



7TH INTERNATIONAL CONFERENCE

Actual Economy

SOCIAL
CHALLENGES
AND FINANCIAL
ISSUES IN XXI CENTURY



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Foreign Labor Force as a reason for National budget Loss (the case of Indonesia)

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Abstract

At present, Indonesia does not have a payment gateway, requiring it to use a foreign payment gateway. Foreign payment gateway transaction services, such as Visa and Mastercard in Indonesia, showed extraordinary growth during 2009-2015. It is estimated that at the end of 2015, there is a potential loss of national devisa amounting to IDR13.1 trillion (about USD940 million) from credit card transactions. The potential loss is incurred from fees paid to foreign payment gateway services, although 70% of the transactions that occurs are local transactions. This article gives an overview about the prospect to decrease national loss from using foreign payment gateway by: (1) creating a local payment network (2) formulation of national policy and regulations in regards to the payment network services. From those two things, this article provides a picture of the potential losses that can be minimized

Key-words Potential Loss, Foreign Payment Network, E-Commerce, Digital Transactions

Introduction

The growth of credits cards in Indonesia is projected to increase in numbers and transactions. Credit card ownership is no longer a privilege in Indonesia. Besides its function as a payment alternative, it is believed that credit card would help community in accelerating consumption of goods or services in advance. As shown from the Indonesian credit card association (Asosiasi Kartu Kredit Indonesia/AKKI) data during the period of 6 years (2009-August 2015), the number of cards ownership reached 16,709,600. It also shows an increased of the average number of transactions per month.

According to the Asian Development Bank are included in the criteria for spending between USD 2 to 20 per day. With the growth of the middle class of Indonesian, the amount of ownership and credit card transactions in Indonesia grown in parallel. In accordance with the rules on risk management of credit issued by Bank Indonesia, we can conclude that credit card may be owned by the people who fall into the middle category and above. Data from the AKKI shows the growth of credit cards in Indonesia reached 36.30% over the 6 years since 2009 until (the August) 2015, or an average of 5.36% per year. The data indirectly indicates to the growth of the middle class and the increasing the level of confidence of credit card issuer's about the Indonesian people.

The growth of credit card transactions shows significant growth. The average credit card transactions per month, the authors believe the number of transactions will continue to rise, also as a result of the proliferation of e-commerce and marketplace in Indonesia as well as the penetration of smartphones and internet in Indonesia in which the credit card as well as one of the main payment instruments to purchase or subscribe the applications, games, songs and other contents.

Along with the increase in number of ownership and credit card transactions in Indonesia, furthermore coupled with the penetration of Smartphone's and it's non-free applications as well as the proliferation of e-commerce and the marketplace that provide 0% installment which also indirectly contributed to the increase in ownership and credit card transactions in those next year.

With the advent of the e-commerce and marketplaces in Indonesia, Hari Belanja Online Nasional (Harbolnas) has been the biggest cyber promotion in Indonesia, like Cyber Monday in United States. Held the first time since 2012 and received massive responses by the people of Indonesia for the moment and more than 140 vendors joined the event. The survey result also shows that the purchase of goods using credit card participated in Harbolnas is mostly done by the consumer.

According to the U.S. Government Accountability Office (U.S. GAO), there are at least two components that occur in every transactions; interchange and processing fee for the payment network. These fee reduce the seller profit or add costs incurred by the consumer in any kind of goods purchased through credit card transactions.

It is believed that the type of transaction that is mostly done by credit card holder in Indonesia are local transactions. It mainly involves local buyer, seller or merchant, card issuer and also acquirer that is not a business entity of foreign investment. Survey conducted on 500 respondents, showed that 76% of 206 respondents who does not have a credit card, would like to have one with the most reason is to shop online, followed by purchases of digital products for Smartphone's.

The article explain examples of local transaction which should be categorized as local, currently they are not. It also provides an overview of the use of credit cards in Indonesia, which always followed by the costs in each transaction, which should be reduced. In addition this article also provide model of the national credit cards payment network, and suggests to the government in order to make regulations relating to it. This is expected to save the devise out relating to the costs incurred during each credit card transactions and to make the national income distribution.

Literature review

Pande et.al. (2014) said that, most of the population will use online payment in near future. Requirements of speedy processing of daily transaction are becoming the basic need for every area business. Therefore everybody is adapting computer technology for his or her business. Most of the Third world countries lagged behind in making a good Internet architecture. There is need of a secure online payment gateway in developing countries. On the basis of proposed architecture of e-payment system of third world countries (Developing Countries). Most of the population does not trust the local existing online payment gateway because it was desired insecure. The proposed payment architecture is made by secure implementation of secure electronic transaction method. With this only authenticated customer can perform transactions. We modify our gateway by making it more secure, lower cost of transaction, and more feasible for user. If this system is to be implemented in developing countries then strong support of government of the country is required as there is not much awareness of importance of the electronic transaction in developing countries.

Kuo (2002) believe that, increasing demands for wireless shopping motivates us to construct a safe and convenient mechanism via wireless system. Therefore, in this study we propose a secure wireless shopping mechanism, named the secure Mobile shopping system (SMoSS for short) the cash flow of a trading system with credit card entities so as to implement a safe and convenient mobile shopping environment, without additional restrictions or extra resources on the cash flow or credit card entities.

Krivko (2010), introduced a deterministic model to process and to identify fraudulent activities on the real debit card transaction data. Two year later, Meshram and Yenganti (2013), introduced a multiple cryptographic algorithm, a system that uses pin number to multiple layers of security numbers. Tsang et al. (2014), introduced supervised learning for detecting online auction shilling frauds. He stated in that paper, their models has significant improvements in detection accuracy.

United States Government Accountable Officer (2012) stated that, when a consumer makes a purchase with credit card, the merchant selling the goods does not receive the full purchase price. When the cardholder presents the credit card to make a purchase, the merchant transmits the cardholder's account number and the amount of the transaction to the merchant's bank. The merchant's bank forwards this information to the card association, such as Visa or MasterCard, requesting authorization for the transaction. The card association forwards the authorization request to the bank that issued the card to the cardholder. The issuing bank then responds with its authorization or denial to the merchant's bank and then to the merchant. After the transaction is approved, the issuing bank will send the purchase amount, less an interchange fee, to the merchant's bank. The interchange fee is established by the card association. Before crediting the merchant's account, the merchant's bank will subtract a servicing fee. These transaction fees— called interchange fees—are commonly about 2 percent of the total purchase price. As shown in figure 19, the issuing banks generally earn about USD 2.00 for every USD 100 purchased as interchange fee revenue. In addition, the card association receives a transaction processing fee. The card associations, such as Visa or MasterCard, assess the amount of these fees and also conduct other important activities, including imposing rules for issuing cards, authorizing, clearing and settling transactions, advertising and promoting the network brand, and allocating revenues among the merchants, merchant's bank, and card issuer.

Methodology

The article was constructed using the conceptual framework methodology based on the problem in credit cards transactions in Indonesia. The transaction is believed to create a potential of national loss in context of interchange and processing fee. A questionnaire was also constructed and administered to mall visitors and employees in public and private sector in Jakarta, Indonesia. The questionnaire was designed to investigate the influence factors. It was performed to obtain 500 respondents of mall visitors and foreign employees from both public and private sector in Jakarta in the same proportion. Based on those methodology, this research will not only be able to achieve potential of national loss, but also be able to provide suggestion of model of relating payment network and make a suggestion to government about it regulation.

Conclusions

According to data from AKKI, the growth of credit cards reached 36.30% since 2009 until the (August) 2015, or an average of 5.36% per year and will be continue in the future. From the simulated calculations, there is a potential of national loss in the amount of IDR 27,916,100,216,566.50 from interchange and processing fees on each transactions. This loss actually can be lowered for later use as much as possible in the context of the national income distribution.

Infrastructure for the credit card system, installation of networked CATs began, and an online-acquiring network system between retailer and credit card company began operation. Since then, credit card company and other information processing companies acting as local network provider have been connecting retailers and credit card companies. This model redirect payment from international institution to local institution. AKKI must play an important role in promoting this industry infrastructure. It's activities include standardization of terminal and network interfaces, and promotion of IC card, thus can be expected to take a portion in local transaction.

The other purpose of this article is to provide recommendation to the government to create national regulations concerning to the payment networks, which can be considered as the rule to manage the detail guidelines of transaction and credit cards it self like rights and obligations, securities, terms and conditions which can be used as a reference in a transaction procedure to the parties involved including: (1) card issuers, (2) card holders, (3) merchants and (4) related parties such as acquirer, clearing company, network payment gateway.

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