

# Chapter 18

## Adoption of Electronic Payment Services by Iranian Customers

**Abbas Keramati**

*University of Tehran, Iran*

**Bahar Hadjiha**

*Tarbiat Modares University, Iran and Lulea University of Technology, Sweden*

**Rose Taeb**

*Lulea University of Technology, Sweden*

**Navid Mojir**

*University of Tehran, Iran*

### ABSTRACT

*The objective of this paper is to investigate customers' adoption of Electronic payment services. This study contributes to existing e-payment and adoption research by presenting a detailed description of factors that enhance and inhibit electronic payment adoption. The proposed conceptual model has been developed based on TAM, diffusion of innovation and PCI models, and adding the factors of security, cost, perceived risk, culture, trust, service quality and network externalities. The model has been examined by using a questionnaire within the Iran context. Based on obtained results, practical implications and suggestions for Iran banks and financial institutions are discussed.*

### INTRODUCTION

Payment is generally understood as a transfer of funds from the payer to the payee. Electronic payment is a payment carried out electronically (Taddesse & Kidan, 2005). Electronic payment systems have been developed to pay for goods electronically on the internet or transferring money

from one place to somewhere else electronically (Laudon & Laudon, 2002). Technological advances continue to allow more and more individuals and businesses to shift toward the electronic delivery of information instead of the exchange of paper-based documents. In this article, we will explore the replacement of paper-based payment instruments by electronic payment alternative. The adoption of electronic payment services that are able to access sophisticated and extensive net-

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works to authorize, process, and settle payments with relative ease continues to increase. (Chakravorti & Lubasi, 2006). Over the last decade, there has been a massive move from conventional to electronic transactions. A powerful force in this transformation has been the emergence of the Internet as a medium for conducting electronic commerce (e-commerce) (Al-Meather, 2004). Payment systems play a major part in the conduct of a country's monetary policy (Khiaonarong, 2000). Financial institutions throughout the world have launched or are experimenting with new forms of electronic payment like direct-debit and smart cards. These systems are designed to simplify cash management and reduce transaction costs. Since these systems require consumers to adopt and use cards and merchants to install transaction processing hardware, system viability will not be assured until both consumers and merchants adopt these technologies in sufficiently large number (Allen, 1996). As technology developed, the most issue that should be challenged with it is how to adopt people to this new technology. As mentioned above, E-Commerce is one of the important economic issues. It has always been an attentive issue to governments.

Electronic payment has been converted to unavoidable element of e-commerce innovation. Without using e-payment facilities, it is impossible to establish e-commerce platform. Electronic payment schemes provide an alternative form of cash to traditional notes and coins. The benefits of electronic cash, such as reduced handling cost, convenience, ability to perform remote payments and suitability for unattended vending machines, are evident (Lekkas & Spinellis, 2007).

In spite of the more consideration on the credit/debit systems and other e-payment services in all over the world, it is still early days of digital money in Iran and we are within a transition period towards a totally acceptable electronic payment scheme in Iran. Iran government is considered to establish electronic payment services all over the Iran. Electronic payment services will reduce the

expenditure on note, at first step which forces Iran government to expense huge amount of money every year. In other hand, electronic payment, in other country, even Middle East, has become a common technology in past 10 years. Currently the majority of banks and financial institutions in Iran are providing e-payment services. However, operating e-payment services by Iranian customers is not in acceptable rate. Consequently it is the time for Iranian people, to decide to use electronic payment facilities instead of traditional way of payment. As a result, in this study we aim to extract the factors that may encourage Iranian customers to use e-payment services.

## **Electronic Payment in Iran**

The first representation of Electronic payment in Iran goes back to before Islamic revolution (the 70s) by installation of 2 ATM (Automatic Teller Machine) devices in Tehran for all over Iran. After revolution, lots of changes happened to economic system and some new banks (commonly private banks) introduced to the system and some eliminated. Because of these vast changes and then US prohibition of importing infrastructures and technologies, Electronic payment services discontinued. Once again In 90s the Iranian banks started to upgrade their system gradually. For this purpose, many ATM devices installed. After that, by introducing some private banks as competition, the use of electronic payment devices such as ATM, electronic payment cards, and Point of Sales (POS) developed and expanded.

Iran Daily reported an economic official announced in 2005 that the Iranian government started to replace traditional banking systems with electronic banking and stressed that 'electronic money' would help organize banking and e-payment services. As an official who interviewed with Iran-Daily said that the world banking system has been revolutionized, taking the (preferences of) customers into greater consideration. "Electronic

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