

The development model of PT Visionet Internasional (OVO) in Indonesia

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Abstract

OVO is a digital platform that provides simple payments and smart financial services, as well as one of the largest digital payment platforms in Indonesia. It has wide coverage and security when making payments, and supports multiple settlement currencies. The purpose of this study is to explore the history, business model, and future strategic direction of OVO, an Indonesian e-wallet. To date, OVO has built its own mobile payment ecosystem covering a wide range of consumer scenarios including e-commerce, travel, offline shopping and finance. And it supports mobile banking, online banking, debit cards or selected partner merchants. Its three largest transaction categories are in the transportation, retail and e-commerce sectors. With over 110 million consumers and 1.3 million merchant users, it is one of the dominant e-wallets in Indonesian market and has become the country's e-payment market leader. OVO eWallet's 'One Card' model offers convenience and choice for users, thus contributing to the rapid growth of OVO eWallet. And OVO eWallet competes fiercely with other competitors, but OVO eWallet continues to grow in terms of the number of users and market share. Finally, this study analyzes the strategic goals and plans of OVO eWallet, predicts its future direction. OVO eWallet has a huge success, but there are still competition and challenges to face.

Keywords: Indonesian company, OVO, Digital payment system, E-wallet, Business model

1. INTRODUCTION

A successful mobile payment system often requires three factors: frequency of use, usage scenarios, and incentives. The combination of frequency of use and usage scenarios is often the basis for building a mobile payment system. The O2O model is not only a change in business model but also a change in people's lifestyle, which is already permeated many parts of people's lives.

In Indonesia, the most common digital payment scenarios are online taxi rides, takeaways and C2C e-commerce. Mobile payments are used less frequently in B2C e-commerce than in offline scenarios such as malls and snack bars, but these transactions tend to be more fragmented and therefore costly. Based on the Chinese experience (Alipay and WeChat), e-commerce companies in Indonesia should only actively extend offline once they have gained a good user base through the online scene. Lippo Group first developed shopping centres, e-commerce platform, local coffee chain Maxx Coffee, cinema chains, department stores and other platforms in Indonesia.

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As a result, the penetration of international payment systems like Visa and Mastercard has been slow in many developing countries, including Indonesia. OVO is a standalone payment application set up by the country. OVO is currently one of popular mobile payments in Indonesia. There are over 10 million users downloading the Playstore app for some types of transactions that can be paid for using OVO, such as payment for BPJS health purchases, post-payment, cable TV, payment for online motorbike taxi services (i.e. GRAB)[1]. OVO has a very large capital market in its financing system, it has worked with 200,000 merchants in over 300 cities in Indonesia. OVO is a common form of payment in Indonesia, which is made through mobile phones and e-wallets. With the development and popularity of mobile payment technology, the use of OVO is increasing and has become an important part of Indonesia's digital economy. However, relatively little research has been conducted on OVO, particularly on its impact and role in terms of consumer behaviour, business models and market share. Relevant studies have shown that the spread of mobile payment technology has changed consumers' payment behaviour and habits. In addition, the business model and market share of OVO need further research. Against this background, this study aims to explore the position of OVO in the Indonesian digital economy and to analyse the impact in terms of its corporate organization, market context and business model.

2. AN INTRODUCTION TO OVO COMPANY

OVO began in 2016 when the app provided payments, OVO is a digital payment application that was launched in 2017, where this application works on a versatile payment service system that applies the Less Cash Society (LCS) system[2], Points redemption and financial services to shopping centres owned by the Lippo Group, a large Indonesian conglomerate. It was granted a licence to operate as a fintech company in Indonesia in 2017 and gradually developed into an e-wallet. The information for OVO is described in Table 1. OVO Director, Harianto Gunawan said, in a year, OVO applications reach almost ninety-three percent of districts in Indonesia and as many as thirty-three percent of OVO users are in the Greater Jakarta area[3].

As of March 2019, over 110 million people use OVO across 300 Indonesian cities and it is available in 90% of the country's shopping centres, providing cashless payment options for customers in hypermarkets, department stores, cafes, cinemas, hospitals and food and beverage outlets. Lippo Group is Indonesia's large conglomerates, which controls over US\$15 billion in assets and has significant investments in the retail, media, real estate, banking, natural resources, hospitality and healthcare sectors.

Table 1. OVO's information

Platform name	OVO
Country/Region of Registration	Indonesia
Applicable countries/regions	Indonesia
Support Currency	Indonesian Rupee
Payment methods	Web, App, etc.
Transfer fees	Free

Source: <https://www.zhishanfu.com/pay/ovo.html>

2.1 History of the company

In December 2017, OVO partnered with online taxi service Grab, and in November 2018, Grab invested in OVO to be deeply integrated into the Grab app. In October 2018, OVO established a partnership with Indonesian e-commerce unicorn Tokopedia to use as payment method in its e-commerce marketplace, a move that increased OVO's monthly active users by 80 million. The acquisition of Taralite, a local P2P lending company, in early 2019, and the addition of Taralite's online lending business will enable OVO to offer credit services to merchants and consumers. In 2019, OVO launched a partnership with Bareksa, an Indonesian online

wealth management platform, which allows its users to invest their money through the Bareksa platform with an annual return of 5%-6%. A recent study by Indonesian app researcher Snapcart shows that OVO is the most widely used e-wallet in Indonesia. Officially confirmed as the fifth largest unicorn in Indonesia, OVO is valued at approximately US \$2.9 billion and is the top digital payment system in Indonesia based on transaction value. It is second only to taxi company Gojek, travel services company Traveloka and two e-commerce companies Bukalapak and Tokopedia[4]. OVO should take advantage of all the opportunities, always be energetic, have the determination to keep moving forward and the determination to achieve success. OVO adhering to the tenet of 'serving the masses and continuously innovating' to achieve high-quality growth in the new era.

2.2 OVO organisational structure

Since Lippo Group co-founder Wenzheng Lee announced the dilution of his controlling stake in OVO Fintech in 2019, there has been a lot of talk about the stake in Indonesian mobile payments unicorn OVO. PT Bumi Cakrawala Perkasa (BCP) is the holding company of PT Visionet International, also known as OVO e-wallet. Currently, the main shareholders of BCP and their shareholdings are as follows[5].

1. Grab (GP NETWORK ASIA PTE LTD) Approx. 41% shareholding.
2. Tokopedia (PT DIGITAL INVESTINDO JAYA) Approx. 38% shareholding.
3. PT INTI ANUGRAH PRATAMA, a subsidiary of the Lippo Group, with a stake of approximately 10%.
4. TOKYO CENTURY CORPORATION holds approximately 8% of the shares.

3. BUSINESS MODEL ANALYSIS

3.1 Market background: Indonesia's digital payments market is growing rapidly

Indonesia is a 'mobile-first' market, with many residents keen on social media. According to McKinsey survey, almost 80% of internet traffic in Indonesia is through mobile connections, which has laid the foundation for the spread of mobile payments in the country. Currently, Indonesia is rapidly moving away from cash payments to various digital payment platforms such as credit cards, debit cards, e-wallets, e-money and online banking. Along with the rise of e-commerce and ride-sharing applications in Indonesia, the archipelago has become one of fastly growing digital payment markets in the world. Figure 1 and 2 show trends in revenue and number of users in Indonesia's digital payment market between 2017 and 2027. Both figures contain actual data from 2017 to 2022 and forecast data from 2023 to 2027, based on market trends. And its shows the growth trend in revenue and number of users in Indonesia's digital payment market over the next few years. According to a report published by Statista in August 2022, the industry penetration of digital payments in Indonesia is expected to reach over 85% in the next few years. Currently, digital wallets are the third most-used e-commerce payment method in Indonesia and gained considerable popularity[6].

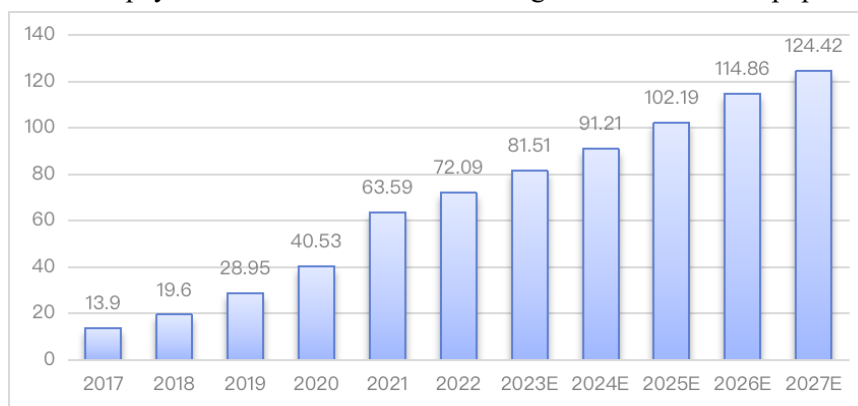


Figure 1. Indonesia's electronic payment market revenue in 2017-2027(billion)

source: Statista.com

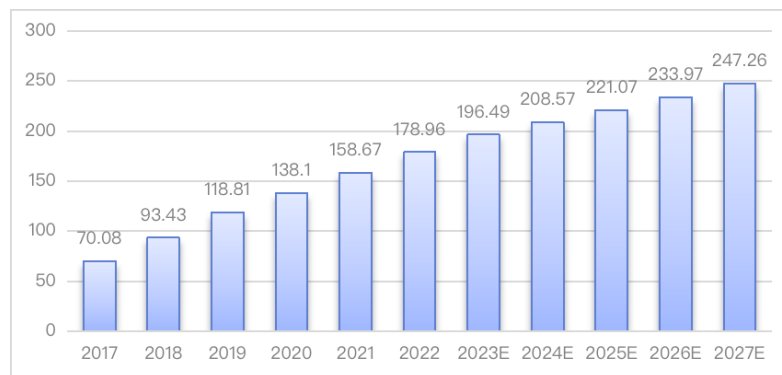


Figure 2. Number of digital payment users in Indonesia, 2017-2027 (millions)

Note: Data for 2023-2027 are expectancy
source: Statista.com

3.2 OVO application scenarios

OVO is a smart application that offers a variety of ease of use in transactions, also the opportunity to get various attractive offers through points collected at merchants that have collaborated. OVO is one of the most popular mobile payments in Indonesia with more than 10 million users downloaded on the Playstore app [1]. In terms of OVO's business format, the platform has all the above-mentioned application scenarios: transport and food delivery through Grab, C2C online merchandise services through Tokopedia, and offline merchandise services through Lippo's shopping centres, other partner shops, etc. For other competitors, GoPay's main use case is Go-Jek for transport and food delivery and is moving offline; LinkAja works mainly with telcos and international banks; Dana, the 'Indonesian version of Alipay', is integrated into Lazada and Bukalapak. OVO has an advantage over its competitors on a commercial and business basis.

3.3 Products and Services

The OVO platform is based on digital payments, with products and services radiating to the financial inclusion ecosystem, seeking to make quality financial products and services accessible to a wider range of customers at competitive prices. Based on the research results of Jakpat in collaboration with Daily Social 74.6%, the e-wallet application users are in the productive age of 20-35 years [7]. It is worth noting that Indonesia is the fourth largest Islamic economy in the world in 2020 according to the Global Islamic Economy Status Report, and therefore some of OVO's investment and insurance products are developed and launched based on Shariah law to better meet the needs of customers in the region to which they belong.

OVO has various advantages, namely transaction payments without change, easy balance filling, getting various discounts for OVO users, and easy payments for grab service transactions and many other promotional attractions that can attract users. It is very easy to top up via mobile banking, ATMs, mini markets and official outlets [8].

Its products and services consist mainly of:

- (1) Digital wallets. OVO allows users to store money digitally and use it for a variety of transactions such as bill payments, online shopping and transfers to other OVO users.
- (2) Cashback and rewards. OVO offers cash back and rewards to users when they use the OVO app to make payments, pay bills or transfer money at merchants.
- (3) OVO Points. OVO users can earn and redeem OVO points for various rewards such as shopping vouchers, air miles and hotel stays.
- (4) Investment Services (OVO | Invest) OVO Invest is an investment service that OVO is partnering with Bareka to launch in 2021 and currently invests primarily in mutual funds. One of these is Syailendra OVO Bareksa Tunai Likuid, OVO's Shariah money market mutual fund product. 2 months after launch, OVO Invest had over 250,000 users of the service; within 1 year of launch, 1 million users had signed up to the service,

representing 15% of all mutual fund investors in the country.

(5) Insurance Services (OVO | Proteksi) OVO offers a variety of insurance products such as health, accident and life insurance. Although Indonesia is the largest economy in ASEAN, it is still a highly underinsured market. According to the Indonesian Financial Services Authority, insurance penetration in Indonesia, which has a population of approximately 270 million people, will be less than 4% by 2020. According to a survey conducted by OVO in several major cities in Indonesia, underinsurance was found to be due to a perceived difficult and time-consuming claims process, with many respondents also citing the financial burden of purchasing insurance. Interestingly, however, 47% of respondents expressed an interest in purchasing Sharia-based life insurance in the future. With this in mind, in April 2021, PT Visionet Internasional, the operating entity of OVO, and PT Prudential Life Assurance, Indonesia's leading life insurance provider, launched Asuransi Jiwa Kumpulan Syariah PRUTect Care (referred to as PRUTect Care - Hospital Cash), an Islamic digital life insurance product with low premiums that can be easily accessed through the OVO app.

(6) Lending services. OVO launched its first loan feature called OVO Pay Later[9]. In June 2020, OVO announced that its lending arm, Taralite, had been licensed by the Indonesian Financial Services Authority as an officially certified IT-based lending provider, elevating OVO's lending business from "registered" to "licensed" status. "OVO not only offers P2P lending to the public, but also provides loans to MSMEs in Indonesia. The loan amount for MSMEs is up to Rp 500 million (US \$35,000), with an approval process of approximately 1-3 working days and a maximum loan term of 12 months.

3.4 Sources of corporate revenue

OVO's revenue model is based on the digital payments ecosystem it has created and uses the data it collects to generate additional revenue streams. It consists of five main segments:

(1) Transaction fee income

When a merchant accepts payment from a consumer through OVO, the platform deducts a percentage of the transaction amount as a fee, typically 1% to 3% of the transaction amount, depending on the type of merchant and the size of the transaction. The transaction fee revenue model, where revenue is generated on a per-transaction basis, is common among digital payment providers. This means that the more transactions that are made using the OVO platform, the more revenue the company generates. To attract more merchants and customers to use the platform, OVO offers a variety of rewards and promotions such as cashback, discounts and loyalty schemes. Transaction fee income is arguably the most critical source of revenue for OVO at the moment and the platform can forecast and plan revenue streams based on the volume of transactions processed through the platform.

(2) Interest income

One of the ways in which OVO generates profits is by earning interest income from the funds in a user's OVO digital wallet. When users top up their OVO wallets, OVO can invest these funds in various financial instruments, such as government bonds, corporate bonds or money market instruments, thereby generating interest income. In addition, merchants can access financial services such as loans and insurance through the OVO platform, from which the company can earn service fees and commissions.

(3) Cross-selling income from financial products

OVO has partnerships with various financial institutions, such as banks and insurance companies, which enables the platform to offer a range of financial products and services including savings accounts, credit cards, loans, insurance and investments. In particular, OVO's lending capabilities were strengthened in 2019 with the acquisition of loan service provider Taralite, and the company now offers loans not only to individuals, but also to micro, small and medium-sized enterprises.

(4) Advertising revenue

OVO's mobile app provides a platform for advertisers to display targeted in-app advertising to OVO users. Advertisers can purchase ad space in OVO's app to promote their products or services, and OVO charges a fee based on the number of ad clicks. In addition, OVO partners with other companies to acquire customers through cross-promotion. For example, OVO may offer its users a discount on a partner's product or service in exchange for the partner promoting OVO to its user base, resulting in a 'win-win' situation.

(5) Data analysis income

Firstly OVO uses its data analytics capabilities to gain insight into user behaviour and preferences, which helps advertisers to better target ads to OVO users. OVO sells this data to advertisers and other third party companies and generates revenue from the sale of the data. Secondly, this data analysis helps OVO to adjust its marketing and promotional activities to better attract and retain users. Thirdly, OVO analyses user data in order to manage the risks associated with various financial services. By detecting and preventing fraud, OVO can improve the security of the platform while reducing losses and increasing user trust.

3.5 Market share

According to the latest app market (IOS & Google Apps) downloads and daily activity, GoJek (Gopay) currently holds the number one position in Indonesia, followed by OVO and Dana in third place. The Bank of Indonesia estimates that 24.7 million people shop online, and that online shopping transactions will reach 156 trillion rupees in 2019, continuing to increase every year[10].

As is shown in Figure 3, according to the latest market transaction value, OVO has 37% of the market share and GoJek's Gopay has 17%, with OVO leading the market in terms of payment value, mainly because OVO has a larger volume and value of payment orders in the online shopping scenario, and also has a greater advantage over GoPay in terms of timely transfer.

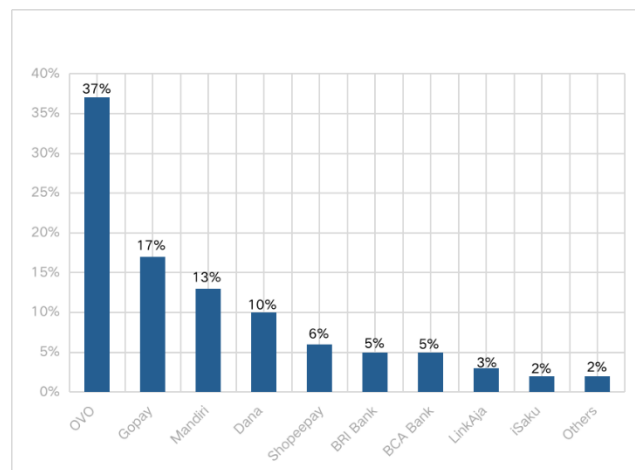


Figure 3. Electronic wallet market share

Source: www.payermax.com

According to the Financial Times Confidential Research Mobile Payment, electronic money providers in Indonesia are Go-Pay, OVO, Tcash, BCA Klikpay, and Doku Wallet[11]. The research shows that OVO is an important player in Indonesia's e-wallet sector, both in terms of daily downloads and market value. Digital technology and business models are not static. Continuous research and excavation are carried out in a constantly changing external environment.

4. CONCLUSION

OVO is one of Indonesia's competitive electronic wallets, and its success stems from its strong strategic positioning and high sensitivity to market demand. First of all, overseas banks are continuously expanding their basic electronic payment services as well as insurance and investment services to provide customers with more choices and convenience, and user adhesion is increasing. Secondly, through partnerships with various partners, partners provide additional services and expand payment programmes. Finally, incentives are promoted in the marketplace to attract more customers to provide services. As electronic payments and electronic wallets continue to gain popularity in the Indonesian market. In order to maintain its competitive

edge and sustain growth, OVO needs to continue to expand its service lines, offering more payment options and value-added services. Communication with regulators and compliance with regulatory policies will also be strengthened to avoid possible regulatory restrictions and tax pressures. It can also expand its user base and services in partnership with other electronic wallet brands. OVO has gained competitiveness as a leading e-wallet brand in the Indonesian market. However, changes in competition and regulatory policies will pose challenges, and OVO will need to continue to expand its services. And it comply with regulatory policies to maintain its competitiveness and continue to grow.

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