Optimization of Financial Technology as an Opportunity for Development of Islamic Microfinance Institutions

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I. Introduction

Around 2016, financial services began to be known, which later became a trend and became popular with the term financial technology. Fintech is a disruptive innovation that has succeeded in shifting a pre-existing market because it provides more accessible, practical, comfortable, and economical services.

Disruptive innovations usually fill market segments not being worked on by market leaders. Nevertheless, even though it only works on a small part, if business people do not reasonably anticipate it, it will lead to its downfall. The financial sector is also experiencing this phenomenon, which has recently led to the emergence of a new phenomenon known as fintech (Hadad, 2017).

Fintech is experiencing an acceleration of growth because its technology-based services are easily accessible, and the process is fast, cheap, and safe, making it more efficient and effective. In 2018, the value of fintech transactions in Indonesia reached USD 22.34
million, or around Rp. 234 billion. The transaction value growth is predicted to grow 16.13% per year, with the most prominent fintech market share in the payment sector at 38% and loans reaching 31% (Danamart, 2019). This reflects the massive potential of the fintech market in Indonesia.

Seeing this phenomenon, the financial industry will be unable to compete if it is not able to adjust, including the Islamic finance industry, given the value of the transaction above. Then from the total Muslim population, approximately 85% of the 250 million population. And from internet users in 2015 in Indonesia, approximately 34% of the total population of about 88.1 million people. Meanwhile, mobile phone users were 318.5 million, social media users reached 79 million (Ningrum, 2016), and internet users increased to 132.7 million. Especially amid the Coronavirus Disease of 2019 (Covid-19) pandemic that hit Indonesia in early March 2020, there was a 2.5-fold increase in mobile phone applications for server-based e-money and other banking services by the adult population (Ministry of Economy, 2021).

The Financial Services Authority (OJK) also encourages the Islamic finance industry to digitize and collaborate with fintech. February 2018, financing from Islamic commercial banks and sharia business units was IDR. 282.1 Billion. This value decreased by 1.3% compared to the end of the previous year (YTD), IDR. 285.7 Billion. In March 2018, fintech disbursed loans of IDR. 4.47 Billion. In terms of numbers, financing from the Islamic finance industry is much higher than fintech financing. Nevertheless, loan growth is much faster in fintech, at 74.6% (YTD). This shows that fintech is a strategic opportunity for the Islamic finance industry to increase its market share (Setyowati, 2018).

Sharia Microfinance Institutions are included in the financial industry above (from now on, referred to as LKMS). OJK urges LKMS businesses to be more adaptive in dealing with digital or fintech developments in the financial sector. The existence of digitalization, which is experiencing rapid development, especially during this pandemic, must be faced with breakthroughs. Therefore, currently, all financial institutions, including LKMS, must be able to take advantage of the existence of digitalization in their products and services (Alamsyah, 2019).

Given the development of fintech, and during the pandemic, it has proven to be very supportive of the facilities needed by the community so that it changes new habits, one of which is in financial services; therefore, the Islamic finance industry needs to develop strategies to seize opportunities and develop its products. Especially for LKMS, considering its segment is almost in contact with the fintech start-up (company) market segment. This segment fills the need for financial services/products for the people banks have not reached for various reasons. Partly because of the high cost of opening an account at a bank. LKMS filled this opportunity when the digital fintech era began to fill the opportunity (Panca, 2017).

In seizing these opportunities, Islamic banking or the Islamic finance industry can develop their fintech or cooperate with fintech companies. Whichever method is chosen, the first thing to do is the readiness of Islamic banks or the financial industry to use fintech in their programs/products/services or fintech-based services so as not to be run over in the digital era (fintech); this is following the appeal of the National Sharia Council of the Ulama Council. Indonesia (Sholikah, 2018).

The explanation above illustrates several challenges in this fintech era for LKMS, partly because of the segment that is in contact with fintech companies. Another thing that is no less important is the readiness of human resources (HR) and the necessary technology and infrastructure. Nevertheless, on the other hand, there are opportunities for LKMS to develop fintech-based products or services, as mentioned above. For this reason, LKMS needs to
make strategic development steps to deal with the existence of digitalization (fintech) which has proliferated at this time, so that LKMS can survive and even grow.

This research is entitled LKMS development strategy in facing the era of financial technology. Using qualitative research approaches and descriptive methods, as well as collecting related data sourced from primary and secondary data through interviews, documentation studies, and triangulation. The research discusses the following: (1) internal strategy factors in the LKMS development strategy, (2) external strategic factors, and (3) formulation and alternative development strategies.

II. Method

The research uses a qualitative approach and descriptive method. The data is sourced from primary and secondary data through interview techniques, documentation studies, and triangulation. After the data has been collected through the data collection procedure, it is then analyzed with the analysis of Strengths, Weaknesses, Opportunities, and Threats (SWOT) and Blue Ocean Strategy (BOS) (Sapudin, 2017).

SWOT analysis based on EFAS (external strategic factors) and IFAS (internal strategic factors) approaches. This approach utilizes weighting and ranking (Hunger, 2001). The weight of each factor is from 0.0 (not important) to 1.0 (very important). The total weight is 1 (one). Rating each factor from 1 (very bad) to 5 (very good).

III. Result and Discussion

A. Internal Strategy Factors in LKMS Development Strategy

One of the strategic management objectives (Saputra, 2020) is to anticipate any environmental changes faced by all companies; for that, it is necessary to observe the business environment (Haryanto, 2011). The experimental business environmental factors are then analyzed in strategic management, known as strategic factors or SWOT analysis (Hunger, 2001).

SWOT includes factors of strengths (strengths), weaknesses (weaknesses), opportunities (opportunities), and threats (threats). Strength is a factor or source or capability (capability) in the internal environment that benefits the company. These sources provide an advantage over its competitors in meeting the needs of its customers. This power can be tangible or intangible.

Weaknesses are limited factors, resources, or capabilities of the company’s internal environment. These weaknesses can be controlled by minimizing or eliminating them. Identify weaknesses by comparing capabilities with competitors in meeting customer needs effectively.

LKMS is a microfinance institution that operates based on sharia principles. Its products and services include savings management, micro-scale business financing, and the provision of business development consulting services that are not only for profit. LKMS consists of various institutions, including BPRS (Islamic Micro Credit Bank), BMT (Baitul Mal wat Tamil), Micro Waqf Bank (BWM), and sharia cooperatives.

The observed internal environment departs from the functions and roles of LKMS (Suriadi, 2021), namely: (1) LKMS benefits customers, such as digital-based services and products. (2) Competence of human resources in digital-based services. (3) Improving the welfare of members and relationships, for example, knowledge level of debtors/customers (assistance), financial performance, marketing, and economic conditions. (4) Social fund financial intermediaries: zakat, infaq, sadaqah, waqf, and digital-based grant services. (5) Financial intermediaries: digital-based savings, loans, or financing products and services.

The internal environment above is classified into four pillars of the transformation process according to Rukmana (Andika, 2020): (1) Operational digitization, including organizational devices, product and service development, and development of human resource competencies related to information technology. (2) Digitalization of supervision and compliance, including financial performance and risk management. (3) Digitizing services, including digital-based savings and financing products/services (fintech) and assistance. (4) Business digitization, namely: Human
Resources Management (HRM) system, relationship with clients with Customer Relationship Management (CRM), digital marketing strategy, and collaboration with the marketplace.

The internal environmental strength factors include, among others, the digitalization of supervision and compliance. The financial performance of LKMS is relatively good in terms of several financial aspects. The condition of LKMS in 2020-2021 is relatively good in terms of several aspects. Financial performance in terms of assets has fluctuated (Financial Services Authority, 2021) from the 2020 quarter (quarter) I to 2021 quarter I, but the percentage decrease is smaller than the percentage increase. In 2021 the April quarter I period decreased by 0.05% compared to 2020 for the same period. These assets have fluctuated because from early March 2020 until now, there has been a Coronavirus Disease 2019 (Covid-19) pandemic impacting almost all sectors (Allaberganova: 2020). One of them is business activities in the real sector, including MSMEs, which are the biggest customers of LKMS (Rusydiana, 2013).

Savings collected by LKMS have an increasing trend from the first quarter of 2020 to the first quarter of 2021. From the first quarter to the second quarter in 2020, it increased by 3.22%, and from the second quarter to the third quarter, it increased by 2.86%. From the third quarter of 2020 to the first quarter of 2021, it increased by 4.33%. April 2021 quarter I decreased by 10.77% compared to the previous year's period.

Receivables and financing from 2020 quarter 1 to 2021 quarter one are increasing. April 2021 quarter, I experienced the highest increase of 19.75%. This proves that during difficult times, LKMS can still channel financing. This is in line with Trimulato's research (2021), that financing tends to increase even though it has decreased in December 2020 (Trimulato, 2021). Hidayat's research (2021) stated that the performance of LKMS microfinance for strengthening MSMEs was good, even though economic conditions constrained it during the Covid-19 pandemic. LKMS can also channel financing to increase MSME capital to increase the quantity of its production (Hidayat, 2021).

Regarding risk management, LKMS has implemented it effectively and gradually following Bank Indonesia (BI) regulations. This is carried out with LKMS required to provide regular quarterly financial reports to the OJK and comply with the regulations set by the government (Kennedy, 2017). Second, digitizing services. In this case, LMKs provides pioneering service collaborations or fintech start-ups, including savings, financing, purchasing, and payment services, and initiated collaboration with several fintech platform/start-up operators. LKMS made several breakthroughs to strengthen competitiveness, especially in the fintech era: mobile banking, utilizing digital signatures, and collaboration with fintech start-ups. Although not optimal, this is in line with the webinar activity themed "Challenges of Islamic Banking and Microfinance in a Pandemic Period," which was raised about the presence of BWM during the Covid-19 pandemic. (1) BWM can increase access for the surrounding community who are unbankable, one of which is to help provide services with a non-cash financial system. (2) Development and acceleration of mobile banking services (BWM Mobile). These services include transactions, view mutations, balance checks, payments, transfers, and financing disbursement (Aditya: 2020). With these services, LKMS is ready to meet the community's needs for practical, fast, cheap, and safe services during this pandemic. Aji's research (2020) stated that BMT and sharia cooperatives for the 2003–2019 period had developed several products following the 4.0 era: savings and loan software, mobile phone savings and loan applications, ATM cards, ATMs, selling credit, and so on. This study also states that LKMS products are not only in line with the needs of the 4.0 era but also according to sharia (Aji, 2020).

Marketing programs related to information technology (fintech)-based products/services are relatively good, including promos in mobile banking applications, campaigns, education, and advertisements on social media. Community outreach to LKMS is quite good. Some LKMS at the BPRS level has branch offices in every city or district throughout the province of West Java, while some BMTs have branch offices according to regulations. LKMS itself states that it is easy to access, especially with the existence of fintech services. Users of this service tend to be heterogeneous; the average age is 30–55.

Third, business digitization. HRM is going relatively well. One of the steps is that BMT is ready to improve the quality of human resources to support performance through BMT Competency Improvement Training by Bank Jabar Banten Syariah (jabarprov.go.id, 2021). Then carry out

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routine activities in providing training for human resources and members or customers, which are carried out offline or online (social media).

Weakness factors in the internal environment include: first, operational digitization. Concerning digital branches, it is necessary to develop information technology organizational tools, such as vision and mission, strategic plans and road maps, governance, management, infrastructure and management, and risk management. On average, LKMS has not yet implemented this or is still in planning. In terms of this service, LKMS maintains security: access by users (users), information, web access (secure web gateway), and payment systems.

LKMS is currently planning, and some are already developing penetration of information technology-based services, ensuring strategy and development of digital banking products, and innovating and continuing to develop following trends in the needs of the Indonesian people; for example, cooperatives will create savings and loan applications. This includes developing digital-based services (fintech) with attractive and user-friendly features (e.g., digital banners, product simulations, payments, purchases, education, etc.). However, in the latter case, some still have not done so. On average, there is no ATM service for the LKMS that has planned and developed information technology-based services. If anything, it is usually at the BPRS level. It is still necessary to improve human resource competency development programs, especially those related to information technology, such as information technology training/workshops, core banking development, etc.

Second, digitizing services. Services in general still revolve around digital branches, including improving and providing financing services via mobile banking. BPRS, BMT, and BWM provide this service. However, services in cooperatives are generally limited to transfer payments between accounts or through ATMs, and even then, they are still few compared to those who do it in cash. Fintech-based services that LKMS now provides include: checking account services, overbooking, balance checks, fintech-based financing services (in progress), BMT products (savings, financing, other services), and some have fintech start-up service companies, digital services, as well as some providing fintech-based services for zakat, infaq, sadaqah, and waqf.

Third, CRM is not optimal. Especially during this pandemic, direct interaction with members is minimal due to the PSBB, PPKM, and other policies, so it is necessary to maximize the implementation of CRM. BMT/LKMS should strengthen synergies with other digital actors such as Islamic financial institutions – for example, as has been done, namely linkage programs, etc. –, sharia fintech, halal e-commerce, and marketplaces (Andika: 2020) to expand services and customer outreach and encourage sharia financial inclusion programs as recommended by the government. Digital marketing strategies need to be improved, such as mobile banking applications promos, campaigns, social media advertisements, and education.

B. External Strategic Factors in LKMS Development Strategy

Opportunity is a favorable situation in the external environment of the company. Opportunities can arise from buyers or markets, competition, government, industry, and technology. Threats are the main unfavorable circumstances in the external environment, which are the main obstacles to the company's current or desired position. These threats will increase vulnerability when faced with weaknesses.

The following are opportunities that LKMS can exploit: investment realization growth is generally relatively good. However, it has decreased in one quarter (tw) period, but generally experiences an increasing trend per tw from 2020-2021. The decline occurred in 2020 tw II when many were affected by the Covid-19 pandemic.

Pelonggaran kebijakan moneter diambli oleh BI, yakni menurunkan suku bunga dan macroprudential accommodative policy. This step encourages the banking industry to finance the real sector and maintain the financial system's resilience. The financial system resilience policies include restructuring credit or financing for MSMEs and corporations to support the acceleration of national economic recovery. The government support is through POJK Number 14/POJK.05/2020 and POJK Number 58/POJK.05/2020. These rules follow the legal umbrella and regulations for MFI and are related to fintech in Indonesia. This legal umbrella will strengthen government support for fintech-based financial services in contributing to the economy (Kennedy, 2017).

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BI has also taken steps to accelerate the digitization of the payment system, such as in the 2025 Indonesian Payment System Blueprint (BSPI), relaxing its regulations, encouraging electrification or digitization of payments to support digital economic and financial activities in 2020-2025. Other government policies or programs to support fintech-based services, including the Islamic Finance Road Map program in Indonesia for 2020-2021 to support fintech-based services and BI policies in increasing the role of zakat and waqf.

In 2020-2021 the banking sector will be stable compared to other financial service institutions (Tari, 2020). This is indicated by a pretty good national financial performance, including the performance of Islamic finance. December 2020 financial assets include Islamic banking assets of IDR 608.90 trillion, Islamic Non-Bank Financial Industry (IKNB) assets of IDR 116.34 trillion, and Islamic capital market assets of IDR 1,077.62 trillion.

Challenges of concern include: global economic growth has not yet been conducive, partly due to the impact of the Covid-19 pandemic. In 2020, the state of the national economy was shown by economic growth, which is under intense pressure.

In 2020, the financial performance of the national financial sector will be pretty good. In the banking industry, the market share of Islamic banking is much smaller than conventional banking. However, the growth of assets is higher in Islamic banking (OJK: 2020). The market share of Islamic finance in December 2020 was 9.89%, Islamic banking was 6.51%, Islamic IKNB was 4.43%, and the rest was the market share of the Islamic capital market (BI, 2020). In sharia IKNB, the largest market share is sharia insurance institutions, namely 41.68%, and the smallest is LKMS at 0.41% (Financial Services Authority, 2020).

The financial performance of the financial industry outside of LKMS is a challenge, primarily if the institution also serves MSMEs. The latest financial institution where customers are served in contact with LKMS is fintech. Fintech institutions make significant innovations in products and services in the financial industry (Dubey, 2019). Fintech disrupts a long path of service speed, financial administration, movement, and accuracy of financial transactions (Hardi: 2020). The rapid development of fintech, coupled with a 2.5-fold increase in mobile application users for server-based e-money and other banking services during the pandemic, has the potential to develop the market for sharia-based fintech services/products. This is very important to the attention of LKMS. Moreover, most of those served by fintech are non-bankable and not reachable people, the same as the largest LKMS customers.

C. Appropriate Formulation and Alternative Development Strategies

From the business environment analysis, the company determines its position in the four main strategic areas above in the SWOT matrix. The company can determine what changes or actions to take (Osita, 2014). The matrix includes external strategic factors consisting of opportunities and challenges, as well as internal strategic factors consisting of strengths and weaknesses, which are summarized in the SWOT matrix below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted</th>
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<tbody>
<tr>
<td>Investment realization is generally relatively good.</td>
<td>0.14</td>
<td>3</td>
<td>0.42</td>
</tr>
<tr>
<td>Government support through various policies, including macroprudential, countercyclical, accelerated digitization of payment systems, and fintech-based services (zakat and waqf).</td>
<td>0.13</td>
<td>4</td>
<td>0.52</td>
</tr>
<tr>
<td>The performance of the national financial industry is quite good, including the performance of Islamic finance.</td>
<td>0.13</td>
<td>3</td>
<td>0.39</td>
</tr>
<tr>
<td>Legal and regulatory umbrella for MFIs and fintech.</td>
<td>0.12</td>
<td>3</td>
<td>0.36</td>
</tr>
<tr>
<td>Global and national economic growth have not yet been conducive.</td>
<td>0.12</td>
<td>2</td>
<td>0.24</td>
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Market share of the Islamic finance industry, including LKMS.  
Other financial institutions in providing services to MSMEs.  
Other financial institutions, such as banks and fintech in providing digital-based services.

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<thead>
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<td></td>
<td>0.11</td>
<td>2</td>
<td>0.22</td>
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<tr>
<td></td>
<td>0.12</td>
<td>3</td>
<td>0.36</td>
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<td></td>
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<td>4</td>
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<td>1</td>
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<td>3.03</td>
</tr>
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</table>

The analysis of internal and external strategic factors in the SWOT analysis above can be used to support the company's strategic decisions (Gurel, 2017). Blue Ocean Strategy (BOS) (Hermanto, 2011) is an effort to develop a business or company by creating its market and game rules. BOS is a strategy implemented by companies with tools and frameworks (Arifin, 2018). This strategy helps companies to create value innovation. The company can create new value for customers and new markets that no competitors will work on.

Creating blue oceans means that companies are pursuing differentiation and low cost at the same time. Cost saving is done by eliminating or reducing the factors that become the point of competition in an industry. At the same time, the value of buyers is increased by adding and creating elements that the industry has not offered.

A tool is needed to build a good BOS as a framework for both study and action. The framework includes four steps to summarizing the current situation in a tight market space by considering business factors and competitors. The framework includes: (1) The committed factors. Remove barriers to financial inclusion. During the current Covid-19 pandemic, the government continues to push for increased Islamic financial inclusion. This is part of the financial inclusion program for the

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Indonesian people and to help the national economy recover. BMT (LKMS) can support the program. Its role has been very strategic and is considered feasible to facilitate changes in the community’s economy for the better (Kemenko Ekonomi, 2021). This is in line with the research of Muzdalifa et al., under which fintech can be one of the drivers to help increase financial inclusion in MSMEs, especially those in the lower middle class through Islamic financial institutions (Muzdalifa: 2018). For this reason, it is essential to eliminate barriers to financial inclusion in the digital era, such as direct and electronic access, talented human resources, networking, CRM, and so on (Khatimah, 2016); (2) Reduced factors. The reduced factor is less productive funds. This can be seen from the level of LKMS liquidity. Starting from the financial position report of the Sharia Cooperative LKM in April 2020, the amount of cash was IDR 12.17,- M, cash equivalent was IDR 272.32,- M, and total current debt was IDR 159, 29,- M. Then, in April 2021, the amount of cash was IDR 16,21,- B, cash equivalents were IDR 285.42,- B, and total current debt was IDR 171,37,- B. The level of liquidity in that period met the industry standard, which was in the range of 0.5 - 1.0, and entered the health level at a rate of 5. The liquidity level is more than 1.0, indicating that liquid funds can still be placed at a higher rate of return than saved, thereby increasing the contribution of profit sharing or rewards or other similar programs for LKMS products. so the product is more attractive. (3) Enhanced factors. Improved assistance and service excellence (service excellence). In line with what Rusdyana (2013) conveyed, one of the solutions in LKMS is assistance to borrowing customers. These customers are SMEs and informal sector actors, which are their biggest customers. The assistance needed in this fintech era is in the knowledge and practice of sharia business and finance, online-based technology, and sharia digital marketing. Improved excellent service not only when meeting in person (on the counter) or picking up the ball, but also digital services. To support this service, of course, it is necessary to have the competence of supporting human resources and technological readiness. (4) Factors created. Creating services related to the development of fintech services. In this era, business actors, one of which is MSMEs, can choose alternative funding that has been known so far, namely through crowdfunding. Two types of crowdfunding are loan-based (peer-to-peer lending) and equity-based (equity crowdfunding). BMT (LKMS) has the opportunity to become an intermediary institution (crowdfunding platform) following POJK 77/POJK.01/2016 and POJK Number 37/POJK.04/2018. The role of LKMS in increasing MSME capital greatly supports this opportunity. The advantage of this financing is that the concept of peer-to-peer lending is generally accepted. Equity crowdfunding can be an alternative for business beginners and MSMEs because the costs are relatively cheaper (Wahjono: 2017). The fintech service innovation from LKMS will answer the research of Posma Sariguna and Rusydiana that many industries have not been explored, many opportunities have not been fully explored, and sharia fintech has great potential because it can provide solutions to urgent needs like today.

IV. Conclusion

Internal strategic factors in the LKMS development strategy to face the fintech era, among others: generally good financial performance; public savings trend increasing; well-distributed financing and support for the strengthening of MSMEs; implementation of effective and gradual risk management, digital-based services, including deposits, financing, and payment applications; education or assistance; easy access; developing the competence of human resources and members; development of information technology organization tools; innovations in strengthening competitiveness, including digitizing services and developing human resources in the field of information technology, collaboration with other institutions (e.g., sharia fintech/marketplace platforms, etc.), relationships with members, and digital marketing strategies.

External strategy factors include: investment realization is generally relatively good, government support, including macroprudential and countercyclical policies; acceleration of payment system digitization; fintech-based services (zakat and waqf); the performance of the national and sharia financial industry is quite good; and the legal and regulatory framework for MFIs and fintech; global and national economic growth has not yet been conducive; the market share of the Islamic finance industry is still low; other financial institutions in providing services to MSMEs or digital-based services such as banks and fintech; and household consumption activities have decreased.

References

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