The Synergy Between Fintech and Islamic Banking: Expanding Access to Financial Inclusion

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ABSTRACT

This study aims to examine how the synergy between Fintech and Islamic banking can expand inclusive financial access in Indonesia. Through a literature review, this research identifies the role of Fintech in digital finance based on Islamic principles and the integration of the economic ecosystem. The findings indicate that the synergy between these two sectors holds significant potential for enhancing financial inclusion. However, the study also identifies several challenges, including regulations that have not fully accommodated innovation and the need for improved digital financial literacy. The study concludes that the synergy between Fintech and Islamic banking is a strategic step towards achieving inclusive financial goals in Indonesia, but it requires support from various stakeholders to overcome the existing challenges.

Keywords: Islamic Finance, Financial Inclusion, Fintech, Rural Access, Regulatory Challenges.

ABSTRAK

Penelitian ini bertujuan untuk mengkaji bagaimana sinergi antara Fintech dan perbankan syariah dapat memperluas akses keuangan inklusif di Indonesia. Melalui studi literatur penelitian ini mengidentifikasi peran fintech terhadap keuangan digital berbasis syariah dan integrasi ekosistem keuangan. Hasil penelitian menunjukkan bahwa sinergi kedua sektor memiliki potensi besar dalam meningkatkan inklusi keuangan, Namun, penelitian ini juga mengidentifikasi sejumlah tantangan, termasuk regulasi yang belum sepenuhnya mengakomodasi inovasi, serta kebutuhan akan peningkatan literasi keuangan digital. Penelitian ini menyimpulkan bahwa sinergi Fintech dan perbankan syariah merupakan langkah strategis untuk mencapai tujuan keuangan inklusif di Indonesia, namun memerlukan dukungan dari berbagai pemangku kepentingan untuk mengatasi tantangan yang ada.

Kata Kunci: Keuangan Islam, Inklusi Keuangan, Fintech, Akses Pedesaan, Tantangan Regulasi.

INTRODUCTION

Indonesia, home to the world's largest Muslim population, holds significant potential for the development of the Islamic economy. However, access to Islamic financial services, particularly in rural areas and among the lower-middle class, remains severely limited. Several factors contribute to this phenomenon, as evidenced by field data collected by the author. Among these is the limited availability of Islamic banking services in remote areas, which presents a significant barrier for the community in obtaining financial services. Moreover, the low level of financial literacy, especially in rural areas, hinders the population's ability to understand Islamic financial products and services.

The emergence of financial technology (fintech) offers innovative solutions to address issues of financial inclusion. Sharia-compliant fintech, adhering to the principles of Islamic finance, holds substantial potential to broaden financial access for underserved populations. While fintech is not a new development in the financial services industry, the intensity of discussions and studies concerning its relationship with Islamic banking has increased considerably in recent times, largely due to fintech's rapid penetration. This issue has garnered attention at various levels in Indonesia, including among policymakers, academics, and financial industry practitioners, as well as the public (consumers) who are fintech users.

Fintech is defined as an industry sector that leverages technology as its transactional model, owing to the perceived efficiency of technology in delivering financial services. This definition aligns with that of the World Bank (World Bank, 2016). Bank Indonesia further elaborates that fintech represents a modification of financial services through technology, which has subsequently transformed the business model of Islamic banking (Bank Indonesia, 2017).

The presence of fintech is expected to drive financial institutions to offer higher quality, more accessible, and faster services, anytime and anywhere. Therefore, the emergence of fintech companies should be viewed as an opportunity to enhance service delivery within financial institutions, promoting both flexibility and functionality across various segments (Darman, 2019). Another factor contributing to the increased use of the fintech industry is the shift in consumer lifestyles, which has implications for the financial sector, including the use of Islamic banking, and the shortened response time for authorities to formulate policies. As such, there is a need to build a business synergy between fintech and incumbent industries (banks and non-bank institutions). This can be achieved through collaboration in information channels and product development.

Given the above background, this study focuses on several aspects, including how Sharia fintech can enhance financial inclusion in Indonesia and what factors influence the success of synergy between fintech and Islamic banking.

METHODS

This research will focus on literature that explores the synergy between fintech and Islamic banking in the context of inclusive financial access. The method employed by the author is descriptive analysis, identifying patterns, trends, and relationships among the concepts central to the study. To enhance the urgency and relevance of the research, the author also conducts thematic analysis to identify emerging themes within the literature, constructing a conceptual framework to understand the synergy between fintech and Islamic banking. Additionally, the author utilizes data sources from various websites to refine the article, including Google Scholar, Scopus, JSTOR, Emerald Insight, and databases specifically related to Islamic banking and fintech.

RESULTS AND DISCUSSION

Fintech, or financial technology, has become increasingly popular in recent decades, particularly in developed countries, including Indonesia. This is due to the inherent effectiveness and efficiency of fintech services in various transactions, such as payments, transfers, investments, and financing loans, which are often promoted with the slogan of being fast and easy (Yuda et al., 2021). Another advantage of the emergence of these companies is the time, effort, and cost savings they offer (Fahlefi, 2018).

1. The Role of Sharia Fintech in Enhancing Financial Inclusion in Indonesia

Fintech is defined as a startup focused on providing financial services through modern software (Nafiah & Faih, 2019). The development of fintech has impacted various sectors of the financial industry, aiming to create innovation, enhance technological infrastructure efficiency, and improve system stability, resilience, and security across banking institutions, capital markets, insurance, and other financial institutions (Fin, 2016).

Fintech essentially represents innovation in finance by leveraging advancements in financial technology. The combination of increased big data usage and mobile transactions supported by the internet simultaneously creates innovation within the financial system (Jagniati & John, 2018). Fintech, with its digital-based service delivery model, has transformed traditional business models from requiring face-to-face transactions to enabling online transactions without the need for physical interaction and with significantly reduced time (Rasidi et al., 2021).

Moreover, fintech can be considered a digital revolution in technology-based financial services. It not only facilitates public transactions, such as payments but also has the potential to boost the national economy. This indicates that fintech provides structural solutions for the growth of the electronic financial industry (Herdianata & Pranatasari, 2021). This business model can also be characterized as digital-based.

Through digital business, many young entrepreneurs and millennials have become creative and innovative in addressing social problems in finance. This type of business model is expected to continue growing and expanding year by year, providing a platform for the millennial generation to channel their talents and creativity (Suryana & Perdana, 2021).

The services developed by fintech follow the concept of disruptive innovation, which can take over the functions of Islamic banking by offering systems that are more accessible, less complicated, comfortable, and, importantly, more affordable for the public (Ryu, H.S., 2018). Disruptive innovation is characterized by an existing model that offers practical, easily accessible services at a more economical cost while providing comfort (Suharyati & Sofyan, 2018). Observing this phenomenon, fintech companies develop systems that play significant roles similar to Islamic banking by creating environmentally friendly products. However, the innovation they offer is breakthrough-oriented and eagerly seeks to replace the position of the Islamic banking segment.

The emergence of fintech companies is driven by two main reasons. First, the global financial crisis in 2008 affected traditional banking systems, and second, technological advancements in finance have provided mobility, ease of use, quick access, and relatively low administrative costs for the public.

Contrarily, according to Ansori (2019), the emergence of fintech is primarily due to unmet banking needs, such as those influenced by complex regulations, limited access for certain segments of society to banking services, restricted banking industry capacity, and the geographical distance between banks and customers, making it difficult for some customers to access banking services.

Furthermore, Fin (2016) identifies several key drivers of fintech development, including the transformation of customer attitudes and the urgency of customer needs, advancements in digital and mobile devices, and the rapid evolution of the times.

Additionally, declining customer trust in financial institutions has contributed to this development. However, the most urgent factor is government support through the issuance of policies that facilitate fintech growth.

In contrast, Muhammad Afdi Nizar (2017) classifies only two factors that contribute to the current growth of fintech: the increased use of the fintech industry due to changing consumer lifestyles, which has financial implications, including for Islamic banking, and the narrowing response time for authorities to formulate policies. Therefore, it is necessary to establish business synergy between fintech and incumbent industries (banks and non-bank institutions) through collaboration in information channels and product development.

2. Factors Influencing the Success of Synergy Between Fintech and Islamic Banking

Various factors influence the success of synergy between fintech and financial institutions, which are affected by both internal and external factors. Regarding internal factors, Management Commitment is crucial. This factor relates to strong leadership and a clear vision from both parties, which is essential to ensure alignment of goals and long-term commitment in the collaboration. This includes an innovative business model where the development of innovative Sharia financial products and services that meet market needs becomes a key attraction for consumers.

Organizational culture also plays a role; the presence of shared values and organizational culture between fintech and Sharia banking can facilitate the integration and cooperation process. In addition to internal factors, human resources are also crucial, specifically the availability of competent human resources with in-depth knowledge of fintech, Sharia banking, and information technology. This is crucial because the use of advanced and secure technology forms the basis for the development of efficient and reliable fintech services.

External factors include several aspects, among them regulations. A supportive and clear regulatory framework for fintech and Sharia banking will create a conducive business climate for synergy development. Adequate technological infrastructure, such as stable internet networks and access to mobile devices, will accelerate the adoption of fintech services. Market demand is another factor; high demand for innovative and accessible Sharia financial products and services drives the development of synergy. The products offered are expected to have high competitive value, influenced by the high level of competition in the financial industry, which will force fintech and Sharia banking to continually innovate and improve service quality while considering macroeconomic conditions, political stability, and consumer trust, which will also affect the success of synergy.

The rapid advancement of technology represents the 4.0 revolution that brings changes to the transaction models in society. These changes occur across various segments, including education, socio-culture, communication, and financial services (Yuda et al., 2021). Digital financial innovation or DFIs represents a digital ecosystem involved in the financial services sector that adds value compared to traditional banking services. In the financial services sector, several types of fintech are offered: Fintech Peer-to-Peer Lending, which is the most popular fintech in Indonesia for its easy and fast service compared to traditional bank loans. Peer-to-Peer Lending, also known as P2P, is an innovative service focusing on providing funding from startups to individuals in need.

The funds collected by the company partly come from the public and partly from startup capital (Yuda et al., 2021). The presence of Peer-to-Peer Lending addresses the needs of the public that are not served by traditional banking (Rasidi et al., 2021). Crowdfunding is another activity that uses technology to raise funds for projects and social purposes, such as natural disasters, fires, earthquakes, and others (Rahadi, 2021). Both of these types are part of the renewal of business activity models, financial instruments, and business processes aimed at individuals needing capital for business development (Kholifah, 2019). Additionally, the main function of fintech is to connect investors with clients who need or lack funds.

In the digital era, the presence of digital payments has made it easier for consumers, including e-commerce systems. Nowadays, people who want to shop to meet their needs no longer need to spend time going to the market; with e-commerce, they can shop from anywhere in the world (Suryana & Perdana, 2021), with payments made using digital payment methods. Digital payment is a method of payment using electronic media. Each customer can use this system for transaction payments. The transaction model offered operates in payment traffic, whether by banks or Bank Indonesia. The aim is to facilitate more effective and efficient transaction payments for the public (Dinar, 2021).

Media used can include Short Message Service (SMS), Internet Banking, mobile banking, or other electronic wallets. Essentially, digital payment works by connecting customers and e-commerce parties for transaction payments, including shopping, bill payments, and other needs (Rahadi, 2021). Some applications supporting this fintech type include GoPay, OVO, T-Cash, and LinkAja. Customers only need to store money in electronic wallets or the applications mentioned above, enabling them to transact anytime and anywhere. The business model with digital payments includes two payment techniques: consumer and retail payments, and wholesale and corporate payments.

In addition to the types mentioned above, another fintech type is market aggregators, which provide data bank services for various financial products offered by companies in the market. This portal presents information on prices, features, and benefits of products. Thus, market aggregators function as comparators of financial products, presenting data as a reference for customers. For example, if a customer seeks information on insurance products, they will find products that meet their needs and preferences. In summary, market aggregators collect, manage, and present data to consumers to provide insights before choosing products and assist customers in decision-making. Examples of this fintech type include Financialku.com, and other products such as credit cards, unsecured loans, insurance, mortgage loans, and vehicle credit. Even the platform providers can help apply for various financial products that match customers' needs.

CONCLUSIONS

This study focuses on the synergy between fintech and Islamic banking in expanding inclusive financial access. The research finds that collaboration between these two sectors has significant potential to enhance financial access for communities, particularly in remote areas and marginalized groups. Fintech provides easier access, lower costs, and faster processes compared to traditional banking, making it an attractive option for those not yet reached by formal financial services. Collaboration between fintech and Islamic banking can create more innovative, sustainable, and inclusive financial service models. Fintech can leverage the infrastructure and customer base of Islamic banks, while Islamic banks can benefit from fintech's technology and innovations to enhance the reach and effectiveness of their services. Several challenges need to be addressed in building synergy between fintech and Islamic banking, including inadequate regulations, cultural and mindset differences, and a lack of financial education and literacy.

This study recommends several steps to enhance synergy between fintech and Islamic banking:

1. Development of Supportive Regulations: Clear and conducive regulations are necessary to promote collaboration between fintech and Islamic banking. These regulations should address aspects of security, consumer protection, and financial system stability.
2. Improvement of Financial Education and Literacy: It is important to enhance financial education and literacy, especially in remote areas and among marginalized groups. This can be achieved through structured and comprehensive educational and outreach programs.
3. Development of Infrastructure and Technology: There is a need for the development of infrastructure and technology that supports collaboration between fintech and Islamic banking. This includes investing in information and communication technology, as well as expanding internet network coverage.
4. Enhancement of Collaboration and Synergy: Increasing collaboration and synergy between fintech and Islamic banking is crucial. This can be facilitated through the establishment of cooperation forums, joint program development, and the exchange of information and knowledge.

By implementing these recommendations, it is expected that the synergy between fintech and Islamic banking will be strengthened, thereby expanding inclusive financial access for communities in Indonesia.

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