

CHAPTER I

INTRODUCTION

This chapter includes the research background, research problem, significance of the study, and the research outline of the consecutive chapters. This gives an overview of the entire framework of the research.

1.1 Background

The banking industry has revolutionized in the age of technological advancements and improvements in telecommunications and information technology. Mobile banking (m-banking), being one of the technological wonders in the 21st-century, offers effective delivery channels as opposed to traditional banking products. In many developed and developing countries, this delivery channel that has been established by retail and microfinance banks is bound to have notable effects on the market (Safeena et al., 2012). Specifically, the expanding usage of smartphones has pressured more banks and institutions to offer this innovative service accompanied with new software and application designs in order to reach their clientele, improve customer retention, enhance operational efficiency, and provide new employment opportunities. and increase market share (Shaikh, 2013).

Due to the recent coronavirus outbreak in December 2019 and its high risk of transmission, WHO recommends reducing contact among people while also

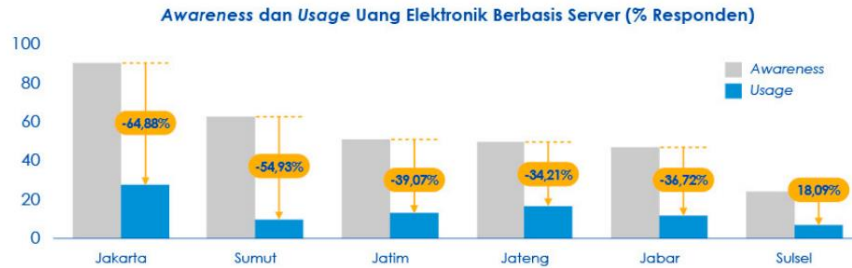
maintaining social distancing (WHO & Tanget al, 2020). In this case, the contactless characteristic of mobile banking can help support users' transaction processes while protecting their safety. With new technology such as mobile banking, this eliminates the need to make transactions using cash or having to go to the ATM. The first known practice of mobile banking in Indonesia was introduced by BII (Bank Internasional Indonesia) in 1988 called BII Internet banking. Other banks such as BCA also followed in their footsteps with KlikBca, and Niaga Global@cess by Bank Niaga.

According to Tarhini et al., (2016), Indonesians prefer to use cash in their transactions. Nugroho et al., (2017) examined that one of the factors that makes people prefer to use cash as their preferred transaction method is because they are not yet accustomed to using their smartphones and are fearful of the security breaches as well.

Indonesia is listed as the country with the largest digital economic transaction value in the Southeast Asian region with a value of over 44 Million USD and is predicted to reach 124 Million USD in 2025 (Sindonews, May 2021). This data also includes the usage of mobile banking apps in Indonesia, from 33 percent in January 2020, to 39.2 percent in January 2021 (Sindonews, May 2021). According to Anung Herlianto, the Executive Director of Banking Research and Regulation of OJK, there is still much room to grow since the number of citizens

that are banked is still at 42 million, whereas the underbanked is at 47 million, and the unbanked is at 97 million (Sindonews, May 2021).

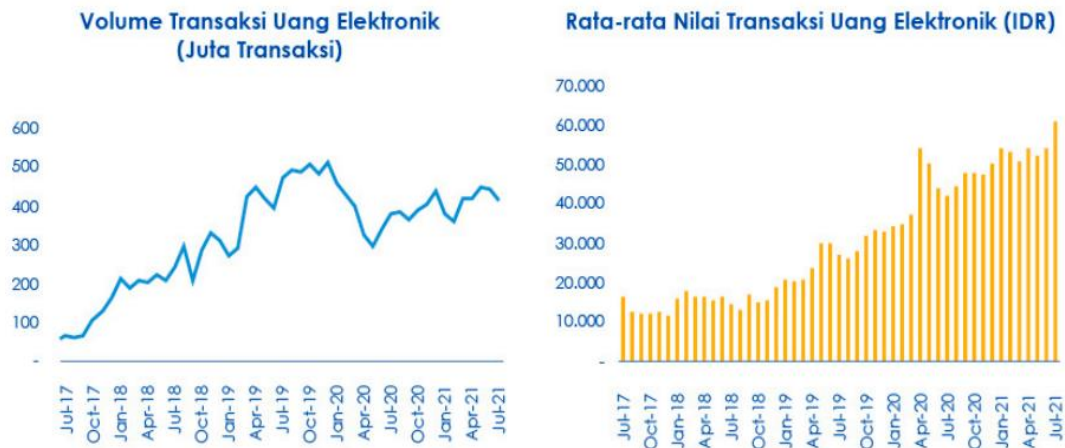
Figure 1.1 Awareness & Usage Electronic Money



Source: Danareksa Research Institute

As seen in Figure 1.1, there is a big gap between the awareness and usage of electronic money (server basis). According to Anung, the penetration of banking digitalization in the community has begun and has even been indirectly boosted by the COVID-19 pandemic (Sindonews, May 2021). This can be seen from the data on digital banking transactions, which during the pandemic jumped quite significantly. In terms of transaction volume, it reached 513.7 million, an increase of 41.53 percent compared to last year. In value, transactions also increased by 13.91 percent year on year to IDR 2,774.5 trillion (Sindonews, May 2021).

Figure 2.2 Electronic Money Volume Transaction



Source: Danareksa Research Institute

The Financial Services Authority (OJK) also revealed that the data for e-banking users is quite large. M-banking, which included SMS banking, phone banking, mobile banking, and internet banking, has increased more than 270% from 13.6 million in 2012 to 50.4 million in 2016 with transactions increasing 169%, from 150.8 million in 2012 to 210 million in 2016 (Sindonews, May 2021).

The diffusion of innovation theory, developed by E.M. Rogers in 1962 is considered to be one of the most popular theories that explores the factors affecting an individual's intention to adopt a new innovation or technology. Diffusion innovation theory seeks to explain how, why, and at what rate new ideas and technology spread. Rogers identified several key influences on adoption behavior. According to Rogers, these attributes are relative advantage, complexity,

compatibility, trialability, and observability. With an external construct that is perceived risk.

The objective of this study is to investigate a set of elements and how they influence a private customer's intention in adopting mobile banking in a developing country, like Indonesia. Despite it being so common nowadays, there are still many people in Indonesia that choose to not use any form of mobile banking and is therefore still considered a relatively new service for those people. Which is why, it is important to study the factors that are affecting the adoption and use of mobile banking in Indonesia as the findings from this study could help contribute to the banking system to come up with accurate solutions to specific customer segments. This study is a replication of a study done by M. Al Jabri, in 2012 with the difference being in the location of the study done.

The research done by M. Al Jabri was done in Saudi Arabia with a total of 330 respondents. The results were that Relative Advantage, Compatibility and Observability all have a significant effect on mobile banking adoption. Complexity and Trialability is found to be insignificant and Perceived Risk is found to have a negative impact on mobile banking adoption.

1.2 Research Problem

Rogers (2003) in his seminal book “Diffusion of Innovations” stated that there are six attributes of innovations. These six attributes are considered to be the

determining rate of innovation adoption which are relative advantage, compatibility, complexity, trialability, and observability. Due to the COVID-19 pandemic, where reducing contact and maintaining social distancing is encouraged, mobile banking proves to be a useful innovation to help assist daily transactions without having to be exposed to the outside situation or unnecessary contact with other people.

However, according to the Financial Services Authority (OJK), the amount of people that are still unbanked or underbanked is still quite large, which means that there are still a lot of Indonesian citizens that are not using mobile banking services for their daily transactions and there is still much room to grow.

This can also be seen as an opportunity for banks that offer mobile banking services so that they can utilize the gap for greater profits and market share, while benefiting the users in the process.

1.3 Research Questions

Therefore, the research questions are as below:

1. Does Relative Advantage affect private customer's Intention in adopting mobile banking in Indonesia?
2. Does Compatibility affect private customer's Intention in adopting mobile banking in Indonesia?
3. Does Complexity affect private customer's Intention in adopting mobile banking in Indonesia?
4. Does Observability affect private customer's Intention in adopting mobile banking in Indonesia?
5. Does Perceived Risk affect private customer's Intention in adopting mobile banking in Indonesia?

1.4 Research Objectives

1. To examine whether Relative Advantage positively affects customer's Intention in adopting mobile banking in Indonesia.
2. To examine whether Compatibility positively affects customer's Intention in adopting mobile banking in Indonesia.
3. To examine whether Complexity negatively affects customer's Intention in adopting mobile banking in Indonesia.
4. To examine whether Observability positively affects customer's Intention in adopting mobile banking in Indonesia.
5. To examine whether Perceived risk negatively affects customer's Intention in adopting mobile banking in Indonesia.

1.5 Significance of Study

The significance of the study is as follows:

1.5.1 For The Researchers

This research is made in hopes that it can help researchers better understand the factors that influence the adoption of mobile banking and the relationship between relative advantage, compatibility, complexity, trialability, observability, perceived risk and the intention to adopt mobile banking in Indonesia.

1.5.2 Banks

For all banks that provide a mobile banking service, it is hoped that this research may give an insight as to what factors affect a customer's intention to use their mobile banking services and that this research can help improve their services along the way.

1.5.3 Future Researcher

For the next researcher that will conduct their research on "Mobile Banking", it is hoped that this research may be of use to be considered as a reliable reference for the research.

1.6 Thesis Outline

CHAPTER I: INTRODUCTION

This chapter discusses the background , research problem, problem limitation, Research objectives and thesis outline.

CHAPTER II: LITERATURE REVIEW

This chapter contains theories and conceptual frameworks that are used to approach the problem of the study and the hypothesis of the problem.

CHAPTER III: RESEARCH METHOD

This chapter describes the analytical methods used in the research along with data and data sources.

CHAPTER IV: DISCUSSION AND ANALYSIS

This chapter outlines the result of data analysis which included the result of statistical calculations of the relationship of each variable include the testing of hypothesis

CHAPTER V: CONCLUSION AND SUGGESTION

This chapter includes the conclusions of the result of analytical calculations and its implications of the problem.