

Development And Impact Of Financial Technology (Fintech) On The Islamic Financial Industry Perumda BPR Majalengka

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ABSTRACT

The purpose of this study was to examine how the development and impact of Fintech on the Islamic finance industry in Majalengka. The research method used is descriptive qualitative method and combines two types of research, namely field research and library research. Field research by collecting information from the Financial Services Authority (OJK) Majalengka, and from the Islamic Finance industry, namely Perumda BPR Majalengka. Along with the development of technology, the financial industry is also growing with the emergence of Fintech (financial technology). Fintech is one of the innovations in the financial sector that refers to modern technology. The development of Fintech so that Sharia-based Fintech appears and facilitates customers will certainly affect the formal Islamic finance industry such as Islamic Banks, Sharia BPRS, BMTs and other formal Islamic finance industries where transactions in the formal Islamic finance industry still use physical transactions. in transactions and have not made much use of technological advances that are growing. This will make the formal financial industry less effective because it costs more and takes more time. If the Islamic finance industry is not able to innovate and utilize technology, it will be left far behind by the Fintech-based financial industry which is developing very rapidly.

KEYWORDS

Fintech, Islamic Financial Institutions, Islamic Banks.

INTRODUCTION

In today's modern era, the use of technology is developing rapidly in meeting human needs to obtain information and various other electronic services. This is because by using technology everything is felt to be more effective and efficient in its use. By utilizing technology, people are greatly helped to get a service. Similarly, in the field of finance or finance has also experienced significant developments. Technology and finance are related to each other.

One of the technological developments in the financial sector is Fintech (Financial Technology). Fintech is one of the innovations in the financial field that refers to modern technology (Christmastianto 2017). According to Clayton, the innovation aims to introduce practicality, ease of access, convenience and economical cost (Hadad 2017). The background of the emergence of Fintech is when there is a problem in society that cannot be served by the financial industry with various obstacles. Among them are regulations that are too strict as is the case in banks as well as the limitations of the banking industry in serving people in certain areas. So people who are far from banking access tend not to be served by banking. This has resulted in uneven economic development.

With Fintech, remote communities can also use technology-based financial services, without having to travel long distances to get financial services. According to data from the World Bank Findek 2014,

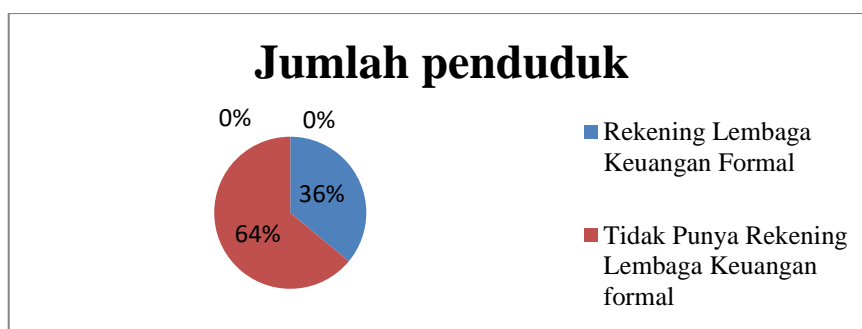


Figure 1.1 (World Bank Findek Data Source,2014)

that the number of Indonesians who already have an account in a formal financial institution is only about 36%, the remaining 64% of the Indonesian population does not have an account and access to formal financial institutions or often referred to as unbanked. This means that more than half of Indonesians have not been served by financial services such as banks. This is an opportunity for businesses engaged in finance to take advantage of technology (Berger and Nakata 2013). For example, Investree which is a Fintech startup engaged in peer-to-peer lending that brings together people with funding needs (borrowers) and people who are willing to lend their funds (lenders). This of course makes it easier for people to invest or get funding for businesses more easily without having to meet directly by traveling long distances. Another benefit obtained by lenders is that they directly get a profit share paid by the borrower without any fess.

Not only in the field of funding and lending, other businesses engaged in fintech are transportation services such as Gojek which has issued GoPay, Uber and Grab which issue Grab wallet products. Currently, Fintech players in Indonesia are still dominant in the payment business (43%), loans (17%) and the rest in the form of aggregators, crowdfunding, and others (Hadad 2017). Fintech has the potential to benefit various parties, ranging from business people to people who use Fintech services and economic growth. Fintech also plays a role in accelerating the expansion of the reach of financial services. This role is almost the same as that performed by the Islamic financial industry, but the difference is that Fintech maximizes the use of technology in its transactions, and reduces physical evidence. making financial transactions more practical, secure and modern (Mawarni 2017).

In Indonesia, there are already many startup companies that use Fintech services and are known better than other financial industries that have rules that are too rigid and strict. Meanwhile, Fintech uses technology, software and data which is certainly more effective and efficient.

The existence of Fintech that is growing so that Sharia-based Fintech appears and makes it easier for customers will certainly affect the formal Islamic financial industry such as Sharia Banks, Sharia BPR, BMT and other formal Islamic financial industries where transactions in the formal Islamic financial industry still use physical evidence in transactions and have not used many technological advances that are increasingly developing. This will make the formal financial industry less effective because the cost and time spent will be more. If the Islamic financial industry is unable to innovate and utilize technology, it will be far behind by the financial industry that has issued Fintech whose development is very fast. In this case, there is an impact of Fintech on the Islamic financial industry. Therefore, in this study will be discussed about whether there is an impact of Fintech on the Islamic Financial Industry.

Theory

Financial Technology (Fintech) has a broad meaning and understanding. A research institute NDRC (The National Digital Research Centre) mentioned that Fintech is a term for innovation in financial services, where technology is the key. Meanwhile, according to the former Governor of Bank Indonesia, Agus DW Martowardojo in his keynote speech at the Indonesia Fintech Festival and

Conference 2016, in Jakarta said that Fintech is a financial service based on information technology such as big data, cloud computing, and distributed ledger systems (Biru Prasasti Ningtias 2022).

While Fintech Weekly mentions on its website that Fintech describes a business that aims at providing financial services by making use of software and technology,

and modern technology. Fintech is a business that aims to provide financial services by utilizing modern software and technology. Meanwhile, Douglas W Arner, 2015 mentioned "Financial technology" or "Fintech" refers to technology enabled financial solutions. Fintech refers to a technology that provides a solution about finance. Pribadiono, Hukum, Esa, & Barat (2016) in (Mansyur and Krisnadi n.d.), said that Financial Technology (Fintech) is a combination of technology and financial features or can also be interpreted as innovation in the financial sector with a touch of modern technology.

Based on Dorfleitner, Hornuf, Schmitt, & Weber (2017) in (Pramaswari, Nasution, and Nasution 2021), Fintech is a very fast-moving and dynamic industry where there are many different business models. Meanwhile, according to Hsueh (2017), Financial Technology is also referred to as Fintech, a new financial service model developed through information technology innovation. From some of the understandings above, a conclusion can be drawn that Fintech is a service that provides financial product products by using and utilizing emerging information technology.

Types of Financial Technology (Fintech) Services

According to Hsueh in (Marsudi and Widjaja 2019), there are three types of financial technology as follows: 1) Third-party payment systems, Examples of third-party payment systems are crossborderEC, online-to-offline (O2O), mobile payment systems, and payment platforms that provide services such as bank payments and transfers. 2) Peer-to-Peer (P2P) Lending. Peer-to-Peer Lending is a platform that brings together lenders and borrowers over the internet. Peer-to-Peer Lending provides credit and risk management mechanisms. The platform helps lenders and borrowers meet their individual needs and generate efficient use of money. According to Ge, Feng, Gu, & Zhang, (2017), Peer-to-Peer Lending is a process of running money lending between two unconnected individuals directly through an online platform, without interference from traditional financial intermediaries such as banks. According to Dorfleitner et al., (2016), Peer-to-Peer Lending is a major innovation related to banking. In recent years, the number of platforms offering such services and the number of transactions are constantly increasing. According to Hsueh, (2017), Peer-to-Peer Lending is an Internet-based business model that meets the needs of lending between financial intermediaries. The platform is aimed at medium and small companies where they think the bank's loan requirements may be too high. Peer-to-Peer Lending has lower costs and higher efficiency than traditional bank-based loans. From several understandings of Peer-to-Peer Lending, it can be concluded that Peer-to-Peer Lending is a financial business model that brings together lenders and borrowers through a platform where this model is more profitable than traditional financial platforms. 3) Crowdfunding, Crowdfunding is a type of Fintech where a concept or product such as designs, programs, content, and creative works is published in general and for people who are interested and want to support the concept or product can provide financial support. Crowdfunding can be used to reduce the financial needs of entrepreneurship, and predict market demand.

Advantages and Disadvantages of Fintech Advantages and Disadvantages of Fintech

According to the Financial Services Authority in (Andaiyani, Yunisvita, and Tarmizi 2020), the advantages of Fintech are: 1). Serving Indonesian people who cannot be served by the traditional financial industry due to strict banking regulations and the limitations of the traditional banking industry in serving people in certain areas. 2) Become an alternative funding other than traditional financial industry services where people need more democratic and transparent financing alternatives.

While the disadvantages of Fintech are as follows: 1). Fintech is a party that does not have a license to move funds and is less established in running its business with large capital,

when compared to banks. 2). There are some Fintech companies that do not have physical offices, and lack of experience in carrying out procedures related to security systems and product integrity.

Financial Technology (Fintech) Challenges

According to the Financial Services Authority in (Ansori 2019), the challenges facing the Fintech industry are as follows: 1). Regulations in Support of Fintech Development. This is related to how to adopt regulations related to digital signatures and the use of documents digitally so as to optimize the potential possessed by the Fintech industry. 2). Coordination between institutions and related ministries to optimize the potential of Fintech with a complex business environment, it is also necessary to support from various ministries and related institutions.

Financial Technology (Fintech) Risks

According to the Financial Services Authority in (Martinelli 2021), the risks experienced by Fintech users. Strategies to protect consumers are as follows: 1). Protection of user funds. Potential loss or decrease in financial capabilities, whether caused by abuse, fraud, or force majeure from Fintech activities. 2). Protection of user data. Privacy issues of Fintech users who are prone to intentional or unintentional misuse of data (hacker attacks or malware).

The strategy to protect the national interest is as follows : 1). Anti-Money Laundering and Prevention of Terrorism Financing (AML-CFT). The convenience and speed offered by Fintech raises the potential for misuse for money laundering and terrorism financing activities. 2). Financial System Stability. It is necessary to have adequate risk management so as not to negatively affect the stability of the financial system.

METHOD

The study uses a descriptive qualitative approach. Qualitative analysis according to (Moleong 2021) is a research procedure that produces data in the form of words both orally and in writing. The descriptive according to (Notoatmodjo 2002) is a research method carried out with the aim of helping researchers to get an objective picture of a situation. Research data is obtained through skunder data, namely data obtained not directly by researchers (Purwanto 2018). The analytical techniques used in this study used content analysis. Content analysis is an analytical technique carried out by drawing conclusions by identifying specific characteristics of a message objectively and systematically (Holsti 1969).

RESULTS AND DISCUSSION

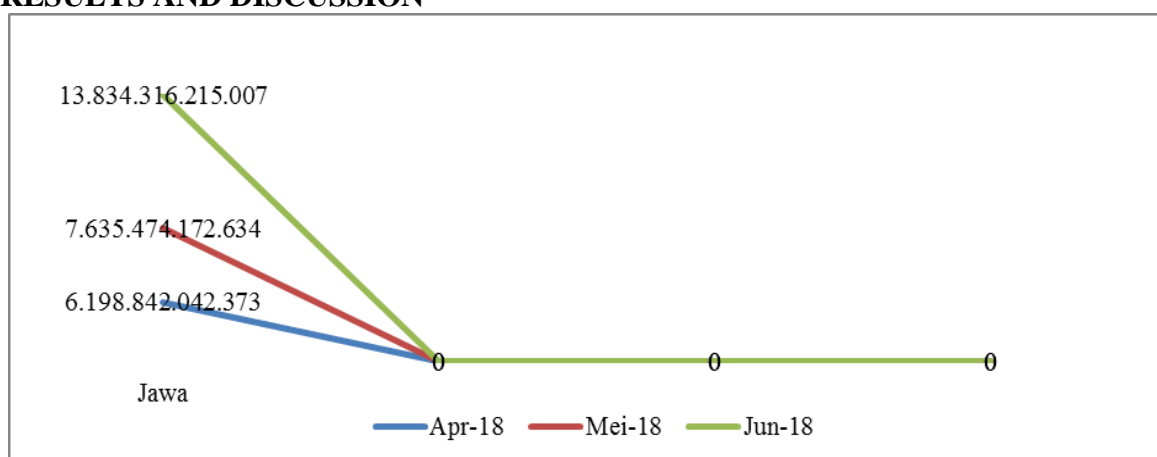


Figure 1.2 (primary data source,2018_kenaikan number of fintech_)

Within three months, there was a very significant increase in the number of fintechs. This can be seen from the number of lender customers and borrower customers who have both increased.

This customer is dominated in the Java island area because almost 90% make transactions from the technology-based financial industry (Fintech). This is because people are more interested in financial services that have clear information transparency, easy transactions and transactions that can be done on various channels. And these benefits are only obtained when people use fintech (financial technology) services.

Various benefits obtained from fintech (financial technology) as above, will affect people's interest in using technology-based financial services or fintech. In this case, fintech can replace the function of banking as a financial service (fund provider or capital provider) with easier and more efficient conditions. The function of the bank as an intermediation institution is still unable to reach the needs of people living in remote areas. People don't want to be convoluted with the procedure of worry or not being confident when they want to meet with bank people. Based on the condition of the community, this encourages a new program called branchless banking or called branchless banking services. Branchless banking itself is part of financial technology.

The reason fintech is growing is a change in consumer mindset, where millennials now want more personal access and make it easier to meet financial needs. The advancement of the digital world and the use of smartphones are also the cause of the development of fintech because nowadays almost everyone has a smartphone. Then a very rapid change in trends and a more profitable and accessible offer of fintech products. No need to come to the office or financial institution, fintech players can already make financial transactions. The type of fintech that is in great demand is Peer to Peer Lending (P2P). Where this type of fintech customers can easily borrow money for business purposes without having to go to a bank office. Simply by using technology such as a computer or smartphone, customers can get the funds they need. The conditions that must be completed are also easier than the conditions that must be submitted when you want to borrow funds from the bank.

Fintech companies can also be a threat to the Islamic financial industry, because fintech business activities are very efficient, do not require many employees, luxurious buildings, but only with a small office, fintech companies can already stand up and run their business operations. In contrast to islamic financial industry businesses that have a very high operational burden because they have to pay salaries to employees who are not small in number, and have to rent or even buy luxury buildings to run their business. Because with a luxurious building, it can attract customers.

The rules regarding fintech have been regulated in the OJK, namely POJK No. 13 / POJK.02 / 2018 concerning Digital Financial Innovation (IKD). This regulation is issued so that fintech companies produce digital financial innovations that are responsible, safe, prioritize consumer protection and have well-managed risks. With this regulation from the OJK, users will increasingly trust and use fintech services, without having to worry about fraud. In this regulation, there are 11 points that are regulated, including fintech recording and registration mechanisms, fintech monitoring and supervision mechanisms, establishment of a fintech ecosystem, building a culture of innovation, inclusion and literacy, business and data protection, effective risk management, collaboration, consumer protection, transparency, anti-money laundering and terrorism financing. From the 11 points of the rules made, it can be seen that the rules are comprehensive, ranging from companies that run fintech services to consumer protection are also regulated.

For this reason, as an Islamic financial institution, it must be able to follow the flow of increasingly sophisticated service developments, in this case it must be able to adjust or meet the needs of its people in terms of service providers with easy conditions and many benefits obtained (financial technology). Thus, it will have a positive impact on the growth of sharia-based finance, because it is able to provide services that are as expected by the community by providing many benefits and easy conditions so that they are able to compete. This can be done

by innovating products with technological systems so that they can keep up with the times and collaborate with fintech lending.

CONCLUSION

In the last three months, fintech research has experienced a quite fantastic increase, the accumulation of increases reached 100% namely in June 2018 with a value of Rp. 7,635,474,172,634 rising to Rp. 13,834,316,215,007. This increase is dominated in areas on the island of Java where the average community uses fintech facilities. However, Sharia-based financial institutions have not been able to enter the small scale / scope of small communities, therefore the fintech facilities used by the community, namely conventional-based fintech. Meanwhile, Sharia fintech companies are in accordance with the decree of the Minister of Law and Human Rights of the Republic of Indonesia Number AHU-0001911. AH.01.07 In 2018 dated February 14, 2018, there have been many, almost exceeding 30 fintechs, but the public is not familiar with it and only part of it is registered with the OJK.

In this case, it can be seen from the overall number of fintechs in Indonesia registered with the OJK, there are only two Sharia-based fintechs out of 88 fintech companies. Therefore, Islamic financial institutions need product innovation with a technology system in order to keep pace with the times and collaborate with fintech lending, in order to be able to compete with existing fintechs that are conventionally based.

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