

Disruptive Technology: The Phenomenon of FinTech towards Conventional Banking in Indonesia

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Abstract. The purpose of the study was too disruptive technology. The rapid changes in technology due to the innovation has brought an impacts in changes on human lifestyle. Technology simplifies and accelerates human being in doing its activity. The development of digital technology (disruptive technology) has an impact on all aspects of human life. The purpose of this research is to see the phenomenon of the conventional banking in Indonesia to make changes in its business processes in order to compete with Fintechs Company that is growing rapidly. This research method looks at the phenomenon on conventional banking in Indonesia by looking at the impact of technology and digital. The first phenomenon is the rapid development in the world currently occur in the digital economy, one of which is a digital-based financial service known as financial technology (FinTech). The second phenomenon is digital technology has been able to change the behavior of Indonesian people in all aspects of life, such as electronic books, electronic newspapers, online sales and public transportation (taxis and motorcycles). The third phenomenon is FinTechs services in Indonesia include Payment channel system, Digital Banking, Online/Digital Insurance, Peer-to-peer (P2P) Lending and Crow funding. Banks should be able to balance the development of this digital technology by providing new products that are close to customer's wishes. There is a gap that has not been served by banks in Indonesia that resulted in the emergence of potential benefits that can be taken by Start-up Company (pioneer) FinTech in providing services and banking products. Banking in Indonesia can synergize with start-up companies (pioneer) FinTech by changing its business process by doing Business Process Reengineering (BPR).

1. Introduction

The current population of Indonesia is 262 million people. Of this number only 20% or 52 million population served by banking services, and the majority of these residents are living in urban areas [1]. There are still 210 million people who have not been served by banking services especially for remote and rural areas. The geographic condition of Indonesia which has many islands spread from the western end to the eastern end, with thousands of villages and hamlets located from the coast to the forests and mountains is the biggest challenge of opening the community's access to the financial services industry. Until now, residents in the villages still difficult to use or get banking services and other financial services. Currently the Government through the financial services authority (OJK) has made clever behavior programs as community access in remote areas and in the countryside start in June 2015. The Financial Services Authority (OJK) program in the order of inclusive finance provides banking services



or other financial services through cooperation with other parties (bank agents), and is supported by the use of information technology facilities [2].

The current environment change in the world is very fast and always changing, supported by the innovation of the business and technology that is always growing especially in the era of technology and the digital economy. This requires a new approach in structuring business management that is very different from the approaches that have been done by the business which is by doing Business Process Reengineering (BPR). In a volatile global world organizations enhance competitive advantage through Business Process Re-engineering (BPR) by radically redesigning selected processes [3]. This also applies and needs to be done by banks in Indonesia in order to be able to provide banking services to all communities, able to expand business overseas, able to compete with banks from abroad who enter Indonesia and able to compete with the FinTech's company (Start Up), which is now growing in providing services that are almost closer to the banking services using technology and the digital economy.

The competitive advantage of banks that in order to optimize the role of Fintech in Indonesia, it is necessary to build business synergies between banks and non-bank financial company with FinTech, company through the collaboration of information such as the utilization of the function of FinTech to business processes of banks and non-bank financial institutions so that can be more efficient, and through the product collaboration of bank so it can have a competitive advantage with redoing the business process to make useful corresponding to the products that produced by FinTech [2].

The dynamic changes in the banking environment and business force banks to reengineer business process operations to a fantastic performance. The operational process of bank that are intended to face the challenges of bank consolidation, the suspension of the operating costs, the improved customer service and the increased revenue demands innovative banking practices through Business Process Reengineering [4]. The Business Process Reengineering is the aspect that leads to a change and introduce new processes and new working style, so that certain elements needed to make a change [5]. Among them is the management of information technology (IT) that cannot be ignored for a radical redesign of an organization. IT infrastructure reassessment and composition as a vital factor in successful BPR implementation [6]. Adequate understanding and identification of enabling technologies for redesigning business processes [7], proper selection of IT platforms [8] effective overall system architecture [9], adaptable and flexible IT infrastructure and proper installation of IT components [8] all contribute to building an effective IT infrastructure for business processes [10].

2. Experimental method

This research looks at the phenomenon on conventional banking in Indonesia by looking at the impact of technology and digital [11]. These phenomena are based on the literature review of some journals and real conditions in Indonesian banking. By looking at secondary data coming from internet like OJK website and previous journal.

3. Results and discussion

The first phenomenon. The rapid development in the world currently occur in the digital economy, one of which is a digital-based financial service known as financial technology (FinTech). National Digital Research Centre (NDRC) defines FinTech is a term used towards an innovation in the field of financial services that refers to financial innovation with a touch of modern technology. Currently, FinTech's growth in the world is enormous, especially from the FinTech companies. The growth rose from 32% in 2016 to 45% in 2017 [12]. Indonesia is ranked 10th in the world in terms of the increase amount of FinTech companies that are continues to grow every year. This is also in line with the report from World Economic Forum (2015) that predict Indonesia will be one of the biggest digital markets in Southeast Asia by the year 2020 with a potential of 130 billion US dollars [11]. (Figure 1)

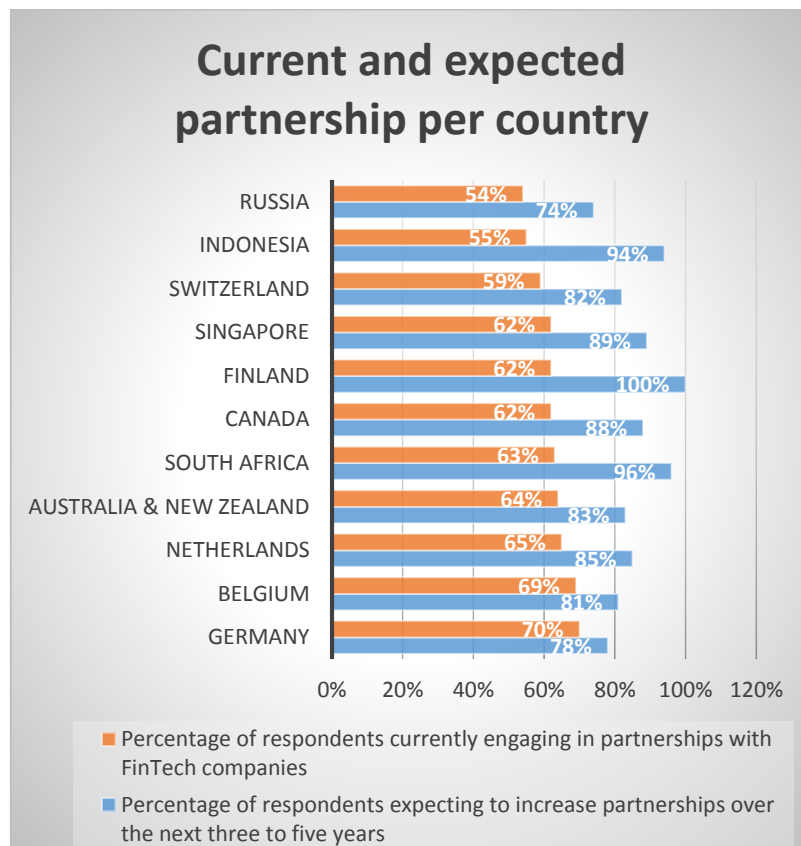


Figure 1. FinTech's growth in the world.

Source: PWC Global Fintech Survey 2017.

According to CNN Indonesia, the investment value of FinTech's industry in the world is US \$ 3 Billion in 2013, US \$ 12 Billion in 2014 and rose to US \$ 20 Billion by 2015 and the United States of America is the country that produces the largest FinTech industry in the world with 4.7 million of its Fintech industry, followed by India as much as 1.91 million Fintech industry and the UK as much as 820 thousand FinTech industry.

The second phenomenon. The report of the Association of Indonesian Internet Service Providers, stated that in November 2015 the internet users in Indonesia amounted to 88.1 million (34% of the population), social media users amounted to 79 million (31%) and mobile users amounted it 318.5 million (125%). This shows that the use of digital technology in Indonesia is enormous. Digital technology has been able to change the behavior of Indonesian people in all aspects of life, such as electronic books, electronic newspapers, online sales, public transportation (taxis and motorcycles) and financial technology (FinTech) [1].

The third phenomenon. FinTech's services in Indonesia include Payment channel system, Digital Banking, Online/Digital Insurance, Peer-to-peer (P2P) Lending and Crow funding. The development of FinTech in Indonesia is still dominantly done by business payments (43%), loans (17%) and the rest are aggregators, crowd funding and others, with 40 FinTech companies in 2015 and rapidly increasing to 165 FinTech companies by 2016, and this will increase in the coming year [2]. (Figure 2)

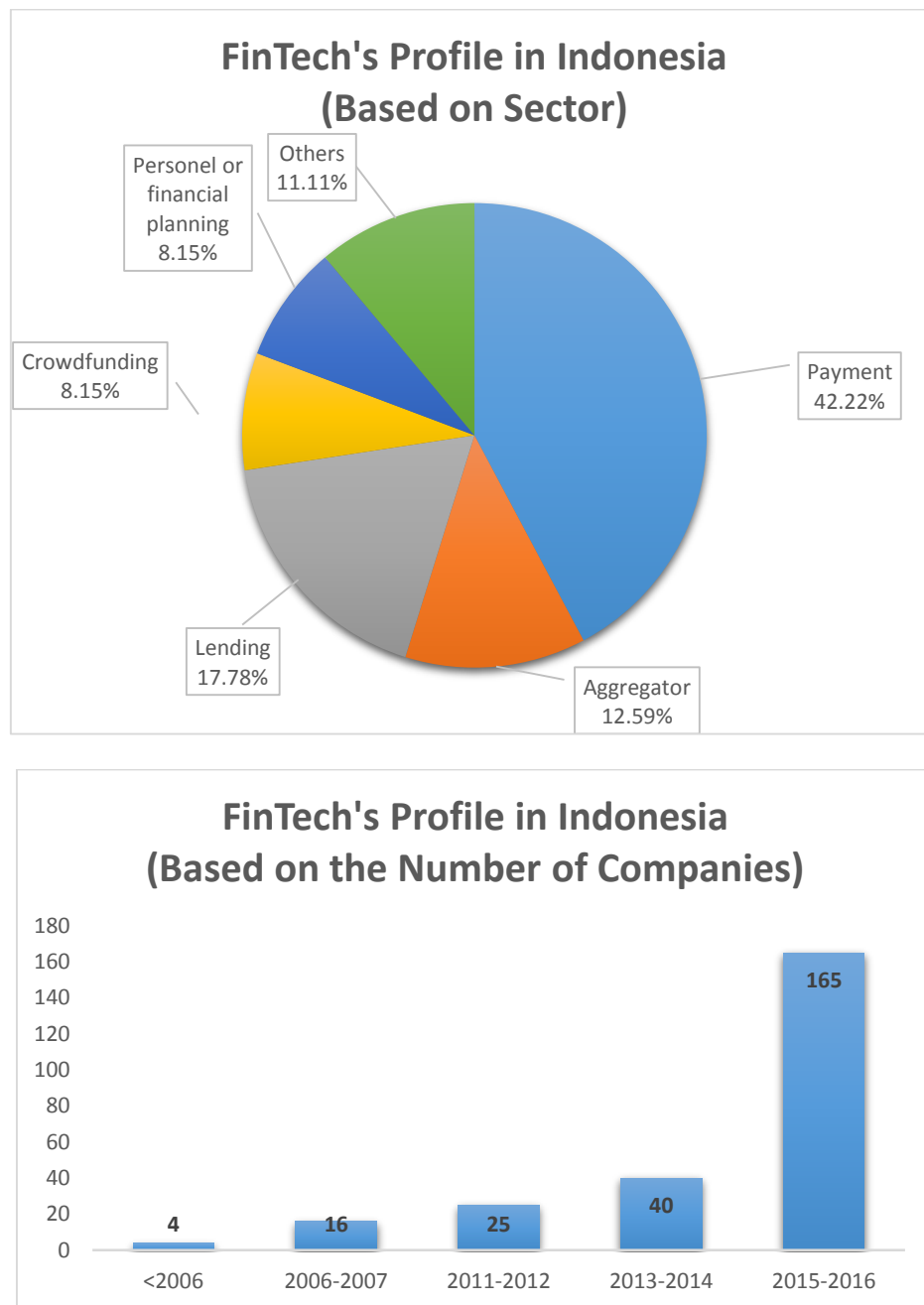


Figure 2. FinTech's profile in Indonesia.

The fourth phenomenon. Factors that make the people of Indonesia still difficult to access banking services, especially in remote and outermost areas is the unequal access to banking services itself, namely 81% of Indonesian population who have not received banking services. This gap is taken by the FinTech Company to gain profit. In addition, internet users in Indonesia are increasing every year with a very large [11].

In order to optimize the role of Fintech in Indonesia, it is necessary to build business synergies between banks and non-bank financial company with FinTech, company, through the collaboration of information such as the utilization of the function of FinTech to business processes of banks and non-bank financial institutions so that can be more efficient, and through the product collaboration of bank

so it can have a competitive advantage with redoing the business process / Business Process Reengineering (BPR) to make useful corresponding to the products that produced by FinTech.

4. Conclusion

Behavioral change of society is the basis of changes in the use of digital technology. The impact of the use of this technology was felt by the banking sector in Indonesia, especially with the emergence of FinTech Company that uses technology platform. The gap is exist between the conditions of conventional banking in Indonesia that still use the traditional system with the FinTech companies that already using the technology platform. One of the efforts of conventional banking in Indonesia is using business process reengineering to deal with this big change by conducting digital banking system in order to be able to compete and synergize with FinTech Company.

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