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The Impact Of Fintech Growth On Banking In Indonesia

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Abstract

Fintech is a new technology that allows financial institutions to harness the potential of blockchain and improve the security and transparency of the financial services it provides. The aim of this research is to determine the impact of the growth of financial technology (FINTECH) on banking performance in Indonesia. A qualitative approach is used to understand the impact and role of fintech in banking development. The results of the analysis show that fintech has a positive and significant impact on the performance of banks listed on the Indonesia Stock Exchange. As a step forward, banking in Indonesia needs to continue to innovate, adapt to new technology, and strengthen regulations that support the fintech industry. Collaboration between the banking and fintech sectors, as well as improving security systems and data protection, will be key to maintaining the integrity and digital financial ecosystem.

Keywords: Fintech, Banking, Financial Services, Efficienci, Accesibility

INTRODUCTION

The development of information and communication technology has changed the landscape of the financial industry significantly in recent years. One of the most obvious manifestations of this change is the emergence of the financial technology (fintech) phenomenon which has disrupted conventional business models in the financial sector, including banking. The disruptive innovation brought by fintech has changed the way people transact, save, borrow, and manage their finances (Tsakila et al., 2024).

Fintech is one of the disruptive innovations, namely an innovation that has succeeded in shifting a market that already existed before by offering practicality, ease of access, convenience, and better effectiveness and efficiency in conducting transactions. Disruptive innovation usually takes a market that is not worked on by market leaders but is able to redefine the existing system or market that already existed before (Karunia, 2019).

Through fintech, customers can now easily access various services such as digital payments, online loans, investments, and personal financial management. Fintech has provided more efficient and practical solutions for customers, reducing the costs and time required in the financial transaction process. Through fintech, customers can now easily access various services such as digital payments, online loans, investments, and personal financial management. Fintech has also enabled the adoption of new technologies such as blockchain to provide safer and more transparent financial services, where fintech is a catalyst that allows financial institutions to harness the potential of blockchain and increase the security and transparency of the financial services they provide (Rahman & Astria, 2023)

The growth of the digital economy in Indonesia cannot be separated from the various innovations in the sector. Starting from the development of the fintech industry, the rapid growth of e-commerce, the increase in the digitalization process of MSMEs, as well as government encouragement in the form of policies and regulations that support the development of the digital

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economy. This provides a great opportunity for the development of the fintech industry in Indonesia which is supported by the high number of internet users of 221 million people with a smartphone penetration of 233 million users. In addition, the Millennial and Generation Z demographics are a significant majority population covering around 53.821% of the total population of Indonesia, this is in line with the Indonesian Fintech Association (AFTECH) Annual Member Survey (AMS) 2024 Report which shows that the majority of fintech users are Millennials and Generation Z reaching 68.7%. Based on reports from Google, Temasek, and Bain, Indonesia's internet Gross Merchandise Value (GMV) increased to USD 82 billion. From the government's side, the digital economy in Indonesia is targeting to reach USD 109 billion by 2025, supported by East Ventures Digital Competitiveness Index 2023 data, Indonesia's digital economy could soar to USD 360 billion by 2030.

According to Hidayat (2014) the rapid development of the digital world is also supported by the behavior of the wider community who are very dependent and place the internet as a primary need. Research conducted by the Marketer Research Institute states that internet users in the world, especially in Indonesia, continue to increase from year to year. The ease of Financial Technology can also be a threat to the banking industry where in the process of borrowing and lending banks provide special provisions to their customers and the banking administration process which is known to be rigid and complicated makes people increasingly interested in Financial Technology (Batubara, 2023).

The development of information technology has driven significant transformation in the financial sector, including in Indonesia. One of the prominent innovations is Financial Technology (fintech), which includes various financial services based on digital technology. Fintech offers ease of access, operational efficiency, and product innovation that were previously difficult to achieve by traditional financial institutions (Aditya & Rahmi, 2023).

The rapid growth of fintech in Indonesia has affected the banking industry landscape. Services such as mobile banking, digital payments, and peer-to-peer (P2P) lending have changed the way people interact with financial services. According to Rahman and Astria (2023), fintech has increased the efficiency of banking operations and expanded the accessibility of financial services, although it also poses challenges related to data security and regulation (Rahman & Astria, 2023).

In addition, the implementation of fintech in banking has contributed to increased operational efficiency. Sadiqin, Komariyah, and Prasetyo (2022) found that the adoption of fintech technology, such as mobile banking and digital payments, significantly increased the operational efficiency of banks in Indonesia. Banks that were quicker to adopt this technology showed a lower operating cost to operating income (BOPO) ratio compared to banks that were slow to implement it (Sadiqin et al., 2024).

However, the growth of fintech also brings challenges for the banking industry. Fierce competition from fintech companies can reduce the market share of traditional banks, especially in services that were previously the exclusive domain of banks. In addition, the need to adapt to new technologies and meet evolving regulations is a challenge for banks.

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RESEARCH METHODS

This research is a descriptive study using a qualitative approach. Qualitative research starts from a specific case in a social situation (Sugiyono, 2019). The data analysis of this study is data reduction, data presentation, and drawing conclusions. In this study, a qualitative approach is used to understand the impact and role of fintech in banking development. Descriptive techniques are used to describe phenomena that occur in a social context and describe the use of fintech in the banking sector. The data analysis methods used are data reduction, data presentation, and drawing conclusions. Data reduction involves collecting and reducing relevant information to be presented in a structured manner. Data presentation is done through narrative explanations and the use of quotes from relevant sources. Drawing conclusions is done based on the analysis of the data that has been presented to obtain a comprehensive picture of the role and impact of fintech in banking development.

RESULTS AND DISCUSSION

The Impact of Financial Technology Innovation (Fintech) on Banking Business Models Financial Technology (Fintech) innovation has drastically changed the landscape of the financial industry, significantly impacting the banking business model. Technological developments in this sector not only create new opportunities, but also challenge long-standing traditions and norms in the banking industry. In this context, an explanation of the impact of Fintech on the banking business model needs to be understood comprehensively.

Competition and Adaptation Despite its positive impacts, the development of Fintech also brings serious challenges to the conventional banking business model. Fintech companies that focus on specific financial services, such as peer-to-peer lending, digital payments, and online investment, challenge the traditional role of banks as primary financial service providers. Traditional banks must compete with the speed and innovation of Fintech or risk losing market share.

Positive Impact: Fintech encourages banks to continue to innovate in creating products and services that are more relevant to customer needs. Digital features such as cashless payments, instant fund transfers, and personal financial management are increasingly accessible. Efficiency and Accessibility One of the main positive impacts of Fintech on the banking business model is increased efficiency. The use of technologies such as artificial intelligence, big data analysis, and blockchain have enabled banking processes to become faster and cheaper. In addition, Fintech has also increased accessibility to financial services. Through digital platforms, consumers can easily access banking products, reducing geographical limitations and increasing financial inclusivity.

One of the most positive impacts of fintech growth is that it has encouraged banks in Indonesia to innovate faster in their services. Digitalization has become inevitable, and traditional banks have started to introduce more user-friendly mobile banking applications, online account opening, and more efficient transactions. Fintech has forced banks to improve the quality of their services, introduce new, more flexible products, and provide solutions that are more in line with the needs of modern customers.

One of the main benefits of fintech is expanding access to financial services, especially for segments that have been underserved by traditional banks. With digital platforms, fintech can reach users in remote areas that previously did not have access to banks. On the other hand, traditional banks are now adopting an inclusive model, providing financial products to people who previously could not qualify for banking services.

Digital payment services offered by fintech, such as e-wallets and QR code-based payment applications, have accelerated the transaction process and reduced dependence on cash. Banks in Indonesia have also adopted digital payment systems, both in the form of interbank transfers and online payment systems, which increase transaction efficiency and reduce bank operating costs.

Negative impact of fintech banking One of the main negative impacts of fintech growth is the increased competition for traditional banks, especially in terms of loan products and payment services. Fintech, especially those based on peer-to-peer lending (P2P) and micro-lending services, are able to offer more competitive interest rates and faster processes compared to conventional bank loan products. This forces traditional banks to lower interest rates and improve the loan application process in order to remain competitive.

As more and more people turn to fintech for their financial needs, traditional banks are experiencing a decline in the number of customers, especially among the younger generation who are more familiar with digital technology. People looking for loans, investments, and payment services tend to prefer fintech because of the ease and convenience it offers. This could lead to a decline in the market share of traditional banks if they do not adapt quickly.

The rapid adoption of digital technology in the fintech industry brings challenges related to the security and protection of personal data. Although fintech offers convenience, many consumers are concerned about the potential for data leaks and cyber attacks. Banks, which previously had tighter control over customer data, now have to compete with fintech in terms of digital security. Transaction security and data protection are key issues that must be addressed by the banking sector and fintech simultaneously. Based on the results of the analysis, fintech has a positive and significant impact on the financial performance of banks listed on the Indonesia Stock Exchange. This indicates that when there is an increase in fintech transactions, the bank's financial performance will also increase.

This result is in line with the study by Indrianti, Gamayuni, and Susilowati (2022) which states that fintech significantly affects banking financial performance. The situation is influenced by several uses of fintech services so that it can encourage the growth of asset recovery from technology investment in banking.

To avoid personal transactions between customers and related banks, internet banking uses internet technology as an intermediary. The average bank operating costs and physical overhead can be reduced through electronic banking. Therefore, the adoption of internet banking can have an impact on banking profitability. Like mobile and internet banking services, SMS banking allows customers to make banking transactions via SMS sent via mobile phones (cell phones). Thus, SMS banking services can have a positive impact on the level of business profits. Because fintech services are easily accessible to customers, banking interest income will increase and the value of banking assets will increase.

Bank Strategy in Facing Fintech Growth

Collaboration with Fintech: Many banks in Indonesia are starting to realize that collaborating with fintech is more profitable than just competing. For example, several major

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banks have partnered with fintech companies to introduce new products and services, such as digital payments, micro-lending, and technology-based investments. These partnerships allow banks to expand their service reach and take advantage of new technologies without having to build everything from scratch.

Investment in Technology and Digital Infrastructure: Traditional banks in Indonesia are increasingly investing in technology to improve their digital infrastructure. By developing more sophisticated mobile banking applications, as well as adopting technologies such as artificial intelligence (AI) and blockchain, banks hope to improve customer experience, reduce operational costs, and increase the efficiency of the banking system.

Customer-Centric Approach: To face competition from fintech, banks are also starting to focus on improving customer experience. Personalization in services, ease of access, and transparency of costs are important elements in attracting and retaining customers. Banks are also developing more flexible financial products that can be tailored to individual needs, such as low-interest loans or digital-based savings products.

CONCLUSION

Financial Technology (Fintech) positively and significantly affects the financial performance of banks listed on the Indonesia Stock Exchange. This indicates that when there is an increase in fintech transactions, the bank's financial performance will increase. Fintech has had a major impact on the banking sector in Indonesia. The banking sector benefits from innovation in financial products and services, but also faces challenges that come with increasingly tight competition. Although there have been some negative impacts, such as declining market share and data security risks, Indonesian banks now realize the importance of digital transformation and collaboration with fintech to remain competitive and provide relevant services to the community.

Moving forward, banks in Indonesia need to continue to innovate, adapt to new technologies, and strengthen regulations that support the fintech industry. Collaboration between the banking and fintech sectors, as well as improving data security and protection systems, will be key to maintaining the integrity and sustainability of the digital financial ecosystem in Indonesia.

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