA survey finds. According to McKinsey & Company, generative AI has the potential of contributing \$4.4 trillion annually with banking being a major beneficiary. AI-powered tailored financial solutions is yet another

trend developing fast, catering services that are based on data analysis and creating deeper engagement and trust with the customers.

This initiative is to leverage AI in building a digital banking app with individual financial insights and actionable advice. Through filling the voids of existing financial services, this system will facilitate making sound and rational decisions that are in users' best long-term interest and thus will increase their financial independence and welfare.