

Digitalization Of Sharia Banking In Improving Financial Inclusion In Indonesia

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ABSTRACT

This study aims to describe and analyze the digitalization of Islamic Banking in Indonesia. how important is digitalization for Islamic banking and how digitalization of banking can increase financial inclusion in Indonesia. This research uses a descriptive qualitative method through literature study. The result of this research is that the digitalization of banking is a necessity along with the development of the world of technology. Banking digitalization is not just mobile banking, but all banking activities carried out using technology are a form of banking digitization.

Keywords: Digitalization, Islamic Banking, Financial Inclusion

INTRODUCTION

As Muslim, Indonesian people have an obligation to follow sharia or rules that are in accordance with Islamic principles as a form of Sharia compliance (shariah compliance). This form of obedience is carried out in every day-to-day activity both worship and muamalah. This sharia compliance can be the basis for every Muslim in implementing a halal lifestyle in accordance with Islamic teachings, namely, food and beverages, cosmetics and medicines, financial institutions, clothing, financial institutions, and so on (Adinugraha & Sartika, 2019).

In the financial sector, the Muslim community is also required to prioritize Sharia in selecting financial institutions to be used as a medium for financial transactions. Islamic banking is a financial institution that has an important role in driving the country's economy. Its function as an intermediary between customers is crucial because it promotes Islamic values as a guarantee of Sharia compliance. This Sharia compliance is a characteristic that distinguishes between Islamic banks and conventional banking in Indonesia (Yusmad, 2018).

Various facilities are provided through technological innovation in Islamic banking services over the times. Ease of transaction in Islamic banking is supported by the development of technology or digitalization. The Financial Services Authority (OJK) defines banking digitalization as a form of banking service that uses electronic means that allows financial transactions to be carried out independently by customers. Banking digitalization is able to answer all customer needs broadly in line with changes in people's habits that use more virtual transactions. Furthermore, digitization is interpreted as a process of providing or using a digital system that facilitates all human affairs through a gadget (<https://kbbi.web.id/digitalisasi>, n.d.).

In the Islamic banking industry, digitization is a necessity to achieve global financial inclusion. Financial inclusion is a condition where people can easily access quality banking services. So that people can feel the benefits of Islamic banking easily through their digital devices using Internet access. The internet has now massively spread throughout the country, which can have an impact on accelerating the achievement of financial inclusion in Indonesia. Internet user data in Indonesia is increasing from year to year, this can be seen in the image below (<https://grahanurdian.com>, 2022):



Figure 1. Data of internet users in Indonesia

Banking digitization is not only seen as a provider of mobile banking, but as a tool used to facilitate every banking transaction used by customers to make transactions without involving employees from the bank concerned or doing transactions independently. So that every transaction is easier to do anywhere and anytime and can be a way to achieve financial inclusion in Indonesia.

METHOD

This study is a descriptive qualitative research using data through the study of literature where researchers use many references that are relevant to this study. The descriptive method used is to describe phenomena based on research results from various publications, news, and other supporting references. A qualitative approach is used because cold information is presented in the form of non-numeric and presented in verbal form, namely words and writing (Moleong, 2018).

RESULTS

1. Development of Digitalization of Islamic Banking.

The increasingly developing digital era is attached to the lifestyle of every individual in Indonesia, especially in the banking sector. Today's customers prefer digital services to conventional services for easy and flexible reasons. Responding to this, the Islamic banking industry must also innovate and transform towards digital banking services. Transformation is a certainty that will definitely occur, including the banking industry which is influenced by internal and external factors such as the real sector, politics, law, the global economy and social change.

The transformation of the banking industry is a phenomenon of the development of Financial Technology (FinTech) and the industrial revolution 4.0. This situation directs the banking industry to provide digital-based banking services so that it can remove distances, time constraints, and places for customers so that financial inclusion can be achieved because it is easy for people to access banking services (Riza Aditya Syafri, 2021). Because true financial inclusion is a situation where the wider community can easily get banking services without any space and time limitations.

To accommodate massive technological developments, Islamic banks must also improve services by providing digital banking services to seize opportunities from the 4.0 industrial revolution era. This is in accordance with the directives contained in the new Financial Services Authority Regulation (POJK), namely POJK12/POJK.03/2018 concerning the Implementation of Digital Banking Services which came into effect on 8 August 2018.

The era of the industrial revolution was marked by the development of various technological innovations such as the Internet of Things (IoT), Cloud Computing, Artificial Intelligence (AI), and Machine Learning. The benefits of digitalization in the banking sector are felt to be very significant which has brought major changes to banking services. There are at least four indicators that can change the banking system in the future as mentioned in the Banking Digital Transformation Blueprint issued by the OJK, namely (Otoritas Jasa Keuangan (OJK), 2021):



Figure 2. The Impact of the 4.0 Industrial Revolution on Banking

In the picture above, you can see 4 aspects that have arisen from technological developments, namely, First, rapid technological developments are able to create new digital ecosystems and habits and banks can become players in them. Banks can partner with fintech and big tech service providers who can attract new consumers by developing access to other banking products and services. Second, big data, or what is understood as the use of large volumes of data can be an alternative source of information that can benefit banks in diversifying new businesses.

Third, the massive development of technology has increasingly broadened people's expectations for banking services, namely by no longer being limited by space and time for office services but leading to banking services that are easier, more personal, transparent, and trendy. Fourth, technological changes from time to time require banks to transform towards fully digital. This change has become a habit that is attached to the community and years for safe, effective, and efficient banking services. The implications of this digital service transformation can increase the penetration and reach of services to the public so as to increase banking productivity, profitability, and existence. Furthermore, financial inclusion can also be achieved by Islamic banking in Indonesia (Dz., 2018).

2. Opportunities and Challenges of Islamic Banking in Indonesia Facing the Digitalization Era

The increasingly massive technological developments require every public service to prepare digital-based services, including Islamic banking services. Digitalization of this service is a must as the demands of users of banking products and services where the majority have now used the internet in banking transactions. In Indonesia, internet users are increasing from year to year. Indonesia E-Commerce Association (idEA), Google Indonesia, and Taylor Nelson Sofres (TNS) released at least in 2016, online transactions involving banking reached IDR 300 trillion, making Indonesia the best country in developing the e-commerce industry (Fatimah & Hendratmi, 2020). Indonesian people are loyal internet users, from 2011 to 2019 it was reported that it continued to increase, this was due to changes in new habits that turned to fulfilling needs effectively and efficiently in the financial sector. We Are Social and Hootsuite released the number of internet service users in Indonesia reaching 73.7% with a total Indonesian population of 273.87 million as of December 31 2021 based on the results of a report by the Director General of Population and Civil Registry. The development of Internet and smartphone users can be seen in the image below (Puspitasari et al., 2020):

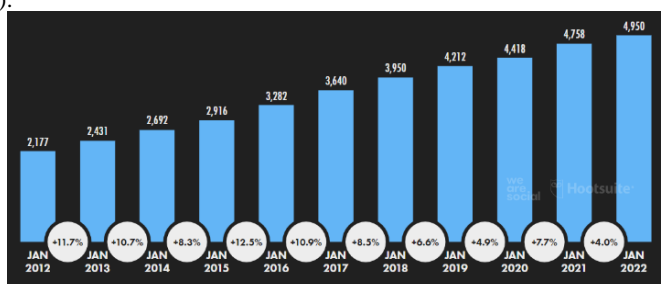


Figure 3. Graph of Internet Users in Indonesia

Source: We are Social and Hootsuite

Based on the picture above, it can be seen that the opportunities for digitalization development, especially in the Islamic banking service sector, are very broad and dynamic. Innovations that prioritize the effectiveness of transactions will be increasingly favored by customers, this is of course reasonable because various transactions can be carried out only through technological devices without having to go to the service office. Customers are given the flexibility to carry out various financial transactions wherever and whenever and can transact independently such as transfers, bill payments, purchases, and even opening new accounts, all of which will be covered in mobile banking and internet banking which can be downloaded in the application store on their personal mobile phones.

Several strategies to increase opportunities for Islamic banking in facing the globalization era are by carrying out 3 scales of initiatives as follows (Fatimah & Hendratmi, 2020):

- a. Trully 24 Hours
- b. Digital Banking
- c. IT Enabler

These three initiatives are expected to be able to further expand the market share of Islamic banking in Indonesia by continuing to present financial technology that can be accessed easily so as to cut costs and time for each transaction. Every change certainly also has challenges as motivation in presenting various new solutions and innovations. Digitalization certainly also has challenges that must be watched out for by both parties, namely service providers and users. Rusydiana's research results (2018) explain that the most fundamental challenges for the development of the Islamic banking industry in Indonesia are: Lack of policy instruments that cover the banking digitalization work system, as well as limited human resources for maintenance and data analysis in the big data era, and human resources in digital marketing. Synergies between regulators or the government, academics, and also sharia banking industry players must always be strengthened to achieve the same goal, namely financial inclusion in Indonesia (Rusydiana, 2018).

3. The Role of Digitalization in Increasing Financial Inclusion in Indonesia.

In the national financial industry, three things are the most basic and should be felt by all people, namely accessibility, availability, and usability of the entire range of banking services. These three indicators are achievements that must be implemented to achieve a condition, namely financial inclusion where all people can easily access, obtain services, and get benefits in an easy, fair, and equitable manner. Financial inclusion has a mission to remove various barriers that arise such as not getting banking services for people who have low incomes, do not have documents, and other vulnerable people who are not served and are excluded from the formal financial sector (Puspitasari et al., 2020).

One of the transformations in the banking industry was triggered by the Covid-19 pandemic which hit most countries in the world. This pandemic has shifted the mindset and habits of customers from a physical economy to a virtual economy. This situation creates a new habit in various aspects so that it becomes a momentum to create digital behavior including banking transactions (Otoritas Jasa Keuangan (OJK), 2021). The growing market demand for services that lead to a virtual economy certainly forces Islamic banking services in Indonesia to accelerate the process of changing digital services, and new innovations that offer services that are more effective, efficient, and productive in order to be able to answer the expectations and interests of the community amidst the mushrooming banking business. It was this momentum that led Islamic banks to good achievements with performance reports that recorded an increase. This can be seen in the image below:

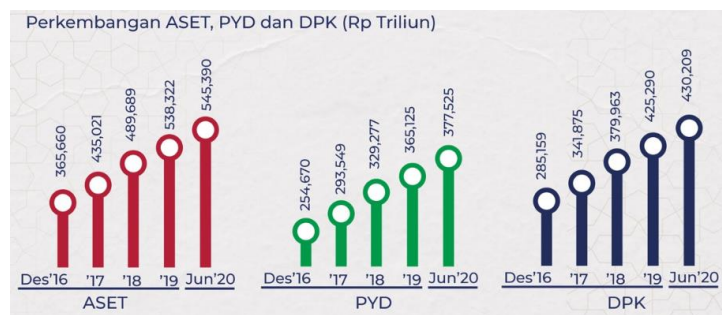


Figure 4. Development of Assets, PYD, and Sharia Banking DPK

In the picture above, it can be seen that Islamic banking assets grew to 9.33% (YoY), Distributed Financing (PYD) increased to IDR 377.525 trillion and DPK increased to IDR 430.209 trillion.

Financial inclusion is a form of deep financial services (financial service deepening) for all people from all walks of life to be able to access formal financial products and services such as savings, transfers, financing, and other banking services using the main indicators namely access, use, and quality (Nurfalah & Rusydiana, 2019). Digitalization of Islamic banking is able to accelerate the inclusiveness of Islamic banking in Indonesia because virtual-based services are now increasingly in demand. By minimizing various risks that arise, namely by implementing 8 principles of digital transformation including Government, due diligence, contract requirements, information security, supervision and control, business continuity plans, access and audit rights, and strategic plans (OJK, 2021).

CONCLUSION

Digitalization of Islamic banking in increasing financial inclusion in Indonesia with three problem formulations can be summarized as follows:

1. The development of digitization of Islamic banking in Indonesia is very rapid, this has an impact on changing the behavior of people who switch to virtual services so that they can cut distance and time. Financial transactions in Islamic banking must also switch to digitization services, so as to be able to meet the new expectations and customs that are now attached to most Indonesian people.
2. Opportunities for digitizing Islamic banking in Indonesia are very wide open along with the increasingly rapid development of technology. This opportunity also has an impact on the development of Islamic banking which adopts virtual-based services by relying on mobile banking and Internet banking applications, so that people can more easily carry out transactions independently, effectively, and efficiently through personal technology devices. The challenges faced in this digital era are the lack of human resources capable of mastering technology and the lack of regulations that cover the digitization of banking services.
3. The role of digitalization of Islamic banking in financial inclusion is very large, this is also the impact of the momentum of the Covid-19 pandemic which limits the public space of society so that this policy fosters a shift in people's habits from the physical economy to the virtual economy so that the digitalization of Islamic banking can become one of the aspects supporting the achievement of financial inclusion in Indonesia.

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