



Financial Technology Strategy for Islamic Banking Competitiveness

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Abstract

Purpose - Analyze the development of Financial Technology and Islamic banking financial data to have implemented financial technology for customers and the profits achieved.

Method - This research is qualitative with a literature study connected with the phenomena in Islamic banking to implementing financial technology.

Result - Show that the level of service and financial technology is valid, practical and efficient for customers and benefits for Islamic banking.

Implication - Technological developments can have benefits for users according to their needs. One of the benefits is related to efficiency in use. Financial institutions use technology to make easier for their customers in digital-based financial transactions.

Originality - This research studies the development of Islamic bank performance, the development of Islamic bank financing from the number of ATMs, one form of Islamic banking financial technology in Indonesia.

Keywords: Financial Technology, Efficiency, Development of Islamic banking.



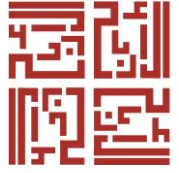
Introduction

In the digital era, all activities in people's lives are inseparable from the use of technology. Technology utilized in almost all sectors, including the financial industry sector. Financial Technology or better known as FinTech. Bank Indonesia defines financial technology or abbreviated FinTech by the result of a combination of financial services and technology which ultimately changes the business model from conventional to moderate, which initially requires face-to-face payments and carries a certain amount of cash, can now make long-distance transactions by making payments that can be done in seconds. The role of Bank Indonesia in this case is to maintain security and order in payment traffic related to FinTech (Bank Indonesia; 2019). FinTech thus combines finance and technology.

The development of FinTech is very rapid in the world. Based on data from the 2017 FinTech Adoption Index, global use of FinTech in 2017 in the world increased by an average of 33 percent from 2015. China showed the largest increase, reaching 69 percent. The increase in the use of FinTech is caused by an increase in the number of people who are not served by financial service providers, declining smartphone prices and the presence of digital-based financial services (FinTech Adoption Index, 2017).

FinTech in Southeast Asian countries as in the world is showing an increase. Based on ASEAN FinTech Census data for 2017, FinTech distribution in Indonesia is in 2nd after Singapore. Malaysia took the 3rd, 4th, 5th and 6th followed by Thailand, the Philippines and Vietnam. The following is a Figure of FinTech Distribution in ASEAN countries (ASEAN FinTech Census, 2018). FinTech in Indonesia, like FinTech in ASEAN countries, is dominated by the payment services sector. However, Indonesia is in fourth place under Vietnam, Malaysia and Thailand are in first, second and third positions.

Based on ASEAN FinTech Census 2017 data, the payment services sector occupies the largest portion, namely 33 percent. Followed by loan services of 25 percent. The rest are money transfers, data analytics, crowdfunding and others (ASEAN Fintech Census, 2018). According to Indef's study, the 2018



Fintech contribution to Indonesia's GDP reached Rp. 26 Trillion. Fintech charges around Rp. 8.9 trillion in household consumption and labor income of Rp. 4.6 Trillion (Data word, 2018). This means that almost 52% of Indonesia's GDP dominated by Fintech. According to the Global Islamic Economy Indicator, Indonesia is ranked 10th with points (45.35). First is Malaysia (126.77), Second is United Arab Emirates (88.68), Third is Bahrain (64.54), Fourth Bahrain (64.54), Fifth is Saudi Arabia (53.56), Sixth is Oman (50.87), Seventh is Jordan (49.53), Eighth is Qatar (49.28), Ninth place Pakistan (49.22), and Tenth ranking is Kuwait (46.12) (State of the Global Islamic Economy Report, 2018/19)

The banking industry is a financial service industry that functions as a financial intermediary institution to collect and distribute public funds. Based on World Bank data in PwC, 64 percent of Indonesian people do not have access to banking (Time to Act Financial Services, 2018). The average penetration of banking financial products is below that of Singapore, Malaysia, and Thailand. The following is a picture of total banking penetration. Based on Law Number 21 of 2008, Islamic Banks are banks that carry out their business activities based on sharia principles and types consist of Islamic Commercial Banks and Islamic People's Financing Banks. Islamic Commercial Banks are Islamic Banks is provide services in payment traffic. According to Susanto, Sharia Banks act as intermediary institutions between people who have people, first person have excess funds and second person luck funds. In carrying out its role, banking moves through fundraising activities before channeling the funds back to those who need funds (Santoso, 2018).

Literature Review

Financial technology is the utilization of technology that has benefits in the financial sector to provide excellent service to customers. Financial technology or Fintech is the result of a combination of financial services and technology into a new business model from conventional to moderate, initial payment must be face-to-face and bring cash, now the transactions can remotely with easy payments, you don't have to cash with a process that quickly (Bank



Indonesia, 2018). Financial technology is an alternative for investing that presents many choices and desires to access financial services that are practical, convenient, economical and efficient. Fintech influences people's lifestyles. The combination of technology and effectiveness to positive impact on society (Financial Services Authority, 2023).

Meanwhile, Sharia-based Financial Technology implements to make it more efficient with Sharia rules (Muryanto, 2022). Fintech Syariah is a financial product or service using technology based on a Sharia scheme (Rusydia, 2018). Sharia fintech in Indonesia refers to DSN MUI Number 117/2018 by providing Sharia-based financial services that bring together financiers and recipients of financing in contracts through the internet system (SEF FEB UGM, 2021). Financial technology divided into two categories, the operational category of financial service providers and the interaction between service providers and customers. Platforms related to Financial Technology include big data, artificial intelligence, internet of things, block chains and others.

Methods

The research was carried out with qualitative research with literature studies related to phenomena that occur in Islamic banking and supported by financial data originating from the official website of the Financial Services Authority (OJK) in the application of financial technology.

Results and Discussion

The growth of ATMs from Islamic Commercial Banks and Sharia Business Units in Indonesia in 2019 – 2022. Based on data on the number of growth in Automated Teller Machines (ATM) technology from Islamic Commercial Banks and Sharia Business Units, there has been an increase from 3,003 units in 2019, 2,982 in 2020, a significant increase in 2021, 4,098 and 4,597 in 2022 units.

Islamic Banks are intensively improving services to customers, one of which is through ATM technology that is spread across Indonesia. In addition,



mobile banking which is continuously being updated to increase the security of customer and stakeholder data connected to Islamic banks.

Based on financial data reports from the official website of the Financial Services Authority (OJK) in the Development Report, the growth of Islamic banking assets in 2022 has increased, the growth of Islamic banking assets last year reached 15.63 percent year on year (yoy). Higher than conventional banking is 9.50 percent yoy during 2022.

The growth of Islamic banking financing also produces a positive value. The growth trend of Islamic banking financing reached 470 trillion in August 2022 and has continued to increase since September 2021.

Based on the author's observations, the growth of Islamic banking using financial technology has increased the growth of Islamic banking assets and financing, supported by the recovery from the Covid - 19 pandemic.

Conclusion

Banking must have an innovation strategy to reach people who have not yet been reached by banking access. FinTech innovation in the banking industry by utilizing technology to increase banking competitiveness. Competition is not only with conventional banking itself but also with Islamic banking. This is because Indonesia adheres to a dual banking system as stipulated in Law no. 10 of 1998.

The alternative solution is collaboration between Islamic banking and fintech companies in the form of Islamic banking service products that can be accessed digitally. Sharia Banking will continue to exist and not be disrupted by collaborating with Strategic Partners. Strategic Partner requirements must be a regional bank or even a strong international bank. By having a strategic partner like that, if a crisis occurs in any form, Islamic banking will remain solid. And advancing Sharia Banking.

The time to carry out the partner strategy when the conditions for Islamic banks are the best. If the search for a partner strategy is not successful, the bank's condition is not good. First, because looking for a partner was done in a



hurry. The result is not necessarily getting a partner who is really good. Second, the bargaining position is not good enough so you won't get a high score.

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