CHAPTER 1

INTRODUCTION

1.1 Background

Financial technology, especially through the medium of digital finance, has been a transformative force in promoting financial inclusion across developing countries. The deployment of Information and Communication Technologies (ICT) in the realm of financial services emerges as a key factor in diminishing poverty and inequality. This transformation enables a broader swath of the population to access critical financial services, such as savings, credit, and insurance, which were previously out of reach. Mushtaq and Bruneau (2019) emphasize the pivotal role of ICT in fostering financial inclusion, thereby accelerating economic growth and reducing poverty and inequality. The advent of digital finance not only propels GDP growth in emerging nations but also introduces a sustainable and cost-effective solution to the challenges of traditional banking, facilitating an improvement in financial inclusion (Yaqin & Safuan, 2023).

Further, the integration of digital technology and conducive business regulations is identified as a critical driver for financial inclusion, significantly impacting socioeconomic development in low-income countries. Yakubi et al. (2022) illustrate how digital technology and business regulations can spur financial inclusive economies, easing several social and economic challenges and enhancing the welfare of low-income nations. This underscores the importance of digital finance in promoting financial inclusion and its potential benefits in integrating technological advancements with financial services. Moreover, the collaboration between fintech companies, philanthropies, and development organizations creates digital ecosystems that expand and monetize digital footprints, offering innovative ways to integrate poor households into the financial system (Gabor & Brooks, 2017).

In conclusion, the evolution of financial technology, particularly through digital finance, marks a significant milestone in the journey towards financial inclusion in developing countries. By leveraging ICT and fostering supportive regulatory environments, these countries can achieve greater economic stability and growth. The digital finance landscape offers promising avenues for enhancing access to financial services, contributing to the reduction of poverty and the promotion of socioeconomic development. As such, the continued expansion and innovation in digital finance stand as a testament to its crucial role in achieving comprehensive financial inclusion, paving the way for a more inclusive and equitable global economy.

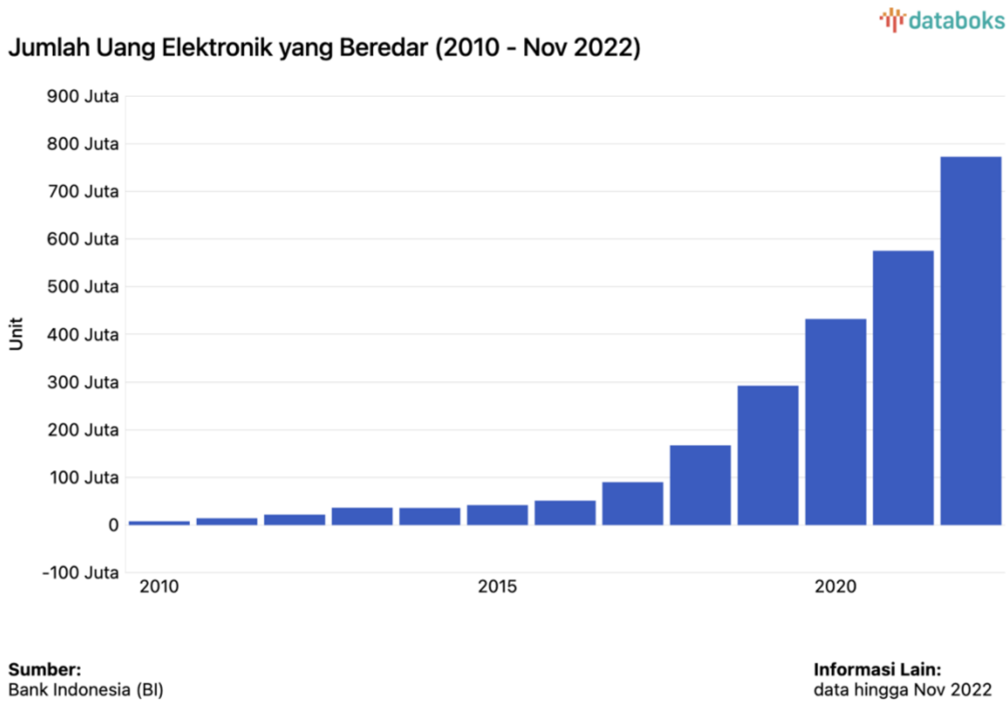
Financial inclusion in Indonesia has been a pivotal element in the government's strategy to enhance public access to financial services, reflecting a dynamic shift towards a more inclusive financial ecosystem. Several key developments have underscored this transition:

1. **Expanding Access to Financial Services**: Indonesia has witnessed considerable progress in broadening access to financial services, with the percentage of individuals owning bank accounts rising from under 20% to

nearly 50% by 2017. This advancement is attributed to concerted governmental efforts, highlighting a shift towards pro-poor gains in financial access. Enhanced availability of banking services has been instrumental in enabling households, especially those in lower income brackets, to accrue savings and assets, underscoring the vital role of financial inclusion in improving household welfare (Shrestha & Nursamsu, 2020).

2. **Embracing Digital Financial Services**: The drive towards digitalization in financial services marks a significant milestone in Indonesia's financial inclusion journey. The move towards a digital payment system has been recognized for its potential to facilitate stable and inclusive economic growth, stimulate job creation, and foster investment in education. Despite challenges, such as a relatively low number of commercial bank branches and a significant portion of the population remaining underserved by formal financial services, Indonesia's push for digital financial inclusion aims to uplift the poor and vulnerable, thereby enhancing their standard of living (Soejachmoen, 2016).
3. **Strengthening SMEs and Enhancing Financial Literacy**: Financial inclusion in Indonesia also focuses on empowering Micro, Small, and Medium Enterprises (MSMEs) and improving financial literacy among the public. Providing MSMEs with access to financial services is crucial for their growth and expansion, while efforts to improve financial literacy aim to equip the public with the knowledge necessary for effective financial

management and utilization of financial services. The introduction of digital financial solutions has played a key role in this regard, offering more affordable and user-friendly financial products that cater to the needs of a broader audience (Purwiyanta, Pujiharjanto, & Astuti, 2020).



Picture 1. 1 Amount of Electronic Money in Circulation

Source: Databoks (2022)

The Finansial Services Authority (OJK) targets a finansial literacy rate of 65% and finansial inclusion of 93% by the upcoming year 2027. As of 2022, the finansial literacy finansial is at 49.6%, and finansial inclusion is at 85.1%. Thus, the gap between inclusion and literacy is expected to narrow by 2027.

Against this backdrop, the current research is motivated by individuals' reluctance to participate in the mobile money sector due to a lack of transparency, inadequate security, operational and technical risks, insufficient information about digital finansial services, lack of data privacy, and shortcomings in the moderating effect of digital consumer protection in the relationship between the adoption and use of mobile money and finansial inclusion in developing countries.

The adoption of mobile money services has played a crucial role in strengthening finansial inclusion across Sub-Saharan Africa, facilitating regional integration and increasing access to finansial services for underserved populations, as supported by extensive empirical research (Tembo & Okoro, 2021) highlight the significant role of mobile money in facilitating finansial inclusion and economic development, with particular emphasis on the successful case of M-Pesa. These services have been shown to not only aid in remittances but also to positively affect diverse demographic groups including the young, the elderly, and the impoverished, suggesting a potential for reducing poverty and inequality.

Research on mobile money adoption across Sub-Saharan Africa, particularly in countries such as Uganda (Eilu & Auma, 2017) and Kenya (Finansial et al., 2020), underscores the transformative impact of mobile money in reducing finansial exclusion by providing accessible and user-friendly finansial services. However, this growth is accompanied by several challenges. Key issues such as regulatory constraints, inadequate infrastructure, and limited digital literacy often hinder the expansion of mobile finansial services (Tembo & Okoro, 2021; Alhassan et al., 2021). Additionally, differences in consumer protection standards across regions raise concerns, with studies like those by Bongomin et al. (2018) highlighting the need for robust frameworks to ensure consumer safety and trust. Furthermore, while mobile money has proven beneficial for many, some users remain hesitant to adopt these services due to trust issues and perceived security risks, a barrier also observed in studies on emerging markets outside Africa (Gosavi, 2018). These insights emphasize the importance of developing comprehensive regulatory and consumer protection measures to support the sustainable growth of mobile money services across diverse socioeconomic landscapes.

The synthesis of these studies reveals a complex relationship between mobile money adoption, usage, and finansial inclusion, with digital consumer protection emerging as a crucial mediating variable. It underscores the need for comprehensive policies and regulatory frameworks that not only foster the growth and adoption of mobile money services but also ensure robust consumer protection to build trust and confidence among users. Thus, the research "The Impact of Mobile Money Adoption and Usage on Finansial Inclusion, with Digital Consumer Protection as a Mediating Variable" is expected to contribute significantly to the understanding of how mobile money can be effectively leveraged to enhance finansial inclusion while safeguarding consumers in the digital finansial ecosystem.

1.2 Problem Formula

Based on the background of the issues presented above, the research questions can be formulated as follows:

1. Does the adoption of mobile money influence financial inclusion positively because of how easily acessable it is?
2. Does the use of mobile money influence financial inclusion positively?
3. Do both the adoption and use of mobile money influence financial inclusion positively?
4. Does the adoption of mobile money influence financial inclusion with digital consumer protection positively?
5. Does the use of mobile money influence financial inclusion with digital consumer protection as a mediating variable positively?
6. How is the multiple regression equation for the influence of money adoption, money usage and digital consumer protection on financial inclusion?

1.3 Research Objectives

Based on the problems presented above, the objectives to be achieved in this research are:

1. To determine the impact of mobile money adoption on financial inclusion.
2. To determine the impact of mobile money usage on financial inclusion.
3. To determine the combined impact of mobile money adoption and usage on financial inclusion.

4. To understand how mobile money adoption impacts financial inclusion with digital consumer protection as a mediating variable.
5. To understand how mobile money usage impacts financial inclusion with digital consumer protection as a mediating variable
6. To determine the multiple regression equation of the influence between money adoption, money usage and digital consumer protection on financial inclusion?

1.4 Research Benefits

This research is expected to offer benefits to its readers, divided into:

1. **Theoretical Benefits:** This provides additional knowledge for readers to use and serves as valuable input that is hoped to contribute ideas for developing further research in the future.
2. **Practical Benefits:**
    a. For Society: This research is expected to serve as a reference for the community to optimize the adoption of mobile money and the use of mobile money in enhancing financial inclusion on an aggregate level.
    b. For Business Practitioners: This research is expected to offer insights on how to create consumer protection within mobile money adoption and usage transactions that can increase financial inclusion on an aggregate level in an economy.
3. **Benefits for Future Researchers**:

   As a reference for subsequent research

1.5 Research Systemic Outline

CHAPTER I INTRODUCTION

This chapter introduces the research on "The Effect of Mobile Money Adoption, Mobile Money Usage on Financial Inclusion, Digital Consumer Protection as a Mediating Variable in Parapat, Sumatra Utara." It covers the background of the study, the problem statement, research objectives, significance, limitations, and the outline of the thesis.

CHAPTER II LITERATURE REVIEW

This chapter presents the theoretical framework underpinning the study. It discusses the concepts of mobile money, financial inclusion, and digital consumer protection, as well as reviews related literature. Key theories and previous research findings are linked to the study's hypothesis concerning the impact of mobile money adoption and usage on financial inclusion, with digital consumer protection serving as a mediating factor.

CHAPTER III METHODOLOGY

This section describes the research methods used, including the data collection techniques and the analytical approach. It outlines the research design, population and sample selection, data collection instruments, and the methods employed for data analysis.

CHAPTER IV RESULT AND DISCUSSION

Here, the findings from the data analysis are presented. This includes the validation of research instruments, descriptive statistics, and inferential statistics to test the research hypotheses. The chapter discusses how mobile money adoption and usage influence financial inclusion within the context of digital consumer protection.

CHAPTER V CONCLUSION

The final chapter summarizes the research findings and discusses their implications for theory, practice, and future research. It reassesses the research objectives and hypotheses to evaluate the impact of mobile money services on financial inclusion. Recommendations for policymakers, financial service providers, and future research are also provided.

This structure ensures a clear and systematic presentation of your thesis, aligning each chapter with specific aspects of your research to guide the reader through your findings and conclusions comprehensively.