



## The Applicability of Digital Branches in the Islamic and Conventional Banking Sector in Indonesia

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### Abstract:

The development of the financial industry which is increasingly dynamic and closer to technology has created digital bank branches both Islamic and conventional banks to encourage bank activities in providing services to customers. Through the development of the increasingly complex financial industry, both both Islamic and conventional bank industry, it is necessary to have an independent institution outside the government, namely the Financial Services Authority, which can regulate and supervise the financial services sector in an integrated manner. This study aims to analyze the regulations governing the implementation of digital branches in Indonesia in both Islamic and conventional banks, and the application of digital branches in the study of Indonesian banking law. The results highlight the development of a business strategy that leads to digital banking services requires adequate infrastructure. Among other things, risk management, adjustment of information technology, business models, business processes, internal control, and human resources, to support the convenience, security and reliability of digital banking services in providing information, communication, registration, opening accounts, processing transactions, and closing account. The results are important to increase the application of digital services, especially for both Islamic banks in Indonesia.

**Keywords:** financial technology, digital finance, banking law

### I. INTRODUCTION

The development of technology is not something new in the era of modernization like what we are experiencing today. Modernization itself refers to a form of transformation from a less developed state to a better one with the hope that people's lives will be better. In practice, technological developments themselves also have an impact and influence on culture on society, both in the form of positive and negative impacts (Setiawan, 2018). Rapid, dynamic and extensive environmental changes supported by technological advances in all sectors cannot be denied that every year without realizing it, technology continues to grow and develop for the better. This has had a major impact in supporting all activities in all sectors of human life, one of which is the financial and banking sectors. Forms of banking services with a touch of digitization as well known by customers include Automatic Teller Machines (ATMs), sms banking, internet banking, and mobile banking. In the development of this form of banking services it is known as Self-Service Technology (SST) (Dharmawan, 2018). The use of services such as SMS banking, internet banking, and mobile banking is very easy, only by accessing these services via the customer's smartphone. The use of social media as a marketing tool to digital products is developed with the aim of improving banking services related to convenience for its customers. These services are also massive not only in conventional banks, but also in Islamic banks (Asad et al., 2018; Mohamed & Ali, 2018; Utami, 2019; Raza et al., 2019; Barata, 2019; Sodikin, 2020).

The development of banking services is not only accessible through smartphones, but now several commercial banks have implemented a digital branch or what is commonly known as a digital bank office. The development of this digital office is considered to be a trend in future financial technology. As a country with largest Muslim population, Indonesia experienced rapid growth in digital banking services. Now, digital branches, in form of bank offices that provide electronic/digital facilities so that customers can carry out banking product transactions and transactions outside banking products independently (OJK, 2016). This digital branch is deemed necessary because it cannot be denied that people's behavior is increasingly mobile and dependent on information technology (digitization), so that the mobility of the community who uses financial services is higher, so it requires a breakthrough in digital-based financial services. Singapore is one of the countries that have implemented a digital branch. To be precise, last March 2016 marked an important moment for DBS Bank as it launched an innovative digital banking platform that allows customers to carry out banking activities more practically and efficiently. When the Indonesian economy is increasingly open to the world, competition in the banking sector cannot be avoided. Now in Indonesia there are several banks that have implemented digital branches, including Bank BCA, Bank Mandiri, Bank BNI, Bank BRI, Bank BTN, Bank Commonwealth, and Bank BTPN (Riyanto et al., 2019). The digital services are also considered important for increasing the

performance of sharia bank (Abbas et al., 2018; Baidhowi, 2018; Johar & Suhartanto, 2019; Yuspita et al., 2019).

With the existence of a digital branch, almost the needs of customers who have been served by bank employees at branch offices will be transferred to machines, such as opening accounts, issuing ATM cards, replacing ATMs, printing savings books, cash deposits, withdrawing funds, sending funds, and checking accounts. The formulation of the problem based on the background description above is what are the regulations governing the implementation of digital branches in Indonesia, and how is the application of digital branches in the study of Indonesian banking law.

## II. RESEARCH METHOD

The author of this study uses a normative juridical approach. This normative or literary juridical approach is carried out by examining library materials. The normative juridical approach is intended to place the law as a form of norm system building. The norm system built is regarding the principles, norms, rule of legislation, court decisions, agreements, and doctrine (Yulianto & Mukti, 2012).

This research was conducted to conduct a more in-depth analysis of the application of digital branches in both Islamic and conventional banks in the perspective of Indonesian banking law as a consequence of the development of information technology supported by field research at the Financial Services Authority of the Republic of Indonesia and identified basic principles and laws and regulations related to banking implemented in digital branch. In connection with the type in this research is juridical normative, the research is carried out using secondary data as the main source.

### ***Regulations governing the implementation of digital branches in Indonesia***

The development of information technology has led to an evolution that has led to digital banking services in both Islamic and conventional banks in Indonesia. This service aims to improve the efficiency of operational activities and the quality of bank services to its customers. For this reason, banks need to develop business strategies that lead to digital banking services in both Islamic and conventional banks.

Digital banking services are banking services or activities using electronic or digital means owned by the Bank, and/or through digital media owned by prospective customers and/or Bank customers, which are carried out independently. This enables prospective customers and/or Bank customers to obtain information, communicate, register, open accounts, conduct banking transactions, and close accounts, including obtaining other information and transactions outside of banking products, including financial advisory, investment, electronic-based trading system transactions (e-commerce), and other needs of Bank customers.

The development of a business strategy that leads to digital banking services requires adequate infrastructure. Among other things, risk management, adjustment of information technology, business models, business processes, internal control, and human resources, to support the convenience, security and reliability of digital banking services in providing information, communication, registration, opening accounts, processing transactions, and closing account. Taking into account the readiness of banks, the implementation of digital banking services in Indonesia begins with the establishment of a "digital branch", which is a bank facility that functions specifically to process customer registration and account opening independently.

Digital Branch or "Bank Digital Office", namely bank offices in certain locations that provide electronic/digital facilities in such a way that customers can obtain information, communicate, register, open accounts, banking transactions, and close accounts, including obtaining other information and transactions. This service is same both Islamic and conventional banks. Apart from banking products, including financial advice (financial advisory), investment, e-commerce transactions (e-commerce), and other needs of bank digital banking customers independently. At the digital branch stage, after the customer registers and opens an account at the bank office, then the customer can then obtain information, communicate, carry out banking transactions including obtaining other information and information outside of banking, including financial advice (financial advisory), investment, e-commerce transactions (e-commerce), and other needs with bank digital banking customers through the customer's digital media. This digital branch is a new phenomenon in the banking sector, which in its implementation requires guidelines for the operation and supervision, where the legal basis for implementing digital branches is Law No. 10 of 1998 concerning Banking, Law no. 21 of 2011 concerning the Financial Services Authority, OJK Regulation No. 1/POJK.07/2013 concerning Consumer Protection in the Financial Services Sector, OJK Regulation No.12/POJK.03/2018 concerning the Implementation of Digital Banking Services by Commercial Banks, as well as official guidelines for implementing Digital Branches that have been

issued by the Financial Services Authority (OJK) as a banking regulator through letter No. S-98/PB.1/2016 dated 21 December 2016 which was shown to the Board of Directors of Commercial Banks.

### ***Application of digital branches in the study of Indonesian banking law***

Today is the digital era, there is no work or activity that does not come into contact with digital equipment, one of which is the development of the financial industry. Through the development of the increasingly complex financial industry, it is necessary to have an independent institution outside the government, namely the Financial Services Authority, which can regulate and supervise the financial services sector in an integrated manner. The Financial Services Authority sees the development of digital banking services as very necessary for the community. Now the lifestyle of people who want services that is completely online, practical, fast, and safe is the concern of the Financial Services Authority as the regulator of the financial ecosystem in Indonesia. With the existence of a digital branch for commercial banks, it will also support government programs such as the distribution of social assistance (bansos), where the distribution of social assistance will be carried out using a non-cash scheme. Banking has responded to the rapid growth of digital banking by optimizing the use of digital technology by providing an increasingly diverse range of products and services, as well as increasing the efficiency and competitiveness of the banking industry.

According to the explanation of Article 43 of Law Number 21 of 2011 concerning the Financial Services Authority, integrated means that the systems established by the Financial Services Authority, Bank Indonesia and the Deposit Insurance Corporation are interconnected with each other, so that each institution can exchange information and access information banking is needed at any time (timely basis). This information includes general and specific information about banks, bank financial reports, reports on the results of bank examinations conducted by Bank Indonesia, the Deposit Insurance Corporation or by the Financial Services Authority, and other information while maintaining and considering the confidentiality of information in accordance with the provisions of laws and regulations. . The implementation of integrated supervision is expected to reduce the potential systemic risk of the financial services group, reduce the potential for moral hazard, optimize the protection of financial service consumers and create financial system stability.

### III. CONCLUSION

The financial and banking sectors cannot be separated from information technology. The world of finance and banking is now growing along with the development of technology in Indonesia. The rapid development of technology makes it easy for everyone in all fields, because in principle everyone wants a convenience in their daily life. Banking is a financial intermediary institution that is tasked with collecting funds from the public and channeling them to the public. Banks, both Islamic and conventional banks, are public trust institutions to keep their money and entrust the bank to manage their finances.

The development of information technology has also led to an evolution that leads to digital banking services (digital banking), in Islamic and conventional banks. This service aims to improve the efficiency of operational activities and the quality of bank services to its customers. For this reason, banks need to develop business strategies that lead to digital banking services. Digital banking services are banking services or activities using electronic or digital means owned by the Bank, and/or through digital media owned by prospective customers and/or Bank customers, which are carried out independently. This enables prospective customers and/or Bank customers to obtain information, communicate, register, open accounts, conduct banking transactions, and close accounts, including obtaining other information and transactions outside of banking products, including financial advisory, investment, electronic-based trading system transactions (e-commerce), and other needs of Bank customers.

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Regarding the digital branch, which is one form of the bank's business process, it is also supervised by the Financial Services Authority. Digital branches consist of several types, namely digital sub-branches, digital cash offices, and digital outlets, however in Indonesia most commercial banks have implemented digital branches with the type of digital outlets. Regarding the form of supervision carried out by the Financial Services Authority, namely the Risk Based Supervision (RBS) cycle. RBS is a monitoring focused on risk evaluation, identification of problems that materially affect bank conditions, both current and future, and bank actions and plans to anticipate problems and potential problems before they affect the bank's

soundness level (future orientation and pre-emptive approach). RBS is a series of stages containing techniques and procedures for supervising/examining a bank by focusing on inherent risks in the bank's functional activities and risk control systems.

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