

Banks in Midst of Fintech and Neobanks

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In the year of 2021 more and more challenging. The banking industry facing the urgency of the fundamental reinforcement. No one can predict that the affect of COVID-19 pandemic has already 1 year and the waves affected financial and economy in the country. The banking industry are suffering so much, and the intermediary system is quite slow, especially in the credit granting to banking-customer. The business is practically slowing down and even more, they are on the critical situations, therefore the credit-demand is also slowing down. At the same time, credit quality is becoming worse scenario, due to so many creditors face bad business situation, and therefore they cannot pay the credit installment. On this 2021 situation, the banking industry cannot wait prepare the future financial technology (Fintech), such as developing the infrastructure as well as the products to gain more customer and giving more benefits on digital payment system.

Keywords: Fintech Payment, Digital Banking, Financial Technology, Neobanks

Introduction

Bankers are quite optimistic facing 2021 calendar, and hopefully will be much more better than the previous year 2020. Bankers and regulators predict that the banking industry will be growing on 5%-6%, and this is much higher than the 2020 projection whereas around 2%-3% growth. The various optimistic economic growth projections of up to 5.5% do not necessarily make the banking industry and business people are optimistic business plans. Although non-performing loans (NPLs) are still below 5% due to the relaxation of credit restructuring policies, loan at risk (LAR) at the end of 2020 reached the range of 25%-30% (It was 9% at the end 2019). Financial Services Authority (OJK) has also issued a trick to delay the NPL so that it does not occur in 2021. The credit restructuring relaxation policy that ends in March 2021 has been postponed to March 2022 and it signals that the business world has not been able to escape the pressure due to the impact of the COVID-19 pandemic.

Eventhough a vaccine has been found, there is still no guarantee that the COVID-19 such as Germany and South Korea do not want to join the euphoria of vaccines and have chosen to again tighten the implementation of health protocols and social retrictions to deal with the spike in COVID-19 cases. When this study was written, there is no clear indication when the COVID-19 pandemic will end, so the economic recovery is still uncertain.

Literature Review

Fintech during COVID-19 Pandemic

Since March 2020, COVID-19 declared as global pandemic by World Health Organization (WHO). COVID-19 pandemic effect massively and globally all over the world, Krisna Wijaja said on Infobank, as published on January 2021. And every country do thing that is best for internally. He also said that COVID-19 pandemic brings crisis economy, due to that digital

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technology becoming so important. And according to Herbert Smith Freehills, 2020 said that digital technology is the main priority, and a reaction due to COVID-19. He also suggest that banking industry should collaborate with any kind of financial technology. Deloitte (2020) also said that the presence of financial technology could possibly brings capital benefit, capital distribution, more on accessibility, and developing infrastructure on procedure.

This moment is a consolidation era, whereas COVID-19 brings positive impact on banking financial technology. They must develop system, product, manpower, based on digital technology. Old fashion style on conservative banking system, will be reconsider for all digital-customer. (Kompas.com, 2021)

Banking Industry Facing Fintech Payment

Financial technology on payment system is massively growth on financial services nowadays. GoPay, OVO, and DANA are the fintech payment gateway which usually we known and use in all over the country. Fintech payment is one of the most trusted payment systems in supporting all transactions in economy activities, much easier and faster.

A rapid growth on fintech payment system due to two factors; First, most of them in the community does not any bank account, and they can solve their problems on digital payment, fast, save, and easy. Second, they dont need to go to the bank to solve the payments, and just practically visit/clik fintech payment and done.

Four Issues and Trends in 2021

The consumption pattern of the class is still limited and they prioritize their saving, especially the upper middle class. Meanwhile, the lower middle class, which during normal times were the drivers of consumption credit, have been affected by the COVID-19 pandemic, so it is not too significant in using credit financing or savings services in banks. Moreover, some of them have fallen into the poor group and cannot pay their obligations. For example, the World Bank report states that 45% or about 115 million Indonesians are categorized to fall into the poor category.

Therefore, the bankers' test period has not ended, especially there is uncertainty when COVID-19 pandemic will end while facing a new world. According to Infobank Institute, the Banking industry faces four issues and trends in 2021.

One, the surge of LAR. Banks' efforts to produce assets and capital by disbursing loans are still overshadowed by risks, given that existing loans are low quality which are considered smooth due to the relaxation of restructuring policies. This condition requires bankers to be able to maintain the profitability of their banks when interest income is obstructed by low loans expansion and low quality of existing loans.

Two, strengthen and produce capital with consolidation. This consolidation does not only require shareholder supports, but requires management skills and leadership to unite the culture when a merger is carried out or to complete obligations to employees in the event of an acquisition. Acquisition and integration processes are often coloured by issues regarding policies on employee compensation in companies where both the old and new owners are reluctant to compasate employees who are the subjects of rationalization. A Mega Corpora's acquisition of Bank Harda was marked by the employees' dissatisfaction after their pension rights had the potential not to be paid because both parties were throwing them at each other.

Three, virtual or contactless activities that have become a habit for years, and now during pandemic will become a new approach/new culture, such as online shopping, virtual meeting, and various events that can be held online. This condition has become a momentum for the emergence of banks that possibly operate digitally like neobanks, such Bank Jago, Bank Digital BCA, and Bank Neo Commerce. Previously, the three banks operated in a traditional manner

before being acquired by new owners. For instance, Bank Yudhabakti is bought by Akulaku and turned into a Neo Commerce Bank. Bank Royal is bought by Bank Central Asia (BCA) and became BCA Digital Bank. Bank Artos is bought by Jerry Ng and Patrick Waluyo and then becomes Bank Jago. And last year, Gojek bought 22% of Bank Jago's shares. After being acquired by Mega Corpora, Bank Harda will also serve customers using a digital technology platform.

Four, banks are at risk of intermediary dysfunction because their funds are abundant while credit disbursements are sluggish. In term of industry, liquidity is loose with a loan to deposit ratio (LDR) per September 2020 of 83.48%. There were 23 banks that recorded an LDR above 100% at the beginning of the year; 13 of them recorded LDR below 100%. The downward trend in net interest margin (NIM) that has occurred since 2016 has continued. According to data from Infobank Reseach Bureau, the NIM of banking which in 2016 was still 5.63% continued to decline to 4.41% per September 2020, there were 39 banks with NIMs of less than 4% and 40 banks with still enjoying NIMs above 5%.

Results

Fintech Payment Keep on Looking for the Right Formula

Meanwhile, BCA, which is known for its expertise in geneating commission-based-income, only experiences a decline in profit of 1.93%, as well as being the largest profit-making-bank. It surpasses BRI and Bank Mandiri, whose profits fell more deeply, respectively by 43.30% and 31.61%. In term of industry, the net profit of banks per September 2020 fell 26.77% to Rp 85.66 trillion, of which 62 of the 110 banks had their profits dropped.

The test period for bankers has not been ended because they need to respond to the four issues and trends above and prevent to a deeper decline in profits due to lower asset quality and sluggish credit disbursements. Banks must also reduce the cost of funds and overhead cost by maximizing the role of information technology. Marketing and operation strategies must no longer be directed at simply leading customers to place their funds, but how to engage customers and make their accounts the main account to be used for various financial transaction needs.

The Impact to the Banking System

The presence of the fintech payment will impact practically in banking industry, as we are all knows that the payments are used to be part of the banking activities. Secondly, fintech payment system offering the same financial services as the banking industry did before. Through this disrupction, more or less will impact on the banking industry business.

Conclusion

Banks that are late in doing digital transformation have to work extraordinarily hard because customers are reluctant to transactions in branch offices. Low-level-banks with low capital do not have many choices to do so. This is because they are required to meet minimum capital requirements, increasingly fierce competition, and a niche market that has supported low-level banks and has entering technology-based financial services or financial technology (fintech).

For big banks, the invasion of fintech can suppressed by digital transformation or collaborating with fintech. Yet, lower-tier banks with limited business scale and expensive funds are not easy to do. It is no wonder that a lot of banks' shareholders choose to sell their shares to strategic investors. In the last few years, there were banks that were annexed by strong banks. The trend will continue to happen.

The trend of the emergence of neobanks will continue in line with OJK's requirement for banks to meet a minimum capital of Rp 3 trillion by 2022. Big banks want to make their capital

productive by acquiring other banks to become neobanks. Meanwhile, fintech also still has room for fast growth because Indonesia's financial inclusion index, which according to the OJK's survey is still 78% in 2019. Peer to peer (P2P) fintech, which began to emerge in 2015, continues to show off with accumulated lending. In October 2020, it reached Rp 137.66 trillion or grew 102.44% from the same period of the previous year.

Technology disruption and COVID-19 pandemic have given birth to virtual activities as a new normal. The new normal demands banks to be able to do digital transformation. Digital transformation may enable the pursuit of cheap funds and explore fee-based income. Besides, it can face the emergence of challenger banks and fintech.

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