CHAPTER I
INTRODUCTION

1.1 Research Object Overview

1.1.1 OVO

OVO (PT Visionet Internasional), a fintech startup that builds a digital platform aiming to simplify life by providing amazing rewards & deals through merchant partners, simple payment and smart financial services. Logo of OVO is shown in Figure 1.1 below.

Figure 1.1 OVO Logo
Source: Google Play (2018)

OVO is a smart application that provides easy transaction (OVO cash) and also a greater opportunity to collect points in many places (OVO Points).

With hundreds of affiliated merchants, business partners, and multi-million members in the ecosystem, OVO claim that they will be the Largest Indonesian digital financial service platform. Currently, OVO has hundreds of team members and over half of them are in Technology putting them as one of the best Tech Startup Company (LinkedIn, 2018).

1.2 Research Background

There are lots of definition of electronic money. The World Bank (2012 as cited in World Bank, 2017: 40) defines electronic money (e-money) instruments as access mechanisms to prefunded accounts held at banks or nonbank institutions that can be used through the Internet, payment cards, or mobile phones. Meanwhile, according to the Central Bank of Indonesia (2017: 234), e-money are instruments issued on the basis of the value of money that has been deposited in advance. While there are slight variations across countries, e-money is typically defined as a type of "stored value" instrument or product that (i) is issued on receipt of funds, (ii) consists of electronically recorded value stored on a device (i.e., a computer system, mobile phone, prepaid card, or chip), (iii) is accepted as a means of payment by parties other than the issuer, and (iv) is convertible into cash (Lauer & Tarazi, 2012).

Such instruments have the potential to further reduce the dependence on paper-based payment instruments by dramatically broadening access to electronic payments for a larger number of consumers, especially unbanked and under-banked consumers. Furthermore, the widespread use of non-cash transactions promotes economic efficiency by making transactions faster, more convenient and more secure, while money is saved on printing, currency distribution, and cash handling costs (Bank Indonesia, 2017: 167). With this background, Bank Indonesia launched the *Gerakan Nasional Non Tunai* (GNNT) on 14 August 2014 in a bid to encourage the public, businesses and government agencies to switch to electronic payment methods. It aims to help people making daily transactions, especially in micro-payment transactions, and also to enhance the security and efficiency of online payment.

The performance of electronic money improved significantly in 2017. The number of electronic money instruments circulating in society rose by 75.8% to 90 million from 51.2 million in 2016. The increased use of electronic money was driven by Indonesia's electronification program that successfully added 1.1 million electronic money cards under non-cash social assistance electronification and 3.5 million cards under the toll road payment program (Bank Indonesia, 2017: 162).

Although the number of e-money transaction is still increasing every year, a McKinsey survey revealed that cash is still used in 99.4% of transactions in Indonesia, with non-cash instruments used in just 0.6% (Bank Indonesia, 2017: 167). KPMG (2017: 9) also stated that Indonesia is the second largest cash-based economy in the world, where only 36% of Indonesian's have a bank account and the adoption of non-cash payments is around 10%.

The growth of online transactions encourages the development of technology for the payment system. With 50% of internet penetration and 67% penetration of mobile-phone (We Are Social, 2018), Indonesia is in the perfect position to use mobile money to enhance financial inclusion and boost economic growth. However, the adoption rates still do not reach the expected level especially in developing countries and customer express less on the internet toward such services (Alalwan et al., 2017).

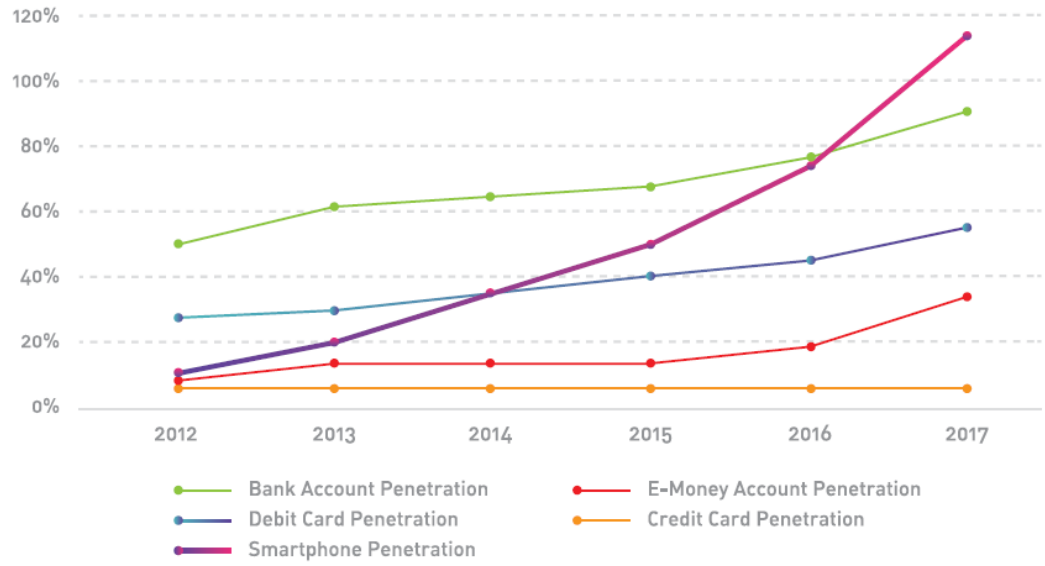

Figure 1.2 Smartphone Subscription Penetration versus Electronic Banking Platforms Penetration

Source: MDI Ventures and Mandiri *Sekuritas* Research (2018)

Figure 1.2 above shows the Smartphone Subscription Penetration versus Electronic Banking Platform Penetration. From the picture above can be seen that

the most rapid growth in 2012 to 2017 comes from smartphone penetration (almost 120%) if compared to the credit cards. Meanwhile, the growth of e-money has only increased from <20% to close to 40% in 2017. In conclusion, there is a high gap performance between smartphone and e-money penetration. Further, it encourages the researcher to find the reason why the adoption rate of e-money, especially mobile money in Indonesia is still low compared to smartphone users since when more unbanked consumers gain access to smartphones and mobile internet services, new opportunities for mobile financial services models will arise.

Hence, to analyze the adoption rate of mobile payment services in Indonesia, the researcher decides to choose OVO as the main object in this research. OVO is one of the digital financial service platforms in Indonesia that establish in March 2017 and has shown significant users growth. Further, in 2018, it already becomes the top four mobile payments in Indonesia. A high rank for a newly launched startup like OVO is one of the reasons why OVO was chosen as the main object. Further, Figure 1.3 and Figure 1.4 below will show the mobile payment launch timeline and its user base.

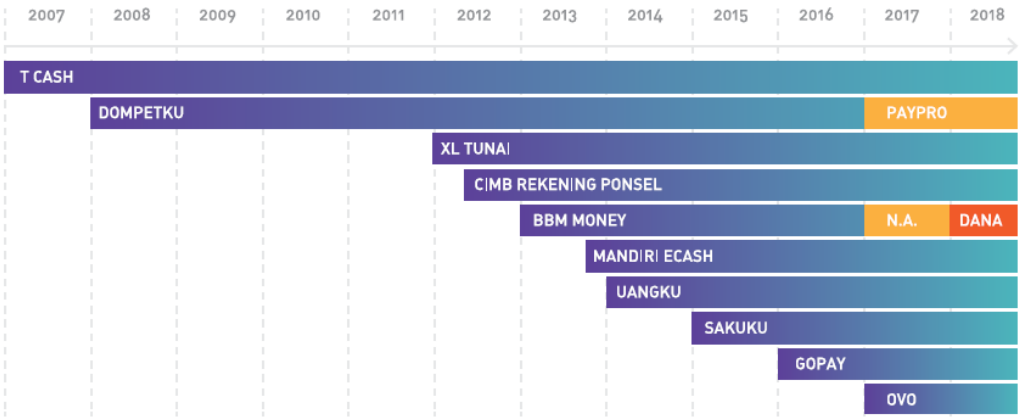

Figure 1.3 Mobile Payment Launch Timeline

Source: MDI Ventures and Mandiri *Sekuritas* Research (2018)

Data from MDI Ventures and Mandiri *Sekuritas* Research (2018) shows that the first mobile payment in Indonesia was Tcash which launched in 2007 and the latest is OVO in 2017.

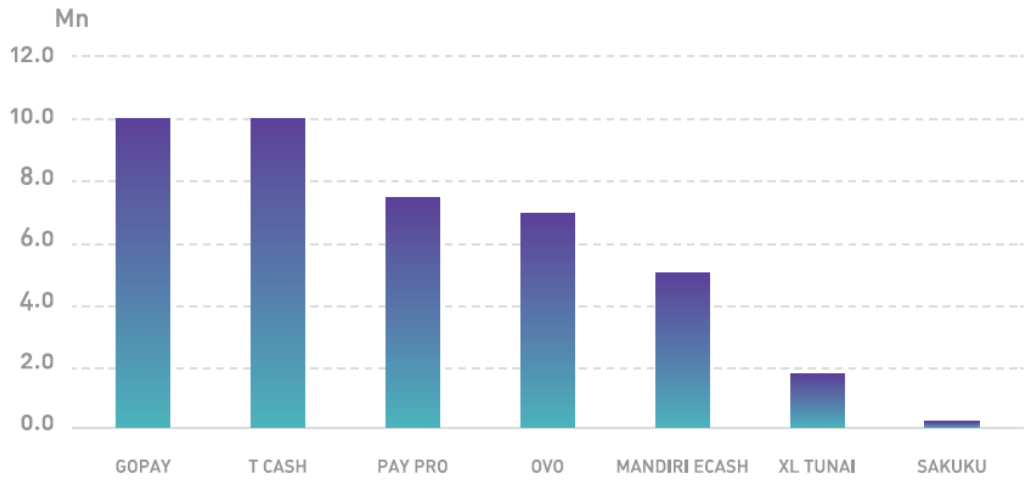

Figure 1.4 Mobile Payment User Base (2017)

Source: MDI Ventures and Mandiri *Sekuritas* Research (2018)

Even though it is still considered newcomer, OVO is one of the mobile payments that shows significant growth. Based on the data from MDI Ventures and Mandiri *Sekuritas* Research in 2018, OVO mobile payment user base has already achieved 4th ranks with more than 6million user in 2017. Further, Katadata research in 2018 also states that OVO already has 5-10 million users in 2018 with the 300thousand number of partners. Table 1.1 below will show mobile payment applications, its users and partners.

Table 1.1 Mobile Payments

Application	**Number of Users**	**Number of Partners**
TCash	25 million	52 thousand
Go-Pay	20-25 million	4 thousand
OVO	5-10 million	300 thousand
Yap!	310 thousand	15 thousand
Doku	2 million	35 thousand

Source: Katadata (2018)

Furthermore, since OVO is one of the technology-based payment, this research will use the unified theory of acceptance and use of technology (UTAUT)

to help the researcher in analyzing the adoption rate of OVO in Indonesia. The unified theory of acceptance and use of technology (UTAUT) is a technology acceptance model formulated by Venkatesh and others in "User acceptance information technology: Toward a unified view." The UTAUT aims to explain user intentions to use an information system and subsequent usage behavior. The theory holds that there are four fundamental constructs, namely performance expectancy, effort expectancy, social influence, and facilitating conditions.

The first three are direct determinants of usage intention and behavior, and the fourth is a direct determinant of user behavior. Gender, age, experience, and voluntariness of use are posited to moderate the impact of the four key constructs on usage intention and behavior. The theory was developed through a review and consolidation of the constructs of eight models that earlier research had employed to explain information systems usage behavior (theory of reasoned action, technology acceptance, motivational model, theory of planned behavior, a combined theory of planned behavior/technology acceptance model, model of personal computer use, diffusion of innovation theory, and social cognitive theory) (Wikipedia, 2018).

Based on the explanation above, this research is aimed to analyze the influence of performance expectancy, effort expectancy, social influence, and facilitating condition toward the user behavior of OVO. Thus, the researcher would like to conduct a research with the title, "ANALYSIS FACTORS INFLUENCING THE ADOPTION OF MOBILE PAYMENT USING THE UTAUT2 MODEL (A CASE STUDY OF OVO IN INDONESIA)"

1.3 Problem Statement

While it is already proven that the use of non-cash transactions had promoted economic efficiency and enhance financial inclusion, the percentage of non-cash instruments used in Indonesia is still around 0.6%-10% which is still low if compared to the internet users and mobile users' penetration. This phenomenon

could lead Indonesian people to unproductivity and inhibit Indonesia to achieve the maximum nation profit.

The adoption of OVO might be caused by several factors that can be measured by using the UTAUT method. The UTAUT can determine what variables that influence the adaption of OVO payment, which variables influence the most and how to determine the effect of each variable itself. Performance expectancy (PE), effort expectancy (EE), social influence (SI), facilitating condition (FC), hedonic motivation (HM), price value (PV), behavioral intention (BI), and trust (TR) are the factors that may cause the adoption of OVO in Indonesia.

Furthermore, there have been no published studies that analyze the factors influencing the adoption and usage behavior of OVO application in Indonesia because it was established last year, in March 2017. So, it is important to conduct a research to examine the factors affecting the adoption of OVO payment.

1.4 Research Question

1. Based on the modified UTAUT2 model (Performance Expectancy (PE), Effort Expectancy (EE), Social Influence (SI), Facilitating Conditions (FC), Hedonic Motivation (HM), Price Value (PV), Trust (TR), and Behavioral Intention (BI)), how much is the tendency of consumer's assessment to adopt the OVO payments application?
2. Do the factors in the modified UTAUT2 model (Performance Expectancy (PE), Effort Expectancy (EE), Social Influence (SI), Facilitating Conditions (FC), Hedonic Motivation (HM), Price Value (PV), Trust (TR), and Behavioral Intention (BI)) have positively influence Indonesian customers' intention to adopt OVO application?
3. Based on the respondents' perception what are the factors in the modified UTAUT2 that considered necessary and need to be improved?

1.5 Research Objectives

The overall objective of this study is to examine the phenomenon of digital financial service platforms such as e-money in Indonesia, its acceptance, use, and

adoption. This research aims to find out the factors influencing the adoption of OVO and provide suggestion, so that they could know what they have to do in order to increase the number of their platform user, enhance the understanding of the overall customer experience, and understand the key determinants of customer intentions to use the services. The objective of this study is to test the key factors for the modified UTAUT model that affect the behavioral intention of the OVO user toward the usage of its application.

The study is to provide some understanding of the multiple aspects of OVO adoption, which includes the acceptance, use and the eventual adoption into the everyday life of the consumer. This study purposes to examine why the use of e-money has been adopted in Indonesia and how it has affected the consumer's social practices and if possible its effect on the technology. Furthermore, this research helps OVO company to understand which factors that affecting their customer preference.

1.6 Scope of the Study

This research going to analyze the performance expectancy, effort expectancy, social influence, facilitating conditions, hedonic motivation, price value, trust, and behavioral intention and find out which factor has the positive influence and which factor has no positive influence toward the customers of OVO as digital financial service platform within 2018-2019 period.

1.7 Significant of the Study

1.7.1 Theoretical Aspect

a. Obtains explanation regarding the variables correlation of performance expectancy (PE), effort expectancy (EE), social influence (SI), facilitating conditions (FC), hedonic motivation (HM), price value (PV), trust (TR), and behavioral intention (BI) toward adoption of OVO in Indonesia.
b. This research expected to provide additional knowledge in economics and business management science development especially for the new digital economy field.

1.7.2 Practical Aspect

a. This research expected to be a reference for digital financial service platform, especially OVO to discover the reasons why their customers use their service and improve the service based on customer needs.
b. This research expected to provide an explanation regarding the digital financial service platform in particular and provide suggestions to fix and develop the usage of the service based on the customers' needs.

1.8 Systematic Writing

The systematic writing is arranged to provide a general overview of research conducted with the following structure.

CHAPTER I: INTRODUCTION

This chapter briefly explains the research object overview, background, problem statements, research questions and objectives, the scope and significance of the study, and also the systematical writing.

CHAPTER II: LITERATURE REVIEW

This chapter includes related theories, previous researches, framework, hypothesis, and scope of the study.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discusses the research type, operational variables, research stages, population and sample, data collection method, validity and reliability test, and data analysis method.

CHAPTER 1V: RESULTS AND DISCUSSION

This chapter consists of the result of the research, such as statistical analysis and data analysis.

CHAPTER V: CONCLUSION AND SUGGESTION

This chapter includes the conclusion of the research, the implications of the finding, the limitation of the study, and suggestion for future research