



Inclusivity of Financial Technology: Challenges and Opportunities for Indonesian Islamic Banks in Optimizing Financial Management During the Era of Disruption

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Abstract

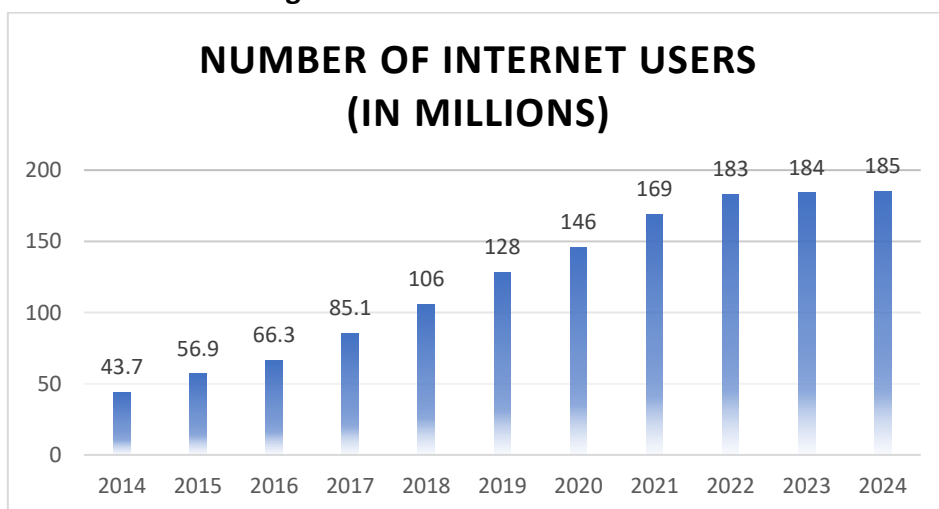
The purpose of this study is to find out the opportunities and challenges of Islamic banks in financial technology (FinTech) inclusivity, so that they can optimize financial management in the era of disruption. The research method used in this study uses descriptive qualitative. The data source used is secondary data which can be obtained from the literature by studying, understanding, and identifying journals or books or other sources relevant to this research. The results of this study show that 1) Financial technology can increase the inclusiveness of Islamic banks in Indonesia. The implementation of FinTech in the Islamic banking industry will make it easier for businesses to access Islamic bank services and products and apply for financing directly. Challenges faced by rural communities do not have the ability to use financial technology in their areas. 2) The role of FinTech in the Islamic banking sector is very important. First, FinTech has driven financial inclusion. Second, FinTech accelerates sharia transactions and investments. 3) FinTech is able to help increase people's financial literacy and facilitate people's access to various financial products and services. FinTech has material effects related to financial institutions and the provision of financial services.

INTRODUCTION

Among other countries in the world, Indonesia has the second largest Muslim population after Pakistan at around 235,200,000 people in 2024. Of course, Indonesia can become a global Islamic financial center that can be emulated by other countries. Since Islamic banking is an important part of the national financial system, it is clear that it has the ability to demonstrate its resilience. The existence of Islamic banks that were able to develop in the midst of Indonesia's economic crisis in 1998 is proof of this. Islamic banks are better than conventional banks in facing economic crises. Due to the low amount of non-performing financing in Islamic banks, this is clearly visible. In this modern era, business competition in Indonesia is increasing rapidly. The business world is progressing not only in Indonesia but also abroad. In a situation like this, Islamic banking must be able to increase its job assessment in order to compete with conventional banking. Conventional banks are clearly more experienced because they have existed for a long time before Islamic banking was established. To achieve excellence in the business world, companies must conduct performance assessments of their own companies. This assessment must be carried out quickly and effectively. Only businesses that have superior value can survive in the rapid business competition.

As part of the era of globalization, Indonesia's banking sector has experienced tremendous growth. Internal and external factors from the banking industry are one of the causes of this growth. Islamic banks now have a sizable market share due to the flexibility of their services, location, and depositor deposit fees, which shows the growth that is increasingly being felt by the community. In the digital age, the way humans act or use electronic and information services has changed. *Smartphones* and mobile phones meet the diverse needs of human information.

Diagram 1. Number of Internet Users



Source: databoks.katadata.co.id

If you look at the last ten years, the number of internet users in Indonesia has reached 185 million people in 2024, this is an increase of 0.8% from the previous year. This is equivalent to 78.6% of the Indonesian population already using *smartphones* from the existing population. The significant increase is an opportunity for Islamic banks to expand using the internet in carrying out their transaction activities. Transaction activities using *FinTech* will certainly increase public trust through the need for fast and efficient access.

The use of *FinTech* will also make the economy develop faster, more efficiently, and more sophisticated than other sectors. Information technology and *FinTech* are disruptive forces that can affect the banking industry and may also open up new opportunities for other companies. In the financial sector, digital disruption is driven by two factors: supply, which consists of technological advancements, and demand, which is driven by changing customer needs for services. With the role of *FinTech* that has reached business in this era, it certainly has a very adequate role and urgency so that Islamic banks cannot escape or leave the progress of the times, one of which is with the financial technology system. Stronger digitalization can substantially change the structure of the market, such as by changing the way barriers to entry or barriers to entry move, changing the key parameters of competition in the market, and allowing new replacements and competitors to emerge (Mayasari et al., 2023).

The survival of banks is largely determined by public trust because banks are engaged in the service business. By maintaining financial stability, payment systems, and controlling inflation, banks play an important role in the Indonesian economy. Banks must have good financial performance so that their intermediation function can run smoothly. In facing the *FinTech* era, of course, Islamic banks have a strategy to achieve the maximum deficit and manage finances as best as possible. Technological advances must be utilized by Islamic banks so that their profits and business are more advanced. This is because banks function as an intermediary between parties who have money and parties who need money (Ismail 2010).

The financial sector has long been involved in financial technology innovation because of its relationship with financial technology (*financial technology*) also known as *FinTech*. Financial services have been around in the financial industry for a long time. The emergence of *smartphones* is one example of the rapid development of *FinTech*, which is characterized by the emergence of financial business technology that has the ability to change people's behavior towards companies when making transactions. Financial technology, also known as *FinTech*, is the development of technology combined with the financial sector in banking institutions. There will be a lot of impacts that will be felt by Islamic banks, including customers and clients, this impact can be negative or positive. With good bank financial management with technological sophistication, these Islamic banks should be easier to do everything and achieve maximum profits. As a result, it is hoped that the digital service-based financial services that are developing in Indonesia, such as channel payment systems, digital banks, and online digital insurance, will facilitate a more practical, safe, and modern financial transaction process (Subagiyo, 2019). This is in line with research from Ika Kristianti who said that the *FinTech* phenomenon does not interfere with the financial performance of banks,

but can encourage banks to innovate in technology. Management needs to invest in information technology to improve financial performance. In addition, banks need to see opportunities for the presence of fintech for the development *of the banking* FinTech system (Kristianti & Tulenan, 2021).

Based on the above background, of course, the author has the purpose of this study to find out the opportunities and challenges of Islamic banks in managing inclusive Financial Technology (FinTech), so that they can optimize financial management in the era of disruption. So there are also several questions that the author will formulate the following problems: 1) What are the opportunities and challenges of Islamic banks in optimizing *FinTech*? 2) What is the role of *FinTech* in optimizing profits in Islamic banks? 3) What is the Impact of *FinTech* on Financial Management of Islamic Banks?

METHODS

This research method uses descriptive qualitative research because the problems discussed in this study do not intersect with numbers or *numeric* but concern describing and describing financial management in the face of *FinTech* disruption in Islamic banks. The descriptive qualitative method is a problem-solving procedure that is investigated by describing or describing the state of the research object. The data sources used are secondary data which can be obtained from library *research* by studying, understanding, and identifying journals or books or other sources relevant to this research.

RESULT AND DISCUSSION

1. Opportunities and Challenges of Islamic Banks in Optimizing *FinTech*

Bank Syariah believes that *FinTech* has a lot of potential to grow. This is due to the fact that Islamic *FinTech* comes with ideas rooted in the principles of the Islamic religion, which are the same as those embraced by the majority of people in Indonesia. As the manager of *the FinTech* and Islamic finance ecosystem in Indonesia, the Indonesian *Sharia FinTech* Association (AFSI) aims to encourage effective cooperation between business people in the Islamic finance industry. In addition, global Islamic financial reports place Islamic *FinTech* in third place. *FinTech* has advantages in reaching customers who previously could not use banking services. Only 54% of Indonesians can use banking services, according to data from global financial institutions. In addition, *FinTech* innovations offer great opportunities for Islamic banking. *FinTech* has three benefits for the Indonesian people: first, increasing financial literacy. A survey conducted by the OJK shows that around 40% of people in Indonesia do not have direct access to the financial and banking sectors. With Islamic financial literacy only 8.11% in 2016, with an inclusion index of 11.6%, the progress of Islamic *FinTech* is expected to increase the financial literacy of the Indonesian people. Second, achieve things that are pro-growth and pro-poor. Innovation in the field of *FinTech* is expected not only to develop, but also to be more beneficial to the poor. The Islamic banking sector will benefit from the use of technology. Third, optimizing family work standards in Indonesia. The

convenience of technology can reduce the waiting time for long financial transactions can be shortened.

Financial technology can increase the *inclusiveness of* Islamic banks in Indonesia by collaborating with Islamic financial institutions, especially Islamic banking. This can happen because technological advances today are very fast and have entered all fields, including the financial sector. So, the entry of technology into the financial sector will bring the industry into the digital era. The implementation of *FinTech* in the Islamic banking industry will make it easier for businesses to access Islamic bank services and products and apply for financing directly without having to visit a branch office directly. This model can improve financial inclusion and improve the performance of Islamic banks by making it easier for individuals working in the Islamic banking sector to gain access to financial markets. The use of *FinTech* can have a positive impact on both consumers and banks. With *s*, transaction costs become lower and services are delivered faster than banks, and banks see improvements and efficiencies in the banking process (Sadari & Hakim, 2019).

FinTech will help many people who don't have money yet. So, this industry has great potential to grow in Indonesia, because the presence of *FinTech* will encourage Islamic banking for digitalization and automation to make more practical services more accessible. In addition, the public's need for more sophisticated banking services encourages Islamic banking to prioritize technology-based services. Therefore, Islamic banking can work with *FinTech* to make financial services more accessible. More efficient investments reduce costs but generate greater revenue for Islamic banking. With the presence of *FinTech*, *outstanding financing* and savings funds, deposits, and current accounts will increase. and get rid of the belief that transacting in Islamic banking is more difficult than in conventional banks (Muchlis, 2018).

The race with *FinTech* in conventional banks that do not comply with sharia is a concrete challenge. The Chairman of *the Indonesian Sharia FinTech Association (AFSI)* said that *FinTech* in conventional banks is more widely used compared to *FinTech* in Islamic banks because of its faster growth and easier lending process compared to Islamic *FinTech* which requires a more complicated process, such as the existence of contracts in lending and borrowing transactions and fundraising information provided. Therefore, collaboration between *Islamic FinTech* and Islamic banks is very important to increase Islamic financial knowledge and inclusion so that it becomes more popular among the public (Mulyana et al., 2024).

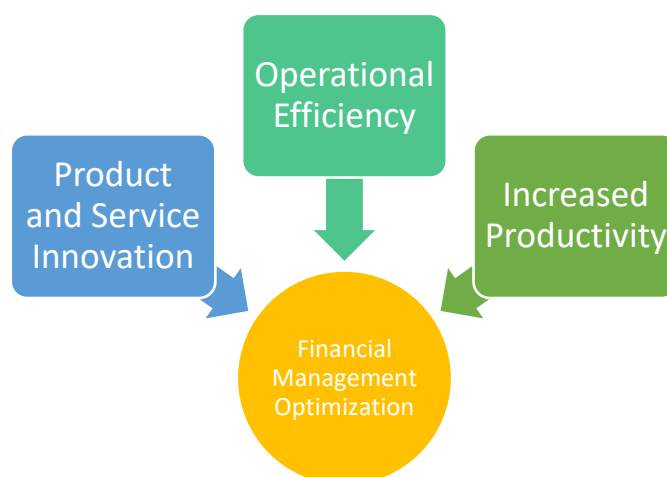
Rural communities do not have the ability to use *financial technology* in their areas, which hampers the spread of *FinTech*. This makes it difficult for Islamic banks to develop *FinTech* in the area due to the lack of manpower needed to run the modern economy. Most people in rural areas are not familiar with the term financial technology thoroughly, as well as how to use it, its benefits, benefits, and achievable goals. This is due to the government's lack of knowledge about the implementation of good financial management. The lack of education for rural communities for ease of transactions, especially in Islamic banks, makes them still hesitant about the use of *FinTech* (Setiyowati & SM, 2023).

2. The Role of FinTech in Optimizing Profitability in Islamic Banks

The role of *FinTech* in the Islamic banking sector is very important. First, *FinTech* has encouraged financial inclusion by allowing people who were previously unserved by conventional banks to access Islamic bank services. Second, *FinTech* accelerates sharia transactions and investments, allowing users to get high-quality services at lower prices. Every transaction made using sharia *FinTech* (*Financial Technology*) must remain in accordance with sharia business principles, namely based on the foundation of sharia economics such as divinity (*divinity*), justice (*al-adl*), and abian (*an-nubuwwah*). The high potential of *FinTech* (*Financial Technology*) encourages the development of the Islamic finance industry. The role of *FinTech* in developing the Islamic banking industry includes several aspects, namely:

- a. Product and Service Innovation. *FinTech* has the ability to create more innovative financial products and services and make Islamic banking more accessible to customers. Sharia P2P loans, sharia investments, and sharia-based payment applications (*M-Banking*) fall into this category. It is an innovation that helps meet the needs of people around the world who want to get financial services that are based on sharia principles.
- b. Operational Efficiency. Banking operations in the Islamic finance sector have become more efficient thanks to the emergence of *FinTech* (*Financial Technology*) innovations. Automation and digitization of the system help Islamic finance companies become more efficient in serving clients. In addition, it is easier for Islamic banks to promote their products and services (Saputri 2024).
- c. Increase productivity. Human resource activities will be facilitated by the existence of *FinTech*. This will make the work faster and optimize the Institution's profits. Human resources must also be able to adjust to the acceleration of technological developments for the effectiveness of the Institute's performance.

Figure 1. Financial Management Optimization towards FinTech Inclusivity



Digital transformation offers innovations in risk analysis and customer behavior modeling. Islamic banks can now analyze big data by using *AI* (*artificial intelligence*) and artificial intelligence to find customer behavior patterns, needs, and preferences. These patterns can be used to create more personalized and relevant products and services. The growth of *FinTech* in Islamic banking is driving the *FinTech* industry itself. With the

emergence of *Islamic FinTech* startups and technological innovations related to Islamic finance, there are new opportunities and market shifts. This can drive overall economic growth and create jobs in the *FinTech* industry. Islamic banking uses *FinTech* to increase productivity and operational efficiency. Organizations can reduce operational costs, accelerate services, and improve efficiency in risk management and compliance with process automation, the use of digital technologies, and advanced data analytics. *FinTech* Islamic banking encourages innovation in creating new products and services. Clients can access more flexible and easy-to-use financial solutions through technologies such as *mobile banking*, *e-wallets*, *crowdfunding*, and *peer-to-peer lending* and of course in accordance with Islamic principles. (Setiawati 2024)

3. The Impact of FinTech on Financial Management in Sharia Banks

Financial technology, also known as *FinTech*, is a new breakthrough in the financial industry that is now becoming very popular in the needs of commerce, business, and society. *FinTech* currently has a legal umbrella and is developing digital financial innovations that are safe and responsible, prioritize consumer protection, and manage risk well. The advancement of *FinTech* and digitalization will have a positive impact on the world of finance and the performance of the banking system. With technological advancements, Islamic banks can improve their performance by providing easier services through digital platforms. Because Islamic banking has a direct relationship with the general public in the fund management process, the performance of Islamic banking must be paid great attention to by the public. This also increases public trust in banking. Technological innovations in the financial sector known as *FinTech* are able to help increase people's financial literacy and facilitate people's access to various financial products and services. *FinTech* also has material effects related to financial institutions and the provision of financial services. The industry is experiencing rapid growth, mainly due to its payment system and *peer-to-peer* (P2P) lending services that are the most popular products in society (Akma et al., 2023).

With the increasing number of internet users in Indonesia, the presence of *FinTech* has a significant impact, especially in the financial or banking sector. People who are used to making *online* transactions to meet their daily needs have a high level of internet users. Transactions can be made anytime and anywhere with ease, and financial services big data can be accessed easily. In the field of services, this financial technology has similarities with Islamic banks, namely the goal of facilitating access to financial services such as ATMs, QRIS, and *mobile banking*. One of the parts of the market that a company or business can achieve or dominate is market share. The larger the market share, the more attractive the market and the more opportunities it has. Banking digitalization plays an important role in facilitating all Islamic bank activities, such as productive segments, promotions, and customer complaints which are becoming easier. *FinTech* allows customers to access large amounts of financial services data and make transactions whenever and wherever they want. (Khairani & Puteri, 2024)

CONCLUSION

From the discussion above, it can be concluded that *financial technology* can increase the *inclusiveness of* Islamic banks in Indonesia by collaborating with Islamic financial institutions, especially Islamic banking. The implementation of *FinTech* in the Islamic banking industry will make it easier for businesses, especially Islamic banking, to access Islamic bank services and products and apply for financing directly without having to visit a direct branch office. This model can improve financial inclusion and improve the performance of Islamic banks by making it easier for individuals working in the Islamic banking sector to gain access to financial markets. *FinTech* will help many people who don't have money yet. So, this industry has great potential to grow in Indonesia, because the presence of *FinTech* will encourage Islamic banking for digitalization and automation to make more practical services more accessible. Challenges faced by rural communities do not have the ability to use *financial technology* in their areas, which hampers the spread of *FinTech*. This makes it difficult for Islamic banks to develop *FinTech* in the area.

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The advancement of *FinTech* and digitalization will have a positive impact on the world of finance and the performance of the banking system. With technological advancements, Islamic banks can improve their performance by providing easier services through digital platforms. The presence of *FinTech* has a significant impact, especially in the financial or banking sector. People who are used to making *online* transactions to meet their daily needs have a high level of internet users. Transactions can be made anytime and anywhere with ease, and financial services big data can be accessed easily.

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