



OPPORTUNITIES AND CHALLENGES OF SHARIA BANKING IN INDONESIA IN THE FINANCIAL TECHNOLOGY (FINTECH) INDUSTRY: SYSTEMATIC LITERATURE REVIEW

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Abstract

This research aims to determine the opportunities and challenges in developing sharia banking in Indonesia in the financial technology (Fintech) industry. This study uses the PRISMA (Preferred Reporting Items for Systematic reviews and Meta-Analysis) method with four stages, namely identification, scanning, eligibility, and inclusion. The research stage begins by identifying relevant literature using Harzing's Publish or Perish (PoP), the second stage is scanning by quickly reading the title and abstract of the research, the third stage is eligibility by identifying articles that are relevant to the research objectives, and the fourth stage is inclusion by analyzing the entirety of the selected articles. The research results found 16 opportunities in developing sharia banking in Indonesia, and 11 challenges in developing sharia banking in Indonesia. Based on the results of this research, it can be concluded that the opportunities for developing the sharia banking industry in Indonesia are very wide open with a very large market. The sharia banking industry in Indonesia has become a very promising commodity in the fintech era. The biggest challenge for sharia banking in Indonesia is the lack of human resources which hinders product development, business expansion and network expansion .

Keywords: *Opportunities , Challenges , Banking , Financial Technology (Fintech) Industry:*



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INTRODUCTION

The sharia banking industry in Indonesia continues to show a positive trend. The merger of various sharia banks such as BNI Syariah, Mandiri Syariah, and BRI Syariah into BSI has strengthened the sharia banking sector. Apart from sharia banks owned by the Indonesian government, many new sharia banks have emerged which are managed by the private sector as well as various BMTs which apply the principles of the sharia financial system and have played a big role in the economy in Indonesia.

In an effort to increase the competitiveness of sharia banking, innovation and digital transformation efforts have been carried out by sharia banks to be able to attract more consumers. One of the weaknesses of sharia banking in Indonesia is that the banking digitalization process is not as aggressive as conventional banks and product variations are still limited. Overlapping regulations, lack of human resources, and low understanding of sharia finance are other obstacles to the development of sharia banks in Indonesia (Iswanaji, 2018; Taufiq et al., 2022; Pramono & Suzuki, 2021).

To answer the various challenges that exist, sharia banking continues to carry out various product, service and service innovations for consumers. Efforts to improve excellent service are carried out by sharia banking through the application of financial technology (Fintech) and digitalization of services that make things easier for consumers. The digitalization that has been carried out by Sharia Bank has an impact on the financial stability of the Islamic Finance Services Industry. The fintech industry includes payment services, lending, personal finance, retail investment, crowdfunding, comparison sites or financial aggregators, financial research and others.

Sharia banking in Indonesia and the world is faced with global challenges in an increasingly competitive world economy. To face these challenges, Islamic banking must develop effective regulations, standards, guidelines, and risk management as well as external audits (Khavarinezhad & Biancone, 2019). The global sharia banking industry is growing by 15-20% compared to conventional banks with the global market for sharia-compliant financial products estimated at \$800 billion to \$1 trillion (Khavarinezhad & Biancone, 2019). In Indonesia, the sharia banking industry is also showing a significant growth trend with asset growth in 2022 predicted to reach a valuation of 452 - 734 trillion rupiah with financing growth of around 452 - 470 trillion rupiah with growth in third party (debtor) funds of 549 - 575 trillion rupiah (Widodo et al., 2022).

In running its business, sharia banking has various advantages that conventional banking does not have, such as interest free (*riba*), non-speculative (*masyir*), free from anything doubtful (*gharar*), free from illegal things (*bathil*),

and halal. (Suhendro, 2018). For Muslims, these principles are the basic principles in running an economy that cannot be negotiated, so the presence of sharia banks is a solution for people to obtain something that is halal and good (halalan thoyiban).

Sharia banking also brings more benefits because it tends to be more about the real sector because the products offered in terms of financing always use an underlying so that it is more real in the real sector in terms of economic growth. Apart from that, the business carried out by sharia banking is also not speculative (gharar) so it has resilience and the resilience of direct hits to the global financial crisis so that it can create stability in the national economy and finances (Suhendro, 2018).

Research related to the challenges and opportunities of sharia banking in Indonesia has been widely carried out, but research efforts that examine aspects of the challenges and opportunities of sharia banking in the financial technology era are still rarely carried out, so this research seeks to find opportunities and challenges in the development of sharia banking in Indonesia in the fintech era. The results of the study in this research can be a reference for relevant stakeholders to find various effective policy formulations in developing Islamic banks in Indonesia.

RESEARCH METHODOLOGY

Systematic literature review research is a form of objective, comprehensive summary and critical analysis of research that has been conducted and non-research literature reviews that are relevant to the topic being studied (Cronin et al., 2008). This research uses the PRISMA (Preferred Reporting Items for Systematic reviews and Meta-Analyses) method (Moher et al., 2009). The research distribution presentation technique in terms of main keywords was analyzed using the VOSviewer application. The following is an explanation of the research stages using the PRISMA method.

Identification

Identification is carried out through literature search. Literature searches are carried out online via the Harzing's Publish or Perish (PoP) application. The selected publication time range is articles published in the last 5 years, 2012-2023. Harzing's Publish or Perish (PoP) was chosen to speed up the discovery of suitable references. Google Scholar based data was not used as a reference in this research considering that the resulting data was not specific to the search target and produced too much output (Peter et al., 2019).

To make it easier to search for literature, specific keywords are used, namely: "opportunities" & "challenges" and "sharia banking", "opportunities &

challenges" and "sharia bank", and "Islamic banking" and "fintech". These keywords were chosen in order to find journals that are specific to research needs.

Scanning

This scanning stage is carried out by reading the title and abstract of the research to obtain the main content of the article. The article scanning process is assisted by the <https://typeset.io/> application to speed up finding the main idea and main content of the article.

Eligibility

The eligibility stage is carried out by selecting based on specified criteria, namely publication year between 2012-2023 in order to obtain publications that are more up to date, published online, in English or Indonesian, there are opportunities or challenges related to sharia banking in Indonesia, research location and research subjects in Indonesia, articles sourced from international journals, national journals indexed by Sinta, and international and national proceedings. Books, chapter books, and scientific works in the form of papers are not included in the criteria because they require more time to analyze.

The criteria set aim to ensure that the journals analyzed have a new range of publications so that they are still relevant. English and Indonesian language journals were chosen because there are more publications in these languages than other international languages. To simplify the analysis, the journal review focuses on the title, abstract, keywords, methods, opportunities and challenges described.

Inclusion

The inclusion stage is carried out by reading the journal in full and analyzing the opportunities and challenges found in the journal content. The following is a flowchart of analysis literature using the PRISMA method.

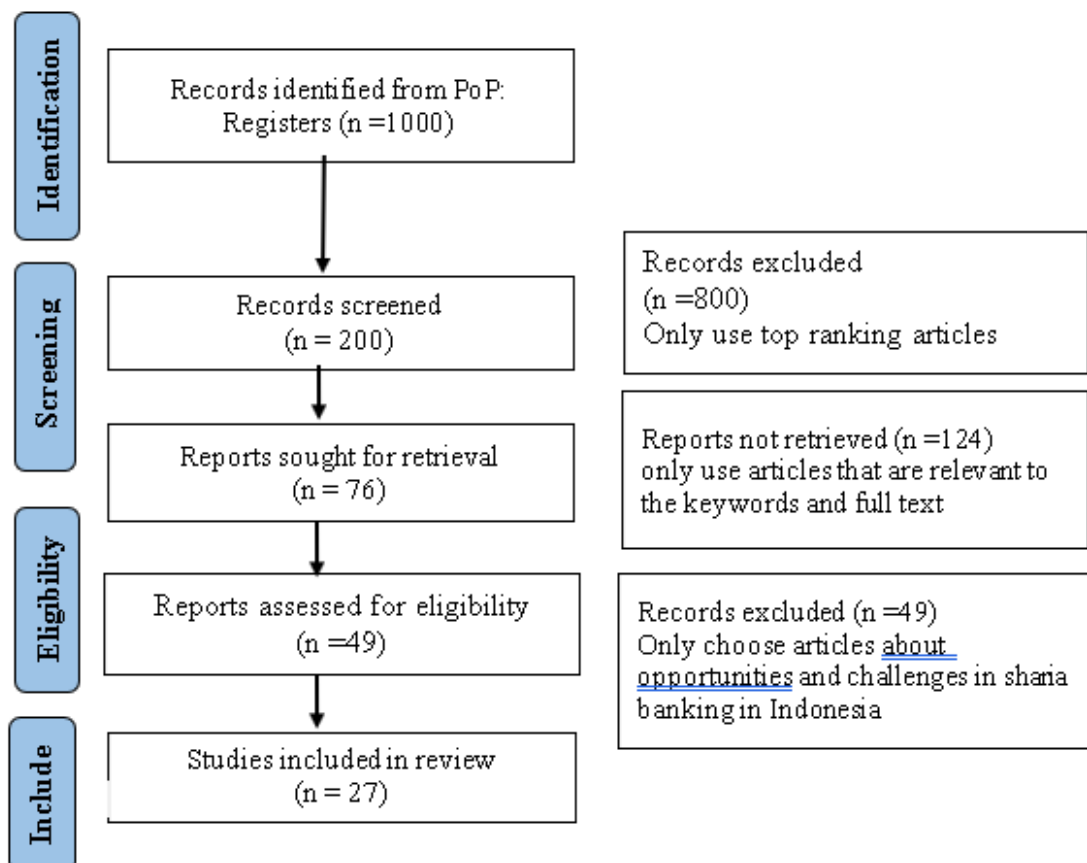


Figure 2. Systematic review flow diagram using the PRISMA method

Based on Figure 2, it can be explained that the SLR stage begins with the identification stage through searching journals with the PoP application and obtaining 1000 article titles according to the keywords used. After reducing duplication and suitability of articles, 200 complete articles were selected for analysis. The next stage is to scan the contents of the journal. There were 200 articles whose abstracts were read with the help of the application <https://typeset.io/> and 76 appropriate journals were obtained based on the scanning results. A total of 76 journals that passed the scanning stage were then read in full using fast reading techniques and 27 eligible journals were obtained for further analysis. The results of this journal analysis are then presented in the analysis results table (Table 1).

RESULTS AND DISCUSSION

To identify various keywords that are relevant to research studies regarding the opportunities and challenges of sharia banking in Indonesia, mapping was carried out using VOSviewer to photograph trends in the topics studied based on keywords and the following description was obtained.

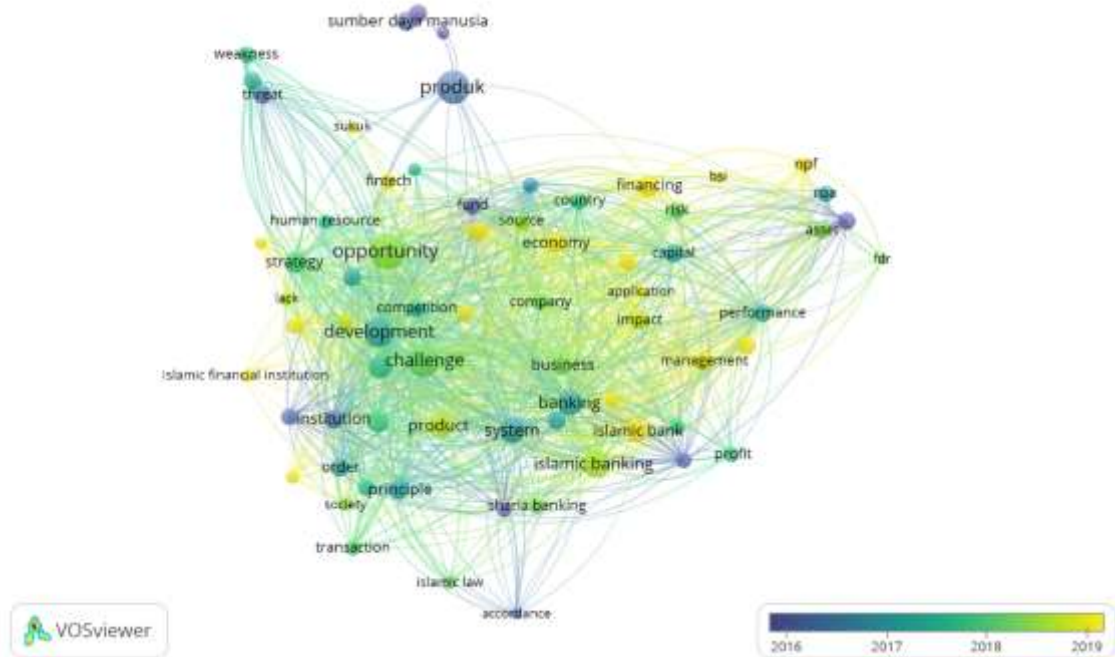


Figure 1. Research Overview Based on Keywords Used

Figure 1 shows the distribution of research articles analyzed based on the keywords used. The words "opportunity", "development", and "product" are the keywords that appear the most and have the most connections compared to other keywords. Based on Figure 1, it is known that several studies related to the opportunities and challenges of sharia banking in Indonesia include the products offered, human resources, banking institutions, management, sharia principles used, assets, financing and so on.

To examine in more detail the results of the VOSviewer mapping, research was classified based on the articles studied. The results of the analysis found that research studies related to the opportunities and challenges of sharia banking in Indonesia can be explained further as follows.

Table 1. Opportunities and Challenges for Sharia Banking in Indonesia

Problem Type	Description	Reference
Opportunities	Big market	(Nawawi et al., 2023) ; (Hadi & Fatihin, 2020) ; (Syarvina & Sugianto, 2023) ; (Ludiman & Mutmainah, 2020)

Problem Type	Description	Reference
	Assets and capital	(Suhendro, 2018) ; (Widodo et al., 2022)
	Applying sharia principles	(Fitriasari, 2012) ; (Basir, 2023) ; (Maksum, 2018) ; (Wulandari et al., 2021)
	Digital & fintech innovation	(Riani & Rusydiana, 2022) ; (Marella & Noviani, 2023)
	Government support	(Panjaitan, 2017) ; (Ghozali et al., 2022)
	Sharia financial literacy	(Tulasmi et al., 2023) ; (Rachman et al., 2023)
Challenges	Human Resources	(Taufiq et al., 2022) ; (Rohprihati, 2021) ; (Abdul, Dewi, Siti, 2022)
	Regulations (regulations)	(Mogana Putra, 2021) ; (Wibisono, 2009)
	Product and service standardization	(Abdul et al., 2022) ; (Apriyanti, 2018)
	Understanding of sharia principles	(Satriak Guntoro & Ahmad, 2022) ; (Utami & Novendra, 2023)
	Bank coverage is small	(Syafriada & Aminah, 2015)
	Competition ability	(Kasri & Iman, 2010) ; (Ana & Zunaidi, 2022)

Based on Table 1, it can be further analyzed regarding opportunities and challenges related to sharia banking in the era of the fintech industry. The shared sharia banking market in Indonesia is still relatively low compared to other Muslim countries, this is because Indonesia's Muslim population is the largest in the world, but the sharia banking shared market is not commensurate with the size of the population (Nawawi et al., 2023). Data from the financial services

authority (OJK) shows that the shared sharia banking market shows an increasing trend from year to year.

Table 2. Development of Sharia Banking Market Share

Years	2011	2012	2013	2014	2015	2016	2017	2018
March share	3.98	4.58	4.89	4.85	4.83	5.30	5.74	5.82

Table 2. Shows the sharia banking market trend in Indonesia which continues to increase from year to year, this is certainly a good trend for the development of sharia business in Indonesia. The merger of government-owned sharia banks into Bank Syariah Indonesia (BSI) and the growing development of private sharia banks will boost the overall performance of sharia banks (Hadi & Fatihin, 2020; Nawawi et al., 2023; Syarvina & Sugianto, 2023). The implementation of sharia principles is also an important opportunity factor in the development of sharia banks. Sharia principles are the main advantage of sharia banking, the application of sharia principles in various lives, especially the economy, is a must for every Muslim, therefore the application of these principles in sharia banking will convince Muslim consumers to remain loyal to sharia banking (Wahyoedi et al., 2021). Support from the government is also a big asset for the development of sharia banking in Indonesia. In 2019, the National Development Planning Agency prepared the Indonesian Sharia Economic Master Plan 2019-2024 which stated five strategies for developing the sharia economy in Indonesia, namely: (1) Strengthening the halal value chain; (2) Strengthening the sharia financial sector; (3) Strengthening micro, small and medium enterprises; (4) Development and strengthening of the digital economy; (5) Strategic ecosystem policy (Ghozali et al., 2022).

Apart from opportunities, Islamic banking is also faced with various big challenges including: lack of market invasion, limited human resources and lack of product innovation which are important challenges that must be resolved by Islamic banking if it wants to continue to exist (Fitriasari, 2012). These factors are caused by, among others: limited government funds in the sharia banking industry, an incomplete understanding of depositors, business partners and the public regarding sharia banking operations and sharia principles, the limited number of sharia banks compared to conventional banks (Fitriasari, 2012). Sharia instruments are usually more complex than conventional ones, which increases

the costs of providing services in producing services, causing product prices to be more expensive than conventional banks (Khavarinezhad & Biancone, 2019).

To optimize the role of sharia banks, the government through BI is implementing several strategies, namely: encouraging sharia financing to the productive sector, encouraging product innovation so that it is not inferior to products marketed by conventional banks, coordinating with a new supervisory institution, namely the Financial Services Authority (OJK). Encourage the efficiency of sharia banks by synergizing with parent banks, increasing socialization and education so that the positioning of sharia banks in the eyes of customers becomes stronger.

CONCLUSION

The development of sharia banking in Indonesia is faced with various opportunities and challenges that must be faced in the era of the fintech industry. The research results found 27 relevant journals that discuss various opportunities in developing sharia banks in Indonesia, such as a large market with a majority Muslim population (85%) which is certainly a market with great potential, large assets and capital, supported by sharia principles, innovation and development. fintech that continues to run. Some of the challenges faced by sharia banking include: human resources, regulations, understanding of sharia principles, coverage of small banks, and competitive ability. The opportunities and challenges of sharia banking can be further analyzed by relevant stakeholders in an effort to develop sharia banking that can compete globally.

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