

CHAPTER I

INTRODUCTION

1.1 Background

Advances in digital technology over the last few decades have been overgrown. Overall, Statistics Indonesia (BPS) stated that the increase in the index that occurred in five years reached 0.78 points. The most significant increase in the index value between years occurred in 2019-2020, from 5.32 points to 5.59 points, or a rise of 0.27 points (Erlina F. Santika, 2023). This development allows humans to access various up-to-date information easily.

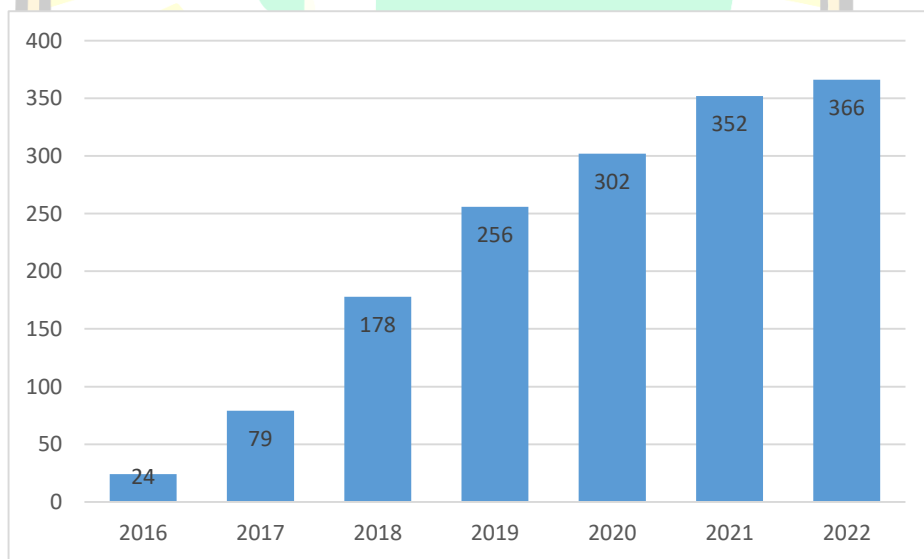
The development of digital technology is supported by the use of the internet, which is also experiencing growth. The internet population also experienced an increase during the 2016-2020 period, as shown by the rise in internet access in 2016 from around 25.37 percent to 53.73 percent in 2020 (BPS, 2021). Until 2022, 66.48 percent of Indonesians use the internet (BPS, 2023). This high internet use reflects a climate of information openness, public acceptance of technological developments, and changes toward an information society. Indonesia's high number of internet users cannot be separated from the rapid growth of cellular telephones. In 2022, 67.88 percent of the population in Indonesia will have a cell phone. This figure has increased compared to conditions in 2021, which reached 65.87 percent. (BPS, 2023).

The financial services and banking sectors reacted positively to this development. Today, more consumers consider alternatives to visiting the bank in person to complete transactions. When banks realize this, they see

opportunities to attract more potential customers by offering services that meet their needs and ultimately increase customer loyalty (Nur Kholis, 2018).

One of the popular technological developments in Indonesia is Financial Technology (Fintech). Fintech is increasingly popular in the digital era due to various advances in information technology, especially in the financial services sector. Fintech is changing banking and client interactions by combining information technology and financial services. The investment value in the fintech sector globally reached 111.8 billion USD in 2018. The United States has the world's most significant fintech investment value, with revenues of 52.5 billion USD.¹¹ (KPMG in Inda Rahadiyan, 2022).

Chart 1. 1 Fintech Members Development in Indonesia



Source : databoks, 2023

Companies that use fintech are members of the Indonesian Fintech Association (AFTECH). In Chart 1.1, shows the number of members of the Fintech Association in Indonesia has grown rapidly. In 2016 there were only

24 companies, in 2017 there was an increase of 2.29% to 79 companies. Until 2022, the number of fintech companies was 366 companies, which increased 0.04% from the previous year. Indonesian Joint Funding Fintech Association (AFPI) explains on its website that in 2018, the fintech industry in Indonesia is still dominated by the payments segment (43%), loans (17%), and the rest in the form of crowdfunding, aggregators, and others

Under the Indonesian Presidency, the G20 recognizes the role of digital finance and Fintech in supporting economic recovery and securing future growth from various negative impacts after the COVID-19 pandemic (Financial Services Authority, 2022). The fintech industry in Indonesia dominates around 33 percent of the total funding of fintech companies in Southeast Asia. This number is the second largest after Singapore, receiving 43 percent of total financing (Jpnn, 2023). The implementation of fintech is supported by regulations issued by Bank Indonesia number 19/12/PBI/2017 concerning the implementation of fintech, Bank Indonesia regulates the implementation of Financial Technology to encourage innovation in the financial sector by implementing the principles of consumer protection as well as risk management and prudence to maintain monetary stability, financial system stability, and an efficient, smooth, safe, and reliable payment system.

The entry of fintech into the financial sector has given rise to digital-based banking services (Kompas, 2023). Referring to Financial Services Authority Regulation Number 12/POJK.03/2018, digital banking services are developed via electronic media by optimizing customer data use (Adi Ahdiat,

2023). Other regulations are also regulated in Indonesian Banking Regulation Number 19/12/PBI/2017 concerning the implementation of financial technology, considering that developments in technology and information systems will increasingly innovate, especially in the field of technology as a form of fulfilling human needs by taking advantage of easy access to financial services.

Through a survey conducted by McKinsey & Company entitled "Digital Banking In Indonesia: Building Loyalty and Generating Growth" in 2019, it was stated that over the last three years, the growth in digital banking usage has doubled, seen from the perspective of other developing Asian markets (Sonia Barquin et al, 2019). 55% of non-digital customers said they would likely use digital banking in the next six months, the second highest figure for any country in developing Asia after Myanmar (Sonia Barquin et al., 2019). Digital service transactions worldwide from 2017–2021 grew by 118%, from USD 3.09 trillion in 2017 to USD 6.75 trillion in 2021 (Statista, 2021). In Indonesia, the development of digital service transactions grew much higher, namely by 1,556 percent in 2017–2020 (Muhammad Rafliyanto, 2022).

The Indonesian banking world has also realized the great potential of digital transactions, which are rising in Indonesia. According to Bank Indonesia press release No. 16/58/DKom, the Governor of Bank Indonesia Agus DW Martowardjo has officially launched the National Non-Cash Movement (GNNT), according to him, GNNT is aimed at increasing public awareness of non-cash instruments so that gradually a community or society

is formed that uses non-cash instruments more (Less Cash Society/LCS), especially in carrying out transactions for economic activities (Bank Indonesia, 2014).

With the existence of electronic money on the banking side, the availability of non-cash transactions is anticipated to reduce costs that would otherwise be incurred if consumers continued to use cash transactions (Septiana Mustika Dewi, 2023). In addition, it can increase banking income. This is due to the availability of top-up services or purchasing e-money balances, which are subject to introductory service rates (Septiana Mustika Dewi, 2023). Bank Indonesia Payment System and Financial Market Infrastructure statistical data reports that the value of electronic money shopping transactions in July 2022 was IDR 35.51 trillion, an increase of 9.22% compared to the previous month of IDR 32.51 trillion. This transaction's value is still higher than a year earlier, in July 2021, when electronic money was written as much as IDR 25.39 trillion in transactions. (Bank Indonesia, 2022).

Apart from digital banking and electronic money, peer-to-peer lending is also present in the Indonesian economy. Based on the Indonesian Joint Funding Fintech Association (AFPI) website, the first P2P lending company that appeared worldwide was Zopa, which was founded in 2005. Since its founding, Zopa has allocated loans worth more than GBP 3.22 billion to borrowers in the UK. Following Zopa's footsteps, Lending Club and Prosper were founded in the United States in 2006. Since then, the P2P lending

industry has developed rapidly. The largest market is in China, followed by the United States and the European continent.

According to Financial Services Authority Regulation No. 77/POJK.01/2016, fintech lending / peer-to-peer lending / P2Plending is a direct lending and borrowing service in rupiah between creditors (lenders) and debtors (loan recipients) based on information technology. As of February 19th, 2020, the total number of registered and licensed fintech providers was 161 companies (Financial Services Authority, 2022). The total P2P Lending loans collected in the last six years reached IDR 528.01 trillion, with the outstanding loans going to IDR 51.12 trillion in December 2022 (Antaranews, 2023).

According to research from Alistair Milne (2016), "The Business Models and Economics of Peer-to-Peer", one reason for the growth of peer-to-peer lending is the system's excellent access to credit. Peer-to-peer lending is able to reach people who do not have access to credit, mostly because there is no collateral, insufficient business scale, and no credit history (Sri Wahyuningsih, 2019).

In measuring financial performance, several theories must be understood. Signal theory is one of the pillar theories in understanding financial management (Imam Fahmi, 2014). In signaling theory, Spance in Marfianto (2019) stated that a signal from the party who has the information will try to provide relevant information/signals that the recipient can utilize. Investors need complete, relevant, accurate, and timely information as an

analytical tool for making investment decisions. Information published as an announcement will provide signals for investors in making investment decisions. Good performance is reflected in financial reports as signals or signs that the bank is operating well. This signal will also be responded to well by outside parties because the market response is very dependent on the fundamental signals issued by the bank. The connection of this theory to research is that the higher or better the financial performance in published financial reports, the more positive signals it will give to the public or investors because the bank can manage its finances well. This signal creates a sense of customer trust and guarantees security regarding funds deposited with the bank concerned (Yulia Prastika, 2019).

Research conducted by Erza Christian Dharmatanna (2020) shows differences in financial performance between banks that adopt fintech and banks that do not; this is accompanied by the impact of fintech, which improves the financial performance of banks in Indonesia. Atina Fiqha 's (2018) research on the influence of fintech on banking performance (ROA, CR, and TATO) shows that ROA, CR, and TATO have a significant effect before and after adopting fintech. Meanwhile, the DR variable indicates that there is no significant influence. Meanwhile, Andria Falestiya (2020) researched the differences in financial performance before and after fintech adoption by calculating the period three, four, and five years before and after adoption. The results of this study show that there are differences in ROE in the three testing periods, there are differences in ROA, FAT, and TATO in the four years of adoption, and there are no differences in ROA, FAT, and

TATO in the three and five years of adoption. Based on research by Misbah (2021), which examined four banks regarding their financial performance before and after fintech adoption, one out of four banks showed that there was a difference in ROA value after fintech adoption, three out of four banks showed that there was a difference in ROE value after fintech adoption, while three from four banks indicates that there are differences in NIM values after fintech adoption,

Much research has been carried out regarding the influence of fintech on bank performance and has produced inconsistencies. Therefore, it is necessary to conduct new research regarding "Analysis of Differences Before and After the Adoption of Financial Technology on Financial Performance in Banks Listed on the IDX in 2016-2020". It consider the three years before and after adopting fintech. What differentiates this research from previous research is that it chose digital banking, electronic money, and peer-to-peer lending as the fintech products to be studied. Also, financial performance will be seen from the Return on Assets (ROA) and Price Earning Ratio (PER).

1.2 Formulation of the problem

Based on the explanation of the background, the formulation of this research problem is:

1. Is there a difference before and after the adoption of fintech on ROA in banking in 2016-2020?
2. Is there a difference before and after the adoption of fintech on PER in banking in 2016-2020?

1.3 Research purposes

In accordance with the problem formulation above, the aim of this research is

1. To find out whether there are differences before and after the adoption of fintech on ROA in banking in 2016-2020.
2. To find out whether there are differences before and after the adoption of fintech on PER in banking in 2016-2020.

1.4 Benefits of research

Based on the description above, the researcher hopes that there will be benefits that can be obtained from this research, including:

1. For future researchers, it is hoped that this research can become an essential reference and a basis for further study. Apart from that, this research is expected to involve other relevant variables to provide more significant benefits for work and academic education.
2. For banks, this research aims to provide a deeper understanding of the impact of many fintech products on company performance so that it can provide guidance and insight for companies in formulating strategies and making decisions regarding the use and development of fintech products.
3. For investors. It is hoped that the results of this research can provide valuable discourse and consideration for investors in making investment decisions. Thus, this research can provide better guidance

in evaluating investment opportunities in the fintech sector and help investors make more innovative and effective decisions.

1.5 Writing system

Chapter I Introduction, contains an explanation of the research background, problem formulation, research objectives, research benefits, and writing systematics. Chapter II Literature Review describes the theories and general description of Financial Technology, financial technology products (digital banking, e-money, and peer-to-peer lending), financial performance (ROA and PER), previous research, hypothesis, and the conceptual framework. Chapter III Research Methods, this chapter contains a more detailed explanation of the research. Starting from the type of research, sample, and population of research, data collection methods, and data analysis methods. Chapter IV Results and Discussion contains a description of research objects, research tests, and research results. It will be explained by data analysis, discussion of analysis results, and answers based on problem formulation. Chapter V Conclusions that contains the conclusions drawn based on the research results. In this chapter also explained about research limitations, suggestions, and implications that could be useful for parties involved in the research.