

CHAPTER I

INTRODUCTION

1.1 Background

The term "the world is in our hands", properly reflect the conditions in the current digitalization era. Digital devices connected to internet and other supporting software or application help people to perform all tasks such as calling, messaging, shopping, getting transportation, studying, and others easily. The high intensity of internet functions resulted in how much human life now being driven by technology significantly. This illustrated in a survey reported in Digital Report 2017: Southeast Asia stating that Indonesian can spend an average of 8 hours 44 minutes a day on digital devices (www.wearesocial.com).

As a result of these significant changes in human lifestyles, many businesses take this condition as an opportunity to expand their services and products by providing services that can be accessed by users through digital platforms. It clearly can be seen from the phenomenon of e-commerce development. In the beginning, transaction only conducted physically in a store. Then, the dependence on digital devices began to emerge in the society and it triggered the development of electronic commerce. After that, electronic commerce is developing to mobile commerce until social commerce. Mobile commerce allows customer processed transaction by their mobile phone in the particular shopping application. Meanwhile, social commerce is considered as the new form of electronic commerce that uses social media to promote

products, such as Facebook, Twitter, Instagram, and much more (Liang, Ho, Li, & Turban, 2012)

This e-commerce system still has the potential to grow in the future (Singh, Sahu, & Rana, 2019). The growth of e-commerce relies upon its speed, digitalization, availability, and accessibility. The increasing growth of e-commerce is also linear with the increasing number of internet users in Indonesia (Deningtyas & Ariyanti, 2017). The Indonesian Internet Service Providers Association (APJII) presented the results of the survey entitled "Indonesian Internet User Penetration and Behavior 2017", declared the penetration of internet users in Indonesia increased to 143.26 million users, or equivalent to 54.7% of the total population of Indonesia.

The commercial system has been evolved, so does its payment system. The birth of e-commerce and other commerce technology must be supported by adequate payment instrument. This caused by a new financial need is exist following the changes in transaction process, that in many cases cannot be effectively fulfilled by traditional payment systems (Au & Kauffman, 2008). To fulfilled customer demand in conduct transaction, the method of payment that was originally made with cash payments is now starting to shift into a cashless payment system.

From a macroeconomic perspective, the cashless transaction can be one effort to catalyze the country's economy (Achor, 2013; Ghosh, 2018). McKinsey in a report entitled Unlocking Indonesia's Digital Opportunity stated the transition of the business activities into digital transaction would increase economic growth in

Indonesia to \$150 billion in 2025. The Indonesian Central Bank has initiated various efforts to trigger people to pay cashlessly by launched the “National Noncash Program” or commonly called as the cashless society program. Central Bank Regulation No. 18/40/PBI/2016 also states that the development of information technology and systems simultaneously initiates various innovations, especially those related to financial technology to meet people needs, including payment system services in the form of payment instruments, organizers' transitions, and infrastructure to manage payment transactions (www.bi.go.id).

There are some preferences to cash less system; first, non-cash transactions are more efficient with simply tap-and-go. Second, non-cash transactions increase security because they reduce the potential for crimes such as theft and make it easier to track down due to criminal acts. Third, avoid the tax avoidance. There is no exploration that reveals any direct demonstrated connection between the utilization of money, the covered up economy and taxation avoidance yet because cash you handled is exceptionally hard to examine and survey. Yet, it is boorish to trust that it doesn't exist. (Achor, 2013; Achord, Chan, Collier, Nardani, & Rochemont, 2017)

One of the cashless strategy formed to assist customers transacts conveniently is digital payment. Karnouskos (2004) defined digital payment as any payment where electronic device is utilized to start, approve and affirm the exchange of monetary value for purchasing goods and services. Another definition for digital payment is a natural evolution of electronic payment in which empowers plausible and easy portable business exchange transaction for the inception, approval or

acknowledgment of payment with mobile devices (Kim, Mirusmonov, & Lee, 2010). The Boston Consulting Group (BCG) expects approximately 90% of customers will be used digital payments for their daily (online and offline) transactions in their report of Digital Payment 2020 (Singh et al., 2019).

The level of acceptance and use of the system depends on the variable adoption and use of technology, such as speed, convenience, price factors, etc. contained in the theory of technology acceptance and use. One survey conducted by *iResearch* (2011) concerning mobile payment adoption exposed the main reason behind the usage mobile payment was the easiness of transaction to occur anywhere and anytime (Zhao & Kurnia, 2014). In contrast, the ZDC survey (2012) shows security issues, distrust of the payment process, unavailability and concern about losing cellphones behind individuals who do not use mobile payments (Shankar & Datta, 2018; Zhao & Kurnia, 2014).

Even though digital payment was quite intensively introduced, but the use of digital payment has not been widely applied in transactions in Indonesia. The result of the survey conducted by *Jajak Pendapat* in 2016 revealed the majority of the payment method used by Indonesian is by transferring through ATM for 70%, meanwhile by online payment only by 9% (Deningtyas & Ariyanti, 2017). With these gaps, studies on digital payments became interesting to discuss.

At present, several studies have been carried out in various countries that explain the acceptance and use of digital payments that are oriented towards existing theoretical models, even though there is no specific theory defines the digital

payments yet. Furthermore, research related to digital payments is still very limited up to now, especially in Indonesia. The current research only specifically addresses one type of digital payment and is oriented towards quantitative study for testing certain existed theories.

Moreover, West Sumatra is one of the provinces in Indonesia which still at the cash-basis society level. Indonesia Central Bank of West Sumatera representative states there is a great potential in West Sumatra to shift into a cashless society. In contrary, there is still very limited research in digital payment context. Therefore, the study examines the factors behind user preferences and the perceived benefits of using digital payments will be beneficial to help further development of digital payments. Furthermore, previous research has always involved capital cities such as Jakarta in researching digital payments. This research was also interested in exploring whether digitalization hype reached area that is not the capital city. In addition, there has been no further research on digital payments in a particular province in Indonesia until now.

Based on the explanation above, the author is interested to explore further the factors that influence user preference and the perceived benefits after adopting and using digital payments through research entitled "*Factors Influencing User Preferences and Perceived Benefits of Using Digital Payments in West Sumatra*".

1.2 Research Problem

With the background of the problems stated above, several problems can be identified which will be studied later and more in-depth discussions to obtain a further explanation. The problem statements are as follows:

1. What are the factors influencing user preferences in using digital payment?
2. What are benefits realized by digital payment user?

1.3 Research Objective

In line with the formulation of the problem above, the objectives of this study are:

1. To explore the factors of individual preferences in using or not using digital payments from customer perspective within the scope of the West Sumatra.
2. To identify the perceived benefit in using digital payment at West Sumatra.

1.4 Research purpose

1. Theoretical purpose

This research is expected to expand research efforts in the context of digital payments. This exploration research is also intended to be able to improve existing knowledge in this field and give a new insight in understanding the factors affecting and perceived benefits in the using digital payment.

Furthermore, this research is expected to be a reference in further research, associated with the acceptance and use of digital payment.

2. Practical purpose

By identifying the factors of user preferences in using digital payment and the perceived benefit by the user, this research is expected to be an input for digital

payment providers to develop better systems for digital payment services. So that, they can develop their systems according to user needs.

1.5 Writing Systematic

This research is arranged systematically as follows:

1. CHAPTER I: Introduction. This chapter contains a description of the background of the problem, the problem formulation, the research purposes, and the research objectives and writing systematic.
2. CHAPTER II: Literature Review and Prior Research. This chapter contains theoretical frameworks to give the insight of the research conducted and also the review of previous research.
3. CHAPTER III: Research Methodology. This chapter contains a description of the types of data, population, sample selection methods, data collection methods, variables and data analysis techniques.
4. CHAPTER IV: Research result and discussion. This chapter explains about the result and discussion towards this research, which the descriptive information of the result are in factors influencing and perceived benefits of digital payment usage in West Sumatra.
5. CHAPTER V: Conclusion. This chapter contains conclusions, implications, and limitations.