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The Way Banks Have Managed Their Business Since The Emergence Of Fintech P2PL In Indonesia

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Abstract - **This paper highlights the phenomenon since the emergence of Peer-to-Peer lending (P2PL) because the consequences of its emergence can disrupt banking development and can also capture the market. Banks must be prepared to compete with P2PL fintech and encouraged by the Covid-19 pandemic. Restrictions on mobilization are also an obstacle for banks, is going digital the solution? And when banking transforms into digital, it can lead to competition between the Bank and Fintech P2PL in the future. The research philosophy of this research will be carried out pragmatism. The authors will use qualitative research for the research methodology because it does not aim to test or prove the theory about P2PL and banking. After all, the theory has not been researched. Using a semi-structured interview, starting with a list of predetermined themes and some key questions related to p2pl fintech and banking themes to guide each interview behavior. The contribution of this research will be divided into three, to serve as a reference in carrying out the business transformation from traditional to digital, to be a reference in making regulations, and as literature and reference for future research.**

Keywords - **disrupt, banking, p2pl**

I. INTRODUCTION

A. Background

Since the Covid-19 Pandemic, everyone has been required to wear a mask and keep a distance (avoiding face to face). With this phenomenon, banks have changed their business concept to digital banking, such as to open a new account, customers must come to the bank online. The Covid-19 pandemic has pushed an increase in digital communication between customers and their banks. Financial institutions should respond to this by accelerating investments in digital transformation in the banking sector.

The Financial Services Authority (OJK) considers digital banks to provide loans with relatively lower credit interest rates than conventional banks in the future. Some of the components that make up the credit interest rate that digital banks can reduce are the cost of funds, overhead costs, risk premiums, and profit margins of each bank. For load costs, for example, unlike conventional banks that require branch offices, digital banks can be operated from one office only. This will make digital banks more competitive. For the risk of premiums, it will be cheaper and more accurate. This is because the customer's credit score is digitally recorded so that the analysis made by the bank will be faster, more precise, and efficient [1].

Besides, one of the largest banks in Indonesia, Bank Central Asia (BCA), believes that BCA Digital Bank Credit Interest Rates will be Lower than Fintech P2PL [2].

Banks that are in a position to take a front-running role should consider transitioning into a platform-based model. These are models that integrate both sides of their stakeholders – customers and service partners – into a single approach, as opposed to the one-dimensional approach of incumbent retail banks to only provide customers with their own services.

The digitalization of banking is inevitable, and the transformation of an existing bank into a digital bank is currently in process. Other requirements for banks that are about to convert to digital banks have a realistic business model, using innovative and safe technology, having prudent and sustainable bank governance, having the capacity to carry out risk management, and having competency aspects where at least one of the directors is competent related to IT [3].

So that the existence of this digital bank transformation can lead to competition between the Bank and Fintech P2PL in the future.

B. Literature Review

In the spring of 2020, most countries went through long periods of lockdown, which forced individuals to make intensive use of e-commerce, social media, coworking tools, etc. Some, indeed, say that the real leadership in the digital transformation of business and society has come not from CEOs, CTOs, or digital gurus but from COVID 19 itself. Banking was profoundly affected by this phenomenon, as customers were strongly driven to the use of all remote banking options; an accelerated, strong learning process was activated and new familiarity with digital access to financial services was the result [4].

Currently, foreign banks can establish a branch or a representative office, establish a new bank in joint venture with local firms up to 99% foreign equity ownership, or acquire up to 99% of total equity in domestic banks. A bank is classified as foreign if the direct or total percentage of ownership from shareholders settled in foreign countries is at least 50.01% of the total shares of the bank. In August 2015, the assets of foreign and joint-venture banks stood at IDR 807 trillion, accounting for about 13.5% of the country's banking sector, according to the central bank data. In comparison, the assets of state-owned banks amounted to IDR 2160 trillion while the assets of private banks amounted to IDR 2510 trillion, accounting for 36% and 42% of the country's banking sector, respectively [5]. To increase the efficiency of mediation and production, the financial institutions must increase their capital. Capital adequacy has a significant positive effect on both approaches' technical efficiency [6].

We are all now tragically familiar with the ongoing enormous costs in the lives of the COVID-19 pandemic. We are all additionally fearful of the eventual economic impact of the crisis, including the impact on financial markets. At the time of writing this article, this pandemic is ongoing, with the eventual scale of the disaster still unknown. However, it is reasonable to expect a great deal of interest in the very near future on the role of pandemics in finance. The degree of overlap of other disasters providing insight into the potential impact of COVID-19 on the financial markets has much to do with levels of spillover associated with other previous events. As COVID-19's impact will blanket the globe, it is useful to compare the COVID-19 situation to past events that, although more localized, have led to spillovers that have established general impacts. Research on the impact of terrorist events on the financial markets might provide some sort of parallel, as terrorist events, while localized in their initial manifestation are by their nature designed to create a widespread change in public mood. The COVID-19 crisis is informing investors, policymakers, and the public at large that natural disasters can inflict economic damage on a previously unprecedented scale. Unlike events such as global nuclear war, which is not survivable and so of no relevant cost, or events such as climate change that are much slower moving, or localized disasters that create spillover and market reactions, the COVID-19 pandemic is causing a direct global destructive economic impact that is present in every area of the globe [7].

Bank developments and bank market competition will trigger the creation of new businesses. The development of the bank, however, is not associated with a higher entry rate of new business. Less competition in the bank market and lending relationships appear to be the main channels for reducing debt costs and overcoming traditional negative selection and moral hazard problems between banks and start-ups. The global financial crisis has not changed the positive effect of reduced competition in the bank market on new company registrations. The results are robust for controlling for equity market developments, the ability of banks to hold equity positions in non-financial firms, the costs, and days it takes to start a business, and other time-invariant variables omitted at the country level [8].

With many commodities and financial markets reportedly underperforming during the COVID-19 pandemic. There are several reasons to suggest that in addition to the pandemic affecting market performance, it can also be a driver of their connectedness, coming from the perspective of a global financial cycle channel. Overall, the findings prove that the pandemic is largely responsible for the transmission of risk across various commodities and financial markets. This is because it significantly increases investor and policy uncertainty and greatly changes the global financial cycle which in turn results in global capital flows and asset price movements on various financial markets [9].

There is a relationship between the news sentiment regarding the coronavirus and the equity market volatility. The ongoing coronavirus outbreak (COVID-19) has resulted in unprecedented news coverage and an outpouring of opinion in this era of rapid information dissemination. The uncertainty that arose in financial markets led to increased volatility in prices. That panic generated by news outlets was associated with increased volatility in the equity market. The individual economic sector shows that panic-laden news contributes more to volatility in sectors considered to be most affected by the coronavirus outbreak [10]. Besides, there is a relationship between health risks and financial market volatility in investment decisions [11]. Financial literacy and economic preference are considered important drivers of health, income, and general well-being that the financial literacy score is positively related to patience, male gender, and the level of education of the father [12].

As the global impact of the COVID-19 pandemic has affected the banking industry both positively and negatively, with the crisis creating opportunities and threats for collaboration between FinTech and banks. This study is to investigate the impact of FinTech products (FTPs) on the performance of commercial banks in China. The results of this study reveal that FTP's perceived usefulness (PU) has a positive and significant effect on customer satisfaction, low expectations of bank employee assistance, bank service quality and employee work efficiency. In addition, the perceived difficulty of using (PD) FTP has a negative and significant impact on customer satisfaction and low expectations of assistance. Interestingly, there is a positive and significant relationship between PD with the quality of bank services and work efficiency, meaning that service quality and work efficiency can reduce some of the shortcomings of using FTP. This study recognizes the need to improve FTP's understanding of the performance of non-financial companies [13].

From the background and from the literature above, the authors concludes that the objectives of this study are to examine how banks have managed their business since the emergence of fintech p2pl, and to examining the

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development of whether fintech p2pl will disrupt banking in the future or vice versa.

II. METHODOLOGY

Research Methodology will begin by discussing the research philosophy and research approach. The research philosophy will basically guide the way we think during the research, while the research approach shows how the reasoning process will be carried out. The research philosophy of this research will be carried out pragmatism, where pragmatism believes that the researcher's view of reality as an external, multiple, view is chosen to answer the research question. Either or both observable phenomena and subjective meanings can provide acceptable knowledge dependent upon the research question [14]. As for the research approaches, the authors use deductive - inductive.

The authors will use qualitative research for the research methodology because it does not aim to test or prove the theory about P2PL and banking because the theory has not been researched. The authors try to dig deeper and detail from the phenomena of fintech P2PL and banking phenomena in Indonesia because all these phenomena will not be answered if only by filling out the questionnaire. So, it requires an intense approach and even needs a personal approach so that later this research will get detailed information directly from the source. The cases that the authors raises are unique and special and do not aim to generalize about these cases.

And for this qualitative research, the authors will conduct a semi-structured interview, starting with a list of predetermined themes and some key questions related to fintech p2pl and banking themes to guide each interview behavior.

III. RESULTS

The ongoing impact of Covid-19, accompanied by a micro-based PSBB (large-scale social restriction) and PPKM (Enforcement of Community Activity Limitation), has the potential to increase credit risk and change public expectations of banking services in line with economic developments and information technology.

In the spring of 2020, most countries went through long periods of lockdown, which forced individuals to make intensive use of e-commerce, social media, coworking tools, etc. Some, indeed, say that the real leadership in the digital transformation of business and society has come not from CEOs, CTOs, or digital gurus but from COVID 19 itself. Banking was profoundly affected by this phenomenon, as customers were strongly driven to the use of all remote banking options; an accelerated, strong learning process was activated and new familiarity with digital access to financial services was the result [15].

From this research, the authors have conducted pre-semi-structured interviews and the results of these interviews have been processed using NVivo software, the results are as shown in figure 1 below:

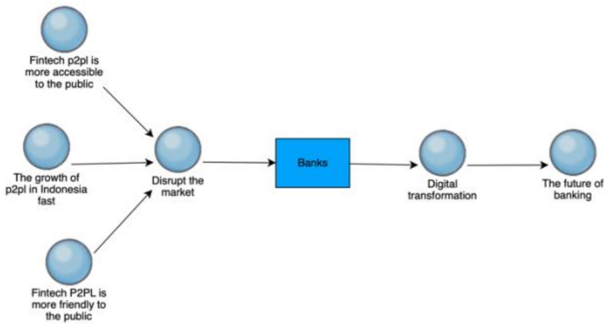

Fig 1. Pattern model for the development of digital banking transformation using NVivo

From Figure 1 above, it can be seen that with the emergence and development of p2pl and banking which are more accessible and more friendly to the wider community, p2pl disrupts the banking market, so that to compete, banks must immediately transform into digital banking, so that in the future with this concept can make it as the future of banking.

The banking industry is important to achieving sustainable development due to its unique intermediation role, which is essential for mobilizing financial resources toward sustainable goals. For example, Several external shocks have deeply affected the pillars of the banking industry's business model, such as the 2008 financial crisis [16], and the COVID-19 pandemic. These shocks are accelerating the digital and sustainable transformation of banks [17].

The P2P lending industry in Indonesia has undergone significant growth in recent years. The growth of the sector has been perceived positively by the public and the government. With the very first P2P lending regulation has just being released in late 2016, the sector is still in its early phase. Yet, there are possible necessities to institutionalize P2P lending service platforms, as possible various service and business models of P2P lending and fintech, in general, may come in hindsight [18].

Because this research is still in progress, the authors still need how the bank manage the emergence of this fintech p2pl? And to examine will fintech p2pl developments disrupt banks in the future or vice versa? However, from the literatures above, the authors get several hypotheses where:

Hypothesis 1: In managing the banking business since the emergence of p2pl fintech, banks should transform into digital banks.

Hypothesis 2: However, when banking has become digital, the hypothesis that arises is that banks will compete or disrupt each other with fintech p2pl.

IV. DISCUSSION

On the other hand, FinTech causing financial institutions' fragility is a controversial issue that we have often heard about for a long time. It was found that the shock to FinTech innovation has no net effect on the fragility of financial institutions when we ignore market characteristics, promote FinTech to reduce (increase) the fragility of financial institutions in developing (developed) financial markets, and FinTech affects the fragility of financial institutions through profitability channels [19].

Besides, difficulties among small banks also had a negative impact on the bank portfolio management business, thereby reducing the number of their investors. The results illustrate the potential risk to financial stability to the extent that the interconnection between funds and banks can trigger shocks' transmission to the market [20]. According to cognitive appraisal theory, personal consumer confidence mediates the relationship between national consumer trust and perceived financial vulnerability, leading to increased price-conscious behavior [21].

Some of the components that make up the credit interest rate that digital banks can reduce are the cost of funds, overhead costs, risk premiums, and profit margins of each bank. For load costs, for example, unlike conventional banks that require branch offices, digital banks can be operated from one office only. This will make digital banks more competitive. For the risk of premiums, it will be cheaper and more accurate. This is because the customer's credit score is digitally recorded so that the analysis made by the bank will be faster, more precise, and efficient [22].

In this paper, we hypothesize that banks should transform into digital banking, because apart from competing in the market since the emergence of p2pl and besides that since the COVID-19 pandemic, all social interaction activities are limited. Some say that authentic leadership in the digital transformation of business and society does not come from CEOs, CTOs, or digital experts but from COVID 19 itself. Banks are greatly affected by this phenomenon. Customers are strongly encouraged to use all remote banking options; accelerated and robust learning processes are activated, and new familiarity with digital access to financial services is generated [23]. However, when banking has become digital, the hypothesis that arises is that banks will compete or disrupt each other with p2pl fintech.

V. CONCLUSION

Indonesia is one of the countries with the largest population in the world. Since being regulated at the end of 2016, the fintech industry has changed rapidly. And recently, in the banking sector, there has also been a big change, namely that many banks in Indonesia have turned into digital banks. With this phenomenon, the authors will focus on how banks have managed their business since the emergence of p2pl fintech, and the development of whether p2pl fintech will disrupt banking in the future or vice versa.

So, the contribution of this research will be divided into three, namely, first to the business world, especially business finance is to serve as a reference in carrying out their business transformation from traditional to digital, second is the contribution to regulators is to be a reference in making regulations, and third, namely to academic is to serve as literature and reference for future research.

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