CHAPTER I

INTRODUCTION

1.1. Research Background

Otoritas Jasa Keuangan (OJK) officially appointed the Indonesian FinTech Association (AFTECH) as the Association for Digital Financial Innovation Providers (IKD) on August 9, 2019 (Pers OJK, 2019). The pandemic has presented the momentum to adopt and accelerate digitalization and utilize it in Indonesian economic transactions and activities. Minister of Finance Sri Mulyani Indrawati in 2021 revealed that in line with the acceleration of adoption of Digital Financial Services and changes in people's behavior towards a digital economy, the digital financial sector, including fintech, has enormous potential (Departemen Komunikasi BI, 2021). The government and regulators will continue to support innovation in the digital financial services sector in order to make a greater positive contribution to the Indonesian economy. On the other hand, banking companies and other business actors must anticipate new business models from digital financial services in order to provide better consumer protection.

Indonesia's G20 presidency encourages the use of digitalization to play a concrete role in the realization of inclusive and sustainable finance for every country. The G20 Presidency through GPFI formulated a financial inclusion framework to increase digitalization in order to increase productivity for all of society with a focus on women, youth and MSMEs. The Minister of Finance of the Republic of Indonesia, Sri Mulyani Indrawati said that digitalization is a key component for an inclusive economy, especially in remote areas to carry out economic transactions more efficiently. The digitalization of Indonesia's payment system, supported by the Payment System Blue Print (BSPI 2025) initiative, is a game changer for efforts to recover together and build a sustainable economy, so that the benefits are felt for every level of society.

Intense business competition makes it important for companies to maximize their financial performance. Stakeholders began to consider environmental aspects in the operational activities of a company and digital finance is one form that can be done in the banking environment. There are still few who have researched digital finance on financial performance in Indonesia. In other countries such as China they have a Digital Finance Index that supports the research to study digital finance.

There are previous studies from China that have tested the effects of digital finance and financial constraints on financial performance as a firm-level evidence from China's new energy enterprises. Research by Wu & Huang (2022) uses new energy companies listed on Shenzhen and Shanghai stock exchanges from 2011 to 2018 as the object of this study. The results of this study state that the development of digital finance technology can positively influence new energy companies' financial performance. However, in the presence of financial constraints, the effect of digital finance will be weakened. Digital finance and financial constraints may have varying effects on financial performance depending on firms' scales and ownership types.

Research by Risman et al., (2021) which examines the effect of digital finance on financial stability. The object of this study uses 120 samples for 10 years from Bank Indonesia data sources from 2009 to 2019. The results of this study state that digital finance has a positive impact on financial stability by increasing the ability of banks to provide financing, so that the availability of bank loans tends to experience growth. However, the positive influence of digital finance on financial stability will decrease with increasing systematic risk, increasing digital payments as the main element of digital finance can no longer automatically support the growth of banking financing, this happens because banks anticipate systematic risks by reducing loans.

Research by Banna & Alam (2021) regarding the impact of digital financial inclusion on ASEAN banking stability as implications for the post-Covid-19 era. The object of this research uses 253 banks of 4 ASEAN countries over the period 2011–2019 where the 4 countries are Indonesia, Malaysia, Philippines and Thailand. The results of this study state that the greater implementation of DFI is positively associated with ASEAN banking stability which does not only reduce the default risk of the banks but also increases the financial mobility in the region. Consequently, an integrated inclusion of digital finance in the ASEAN banking industry ensures sustainable economic growth that is likely to help maintain financial sustainability in times of crisis like the Covid-19 pandemic. Hence, the government, policymakers and standard setters should take immediate steps to implement the full-fledged DFS in the ASEAN banking sector by adopting innovative, technology friendly and regulatory-based policies as well so that they can efficiently tackle the aftermath of any adverse situation like the current Covid-19 pandemic.

Research by Ozili (2018) which examines Impact of digital finance on financial inclusion and stability. The results of this study are that digital finance through Fintech providers has positive effects for financial inclusion in emerging and advanced economies, and the convenience that digital finance provides to individuals with low and variable income is often more valuable to them than the higher cost they will pay to obtain such services from conventional regulated banks. Finally, an interesting direction for future research would be to explore the relationship between digital finance and economic crises to determine whether digital finance helps to propagate financial contagion during a crisis.

The existence of previous studies that tested companies abroad, motivated researchers to examine the effect of digital finance on the financial performance of companies on the Indonesia Stock Exchange. Unlike the research by Wu and Huang (2022) in China, there is still no Digital Finance Index (DFI) that can be used to measure digital finance in Indonesia. Even though digital finance has developed very quickly in Indonesia, only few banking organizations have reported on the volume and nominal value of electronic transactions such as mobile banking that can be referred from Risman et al (2019) previous research. Financial performance of banking organizations may be affected due to the rising use of mobile banking or digital finance. When a bank offers mobile banking as one of its goods and services, digital finance has been implemented. To ascertain the effect of digital finance on financial performance, it is possible to compare the variations in the financial performance of banking organizations before and after its implementation of digital finance service. Therefore, the researchers were motivated to examine the differences in the financial performance of banking companies before and after the implementation of digital finance. The objects used in this study are banking sector companies listed on the Indonesia Stock Exchange two years before and after the implementation of digital finance.

1.2. Research Problem

Banking sector companies are the sector that plays the most role in the development of digital finance. As a company that has an obligation to facilitate innovation regarding digital finance services by utilizing technology, the role of banking performance needs to be considered. The use of digital finance which continues to increase every year also causes banking companies to continue optimizing services and of course has an impact on the financial performance of banking companies. Digital finance can also contribute to the efficiency and integrity of transaction data to increase the efficiency of the economy in Indonesia. The banking sector is one sector that contributes directly to the realization of digital finance. Of course, the application of digital finance will have an impact on the company's performance. The research problem in this study is whether digital finance, which is digital transactions provided in mobile banking, affects the performance of companies in the banking sector. This research concerns the differences of financial performance using Return on Assets (ROA) and Return on Equity (ROE) before and after the implementation of digital finance in banking sector companies. Therefore, the formulation of the problem in this study is as follows:

1. Is there a difference in Return on Assets (ROA) before and after the implementation of digital finance in banking sector companies?
2. Is there a difference in Return on Equity (ROE) before and after the implementation of digital finance in banking sector companies?

1.3. Research Objective

The purpose of this study is to provide empirical evidence regarding the differences in Return on Assets (ROA) and Return on Equity (ROE) before and after the implementation of digital finance in banking sector companies listed on the Indonesia Stock Exchange (IDX).

1.4. Research Contribution

1. Theoretical Contribution

   This research is expected to be a reference source for further researchers to do more research on the influence of digital finance and can be a complement to further similar research.

2. Regulatory Contribution

   This research is expected to be useful for the government to support the creation of a Digital Financial Index in Indonesia so that there are clear rules regarding Digital Finance in the future.

1.5. Discussion Systematic

This research consists five chapter:

CHAPTER 1 INTRODUCTION

This chapter covers the research background, problem formulation, research objectives, research benefits, research limitations, data analysis and research systematics.

CHAPTER 2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter consists of theoretical basis, previous research, and hypothesis development.

CHAPTER 3 RESEARCH METHOD

This chapter contains data and data sources, population and samples, sampling techniques, operational definitions of variables and their measurements as well as data analysis methods used in the research.

CHAPTER 4 ANALYSIS AND DISCUSSION

This chapter gives an explanation of data analysis and the results of the discussion.

CHAPTER 5 CONCLUSION AND LIMITATION

This chapter consists of the conclusion of the research, research limitations, and suggestions for future research