

## **Syariah Technology Financial Potential to Reach Non-bank Financing**

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### **Abstract**

The establishment of Syariah Financial Technology (FinTech) has answered the needs of the current transaction system. The presence of financial technology has made the current financial system run fast and efficiently. This research will explain and analyze the potential of Islamic Fintech in reaching non-bank financing. Data collection used in this research is descriptive qualitative method by directly observing the field. The analysis technique used in compiling the potential of Islamic FinTech is the matrix of *Strengths, Opportunities, Weaknesses* and *Threats* (SWOT). The results of the SWOT analysis show that there are several potentials for Islamic FinTech, including: 1) More potential investors and lenders considering that the majority of Indonesians are Muslim, 2) There are clear regulations related to Islamic FinTech in Indonesia, 3) Ease of access to services for all people, 4) Save operational costs and marketing costs for the company, and 5) The types of products offered to *customers* are more diverse, both in the form of financing and savings. So it can be concluded that with the existence of Technology Finance, the public will be more assisted and easier in conducting transactions between banks.

### **Keywords**

Potential, Islamic Financial Technology, SWOT, Non-Bank Financing.

## **Introduction**

*Financial inclusion* has become part of efforts to make non-cash payments for public access to use financial services (Chakravarty & Pal, 2013; Bank Indonesia, 2014). Openness of comfortable and affordable financial service providers must cover the people who are not served financially, especially the rural population (Nwankwo & Nwankwo, 2014). With financial inclusion, there is an effort to enter the community into the formal financial system, so that they have the opportunity to enjoy financial services (Hannig & Jansen, 2010). *FinTech Crowdfunding* and *P2P Lending Syariah* can be alternatives for the government and financial service industry players to achieve financial inclusiveness in Indonesia, because they can reach the *unbankable* parts of the community in the regions.

The emergence of FinTech or Disruptive Innovation has been able to change an existing market by introducing practicality, economical cost, convenience, and easy access (Bower & Christensen, 1995; Assink, 2006). FinTech is not a new innovation in the world of the financial industry (Zavolokina, Dolata & Schwabe, 2016; Gomber, 2018). The development of FinTech has been divided into three periods, namely the FinTech 1.0 period between 1866 and 1967, FinTech 2.0. between 1987 and 2008, and FinTech 3.0 from 2008 to the present (Asaba, Aiba & Hirano, 2016). Financial technology which comes from the words "*financial*" and "*technology*" (FinTech) has referred to financial innovation with a touch of modern technology (Ferdiana & Darma, 2019). Even Bank Indonesia discloses FinTech in Bank Indonesia Regulation number 19/12 // PBI / 2017 as the use of technology in the financial system that results in new products, technology services and business models. So that it can have an impact on monetary stability, financial stability, efficiency, smoothness, security and reliability of the payment system.

Even though Fintech has been around for more than 40 years, there has not been a single suitable definition agreed upon by experts (Schueffel, 2016). FinTech in Indonesia is categorized into Payment Systems, Market Support, Investment Management and Risk Management, Loans, Financing, and Capital Provision (Rafif, 2020; Narastri & Kafabih, 2019). The development of FinTech in developing countries such as in Asia occurs because of the need for financial system development combined with the emergence of new technologies, especially mobile communications (Asaba, Aiba, Hirano, 2016). With the emergence of Fintech-Fintech in Asia, especially in Indonesia, it has become easier for people to access financial services which have been dominated by banks (Lee & Shin, 2018; Anshari et al, 2019).

For the people of Indonesia, *crowdfunding* is part of the principle of "Mutual cooperation" which has been carried out from generation to generation by the Indonesian people. These activities are carried out jointly in raising funds to support various activities to finance projects, businesses or loans, including financing startup companies, and other needs through online *networks* (Achsiem & Purnamasari, 2016). *Crowdfunding* can be used as an alternative to channel financing if the principles of Islamic finance are applied in the development of the *crowdsourcing* ecosystem structure (Abdullah & Oseni, 2017). Thus, Syariah *Crowdfunding* becomes a platform for collecting small nominal funds obtained from a large group and can fund a project, business, individual loan, and other needs through online media that comply with syariah rules (Sukmaningrum et. Al, 2019).

*Peer to Peer Lending* (P2P) Lending or commonly known as social *lending* has become a financing method that allows individuals to lend money without going through official financial institutions (Dholakia et. Al, 2011). P2P *Lending* eliminates intermediaries from the financing process, but requires more time, effort and risk compared to the usual financing scenario provided by official financial institutions (Investopedia, 2018; Fong, 2015). In POJK Number 77 / POJK.01 / 2016, it is explained that whoever organizes FinTech P2P *Lending* is not allowed to lend money, is prohibited from issuing debt securities in any form, so as not to disturb other existing financial industries. So it can be concluded that P2P *Lending* only purely acts as an intermediary and gets pure capital (Riyadi et. Al, 2019). P2P *Lending* can also be used as an alternative media for channeling Islamic financing if the financing distribution model is in accordance with the principles of Islamic finance (Risfandy et.al, 2020)

Apart from *crowdfunding* and *P2P lending*, financing is one of the Fintech products. Financing is the provision of funds or equivalent claims (Riyadi et.al, 2015) in the form of: 1) Profit sharing transactions in the form of *mudharabah* and *musyarakah*; 2) Lease transactions in the form of *ijarah* or lease purchase in the form of *ijarah muntahiya bittamlik*; 3) Buying and selling transactions in the form of *mudharabah*, *salam* and *istishna* accounts; 4) Savings and loans transactions in the form of *qardh* receivables; and 5) Service leasing transactions in the form of *ijarah* for multi-service transactions based on an agreement or agreement between the Syariah (Islamic) Bank / UUS and other parties requiring the party financed or given a fund facility to return the funds after a certain period of time in exchange for *ujrah* The financing contracts commonly used by financing channeling institutions include *Mudharabah*, *Musyarakah*, *Murabahah*, *Salam*, *Istishna*, *Ijarah*, *Wakalah*, and *Wardh*.

FinTech is also divided into two, namely Conventional and Syariah FinTech. According to the Fatwa of the MUI National Sharia Council Number 117 / DSN-MUI / II / 2018, Syariah FinTech is the implementation of financial services based on syariah principles that brings together or connects Financiers with Financing Recipients in the framework of conducting financing contracts through an electronic system. Thus, Syariah FinTech can be interpreted as a provider of financial services and solutions provided by FinTech technology / startup companies based on Islamic laws (Rusydhiana, 2018; Firmansyah, & Anwar, 2019).

Based on data from the Financial Services Authority, to date there are more than 250 FinTech companies in Indonesia. However, in reality FinTech cannot be an alternative choice for the public to use financial services that are usually offered by conventional financial service actors (Siering et.al, 2017). Like conventional FinTech, sharia-based FinTech also aims to provide convenience, speed and convenience in providing financial services (Baidhowi, 2018). Islamic FinTech also aims to carry out responsible and ethical financial services creating opportunities to lead and influence all forms of financial services globally. Syariah FinTech will be a solution to problems in the Islamic Financial Industry through the development of Integrated Digital Islamic Financial which can provide Syariah Digital Financial services (Barata, 2019; Ribadu & Rahman, 2019).

In addition, Islamic FinTech *Crowdfunding* and *P2P Lending* can be alternatives for syariah financial service players to reach market segments that have been very difficult for the Islamic financial services industry to penetrate (Anagnostopoulos, 2018). This is because FinTech focuses more on innovation and customer satisfaction, but while minimizing their overhead costs compared to banking (Weis et.al, 2017). However, based on data compiled by McKinsey & Company, the penetration of syariah banking only reached 5% and based on the list of FinTechs registered with the OJK as of May 2018 and only one Fintech declared as syariah-based FinTech (Djawahir, 2018). The rapid development of FinTech in Indonesia, especially in *the Crowdfunding* and *P2P Lending* sectors, must be protected by appropriate legal products in order to minimize existing risks. But in reality, regulators do not yet fully have a strong legal umbrella product in regulating FinTech in Asian countries, especially in Indonesia (Hidajat, 2019). This study focuses on using the SWOT matrix and tries to identify and analyze the financial potential of Islamic technology in reaching non-bank financing. This research will provide a study of knowledge related to the potential of Syariah Fintech and can be used by relevant stakeholders in making decisions in developing and providing Syariah Fintech services needed by the public for easier, safer and more efficient financial transactions.

## **Research Method**

Data collection used in this study is a descriptive method with a qualitative approach. Qualitative research is a type of research that explores and understands meaning in a number of individuals or groups of people originating from social problems in the form of events, activities, processes, and programs (Creswell, 2016). The purpose of doing this is descriptive to obtain an overview of the potential of Islamic Fintech in reaching non-bank financing. To determine the potential of Islamic Fintech in reaching non-bank financing in this study, data collection techniques were carried out by direct observation in the field (observation), in-depth interviews with related parties and literature study. In-depth interviews were conducted by researchers with direct interviews with Fintech Igrow, Vestifarm and Efunding, and indirect interviews with Fintech Ammana. The resource person who was interviewed and filled out the questionnaire directly was one of the leaders of each related Fintech.

This study uses a SWOT analysis to analyze internal and external factors. So that it can be seen what are the strengths, weaknesses, opportunities and threats for Fintech crowdfunding and P2P Lending Syariah in Indonesia. SWOT analysis is an analysis of the internal and external conditions of an organization which will then be used as a basis for designing strategies and work programs. This analysis is based on logic that maximizes strengths and opportunities, but at the same time minimizes weaknesses and threats.

## **Results and Discussion**

The data collection process in this study involved direct interviews with four Syariah-based FinTech *Crowdfunding* and *P2P Lending* in Jakarta and West Java, namely Ammana.id, Igrow.asia, Vestifarm.com, and Efunding.id. Interview with Ammana.id was conducted with the *Head of Risk Management*. From this interview it is known that Ammana.id is a *P2P Syariah*-based FinTech Financing that focuses on channeling MSME financing in Java and Sumatra. Ammana.id was founded in 2017 and is the first Islamic P2P-based FinTech *Lending* registered with the OJK. With a vision to make it easier for the global community to take part as investors to empower MSMEs in Indonesia in syar'i, Ammana.id collaborates with Syariah Cooperatives and BMTs in the regions to identify potential UMKM candidates and verify them externally to help the internal *Risk Management* team. Just like Ammana.id, Igrow.asia FinTech *P2P-based Syariah Lending* Financing. However, Igrow.asia focuses on financing the agricultural sector in Indonesia. Igrow.asia, which was founded in 2014, has a vision to empower agricultural and plantation lands that are not yet optimal, so that they can prosper farmers in Indonesia.

From the results of interviews conducted with the President Director Igrow, it is known that the distribution of financing carried out by Igrow has reached almost all of Indonesia thanks to cooperation with the government, including Perhutani and the Ministry of Health. Igrow is a FinTech *P2P Lending* company that has been registered with the OJK, but has not yet declared itself a syariah-based company even though the implementation of the contract uses a syariah contract. Vestifarm is a *crowdfunding*-based FinTech company that was founded in 2016 and focuses on channeling financing to the livestock, aquaculture and agriculture sectors. Vestifarm has a vision to become the largest agricultural investment company in Indonesia in empowering superior commodities in Indonesia and providing access to capital and added value to farmers and breeders.

Based on the results of a direct interview with one of the *Co-Founders* as well as its Operational Director, Vestifarm is a crowdfunding FinTech financing that uses syariah principles in its management and contracts, but has not declared it a Syariah FinTech. Vestifarm also has partners spread across almost all islands in Indonesia except in Sulawesi and Papua. Another FinTech is Efunding.id which was established in 2017. This FinTech has a vision to become a Syariah Crowdfunding-based FinTech company that is looking for funding and assistance to MSMEs. The Commissioner of Efunding.id stated that even though this FinTech uses a syariah contract, it does not yet have a permanent Syariah Supervisory Board. FinTech uses Syariah economic advisor services to develop products and oversee their management.

## **1. Strength Analysis**

Crowd funding technology financial providers and P2P Lending Syariah have the same strength. Of the four FinTechs studied, the financing sector which is the focus of financing distribution is an economic sector that is still difficult to reach by existing Islamic and conventional financing institutions such as the agricultural sector and MSMEs. These sectors were assessed by existing financing institutions as having a high enough risk level. The ability of Syariah FinTech to verify data of potential partners faster than existing financing institutions is another strength for Syariah FinTech. FinTech Syariah has an internal verification team and also works closely with external institutions to minimize the risk of failure of project funding returns from potential partners. With the existence of Syariah FinTech cooperation with external institutions and institutions, the search for potential partners is wide enough to almost every island in Indonesia. With the ease of internet access via smartphones, FinTech Syariah has quite a number of potential investors and lenders, often experiencing project over-demand because there are more potential investors and lenders than the projects to be funded.

## **2. Weakness Analysis**

Crowdfunding Technology and P2P Lending Syariah Financial Operators also have weaknesses such as the absence of Syariah FinTech registration at the OJK, the absence of a Syariah Supervisory Board in their organizational structure, and the lack of information obtained by the public regarding Syariah FinTech. Not many Syariah FinTechs registered with OJK are one of the weaknesses for Syariah FinTech players, because their business activities have not been fully monitored and supervised by OJK. In addition, the lack of a Syariah Supervisory Board in most of the Syariah FinTech is a question in itself for the daily operations of Islamic FinTech because no one directly supervises these activities. Although most of the FinTech Syariah collaborates with Islamic economic study institutions and Islamic-based educational institutions, this does not necessarily guarantee that their operational activities are in accordance with Islamic syariah. With the rapid development of the FinTech industry in Indonesia, the existence of Syariah FinTech itself has not been widely known by the general public. The lack of information and exposure is the main obstacle for the public to find out more about Syariah FinTech. In addition, just like Islamic Banking, the business model carried out by Islamic FinTech still sounds foreign to the general public because public knowledge of the syariah business model is still minimal.

## **3. Potential Analysis**

Financial Crowdfunding and P2P Lending Syariah technology has the potential to grow quite large in Indonesia. The market niche for the financing sector from FinTech is a major potential that continues to be developed because there are still very few existing financing institutions engaged in this sector. This is because FinTech Crowdfunding and P2P Lending Syariah have a much wider reach of financing partners in almost every region in Indonesia. In addition, the ease with which FinTech Crowdfunding and P2P Lending Syariah can obtain funding sources to finance the projects offered also has the potential for this FinTech to develop. Through their respective Syariah FinTech platforms, such as websites and smartphone applications, lenders can easily view, review, and then decide to provide crowdfunding and peer-to-peer financing regardless of geographical and regional boundaries.

## **4. Threat Analysis**

Like other financial industry players, Crowdfunding Technology Financial and Syariah P2P Lending also have threats that can hinder their business development. The threat of greatest concern is the potential for financial crime. The existence of easy access for

lenders to provide financing and the incomplete KYC carried out by FinTech, provides great opportunities for financial crimes such as money laundering. In addition, the lack of strong regulations governing FinTech management in Indonesia in general is also a factor in financial crimes occurring in FinTech. The emergence of many FinTechs in Indonesia, especially those based on Syariah, has also become a threat to the early morning players of Islamic FinTech Crowdfunding and P2P Lending. Even though the existing market niche is quite large, due to the absence of strict regulations from regulators and the government so that each FinTech is registered and supervised by regulators, the emerging FinTechs pose a threat to Islamic FinTech players to develop.

## **Conclusion**

It is concluded that FinTech Crowd funding and P2P Lending Syariah can help the Islamic financial industry to reach people in areas that are not yet reached by existing Islamic financial institutions. So that it can increase market penetration of the Islamic financial industry in Indonesia. In addition, FinTech Crowd funding and P2P Lending Syariah can also help increase the financial inclusiveness of the public in Indonesia because people with unbankable status get the opportunity to get financing for their business. The government and OJK need to make special regulations governing the implementation of Syariah *P2P Lending* FinTech Crowdfunding in Indonesia so that all stakeholders feel protected. In addition, the organizers of FinTech Crowd funding and Syariah P2P Lending also need to register their institutions with the OJK to increase public trust. So that people feel confident and safe in carrying out every transaction that is carried out at any time.

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