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Exploring Consumer Credit Impact on Debtor Welfare at Bank Branch Office

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Abstract

Household consumption represents a key driver of regional economic growth, as it influences aggregate demand and contributes substantially to gross regional domestic product. Access to consumer credit offered by financial institutions enables households to maintain consumption stability and fulfill essential needs, potentially enhancing welfare. However, if mismanaged, credit may result in excessive financial burdens and reduced quality of life. This study aims to examine the effect of consumer credit on debtor welfare. A quantitative approach was applied using a simple linear regression analysis, with data collected through questionnaires distributed to consumer credit debtors. The results indicate a statistically significant positive effect of consumer credit on debtor welfare, as shown by a regression coefficient of 0.587 and a significance value below 0.05. These findings suggest that increased access to credit contributes to improved household welfare. The study highlights the importance of strengthening credit service quality and promoting responsible financial behavior to ensure that consumer credit functions as a tool for improving welfare rather than creating financial distress. Insights from this research can support banks and local governments in formulating policies that enhance financial inclusion and sustainable economic well-being.

Keywords

Consumer Credit, Debtor Welfare, Financial Inclusion, Small Business Development.

1. Introduction

A region's economic development is determined not only by the production sector but also by household consumption. Household consumption is a key component of Gross Regional Domestic Product (GRDP), reflecting the amount of public spending to meet daily needs. The level of household consumption not only serves as an indicator of public purchasing power but also plays a role in driving regional economic growth by increasing demand for local goods and services. The higher the consumption level, the greater the multiplier effect on other economic sectors, as public spending triggers increased production, employment opportunities, and additional income across various sectors (Song et al., 2020; Yue et al., 2022; Alwahidin et al., 2023).

In this context, financial institutions, particularly banks, play a strategic role as financial intermediaries, channeling funds from those with surpluses to those in need through various credit products, including consumer credit. Consumer credit enables households to increase their purchasing power without having to wait for an immediate increase in income. With access to credit, people can meet essential needs such as children's education, healthcare, home improvements, and the purchase of durable goods (Zalikha, 2021). Furthermore, consumer credit plays a role in maintaining the stability of people's consumption patterns, particularly in the face of economic pressures, inflation, or income uncertainty, thus preventing excessive fluctuations in consumption and maintaining aggregate demand (Trumbull, 2012).

However, consumer credit has two sides. On the one hand, well-managed credit can improve household welfare by increasing access to basic needs and productive investment opportunities. On the other hand, if not accompanied by adequate financial capacity, consumer credit has the potential to create the risk of excessive debt burdens, default, and a decline in the debtor's quality of life (Aldashev & Batkeyev, 2023). This phenomenon is evident in the Arfak Mountains Regency, West Papua, where Bank Papua Anggi Sub-Branch Office distributes consumer credit, particularly to civil servants, regional people's representative council, and members of the regional people's representative council. Data shows a high level of community dependence on credit facilities, but this is not always accompanied by improved welfare. There are even cases of non-performing loans resulting from additional loans taken from informal institutions that often have high interest rates and less transparent procedures (Sulistiyawati et al., 2023).

Several previous studies have shown that credit can improve welfare, but most focus on productive credit, while consumer credit has received less attention (Sasnita, 2010). Yet, household consumption plays a dominant role in driving regional economic growth, as household spending is the primary source of demand for various local economic sectors. This underscores the need for research that empirically evaluates the impact of consumer credit on borrower welfare, particularly in areas with limited financial access, such as the Arfak Mountains (Bosawer & Tinaprillah, 2023; Ogasawara, 2025).

Consumer credit not only serves as a means of meeting needs but also as a driver of financial inclusion and sustainable household economic development (Priyombodo et al., 2024). By utilizing credit effectively, households can undertake long-term financial planning, such as saving for children's education, preparing emergency funds, and investing in home improvements or small businesses. A study by Demirgüç-Kunt et al. (2023) emphasized that inclusive financial access can increase people's purchasing power while strengthening household economic resilience. In other words, appropriate credit facilities not only support microeconomic growth but also contribute significantly to regional macroeconomic development (Peebles, 2010).

This study aims to analyze the effect of consumer credit on debtor welfare at Bank Papua Anggi Sub-Branch Office. Thus, this research is expected to provide not only theoretical contributions to the development of academic studies on the relationship between consumer credit and household welfare, but also practical benefits for banking institutions, local governments, and the community.

2. Literature Review and Hypothesis Development

2.1. Consumer Credit and Household Welfare

Consumer credit plays a pivotal role in enhancing household welfare by providing resources for essential needs and long-term investments. According to Dobbie and Song (2015), access to consumer credit, such as loans for education or housing, can significantly reduce financial distress and improve debtor outcomes in developing economies. Credit enables households to smooth consumption, addressing immediate needs while fostering economic stability (Ogasawara, 2025). Studies highlight that credit access empowers individuals to invest in human capital, such as education, which yields long-term welfare benefits (Maimbo et al., 2011). In Indonesia, consumer credit programs, including those offered by regional banks, have supported households in meeting basic needs and pursuing entrepreneurial activities (Arifin, 2020; Ishak & Dama, 2022). This aligns with the broader discourse on credit as a tool for socio-economic empowerment, particularly in regions with limited financial infrastructure (Payer, 1982).

The welfare effects of consumer credit extend beyond financial metrics, encompassing social and psychological dimensions. Credit can alleviate poverty by providing funds for productive investments, such as small businesses, which enhance household income (Ardiana et al., 2018). Research by Buchory (2014) demonstrates that effective credit distribution by regional banks in Indonesia strengthens banking intermediation, indirectly boosting community welfare. However, the impact of credit varies depending on debtor characteristics and economic contexts, necessitating debtor experiences to understand its full implications (Alawiyah et al., 2022). In rural settings, credit often serves as a lifeline for households facing economic vulnerabilities, highlighting its role in fostering resilience (Jumono et al., 2021).

2.2. Financial Inclusion in Developing Economies

Financial inclusion is critical for promoting equitable economic growth, particularly in developing economies with underserved populations. According to Maimbo et al. (2011), expanding access to financial services, such as credit, enables marginalized communities to participate in economic activities and improve their living standards. In Indonesia, initiatives like People's Business Credit (*Kredit Usaha Rakyat/KUR*) have facilitated financial inclusion, especially for micro and small enterprises in rural areas (Simatupang, 2019). These programs aim to bridge the gap between financial institutions and communities with limited access to banking services (Ketaren, 2024). In Papua, where geographic isolation and low financial literacy pose challenges, financial inclusion remains a priority to enhance household welfare (Soumokil et al., 2022).

The role of financial inclusion extends to supporting sustainable development goals, such as poverty reduction and education access. Research indicates that inclusive financial systems empower households to invest in education and health, which are critical for long-term welfare (Ferdyan & Hartawan, 2024). In Indonesia, digital financial services have further expanded access to credit, enabling households to overcome economic barriers (Kurniadi et al., 2024; Pamungkas et al., 2024). However, the effectiveness of these initiatives depends on tailored policies that address local challenges, such as infrastructure limitations in remote regions like the Arfak Mountains (Mayangsari et al., 2024).

2.3. Relationship Between Consumer Credit and Debtor Welfare

Access to consumer credit serves as an important financial mechanism that allows households to allocate resources efficiently for both consumption and investment needs. Credit enables borrowers to stabilize their financial conditions by smoothing consumption during income fluctuations and by funding essential expenditures such as education, healthcare, and housing improvements (Dobbie & Song, 2015; Ogasawara, 2025). When utilized productively, credit acts as a catalyst for welfare enhancement, facilitating improved living standards and long-term socioeconomic progress. Within this context, consumer credit is recognized as an instrument for poverty alleviation and community empowerment, especially in regions with limited financial accessibility.

Empirical research consistently demonstrates a significant positive relationship between consumer credit and household welfare. Studies in emerging economies have shown that sufficient credit access increases household resilience, income levels, and economic opportunities, particularly through small business expansion and human capital investments (Buchory, 2014; Ardiana et al., 2018). Evidence from Indonesia also indicates that regional banking institutions play a key role in distributing credit that contributes to improved debtor welfare outcomes (Arifin, 2020). These findings support the argument that consumer credit has a statistically significant effect on welfare, as confirmed through quantitative analyses such as the regression results in this study. Thus, the availability of consumer credit can be considered an essential determinant of debtor welfare, strengthening the proposed hypothesis that consumer credit positively and significantly influences debtor well-being.

H1: Consumer credit has a significant effect on debtor welfare.

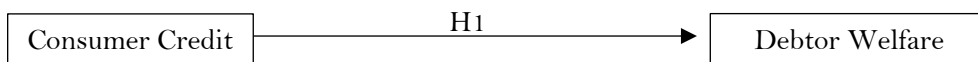


Figure 1. Research Framework

Figure 1 illustrates the direct relationship between consumer credit as the independent variable and debtor welfare as the dependent variable. Consumer credit is conceptualized as financial access provided to households to support consumption needs and productive activities, which in turn can enhance economic stability and overall quality of life. When credit facilities are effectively utilized, debtors can improve their purchasing power, sustain daily necessities, and potentially invest in income-generating activities, leading to better welfare outcomes.

3. Methods

This study employed a quantitative research approach with both descriptive and associative aims to analyze the relationship among key variables related to consumer credit at Bank Papua’s Anggi Sub-Branch Office. The primary objective of this analysis was to assess how the effectiveness of consumer credit services influences the performance of credit distribution, and to further examine how consumer credit affects debtor welfare. The use of quantitative methods enabled the researcher to measure variables numerically, objectively evaluate relationships among constructs, and statistically test predefined hypotheses.

The research was conducted in Pegunungan Arfak Regency, West Papua Province, where Bank Papua Anggi Sub-Branch Office plays a strategic role in providing financial access to geographically remote communities. The bank serves a wide spectrum of borrowers, including civil servants, private employees, and small business owners. Considering its unique operational environment with limited

access to banking facilities, this location serves as a relevant context for evaluating both service effectiveness and its socioeconomic implications for local populations (Suwandi & Wakarmamu, 2017).

The research results are described based on data collected through questionnaires and interviews with respondents, then analyzed using validity, reliability, normality, and simple linear regression tests. The population included all active consumer credit borrowers at Bank Papua Anggi Sub-Branch Office, numbering more than one thousand individuals. Because of this large population and the need to ensure respondent relevance, purposive sampling was applied. Inclusion criteria required that respondents must have been active borrowers for at least one year and willing to participate in the study. Based on these considerations, 40 respondents were selected. This sample size was deemed adequate for inferential analysis and capable of representing borrower characteristics at the location.

Data collection involved both primary and secondary data sources. Primary data consisted of responses to a structured questionnaire and supporting interviews, capturing borrowers' perceptions of service delivery and their experience in relation to welfare improvements after receiving credit. Secondary data were drawn from internal documents, credit records, and institutional policies of Bank Papua Sub-Anggi Sub-Branch Office. The combination of these data types enabled a more comprehensive understanding of behavioral, financial, and operational conditions surrounding consumer lending.

The research instrument utilized a Likert-scale questionnaire containing indicators for the variables of consumer credit service effectiveness and debtor welfare. Before full use, the instrument underwent validity testing via Pearson Product Moment and reliability testing using Cronbach's Alpha. Statements were confirmed valid when correlation coefficients exceeded the table threshold, and internal consistency was confirmed with alpha values above 0.70. These results indicated that the instrument met appropriate psychometric criteria for further statistical testing.

Data distribution was evaluated using the Kolmogorov–Smirnov normality test, ensuring that regression assumptions were satisfied. Hypothesis testing was carried out using simple linear regression analysis to measure both the strength and direction of influence between variables. The coefficient of determination (R^2) was used to quantify the explanatory power of the independent variable toward the dependent variable. Statistical significance was determined using *t*-tests and *F*-tests at a 0.05 significance level, allowing conclusions regarding the presence or absence of meaningful relationships.

4. Results

Table 1 outlines the characteristics of 40 respondents in this study. By gender, 55% are male (22 individuals) and 45% are female (18 individuals). Regarding age, the majority are aged 31–40 years (37.5%, or 15 individuals), followed by 41–50 years (25%, or 10 individuals), 20–30 years (20%, or 8 individuals), and over 50 years (17.5%, or 7 individuals). In terms of occupation, 37.5% are self-employed (15 individuals), 30% are civil servants (12 individuals), 20% are farmers (8 individuals), and 12.5% fall into other categories (5 individuals). Based on the duration as a debtor, 50% (20 individuals) have been debtors for 1–3 years, 35% (14 individuals) for more than 3 years, and 15% (6 individuals) for less than 1 year.

Table 1. Respondent Characteristics Table

Characteristics	Category	Amount	Percentage
Gender	Man	22	55%
	Woman	18	45%
Age (years)	20–30	8	20%
	31–40	15	37.5%
	41–50	10	25%
	>50	7	17.5%
Work	civil servant	12	30%
	Self-employed	15	37.5%
	Farmer	8	20%
	Others	5	12.5%
Length of Time as a Debtor	<1 year	6	15%
	1–3 years	20	50%
	>3 years	14	35%

Table 2. Validity and Reliability Test

Variables	Item	r-count	r-table	Cronbach’s Alpha	Criteria
Consumer Credit	X1–X10	0.517–0.801	0.312	0.854	> 0.6
Debtor Welfare	Y1–Y10	0.456–0.789	0.312	0.872	> 0.6

As presented in Table 2, the results of the validity and reliability tests indicate that all measurement items used in this study meet the required statistical standards. For the consumer credit variable, the r-count values range from 0.517 to 0.801, exceeding the r-table value of 0.312, which confirms that each item is valid in measuring the intended construct. Likewise, the debtor welfare variable demonstrates r-count values between 0.456 and 0.789, also surpassing the r-table threshold, ensuring item validity. In terms of reliability, both variables show Cronbach’s Alpha values above the minimum requirement of 0.60, with consumer credit registering a coefficient of 0.854 and debtor welfare at 0.872. These results confirm that all indicators exhibit good internal consistency and are therefore considered reliable for further analysis in this research.

Table 3. Normality Test Result

Variables	Kolmogorov-Smirnov Z	Sig. (2-tailed)	Information
Consumer Credit (X)	0.094	0.200	Normal
Debtor Welfare (Y)	0.112	0.154	Normal
Residual Regression	0.091	0.200	Normal

Table 3 displays the outcomes of the normality test conducted using the Kolmogorov–Smirnov method. The consumer credit variable (X) yields a significance value of 0.200, exceeding the 0.05 threshold, which confirms that its data follow a normal distribution. Likewise, the debtor welfare variable (Y) has a significance value of 0.154, indicating compliance with the normality assumption. Furthermore, the residual regression value of 0.200 supports the normality of residuals, satisfying a critical classical assumption for linear regression analysis. Taken together, these findings verify that the dataset adheres to normality requirements, enabling accurate and unbiased inferential analysis in subsequent steps.

Table 4. Simple Linear Regression

Variables	Coefficient (B)	t-count	Sig.	Information
Constant	12.354	-	-	-
Consumer Credit (X)	0.587	4.812	0.000	Significant

Table 4 presents the outcomes of a simple linear regression analysis, yielding the equation $Y = 12.354 + 0.587X$, where Y denotes Debtor Welfare and X represents

Consumer Credit. The regression coefficient for Consumer Credit is 0.587, with a *t*-value of 4.812 and a significance level of 0.000, which, being less than 0.05, confirms a statistically significant positive impact of Consumer Credit on Debtor Welfare. This positive coefficient indicates that higher levels of consumer credit are linked to improved debtor welfare. Specifically, for each one-unit increase in consumer credit, debtor welfare is expected to rise by 0.587 units. The constant of 12.354 implies that, in the absence of consumer credit, debtor welfare would have a baseline value of 12.354. These results underscore the significant role of consumer credit in boosting debtor welfare.

Table 5. F Test and R-Square Result

Statistics	Value
R	0.658
R Square (R ²)	0.433
Adjusted R ²	0.419
F-Statistic	23.17
Sig.	0.000

Table 5 presents the results of the F-test and the coefficient of determination (R²). The value of the correlation coefficient (R) is 0.658, indicating a strong relationship between consumer credit and debtor welfare. The coefficient of determination (R²) is 0.433, meaning that approximately 43.3% of the variation in debtor welfare can be explained by changes in consumer credit. The Adjusted R² value of 0.419 further confirms that the model remains reliable after adjusting for sample size. The F-statistic is recorded at 23.17 with a significance value of 0.000, which is below the threshold of 0.05. This result demonstrates that the regression model as a whole is statistically significant, indicating that consumer credit collectively has a significant influence on debtor welfare. Therefore, the model is appropriate for explaining the dependent variable and can be used for predictive or analytical purposes.

5. Discussion

This study demonstrates that consumer credit has a significant and positive influence on debtor welfare at Bank Papua Anggi Sub-Branch Office. The results of the simple linear regression analysis indicate that consumer credit contributes meaningfully to improving welfare outcomes, as reflected by the regression coefficient of 0.587 ($p < 0.05$). This finding empirically supports the research hypothesis and confirms that expanded access to credit plays a crucial role in enhancing the socioeconomic conditions of households in the Arfak Mountains. These statistical outcomes align with prior studies showing that credit, when distributed effectively helps households meet essential financial needs and achieve economic improvement (Rahman & Siregar, 2022; Santiadin, 2023).

The present findings are consistent with global evidence that access to formal financial services reinforces household resilience. Demirgüç-Kunt et al. (2023) explain that credit allows households to smooth consumption, cope with income instability, and invest in productive activities. Debtors reported using loans to finance education, housing repairs, and micro-enterprise development illustrating the multidimensional welfare benefits of consumer credit. Similar observations are highlighted by Maimbo et al. (2011), who emphasize the relevance of credit for achieving long-term welfare advancement in developing economies.

Credit utilization for education in this study reinforces the argument by Zalikha (2021) that educational investment is a key pathway to improving living standards over generations. Improved housing conditions funded through consumer credit further support Rahman's (2022) assertion that financial access enhances physical welfare and family stability. For some debtors, loans facilitated entrepreneurial

activities, demonstrating the importance of credit in supporting business growth in remote economies, as also noted by Ameraldo et al. (2019). These outcomes collectively suggest that credit is not solely a financial mechanism but a developmental resource contributing to socio-economic empowerment.

Institutional and service-related factors also influence how effectively credit can support welfare. The quantitative findings align with Arifin (2022), who highlights that trust-building elements like transparency and efficient loan processing improve debtor satisfaction and credit performance. Observations from Anggi Sub-Branch Office, where services were described as relatively fast and accessible support Sasnita (2010), found that service speed significantly contributes to optimal credit distribution among civil servants. This study further acknowledges that financial literacy remains a critical determinant of credit success. Limited financial capability in rural Papua may create challenges in repayment behavior and long-term welfare sustainability, consistent with Rahman et al. (2022). Therefore, institutional interventions, such as borrower training and monitoring are essential to ensure credit is utilized productively (Buchory, 2014; Beghawati & Utama, 2020; William et al., 2024).

From a policy standpoint, this study reinforces arguments for expanding inclusive financial services in geographically disadvantaged regions. Government and financial institutions should enhance digital access, simplify lending procedures, and provide targeted welfare-oriented credit programs (Rosiyati et al., 2023). This supports the national agenda of strengthening financial inclusion and aligns with sustainable development strategies pursued in Papua to reduce poverty and economic inequality (Suwardi & Wakarmamu, 2017; Chen et al., 2023). Ensuring credit accessibility for low-income and vulnerable groups would enable broader participation in the local economy and stimulate regional growth. Credit serves not only as a financial lifeline for urgent consumption needs but also as a catalyst for welfare improvement through education, housing upgrades, and micro-enterprise activities. Future studies may expand the sample size and explore cultural dimensions influencing borrowing behavior to deepen understanding of credit's impact on welfare across rural Indonesia.

6. Conclusion

The findings reveal that consumer credit has a significant and positive influence on debtor welfare. The regression results show that higher levels of credit access contribute to improvements in consumption stability, education, housing, and income-generating activities. With an R^2 value of 0.433, the model indicates that consumer credit explains a substantial portion of the variation in debtor welfare, demonstrating its important role in supporting household economic well-being. In terms of implications, these findings highlight the importance of maintaining and expanding access to consumer credit in remote and underserved regions. Banks are encouraged to improve service efficiency, provide tailored credit products, and strengthen financial literacy support to ensure loan utilization remains productive. For policymakers, the results emphasize the need to enhance financial inclusion programs to support welfare improvement, reduce vulnerability, and stimulate local economic activity.

However, this study has several limitations. The sample size is relatively small and limited to one branch office, which may reduce the generalizability of the findings to a broader population. The study also focused solely on quantitative data, while debtor welfare may be influenced by qualitative factors such as cultural values, household dynamics, and informal financial support. Additionally, only one independent variable was examined, while other economic and social factors may also contribute to welfare levels. Future research is recommended to include a larger and more diverse sample across multiple regions to strengthen external validity. A

mixed-methods approach could provide a more comprehensive understanding of debtor experiences. Further studies should also incorporate additional variables such as financial literacy, income level, and credit management behavior to better capture the full determinants of welfare improvement.

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The authors declare that there is no conflict of interest.

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Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.



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