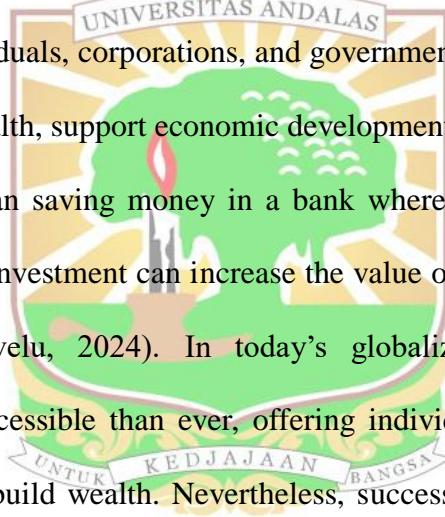


## CHAPTER I

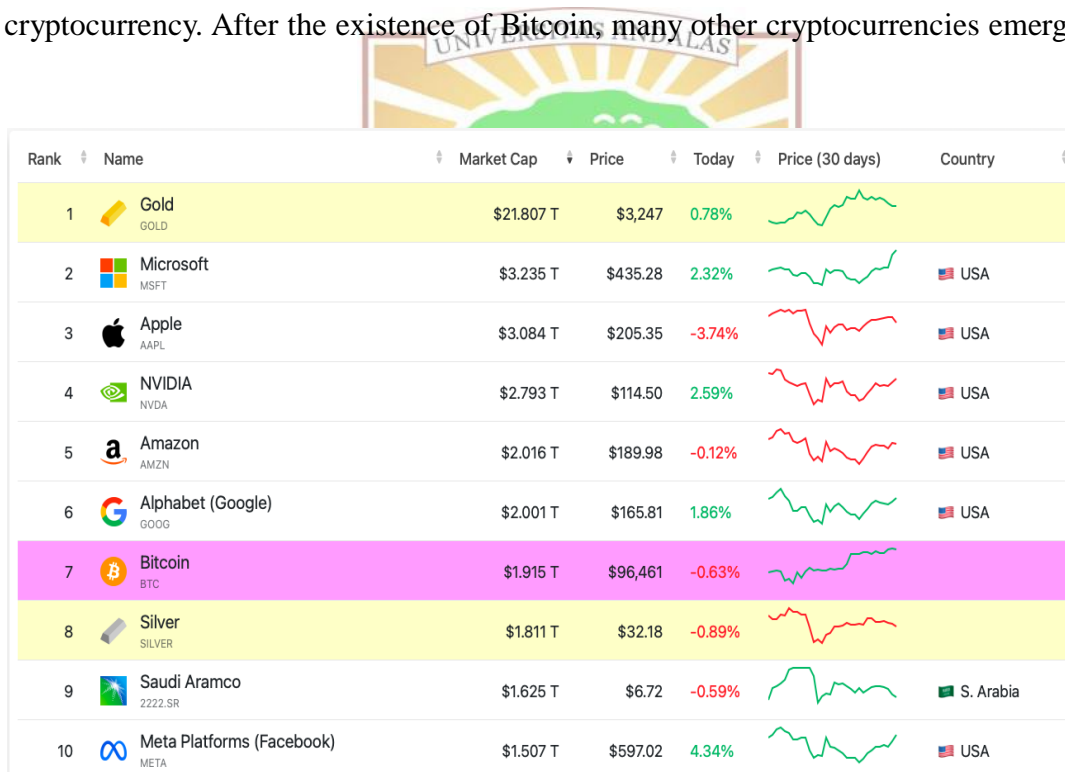
### INTRODUCTION

#### 1.1 Background of Study

Investment is a fundamental concept in the world of finance and economics, referring to the process of allocating resources, particularly capital, with the expectation of generating future benefits or profits. An investment is a financial or other resource commitment made now with the hope of receiving benefits later (Bodie et al., 2014). Individuals, corporations, and governments engage in investment activities to grow their wealth, support economic development, and achieve long-term financial goals. Rather than saving money in a bank where the value continues to decrease due to inflation, investment can increase the value of money when the price of goods rises (Thangavelu, 2024). In today's globalized world, investment opportunities are more accessible than ever, offering individuals and institutions a wide range of options to build wealth. Nevertheless, successful investment requires careful analysis, strategic planning, and an understanding of both the potential rewards and risks involved. However, This remains a critical issue in Indonesia because the average level of financial knowledge of people on this country is still far from the government's target (Adrianto, 2021).



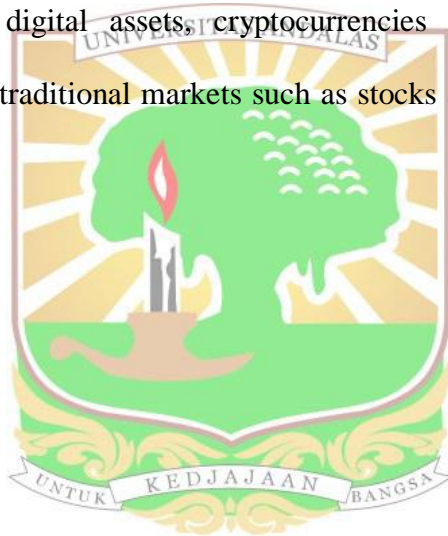
World of investment was shocked by the arrival of bitcoin with blockchain technology. White paper named peer to peer electronic cash system who created by Satoshi Nakamoto in 2008 the beginning of bitcoin, until now it is not known who Satoshi Nakamoto is. The original concept was to facilitate payments without the involvement of a financial institution (Nakamoto, 2008). Now, Bitcoin has become the number two investment asset after gold which is not controlled by a country or institution (CompaniesMarketCap, 2025). Bitcoin is the first and most well-known cryptocurrency. After the existence of Bitcoin, many other cryptocurrencies emerged,



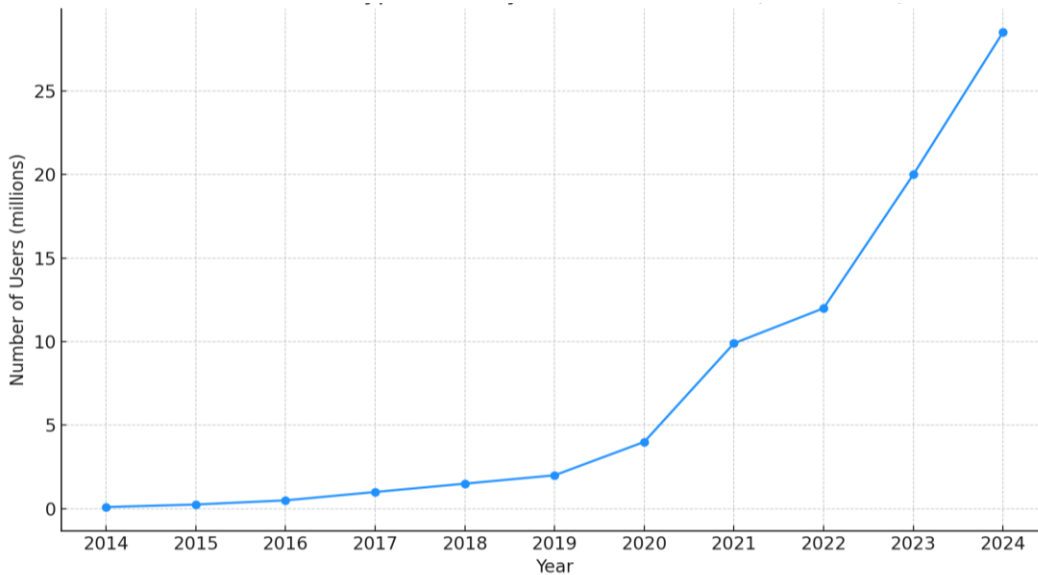
such as Ethereum, Doge, XRP, Solana and others.

**Figure 1.1 Top Asset by Market Cap**

The rise of cryptocurrency has significantly transformed the global financial landscape, offering investors new opportunities and challenges, It will be strategically positioned for the optimal point in the economic cycle when profitable opportunities arise (Santero & Babbel, 2001). Since the introduction of Bitcoin in 2009, the cryptocurrency market has expanded rapidly, with thousands of digital assets being traded worldwide. The total market capitalization of cryptocurrencies reached over \$3 trillion at its peak in 2024, reflecting growing investor interest (CoinMarketCap, 2024). As decentralized digital assets, cryptocurrencies provide an alternative investment option beyond traditional markets such as stocks and bonds (Bouri et al., 2019).



In Indonesia, cryptocurrency market is expanding. Based on data from The



Commodity Futures Trading Supervisory Agency (Bappebti) of the Ministry of Trade reported on the development of crypto asset transactions, with the number of crypto asset customers reaching 21.27 million people from February 2021 to September 2024. Crypto asset trading currently one of the trading options that is in demand by the public. Meanwhile, the value of crypto asset transactions in the same period reached IDR 426.69 trillion. This figure increased by 351.97 percent annually, which was IDR 94.41 trillion. From this development, state revenue from crypto transaction taxes recorded IDR 914.2 billion from 2022 to September 2024.

**Figure 1.2 Number of Cryptocurrency Users in Indonesia**

Despite its increasing popularity, cryptocurrency investment remains highly uncertain due to factors such as market volatility, trust issues, regulatory ambiguity,

and security risks. Studies have shown that Bitcoin and other cryptocurrencies exhibit extreme price fluctuations, making them a high-risk investment (Corbet et al., 2019).

Crucial factor influencing investor behavior is trust in the cryptocurrency ecosystem. Trust in blockchain technology, crypto exchanges, and security measures plays a major role in shaping investment decisions (Gefen et al., 2003). Trust refers to an individual's belief in the reliability, integrity, and competence of a system or party in this case, cryptocurrency platforms, networks, or intermediaries. In decentralized systems like blockchain, where traditional safeguards (such as banks or regulators) are limited or absent, trust plays a pivotal role in shaping user engagement and investment willingness (Gefen et al., 2003). A high level of trust can reduce perceived risk, encourage transactions, and increase psychological comfort in dealing with intangible digital assets. Cases of exchange hacks (e.g., Mt. Gox in 2014, FTX in 2022) and fraudulent schemes have damaged investor confidence, highlighting the importance of secure trading platforms (Gandal et al., 2018). At the same time, increasing adoption of institutional investors and decentralized finance (DeFi) has helped strengthen trust in the market (Zetsche et al., 2020).

Additionally, lack of regulatory clarity in many countries contributes to investor hesitation, as unpredictable government policies can impact market stability (Aysan et al., 2021). Some governments have imposed restrictions or outright bans on

cryptocurrencies, while others have introduced regulatory frameworks to integrate them into the financial system (Fang et al., 2022). These contrasting approaches to cryptocurrency regulation further add to the uncertainty surrounding these digital assets. For investors, navigating this complex regulatory landscape requires careful consideration of the potential risks and rewards. As the market continues to evolve and governments grapple with how to regulate cryptocurrencies, individual attitudes towards risk will play a crucial role in shaping investment decisions in this emerging asset class.

Compared to developed countries such as the United States, Japan, or Singapore, Indonesia's cryptocurrency market is still in a transitional phase, facing challenges in terms of regulatory clarity, investor protection, and digital financial literacy. In developed markets, regulatory bodies have already implemented clearer legal frameworks, institutional investors are more active, and financial education is more widespread fostering a more mature and stable crypto ecosystem. For example, the U.S. Securities and Exchange Commission (SEC) and Japan's Financial Services Agency (FSA) have established structured oversight of digital asset platforms, which enhances investor trust and minimizes fraud. In contrast, Indonesia's regulatory approach is still evolving, with authority transitioning from BAPPEBTI to the Financial Services Authority (OJK), and many investors relying on informal sources of information. These disparities highlight the need to better



understand how Indonesian investors respond to external uncertainties and how their internal psychological readiness such as empowerment plays a role in shaping investment behavior under such conditions. This difference creates a research gap, while previous studies have shown that regulatory clarity influences investment behavior, there is limited research on how underdeveloped regulatory environments, combined with uneven levels of digital literacy, shape investor behavior.

Moreover, the ease of access to digital platforms has significantly influenced investment behavior. Technological advancements have made cryptocurrency trading more accessible, enabling retail investors to enter the market with minimal barriers (Venkatesh et al., 2003). The growth of mobile trading apps, AI-driven financial analysis, and automated trading bots has allowed users to trade cryptocurrencies effortlessly (Alzyoud et al., 2025). However, the rapid digitalization of financial markets also raises concerns about investor education and awareness, as many retail investors lack the necessary knowledge to navigate the volatile crypto landscape (Lusardi & Mitchell, 2014).

In addition, risk perception is highly relevant. Risk perception refers to how individuals subjectively assess the level of risk associated with an investment. In the case of cryptocurrencies, which are often associated with sharp price fluctuations and technological uncertainty, individual perceptions of risk can either deter or



motivate investment behavior (Liu et al., 2021). For some investors, the potential for high returns in the volatile cryptocurrency market may outweigh the perceived risks, leading them to take a chance on these digital assets. Others, however, may be more cautious and hesitant to invest due to the uncertainty surrounding regulations and the lack of traditional financial regulations in the crypto space. Ultimately, individual attitudes towards risk will continue to shape the future of cryptocurrency investments as this new asset class becomes increasingly mainstream.

These external factors trust, regulation, digital access, and risk perception may influence an investor's internal state, particularly their psychological empowerment, which refers to feelings of competence, autonomy, and control in decision-making (Spreitzer, 1995). Trust in local platforms, blockchain technology, and data security boosts investors' confidence to navigate volatility, while clear, well-communicated regulations from authorities enhance their sense of safety and independence in making investment choices. Digital access, particularly crucial in an archipelagic country with uneven infrastructure, enables investors to trade anytime and anywhere, strengthening self-efficacy (Kou et al., 2021). Risk perception, shaped not only by market volatility but also by socio-cultural factors, can undermine empowerment, yet for confident investors it becomes a manageable challenge rather than a deterrent. Understanding how these external factors interact with psychological empowerment in Indonesia's evolving regulatory and technological





environment provides critical insight into the drivers of cryptocurrency investment behavior in emerging markets. Empowered investors are more likely to feel confident and capable of engaging in high-risk, high-reward financial activities like cryptocurrency trading. In decision to invest in cryptocurrencies while the price is volatile, psychological environment helps investor more in control and capable of navigating uncertainty.

Although the external factors of trust, regulation, digital access, and risk perception have been widely acknowledged in prior research as significant influences on financial decision-making, there is limited understanding of how these external conditions translate into actual investor behavior, particularly in the context of emerging markets like Indonesia. The Indonesian cryptocurrency market, characterized by high volatility, limited regulatory maturity, and uneven digital literacy, presents a unique environment where external conditions may be perceived differently by investors. These perceptions can significantly affect confidence, willingness to invest, and the ability to navigate risks.

To address this, the concept of psychological empowerment becomes central. Psychological empowerment, which encompasses feelings of competence, autonomy, and impact, acts as a mediating factor that helps explain how external variables influence internal investor motivation and behavior. In high-risk, decentralized financial systems such as cryptocurrency markets, investors must rely not only on

external assurances but also on their internal confidence to act independently and responsibly. This study, therefore, seeks to fill the gap by examining the role of psychological empowerment as a mediator between external influences and investment behavior in Indonesia's dynamic cryptocurrency environment. Based on the explanation above, the author is interested in investigating factors that influence to of further research with the title **“Investor Behavior in Cryptocurrency Market in Indonesia: The Role of Trust, Regulation, Digital Access, and Risk Perception Through Psychological Empowerment”**

### 1.2 Research Question

This study seeks to answer the following key research questions:

1. Does trust influence investor behavior in cryptocurrency market in Indonesia?
2. Does regulation influence investor behavior in cryptocurrency market in Indonesia?
3. Does digital access influence investor behavior in cryptocurrency market in Indonesia?
4. Does risk perception influence investor behavior in cryptocurrency market in Indonesia?
5. Does psychological empowerment mediating the effects of trust, regulation, digital access, and risk perception on investor behavior in cryptocurrency market in Indonesia?



### 1.3 Objectives of Research

The main objectives of this research are:

1. To examine the effect of trust on investor behavior in cryptocurrency market in Indonesia.
2. To examine the effect of regulation on investor behavior in cryptocurrency market in Indonesia.
3. To examine the effect of digital access on investor behavior in cryptocurrency market in Indonesia.
4. To examine the effect of risk perception on investor behavior in cryptocurrency market in Indonesia.
5. To examine the mediating role of psychological empowerment in the relationship between trust, regulation, digital access, and risk perception on investor behavior in cryptocurrency market in Indonesia.



### 1.4 Research Benefits

This research is expected to provide benefits for various stakeholders:

1. For Investors: Helps investors make informed decisions by understanding the factors influencing cryptocurrency investment behavior.
2. For Regulators: Provides insights into how regulations affect investor confidence and participation in the crypto market.

3. For Financial Institutions: Assists financial firms and crypto exchanges in designing better investment platforms and security measures.
4. For Academics and Researchers: Contributes to the academic field by expanding knowledge on cryptocurrency investment behavior and financial technology.

## **1.5 Research Scope**

### **1.5.1 Conceptual Scope**

This study focuses on four primary independent variables: trust, regulation, digital access, and risk perception. Trust refers to an investor's belief in the reliability, integrity, and security of cryptocurrency systems and platforms. Regulation encompasses the policies and legal frameworks particularly those from BAPPEBTI and related institutions that influence the legitimacy and safety of crypto investments in Indonesia. Digital access includes technological infrastructure, internet connectivity, and access to trading platforms, while risk perception captures the investor's subjective judgment of the volatility and uncertainty associated with cryptocurrency. These variables are proposed to influence investor behavior, both directly and indirectly. Psychological empowerment, defined as an individual's perception of self-efficacy, autonomy, and influence in financial decision-making, acts as the mediating variable. The dependent variable is investor behavior in the cryptocurrency market, specifically focusing on the decision to invest, frequency of investment, and engagement with crypto platforms.

### 1.5.2 Contextual Scope

The research is conducted in Indonesia and is limited to individual retail investors who engage in cryptocurrency trading through digital platforms such as Indodax, Tokocrypto, and Pintu. Institutional investors, crypto miners, or those involved in blockchain development are excluded from this study. Data will be collected from Indonesian participants aged 17 and above, representing the demographic groups that actively participate in digital finance and cryptocurrency trading. The findings of this research are therefore contextually bound to Indonesia's unique regulatory environment, technological access, and cultural perceptions of trust and risk.



### 1.6 Writing Systematic

The structure of writing this thesis is organized into five chapters to provide a clearer and more detailed overview of the topics to be discussed in the conducted study, as follow:

#### CHAPTER I INTRODUCTION

Presents the background, problem formulation, objectives, benefits, scope, and structure of the thesis.

## **CHAPTER II LITERATURE REVIEW**

Discusses relevant theories and previous research on investor behavior, trust, regulation, digital access, risk perception, and psychological empowerment.

## **CHAPTER III RESEARCH METODOLOGY**

Explains the research design, population and sample, data collection techniques, variable definitions, and data analysis methods.

## **CHAPTER IV RESEARCH RESULT**

Presents the results of data analysis and discusses the findings in relation to the research questions and prior literature.

## **CHAPTER V CONCLUSION**

Concludes the research, offers implications, and provides recommendations for future research and practice.

