

CHAPTER I

INTRODUCTION

1.1 Background

Today, there is no doubt that technology is a key to enhance economics of all sector of a country . Nowadays, technology is changing rapidly and has spread through every parts of world. It enhances the economics of all sector by adopting it in business in the world. According Peteraf (2008), technology is one of the most important factors that reduces costs, increases efficiency and diminishes the negative effects of environmental changes. Telecommunication sector is one of fastest growing technology since it plays an important role in social life by connecting people and ease the flow of information. Telecommunication directly and indirectly shifts the social behaviour and social interaction throughout the country. Beside that, the development of telecommunication sector also improve Indonesia's economy over last few years. Indonesia is still classified as newcomer in digital transformation and is expected to grow bigger than what it already achieved. Its population makes Indonesia as prospective market for digital transformation. The improvement in economy both macro and micro make Indonesia as a country with high potency for telecommunication services and stimulate the other sector such as banking , healthcare, education, tourism, and trading. Industry of ICT will develop sustainably because this sector is needed by almost all other sectors such as MSEs, e-commerce, and transportation.

In other side, in order to facilitate and assist with daily activities, then people constantly do apply appropriate technologies and adapt with it. As the world developed year by year, everything become more efficient than before, especially when Internet exist. Reid & Lorenz (2008) define Internet as worldwide, publicly accessible network of networks. Though interconnected networks, the Internet enables individuals and business to share information, resources, and services, it completed nowadays by the utilization of mobile phone in form of application. Then, as the competition arouses in business world, every company do innovation and adapt with the market where customers ask for efficiency and time reduction by the utilization of technology on financial sector which called Financial Technology (FinTech). So no wonder if in today's digital world any economic transactions can be implementable anytime, anywhere, accesible via any smartphones, fast and easy to use.

National Digital Research Centre in Dublin, Ireland defined financial technology or Fintech as innovation in financial services. The core concept of FinTech came from the application of peer to peer (P2P) concept that used by Napster in 1999 for music sharing . The FinTech first appeared in 2004 by Zopa, which is financial institution in United Kingdom that performs in borrowing money service. Then come ApplePay, SamsungPay and Paypall. In fact, it is a lot of type of firms as an executor in FinTech such as : manufactured company (ApplePay, SamsungPay) , provider and telecommunication company (T-Cash, Dompot Indosat, XL Tunai, etc), operating system company (AndroidPay), banking (Dompetku, etc) , and others. In Indonesia, most popular and mostly used

FinTech application is companies who provide payment services such as Gojek with GoPay, Telkomsel with T-Cash, BCA with Flazz BCA, etc. These companies act as the media for digital payment. There are two types of digital payment system which is used server based and operated through application, then card based which used card or sticker as the media to proceed the payment. A digital wallet refers to an electronic device that allows an individual to make electronic transactions. This can include purchasing items on-line with a computer or using a smartphone to purchase something at a store. An individual's bank account can also be linked to the digital wallet. They might also have their driver's license, health card, loyalty card(s) and other ID documents stored on the phone. The credentials can be passed to a merchant's terminal wirelessly via near field communication (NFC). The other type of services offered by Indonesian FinTech is lending, crowdfunding, aggregator, etc. Indonesian Fintech especially in payment services which account for almost 50% of Indonesian FinTech companies based on data of AFTECH Indonesia (Asosiasi FinTech Indonesia), grow rapidly because the increase of internet and smartphone users, especially for Indonesian youth. The advantages of using digital payment are increases effectivity and efficiency of time, giving the ease of payment anywhere, and secure the payment of transaction rather than using cash.

With the increasing of internet user that spread all across Indonesia, then the future potency of fintech is undeniable and increase significantly. With mobile phone users exceed the number of population with total of 371.4 million as 2017, indicating most of Indonesian have more than one mobile phones. With a

huge user of mobile phone and internet, telecommunication hold a huge role to connect people by provide service of internet, voice, and data. From the data of survey did by Asosiasi Jasa Pengguna Internet Indonesia, it can be seen that internet users in Indonesia in 2016 has reached 132.7 million (51.8%) of the total population of Indonesia which reached 256 million users. The spread of internet users in Indonesia is predominantly dominated on the island of Java as much as 65 percent (86.3 million people) further with Sumatra (15.7%), Sulawesi (6.3%), Kalimantan (5.8%), Bali and Lombok (4.7%), Maluku and Papua (2.5%). It can be concluded that internet assistance is one of the factors that support the development of FinTech business and digital payment in Indonesia.

In Indonesia, digital payment have regulated by Bank Indonesia in *Peraturan Bank Indonesia* (PBI) No. 18/40/PBI/2016 about the executor of payment transaction process. The law was arranged according to the law of UU No. 23 of 1999 about Bank Indonesia, UU No. 11 of 2008 about information and electronic transaction, and UU No. 3 of 2011 about Fund Transfer. This license from Bank Indonesia publishes to the new payment system service executor that unregulated in the former laws, which is to: switching executors, payment gateway executors, and electronic wallet executors. To improve its reliability and industry competitiveness in national payment system, so this law is also arrange the ownership structure of the executor as a principal, switching executor, clearing executor, and settlement executors. Two parties that properly arranged in PBI PJP (*Peraturan Bank Indonesia Penyelenggara Jasa Pembayaran*) are the Executor of

Payment System Service (Penyelenggara Jasa Sistem Pembayaran or PJSP) and Supporting Executor at Payment System.

Telecommunication industries in Indonesia have increasingly focused on developing information technology-based businesses to improve the operational performance and manages the information well so the data and information can be fully accessed real time and online that business activity can be monitored daily. This development also target to engage more customer to have good experience on using telecommunication services. One of the media to get telecommunication services is through smartphone, so that in Indonesia some of electronic money is operated by the player on telecommunication industries such as T-Cash (Telkomsel), XLTunai (XL Axiata) , PayPro (Indosat Ooredoo). This eliminates the need for a bank account among those users who donot have complicated finances. Similar fintech apps may become the de facto savings pool for those without a bank account. This type of dynamic allows smaller fintech startups to play the role of banks, by helping people to borrow, spend and pay using mobile apps and websites, bypassing banks altogether. Since 2017 , Telkomsel as the pioneer on electronic money operated by telecommunication industry, T-Cash already got more than 10 millions in 34 provinces all across Indonesia and lead the market of electronic money in Indonesia. By the beginning of 2016, T-Cash launched a massive T-Cash surprise and T-Cashgift campaign, and also T-Cash tried to do aggressive expansion of its reach to rural areas. Another telecommunication company, XL Tunai already had 1.7 million customers as mid 2016. Already join the competition at 2012 and grew 92% as the data of mid

2016. In the other hand, Indosat started its electronic money service by name of Dompetku Indosat and had more than 4 millions customers as mid 2017 and now it already merged with one of Indonesian startup financial technology services named Paypro.

Since most of Indonesians already have cellphone with internet and the initiative of government of Indonesia in order to make digital cashless society, then telecommunication companies compete each other in order to adopt the concept of digital payment and launch its own e-money. These three companies are chosen due all of them believe that the future of activities will use digital payment as the media to fulfill its needs. Then, they are focus in investing on electronic money as long term strategy to acquire the customers. From the description above, the author would like to know whether adoption of financial technology improves the financial performance of the company. Hence, the author assess the financial performance of telecommunication companies by using liquidity and profitability ratio from the last three year of financial statements of its company after the adoption of financial technology in form of electronic money. Therefore, the title of this study is “ANALYSIS OF FINANCIAL PERFORMANCE AFTER THE ADOPTION OF FINANCIAL TECHNOLOGY IN TELECOMMUNICATION INDUSTRY IN INDONESIA FROM YEAR 2012-2016”.

1.2 Problem Statement

Based on the background which has been described above, the formulation of problem for the research is; Are there any significant improvement in financial performance during the adoption of Financial Technology (FinTech) in telecommunication industry in Indonesia?

1.3 Research Objectives

According to the problem statement above, the objectives of this research are:

- To see the evaluation of digital payment on improving financial performance condition after the adoption of Financial Technology in form of digital payment in telecommunication industries in Indonesia.
- To analyze the benefits of the implementation of Financial Technology adoption on telecommunication industry in Indonesia (Telkomsel, XL Axiata and Indosat Ooredoo).

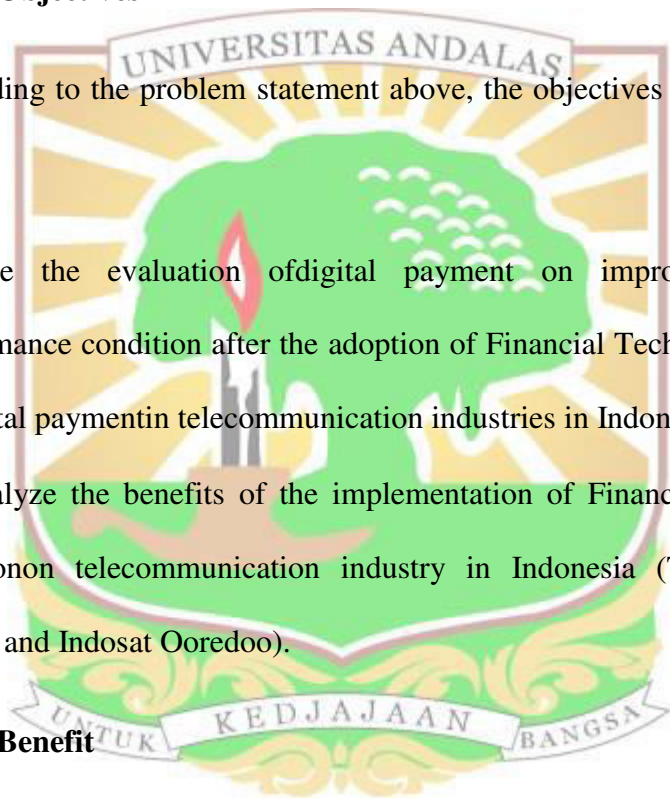
1.4 Research Benefit

From this research, researcher expect to :

- a. For researcher

Can give new insight on financial technology sector.

- b. For companies' management that already conduct adoption of fintech in form of utilization of e-money, this research can gives empirical evidence about the benefits that can be obtained by the utilization of e-money and



ensures companies to improve the usage of the e-money system provided by provider.

c. For Government

To be reference for government on making regulation about e-money especially Bank Indonesia who incharge in regulating electronic payment in Indonesia so that it can protect the society from the possibility of fraudulent.

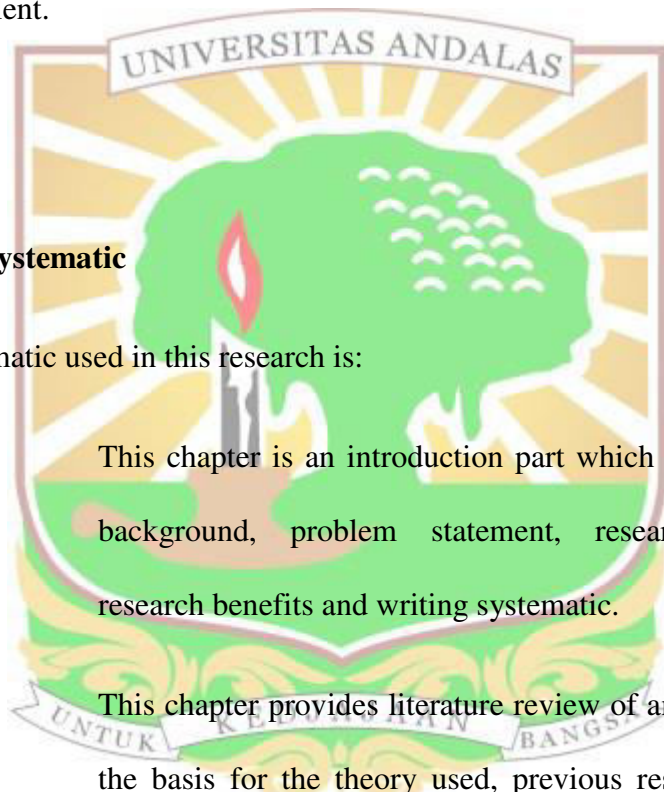
1.5 Writing Systematic

Writing systematic used in this research is:

Chapter I This chapter is an introduction part which is discussed the background, problem statement, research objectives, research benefits and writing systematic.

Chapter II This chapter provides literature review of an explanation of the basis for the theory used, previous research, research model, and the hypothesis of the study.

Chapter III This chapter is research methods which discussed about research design, research object, scope of research, variable operational, data collection method and data analysis method.



- Chapter IV This chapter provides an explanation of the description of the object of research, data analysis, and interpretation of results.
- Chapter V This chapter provides an explanation of the conclusions, limitations of the study, and suggestion

