

Innovation and Support: Non-Bank Financial Institutions in Indonesia's Banking Sector Reform in the Global Era

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Abstract :

This study discusses banking strategies in facing the new era in Indonesia, taking into account rapid market and technological changes. This transformation is triggered by the development of financial technology (*fintech*) and the digital revolution, which aims to expand financial inclusion by providing easier and more flexible access for the public. To remain competitive, banks need to continue to innovate and improve their services to meet increasingly high customer expectations. This study uses a qualitative approach with a literature review method to gain an in-depth understanding of banking strategies in facing market and technological changes in Indonesia. Secondary data were collected from relevant scientific articles, journals, and books, then analyzed descriptively and interpretively. This analysis aims to identify general patterns, trends, and important findings related to product and service innovation strategies, as well as risk and compliance management in the banking industry in Indonesia. The results of the study indicate that increasing human resource capacity, investing in digital infrastructure, financial education and literacy, effective risk management, collaboration with regulators, adopting the latest technology, and developing innovative products and services are crucial steps for banks in Indonesia to face dynamic market challenges. Implementing these suggestions will help banks in Indonesia to be better prepared for change and provide the best service to customers.

Keywords: Market Change, Financial Technology, Digital Transformation .

INTRODUCTION

As a country with the largest Muslim population, it is fitting that Indonesia becomes a pioneer and a mecca for the development of Islamic finance in the world. This is not an impossible dream because Indonesia's potential to become a global player in Islamic finance is very large, including: (1) a large Muslim population that is

a potential customer for the Islamic finance industry; (2) bright economic prospects, reflected in the relative economic growth supported by solid economic fundamentals; (3) an increase in Indonesia's sovereign credit rating to investment grade which will increase investor interest in investing in the domestic financial sector, including the Islamic finance industry; and (4) having abundant natural resources that can be used as the underlying transaction for the Islamic finance industry. In the 2019 Global Islamic Financial Report (GIFR) assessment, Indonesia ranks first among countries that have the potential and are conducive to developing the Islamic financial industry above Iran, Malaysia and Saudi Arabia. By looking at several aspects in calculating the index, such as the number of Islamic banks, the number of non-bank Islamic financial institutions, and the size of Islamic financial assets that have the largest weight, the Islamic economy in Indonesia is projected to continue to grow. This optimism is in line with the rate of institutional expansion and the acceleration of the growth of Islamic banking assets which is very high, coupled with the increasing volume of sukuk issuance, not to mention the halal industry which continues to be encouraged by the government to make Indonesia a global player and even a mecca for the world of Islamic economics.

In the last few decades, the banking industry has undergone a significant transformation. Banking has shifted to digital and automated systems, allowing for higher operational efficiency and better customer service. This is after initially banking relied on manual transactions and paper records (Craig Smith, 2019). Banks initially provided basic services such as depositing money and lending, but with the advancement of information technology, banking services have evolved to become more complex and integrated. Technology has become a key driver of this transformation, creating new opportunities as well as challenges for conventional banking institutions (Ebuete et al., 2020). The banking sector has been influenced by market and technological developments, on the one hand, technologies such as mobile banking, internet banking, and blockchain have changed the way banks interact with customers and improved operational efficiency. On the other hand, these changes have given rise to new competition from smarter and more creative fintech companies, Fintech challenges the conventional business model of banks and makes alternative financial services more accessible and affordable (Maghfiroh & Dwiridotjahjono, 2023). In a global context, research on banking strategies in dealing with market and technological changes is very relevant because each country faces

different challenges and opportunities. In developed countries, the adoption of technology in banking has reached a high level, while in developing countries, the challenges are more in technological infrastructure and digital literacy.

Indonesia's economic growth continues to experience development and dynamics. The basic concept of Islamic financial institutions (LKS) such as banking is to provide security, comfort, and convenience for the community in maintaining and managing their finances. In principle, banking has an important role in managing community finances, in order to create a prosperous and secure community in the financial sector. Many programs and products are offered in banking, such as providing capital for people who need business capital, loans for purchasing community needs such as houses, vehicles, or needs that are in accordance with the specified standards, as well as various products for community welfare, for example savings products that provide convenience with aspects of benefits for the community, savings for children's needs in education, health, or life as a form of bank insurance for the community.

In practice, banking has an important role in meeting the needs of society. Applications built in banking should be for the interests and financial needs of the community that are stored by the bank and can be withdrawn if needed. The development of banking has become a necessity for modern society today, namely with the principle of convenience and practicality for every need of society. Modern society needs an instant job, namely not wanting to be "bothered" in its needs, or saving its money. The increasing growth of banking is a necessity based on the needs of society for its assets. This can be seen from the emergence of Islamic banking on a larger scale. The concept of Islamic banking is based on Islamic economics which is based on the provisions of the Qur'an and Al-Hadith. Islam is very careful about transactions in the economic sector, because it contains elements that lead to falsehood.

The Al-Quran and Al-Hadith have explicitly regulated Islamic economics which emphasizes aspects of ribawi, gharar, and things that lead to falsehood and harm, as Allah says in Surah Ar-Rum verse 39 as follows:

وَمَا آتَيْتُم مِّن رَّبًّا لِّيَرْزُقُوا فِي أَمْوَالِ النَّاسِ فَلَا يَرْزُقُوا عِنْدَ اللَّهِ وَمَا آتَيْتُم مِّن زَكَاةٍ
تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَٰئِكَ هُمُ الْمُضْغَفُونَ ۝ ٣٩

Meaning: *And anything riba (additional) that you give so that people's wealth will increase, does not increase in the sight of Allah. And what you give in the form of zakat which you intend to gain Allah's approval, then those are the people who fold double (the reward).*

RESEARCH METHOD

This study uses a qualitative method with in-depth interview techniques to analyze the factors that influence the low public interest in financing at BSI Kraksaan Branch, by involving employees and customers as sources.

There are several studies that have been conducted previously. The research conducted by Ferozi Ramdana Irsyad , Filja Azkiah Siregar , Jonatan Marbun , and Hasyim . Analysis of Banking Strategy in Facing Market and Technology Changes in Indonesia in facing the new era (2024). The similarities discuss the economy in the global era and use qualitative methods. The difference lies in the place and time of the research.

Previous research by Muhammad Hamdan Ali Masduqie . Analysis of the role of Islamic financial institutions in the global economy (2022). The similarities discuss the economy in the global era and use qualitative methods in the form of literature studies. The difference lies in the location and time of the research.

Previous research by Dian Sera Fauzela, Adi Asmariadi Budi . Analysis of banking investment in facing the influence of economic globalization (2023). The similarities discuss the global economy and use qualitative methods. The differences lie in the location and time of the study.

From the various studies above, this research will focus on the economy in the global era, what strategies we must prepare to face economic reforms in the global era which will definitely experience changes at every time. This study uses a qualitative research type to describe and facilitate researchers by collecting and analyzing several online journals.

Time and place of research.

This research was conducted from December 2024 to January 2025 at the Nurul Jadid University library.

Research data sources

Based on literature studies and research that has been conducted, this study aims to face several reforms of the Islamic banking sector in the global era for the Indonesian people's economy in the future. This study uses a qualitative method with a literature study approach, namely adopting the thoughts and opinions of experts in the field of Islamic economics and continuing with reviewing literature in the form of

research, books, articles, and writings related to transactions in Islamic banking. This study ends with an analysis or interpretation of various sources that have gone through the process of exploration, identification, and classification using descriptive methods.

FINDINGS AND DISCUSSION

Literature review

Technological Developments in Banking

The development of digital technology has fundamentally changed the banking industry, shifting the traditional paradigm related to financial management. The digital era has driven the emergence of digital banking which plays a vital role in shaping the way we view and manage money. Through online services, customers can now easily access various banking features, from opening an account to managing an investment portfolio, quickly, flexibly, and without time or place constraints. In this dynamic era, the banking industry is under pressure to continuously adapt to changes in the market and rapid technological developments. In response to this changing situation, banking strategies become crucial in ensuring the continuity and success of these financial institutions.

Challenges of Islamic Financial Institutions

Islamic financial institutions can generally be divided into banking and non-bank financial institutions. Non-bank financial institutions have the definition of all materials that carry out activities in the financial sector, which directly or indirectly collect funds, especially by issuing securities and distributing them to the community to finance investment forms.

According to the Director of the OJK Sharia Non-Bank Financial Industry, Moch. Muchlasin, there are at least five challenges for the financial services industry, namely:

1. Products suitable for the global market .
2. Company health level .
3. Business efficiency .
4. Competitiveness of human resources (HR) .
5. Maintaining business interests and national interests .

At a young age, Islamic economics, especially sharia finance, must pay attention to at least five problems and challenges currently being faced, namely: first,

there is still a lack of qualified Islamic economic experts who master modern economic sciences and sharia sciences in an integrative manner.

Innovation and opportunities for Islamic financial institutions

To achieve the goals and ideals of making Indonesia a mecca for sharia economics, it is also necessary to pay attention to the challenges that must be overcome immediately, one of which is economic globalization. The free market is a demand of globalization, so we must adapt with good preparation. We must be proactive in anticipating the potential negative impacts of the free market, especially for the development of small businesses. In theory, simple anticipation, namely increasing competitiveness. This increase in competitiveness must come from increased efficiency and productivity (increased added value), and cannot be done in other ways. Protection can still be used temporarily to support competitiveness in the domestic market. Even then, it must be gradually released. The sooner the better, because protection makes several economic lines produce efficiently.

A. Formulation of the problem

1. How is the development of technology in Indonesian banking in the global era?
2. What are the challenges of Islamic financial institutions in facing the reform of the Indonesian banking sector in the global era?
3. What are the innovations and opportunities for Islamic financial institutions in facing the reform of the Indonesian banking sector in the global era?

B. Objectives and benefits of research

Based on the problems above, the main objective of this study is to provide understanding and knowledge to the Indonesian people regarding the importance of innovation and support to face banking sector reforms which will certainly continue to change following the development of the times and also the importance of paying attention to challenges in non-bank financial institutions in the global era, so that the public can be more careful in facing the challenges of reforming the Islamic banking sector in the global era.

Technological Developments in Banking

The development of digital technology has fundamentally changed the banking industry, shifting the traditional paradigm related to financial management. The digital era has driven the emergence of digital banking which plays a vital role in

shaping the way we view and manage money. Through online services, customers can now easily access various banking features, from opening an account to managing an investment portfolio, quickly, flexibly, and without time or place constraints. The adoption of digital technology directly expands the accessibility of banking services for customers. They are no longer tied to the need for physical visits to branch offices, but can conduct various transactions through digital banking applications and other online platforms. With advances such as the use of chatbots and artificial intelligence, the customer experience in navigating banking services is increasingly becoming more personal, efficient, and relevant to individual needs. In addition to increasing accessibility, digital technology also maintains the security and availability of banking services. Continuously enhanced security systems, such as two-factor authentication and data encryption, ensure that customers' financial information remains protected from security threats. In addition, digital banking services that are available 24/7 allow customers to access their accounts whenever needed, creating a seamless and convenient transaction experience.

In this dynamic era, the banking industry is under pressure to continuously adapt to changes in the market and rapid technological developments. In response to this changing situation, banking strategies become crucial in ensuring the continuity and success of financial institutions. This strategy involves a series of steps designed to address the challenges that arise along with the evolution of technology, changes in regulations, and changes in customer preferences. Banks need to adopt a proactive and innovative approach to strengthen their position in the face of increasingly fierce competition in the market. For example, banks can develop innovative digital banking services to meet the needs of customers who are increasingly moving towards digitalization in their financial transactions. Some of the steps that have been implemented in response to these changes include:

1. Strategic management facilitates coordination among managers in an organization, enabling accurate and informed decision making. Participation of other members in the decision-making process helps in gathering necessary data.
2. Product development steps, such as murabahah financing in sharia and innovation in products without DP with appropriate collateral, increase customer satisfaction and spur the innovation needed to remain competitive.

3. Synergy between central and regional government policies accelerates national economic recovery, taking into account the economic structure, demographics, and socio-economic conditions of communities in various regions.
4. Implementing information security standards, such as ISO 27001, is key to maintaining customer trust and protecting the confidentiality of their data. Prioritizing security helps strengthen the relationship between banks and customers.

These strategies not only help banks respond to changes, but also strengthen their position in the competitive market.

Challenges of Islamic Financial Institutions

Islamic financial institutions can generally be divided into banking and non-bank financial institutions. Islamic banks are financial institutions whose main business is providing credit and other services in payment transactions and money circulation whose operations are based on Sharia principles. While non-bank financial institutions are financial institutions that provide financial services and attract funds from the public indirectly (*non-depository*). Non-bank financial institutions are defined as all materials that carry out activities in the financial sector, which directly or indirectly collect funds, especially by issuing securities and distributing them to the public to finance investment forms. Non-bank financial institutions have developed since 1972 with the aim of encouraging the development of capital markets and helping capitalize weak economic companies. Non-bank financial institutions have many types to provide services in the financial sector.

Indonesia will be a fertile ground for the growth of Islamic economy. This is because Indonesia has extraordinary potential in it. Some of these potentials include, Indonesia's participation in various groups of countries, such as G20, MEA, APEC and so on. In addition, Indonesia is a country with the largest Muslim population in the world, Indonesia also has a long development experience by adopting a socialist and capitalist system and this is an asset to build an Indonesian economic system based on religion and cultural personality. In addition, the state constitution and the Pancasila economic ideology are in line with Islamic economics. In fact, the development of Islamic economic institutions and legislation in Indonesia has been quite rampant in the last 10 years. The vastness of the sharia market, especially sharia finance that has not been worked on, can be seen from the fact that there are more

than 200 million Muslims in Indonesia and awareness of Islam continues to increase. This is a fertile market opportunity for the sharia financial industry. The demand for the presence of sharia financial institutions in various places continues to increase. In line with that, the momentum of the global financial crisis brings wisdom to the development of the sharia industry in Indonesia. The recent economic crisis shows that the world and Indonesia need another concept in organizing their economy. Sharia economic institutions are the most appropriate choice. Therefore, to meet market needs, in addition to educating the community, more banks, sharia insurance and other sharia financial institutions are needed.

According to the Director of the OJK Sharia Non-Bank Financial Industry, Moch. Muchlasin, there are at least five challenges for the financial services industry, namely:

6. Products suitable for the global market .
7. Company health level .
8. Business efficiency .
9. Competitiveness of human resources (HR) .
10. Maintaining business interests and national interests .

In its young age, Islamic economics, especially Islamic finance, must pay attention to at least five problems and challenges currently faced, namely: first, the lack of qualified Islamic economic experts who master modern economics and Islamic sciences in an integrated manner. Second, the test of the credibility of its economic and financial system. Third, the regulatory, legal and policy instruments, both on a national and international scale, are still inadequate. Fourth, the limited number of universities that teach Islamic economics and the lack of training and consulting institutions in this field, so that SDI in the field of Islamic economics and finance is still limited and does not have adequate knowledge of Islamic economics. Fifth, the role of the government, both executive and legislative, is still low in the development of Islamic economics, due to their lack of understanding and knowledge of Islamic economics.

Meanwhile, the Financial Services Authority (OJK) reminded the Sharia Non-Bank Financial Industry (IKNB), such as Sharia Insurance, Sharia Multifinance, and others to prepare themselves to face the global market. The reason is, if they do not take it seriously, the national Sharia IKNB will lose to foreign parties. OJK Sharia IKNB Director Mochammad Muchlasin said, currently the biggest threat to the

national Sharia financial market comes from Malaysia, Brunei Darussalam, and Singapore. The reason is, the three countries already have a sharia financial industry that has grown rapidly.²¹ According to him, if local Sharia Insurance companies are strong and healthy, they will be better prepared to compete with foreign parties. Not only from the company side, OJK encourages improving the quality of human resources (HR) of Sharia Insurance. Now Sharia insurance competency standards already exist, including conventional ones. What does not yet exist is an institution for professional certification.

Innovation and opportunities for Islamic financial institutions

To achieve the goals and ideals of making Indonesia a mecca for sharia economics, it is also necessary to pay attention to the challenges that must be overcome immediately, one of which is economic globalization. The free market is a demand of globalization, so we must adapt with good preparation. We must be proactive in anticipating the potential negative impacts of the free market, especially for the development of small businesses. In theory, simple anticipation, namely increasing competitiveness. This increase in competitiveness must come from increased efficiency and productivity (increased added value), and cannot be done in other ways . Protection can still be used temporarily to support competitiveness in the domestic market. Even then, it must be gradually released. The sooner the better, because protection makes several economic lines produce efficiently.

Increasing competitiveness to win the free market battle in the world market can be realized by several factors, including improving the quality of human resources, mastery of technology and strengthening institutions. All economic policies, both macro and sectoral, both monetary, fiscal and real sectors. Regional governments in the era of autonomy must be proactive in making constructive breakthroughs to anticipate the free market, including by determining the right core business and superior products from a region. Regional governments should be proactive in organizing HR training and must cooperate with universities in implementing the program. Thus the people's economy can be empowered to enter the free market

CONCLUSION

Based on the description above, the author can conclude that innovation and support from non- bank financial institutions mutually influence Indonesian society in facing the reform of the Indonesian banking sector in the current global era, and

the reform of the Islamic banking sector in the current global era plays a very important role in ensuring its sustainability and growth. While innovation in services and products as well as regulatory support and public education will be the determining factors in achieving these goals. With the steps that have been explained previously, it is hoped that Islamic banking can compete effectively in the global market.

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