

DIGITALIZING ISLAMIC BANKS: LEARNING FROM BANK SYARIAH MANDIRI

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Abstract

This research aims to understand how BSM uses digital in its business development and what action other Islamic Bank could take from it to develop their digital utilization. Descriptive-critical analysis is used in this paper. The analysis began by presenting the understanding about digital role on Islamic Bank development and digitalization done by BSM. Analysis continued to digitalization done by BSM and its impact on Islamic Bank development so what action other Islamic Bank should do, what idea could be taken from it. Based on analysis, four things could be taken from BSM success using digital in its services: first, focus on young generation which can easily adapt with technology. Second, digital services improvement. Third, massive socialization. Forth, strong image of Islamic Bank built. Policy recommendation: first, strengthening regulation on safety and pleasure in digital-based transaction. Second, monitoring on shariah aspects in digital-based transaction offered by Islamic Bank.

Key Words: Islamic Bank; Digitalization; BSM

1. Introduction

Islamic banking in Indonesia has been established for almost 30 years. The growth counted to be very fast compared to other countries and it is higher than conventional one. However, in some aspects, Islamic banking is still far below conventional one such as smaller economies of scale, lagging market share, the reach of an office network which is only tenth of conventional banking, lower competitiveness and efficiency which are still challenges due to its limited capital (Subari, 2020).

These weaknesses are influenced by society which have not been very familiar with Islamic finance so that they equate Islamic banking with conventional one. In addition, the principles of justice, balance, and benefit held by Islamic banking cause additional burdens for it so that the performance of it looks lower than conventional banking (Subari, 2020).

The opportunity for Islamic banking to grow higher than conventional banking should be greater because the majority of Indonesia's population is Muslim and they have a great awareness of sharia. Islamic banking in Indonesia is

not only supported by a majority Muslim population, but also it is expected to grow rapidly because it has superior concepts and support from the government and applicable legal provisions (Indratno, 2010). However, this opportunity is constrained by the lack of public literacy about Islamic finance and the limited operational network of Islamic banking in Indonesia. Islamic banking has not been operated yet to remote areas in the country like conventional banking (HAMzah, Ishak, & Nor, 2015).

These obstacles have recently been overcome. Socialization and education of the public on Islamic banking continues to be carried out, supported by the fact that Islamic banking is more resilient to crises so that people are increasingly interested in transacting with Islamic banking. Constraints in the reach of operational areas could also be overcome by advances in technology and rampant digitalization. Islamic banking no longer needs to open branch offices to remote areas to be able to develop a business, but it can utilize digital.

Transforming the digitalization of Islamic banking services is a must. In the digital era today, the form of media has shifted to an online format because it is easily accessed by anyone who needs information. Public also easily share information on their respective social accounts so that information and knowledge on Islamic banking will be easily accepted by the public (Nurfalah, 2019).

The digital era is all forms of value creation which are connected via a network where all relevant information can be independently and directly exchanged. Digitalization has the advantage of being able to connect people, systems and objects, creating dynamic networks, being able to organize oneself and increasing value added. In short, digitalization will increase the effectiveness and efficiency of an entity (Marsudi & Widjaya, 2019).

This rapidly growing digital media transaction was also followed by the banking. Every bank in Indonesia is trying to adopt and adapt to technological changes to face competition in the digital era. One of the main strategies used by banking is transactions using digital platform, commonly called e-banking, which was later developed into mobile banking, where access to digital-based banking transactions can be done via mobile phones. Banking work becomes more efficient, operations are more controllable and the burden of improving performance is reduced (Murti, 2019).

The digitalization steps taken by banks in Indonesia are supported by a market potential which is dominated by young and technology literate people. In addition, Indonesia with its unique geographic structure which consists of

thousands of islands, is very suitable to adopt digital banking with its cheap and flexible characteristics (Murti, 2019).

In carrying out its function as a financial intermediary which unites people with excess funds and people with lack of funds, Islamic banks need to be able to interact with many people. Meanwhile, the threat of exposure to the Covid-19 is a challenge for banking institutions. Various policies have been issued by banks to survive in the pandemic situation. The Covid-19 has had a significant impact on world economic development. The Covid-19 is a challenge for the business world including the banking financial services industry (Mahfudz, 2020).

The Covid-19 pandemic which recently has hit the world, including Indonesia, has raised hopes of the large impact of digitalization on banking performance. As stated by Subari that the role of digital is becoming increasingly important in the midst of a pandemic where 80% of people prefer digital as a medium for accessing information because of the ease and speed of access to information provided by digital media. That way, Islamic banks really need to carry out digital transformation (a number of Islamic banks have started to carry out massive digital innovations with features that can compete with conventional banks) (Subari, 2020).

Islamic banking, which had previously adopted digital in number of transactions, then began to expand digitization as an effort to the new life order which is mainly influenced and dependent on digital. One of the Islamic banks which is rapidly growing through digitization is Bank Syariah Mandiri (BSM). During the last three years, BSM has focused on digital development to improve its services. In 2019, BSM became the first Islamic bank in Indonesia to provide digital services for making accounts via mobile banking. This service certainly makes it easy for consumers to have accounts at Islamic banks so their access to Islamic banks becomes wider and easier. The Islamic banking system in Indonesia will be supported by a digitization system. This vision made BSM prepare itself for the last three years. BSM prepared the digitalization infrastructure for both the internal system and the independent Islamic mobile banking. As for now, BSM digitization continues to be updated, such as e-commerce financial transaction services, collaboration with OVO digital wallets, online account opening and online waqf features (Novita, 2019).

BSM plays a role in almost all sectors of the economy, such as consumption and investment. During the Covid-19 pandemic, BSM's role is urgently needed to help the economic sector which is currently experiencing

pressure, either through restructuring customer loans or through channeling new credit financing. As an Islamic bank, BSM has a great role in advancing the Islamic economy which is an economy based on Islamic teachings for the benefit of mankind. Given the magnitude of the effects of the pandemic on the economy and the important role of Islamic banks in Indonesia, research related to the role of BSM for Indonesian economy during the Covid-19 pandemic is an important task (Hafizd, 2020).

This study aims to analyze how BSM uses digital for its business development and what other Islamic banks could learn from it to develop digital transactions.

2. Review Literature

Digitizing Islamic economy is important in an era based on gadget technology. It is as noted by Ansori in his research which explores the importance of digitizing the Islamic economy in an era based on gadget technology, how the Islamic economy uses digital and people's trust in the digitizing of the Islamic Economy (Ansori, 2016).

Meanwhile, Marsudi and Widjaja conducted research on the impact of the development of the industrial revolution 4.0 on the business world, especially finance. The results of this study indicate that the industrial revolution 4.0 requires humans to be able to fully utilize digital and information technology. As for the financial sector, the industrial revolution 4.0 encourages changes, one of which is the emergence and development of financial technology (Marsudi & Widjaya, 2019).

Murti examines the effect of e-banking and the implications of good corporate governance on bank performance. This study indicates that e-banking, board size, and institutional ownership are not significant to bank performance. Meanwhile, the concentration of ownership and independent commissioners has a positive effect on bank performance (Murti, 2019).

Sharia financial literacy and financial inclusion in Indonesia are still in the lower level, Indonesian's Financial Services Authority launched in 2016 that the data of sharia financial literacy is about 8.11% and sharia financial inclusion only about 11.06%. This problem can be overcome by combining financial services and products with the latest technology. The results of the study indicate that the digital innovation of "Connected, One Stop Solution" is appropriate with the concept of maqashid sharia and could help increase the level of sharia financial literacy and

inclusion as well as support halal needs according to maqashid sharia. (Irfan Nurfalah, 2019)

The analyze the BSM perspective on the phenomenon of the digital banking system in the midst of competition and technological change with the unit of analysis, namely benefits, effects, constraints, and strategies. The results of perspective research in each unit of analysis indicate that BSM behavior is less aggressive in the application of the digital banking system so as to produce a lower market reach that can reduce their competitiveness. The limitation of this research is that the researchers collected data through branch offices in Surabaya and Sidoarjo so that the data might not be able to represent other regions. However, the informant said that the implementation of the digital banking system at BSM was controlled directly by the head office, so that the management perspective at one branch office would be the same as the other branch offices. (Siti Bunga Fatimah, 2020)

3. Methodology

Basically, research is an attempt to obtain the truth or to find an answer to a problem. Another understanding of research is dialogue in which the researcher asks a question and then the question is answered in the field or it is answered through on an object of research (Subana & Sudrajat, 2001).

A method is needed in research, namely strategy used to explain the signs that are seen as a way to obtain the wanted truth by finding solutions or answers to questions asked. There are various types of research depending on the subject and object. This research is included in qualitative research which will focus on explaining a phenomenon with the aim of understanding the conditions and answering the question how and what (Hancock, Ockleford, & Windridge, 2009).

The data used in this research are primary data in the form of interviews with BSM employees and also secondary data in the form of books, journals, newspapers, annual reports and statistics obtained from the websites of BSM, Bank Indonesia (BI), the Financial Services Authority (OJK) and other sources that discuss the digital era, the development of Islamic banking and opportunities for Islamic banking through digitalization.

Data collection was carried out through interviews and literature study by studying books or literature and scientific journals to obtain a strong and comprehensive theory about the role of digitalization in banking advancement, how Islamic banking uses digital to develop and what BSM has done to utilize digital in order to fulfill consumer needs in the digital era.

This research uses descriptive-critical analysis method. This analysis begins with presenting an understanding of the role of digitalization for the advancement of Islamic banking and the steps taken by BSM. Next, an analysis of the digitalization carried out by BSM and its impact on the progress of Islamic banking and what action other Islamic banks could learn from it.

4. Results and Discussion

BSM is the second Islamic bank in Indonesia that has been existed for nearly thirty years. During the last seven years, BSM has listed itself as the foremost in excellent services. A number of awards at the national and regional level were given to BSM such as the Strongest Shariah Retail Bank in Asia, Best Shariah Bank in Indonesia, Shariah Bank with the best services, and many other awards received by BSM. Those awards show how big and fast the development of BSM is to this day.

BSM defines tha the digital banking system is a banking system related to technology which will make it easier for customers transactions. Another point was also expressed by an informant from Jenius BTPN who said that digital banking system is all elements of banking activities carried out through information technology.

BSM has a vision to become a leading and modern Islamic bank. Maximum effort is required to achieve these goals. Along with its development, BSM realizes the need for service improvement to maintain customer trust in BSM. Increasing reliability of information technology is one of the method used by BSM to improve services while at the same time increasing competitiveness in the banking industry.

One form of information technology improvement carried out by BSM is by digitizing banking services. BSM is developing a digital shariah ecosystem to meet customer needs for twenty hour digitally, both financially and spiritually. This is based on the development of the era which is dominated by young people who are technology literate and more likely to use technology in their various activities.

BSM is the first Islamic bank to offer the convenience of opening an online account (via mobile banking using Mandiri Syariah Mobile application). Since its release at the end of 2019, BSM has been aggressively promoting Mandiri Syariah Mobile (MSM) to achieve the target of increasing deposits by 2020 . As well as being used for online account opening, MSM is also equipped with various features that continue to be improved such as juz amma, qibla direction, the nearest ATM

location, the location of nearest mosque, shopping payment via Shopee, Tokopedia and Bukalapak, payment of zakat and waqf, and scanning QRIS barcode.

The management of BSM has made plans for the development of existing digital products in order to meet and answer the needs and desires of customers better in using financial services. Among the plans are designing the fintech concept on the financing to cut existing procedures so that financing can be channeled fast and establish a digital work unit in a place closer to the community such as mall or through an agent from BSM.

As of February 2020, BSM the only Islamic bank in Indonesia that provides online account opening services with a series of large conventional banks such as BNI, CIMB Niaga, OCBC NISO and other conventional banks. This shows that BSM is one step ahead of other Islamic banks in utilizing digital for banking services.

The use of digital made by BSM has had a major impact on customer choices since the introduction of new habits due to Covid-19 pandemic. Customer account opening increased. As of early June 2020, online account opening at BSM reached forty six thousand accounts with an average of nearly one thousand customers a day. This is supported by new habitual conditions that have made people more accustomed to interacting online (digital use of transactions) and MSM is one of the solutions available to customers for transactions needs amid the Covid-19 pandemic.

Based on the facts mentioned, BSM has proven itself as a Islamic bank that has succeeded in utilizing digital to meet customer expectations in conditions that also support digitalization. BSM successfully proclaimed as well as being recognized nationally as the first Islamic bank (although the BSM online account opening feature came after Bank Muamalat launched DIN with the online account opening feature) which provides online account opening services and proves the great impact of this feature on increasing Islamic bank deposits, especially during the Covid-19 pandemic. What exactly makes BSM superior and successful in utilizing digital?

First, BSM has succeeded in reading the changing market in the digital era. People are starting to move from traditional systems to easier and more efficient digitalization systems. Second, market reading then followed by an increase in digital services. This is proved by the large budget provided by BSM in 2019 for the development of digital banking, one of which is launching an online account opening. Third, launching new features followed by massive socialization and

promotion so as to successfully attract public attention and interest. Fourth, BSM has built a strong image since its establishment by continuously developing and proving its performance by entering the large high-performing banks among other large banks (conventional banks).

5. Conclusion

The digital era changes the pattern of transactions that people carry out from traditional systems to digital-based systems. Digitalization is a prerequisite for progress and success in the digital era, including for Islamic banking. One of the Islamic bank that has successfully utilized digital for the advancement and ease of transactions is Bank Syariah Mandiri (BSM). There are at least for things that can be learned from BSM in its success in terms of digitizing services, that is:

First, focus on young or tech-savvy millennials.

Second, continue to improve digital services and continuous innovation.

Third, massive socialization and promotion.

Fourth, as the most important part of the process of developing and improving digital services, building a good image is an integral part of what Islamic banks do to gain the trust of the public.

6. Policy Recommendation

The digital era not only makes digital transactions easier, but also requires strong regulations for the security and convenience of activities and transactions. Along with the development carried out by BSM in digital banking, other Islamic banks will also do the same to create a competitive industry.

In the future, digital banking will certainly grow and require more rigorous regulations. In order to support the use of digital banking, this paper try to recommend two things to the OJK as the supervisor of the financial industry in Indonesia, that is:

First, strengthening regulations regarding the safety and convenience of digital-based transactions. A separate regulation is required on the digitization of Islamic banks because the principles of Islamic banks are different from conventional banks.

Second, it is necessary to monitor the shariah aspects of digital-based transactions provided by Islamic banks.

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