

CHAPTER I

INTRODUCTION

1.1 Research Background

Technology has played an important role in creating innovative solutions. According to Blichfeldt & Faullant (2021), Technological innovation in processes not only improves the efficiency of products and distribution, but also opens up opportunities to create new products and services or even combination of both. Various companies have taken advantage of technological advances to innovate, one of them in the financial sector with the emergence of financial technology (Fintech) that supports the financial system. According to Bank Indonesia, Fintech is an innovation in financial services and technology that transforms traditional business models into more modern ones. From previously using face to face payments and cash, it can now be done through internet technology in a matter of seconds.

Fintech innovation not only benefits companies by improving operational efficiency, but also provides significant benefits for consumers. The birth of fintech in Indonesia gave birth to the latest financial services through technological innovation to produce solutions that make consumers' lives easier. In recent years the growth of fintech in Indonesia has continued to increase and create a positive trend, this is evidenced by the increasing number of fintech users which is expected to grow until 2028. In addition, the growth of fintech companies continues to increase every year. In 2022, there were 366 companies registered with the Indonesian Fintech Association (AFTECH), this indicates an increase of 3.97%

from the previous year (year-on-year/yoy) which was 352 members (databoks.katadata.co.id, 2023). The compound annual growth rate (CAGR) of fintech in Indonesia is 9.31% over the forecast period (2024-2029), and the market size of fintech in Indonesia is estimated to reach USD 19.15 billion in 2024 and is expected to reach USD 29.89 billion in 2029.

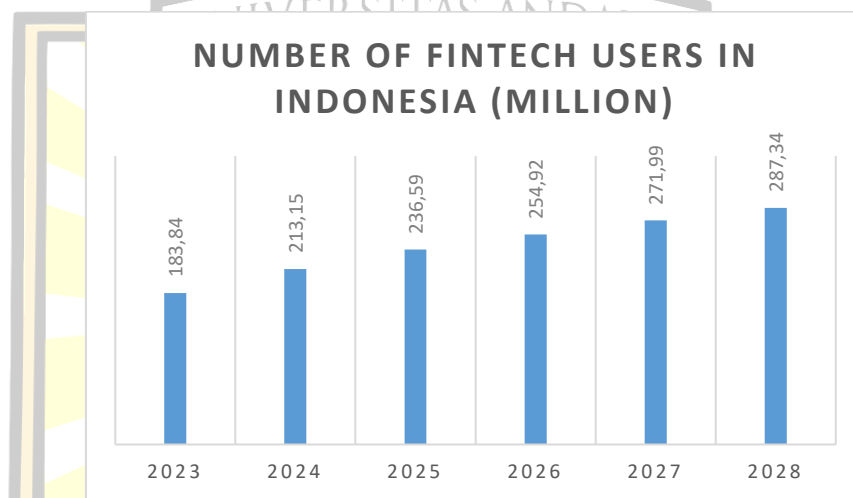


Figure 1 Number of fintech users in Indonesia (million)

Source : databoks.katadata.co.id (2023)

The phenomenon of fintech growth is also followed by an increase in the number of fintech users in Indonesia. Based on the data in Figure 1, the fintech users in Indonesia in 2023 at 183.84 million people. This figure is projected to continue to increase until it reaches 287.34 million people in 2028. This growth is driven by the rapid adoption of mobile devices and the shift in people's preferences towards more digital and affordable financial services, and is also shown by the increasing internet penetration in Indonesia with an increase of 1.4 percent from 2023 with 221 million users (apjii.or.id, 2024). In addition, the public's need for

easier, faster, and more flexible financial services is also the main driver of fintech adoption in various walks of life.

Along with the growth in the number of users, fintech services in Indonesia are increasingly diverse and innovative. According to Purwanto et al. (2022) There are several fintech services that are developing and providing financial convenience to the people in Indonesia, namely: Crowdfunding, Microfinancing, P2P Lending Service, Market Comparison, Digital Payment System, Investment, and Market Aggregator. These services bring users to get better services and convenience in managing finances, making them more inclusive, efficient, and relevant to the needs of the times. In fact, of these services, users in Indonesia more often use digital payment system services, this is also proven by (Lucas, 2024) in statista.com which states that the number of users of digital payment system services in the Indonesian market will increase in 2024 by 144.3 million users and is expected to continue to increase until 2028 with a total of 60.7 million users. The digital payment system is a method of making transactions or payments for goods and services electronically, without using physical cash which involves the use of digital platforms such as mobile payment applications, online banking, and digital wallets to facilitate financial transactions.

The increase in digital payment system users in Indonesia is in line with the rapid growth of e-commerce in Indonesia, which opens up great opportunities for fintech services to act as a modern and efficient payment system solution. In addition, this growth is also triggered by the close relationship between digital payment system services and the e-commerce sector, which together are the main

drivers of Indonesia's digital economic growth. Juita et al. (2023) from Indosat and twimbit report the growth of e-commerce in Indonesia has also accelerated the development of Indonesia's digital finance, the report also noted e-commerce and financial technology, two of the four main pillars of Indonesia's digital economy, are expected to grow around 16% to 26% in the period 2022-2027. With the support of services such as e-wallets, virtual transfers, and QR code-based payments, consumers can transact more quickly and safely. In connection with this, the digital payment system is also innovating by creating a payment method called Buy Now, Pay Later (BNPL) as an alternative digital payment for consumers.

Buy Now Pay Later (BNPL) is defined by Gerrans et al. (2022) as a payment option that enables consumers to purchase and receive products or services directly, with payments made on an agreed schedule. This service offers similar flexibility and convenience to credit cards, where BNPL companies cover the upfront payment, while consumers can apply directly through shopping apps, both online and in physical stores, for instant approval before completing the transaction. This method has also been integrated with e-commerce so that it becomes an option for consumers to make transactions in online shopping.

BNPL and Credit Card services are two payment methods that allow installments, but they differ in how they work and the features they offer. To use the BNPL service, users only need to verify their personal data, while credit cards require more complicated procedures, including checking credit history to determine limits and interest rates. The BNPL service can only be used to purchase products or services with installment options, which are usually offered in periods

of 3, 6, or 12 months. Usually, the BNPL service does not charge additional interest of installments are paid on time, but if there is a delay in payment, there is a late fee ranging from IDR 20.000 to IDR 50.000, depending on the policy of the service provider. Like credit cards, BNPL services can also be subject to interest of around 2% to 5% according to the service provider's terms.

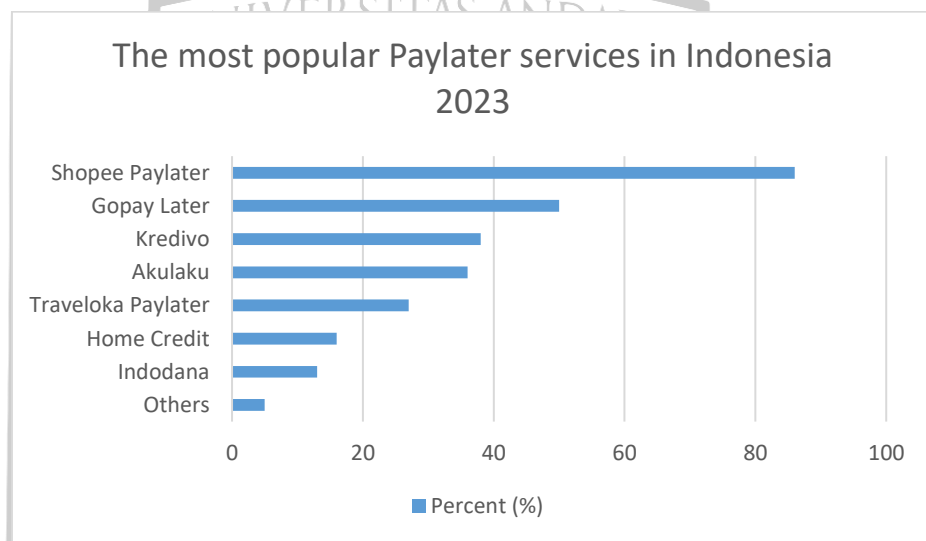


Figure 2 The most popular Paylater services in Indonesia 2023

Source : databoks.katadata.co.id

In Indonesia, BNPL services or better known as Paylater are increasingly in demand with the emergence of various companies offering solutions. Based on Muhamad (2023) through databoks.katadata.co.id there are several popular paylater service providers in Indonesia, namely Shopee Paylater which is the most popular paylater service in Indonesia in 2023 which reached 86% of 1,017 total respondents spread across Indonesia, followed by Gopay Later (50%), Kredivo (38%), Akulaku (36%), Traveloka Paylater (27%), Indodana (16%), Home credit (13%), and others (2%). The presence of these service providers emphasizes the role of paylater in

supporting digital transactions in Indonesia. Various feature innovations, service flexibility, and ease of access offered have made this service increasingly popular to use. The growth of paylater services is in line with the Financial Services Authority (OJK) report, which noted that the distribution value of BNPL financing companies increased 33.64% year-on-year, reaching Rp6.81 trillion as of May 2024. This shows the huge market potential for this service, especially in the midst of declining purchasing power due to inflation. Paylater is not only a solution for those who do not have access to conventional financial products, but also helps consumers build a good credit history.

Paylater users in Indonesia have increased in the last three years. In 2023, the number of paylater users increased by 79.92 million, reflecting changes in consumer preferences for more flexible and practical payment methods (Yonatan, 2024). Some of the factors driving this increase include the payment flexibility offered by paylater services, allowing users to obtain products or services without having to pay directly. In addition, paylater service providers often offer attractive promos, such as discounts, cashback, and zero percent installments. The ease of shopping is also an important factor, because this service is integrated with various e-commerce, marketplaces, and offline outlets, so transactions can be done quickly and practically (Sitepu & Fadila, 2024). A survey from databoks.katadata.co.id revealed that 58% of respondents use paylater services to fulfill urgent needs. This shows that paylater not only functions as an alternative payment, but has also become a strategic instrument for its users in managing personal finances, especially in dealing with situations that require immediate liquidity support.

However, on the other hand, the use of paylater also has negative impacts, such as the emergence of impulsive behavior, the risk of debt dependence, and the burden of high administrative and interest costs (Sitepu & Fadila, 2024).

The convenience offered by Buy Now, Pay Later (BNPL) services has made them increasingly popular, especially among the younger generation who are looking for flexible payment options without the need to have a credit card. Generation Z, born between 1997-2012, is a generation that grew up amidst rapid technological advancements or known as the digital native generation. This makes them easily influenced by technology and more open to innovation, especially in technology-based financial innovation. Gen Z's ability to adopt digital financial innovations makes them familiar with digital payment system services such as BNPL services. In the report Kredivo (2024) Gen Z is one of the largest age groups of paylater service users in 2023, with a percentage reaching 26.5%.

Sitepu & Fadila (2024) in their research stated that gen z tends to use BNPL due to payment flexibility, promos offered, and a fast process when using it. In addition, according to the Kredivo and Katadata Insight Center survey (2023), 72% of BNPL users in Indonesia use this service to shop in e-commerce, with the majority of transactions made for the purchase of fashion products, gadgets, and lifestyle needs. For Generation Z, this shows that BNPL has become a part of their lifestyle that prioritizes speed and convenience in transactions. BNPL's integration with e-commerce further strengthens the adoption of this payment method in everyday life, making it a practical and accessible solution. The efficiency and

flexibility that BNPL offers is perfectly aligned with the characteristics of generation Z who want convenience and an instant and seamless payment process.

The increase in BNPL service users in Indonesia is also followed by several large cities in Indonesia, one of which is in the city of Padang. Padang city is the capital of West Sumatra province with a population of 954,177 thousand people, of this total population, around 230 thousand people are generation Z (Badan Pusat Statistik (BPS), 2024). This figure shows great potential for the adoption of BNPL in the city of Padang, given the characteristics of Gen Z as a digital native generation that is highly connected to technology and tends to quickly adopt new trends, including in terms of digital payment methods. In addition, with stable economic growth and increasing awareness of more flexible payment options, the people of Padang City are increasingly open to utilizing modern financial solutions such as BNPL.

Table 1 Pre-Survey Data Of BNPL Gen Z Users In Padang City

No.	Question	Answer	Frequency (People)	Percentage (%)
1.	Do you know about the BNPL application?	Yes, I know	25	100%
2.	Are you a user of the BNPL application?	Yes	25	100%
3.	If you are a user of the BNPL application service how often do you use it?	1x in 3 month	15	60%
		>1x in 3 month	10	40%
4.	How satisfied are you with the experience of using the BNPL application?	Quite satisfied	7	28%
		Satisfied	10	40%
		Very Satisfied	8	32%
5.	Do you get good service quality when using BNPL	Yes	19	80%
		No	6	20%

No.	Question	Answer	Frequency (People)	Percentage (%)
	application?			
6.	Would you recommend the BNPL application to others?	Yes	18	72%
		No	7	28%
7.	Are you loyal to the use of the BNPL application?	Yes	18	72%
		No	7	28%

Source : Data Primary Analysis, 2025

The data above is the result of a pre-survey conducted by researchers to get an initial picture of Gen Z's perception of BNPL in Padang city. Researchers conducted a preliminary survey of 2 respondents from Gen Z, where 25 of Gen Z respondents in Padang City have used BNPL services, this figure shows a fairly high level of adoption of the payment service system among Gen Z in Padang City. This pre-survey data can be a reference for researchers on how Gen Z in Padang City is starting to adapt to the development of financial technology, especially in terms of payment system service methods.

In general, the majority of respondents feel that the BNPL application service can meet their expectations such as feeling comfortable when using the service and satisfied with the services provided by the application. On the other hand, there are a number of respondents who have not used the BNPL application service even though they are aware of the BNPL application service in their environment. This indicates a challenge in attracting new users, which may be influenced by initial perceptions of service quality. In addition, among respondents who have used the application service there are still those who feel the poor quality of service provided and are not satisfied when using the BNPL application, this will

affect user loyalty to the application service. However, the level of users to recommend to others shows a fairly high number, indicating that there is still hope from the service platform to increase user satisfaction and form user loyalty to BNPL services.

Based on the existing phenomenon, easy-to-use and well-designed application services allow users to browse products or services, place orders conveniently, and make payments without difficulty (Nasution & Adiwijayac, 2024). This contributes to increased loyalty and encourages users to use it again. Loyalty is an important factor in managing service businesses such as the BNPL service platform, so it is ensured that BNPL application services are not used temporarily, but can be used repeatedly, always use and can recommend the service to others (Abror et al., 2020). Loyalty refers to a form of deep loyalty from users that is reflected through repeated purchasing behavior of certain products or services, despite being faced with various competitor offers and market conditions that can influence them to switch (Ashiq & Hussain, 2024).

Various studies suggest that several factors significantly impact loyalty. One of factors is E-Service Quality which plays a crucial role, when effectively managed through a digital platform, it can help foster user loyalty (Karmelia et al., 2024). This relates to how service providers deliver service quality that is able to provide a positive and satisfying experience for its users. Optimal service not only increases user comfort in transactions but also encourages the creation of positive feedback, which ultimately strengthens user trust and loyalty to the platform. Parasuraman et al. (2005) in (Mamakou et al., 2024) E-Service Quality is defined

as measuring the level of effectiveness and efficiency of a website in providing convenience to customers, from the shopping process, purchasing, to the delivery of products and services. A superior BNPL application is able to provide a service flow that is not only functional but also intuitive, so that users can easily understand how the application works and utilize it for their various financial needs.

In line with E-Service Quality, another important factor is User Experience Zhou et al., (2019) in (Karmelia et al., 2024). Based on ISO 9241-210 in research Wongso & Purnama Sari (2020) User experience refers to all aspects of user interaction, including emotional, cognitive, and social aspects that arise during use. For service users, this includes how users interact with the platform to use the features provided not just functionality. In the context of the BNPL application, user experience plays an important role because users also want convenience, comfort, and security in online transactions. In addition, the emotional aspects of users can also be considered, because the decision to use BNPL services is often related to efficiency factors, emotional satisfaction and the quality of the relationship with the entity that creates the service in this case, namely BNPL services. In line with previous research, it is revealed that as a service provider by providing a good user experience such as useful features, application design structure, and other visual aspects that can create a pleasant experience this can increase user loyalty and user satisfaction with the service (Karmelia et al., 2024; U. W. Saputra, 2021; Tjiptodjojo et al., 2023).

Overall, from the explanation above, user satisfaction will not appear on its own but can be influenced by other determining factors, such as E-Service Quality

and User Experience. In that case, user satisfaction will influence user loyalty in using the BNPL application. Thus, this study will discuss recent phenomena and make it possible to discuss aspects that have not been widely discussed in previous studies. Based on the above background discussion, the researcher is interested in researching, namely **“Mediating Role Of User Satisfaction In E-Service Quality And User Experience On Loyalty Of Buy Now Pay Later (BNPL) Application Users (Survey on Gen Z in Padang City).”**

1.2 Problem Statements

According to the background explanation above, a problem formulation can be compiled in this study, namely:

1. How does E-Service Quality affect User Loyalty for Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City?
2. How does User Experience affect User Loyalty in Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City?
3. How does E-Service Quality affect User Satisfaction for Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City?
4. How does User Experience affect User Satisfaction for Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City?
5. How does User Satisfaction affect User Loyalty in Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City?
6. How does User Satisfaction influence in mediating the relationship between E-Service Quality and loyalty in Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City?

7. How does User Satisfaction influence mediate the relationship between User Experience and User loyalty in Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City?

1.3 Research Objective

1. To determine the effect of E-Service Quality on User Loyalty for Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City.
2. To determine the effect of User Experience on User Loyalty for Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City.
3. To determine the effect of E-Service Quality on User Satisfaction for Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City.
4. To determine the effect of User Experience on User Satisfaction for Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City.
5. To determine the effect of User Satisfaction on User Loyalty for Buy Now, Pay Later (BNPL) Application Among Gen Z users in Padang City.
6. To determine the mediating effect of User Satisfaction on the relationship between E-Service Quality and Loyalty for BNPL app Among Gen Z users in Padang City.
7. To determine the mediating effect of User Satisfaction on the relationship between User Experience and Loyalty for BNPL app Among Gen Z users in Padang City.

1.4 Contribution Research

Through this research, researchers hope to provide benefit to related parties, theoretical benefit and practical benefits as shows below :

1. Teoritical benefits

The researchers aim for the findings of this study to be valuable and offer new perspecrives on the influence between E-Service Quality, User Experience, User Satisfaction, and their impact on loyalty in the context of BNPL application services in Padang City. Additionally, this research is expected to contribute to the body of knowledge in the field and support the advancement of science in related areas.

2. Practical benefits

The researchers aim for the findings of this study to serve as a guide for service users in understanding the factors that impact loyalty when using BNPL application services in Padang City so that service users can find out and evaluate the services they use. In addition, this research is also expected to provide information to service providers regarding the main factors that influence user loyalty. This will not only support their business sustainability, but will also strengthen the relationship between providers and users.

1.5 Scope of Research

The scope of this research focuses on analyzing and discussing how E-service Quality and User Experience affect User Loyalty through User Satisfaction as a mediating variable on BNPL application services in Padang City.

1.6 Systematic of The Research

The purpose of this study's systematic writing is to present the research as a as follows:

CHAPTER 1 : INTRODUCTION

The present chapter provides an overview of the research, including research background, research formulation, research objectives, research benefits, scope, and systematics.

CHAPTER 2 : LITERATURE REVIEW

The theoretical framework for the issue covered in this study is covered in this chapter. The formulation of hypotheses, prior research, and conceptual framework that will serve as a guide during the data processing phase will all be covered in this chapter.

CHAPTER 3 : RESEARCH METHOD

Population and samples, sampling strategies, data kinds and sources, measurement scales, operational definitions, variable measurements, and data analysis techniques for hypothesis testing are all covered in this chapter.

CHAPTER 4 : RESULTS AND DISCUSSION

This chapter covers data analysis used to support hypotheses, general descriptive information on respondents, and the outcomes of the process of distributing research questionnaires.

CHAPTER 5 : CONCLUSION

This chapter discusses conclusions from the results of data analysis conducted by researchers, research implications, research limitations, and suggestions.