

ACCELERATION OF FINANCIAL TECHNOLOGY GROWTH IN ISLAMIC BANKS AS AN EXISTENCE EFFORT TO FACE THE PANDEMIC OF COVID-19

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Abstract

Financial Technology or what is familiarly called fintech is a platform that combines technology and finance into a technology-based financial business that makes it easier for customers so that there is no need for face-to-face transactions. Financial technology is currently trending in Indonesia, especially after the peak of the COVID-19 pandemic that occurred throughout 2020-2021, not only in banking but has begun to spread stand-alone financial technology in terms of payments and peer to peer landing. All technology-based financial institutions compete with each other, Islamic banking institutions in Indonesia, marked by the merger of three Islamic banks into one big force, namely Bank Syariah Indonesia which has optimized digital-based products to maximize the profitability of their companies. The purpose of this study is to find out the tips of Islamic Banking, especially Indonesian Islamic Banks in maximizing the profitability of their companies with fintech.

Keywords: Financial Technology, Profitability Maximization, Islamic Bank

INTRODUCTION

Berisi History records the monetary crisis in 1998 which resulted in many banking institutions collapsing with their interest system, except for Bank Muamalat. Then the bankruptcy experienced by Bumi Putera and Jiwasraya Insurance which shows that the concept of guarantee carried out by conventional insurance is very unhealthy, in contrast to sharia insurance which is based on the principles of tabarru' and tijaroh. And the last phenomenon is the collapse of all economic sectors due to the COVID-19 pandemic in early 2020 until now. The impact of the COVID-19 pandemic knocked down Indonesia's economic growth so that it had an impact on the economic recession experienced by Indonesia. This can be seen from the graph of Indonesia's economic growth which experienced a recession in the second quarter of 2020 to reach -5.32% compared to 2019 of 5.02% (BPS, 2021).

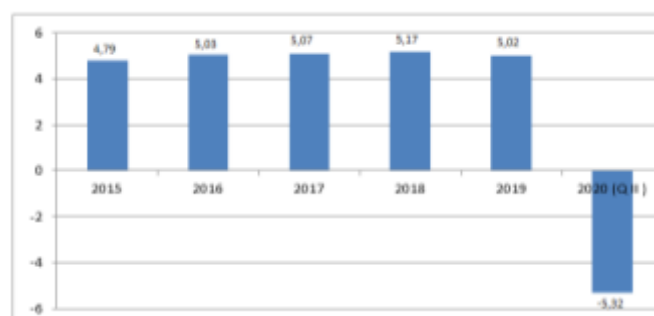


Figure 1. Indonesia's Economic Growth in 2015-2020 (in percent)

The decline in economic growth in Indonesia did not have a bad impact on the development of Islamic banking assets. In the last 5 years, the assets of Islamic commercial banks grew by an average of 11.81%, even surpassing the growth of conventional commercial banks with an average growth of 7.92%. However, in terms of quantity, the combined assets of Islamic banks are still far behind those of conventional banks. With the majority of the Muslim population in Indonesia amounting to 87.20%. The market share of Islamic banks in Indonesia is only 6.51% compared to conventional banks of 93.49% (OJK, 2020).

Table 1. Market Share Combined Asset Development of Conventional Banks & Islamic Banks in 2020

Bank Type	Assets (in billion)	Percent.
BUK (- UUS)	8.583.945	93,49%
BPRK	155.075	
BUS	397.072	
UUS	196.875	
BPRS	14.950	6,51%
TOTAL	9.347.917	100,00%

According to Irfan Syauqi Beik, there are two factors causing the banking industry to not grow significantly, namely the low literacy level of Islamic banks and the small capital of Islamic banks. These two things are closely related and cannot be separated. Low literacy makes people not so interested in Islamic bank products, both money storage and financing services. Of course, this will have an impact on the bank's profit and core capital, making it difficult for banks to carry out business expansion more broadly.

On the other hand, a phenomenon that also attracts attention in the banking world is the development of financial technology (FinTech). Fintech is a potential market opportunity in Indonesia. The geographical area, the sizeable growth of the middle class, and the relatively poor penetration of financial products can create a strong market for fintech development in Indonesia (Swastiratu, 2019).

The application of information technology in the financial industry is an area of great potential for innovation. Therefore, fintech can increase interest in modern financial services from progressive financial institutions that aim to strengthen and maintain the main function of banking. Fintech is also able to provide high quality services in an effective form wherever and whenever. Technology is something that is considered to have a positive effect on banking, including Islamic banking (Rusydia, 2018). In other respects, we can say that fintech makes it easier to access capital in the industrial era 4.0. The era of the industrial revolution where the concept of application is centered on the concept of automation, namely technology without human labor.

Various groups consider that fintech is a rival and a threat to the banking sector. But there are also those who consider opportunities for Islamic Banking. If it is said to be a challenge, this is a great opportunity because it can increase and even maximize the profitability of Islamic banking that is able to compete with conventional banking. Banks must be ready to compete with the increasingly rapid development of the financial technology business (Financial Technology). Mulya suggested that with the proliferation of Fintech, bank managers should make this new industry a partner in order to reach a wider community.

To prepare for all of this, Islamic banks should have prepared themselves in the face of this policy, one of which is by strengthening financial technology in the banking system in the face of the new normal era after the COVID-19 pandemic. Fintech has helped Islamic banking in the speed and accuracy of data processing business operations and product marketing. The application of information systems is very influential on the banking industry. The banking industry is one of the industries with the highest level of relevance to the activities of collecting, processing, analyzing, and submitting required reports supported by the Financial Services Authority (OJK) which has developed a financial technology system for use in services in the financial services industry, particularly service applications. banking in Indonesia. On the other hand, regulators also need to maintain fintech innovation that is growing very rapidly. The right regulations can not only protect customers in their transactions, but also encourage the fintech sector to grow in a positive direction as a support for a stronger banking industry in the future (Swastiratu, 2019).

LITERATURE REVIEW

Fani and Putri's research (Firmansyah & Widiati, 2016) found the fact that technology-based customer service is more advanced, causing many people to be loyal to conventional banks compared to Islamic banks. However, according to Azwar Iskandar et al, actually the philanthropy model in Islamic economics and finance can play a bigger role in economic shocks that occurred during the COVID-19 pandemic, such as consumptive and productive zakat assistance, cash and productive waqf, as well as the development of sharia-based fintech (Iskandar et al., 2020). This should be the concern of Islamic banking institutions in adjusting technology-based products.

Several previous studies have also shown that the strengthening of fintech in banking products has a significant impact on the progress of the company. The research of Muthiah Az-zahra Rasyid et al shows that the development of fintech-based financing products has been carried out by BNI Syariah Bank before the merger into BSI with a crowdfunding-based product called BNI Wakaf Hasanah (Rasyid et al., 2017). Also of concern is the research of Nugroho Heri Purnomo and Asri Nur Wahyuni which shows that Islamic micro waqf banks innovate and collaborate with MSMEs to support productivity acceleration and stability of national economic growth in the digital era by creating fintech-based products (Pramono & Wahyuni, 2021).

This is also in line with Ahmad Yudhira's research which concluded that the development of Islamic fintech in Indonesia still provides considerable opportunities but must be followed by adequate regulations and infrastructure (Yudhira, 2021). And also supported by the results of research conducted by Muhammad Dzikri Abadi et al that fintech has a good level of effectiveness to increase Islamic financial inclusion (Abadi et al., 2020). So it is appropriate for banking institutions, especially Islamic banks to innovate in developing fintech-based products, as stated by Nur Kholis that technological developments cannot be dammed because it is directly proportional to human desire to always get convenience in every activity (Kholis, 2018).

Based on this, fintech is the best innovation or the main means in developing and maximizing the profitability of Islamic banking in the future. Also supported by the latest Islamic banking products that are needed by the community, these superior products when marketed with fintech will generate maximum profit, unlimited mobile banking and internet banking facilities, digital wallets with all the conveniences, ease of process for creating online savings accounts. , as well as the process of providing online financing facilities.

The merger of three state-owned Islamic banks into Bank Syariah Indonesia became a force with a large enough capital. BSI can expand its business by strengthening fintech-based products or even making new breakthroughs in an effort to maintain its existence. BSI is expected to be the locomotive of Islamic banking growth. In addition, sharia-based regional bank products have also begun to adapt to fintech.

RESEARCH METHODS

This research design is included in the type of field research by collecting various data and information from all stakeholders of Islamic banking institutions. Researchers determine the source of data that will be used as research subjects, namely purposive sampling, determining the source of information purposively based on certain goals or considerations first. Therefore, the selection of sources of informants is based on the stated objectives, starting from the OJK, DSN-MUI, as well as two Islamic banks that can represent, namely Bank Syariah Indonesia and Bank Sumsel Babel Syariah. The approach in this study uses a qualitative descriptive to provide an overview of the Acceleration of Financial Technology Growth in Islamic Banks as an Existence Effort to Face the Pandemic of Covid-19.

RESULTS AND DISCUSSION

A. Fintech as Opportunities and Challenges for Islamic Banks in the New Normal Life Era

Kazarian in his book entitled "Handbook of Islamic Banking" said that the basic purpose of Islamic banking is to provide financial facilities by seeking financial instruments that are in accordance with sharia provisions. The main objective of Islamic banks is not to maximize material profits as the interest system in conventional banks, but rather to socio-economic benefits for the people (Sjahdeini, 2014).

Fintech is the result of innovation between financial services and digital technology that changes conventional business models to become more practical and effective (Chandra, 2018). If banking products are collaborated with the sophistication of fintech-based technology, it will certainly create a benefit for the community. Islam does not prohibit service innovation of a product because in the rules of ushul fiqh it is clearly stated that the law of origin of muamalah is permissible unless there is a proposition that prohibits it. So developing digital-based products for the benefit of the people is a noble goal that must be realized.

Basically, Islamic banking institutions have long implemented digital-based products that make it easier for customers to make transactions anytime and anywhere. The problem is that

some people are not familiar with these products and think they are more difficult to use than manual transactions. Stigma of this thinking hinders the growth of fintech in Islamic banks. But on the other hand, non-bank financing-based fintech products have become popular and favored by the wider community. With the ease and speed of the process, non-bank financing-based fintech becomes a very promising prospect for capital owners to develop it.

According to OJK's internal view (Sumarjanti, 2020), fintech as an online financing company and fintech in Islamic banking have different core businesses. So it cannot be said that fintech is an opportunity that must be taken by banking institutions, especially Islamic banks. In contrast to the opinion of one member of the MUI DSN (Mursid, 2021), that the fintech phenomenon can be an opportunity and a challenge if it is handled appropriately by Islamic banking institutions. It is time for Islamic banks to create products that are more practical and flexible in order to seize opportunities and answer these challenges. The emergence of the COVID-19 pandemic and the entry of the new normal life era can be a momentum and the right reason for Islamic banks to create digital-based products that are easy, flexible, and even more beneficial. Because basically, some fintech products that have developed in Islamic banks include the following:

1) Online Savings Account Opening (Saputra, 2021)

Bank Syariah Indonesia already has an online account opening facility before the merger to facilitate the mobility of prospective customers. Of course, this is very beneficial during the Covid-19 pandemic, where banks became one of the clusters that spread the spread of Covid-19.

2) Digital Wallet QRIS (*QR Code Standard Indonesia*) (Hakim, 2021)

As an implementation guideline for the Rapid Response (QR) of the Indonesian Standard Code (QRIS), Bank Indonesia (BI) has issued Board of Governors Regulation (PADG) No. 21/18 / PADG / 2019 concerning National Implementation Standards for Quick Response Codes for Payments, dated August 16, 2019 which aims to ensure the smooth implementation of payment services using QRIS in Indonesia. Basically, the existence of QRIS aims to minimize the ATM transaction queue function at the bank. In conventional banks, QRIS products are only transactional, in contrast to Islamic banks where the development of QRIS also aims to facilitate religious social activities. There are at least three objectives for developing QRIS, namely the purpose of strengthening third party capital, the company's spiritual goals, and the customer's social goals.

3) Online Financing (Purwanegara, 2021)

To answer the challenges of fintech in the digitalization era, Islamic banks must provide solutions for the convenience and comfort of customers. Especially in the new normal era where all elements of society are forced to live a life that is not as it should be, then BSI has issued a Mitraguna Online Financing product. However, this product is only limited to civil servants whose salaries are already payroll.

4) Zakat Payment Application (Papeko, 2021)

The task of Islamic banks in general is to collect funds from the public and distribute them in the form of financing based on sharia principles. In sharia bank savings products, there is an approval clause for automatic zakat maal deductions for all customers. In addition to optimizing zakat funds from customers, Bank Sumsel Babel issued a digital system application for managing zakat funds. The initial target of this digital application, which is named Friendly Zakat, is all employees of Bank Sumsel Babel. This digital product is connected to QRIS for employees as mustahik at all Bank Sumsel Babel merchants.

B. Barriers to Fintech Growth Acceleration in Islamic Banks during the Covid-19 Pandemic

There are several obstacles or obstacles to fintech acceleration in Islamic banks that are not yet optimal. One of the obstacles is the large number of customers who do not understand the use or operation of fintech so that the facilities provided are less than optimal (Pane, 2020). In addition, the proliferation of fintech-based conventional loan products from private and even foreign companies is one of the main factors. Islamic banks have 5c principles that must be met, so if the implementation of fintech-based online loans will foster the practice of usury. While the principle of disbursement of funds in Islamic banks is financing not lending (Maulana, 2020). So this concept has an impact on the process of eligibility for prospective financing customers, which must have a clear purpose of use, not based on the principle of multipurpose. Meanwhile, customers are already in the comfort zone of entering the conventional usury-based system with all its conveniences. So that digital-based financing models such as those that have been implemented by fintech companies will be difficult to realize by Islamic banks who really pay attention to the feasibility of potential partners based on their contracts and objectives.

The things mentioned above are due to the fact that the literacy level of the Indonesian people towards Islamic bank products is also still very low at around 9%. Islamic banking institutions must continue to innovate in collaboration with various partners in an effort to

adapt and exist to the development of fintech 4.0 in the era of digitalization and new normal life. There is also a need for synergy between the government and institutions and organizations that focus on the development of the Islamic economy such as the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), the Islamic Economic Community (MES), and the South Sumatra Islamic Economic Dai Forum (ForDEISS) to improve better Islamic economic and financial literacy.

C. Strategy of Islamic Banks in Efforts to Accelerate Fintech Growth during the Covid-19 Pandemic

From the results of interviews with two Islamic banks who became informants, there are several strategies implemented by Islamic banks in an effort to accelerate fintech growth in the midst of the current Covid-19 nuanced competition, namely:

1) Product Maximization Existing (Saputra, 2021)

Although many digital-based banking products have been implemented by banking institutions, Islamic banks continue to innovate so that product facilities can adapt to the new normal life era. BSI has collaborated with various start-up companies in the e-commerce and e-channel fields to develop its m-banking facility. This is aimed at facilitating payments for goods and services sold by partner companies. Various other conveniences such as payment of insurance premiums, pilgrimage savings, and digital-based ziswaf payments further complement the m-banking facilities owned by BSI. The development of this product is very relevant in the new normal life era, even BSI's fee-based income has increased from m-banking transactions.

2) Collaboration with Sharia Fintech Institutions (Purwanegara, 2021)

In addition to developing its m-banking facility, BSI has also collaborated with Sharia Fintech Institutions to fund digital-based micro-financing programs, one of which is the QAZWA company. In addition, BSI also cooperates with BPR Syariah Hijrah Alami in order to build a sharia digital ecosystem in Indonesia. In addition, BSI also cooperates with PT. Fintek Karya Nusantara (LinkAja Syariah) to facilitate bill payments such as electricity tokens, transportation, and other programs related to digital financial services. BSI realizes that by becoming an inclusive sharia financial institution based on the principle of ta'awun between business institutions, it will bring more benefits and improve the welfare of the people.

3) Optimization of QRIS products through the mosque cluster approach and the Amil Zakat Institution (Papeko, 2021)

QRIS aims to support BI's National Non-Cash Movement (BNNT) program and support the development of the digital economy in Indonesia. QRIS can be an instrument of worship for Muslim communities who want to pray or pay zakat. Therefore, Bank Sumsel Babel Syariah took a mosque cluster approach and amil zakat institutions, both BAZNAS and LAZNAS as a special strategy to socialize QRIS. In addition to providing convenience for Muslims to worship maliyah, minimizing the risk of cash management for mosque takmir and zakat amil, Islamic bank deposits have also increased.

4) Optimization of QRIS products for fostered UMKM (Hakim, 2021)

In line with the objectives of the mosque cluster approach and amil zakat institutions, optimizing the use of QRIS for UMKM assisted by banks is a very good strategy. Customers will manage cash finances easily without risk, both the risk of the covid-19 pandemic and security risk, and of course this is also increasingly profitable for the bank. Banks will find it easier to monitor the business development of the assisted UMKM, and bank deposits will also increase with turnover going directly to the business accounts of UMKM actors.

CONCLUSION

The article on the acceleration of fintech growth in Islamic banks as an existential effort to face the COVID-19 pandemic ultimately concludes several things:

1. The phenomenon of the development of fintech in Indonesia can be a great business opportunity if it is addressed properly by Islamic banking institutions. Digital-based banking products created must lead to great benefits for the community in the new normal life era. And Islamic banks as Islamic financial instruments must be at the forefront of combating usury-based non-halal transactions in order to achieve falah in the world and the hereafter for the people.
2. The convenience of the public using conventional methods and those who still do not understand the use or operation of digital-based products are one of the factors that hinder the development of digital-based products in Islamic banks. In addition, the proliferation of conventional fintech-based loan products from private and even foreign companies can be an indicator that the Indonesian people have a low literacy level for Islamic banking products.

3. Islamic banks have made efforts to increase financial inclusion through collaboration with various financial partners such as Sharia BPR, Sharia Fintech Institutions, as well as the Mosque Cluster approach and Amil Zakat Institutions so that their digital-based products can bring benefits to everyone. This of course can facilitate the way to achieve Falah in the World and the Hereafter as the Goal of Fintech Growth Acceleration in Islamic Banks.
4. And as input, Islamic banks must increase synergy with various parties concerned in the field of Islamic economic development such as the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), the Islamic Economic Community (MES), and the South Sumatra Islamic Economic Dai Forum (ForDEISS) so that Islamic economic and financial literacy can increase in Indonesia as a Muslim-majority country.

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