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SHARIA BANKING STRATEGY IN DEALING WITH FINANCIAL TECHNOLOGY A REVIEW OF THE LITERATURE

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Abstract

The purpose of this study is to determine the strategy of Islamic banking to deal with the development of Financial Technology (Fintech). This study uses a literature study technique in search of relevant theories to answer research problems related to the strategy of Islamic banks in dealing with financial technology. The results of this study reveal that a strategy that can be applied by banks to deal with the development of financial technology is the Collaborating Strategy of collaborating with businesses offered by fintech companies so that they can jointly build a platform that facilitates both businesses. Sharia Banking Channeling Strategy with Fintech by promoting a lending-based fund distribution model where the risk is borne by the banking itself, while fintech companies only have limited authority over the contents of the contract. Confotative Strategy by building a new company model with the current startup format. Sharia Banking Digitalization Strategy by utilizing technological advances to improve the quality of banking services. Improving the quality of human resources as actors in sharia banking and innovating sharia banking products.

Keywords: *Sharia Banking, Strategy, and Financial Technology*
JEL Classification: *JEL: G21*

1. INTRODUCTION

Indonesia is a democratic country and has the largest Muslim population and is expected to be a pioneer and mecca for the development of Islamic finance in the world, especially in the banking sector (Nugroho & Tamala, 2018). This hope is not a dream that is impossible to achieve, because Indonesia has considerable potential to become a global player in the Islamic finance sector. The potential that Indonesia has includes having great potential to get customers in the Islamic financial sector industry, having promising opportunities for growth in the Islamic economy, increasing investors in the Islamic finance industry due to an increase in the sovereign credit rating, and Indonesia's abundant natural resources (Hutagalung, 2017).

Indonesia is predicted to become a fertile land for Islamic economic growth in the future, especially in Islamic banking. This is due to the enormous potential that Indonesia has. As for this potential, namely: Indonesia's participation as a member in several state economic organizations. In addition, Indonesia holds the position of being a country with the largest Muslim population in the world, has long experience of developing an economy based on a socialist and capitalist economic system as capital in economic development based on religion and culture, and also has a state constitutional structure and the Pancasila economic ideology that has been in line with the principles of Islamic economics.

To achieve the goals and aspirations of making Indonesia a mecca for the sharia economy, it is also necessary to pay attention to the challenges that must be overcome immediately (Apriyanti, 2018). Efforts to win the battle in the free market require efforts to increase competitiveness. This effort can be realized through several factors. These factors include improving the quality of human resources, mastery of information technology, regulations, and institutional strengthening in all economic sectors, both macro and micro, both monetary and fiscal, and both sectoral and real sectors. Thus, the community can be empowered and ready to enter the digital era.

Islamic banking is the people's main choice for conducting payment activities and other financial activities. To achieve its goals, banks must continue to innovate according to their needs to make it easier for their customers to carry out all their financial activities. The Islamic banking sector is growing rapidly and can spur economic activity. This can be stated because in this case, Islamic banking is a sector that can support the distribution of public funds productively for the economy, and also acts as an intermediary that can help regulate the flow of money between different institutions and other fields to accelerate the economy (Syafitri & Nasution, 2023).

From time to time, the situation in the Indonesian banking industry has faced many cycles. This is not only caused by internal trends in the banking industry but also closely related to the influence of developments outside the banking industry, such as business, political, legal, and social entities. The digital era is getting closer and changing the lifestyle of Indonesian people, especially those in the financial industry such as banking. Financial services institutions must be able to respond quickly to these changes to be ready to experience digital banking innovations. The banking sector is currently facing a transformation towards the digital era. The transformation of the banking industry is a reaction to the phenomenon of the development of financial technology (fintech) and the digital technology revolution (4th revolution industry - digital industry). This service brings banks into a new era, namely the era of digital banking services. The implementation of digital banking services aims to be able to disseminate and facilitate financial inclusion and public access to financial services that can be carried out without recognizing time and place limitations (Tambunan & Padli Nasution, 2022).

In the current digital era, there are many significant developments, such as technological developments in Indonesia which continue to improve for the better, for example, developments in the financial sector, namely Fintech. Fintech or Financial Technology according to the National Digital Research Center (NDRC) is defined as a term to refer to a technological innovation and digitization of financial services. The background for the emergence of Fintech is when there is a problem in society that cannot be served by the financial industry with various obstacles, including regulations that are too strict as in the case of banks, and the limitations of the banking industry in serving people in certain areas. So people who are far from banking access tend not to be served by banks. This resulted in uneven economic development.

A fundamental feature of the new digital era is that it takes on new dimensions and images day by day. Even though banks tend not to change due to structure, form of business, and other characteristics, most banks adapt their business to a changing business environment, so that the Adopt and implement process is certain. This process creates new banking products and services that are directly involved with digitization procedures. This shows that the banking sector is taking the upcoming changes seriously. market. Of course, with broad market competition, various services are planned in parallel with banking services. This is a market advantage and, of course, the biggest challenge for banks in the future (Mekinjic, 2019). In this regard, it is very important to recognize that banks are not only competitors of other banks but also high-tech companies with similar facilities that have emerged in the last few years and started to market these similar facilities. These companies have their own payment methods and customer databases, which take a portion of the bank's revenue. All this means that banks need to focus on banking innovation and developing new business strategies and forms to adapt to new market needs (Tambunan & Padli Nasution, 2022).

The wave of the industrial revolution 4.0 caused rapid changes in digital technology (Ali *et al*, 2020). This progress starts with the availability of sophisticated computers, smart robots, driverless cars, smartphones, and various industries that prioritize the functions of the human brain. Rapid change is seen as an innovative disruption that changes the world through ways of social interaction and personal or individual relationships. Existing and established (Seatle) industries are undermined (creative destruction) by the establishment of new types of industries, new players, new types of businesses, and new value propositions. The progress of digitalization has been running very fast, beating other sectors. According to the Minister of Industry Airlangga Hartarto, four strategic steps can be taken before the 4.0 era: first, improve skills in understanding the use of IOT (Internet of Things) technology and integrate this technology into the Indonesian workforce. Two, digital technology in its utilization to increase competitiveness and productivity. Three, supporting increased competitiveness and productivity through the use of digital technology at national operators. Fourth, implementing technological innovation by providing incubation space to develop related start-ups (K. P. R. Indonesia, 2018). If these four are applied in Indonesia, especially in Islamic banking, various innovations can emerge in the implementation of the economy in Indonesia. This framework will later make Islamic banking more consumptive and develop in the future, along with the rapid growth of technology and various uses of digitalization.

Financial technology innovation for the financial sector has been going on for a long time because both of them have a long history of being related to financial technology (financial technology) or more popularly called FinTech, for the financial industry financial services are old things. The existence of smartphones is a manifestation of the extraordinarily fast development of fintech, marked by the emergence of financial business technology that can change business behavior in the community when making transactions. The digital era has changed human habits in accessing electronic information and services. The economic sector is experiencing more efficient and effective development (Subagiyo 2019).

Based on the description above, the researcher feels interested in conducting further research on Islamic banking strategies in dealing with financial developments. The research objective is to analyze Islamic banking strategies in dealing with financial developments.

2. LITERATURE REVIEW

2.1. Background Theory

The definition of fintech refers to the use of technology to provide solutions in the financial sector. KPMG defines fintech as a technology-based business that competes or collaborates with financial institutions. Fintech refers to innovative financial services or products delivered through new technologies. From this definition, sharia fintech means technology-based businesses with innovative financial services or products that use sharia schemes. Islamic fintech promotes responsible, ethical finance and provides opportunities to impact all forms of finance globally. Fintech companies can be classified as: a) information technology and software companies that support and facilitate financial sector companies or better known as bank technology service providers and b) tech startups or small innovative companies that replace ordinary financial intermediaries, with easy accessibility capable of disrupting commercial banks and the banking system (Rusydiana & Devi, 2018).

2.2. Previous Studies

Several studies have been conducted to identify and analyze related Islamic banking strategies in dealing with financial developments. Research conducted by Ika (2022) entitled Analysis of the Potential of Islamic Banking in Indonesia said that in the face of rapidly developing technological developments in the digital era, there are several supporting and inhibiting factors for the growth and development of Islamic banking which are at the same time opportunities as well as threats to Islamic banking in Indonesia. These things, including human resources, maximum use of technology through the existence of fintech, and regulations that become the legal umbrella for the implementation of Islamic banking practices in Indonesia. Things that need to be prepared to face these challenges to increase the potential and existence of Islamic banks in the digitalization era include, increasing the skills of the Indonesian workforce in understanding the use of Internet of Things (IoT) technology in industry, the use of digital technology to boost productivity and competitiveness, the use of digital technology in national industry players, and technological innovation through the development of start-ups (Rosida, 2022).

Research conducted by Ria and Irwan (2023) entitled Banking Challenges and Strategies in Facing Developments said that the digital economy era presents new hopes as well as major threats for the banking industry which is moving to digital banking to protect existing customers and attract new millennial customers. . The application of technology in banks is called digital banking, namely banking services that implement digital technology to meet customer needs and create the desired digital economy. Digital banks are expected to make it easier for banks to back up and analyze customer data. Make it easier for banks to stay in touch with consumers, resolve consumer complaints better, and create products or facilities that are faster, cheaper, clearer, more transparent, and more perfect for consumers. in practice, there are still obstacles and obstacles such as high costs and risks, unavailability of large infrastructure, and banking fraud committed by the users themselves.(Tambunan & Padli Nasution, 2022).

Research conducted by Destri *et al* (2022) with the title Analysis of the Role of Sharia-Based Financial Technology Development: Peer to Peer Lending and Crowdfunding in Indonesia, said that the development of fintech peer-to-peer lending and crowdfunding in Indonesia is experiencing growth. Factors influencing the growth of fintech are because fintech offers a business model that is practical and modern and different from the business model offered by conventional banks (Ningsih *et al*., 2022).

Research conducted by Rokhmad (2019) entitled The Fintech Era: Opportunities and Challenges for the Islamic Economy, said that the FinTech era is an inevitability, the Islamic economy needs to answer the FinTech challenges by issuing products or policies that are in line with FinTech developments and do not contradict with sharia principles. Online banking, it becomes a value-added to sharia banking services. Digitalization of Islamic banking will make it easier to store and analyze customer data, thus helping banks to maintain relationships with customers, and resolve consumer complaints quickly, efficiently, and effectively. Digital banking apart from providing benefits, there are obstacles and challenges, including high costs, limited infrastructure, to banking crimes by the users themselves (Subagiyo, 2019).

Research conducted by Mardia and Mustafa (2022) entitled Problems of Islamic Banking: Digitalization Solutions and Strategies in Improving the Quality of Banking Products and Services said that banks need to determine the right strategy to further optimize the digitization of transactions in Islamic Banking. Various obstacles and offered strategies as solutions have been presented. Currently, the banking position has greatly benefited from the total population of the community and Islamic banks have a Muslim population from the community. And the law in digitizing transactions is immediately being improved more deeply so that the activities are by expectations. It's just that the emphasis on strategy needs to be done so that the existing quantity is following the expected target. The existence of digital media which has spread widely also needs to be re-optimized, so that people can feel the impact of the presence of digitalization (Gultom & Rokan, 2022).

Research conducted by Arinal and Azharsyah (2022) entitled Sharia Banking Development Strategy in Facing Financial Technology, said that the presence of fintech can be analyzed as a disruptive innovation, by taking over the function of banking itself which offers a more accessible, practical system. , providing comfort and of course at a more affordable cost. The most moderate strategy that can be carried out by Islamic banking is the collaborating strategy, namely by collaborating with businesses offered by fintech companies so that they can jointly build a platform that facilitates both businesses, such as channeling MSME financing through the fintech platform. Islamic banking channeling with fintech where the cooperation carried out by the channeling system is the distribution of financing by Islamic banking through a lending-based fintech platform with the risk borne by the banking itself, where fintech lending companies only have limited authority by the contents of the contract and confotative strategies including banking sharia can build a new company model with the current startup format or a subsidiary of fintech other options sharia banking buys a portion of fintech company shares (Rahmati & Ibrahim, 2022).

Research conducted by Nurul and Very (2020) entitled Opportunities and Challenges of Implementing Financial Technology (Fintech) in Islamic Banking in Increasing Financial Inclusion, said that the opportunity for implementing fintech in Islamic banking is that the majority of Sumenep people adhere to Islam. The dominating Muslim population in Sumenep can be the main opportunity for Islamic banks to expand their reach. In addition, the BPRS Bhakti Sumekar bank has products related to Islamic activities such as qurban savings, hajj savings, and Umrah bailout financing. Technological developments that support the implementation of financial technology (fintech) at BPRS Bhakti Sumekar. The convenience offered by BPRS Sumekar regarding the use of technology can be an opportunity to attract people to use the services and products offered. The facilities provided by the central government to develop financial technology in the licensing sector. The central government provides licensing facilities in developing technology that will be applied by Islamic banking to increase community inclusive finance because when financial institutions, especially Islamic banks, can offer convenience to the community, the community will be interested in taking advantage of the services offered, such as financing business capital and opening savings for unexpected needs, especially during a crisis or inflation (Nurul Kholifah, 2020).

Research conducted by Helmi and Niki (2020) entitled The Influence of Financial Technology on Islamic Banking: The Influence of Financial Technology on Islamic Banking (ANP-BOCR Approach), says that the development of the FinTech industry is increasing and offers a variety of innovations. financial services such as in the banking industry and existing financial institutions. The role and function of the FinTech industry is increasingly important in the financial sector because of the added value provided, especially information technology innovation, so that Islamic banking must respond well from several aspects. From the benefit aspect, it is known that the priority factor is saving operational and marketing costs through collaboration with FinTech. The opportunity aspect includes that FinTech is an opportunity to promote Islamic banking as an inclusive financial institution that provides financial services to the public. The priority factor from the cost aspect is that FinTech supporting infrastructure contains high costs so careful preparation is needed. The aspect of market share is a serious risk factor for Islamic banking. The diminishing market share of Islamic banking by the FinTech industry is a serious threat if Islamic banking ignores the right strategy. However, in general, the existence of FinTech for the development of Islamic banking in Indonesia is an opportunity that provides evidence of FinTech as an integral part that cannot be separated (Muhammad & Sari, 2020).

3. METHODOLOGY

This research model uses a qualitative approach to the type of literature study research. The method describes various conditions and situations related to this research. Based on the form of the data, this study uses secondary data, while in terms of data types, this study uses qualitative data. As a complement to the qualitative method, the author uses secondary data obtained by examining documentation in the form of books, journals, articles, websites, and other research results related to Islamic banking in dealing with fintech and other relevant documents such as citing data from OJK, laws, and regulations. and BPS to answer research problems.

The data collection technique used in this research is an in-depth review and assessment of the above data. Following the nature and type of data that focuses on secondary and qualitative data, this study was analyzed using descriptive-analytical methods. After all the researcher's data has been obtained, the next step is for the researcher to carry out the data reduction stage, presenting the data and drawing conclusions that are strengthened by documentary data as proposed by Miles and Huberman by offering these three models. the depth which is then analyzed qualitatively with a descriptive pattern. The results of the study are expected to give birth to a strategy that can be used by Islamic banking in determining patterns in dealing with fintech.

4. RESULT AND ANALYSIS

4.1. Shariah Banking

Islamic banks are banks that carry out their business activities based on Sharia principles, consisting of Islamic Commercial Banks (BUS) and Islamic People's Financing Banks (BPRS). By its function, namely, as an institution that distributes funds to the community (Adnan, 2013). Banking has an important role in developing and supporting the country's economy, especially after the promulgation of Law Number 10 of 1998 concerning Banking. The Islamic economy in Indonesia is currently being recognized and approved by the public, bearing in mind the proliferation of Islamic-based banks has made the public understand the systems in Islamic economics.

The establishment of the Islamic Development Bank (IDB) in 1975 triggered the establishment of Islamic banks throughout the world including Indonesia. The birth of Law Number 21 of 2008 concerning Islamic Banking is a guarantee for the existence and legal protection of Islamic banking after the last decade of its existence which only regulates one principle of profit sharing and does not definitively and comprehensively regulate bank activities based on sharia principles. Based on data from the Financial Services Authority in June 2015, the number of sharia banking offices reached its peak in 2013, namely 2,990, and experienced a downward trend in 2015 to 2,881. Therefore, efforts to introduce Islamic economics and the role of Islamic economics in Indonesia need to be continuously increased to support the development of Islamic economics in people's lives. Legal predictability must have the ability to provide a definite picture in the future regarding the existence of Islamic banking or the relationships that are carried out in the present to develop the existence of Islamic economics (Bangsawan, 2017).

Islamic Bank is a financial institution that has an exclusive mission (*risalah*) and methodology (*manhaj*), namely the Shariah framework and its principles that originate from comprehensive and universal ethics and Islamic Sharia values. In channeling funds, Islamic banks apply several contracts, including: *murabahah, salam, istishna`*, *ijarah, mudlarabah* and *musyarakah*. In service activities, Islamic banks also apply several contracts, including *kafalah* (bank guarantee), *hawalah* (debit transfer), *sharf* (forex buying and selling), and *wakalah*. Indonesia already has sufficient legal instruments that regulate sharia banking, including Law No. 10 of 1998 concerning Banking, Law No. 23 of 1999 concerning Bank Indonesia, Law no. 3 of 2006 as amended by Law no. 50 of 2009 concerning the Religious Courts and finally with the birth of Law No.1 21 of 2008 concerning Sharia Banking. Regarding sharia banking disputes in Indonesia, it has been determined that the Religious Courts will examine and adjudicate the case by Law no. 3 of 2006, but later with the issuance of Law No. 21 of 2008 this authority was reduced to the authority of choice between the Religious Courts or the General Court, following the contractual agreement of the parties (Khusairi, 2015).

The development of Islamic banking in Indonesia is a manifestation of public demand that requires an alternative banking system that, in addition to providing sound banking/financial services, also fulfills Islamic principles. 1 This paper attempts to review the journey and development of Islamic banking in Indonesia and compares several other Muslim countries. In general, the development policy of Islamic banking in Indonesia has not yet reached the ideal target planned. Based on the 2014 Global Islamic Financial Report (GIFR), Indonesia is in seventh place, dropping three places from ranking fourth in 2011. As a country that has potential and is conducive to the development of the Islamic finance industry after Iran, Malaysia, and Saudi Arabia. By looking at several aspects in calculating the index, such as the number of Islamic banks, the number of non-Islamic non-bank financial institutions, as well as the size of Islamic financial assets that have the greatest weight, it can be said that the development of Islamic banking in Indonesia has been stagnant, and has not even shown significant progress since -the previous year (Syukron, 2013).

Islamic banking must always maintain the function of mobile banking services, such as ease of access, function properly, protect customer privacy, resolve transaction errors, and provide assistance if something goes wrong. In addition, banks should actively inform their customers about the process and time required for certain services under the mobile banking system to reduce customer complaints and ensure information quality. The better the quality of services provided by Islamic banks through the mobile banking platform, the higher customer satisfaction will be and will ultimately result in customer loyalty, both behavior and attitudes.

Mobile banking, which has higher service quality, has implications for customer loyalty, both attitudes and behavior. This is done when the customer is satisfied with the quality of the system displayed. This satisfaction can be achieved if the quality dimensions that characterize the system can be presented in Islamic banking. system efficiency and availability as the key to the quality of mobile banking services. Efficiency refers to how easy the system is, accessibility, and speed can facilitate transactions and other functions. Furthermore, system availability refers to how the platform functions properly regarding technical constraints that may arise and attachment to functions that strengthen processes in the business of Islamic banking customers.

Advances in technology have created digital banking as a new technology in the banking industry. All banking activities can be completed with one application on a smartphone, they don't even provide offline branches. Many Indonesian customers still use conventional banks rather than digital banking because they are new products and technologies in the banking industry. digital banking will meet user expectations. expectations about digital banking can become useful and achieve productivity. This could be caused by people who are used to using conventional banks and do not have sufficient knowledge about maximizing the use of products. The features can be like unlimited transfer or withdrawal fees and providing more ATMs, also providing tutorials or insights about the knowledge about the features and how to use the product so that customers can make better use of the product. The social influence which means that in using technology, customers are influenced by other people. The minus score could be caused by people who are already using digital banking trying to influence others but they have experienced various problems and therefore people follow them in disbelief. This may also be caused by people who are mostly not easily influenced by the use of new systems or technologies (Kusumawati & Rinaldi, 2020).

With advances in more technological sophistication of doing things, the benefits far outweigh the costs. Likewise, digital banking as a by-product of technology aims to make life easier for bank customers. Digital banking has the following benefits: a) Digital banking allows consumers to perform banking functions from the comfort of their homes, be they tired parents waiting in line or working-class professionals busy with work, or ordinary people who don't want to visit. bank branch to carry out one task. It also offers convenience to customers. b) Outlining the convenience offered, digital banking allows users to do banking work around the clock, with the availability of digital service access to banking functions.

4.2. Financial Technology (Fintech)

The definition of fintech refers to the use of technology to provide solutions in the financial sector. KPMG defines fintech as a technology-based business that competes or collaborates with financial institutions. Fintech refers to innovative financial services or products delivered through new technologies. From this definition, sharia fintech means technology-based businesses with innovative financial services or products that use sharia schemes. Islamic fintech promotes responsible, ethical finance and provides opportunities to impact all forms of finance globally. Fintech companies can be classified as: a) information technology and software companies that support and facilitate financial sector companies or better known as bank technology service providers and b) tech-startups or small innovative companies that replace ordinary financial intermediaries, with easy accessibility capable of disrupting commercial banks and the banking system (Rusydiana & Devi, 2018; Zulfahmi *et al*, 2021).

Competition between fintech and traditional banking services is relatively more intense every year due to the continuous development of information technology. Simultaneously, fintech is increasing interest in modern financial services from progressive financial institutions aiming to maintain and strengthen their leading role in the field. There are three types of financial technology, namely: 1) Payment systems through third parties (Third party payment systems), 2) Peer to Peer (P2P) Lending, and 3) Crowdfunding (Hsueh & Kuo, 2017).

Two factors are driving the evolution of financial technology innovation, namely: demand and supply. The following factors originate from the demand side, including: (1) changes in consumer tastes for innovation; ease of accessing the internet and network availability, which encourages high expectations, especially regarding convenience, speed, low cost, and use of network services; changes in preferences caused by demographic factors, such as family groups, professional groups and so on; (2) there is technological evolution; Technological innovation in providing services is developing rapidly and in new ways by utilizing new models. New business models and technology applications have emerged for new players in the financial sector, such as business models using big data technology, artificial intelligence, machine learning, cloud computing and biometrics. Thus, the application of new technologies is completely different from previous technologies.

The supply side is that financial regulations and market structures are constantly changing, especially after the 2008/2009 global financial crisis. This change aims to reduce the risk of a similar financial crisis in the future, such as balance sheet provisions, by requiring a larger amount of capital and a lower leverage ratio in the banking sector. Aims to minimize the risks that arise from activities and entities. The combined changes in financial regulation caused a lot of things to change with it. Conventional financial companies, including banks, are pressured to reduce costs and use capital efficiently.

Based on Yuking (2018), some factors have a positive influence on the development of fintech:

a. Changes in consumer mindset. These changes follow the many and varied needs of the community and want to obtain them in a practical, easy, fast, cheap and affordable way. So gradually began to leave the conventional system.
b. Digital Progress. Digitalization is currently used in many products for community needs. For example, smartphones that are increasingly sophisticated and spread among the community will make it easier for the community to help with community activities and needs.

c. Trend Change. Developing and innovating are carried out continuously and quickly, encouraging lifestyle changes and fast new trends entering society.
d. Decreased Loyalty to Brands and Institutions. A brand and an institution are no longer an influence on buying decisions today. Where at this time, buyers make decisions faster and are more careful about the product and service offerings provided.
e. Easier Access. Easy access, namely the openness of services and information systems. The development of access originates from technology which is increasingly opening up new market shares.
f. Profitable Product Offerings. Providing benefits and benefits will change and attract customers to buy a product that is offered.

Fintech, which is referred to as progress in the world of economic transactions, has also attracted actors in the world of economic and financial transactions with Sharia principles with the emergence of a breakthrough called Sharia Fintech. Sharia fintech in Indonesia has started to attract a lot of public attention, especially with the formation of the Indonesian Sharia Fintech Association (AFSI) Institute which houses sharia fintech in Indonesia and the start of legalizing Sharia fintech as an economic transaction that can also be registered with the Financial Services Authority (OJK). Fintech Syariah is a combination of information technology innovation with existing products and services in the field of finance and technology that accelerate and facilitate the business processes of transactions, investments and distribution of funds based on sharia values (Yarli, 2016).

Sharia financial technology (fintech) is an innovation carried out by financial intermediation service providers that combine financial transactions through optimizing the information technology function with contracts that use sharia transaction schemes. Transactions carried out by Islamic fintech operators, in general, are also used with Islamic financial institutions such as Islamic banking. However, there is a legal relationship that is different from that carried out by Islamic banking where Islamic banks become legal subjects that directly deal with customers. Meanwhile, sharia fintech operators do not directly act as legal subjects dealing with customers, but act as intermediaries who provide a marketplace between investors and their business partners.

Sharia fintech began to develop in Indonesia for several rational reasons: first, Indonesia is a country with the largest Muslim population in the world with a total of more than 200 million Muslim residents; Second, the low level of financial literacy is especially indicated by the low ownership of bank accounts, which is only around 37%; Third, MSMEs' access to financing in the banking sector is still low, only around 30% of the total MSMEs in Indonesia; and fourth, the level of internet users in Indonesia is quite high, around 54.7% of the total population, equivalent to 143.3 million people. This is certainly an opportunity for sharia fintech to take on the role of being able to provide services with sharia transaction contracts (Muhammad & Nissa, 2020).

The journey of sharia fintech is still long. After being registered with the OJK, sharia fintech companies must apply for a sharia label to the National Sharia Council of the Indonesian Ulema Council (DSN MUI). DSN will study the flow of the sharia fintech business, appoint a Sharia Supervisory Board (DPS), then after all conditions have been met, DSN will give it a sharia label. Although for startups the minimum capital requirements are quite heavy, according to Murniati this is indeed very necessary. These rules are needed to assess whether the company is reliable or responsible for returning distributed public funds. The first challenge in this matter is finally known, namely for the sustainability of sharia fintech in the future, so that sharia fintech actors in Indonesia should make this challenge more of an opportunity. because of the formation of a stigma of more trust from the community towards the existence of sharia fintech in Indonesia.

4.3. The strategy of Islamic Banks Facing Fintech

Fintech companies can be classified as: a) information technology and software companies that support and facilitate financial sector companies or better known as bank technology service providers and b) tech startups or small innovative companies that replace ordinary financial intermediaries, with easy accessibility capable of causing 'disturbance' to commercial banks and the banking system. Business innovation stimulates economic development, both at the micro and macro levels. The application of information technology in the financial industry is an area with great innovation potential. Therefore, both companies and investors are very interested in it. Fintech is not present as a competitor from banks or other financial institutions. Both can synergize with each other by forming real collaborations. As mentioned by the Indonesian Financial Technology Association (AFI) which states that as much as 63.9 percent of fintech business actors are connected to banks through the Application Programming Interface. That way, fintech is present as a collaboration opportunity for banks and not a threat (Nurzianti, 2021).

The emergence of Sharia FinTech is the answer to problems regarding a technology-based financial system. For example, the existence of takafuli has the aim of creating trust between policyholders and insurance companies. With quite high expectations, namely increasing discipline related to claims, reducing premiums and bill payments, digital banking Bank Indonesia (BI) has a relationship with bank information systems, network availability as well as consumer education and protection. Indonesia has opportunities to develop financial technology (fintech) sharia is large enough to have benefits. Bank Indonesia considers it important regarding the application of financial technology in the corridor of the Sharia scheme which is within the scope of developing the Islamic economy in Indonesia. Many business fields have the potential to be worked on based on Sharia FinTech services, including the independence of technology-based Islamic boarding schools. Many quality products are obtained by Islamic boarding schools, Sharia FinTech can become a provider of collaboration platforms to supply products to each other between Islamic boarding schools. In other large business sectors, such as halal tourism, FinTech has a large opportunity to facilitate payment or marketing.

The challenges of sharia-based Fintech services include: low awareness among Indonesians for digital transactions, namely only 35%; the lack of contribution in the digital sector to increasing Gross Domestic Product (GDP) and bank CEOs having difficulty in leadership to develop and implement comprehensive changes simultaneously regarding the culture, systems, and capabilities needed. One example of FinTech challenges to the development of the banking business is related to security. Increasingly sophisticated security technology, followed by increasingly sophisticated theft technology in the digital realm. The most common banking crime is identity theft or phishing. Phishing is the theft of important data belonging to other people, such as full names, residential addresses, and telephone numbers to break into customer accounts. Everything is done by the user (user) himself is not responsible for criminal acts in the form of hacking website addresses to retrieve company data without permission, fraud under the guise of online business, and so on. The opening of opportunities for the entry of technological developments in Indonesia, however, makes future technology competition more rapid.

This means a great opportunity for the development of Islamic banking in the future to determine the strategy that will be implemented so that the existence of fintech companies does not make the banking business continue to decline. Several strategies can be carried out by the Islamic banking industry to deal with conditions like this, including:

a. Collaborating Strategy
   This strategy is the most moderate strategy that can be carried out by Islamic banking, namely by cooperating with businesses offered by fintech companies so that they can jointly build a platform that facilitates both businesses. This strategy has also been put forward by Ajisatria, according to which banks can collaborate with various parties including fintech so that financial literacy and inclusion continue to increase and become a breakthrough for the development of services to the wider community.
b. Channeling Islamic Banking With Fintech.
   This strategy promotes a lending-based fund distribution model where the risk is borne by the banking itself, while fintech companies only have limited authority over the contents of the contract. In theory, the two institutions have their advantages, on the one hand, Islamic banking can fund fintech companies in large numbers, but on the other hand, fintech companies can attract customers to make Islamic banking alternative financing because the process of capturing customers is faster, more efficient, and cheaper. without relying on physical contact, the advantage of fintech companies will increase collection quality as the results of the study indicate that this channeling process significantly influences the development of Islamic banking, this is based on the convenience obtained by customers in accessing Islamic banking.
c. Confotative Strategi
   This strategy is considered more radical, placing startup companies as competitors for banking companies. Several options can be made by Islamic banking for this strategy model, one of which is that Islamic banking can build a new company model with the current startup format. The company could be a subsidiary that is legally under an Islamic banking company or a new company whose full funding is assisted by Islamic banking. The existence of models, infrastructure, and human resources owned by Islamic banking is an opportunity to seize the startup market. Even though it requires a lot of energy to build from scratch, the available potential is enormous with growth in this segment so high.
d. Sharia Banking Internal Strategy
   Internal strategies that can be carried out by Islamic banking to deal with fintech such as think like fintech, embrace new technology, and focus on engagement and safety first so that there are efforts to reduce costs which can be lower, this condition will certainly improve service quality and create better financial conditions. diverse and stable to increase the loyalty and credibility

of sharia banking.

e. Digitalization of Islamic Banking
   With current technological advances causing changes in analog information into digital information, it is necessary to strengthen the system so that digitization is more optimal and its impact can be felt by the wider community. Digitalization requires Islamic banks to renew their services, considering that the transition from the banking world to digital can increase the efficiency of work processes and improve the quality of customer service, by digitizing, banks have made long-term investments for the future, and it is projected that digital services will become one of the main drivers of industrial growth. banking on an ongoing basis.
f. Strengthening Sharia Banking Human Resource
   Islamic banking practitioners in Indonesia are still dominated by bank practitioners conventional or those who do not concentrate on graduates from Islamic banking. This means that the actors in Islamic banking are general practitioners who have migrated from conventional banks. For this reason, systematic and planned cooperation is needed from all parties, this cooperation can change the quality of employees to be by the standards needed to improve the quality of performance in Islamic banking.
g. Sharia Banking Product Innovation
   The need for innovation in Islamic banking products. The products in Islamic banking are already innovative. Islamic bank product development will be able to explore a wealth of varied financial schemes and at the same time be able to show differences from conventional banking. Several initiatives can be carried out by Islamic banks, for example through mirroring products and services of international Islamic banks and encouraging foreign-owned Islamic banks to bring successful products abroad to Indonesia.

5. CONCLUSION AND RECOMMENDATION

Based on the results of the analysis and discussion previously described, it can be concluded that banks need to determine the right strategy to maintain their existence amidst the increasingly rapid development of fintech. So far, Islamic banking business activities tend to be more exclusive, so a scheme or strategy is needed to continue to innovate amidst the booming development of fintech companies themselves by implementing several strategies including the Collaborating Strategy strategy by collaborating with businesses offered by fintech companies so that they can jointly build a platform that makes their business easier. Sharia Banking Channeling Strategy with Fintech by promoting a lending-based fund distribution model where the risk is borne by the banking itself, while fintech companies only have limited authority over the contents of the contract. Confotative Strategy Strategy by building a new company model with the current startup format. Sharia Banking Digitalization Strategy by utilizing technological advances to improve the quality of banking services. Improving the quality of human resources as actors in sharia banking and innovating sharia banking products.

From the research data and discussion that has been concluded above, the researcher provides several suggestions, for banks it is necessary to innovate in all operational activities carried out in banking by utilizing technological developments with banking digitalization to continue to improve the quality of service to customers in all financial transactions to be able to deal with developments fintech which is growing rapidly in Indonesia.

The public and customers are expected to be more able to utilize and use Islamic banking services and products in opening a business to create improvements in the community's economy and make it easier to carry out financial transactions. The government is expected to be able to support the development of financial technology not only in licensing but also regarding infrastructure such as internet access in remote areas. For future researchers, it is hoped that they can conduct research with a more in-depth discussion of Islamic banking strategies in dealing with fintech developments in Indonesia.

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