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RESEARCH ARTICLE

Banking Industry Strategies in Facing Market Changes and Digital Transformation in Indonesia

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Banking Industry Strategy, Market Change, Digital Transformation

Abstract

The Indonesian banking industry is facing major challenges due to digital transformation and market changes. Banks must use creative strategies to remain competitive due to rapid digitalization, driven by advances in financial technology (fintech) and changes in customer behavior. Using a qualitative methodology, this study aims to analyze the strategies of the Indonesian banking industry in facing digital transformation and market changes. Data collection techniques used were through observation, interviews, and document analysis. The results of the study indicate that innovation in digital products and services, technological advances, collaboration with fintech, and optimization of data analysis for business decision-making processes are the main strategies implemented by the banking industry. In addition, compliance with regulations and cybersecurity elements are very important to achieve digital transformation. Furthermore, these findings show that banks in Indonesia are able to utilize digital technology to improve operational efficiency and expand market reach, despite facing challenges such as strict regulations and increasing competition. In addition to providing significant benefits to stakeholders in the banking industry, this study can be a reference for building more efficient strategies to face continuous market changes.

Kata Kunci:
Strategi Industri Perbankan, Perubahan Pasar, Transformasi Digital

Abstrak

Industri perbankan Indonesia tengah menghadapi tantangan besar akibat transformasi digital dan perubahan pasar. Bank harus menggunakan strategi kreatif agar tetap kompetitif akibat digitalisasi yang pesat, didorong oleh kemajuan teknologi finansial (fintech) dan perubahan perilaku nasabah. Dengan menggunakan metodologi kualitatif, penelitian ini bertujuan untuk menganalisis strategi industri perbankan Indonesia dalam menghadapi transformasi digital dan perubahan pasar. Teknik pengumpulan data yang digunakan adalah melalui observasi, wawancara, dan analisis dokumen. Hasil penelitian menunjukkan bahwa inovasi produk dan layanan digital, kemajuan teknologi, kolaborasi dengan fintech, dan optimalisasi analisis data untuk proses pengambilan keputusan bisnis merupakan strategi utama yang diterapkan oleh industri perbankan. Selain itu, kepatuhan terhadap regulasi dan elemen keamanan siber sangat penting untuk mencapai transformasi digital, temuan ini menunjukkan bahwa bank-bank di Indonesia mampu memanfaatkan teknologi digital untuk meningkatkan efisiensi operasional dan memperluas jangkauan pasar, meskipun menghadapi tantangan seperti regulasi yang ketat dan meningkatnya persaingan. Selain memberikan manfaat yang signifikan bagi para pemangku kepentingan di industri perbankan, penelitian ini dapat menjadi acuan untuk membangun strategi yang lebih efisien guna menghadapi perubahan pasar yang terus menerus.

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INTRODUCTION

The Indonesian banking industry has undergone a major transformation as a result of advances in digital technology. Amidst technological disruption, digital transformation has become a necessity for banks to improve efficiency and competitiveness. In the face of market changes, mobile banking, internet banking, and digital payment systems have become top priorities. In recent years, Indonesia's banking industry has undergone a significant transformation, mainly due to the development of digital technology and changes in consumer behavior. A report by the Financial Services Authority (OJK, 2022) shows that Indonesia's total banking assets reached IDR 8,000 trillion, with growth driven by the increasing use of digital technology. This digitalization transformation is affecting the way banks work and interact with customers. To respond to these changes, the Financial Services Authority (OJK) issued the Blueprint for Banking Digital Transformation, which covers five key components: data, technology, risk management, collaboration and institutional arrangements. This document provides practical guidelines for banks to use digitalization to accelerate digital transformation.

According to Darmawan et al. (2021), digitalization has changed the banking world, including in Indonesia, where conventional banks must adapt to digital platforms to remain competitive. According to data from the Financial Services Authority (OJK, 2023), digital banking transactions in Indonesia are increasing by 25% every year. Internet and mobile banking users are increasing rapidly. In addition, as reported by PwC (2022), 67% of customers in Indonesia choose digital banking services due to ease and speed of use. But issues such as the digital divide and cybersecurity are still major concerns (World Bank, 2023). Research by Khan et al. (2021) shows that more than 70% of customers now prefer digital banking services over conventional services, creating new challenges for banks to adapt quickly to this change. In addition, a report from McKinsey & Company (2021) shows that banks that successfully implement digitalization strategies can improve operational efficiency by up to 30%, which shows the importance of innovation in maintaining competitiveness in the market.

While there are many opportunities, Indonesia's banking industry also faces many complex issues. Data from Bank Indonesia (2023) shows increased competition in the banking industry due to the emergence of various *fintechs* that offer similar services at a lower cost. A study by Chen et al. (2022) found that more than 60% of young customers prefer to use fintech services over conventional banks, indicating a change in consumer behavior that banks need to pay attention to.

In the context of theory, the relationship between banking industry strategy (variable X) and market performance (variable Y) can be analyzed through various approaches. Research conducted by Zhang et al. (2021) shows that banks that use digital technology proactively perform better than those that do not. However, some studies, such as the one conducted by Lee et al. (2020), show that technology adoption does not always correlate with improved performance, especially if it is not combined with sufficient human resource development. The results of previous studies show that digitalization strategies have a significant effect on banking performance. Hendriyani and Raharja (2021) found that the application of digital technology increased bank operational efficiency by twenty percent. Chen et al. (2020) also stated that customer satisfaction and customer loyalty increased as a result of digitalization. However, the findings of several other studies were not significant. Kurniawan et al. (2022) found that digitization did not significantly affect the profitability of small banks. Sari and Wijaya (2021) stated that investment in high technology does not always yield comparable monetary returns.

The purpose of this research is to find useful strategies for the Indonesian banking industry to cope with market changes and digital transformation. Especially in providing deeper insights into strategies that are useful for the Indonesian banking industry in dealing with digital transformation and market changes. By analyzing the factors that influence technology adoption and its impact on banking performance, this research is expected to make a practical contribution to banks, especially small and medium-sized banks, in formulating the right digital strategy. In addition, this research is also expected to add to the literature on digital transformation in the banking sector, especially regarding developing countries such as Indonesia. By understanding the challenges and opportunities that exist, it is hoped that banks in Indonesia can be better prepared to face the evolving digital era.

Market Changes in the Banking Industry

Market changes in the banking industry are often triggered by external factors such as technological developments, regulations, and changes in consumer behavior. Porter (1985) in his *Five Forces* theory explains that industry competitiveness is influenced by the threat of new entrants, the bargaining power of suppliers and buyers, the threat of substitute products, and competition among competitors. To deal with the evolving market changes, banks can adopt some effective strategies. In-depth market analysis is essential to understand trends, customer preferences, and environmental changes through analytical data and market research, so that banks can adjust their strategies quickly. Banks should also have a flexible business strategy to adapt quickly to changes, including product or service adjustments, business model changes, or expansion into new markets.

In the banking sector, advances in information technology are considered a strategic element that supports efforts to win business competition by improving products and services to customers (Nustini, Ummah, and Samira 2020). Various types of mobile technology, including financial services known as mobile banking, have been introduced by various financial institutions. Mobile banking or commonly referred to as m-Banking is one of the latest mobile technology innovations that is well received by the public. The ease of access provided by m-Banking allows customers to conduct transactions anytime and anywhere as long as they are connected to the internet. The utilization of m-Banking is expected to provide time and cost efficiency to customers, so that their financial activities can be carried out more efficiently and productively.

Digital Transformation in the Banking Industry

Digital transformation in the banking industry refers to the process of integrating digital technology into all aspects of banking operations and services. According to Teece et al. (2020), digital transformation is part of an organization's dynamic ability to adapt to changes in the business environment. This theory emphasizes the importance of technological innovation and adaptation to maintain competitiveness.

Digital transformation is the process of integrating digital technologies into all aspects of an organization's operations, changing the way the organization operates and delivers value to customers. This process involves not only adopting new technologies, but also changing the culture of the organization to meet the challenges of the digital age. According to research, digital transformation involves using technology to improve operational efficiency, create new business models, and enhance customer experience.

METHODS

In this qualitative research entitled "Banking Industry Strategies in Facing Market Changes and Digitalization Transformation in Indonesia", the research method used is designed to explore and deeply understand the strategies implemented by the banking industry in the context of market changes and digitalization. The qualitative method was chosen because this research aims to understand phenomena in depth, uncover meaning, and explore the social context behind banking strategies in the face of market changes and digitalization. By using a qualitative approach, researchers can investigate the views, experiences and practices of key actors in the banking industry, including bank managers, regulators and customers. In this research, the case studies focused on several banks in Indonesia that have implemented digitalization strategies and faced the challenges of market changes. The researcher compared data from various sources (bank managers, market analysts, and customers) to ensure the validity and credibility of the research. In addition, the researcher also conducted a member check-in, where the research results were shared with several participants to obtain feedback and ensure that the researcher's interpretations were in line with their experiences. With a systematic and ethical approach, this research is expected to make a significant contribution to the development of theory and practice in the banking sector.

RESULTS AND DISCUSSION

The results show that there are three main components that make up the banking industry's strategy in facing market changes and digital transformation in Indonesia, namely technological adaptation, service innovation, and collaboration with *fintech*. Most large banks, such as Bank Mandiri and BCA, have integrated digital technology into their operations. This includes customer service through artificial intelligence-based applications, *internet banking*, and *mobile banking* (Darmawan et al., 2021). However, small and medium-sized banks still face a number of key issues, such as a lack of budget for technology investment and a lack of customer digital literacy (KPMG, 2022).

The presence of Super Banking Apps such as BCA Mobile, BRImo, and Mandiri's Livin that combine various financial features in one platform is one example of the implementation of digital services. The use of these applications reduces customer dependence on physical branch services and increases financial inclusion in remote areas. However, there are still some obstacles that need to be overcome in the implementation of these digital services, such as limited internet infrastructure in some areas and low digital literacy in certain communities (PwC, 2022).

One of the most common forms of cooperation is in the field of digital lending and electronic payment services *(e-wallet integration)*. For example, Bank Rakyat Indonesia (BRI) is collaborating with *fintech* companies LinkAja and Akulaku to expand access to microcredit for small and medium enterprises (MSMEs) that previously had difficulty obtaining loans from conventional banks (BRI, 2023). However, regulation and data security are other issues in this collaboration. To ensure that the integration of fintechs and banks remains secure, OJK and Bank Indonesia continue to update open banking and data sharing policies to comply with personal data protection regulations (OJK, 2023).

OJK data (2023) shows that 85% of large banks have achieved a high level of digital adoption, while only 35% of small banks have been able to do the same. In addition, the study found that market changes, such as the rise of fintech and changing consumer preferences, have forced banks to develop new strategies, such as *cloud-based* services and the use of big data for market analysis (McKinsey, 2021). However, Claessens et al. (2020) warn that high market concentration, where 60% of banking assets are controlled by the five largest banks, may stifle innovation and reduce access to financial services for people in remote areas. In addition, the impact of digital transformation on banking performance is also mixed.

Hendriyani and Raharja (2021) found that digitalization improves operational efficiency and customer satisfaction, which in turn benefits banks' financial performance. However, Kurniawan et al. (2022) stated that not all technology investments result in significant performance improvements, especially for small banks. Sari and Wijaya (2021) found that the high costs associated with digitization can reduce profitability if not managed properly. In contrast, Chen et al. (2020) emphasized that the success of digitalization depends largely on how well the organization integrates technology with business strategy and culture.

In addition, this research shows that collaboration between banks and fintechs can be beneficial for improving financial inclusion, especially in remote areas (World Bank, 2023). Although digitalization makes banking services more accessible, some people still lack in digital literacy. A survey conducted by the World Bank in 2023 found that around 40% of Indonesians still do not understand digital financial services. However, the OECD (2023) warned that the digital divide and lack of financial literacy could hamper financial inclusion efforts. To address these issues, banks, governments and financial regulators are doing things like: OJK's National Financial Literacy Movement (GNLK) to increase public understanding of digital banking services and the digital MSME education program, which provides training to small businesses to make optimal use of digital banking services. With a strong digital literacy program in place, it is expected that more people will be able to enjoy the benefits of digital banking transformation in an inclusive and sustainable manner.

The research found that banks that are successful in digital transformation also focus on improving customer experience. Through the use of technologies such as chatbots and AI-based customer service, banks can provide faster and more efficient responses to customer queries and complaints. Banks are starting to use technologies such as Artificial Intelligence (AI), Big Data Analytics, and Blockchain to become more efficient, reduce operational costs, and make their decisions more accurate. AI is used in chatbots for more accurate credit analysis, fraud detection, and customer service. For example, Bank Mandiri created the Mandiri AI Chatbot, which can reduce customer service workload by 40% and answer client questions in seconds (Mandiri, 2023). Banks use big data to understand customer transaction patterns, detect potential financial risks, and customize banking products to specific customer needs. According to Accenture research (2023), banks that adopt big data have increased product marketing effectiveness by 35% over those that do not (Accenture, 2023). The risk of cyberattacks increases with the rise of digital transactions. A report from the Indonesia *Cyber Security Index* (ICSI) shows a 45% increase in cyberattacks against the banking sector in the past two years, with the main modes of attack including phishing, malware, and data corruption (ICSI, 2023).

According to Chen et al. (2022), positive customer experiences increase customer retention and bank reputation. The study also shows that banks that incorporate customer feedback into new product development tend to be more successful in meeting market needs. Many banks in Indonesia are working with fintech companies to accelerate the digitalization process. This collaboration allows banks to utilize existing technology and expand their range of services. This is in line with Sari and Rahman's (2021) research which shows that collaboration between banks and fintech can create synergies that benefit both parties. This study also found that banks that are open to collaboration tend to be more innovative and responsive to market changes. Research conducted by Zhang et al. (2021) found that concerns about data security can reduce customer trust in digital services. The study found that banks that do not have clear data security policies tend to lose customers.

Decisions made by banking businesses are affected by rapid and dynamic market changes, which require them to adapt and anticipate upcoming changes. In addition, market changes can affect financial stability and security by increasing credit and liquidity risks. In addition, customer needs and expectations about banking services are increasing as a result of market changes. Changes also affect banking policies, which require more flexibility and responsiveness to market changes, but last but not least, banking strategies are also affected by market changes, which demand more creative and responsive strategies to market changes. Digital transformation in the banking industry does not only include the provision of online and mobile banking services. The financial banking industry must adopt innovations to integrate digital technology with customer interaction. New technology must be designed in such a way as to facilitate and increase convenience for users when accessing banking services (Mutiasari, 2020). Banks set risk tolerances based on revenue, capital, and business model diversity. To match, the organizational structure and business strategy are adjusted to the risk management philosophy. OJK emphasizes the importance of information technology adoption by implementing proper IT governance and risk management to accelerate digital transformation. As a strategic move to drive innovation in financial products and services that match consumer expectations and needs and focus on customer satisfaction, the Blueprint for Banking Digital Transformation identifies five key components: data, technology, risk management, collaboration, and institutional arrangements (Ngamal & Pejaka, 2021). Banking companies can suffer if they do not adopt the latest technology, update their services or products, and develop innovation and creativity. One of the consequences is on services aimed at individual customers or small businesses operating in the retail banking sector. As fintech companies continue to innovate, the market for these services will continue to shrink (Syafie et al., 2022).

The results of this study show that the banking industry in Indonesia has taken significant steps in facing market changes and digital transformation. Digital-based product and service innovation is one of the main strategies implemented by banks to meet the increasing needs of customers. This is in line with the Resource-Based View (RBV) theory that emphasizes the importance of innovation as a strategic resource that can create competitive advantage (Barney, 1991). By developing new products and services, banks can not only attract new customers but also retain existing ones. Indonesian banking has undergone a significant digital transformation that has transformed its services and operations. Technological innovations such as digital banking services, collaboration with *fintech*, and the application of big data and AI have improved efficiency and customer satisfaction. However, for this transformation to be optimal, issues such as cybersecurity, regulation, and digital literacy need special attention.

CONCLUSIONS

Based on the findings and discussion, it can be concluded that the Indonesian banking industry faces many challenges and opportunities in the face of digital transformation and market changes. Market changes, including the emergence of fintech and changing consumer preferences, have forced the banking industry to develop innovative strategies, such as cloud-based services, big data analysis, and collaboration with fintech (McKinsey, 2021). However, high market concentration, with the five largest banks controlling 60% of the nation's banking assets, creates imbalances that can hinder innovation and financial inclusion (Claessens et al., 2020). Digital transformation has an impact on banking performance. Smaller banks often struggle to balance the cost of technology investment with increased profitability, even though digitization improves efficiency and customer satisfaction at larger banks (Kurniawan et al., 2022). In addition, collaboration between banks and fintechs has proven beneficial for improving financial inclusion. However, the digital divide and low financial literacy remain key issues (World Bank, 2023). This research suggests that banking strategies should be holistic, encompassing technology, human capital, and inclusive policies, when facing market changes and digitalization transformation.

The research concludes that the Indonesian banking industry has taken great strides in the face of market changes and digital transformation. Digital-based product and service innovation is becoming a key strategy to meet the growing needs of customers, and this digital transformation has changed the way banks conduct their business with a focus on collaboration with fintech companies. However, for this transformation to be successful, banks must address critical issues such as cybersecurity, regulatory compliance, and increasing digital literacy among the public. Banks are expected to improve operational efficiency and customer satisfaction by addressing these issues, as well as expanding access to financial services, especially in remote areas.

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